

Inside BEST PRACTICE

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- 5 From The Editor
- 6 From The Founders
- 7 Contributors

COVER STORY

8 Rebuilding Market Institutions After the Financial Crisis

Bill Stacey navigates financial risk and regulatory changes and throws us a ladder to climb out of the slump.

POLICY RECOMMENDED FOR THE CRISIS

14 Origins of the Financial Market Crisis of 2008

Anna J. Schwartz suggests how to avoid a replay of the factors that produced the credit market debacle.

17 Monetarism Defiant

Guy Sorman on legendary economist Anna Schwartz – the feds have misjudged the financial crisis.

20 The Language of Leadership

Ron Manners honours Sir Arvi Parbo for his service and comments on the way forward, not only for Australia, but for all others on the way.

POLICY RECOMMENDED FOR THE MARKET

26 The Privatization of Public Services

John L. Chapman on why privatization is indeed the only hope for renewal of once proud cities.

34 Hong Kong and Capital Controls

Jim Walker questions the controls in the betting arena.

GLOBAL PERSPECTIVE POLICY ANALYSIS

37 Combating the Spread of Fake Medicines Through Free Markets and Self-Interest

Julian Harris and Alec van Gelder trail counterfeit medicines and suggest systems to help China shed its “Factory Asia” label.

AROUND THE WORLD

42 Restoring the Freedom to Trade

Alec van Gelder on the Freedom to Trade Campaign’s importance.

LEADER’S BOOKSHELF

45 For Sleuthing Amateurs of Economics

The Economic Naturalist reviewed by Michael Mo.

46 Privatization Bears Fruit in the Big Apple

Privatization in the City reviewed by Lawrence W. Reed.

ODDS AND ENDS

48 Master of Slaves

Jackie Chan has declined the value of freedom to show his obedience.

50 Patriotic Panic

A low flying plane spotted in Manhattan causes panic.

52 Let’s Not Lose Our Minds

The mass hysteria surrounding the spread of swine flu does little to protect us.



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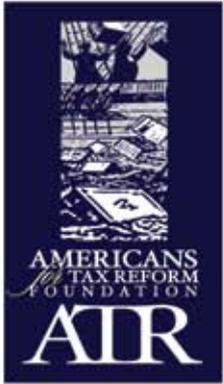
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Fancy More Regulation?

The movement to increase regulation in order to rebuild the economy has a large following. At the same time, however, it is well known that some of the very regulations enacted years ago with the support of this movement backfired, playing a large role in the formation of the crisis. Knowing which regulations and policies to alter or roll-back is proving to be elusive, and committing to one school of thought amidst this confusion is worrisome.

Many new policies have been considered for regulatory change under the auspices of now knowing better. But do policymakers really understand the outcomes of past policy and regulatory change – those that had admirable goals but turned out to be some of the main drivers of the crisis? The CRA regulation, while only one chapter of the tragedy, is notable because its impact was large enough to set the scene by lowering lending standards across the board. Its policy effect was detrimental: banks moved away from a focus on hard credit standards and other institutions proceeded similarly. This whole array of government policies to encourage home ownership vastly distorted the financial system, adding fuel to the fire.

An illogical assumption, but still widely held, is that government agencies are able to “correct market failure” despite their bad track records. The thought of a bewildered-empowered tinkering again with financial products and policy (at some points, without having even understood what is up for legislation) is the stuff of nightmares. And yet, it’s our reality today, as improvident home-ownership policies were years ago.

We should be wary of new regulations and rules when the political environment lacks necessary knowledge or endeavors to promote political goals. We should be wary when what’s actually happening in markets and businesses is being overlooked. After all, the readiness to pass new laws undermines the rule of law in the first place, which is why this summer’s issue of *Best Practice*: “Less is More” is dedicated to monetary policy and financial regulations.

Our cover story, “Rebuilding Market Institutions After the Financial Crisis,” by Bill Stacey, explores financial risk and regulatory changes while addressing numerous areas to suggest what shape reforms should take. Anna Schwartz helps us move forward by understanding the past as she explains the factors of the crisis and the expansive monetary policy under the last U.S. administration. Notably, this section, Policy Recommended for the Crisis, indicates that allowing regulations, and the risks involved with them, to play a larger role than the current market devices themselves is too big a risk to take.

John Chapman opens our Policy Recommended for the Market section with “The Privatization of Public Services,” in which he details two cities’ government activity compared to that ascribed to markets. Chapman debates that the outcome of cities like Detroit is far from inevitable; the real reason for their failure is a greater size of government coupled with a lack of competition for public services and high taxes.

Jim Walker uncovers a betting arrangement of suspect form in “Hong Kong and Capitol Controls” where people in Hong Kong are virtually banned from betting and watching horse races overseas. *Best Practice*’s Global Perspective Policy Analysis returns with Julian Morris’ and Alec van Gelder’s “Combating the Spread of Fake Medicines.” Both fascinating and helpful, they suggest policies that provide easy and counterfeit-proof systems to make all pharmaceuticals safer.

Leader’s Bookshelf reviews enjoyable and influential books and for further enjoyment, Odds and Ends closes this issue with a very entertaining round-up of international happenings.

We’ll meet again next season, but until then, let me know what you are thinking – you can reach us at best.practice@lionrockinstitute.org.

Nicole Idanna Alpert

From the Founders

On Where Hong Kong is Headed

The second issue of *Best Practice* comes at you at a pivotal time in Hong Kong's history. While the fallout of the financial crisis is still having far reaching impacts on our city, we seem to be seeing through this crisis and already looking beyond. While the financial realm is of course important, it oft seems that the greatest threats to our success come from within.

Hong Kong is consistently ranked the freest economy in the world, but those living in Hong Kong are only too aware of when the government intervenes. Sometimes the results are comic – like the recent decision and hopeful reversal not to license shoe shiners. The question has to be asked: Whose idea was it to require shoe shiners to get a license anyways? Are there concerns about unlicensed shoe shiners over-buffing patrons' shoes to an unsightly sheen? Or if we didn't restrict the numbers, shoe shiners would take over the city with their pernicious...stools and buffing rags?

No doubt there are mid-level bureaucrats earning a decent living off of licensing the absurd. In this case, it is certain they live better than those whose humble livelihood they would seek to extinguish. To those dutifully keeping Hong Kong's leather bright, this is no joke however, but rather a theft of their honest work and dignity that goes with it.

More far reaching in its impact is the proposal for a minimum wage. The economic arguments against it are well known and feared by workers on the edge of employment and employers on the edge of survival. Less understood is the moral damage of it.

While the impact of government intervention seems obvious to us here, you have to experience it in social democracies to really see why Hong Kong ranks so well. Restrictive labour laws, of which minimum wage is a starting point for a tsunami of red tape, keep those with the most to gain from honest labour out of the workforce. School dropouts,

recovering teenage addicts and the unskilled elderly are kept from gainful employment. For the young, never working leads to a life of indolence and crime. On the rare occasion they find work, they find it unfamiliar and irksome. In Europe and North America, those who would clean the streets at a lower than minimum wage instead make those streets dirty with crime and despair.

For the elderly and unskilled, being replaced by a less expensive camera from their night watchman job robs them of their ability to contribute to people's safety and well-being – and their dignity arising from a job done with honour. The elderly of the West are often living quiet lives of desperation, rather than working with pride in later years like those in Hong Kong.

The elderly, yet vibrant men, working the alley behind Shanghai Tang are the frontline potential victims of labour restriction that would rob them of their pride. Will we replace it with welfare and the message that their usefulness to the world is done? By introducing minimum wage, will we do the same to young men who are just beginning life, without the full benefit of education? Imagine the impact on these valuable young people who, while not meshing with our rigid education system, can still make an honest contribution to the world.

Policy has real impact on real lives. This is the motivation behind the founding of *Best Practice*. Hopefully we can use it to find a better way, a Hong Kong way, and not repeat the mistakes of the so-called "advanced" economies. Hong Kong's way has been a better way for many years. We should not be shy to use the world's best practice – but also create it, so the world may follow in our footsteps.

*Simon Lee Chao-fu
Andrew Shuen Pak-man
Andrew Work*

**BILL STACEY**

The Chairman of Hong Kong's leading free market think tank, The Lion Rock Institute. He is also on the Board of Advisors of the Mannkal Economic Education Foundation. Professionally, Bill has been an executive with leading financial institutions in Asia and globally. He is currently a partner in boutique equity house, Aviate Global.

**ANNA J. SCHWARTZ**

One of the world's greatest monetary scholars. With her expertise on banking and money analysis, she became the president of the Western Economic Association. She also published a book with Milton Friedman, *A Monetary History of the United States*, which was very influential. At the age of 93, she is still with the National Bureau of Economic Research and is one of the most prominent economists there.

**GUY SORMAN**

French professor, columnist and author. He has written twenty books that preach the ideals of creativity and modern capitalism. His ideas about renewable energy and environmentalism in his book *Progress and its Enemies* are particularly controversial. He is currently working on a book on Economy as a science.

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A fourth generation prospector with over 40 years of experience in the mining industry in WA. He is Chairman of the Mannwest Group of private companies, and is also the Managing Director of Mannkal Economic Education Foundation, an educational foundation. He is currently working on his next book entitled *Heroic Misadventures*.

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The founder and managing director of Asianomics Limited, an economic research and consultancy company. Prior to establishing Asianomics in December 2007, he was the chief economist at CLSA Asia-Pacific Markets. He was voted best regional economist by the Asiamoney Stockbrokers Poll between 1994 and 2004 as well as frequent number one rankings in the private Greenwich surveys of fund managers in Asia, Europe and America.

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A Research Fellow at International Policy Network, a think tank based in London. He works on international health policy and has recently authored articles on counterfeit and substandard drugs published in many outlets. Last month IPN launched his paper on the topic: "Keeping it Real: Combating the spread of fake drugs in poor countries."

**MICHAEL MO**

In his final year of studies at City University of Hong Kong. His experience campaigning for Barack Obama in America inspired him to attempt to apply similar campaign strategies in Hong Kong. Michael is a native of Hong Kong and is fluent in Putonghua. He is also one of the editors of idea4HK think tank and is currently working at The Lion Rock Institute for the summer.

**LAWRENCE REED**

Served as Mackinac Center for Public Policy's President, a Midland-based research and educational institute, for its first two decades starting from 1987. At age 55, he became president emeritus of the Center. On September 1, 2008, Reed assumed the presidency of the Foundation for Economic Education, headquartered in Irvington, New York.

**EUGENIO SUAREZ**

Currently an Economics-Philosophy major at Columbia College and is also the Treasurer for the Student Governing Board. Eugenio co-founded the University Chapter of the Cuban American Foundation. He interned with Congresswoman Ileana Ros-Lehtinen and was an editor for the Columbia Political Review. He is a native of Miami and fluent in Spanish. Eugenio is currently a Research Assistant in the Barnard Economics Department and working at The Lion Rock Institute for the summer.

**ANUJ JHUNJHUNWALA**

A junior at Columbia University in New York City, majoring in Economics-Political Science. He interned in the Louisiana State Governor's Office where he researched the effects of federal legislation on elderly welfare recipients living on Medicare. He is vice-president of the Columbia University South Asian club and active in the Rotoract service club. Anuj also has a good command of Hindi and is a native of Baton Rouge. He is currently working at The Lion Rock Institute for the summer.

Master of Slaves

Jackie Chan has declined the value of freedom to show his obedience

If the Chinese nation should be controlled, so should Jackie.

From Jackie's definition of "too much freedom," he'd probably be happiest as the newest citizen of Pyongyang.

In a pluralistic society, there must be clashes between ideologies and it is all about give and take among various interest groups. Jackie upset many Chinese people with his words, and I suppose he hasn't yet experienced the peaceful transition of power between Labor and Liberals in the land down under (no wonder his house near Canberra has been burned out).

The intention of Jackie to deliver such a speech is obvious – to please Beijing. When the Central Administration has been pushing hard for "harmonized governance," it is certain that Jackie would like to portray himself as tuned-in. Ironically, his latest film, *Shinjuku Incident*, has been banned for screening in the Mainland because it does not "harmonize enough." Ultimately, it is Jackie's right to please an authority for political convenience and ruin his pocket. Giving up his freedom is his right even though it philosophically appears unjust to become a slave of a

political power.

So Jackie, the people of China should be controlled? Let's hypothesize and instate some new controls. Say we make extramarital affairs illegal and those who are found guilty should be insulted in Tiananmen Square. If so, I bet Jackie will turn himself into a complete Aussie. **BP**



Michael Mo, Hong Kong

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Patriotic Panic

A low flying plane spotted in Manhattan causes panic

On April 27, 2009, a Boeing 747 and two F-16s were spotted flying in Manhattan near the site of one of the most catastrophic terrorist attacks on American soil. Panic ensued.

Everyone must wonder: there must have been sound reasoning to support this perceived assault. Surely it was a well planned event for a practice evacuation? Or maybe it was to check New York City's emergency response time? Or, I don't know, maybe the Obama administration "needed to update their photo files"?

A photo op for Air Force One?

Well, that settles it – no need to panic. I'm sure all the folks with post traumatic disorder after 9-11 will be enchanted to see patriotic images of the President's private 747 soaring by the Statue of Liberty. Yes, wave your flags and let us rejoice!

Pardon me? Most of these pictures are classified? Well, it must be an issue of national security. We must not succumb to our emotions. If those sensitive photos fall into the hands of evil *terrorists* our safety would be in great peril.

I am glad that the U.S. President, Barack Hussein Obama, and his administration have taken charge of the situation. First, failure to inform

the Mayor of New York was an astute political maneuver – override the competition. Not allowing citizens without proper clearance to view these photos is a bold and commendable stab at eradicating terrorism. And finally, we thank you Mr. President for the mysterious resignation of Louis Calder, the Director of the White House Military Office. This shows that the Obama administration will not accept nor condone errors of judgment.

By the way, for the photos that were released – they could use some Photoshopping. **BP**

Eugenio Suarez, New York

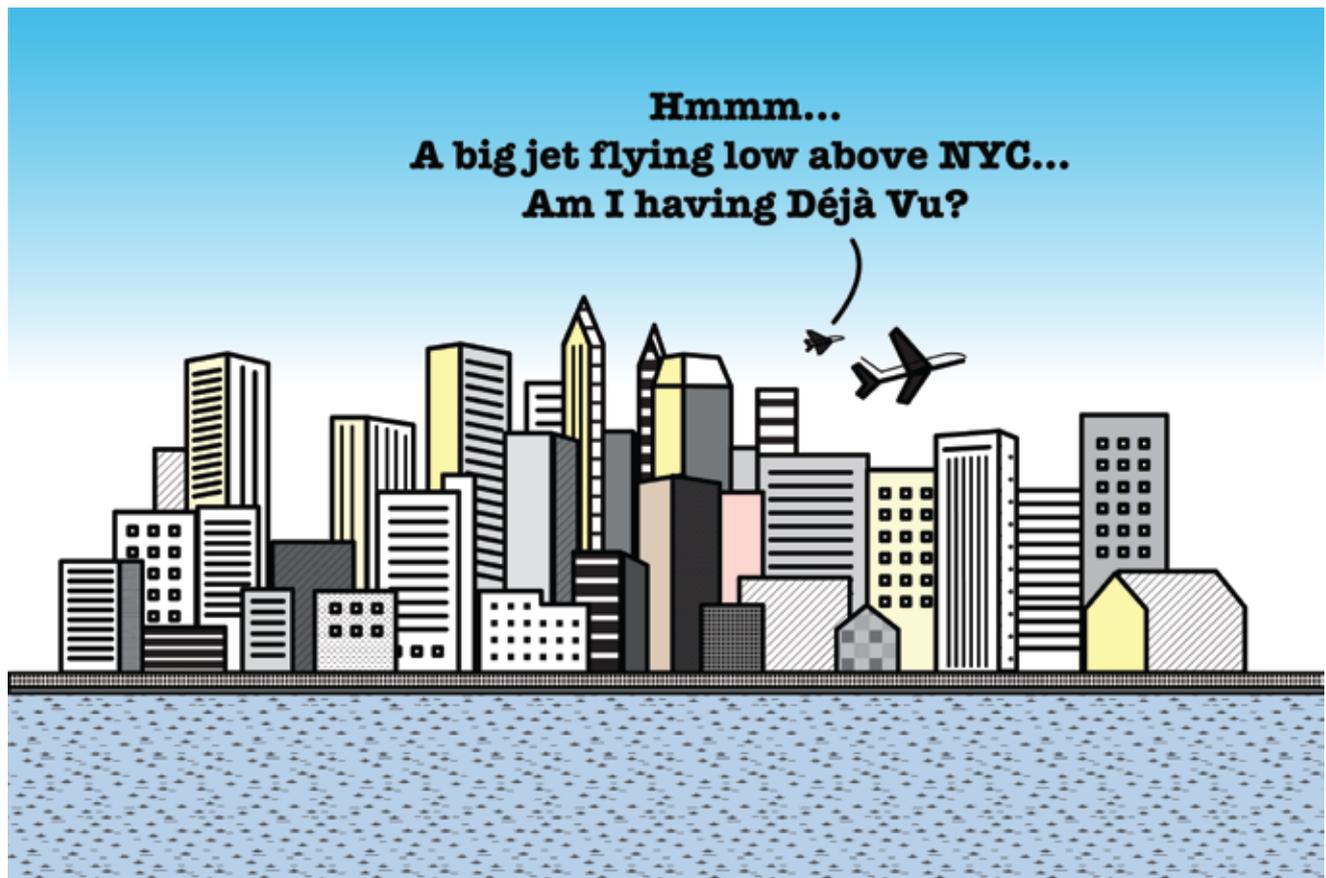


Illustration: Bay Leung

Let's Not Lose Our Minds

The mass hysteria surrounding the spread of swine flu does little to protect us

Call it “swine flu,” “Mexican flu,” “H1N1,” or even “new flu” – whatever you call it, just be sure to pick a name that ensures complete chaos and fear amongst the general populace. After being labeled as a pandemic by the WHO earlier this year, the disease has fomented paranoia and confusion wherever it has spread – with ridiculous consequences. In April, the Egyptian government, afraid that its constituents may contract the disease by eating swine, slaughtered nearly 300,000 pigs despite a clear lack of evidence that any of these pigs carried the disease. As of this article, China and Russia have yet to lift import bans on American pork products. Even U.S. Vice President Joseph Biden got into the mix, stirring up the paranoia by exhorting Americans to avoid enclosed spaces like trains and airplanes. Biden said that given the circumstances, Americans should completely avoid all crowded, confined areas. A stimulus to the economy that would have been, for sure.

The misinformation surrounding the spread of swine flu (now referred to as “H1N1” by the WHO and by major media outlets) has seemingly permeated all aspects of society.



Illustration: Bay Leung

Walk around Hong Kong for a couple of hours and it is easy to see such fear: stores proudly proclaim that they “disinfect door handles every 3 hours,” people walk around wearing flimsy face masks that have been proven ineffective in preventing the spread of viral, airborne diseases (SARS redux, anyone?), and there have been instances in which entire planeloads of people have been quarantined because of a single traveler’s innocuous sneeze.

With this kind of paranoia rampant throughout the world’s

major cities, it is easy to see why even the most harmless of coughs would send an entire restaurant of people running out the door.

Here’s a thought: don’t go crazy. Yes, take your precautions against the disease. Wash your hands regularly and cover your nose and mouth when you sneeze. Go to the doctor if and when you feel sick. But for the sake of humanity, just drink the Corona already. It’ll be good for you. ^{BP}

Anuj Jhunjhunwala, New York