

OFFICIAL REPORT OF PROCEEDINGS**Thursday, 19 March 1987****The Council met at half-past Two o'clock****PRESENT**HIS EXCELLENCY THE ACTING GOVERNOR (*PRESIDENT*)

SIR DAVID AKERS-JONES, K.B.E., C.M.G., J.P.

THE HONOURABLE THE CHIEF SECRETARY

MR. DAVID ROBERT FORD, L.V.O., O.B.E., J.P.

THE HONOURABLE THE FINANCIAL SECRETARY

MR. PIERS JACOBS, O.B.E., J.P.

THE HONOURABLE THE ATTORNEY GENERAL

MR. MICHAEL DAVID THOMAS, C.M.G., Q.C.

THE HONOURABLE LYDIA DUNN, C.B.E., J.P.

THE HONOURABLE CHEN SHOU-LUM, C.B.E., J.P.

THE HONOURABLE PETER C. WONG, C.B.E., J.P.

THE HONOURABLE ALLEN LEE PENG-FEI, O.B.E., J.P.

THE HONOURABLE HU FA-KUANG, O.B.E., J.P.

THE HONOURABLE WONG PO-YAN, O.B.E., J.P.

THE HONOURABLE CHAN KAM-CHUEN, O.B.E., J.P.

THE HONOURABLE STEPHEN CHEONG KAM-CHUEN, O.B.E., J.P.

THE HONOURABLE CHEUNG YAN-LUNG, O.B.E., J.P.

THE HONOURABLE MRS. SELINA CHOW LIANG SHUK-YEE, O.B.E., J.P.

THE HONOURABLE MARIA TAM WAI-CHU, O.B.E., J.P.

DR. THE HONOURABLE HENRIETTA IP MAN-HING, O.B.E., J.P.

THE HONOURABLE CHAN YING-LUN, J.P.

THE HONOURABLE MRS. PAULINE NG CHOW MAY-LIN, J.P.

THE HONOURABLE PETER POON WING-CHEUNG, M.B.E., J.P.

THE HONOURABLE YEUNG PO-KWAN, C.P.M., J.P.

THE HONOURABLE KIM CHAM YAU-SUM, J.P.

THE HONOURABLE JOHN WALTER CHAMBERS, O.B.E., J.P.

SECRETARY FOR HEALTH AND WELFARE

THE HONOURABLE JACKIE CHAN CHAI-KEUNG

THE HONOURABLE HILTON CHEONG-LEEN, C.B.E., J.P.

DR. THE HONOURABLE CHIU HIN-KWONG

THE HONOURABLE CHUNG PUI-LAM

THE HONOURABLE HO SAI-CHU, M.B.E., J.P.

THE HONOURABLE HUI YIN-FAT

DR. THE HONOURABLE CONRAD LAM KUI-SHING

THE HONOURABLE MARTIN LEE CHU-MING, Q.C., J.P.

THE HONOURABLE LEE YU-TAI

THE HONOURABLE DAVID LI KWOK-PO, J.P.

THE HONOURABLE LIU LIT-FOR, J.P.

THE HONOURABLE NGAI SHIU-KIT, O.B.E., J.P.
THE HONOURABLE PANG CHUN-HOI, M.B.E.
THE HONOURABLE POON CHI-FAI
PROF. THE HONOURABLE POON CHUNG-KWONG
THE HONOURABLE HELMUT SOHMEN
THE HONOURABLE SZETO WAH
THE HONOURABLE MRS. ROSANNA TAM WONG YICK-MING
THE HONOURABLE TAM YIU-CHUNG
DR. THE HONOURABLE DANIEL TSE, O.B.E., J.P.
THE HONOURABLE ANDREW WONG WANG-FAT
THE HONOURABLE LAU WONG-FAT, M.B.E., J.P.
THE HONOURABLE GRAHAM BARNES, J.P.
SECRETARY FOR LANDS AND WORKS
THE HONOURABLE RONALD GEORGE BLACKER BRIDGE, O.B.E., J.P.
SECRETARY FOR EDUCATION AND MANPOWER
THE HONOURABLE DAVID GREGORY JEAFFRESON, C.B.E., J.P.
SECRETARY FOR SECURITY
THE HONOURABLE MICHAEL LEUNG MAN-KIN, J.P.
SECRETARY FOR TRANSPORT

ABSENT

THE HONOURABLE ERIC PETER HO, C.B.E., J.P.
SECRETARY FOR TRADE AND INDUSTRY
DR. THE HONOURABLE HO KAM-FAI, O.B.E., J.P.
THE HONOURABLE DONALD LIAO POON-HUAI, C.B.E., J.P.
SECRETARY FOR DISTRICT ADMINISTRATION
THE HONOURABLE JOHN JOSEPH SWAINE, O.B.E., Q.C., J.P.
THE HONOURABLE MRS. RITA FAN HSU LAI-TAI, J.P.
THE HONOURABLE CHENG HON-KWAN
THE HONOURABLE THOMAS CLYDESDALE
THE HONOURABLE RICHARD LAI SUNG-LUNG
THE HONOURABLE TAI CHIN-WAH

IN ATTENDANCE

THE CLERK TO THE LEGISLATIVE COUNCIL
MR. LAW KAM-SANG

Second Reading of Bill

APPROPRIATION BILL 1987

Resumption of debate on Second Reading (25 February 1987)

MR. CHAN KAM-CHUEN: Your Excellency, I rise to support the Appropriation Bill 1987 and as most of us have been congratulated after making our maiden speech in the Legislative Council, perhaps it may be appropriate to congratulate our Financial Secretary for his maiden Budget and supporting speech which, on the whole, are well balanced.

If the Financial Secretary has to choose a patron saint to protect him through these transition years, the 'Goddess of Mercy with A Thousand Hands' (千手觀音) may be appropriate as long as 500 hands are used for collecting tax and 500 hands are used for dishing out the money for expenditure good for Hong Kong.

Security

As I have chosen to speak on security, I wish to say that our disciplined forces, such as the customs and excise, ICAC, correctional services, fire and ambulance services and immigration have all done their best to maintain our internal security.

Although there were recently some daring robberies and shootings in the Central and triad activities, the Royal Hong Kong Police Force will no doubt be able to cope with the typical crimes of large cities efficiently.

However, there is a word of caution. Although the expenditure of the British Garrison in Hong Kong and of the auxiliary armed forces is not the main thrust of my debate, it is important to bear in mind that they represent the British presence here to uphold our law and our Administration. It is also wise for every administration to have alternative armed forces at their disposal.

Although Vietnamese refugees had been attacked on the high seas by armed pirates, it would be far-fetched to think of such attacks on Hong Kong. However, the continuous infiltration of illegal immigrants are real and require the constant vigilance of our armed forces.

If we do not maintain adequate armed force here and if there is a one-in-a-million chance that we are invaded, then it will be a good excuse for troops of other countries to come to our assistance, whether we wish it or not.

Personally, I firmly believe that the death penalty is a deterrent to serious crimes. I also believe that criminals should repay the community by some manual labour such as building roads in remote islands.

Exports and protectionism

The industry of our manufacturers and workers, helped by our Hong Kong-United States dollar link, had boosted our exports in 1986 around the world.

The threat of protectionism is still very much alive and we must emphasise that Hong Kong is a free port open to all nations and it is not logical to use protectionist measures to penalise us for maintaining open and free trade. Instead, protectionist nations should uphold us as an excellent example of free trade for other countries to follow.

Budgeting

My stand in budgeting is conservative and I believe in the Chinese philosophy of 'adjusting one's expenditure to one's income' (量入爲出) and 'establish new sources and prevent wasteful outflow' (開源節流) are all time-tested.

If one must borrow money, then it is the smart man who borrows money for productive investment (such as education and training of our human resources, building our infrastructure and so on). But it would be a foolish man who borrows money to spend them on grandiose plans of vanity and bottomless unproductive plans.

Taxation

I am all for indirect taxation on non-essential items which is better than compulsory direct taxation, as the public have the option to pay for the indirect tax or save their money. As a Chinese sage philosophically said: 願者上鈞, that is, 'those willing get hooked'; I only regret that heavier duties are not placed on non-essential items which are harmful to public health.

Turning to personal taxation, although there is 0.5 per cent reduction on the standard rate of tax, but this is only a '2 per cent forward and 0.5 per cent backward' step.

On the lower end of the scale, if we gauge the personal allowance by the government-accepted master pay scale, then one would find that in 1973-74 when the master pay scale was introduced, employees on scale point 9 just enter the tax net. By 1986-87, the master pay scale point 9 is \$41,880 per annum and if 7 per cent is added for 1987-88, it should be \$44,812.60 per annum which is what the single personal allowance should be.

With these remarks, Sir, I support the motion.

MR. YEUNG (in Cantonese): Sir, the guiding principle of our Budget is to save on resources and to keep expenditure within the limits of income. This principle will give tremendous impetus to the overall development of our economy. It involves the redistribution of social resources, which, if implemented in a reasonable manner, will accelerate our social and economic development. Though for many years, the Government's main objective in compiling the Budget is to restrain the growth rate of the public sector expenditure so that it will not exceed the economic growth rate, the total estimated expenditure still exceeds \$44 billion this year. In this respect, I agree with the Financial Secretary that the growth of recurrent expenditure should be based on the growth rate of recurrent revenue and that deficit budgeting should not be adopted as a long-term fiscal policy. It will be most unwise if taxation has to be increased because of excessive expansion in expenditure. On the other hand, if there is huge Budget surplus, consideration should be given to tax reduction. In fact, before and after the release of the Budget each year, people from all walks of life would put forth requests for tax reduction, for example, the commercial and

industrial sector would like a reduction in profits tax; employees look for a cut in salaries tax; couples in the middle-income bracket long for separate assessment; people in the tourist industry want a slash in airport tax and beverage dealers hope that duty rates on alcohol and soft drinks can be reduced. Thus if all these requests had to be acceded to, Hong Kong's economy will be on the rocks. As revenue decreases, it might not be possible to raise the money necessary to support long-term economic development, and the foundation of Hong Kong's economy will be affected. Therefore, a reasonable distribution of resources is essential. It should, however, follow the principle of 'effective provision' to avoid wastage and cases where government departments that merit allocation of funds or early development are not provided with the necessary resources.

The healthy growth of expenditure in education this year shows that education development is still occupying a prominent position. But if it had to retain such a position on a long-term basis, it would be impossible to finance all the expenditure on education by public fund. Hence the Government should consider raising the school fees of senior secondary schools, universities and tertiary education institutes in order to meet the tremendous expenditure required to maintain the quality and quantity of education.

Sir, during last year's Budget debate, I pointed out that in its 1982 review, the Government had already confirmed the value of school social workers and recognised the heavy workload being undertaken by them. It has also agreed in principle that the ratio of school social workers to students should be improved when there was an increase in the manpower of social workers. At present, although the supply of social workers exceeds demand, the Government still thinks that a full scale review of the delivery of school social work service is required before making a decision as to whether the promised improvement in ratio should be implemented. In reality however, the 6th Report of the Fight Crime Committee, under the chairmanship of the Chief Secretary and the vice-chairmanship of the Attorney General, had clearly pointed out the important role played by school social workers in counselling work. Great importance is attached to their work. The Social Welfare Advisory Committee too, has accepted the proposal to increase the social work manpower for secondary schools. If funds can be allocated by the Government, the number of school social workers will be increased by one third, so that the ratio of school social workers to students will be improved from 1:4 000 to 1:3 000. Sir, since the Government is taking the youth problem seriously and acknowledges that importance should be attached to school social work, why is allocation of the necessary funds for improvement still being delayed after five years and when both manpower as well as financial resources are readily available? Is this not contrary to the principle of 'effective provision'?

Sir, the abuse of soft drugs by young people has become a territory-wide problem. In the light of the harm and far-reaching effects of this problem on drug addicts and the whole society, to combat drug abuse should be given top

priority. The Government should consider allocating additional funds to reinforce anti-narcotics work as so to save young people from falling prey to drug addiction. Anti-narcotics work is a tough and costly task of the police which requires international co-operation. Experts in the United States have actually proved that insufficient funds is the major cause of the proliferation of drugs and a drawback to the anti-narcotic efforts of the police. Besides, drug traffickers are inevitably associated with triads and their activities spread all over the world. The trafficking network of Hong Kong drug traffickers is linked up with black spots like Bangkok, Tokyo, San Francisco and Vancouver. Therefore, the Government must widen its scope in combating narcotics and triad activities. This formidable task at an international level must be done in collaboration with various others countries in order to achieve the best results. In addition, the Government can enhance education and publicity in schools, families, business firms and factories, to alert young people of the dangers of drug addiction. Apart from persuading addicts to abstain form drugs through education, the Government can also consider the necessity of compulsory treatment for addicts.

It is public knowledge that the Vietnamese refugee problem has become a difficult issue which is 'incurring double losses' for Hong Kong. In 1986, the number of Vietnamese refugees who arrived in Hong Kong increased by 85 per cent over that of the previous year, whereas the total number of such refugees arriving in other neighbouring countries had dropped by 13 per cent. Owing to the large number of Vietnamese refugees who got held up in Hong Kong, our taxpayers had to bear an extra \$118 million in the year 1985-86 alone. In fact, the greatest threat posed by the 8 000 Vietnamese refugees who got stuck in Hong Kong may be compared to a time bomb which would explode at any time, and not just the \$100 million plus expenditure which has to be defrayed by the Hong Kong Government annually. Since the refugees are confined to closed camps over long periods of time, it is likely that they will develop imbalances psychologically, physically, as well as socially. This will indirectly affect the social stability of Hong Kong. Although Mrs. Margaret THATCHER, the British Prime Minister, once pointed out that Hong Kong had made proud achievements in accommodating Vietnamese refugees and so won hearty gratitude worldwide, the Government should not rejoice over this. On the contrary, it has to watch closely on the progress made by the British Government in her undertaking to give active considerations to this problem, so as to ensure that due importance is attached to the support and assistance given by British Members of Parliament.

Since Hong Kong has a free economy system and is an advanced commercial city, the thriving of security services is not difficult to imagine. It is not enough to rely on the police alone to protect the property of our residents. I am glad to learn that much importance has been attached by the Fight Crime Committee to the security trade as well as the service standard of security companies. In this respect, I hope the Government will enact, as soon as possible, legislation to

provide for the service standard of the security trade, so that it can become professionalised. Crime prevention is the joint responsibility of police officers and members of the public. Full co-operation between them will help to reduce the loss in public and private property. Here, I must touch on a serious problem concerning security—that is, the high incidence of false burglary alarms (as high as 99.4 per cent). For instance, in 1986, the police received a total of 30 202 alarms, but only 190 of them were genuine. As a result, the police had wasted over 150 000 working hours in handling false alarms; this is really disappointing. Despite their heavy workload, police officers still have to waste their time and energy on ‘false alarms’. This situation must be rectified. The Government should take early action to enact legislation to control alarm systems, so as to reduce the wastage of police resources, which can be utilised to offer greater protection to the property of the people.

Sir, with these remarks, I support the motion.

MR. CHUNG (in Cantonese): Sir, the Financial Secretary, Mr. JACOBS, in his new Budget brought good news. For 1986 the Gross Domestic Product has increased by as much as 9 per cent. A number of times greater than the figure for 1985 and also the workforce in Hong Kong is effectively fully employed. Regarding income, the average income for Hong Kong in 1987 is expected to be \$58,000 per person, this is something we can take pride in.

For 1987-88, the Financial Secretary forecasts that the revenue will be \$46.177 billion while expenditure will be \$44.409 billion; so the surplus will be \$1.8 billion. If we add this to the fund balance then the total surplus will be \$2.4 billion. As we all know the reserve for Hong Kong has rebounded to \$20 billion and the balances for various funds also stand at \$12 billion. So now that we have a Budget with a surplus, we will have better financial days for our future expenditure. Supposing that the rate of inflation for 1987 is 6 per cent, then according to the Budget, the growth rate for the economy in real terms is about 6 per cent. The rate of increase for expenditure in real terms is once again 5 per cent. So this is a Budget which keeps expenditure within the limits of income. Now that the prospects are good, someone may say that it is too conservative. But this is a policy that a responsible and a far-sighted government will take, especially for Hong Kong which is in a transitional stage. We must take precautions so that there will not be danger as the Chinese saying goes.

As pointed out by the Financial Secretary, I agree that the growth in expenditure should not exceed the growth of our economy. But since it is considered that dark clouds are looming in the horizons of our economy, for example, there may be trade protectionism and also China may more stringently control foreign exchange, we must also consider the external factors which are out of our control. So how can we guarantee that the total expenditure will stay at 16 per cent of the Gross Domestic Product. If the economy continues to grow, expenditure of course will grow. But if the unknown factors turn out to be

a not too rosy picture or if there is an economic recession, how can the Government suddenly reduce its expenditure on capital projects and services if they have been expanded. So I do not think the 16 per cent should be fixed. Rather we should act according to the actual situation in Hong Kong and make adjustments regarding our expenditure. More important still, we must increase income and reduce expenditure in a reasonable manner in order to stabilise our sources of revenue and allocate funds according to the priority for different projects.

The Financial Secretary does not want to rely too heavily on direct taxation and suggests that the net for indirect taxation be expanded. He also suggests that a committee should be set up to study this. This is indeed a good idea. Now direct taxation means that the more you earn the more you pay. So this is fair and it will also strike a balance for our overall economy. Indirect taxation is based on the degree of consumption. So unless we are sure that consumption will stimulate production, otherwise the increase in direct taxation will lead to higher prices. And if we have a trade deficit, then it will lead to import-related inflation and the purchasing power on our market will be reduced and the sales will also be cut down. In other words, domestic production will be adversely affected and so will be the revenue generated. So this is a chain reaction that we can imagine. As a consequence, if we increase indirect taxation, we may lose more than we gain and people's livelihood will also be affected.

To make good use of our resources we must continue doing these three things. First, we must maintain the rule of law to ensure that there is good law and order in Hong Kong. Second, we must make use of the economic status and good connections of Hong Kong in the international scene and we should try to help, but not subsidise, our industries, providing them with technological developments so that the potentials of Hong Kong to develop economically will be realised. Third, we must make full use of Hong Kong's status as the third biggest financial centre in the world and improve on market management. The system of freedom in Hong Kong and the low taxation lead to all sorts of businesses being concentrated in Hong Kong but there is the danger of risk related to speculation. We must therefore have good legislation to forestall market crisis that is of a gambling nature. We know that the Government is implementing or is about to implement these three issues. But in the Budget, there are no comprehensive or concrete statements in these regards. So under the premise of stabilising our sources of revenue, we must make sure that the allocation of expenditure will be related to the relative importance of the different issues.

To maintain the stability and prosperity of Hong Kong is the most important issue in the transitional period for Hong Kong. Unless we have stability there will not be prosperity. So I must emphasise one point, that is, for this year's Budget, we must consider whether we should add more provisions for the field of security. The Financial Secretary suggests that the expenditure for security in the coming year is \$6.87 billion which is 12.9 per cent of the total expenditure.

Now compared with the growth rate for the total expenditure, there has been an increase. But compared with the proportion we have for the present year, there has been a reduction. Furthermore, the increased provision is mostly to offset the depreciation of Hong Kong dollar against the sterling pound, and expenditure will include installations along the border as well as equipment for communication for the police. We know that the law and order situation in Hong Kong has been improving but for the long term, the Government should consider taking steps to implement various arrangements and plans for improving further the law and order situation in Hong Kong. We must always attach paramount importance to safety. Therefore we must consider the following points regarding expenditure. First, during the transitional period, bearing in mind that there will be changes in this period, we must make sure that more manpower should be allocated to the police to maintain internal order. The increase in manpower for the police will enable the police to counter any events that may suddenly crop up. Second, regarding district administration, we must improve building management, make amendments to the Watchmen Ordinance and develop the neighbourhood watch scheme. So support from the police will be needed by the district offices and various other departments. Third, the Governor suggests that the Fight Crime Committee should give priority to the tackling of the triad societies. In this regard, it may be necessary to introduce anti-robbery network throughout the territory. Fourth, anti-illegal immigration work is part of police work because of the special situation in Hong Kong. Fifth, the work of the customs and excise and the police detecting drug trafficking should also be stepped up and detection rate of soft and hard drugs should also be strengthened. Some work should also be done regarding legislation and also we must cut down on the smuggling activities. Sixth, Hong Kong is not a police society but during the transitional state we must have anti-terrorist and anti-violence preparations. Seventh, in future, does the Government think that we can maintain adequate defence strength while cutting down on the garrison at the same time? If that is the case, then we must make adjustments now so that the reduction of expenditure for the garrison can be reallocated to the police.

Mr. Chairman, I think that the Budget proposed by the Financial Secretary for the coming year is a stable and pragmatic one which takes into consideration the actual situation. I am in support of this Budget. After Hong Kong goes into the transitional stage, we are still able to maintain growth in real terms, I appreciate that. I hope that under the low taxation policy we can stabilise our sources of revenue and strengthen our security manpower. I hope that long-term plans can be made for that.

Mr. Chairman, I support the motion.

MR. MARTIN, LEE: The budgetary proposals put forth by the Financial Secretary demonstrate the basic commitment to uphold the fundamental principles which have guided his predecessors in matters of economic policy.

The benefits of a low and simple tax system and a stable monetary system are rightly emphasised by the hon. Members who spoke before me, as is the need to maintain balanced Budgets. In times of change, predictability in the conduct of economic policy can be a stabilising element, especially when continuity is maintained through the consistent application of sound economic policies that have withstood the tests of time.

Nevertheless this should not prevent us from introducing new measures to meet new challenges. As our society becomes wealthier, a gradual broadening of the tax base becomes more feasible. A review of the appropriateness and purpose of moving towards greater reliance on indirect taxation as a means of raising government revenues may now be opportune. Indeed for equity reasons, it may not be undesirable to spread some of the responsibilities for supporting government expenditures to those who can afford to pay some taxes but not presently included in the tax net. In so doing it opens up the possibility of reducing the tax burden on the sandwiched class. It may also provide a stable source of government revenue while maintaining a low tax system. As indirect taxes are imposed on consumption alone they have the advantage of not discriminating against those who believe in working hard and having savings.

It is, however, imperative that a proposal to consider greater reliance on indirect taxes should be sensitive to the inherent regressive nature of such taxes and should therefore be accompanied by positive measures to ensure that the benefits from a broadened tax base will not be borne by those who are the least well off in our society.

Furthermore, the public is naturally, and this Council should be, wary of any proposal to raise taxes. It is therefore essential that the public and this Council must be satisfied that the broadening of the tax base will not be a pretext for raising total government revenues. Thus, the introduction of new taxes can only be acceptable if it is accompanied by measures taken to reduce taxes from other revenue sources or to eliminate various other levies, for example, by the abolition of the tax on soft drinks. Finally, the public and this Council must be satisfied that the need to adopt new taxes must pass the most stringent tests of necessity and desirability.

I have thought very hard to think of some new indirect taxes that can be imposed on the public which are equitable. I can think of only one, and that is, by charging a tax of, say, 10 per cent on expensive meals which cost more than \$100 per head. It is equitable, but it may not be easy to supervise.

Sir, let me now return to the need for consistency on the application of sound policies that I mentioned at the beginning. It is widely believed that the economic success of Hong Kong owes much to the continued adoption of sound policies within a liberal, open and market-orientated economic system. Our Financial Secretaries have constantly reiterated the importance of relying on market forces to guide economic activities. Common sense tells us that a functional market system can only be achieved through free competition and

not by the entrenchment of monopoly interests or the provision of incentives to particular companies or industries. To be sure, such measures are always justified on the basis of protecting the public interest. But in fact these practices rest on mistaken notions of the role that the Government should play in a market economy. It also exaggerates the ability of the Government to know what is in the best interests of the public. Further, continued adherence to such practices would gradually remove the essential distinction between the public and the private sectors in making economic decisions. This does not merely spell trouble for steady economic progress, but it also creates a doubt in the minds of the public as to whether the Government actually practises what it preaches. In the last analysis, public interest can only be defended and the public's faith in the Government can only be preserved through consistency in adhering to our sound economic and budgetary policies. I therefore wish to congratulate every success in its future applications for landing rights in Hong Kong.

In conclusion, there are three things I wish to say. First, I think that the Financial Secretary is very clever indeed in having specifically invited Members of this Council to express their views on the pros and cons of indirect taxation, knowing that this Council will be divided on the topic as no two economists will ever agree on it, thus being spared of the burden of having to reach a decision on the matter himself, and yet enjoying the advantage of being spared of other criticisms which might be more difficult to answer. Secondly, as to the question of the filing of separate tax returns by working spouses, I have a feeling that the Financial Secretary will have a lot to say in his reply and that he has not given his reasons for defending this policy on this matter earlier, for the simple reason that he wants the Members of this Council to speak on it during this debate, so as to spare him of other criticisms. Of course I could be wrong on both counts. It may be that the Financial Secretary is merely being kind to Members of this Council by giving them some easy topics to speak on. Finally, the Financial Secretary has received more congratulations from Members of this Council than any other civil servant has ever done both inside and outside this Chamber, for merely doing his job, and this popularity is particularly difficult to understand because we know that the forecasts by our Financial Secretaries are more often wrong than right.

But in spite of the aforesaid, Sir, I support the motion. I will now assign my unused 4 minutes to the next speaker.

MRS. CHOW: Sir, of the 40 000 kindergarten pupils who are estimated to be eligible for fee assistance, less than 25 per cent actually receive it.

Curiosity drove me to look into the reason for this very low percentage of recipients. Here is what a parent has to do to apply for fee assistance.

He has to go to a Social Welfare Department office to get a form. Then he has to produce the original of his identity card, documents to prove the identity of all members of his family including that of the child he is applying the assistance for. He has to produce proof of income of all income-producing members of

his household. He has to produce the rent and rates receipts, the receipt of kindergarten fees he is required to pay for his child under the application, and proof of attendance at the kindergarten of which he claims his child is a pupil. He is interviewed no less than three times by Social Welfare Department staff. If and when the department is satisfied that the applicant qualifies for assistance, he then issues the authorisation paper to the applicant who in turn brings it to the kindergarten.

Such a maze of bureaucratic procedure entitles the applicant to a maximum subsidy of \$156 a month if his disposable income nett of rent and rates is \$2,000 or less, but when this reaches \$3,000 the subsidy could be as low as \$10.

This is an annual exercise which looks more like an attempt to discourage application than an effort to be helpful. No wonder only 25 per cent of those who are eligible receive it. The question that needs to be asked is—does not the administrative red-tape defeat the whole purpose of the assistance scheme? The answer is obvious. Immediate improvement is called for.

Looking further ahead we do not know whether the newly proposed fee assistance methodology, that is the split contribution factor, contained in the Education Commission Report No.2 will be adopted. If it is, the net for eligible parents will be widened considerably in 1990. If nothing is done quickly to simplify the cumbersome procedure, 57 per cent of all pupils who will then become eligible for assistance will be affected, instead of the present 17 per cent.

I urge the Government to tackle this unsatisfactory condition urgently. Hopefully we will see an improved procedure in the next academic year commencing September this year.

In our debate on the Education Commission Report No.2, I was critical of the Administration's back-tracking on the earlier decision stated in the 1981 White Paper on Pre-primary Education to set up a training institute for the training of teachers of nurseries and kindergartens in 1984. I do not recall receiving a satisfactory answer to my question. Given the importance parents attach to pre-primary education in Hong Kong, I appeal to the Administration and the commission to reconsider what in my view was a correct decision in 1981 to press ahead with this institute.

At this point I would like to lend my support to Dr. HO Kam-fai, Mr. YEUNG Po-kwan and Mr. HUI Yin-fat who will be speaking later on with views on Government's policy regarding the provision of social workers in schools. I do not intend to repeat them, except to say that we have been too complacent with congratulating ourselves on arriving at the right policies that we become over-tolerant with delays in their implementation. We must, from now on, be more vigilant, and as far as possible, censure such delays.

May I turn briefly now to the issue of taxation.

I am supportive of the Financial Secretary's view that we should move towards a more broadly based indirect tax. In spite of my current position as a

vocal representative of the consumer movement, I believe that in the face of rising affluence in our community to have not more than half of our taxes imposed indirectly will have a stabilising effect on our revenue, provided that such spending-based taxes must not have (and I quote the Financial Secretary's words here) 'a markedly adverse effect on the cost of living'. This immediately rules out the inclusion of basic necessities and services. Furthermore, apart from avoiding expensive and difficult administration, the package must achieve the right distribution, so that affordability and willingness to absorb must be considered. As indirect taxes are spending-based as opposed to direct taxes which are earning-based, the taxes should be levied as far as possible on those items of spending the decisions on which are directly rather than indirectly controlled by the payers. This rules out spending decided on by children, youths and the elderly who are by and large dependants of earners. It is for this reason that I have objected, and still object, to the tax on soft drinks. I hope my protest will fall on more sympathetic ears this year.

I do not support the reduction of half a percentage point on corporate profits. 18.5 per cent is still low by world standard. Judging from this year's result, it obviously did not have a dampening effect on industry and enterprise. I believe when one is in business, and when that business is profitable, that 0.5 per cent is willingly accepted. This is an area where we can spare the concession.

Before I proceed to my next subject, I would like to declare an interest which may be greater or smaller than my other married colleagues' direct or indirect interest in this matter.

'It seems to me', said the Financial Secretary, 'that even if the revenue were able to forgo a further sum of this magnitude, it would be preferable that the benefit should be spread amongst personal taxpayers generally rather than be enjoyed by any particular group'.

I find this comment on the face of it convincing but totally and absolutely unacceptable on close examination.

The reason that the projected loss of revenue as a result of separate taxation become a 'further sum' was because it was placed so low on the priority in the first place. It need not, and should not be. As for the reference to 'any particular group', I do not think it is logical or fair to justify the continuation of a discrimination against married working women by dismissing the removal of that same discrimination as a privilege, undeserved by them. On the contrary, the Government must look at the move as a rectification of an injustice. It is long overdue. We can afford it now. Let us have it.

Before I sit down I must compliment the Financial Secretary for the balance of caution and openness that marked his first Budget speech. He has very wisely initiated debate and allowed room for considered opinions to be aired. I welcome and appreciate this opportunity offered to the public. I hope this invitation will be taken up with the usual common sense and positive thinking so typical of Hong Kong.

DR. TSE (in Cantonese): Sir, first of all, like my colleagues in this Council I must congratulate the Financial Secretary on his very prudent and balanced Budget.

Now I would like to talk about the education question from the economic point of view. In his Second Reading speech, the Financial Secretary has pointed out that the 1987 education expenses would take up 18.3 per cent of total government expenditure. This percentage is the same as last year. However, because of the increase in the actual expenditure figure, the education expenses would see an actual increase as well. In fact as pointed out by the Financial Secretary the education expenses is not the only item which is the largest among government expenditure. It is also the item which receives largest increase for this year and the increase is almost \$1 billion. From every angle, the quantity of education opportunities in Hong Kong has seen a certain achievement. Basically we have already resolved the supply question of nine year compulsory education and have moved into a stage where the emphasis should be placed on education opportunities above Form III level. However, when one advances towards higher learning, the necessary funds as well as the component of technology and professional knowledge in the curriculum will have to be increased.

From the economic point of view, the development of our education system has entered a stage where we need to introduce meticulous planning to avoid unnecessary wastage. On the whole, after the compulsory education which goes on for nine years, the students would choose different education or a chance to be trained in special skills according to their own interest and ability. According to present arrangements, the education and training opportunities above Form III are planned separately by the Education Department, Vocational Training Council and UPGC. If we also include the Council for Performing Arts which is responsible for the planning of the Academy of Performing Arts, then we have four different independent units. Of course they have quite different delineation of scope of work. However, when we talk about training courses and the standard of training, they do overlap and possess similarities. Since this diversified system of opportunity is just to satisfy different needs in society and students, and if there is not enough co-ordination in the structuring of curriculum and the supply of school places, then we will be wasting public money. It will lead to personal frustration on the part of the students and we will not be able to supply the right personnel for the development of our society. Therefore, whether we take it from the economic point of view, the social or education point of view, the Government should reconsider strengthening the co-ordination and planning machinery for the education system of Hong Kong.

Now I say reconsider because I am not the first one to talk about this opinion. Actually in 1982, a visiting panel had already cited this as a major recommendation in their report. At that time, a group of international educationalists, after they had studied the Hong Kong education, thought that the Hong Kong education was over-managed and it lacked planning in strategic objectives and the ways and means to achieve the same. Therefore, in order that more emphasis

could be placed on comprehensive planning, policy formulation and results monitoring in the provision of education services and opportunities, the visiting panel had suggested the establishment of a co-ordinating machinery and they went into great lengths drawing up the organisation chart for such machinery. Four and a half years have passed after the release of the report in 1982. The promotion of education in Hong Kong has taken a great leap forward. In the indefatigable efforts of the Vocational Training Council, we have had three more technical institutes (Shatin, Tuen Mun and Chai Wan) and 14 more industrial training centres. And under the very enthusiastic and efficient leadership of their different planning committees, the City Polytechnic and APA have had an opening date earlier than scheduled. Also with the change in the status of the Baptist College, the degree awarding institutes in Hong Kong has increased from three in 1982 to five presently.

The 1987 provision for education, including that for APA, has almost doubled that of 1982. This is not a small figure and from the point of an educationalist, I am certainly very happy to see that the Government is giving a bigger allocation to education in Hong Kong. However, being a councillor who is entrusted with the responsibility of monitoring public expenditure, I have the responsibility to find out whether the Education Commission established is really able to take up the pivotal role as suggested by the visiting panel. Can it really formulate long-term education policies and develop its scope for these five years according to established policy and objectives? I do not have any answers myself for these questions. I have this worry because I know the present organisation of the Education Commission is quite different from the one suggested by the visiting panel. My worry is, even though the chairman and committee members of the Education Commission are knowledgeable personalities in the education field and they also work to the best of their abilities, if the power structure or the authority structure of the commission does not enable it to perform the intrinsic leading role, then how can we say that it can really help in the education system of Hong Kong which needs co-ordination.

Now I know that when the Education Commission was established, because of various reasons, the Government could not accept the suggestion of the visiting panel. However, according to people in the educational field, the present Education Commission cannot definitely co-ordinate the different units in the education field. It has increased the administration burden of the different units in Hong Kong. Fortunately, because our society is facing an uncertain future, the relevant departments have indicated that they would abandon the policy of striking out for oneself only, as criticised very much by the visiting panel, and they now adopt the spirit of helping one another in the same boat. If this estimate is right, I hope that the Government will take this opportunity to restructure the present Education Commission and to endow it with the right powers. With the support of different member units, it would be charged with the responsibility of formulating long-term education policies in Hong Kong

and will be directly answerable to the Governor-in-Council. Member units should however be allowed to retain their own independence in running their own units and in implementing their policies. But for issues relating to the whole education system, they should contribute their efforts.

Today, there are still many education problems awaiting us. For example, the change of curriculum of the Hong Kong University, the reform of the sixth form education, the planning of the university of technology, pre-school and open education as well as the establishment of an academic accreditation council. All these would lead to an increase in education expenditure. As we know, we cannot have an indefinite increase in education expenditure. There-fore, if we want quality and quantity with the limited resources, we need more efficient planning and co-ordination. I hope the different government departments and educationalists would seize this opportunity, when we can have enough resources to expand education in Hong Kong, to try to establish a good education system which is highly efficient and has a clear direction.

Sir, when I drafted the speech today, I also realised that the majority of the content would be more suited to the policy debate instead of the Budget debate. So if I departed from the main theme of today's debate, I beg your pardon. Sir, with these remarks, I support the motion.

DR. CHIU: Sir, when the Financial Secretary released the Draft Estimates of Expenditure 1987-88, he introduced the broad base tax philosophy of widening the area of indirect tax. This, if implemented, will spread the burden of indirect tax evenly among the general public regardless of income level. While we agree with Mr. JACOBS that in a time when protectionism and keen competitions exist in the business world, low tax policy can be one of the most effective ways to help boosting up Hong Kong trade, we cannot help but worry that the indirect tax if not carefully devised to confine to luxury goods will create hardship to the public especially to the low income groups. We congratulate Mr. JACOBS for presenting a very encouraging Budget which is expected to yield a surplus of HK\$1.8 billion for rainy days. We are hopeful that he would consider making use of the reserve for good causes if there are urgent needs.

Medical Budget

Last year at about this time I disclosed to you, Sir, the difficulties encountered by the hon. Members of the Finance Committee in scrutinising the proposed Budget of the British Military Hospital. We were given the understanding that the hospital was operated under the terms of the Defence Costs Agreement, and that its expenses were subsumed under the overall costs of the garrisons and were therefore not separately identifiable. Standing here today, I would like to remind you, Sir, that we continue looking up to you for the release of the needed information as soon as the review of the Defence Cost Agreement undertaken in the current year is completed.

It is very encouraging that allocation for the long-term development of hospitals has been made available in this year's draft estimates. This indicates that the Government is attempting to look a little further. As a series of hospital development projects are being planned or are taking shape, there is no question that hospital services will cater for a larger population. With the completion of more public hospitals, the current severe bed shortage is expected to be alleviated to a certain extent.

My colleagues in the medical profession are pleased to learn that in comparison with what we got last year, the Draft Estimates provide a bigger slice of cake for medical and health services. However it is considered not big enough to feed those who have developed a need for quality medical care after being repeatedly under-provided in the past years.

At this time, Sir, when we are still waiting for the Government's decision on the recommendations of the Australian Consultancy Report on the Delivery of Medical Services in Hospitals, we, apart from looking up to the Government to do something to improve our hospital services, working conditions and so forth, wish also to urge the Government to implement, as soon as practicable, those recommendations of the said report which the OMELCO Standing Panel on Health Services and the Medical Development Advisory Committee considered to be not necessarily linked with the establishment of the independent hospital authority.

Having said this, I do not mean to blame the Financial Secretary for failing to do a better job in the allocation of funds. What I am trying to say is that under the current medical system, even if the Government continue to allocate each year increasing amounts of funds to public hospitals each year, still a greater amount of money will always be needed just to maintain the present level of services as medical and hospital costs will escalate. This explains why I, as the representative of the Medical Functional Constituency, continue to press for more funds to improve medical care.

Family medicine

What is wrong with our present medical system? My medical colleagues in this Chamber will agree with me that a great deficiency is that family medicine which is the most essential ingredient of health care has not yet been built into our health system.

I regret to say that in the past few decades, the overwhelming concentration of care in hospitals is an over emphasis and that the public is led to believe that hospital service is all they need to solve their health problems. It may explain why a large number of chronic patients are occupying our acute hospital beds today. This is because we, instead of providing them with personal and continuing care with specialised support from hospitals at the neighbourhood level, give them costly hospital service.

As a matter of fact, patients suffering from chronic diseases not only need long-term therapy, but most important of all, they require regular follow-up

service for mental support. They need advice and health education regarding drug-taking compliance, side effects of drugs and early symptoms of complications. Our costly acute beds should only cater for those who need highly technical and specialised care.

Family medicine is to provide primary, continuing, comprehensive and whole patient care to the individuals and the family in their natural environment. That is to say comprehensive care should compose of three main areas, namely, physical, psychological and social conditions. A typical elderly patient, in addition to his deteriorating physical conditions, may also be suffering from psychological and social problems. Depression, loneliness are his psychological problems; loss of companionship, confinement to the house, isolation and poor diet are his social problems. Doctors, therefore, in general out-patient clinics should intervene educationally, preventively and therapeutically to promote their patients' health.

Primary care

Let us see whether the primary care we provide for the public fulfils such requirements or not.

According to the data of the Medical and Health Department, doctors in government general outpatient clinics handled 4 594 483 cases last year. This figure, I must say, does not include the statistics on dressings or injections provided at the clinics. Despite the fact that primary care service is heavily subscribed, medical practitioners in private sector today are responsible for providing 68 per cent or about two thirds of the total primary care in Hong Kong.

The philosophy on which our primary care service is devised aims at providing the most essential and basic primary care for the most needy and surveillance of disease patterns for medical treatment and control purposes. Henceforth, a great majority of the patients who seek primary care at general outpatient clinics are those who cannot bear the costs charged by private doctors. And the question is 'What sort of primary care service are we providing to the under-privileged people?'

The long queue and the unduly long waiting time in general outpatient clinics are well known to all. Nevertheless, only a handful of people understand that our primary care is the weak part of the equation. It is disease-oriented, substandard and sporadic.

a. Medical report

The first and foremost problem I want to point out is that in general outpatient clinics, there is no such thing as proper medical records for patients, not to mention personal, continuous or comprehensive care.

Since medical records for individual patients are not available, no matter how often they have been visiting the same clinic they are treated as new cases every

time they come for services. Worse still, the doctors who take care of them do not have the faintest idea about their medical history: for example, the doctors will not know whether the patients have any allergy to particular drugs, nor will they know whether they have a history of hypertension, diabetes or other useful information which can facilitate the doctors' diagnosis in the process of treatment.

We should all be aware that keeping medical records for the patients who are under their care and treatment is of fundamental importance. Some of the most important uses of the records are to identify and to keep track of patients' progress and the disease patterns so as to enable the Health Authority to plan future medical services, needs and deployment of resources effectively.

Sir, not only that very reliable and correct records of all patients who have attended the clinic at any particular day should be kept carefully in outpatient clinics, it is also important that when a patient is referred to a specialist clinic for care, a full written report should also be prepared and returned by the specialist to the referring clinics or doctors when the patient's problem is solved or when no further involvement by the specialist is warranted. However the situation in general outpatient clinics is far from satisfactory.

b. Doctor/patient relationship

The second deficiency is the lack of doctor/patient relationship. When a person who is, or believes himself to be, ill comes to see a doctor to seek his expert advice, the rapport between them is a potent therapeutic aid. As patients tend to place considerable trust in their doctors, such a relationship may be used to help relieve his anxiety and fear of disease and to motivate behaviour change. A close doctor/patient relationship built up over the years can produce frankness and honesty which is very important in the investigation and management of ill health.

All of us have the experience of going to see doctors. Our own experience tells us that patient satisfaction is not only associated with relief of symptoms but to a larger extent patients' feeling of being understood and their interactions with the doctor in the consultation period. Unfortunately, the three-minute medical consultation in outpatient clinics leaves a vacuum in this area.

Having said this, I must clarify that it is not that government doctors do not care about their patients, but it is because they do not have the time to care. Their heavy workload is one of the contributing factors to the present deficiency. As we know, it takes time for the doctors to explain to patients. If doctors have not the time, no matter how willing they may be they just cannot do it.

c. General practice

With reference to the undesirable situation under which primary care is provided, without making reference to the difficulties encountered by doctors

working in general outpatient clinics at the same time, is unfair. At present, Government doctors in outpatient clinics face two major problems: heavy caseload and low staff morale.

The changing health problems, progress of medicine and evolution of science and technology make it extremely imperative for medical practitioners to undertake continuing medical education and training. Nowadays, we rely on various medical societies and colleges to design and organise continuing education programmes for our practitioners in Hong Kong. The Hong Kong College of General Practitioners is also responsible for giving accreditation.

Anyhow, such postgraduate training programme for general practice in Hong Kong has not been supported by public funds. Besides, we have many conscientious general practitioners going abroad for advance training on their own and coming back to provide high quality service in their work place. However, post basic qualification in general practice obtained in the United Kingdom, Australia or Hong Kong are not given due consideration by way of an award of a bonus increment for their professional knowledge. When asked, we were given the reply that the government sector did not need such high qualification in this area.

Under this circumstance, many of them leave the public sector for private practice. Subsequently, those who remain in the public sector work under pressure and with low staff morale. This undesirable working condition, no doubt, contributes to the reluctance of medical graduates to pursue general outpatient service in the government sector as a career.

Sir, as long as such unsatisfactory conditions remain, our primary care service can never be improved.

Recommendations

Primary care as a relatively inexpensive medical service and as the frontline guard-post for the entry to the more sophisticated and expensive hospital system, is vital to patients and at the same time of considerable economic significance to the society. The reason is that high technology medicine is expensive. But high cost medicine can be controlled by an effective primary medical care system. That is why we ought to strengthen our primary medical care system.

In view of the limited terms of reference of the Australian consultants, it did not cover this vital area of primary medical care. I hereby urge the Government to review the overall primary medical care policy without any delay. At the same time, the relevant government branch and department are requested to reset the priorities in the provision of medical and health services, bearing in mind that under a sound and comprehensive health system, the high cost hospital services should not be over emphasised. I would also like to take this opportunity to ask the Government to place greater emphasis on health education and prevention of health problems. Last but not the least, I, having

regard to its cost-effectiveness and its function of keeping patients from being admitted or re-admitted to hospitals, strongly advise the Government to improve primary care both in terms of quantity and quality and to remove the obstacles which deter doctors from rendering their service in this field as soon as possible.

People may tend to think that it would be impractical to lay down a high standard for primary care at this stage. However, if it is the right direction for future development, I cannot see why we should not work towards this goal step by step so as to attain the ultimate goal of health which is defined by the World Health Organisation as 'a state of physical, mental and social well-being and not merely the absence of disease and infirmity in which the individual is capable of carrying out his physical and mental activities at his best.'

Sir, with these remarks, I support the motion.

DR. LAM (in Cantonese): Sir, the employment of financial resources in the medical health services of Hong Kong require a great deal of improvement.

Last year, on 15 October we had a debate on the delivery of medical services in hospital in this Council and many Members had given many valuable views on it. This year, the total expenditure on medical expenses is \$4.5 billion occupying 9.6 per cent of the total expenditure and an increase of 0.7 per cent when compared with last year. Although we have a larger expenditure, the Government has not been able to tell us the improvements that can be made by this increase. Say for instance, has the waiting time for outpatient specialist treatment been shortened? Has the crowded situation in hospitals been reduced? Has the working environment of the medical profession been improved? The Government should as soon as possible come up with a final decision on the Australian consultancy report and the opinion of the professional groups. My view is, other than increasing revenue and reducing expenditure a successful financial control should also look into the improvement of operational efficiency. Recently Tung Wah Group of Hospital has a dispute with its employees' pension and I think it is an operational problem.

The Government should expand the LAFIS system to comply with the effective control of costs and to have better allocation of resources. On the other hand, members of the Finance Branch should respect views of the medical profession and strengthen up contacts with them in order to boost up the morale of the staff and their sense of belonging.

What worries one is not the inadequacy but the inequality of the provision. Our Government always claims that our Administration is built on the concept of equity. In 1984, we can see that the provision for hospital beds in government hospitals per year is \$149,000 but in subvented hospitals, it is only \$87,000 per year. The difference is \$62,000 per year. This similarly occurs in education and social welfare facilities. No matter what reasons the Government can give, the feeling from the general public is that unfair treatment has resulted in different types of facilities and services provided.

The Government should be positive in providing medical services outside the hospital. In the consultancy report, paragraph 362: 'thus the bulk of the fund would tend to go to high technology, high profile type of activities while there may be major inefficiency in the system due to the lack of basic equipment and facilities'. Sir, in the coming years, in Tuen Mun, Eastern District and in Tai Po area, government hospitals will be completed. From the financial control standpoint, the Government should be positive in expanding medical services beyond hospitals. Both services provided in and out of hospitals should supplement one another and are inter-related. If we use a huge sum of money to expand a hospital or to expand medical health services with the local community as a basis, I think the latter is more important because it will create better benefits for the general public. So the Government should expand the two types of services at the same time and should have a balanced allocation of resources.

As a result of industrialisation and urbanisation in Hong Kong, our general public has been undergoing psychological tension. The Government in this coming year, will have \$0.23 billion on hospitals emphasising psychiatric treatment. Money spent on community nursing care and community psychiatric treatment is \$0.13 billion and \$3.5 billion respectively. I hope that this would be the first step to promote mental health in Hong Kong. Unless we can provide more resources for follow-up care for mental patients, the reoccurrence of tragedies related to mental patients is possible.

On the other hand, allocation to facilities for elderly is not enough. According to the age of our population, the Government should provide more facilities for the elderly and to expand the hospice service. Sir, in the future 10 years, if the expenditure related to medical service is kept within 10 per cent of the total Budget, I do not know whether it can meet the heavy costs. I have a great reservation on this point. The Financial Secretary in considering the lowering of taxes should consider schemes like medical insurance and allowances for personal medical expenditure so as to reduce the general public's reliance on public medical services. Although we have spent \$4.5 million on the consultancy report to review the medical situation in Hong Kong, yet the Government had not come up with a final decision on the new set of policy. This is disappointing.

Sir, the Budget proposed by the Financial Secretary is a conservative one, responds only upon challenges. These are some examples:

- (1) About the linkage of the Hong Kong US dollars—can the Government inform us whether it is because of economic reason or other reasons that we have such a linkage system? And if it is because of economic reasons, then what are these economic reasons? What sort of measures have the Government taken to reduce these economic problems. The Financial Secretary has pointed out the blessings of the linkage system but he is unable to explain to us the disadvantages arising from it. He has not mentioned under what circumstances would the so-called linkage system be abolished. The Financial Secretary is unable or unwilling to say as to

when the linkage system would be reviewed. Some people believe that the linkage system is important for boosting the confidence of the people of Hong Kong. But can the Government inform us on what sort of measures have the Government taken to strengthen the people's confidence? On 11 March, we have passed the Public Order (Amendment) Ordinance. Does this have any thing to do with the strengthening of public's confidence?

- (2) In the Budget, concerning housing matters, the Government has not clearly indicated the effects brought by the clearance of the Kowloon Wall City and the building of the Tate's Cairn Tunnel.
- (3) This Budget is unable to stimulate industrial investment. The present taxation system does not encourage people to invest and to have long-term investment in Hong Kong.

Sir, I believe that a sensible person will agree that the prosperity and stability of Hong Kong, other than relying on our the stable economic development, at the same time also relies on the support and confidence of the general public. It is only when the interest and wishes of the Hong Kong people have been looked after and can be reflected in this Council that the Hong Kong people will give support to the Government. Hong Kong will then be able to face any sort of economic challenges and to create a more prosperous society. Otherwise, I think even the best Budget will not be able to contribute to our long-term stability and prosperity.

So, I support the motion.

MR. HU: Sir, for Hong Kong, 1986 was a year of revival which was even beyond most people's expectation. Capital investment grew by 7 per cent in 1986 after a decline of 2 per cent in 1985. There was practically full employment in all sectors. There is every indication that 1987 will be another impressive year of healthy growth.

Local investors will continue to invest and the favourable investment environment will continue to attract overseas investors to invest in Hong Kong in various sectors. Towards the end of this decade, there could be hesitation from local investors to further their capital investment when it will be seven to eight years before 1997. Therefore, it is imperative for Hong Kong to maintain its present favourable investment environment to attract even more overseas investors for a long period as such development could put the minds of local investors at peace on the future stability and prosperity of Hong Kong even beyond 1997. Local investors would then continue to invest here without hesitation.

The Financial Secretary has wisely decided to lower the standard tax rate and profit tax by 0.5 per cent which, although is not a substantial reduction, gives a clear indication of the direction of future movement. I will not be surprised if the standard rate will be further reduced if business continues to flourish.

Hong Kong's reputation as a low tax territory is one of the many factors conducive to creation of wealth which will be beneficial to people from all walks of life in raising the average standard of living. More people from low and medium income groups will be promoted to medium and high income groups respectively.

I share the Financial Secretary's view that the stability of public finances can best be assured by endeavouring to develop a broadly based tax system and to spread the tax burden more widely across the community.

Direct taxation has its virtues of easier administration with lower expenditure on revenue collection and the social desirability of a fairer distribution of wealth that those who earn more bear bigger tax burden, but heavy reliance on direct taxation to finance public expenditures works only on the assumption of sustained growth of the economy. Economic downturn affects incomes of all taxpayers, corporations and individuals alike, and reduces tax revenues, thus making it difficult to forecast government revenue with reasonable confidence. In turn, this may hinder many social development programmes. Our economy does hinge on many external factors which are beyond our control.

Indirect taxation, on the other hand, has a much broader base of revenue collection sources. As it is basically a tax on expenditures, tax revenue from this source is less prone to the ill effects of poor economic performance, and Government can achieve better financial planning. The argument for moving towards indirect taxes can reduce or even replace some forms of direct taxes, making Hong Kong a more attractive place for investments. However, if indirect tax is levied on a big scale, including daily necessity items, for example soft drinks, it will affect the whole population, poor and rich, leading to demand for higher wages and fueling inflation.

Indirect taxes usually involve higher administrative costs in collection, and may, directly and indirectly, affect our tourist industry. I agree with the Financial Secretary that we must be practical in our approach in developing a broadly based tax system. Initially, we should only consider those items which ordinary people can afford to use less or even no usage.

Although one outstanding feature of this Budget is further improvement in public services, the following shortfalls in provision for social welfare have been noted.

In his Budget speech, the Financial Secretary predicted that as a result of increased domestic demand of consumer goods, there would be some increased inflation in 1987, as already reflected in the consumer price indices towards the end of 1986. In this regard, I am particularly concerned for those who are the least able to care for themselves and who have been relying for their livelihood on public assistance and on special needs allowances. We are under obligation to ensure that the purchasing power of their dollar is not eroded. The basic rate of assistance payment was reviewed in 1984; it must be about time that all public

assistance scales be reviewed again. However, no provision has been made for a review in the Budget.

I have been given to understand that the policy and procedures of social welfare subvention are currently being reviewed and that the outcome will be known in a few months. In the meantime, there are some problems which will need to be tackled. One of these concerns social work service in secondary schools. At present, one school social worker has to serve 4 000 students. The government-appointed committee last year upon review of the service recommended that the social worker/student ratio be lowered to 1:3000 and the Social Welfare Advisory Committee endorsed this recommendation for its implementation as soon as possible. The Fight Crime Committee has also decided that high priority be given to the improvement of school social work which has proved to be a valuable measure in the prevention of crimes among young people. However, no provision was made in the Budget for the implementation of the improved ratio. As this area of need has been well documented and it has been estimated to cost only \$4.9 million to implement, it is reasonable to expect that separate and additional funds be made available immediately for the voluntary agencies concerned to proceed with the improvement of this very important service.

A number of violent incidents which took place have high-lighted the problem of the mentally ill in Hong Kong. This is another area for concern. These tragic incidents which are not just isolated cases have resulted in serious injuries and loss of lives. The Social Welfare Department which is committed to providing care in the community for the ex-mentally ill should pay greater attention in this particular area of service. A critical review should be carried out on the adequacy of existing provision of facilities such as half-way houses and manpower resources. By manpower resources, I mean trained social workers with adequate experience in handling mentally ill clients and being given a reasonable case load so that proper supervision can be exercised in the community. I am pleased to hear that the Director of Social Welfare has a plan to build the first psychiatric centre for discharged mental patients who have shown violent tendencies. I hope this innovative facility can be set up soon and is not just another plan on paper.

The recent survey of public opinion indicated that housing related problem is the second on the list of perceived problems in Hong Kong. Our housing policy has been subject to review periodically to cope with changing circumstances, but with no basic change in its long-term objectives. I am pleased to note that the Housing Authority can further increase its contribution toward capital expenditure for rental housing estates and thus enable Government to utilise its limited resources to undertake more improvement in other social services.

I welcome the initiative of Government to carry out another review of the long-term housing strategy. As far as income is concerned, the existing policy would allow eligible clearers to move into permanent rental housing without any check of income and have priority over those on the waiting list who are

further subject to income criterion limit. To offer better-off clearees alternative rehousing arrangement would reduce the requirements for permanent rental housing, but on the other hand it would increase the requirements for HOS/PSPS flats, supply of which is already far from enough to meet the demands. Furthermore, there are very few sites available in urban area for HOS/PSPS, where demands are extremely high. This is an area where private sector and Government can work hand in hand to overcome the supply situation, especially in the urban area. The proposed Home Purchase Loan Scheme will give the potential purchasers of HOS/PSPS flats an alternative of an interest free loan to cover down payment to enable them to buy flats in the private sector. Provided the private sector can keep the flat prices within the reach of eligible purchasers, this scheme can help greatly to resolve the housing requirement for those in need while Government confirms its commitment to build at least 40 000 units a year including rental housing and HOS/PSPS flats.

PSPS has been in operation for a number of years and has proved to be successful in supplementing HOS in meeting home ownership demands from eligible purchasers. PSPS can meet the same objectives as HOS and it has the additional financial benefit to the Government in terms of substantial land premia besides less manpower requirement from government departments. However, Government has the commitment of buying back any unsold flats from developers within one year of consent to sale. Although the number of flats actually bought by Government is limited, yet it is a commitment to be considered. As private developers have gained considerable experience on PSPS, Government may now consider the sale of PSPS sites with the same terms and conditions but without undertaking of buying back unsold flats which can be sold freely by the developers after an agreed time interval. This proposed revised term can relieve the Government from the financial risk of buying back unsold flats.

I note that the provision for the 'Promotion of sports' vote has been reduced from \$10,448,000 for the year 1986-87 down to \$9,943,000 for the year 1987-88. While I appreciate that there is reduction due to the absence of two major games, that is, the Commonwealth Games and the Asian Games, in the current fiscal year, I understand that there will be considerably more expenditure on the sports development plan as recommended by the Council for Recreation and Sport. Furthermore, more governing bodies will receive assistance in the engagement of development officers and secretaries in order to help them strengthen administration. If there is no timely adjustment in the provision, the Government's support to governing bodies for their regular organised tournaments and participation in overseas competitions will be greatly affected. This is a backward step detrimental to sports promotion, which has been encouraged and supported by the Government in the past. I hope that remedy in this respect can be done in the near future.

Sir, with these remarks, I support the motion.

MR. CHAN YING-LUN (in Cantonese): Sir, I would like to say a few words on behalf of our youth.

But before that I would like to quote Mr. JACOBS the Financial Secretary. He said that any growth of expenditure should be related to clear and established policy objectives. I agree with him totally on this point. I think that policy and Budget must be compatible. But I hope to understand that if the Government has already agreed to implement some policy objectives. Why is it that we do not have the necessary provision to carry them out. Should we lay down some rules to stipulate that accepted Government policy objectives should be implemented in a certain period of time. Now what I have in mind are actually outreach social work services and school social work scheme.

Eight years ago, the Government has set up 18 teams of outreach social workers and it has promised that every year we will have an addition of two teams. However, eight years have passed and we still have only eighteen teams with us.

In 1982, the Government has agreed that the school social work and student ratio should be reduced from 1 to 4 000 to 1 to 2 000 but we have waited five years and the same ratio has persisted. Even with the interim measure, that is, one social worker to 3 000 students, that would need \$5.6 million but even this \$5.6 million is not forthcoming in the present years Budget. Now let us look at the demand for outreach social work teams. In districts like Sha Tin where there is no outreach social work team, the number of juvenile delinquent has risen by one third. In new towns where we have a rapid increase in population, juvenile delinquents also increased. Sha Tin, Yuen Long and North district board members have all requested to have outreach social work teams for them, so there is no doubt about the need to expand outreach social work teams. Now in the last year's debate, I have cited the example of Shaukiwan hillside youths forming themselves into gangs and taking drugs. I think the problem has aggravated this year. I want to point out that we cannot rely on the police to take care of the youth problem, especially for fringe youth. The outreach social workers are the people who can help them most.

On the allocation of the sources, 18 outreach teams for 1986-87 has a total expenditure of \$23.4 million and is taking up only 0.8 per cent of the total social welfare expenditure. If we have two to three more teams with increased supervisors and facilities, that would only take up 0.1 per cent of total social welfare expenditure and that is a negligible figure. However, if we can improve on youth problem, the society will benefit from it. So this investment of manpower is in line with economic principles.

As for school social workers, one social worker has to take care of four schools, we can understand their workload. So we should not set our eyes on absolute figure of on the provision, we should look at the results of the allocation. Of course 1 to 4 000 would incur less expenditure but the effect is also minimal, and we cannot help the students very much. We would rather

increase expenditure to achieve the pre-conceived objectives. The authority has suggested that the school social work increased expenditure would be met by surplus recovered from voluntary agencies. However the surplus only amounts to \$6 million. If school social work alone takes up \$5.6 million then we have little left for other services. So I hope in this year's Budget there would be addition provision to take care of expenditure in this respect.

Now I would like to talk about taxation. The low tax rate in Hong Kong is one of the reasons for our success. Therefore I am in total support of the Financial Secretary's idea to reduce our dependence on direct tax. So to expand the indirect tax net is one physical means but that should not affect the necessities for the average citizen. I think we can charge consumption tax or sales tax on top luxuries like pleasure boats and jewellerys and also for expensive entertainment venues like ballrooms and nightclubs, we can charge them profits tax. Now besides revenue from tax, expenditure and income of the Government should be kept healthy. We should charge any service users for the services rendered. This is also acceptable by the citizens, for example, rates and water charges, postal charges and so on. The Government should review these regularly so that they are compatible with costs. The users and not the general tax payers should pay for newly introduced services.

And actually the services have already been improved. And so I would like the Government to tell us when these charges would be levied to make up for large expenditure on manpower and equipment in this respect. Also the Government should charge private cleansing contractors and developers for using the incinerators and dumping areas. In OMELCO, and the Eastern District Office, I have got some complaints from people of these trades that these services may suspend suddenly and their livelihood is affected. In order to tackle this problem, the Government should provide a steady service with a cost recovering fee and this is beneficial to both parties.

Sir, with these remarks, I support the motion.

MR. HUI: Sir, the Financial Secretary's surplus Budget this year, well received by all sectors of the community, features a steady and conservative approach to our booming economy. It is particularly reassuring to the social services functional constituency that relief from long-standing financial constraints, promised by the Financial Secretary and his predecessor, has finally come with this year's Budget estimates. The social welfare sector more than welcomes the HK\$2,798 million estimated Budget for social welfare (Head 170 and 172 together), representing 6.3 per cent of the total budgeted expenditure. Our prayers seem to have been answered.

However, a close look at the Budget figures shows that problems facing the voluntary agencies have hardly been solved. For while money has been granted to expand existing service programme, there is hardly any provision for improving the basic standard of services so essential to the long-term development of social welfare in Hong Kong. Indeed, as far as social welfare is con-

cerned, the 87-88 Budget is not only over-cautious, but also lacks Government's vigorous commitment to social welfare that should accompany our improved economy.

Low priority

Sir, statistics will help explain the situation. Although the HK\$625.5 million social welfare subvention represents some 20.85 per cent increase over the 86-87 figure, it only takes up 1.4 per cent of the total Budget. On the other hand social security payments amounting to HK\$1,768 million absorbs some 4.0 per cent of the total Budget, or 63.17 per cent of total allocation for social welfare. Although the percentage increases for individual social welfare services appear to be sizable, ranging from 37.5 per cent for rehabilitation services to 18.44 per cent for family services, the bulk of social welfare subvention is designated for maintaining existing services and funding new projects, with only a small sum left over for the improvement of services. While the Social Welfare Department uses 25.4 per cent (HK\$9.1 million) of its HK\$35.9 million Budget increase for social welfare services this year on upgrading service quality, voluntary agencies can only spend 5.5 per cent (HK\$4.4 million) of its HK\$80 million increase on service improvement. Rehabilitation, one of the most deprived service areas, is given only HK\$0.5 million, or 1.6 per cent of its HK\$31.5 million Budget increases, to raise the quality of service. These figures only attest to the extremely low priority awarded to the quality of social welfare services when the Government drew up its Budget estimates.

Sir, it is good to see that Government at long last fulfils its responsibility for the expansion of social welfare services which are still lagging behind growing social needs. That our call for adequate funds for improving service quality, which was the theme of my policy speech last November, should go unheeded came as a big disappointment to the social welfare sector. Not wanting to be seen again making insatiable demands on the public coffer, I wish to take this opportunity to elaborate once more on the reasons why social welfare service quality must be improved without further delay.

Of all kinds of social services, social welfare which deals with intangible human needs is by far the least understood and the most unrewarding discipline. Its achievements cannot be measured by the number of students graduating from high schools each year, the number of people being resettled in public housing units, or the steady fall of our infant mortality rate. The statistics of our day nurseries, children and youth centres, care and attention homes for the elderly, and sheltered workshops for the disabled are in no way synonymous with our success in solving the many and varied social problems of our society. These facts bring home the difference between the welfare sector's concern on the one hand; and industry, taxation, monetary, budgetary, prices and income policies on the other. On the contrary, more and more child abuse cases such as the KWOK Ah-nui case, tragic deaths in our child care institutions, increasing number of divorce cases, frequent incidents of gang fights among school

drop-outs and growing waiting list for homes for the aged offer glaring examples of our failures in providing timely remedies to people in need. The failure, we believe, is largely attributed to the unrealistically low manning ratio of our social work force as well as the strength and lack of professional training of our welfare workers. This then, Sir, is the first reason why service standards have to be improved.

Agreed standard

The voluntary sector cannot be considered avaricious in asking for improvements on service standards which the Social Welfare Department has long agreed to implement. These are reasonable, acceptable standards produced through painstaking efforts made by both government and voluntary agencies in the on-going five year plan reviews. It is axiomatic that due to rapidly changing social needs, such standards only represent slight improvements that should have been carried out many years ago had economic conditions permitted. Such improvements when implemented will take us nowhere near the so-called free-lunch level in the affluent welfare state societies; and our public assistance rate of HK\$510 per month for a single person speaks for this fact.

Sir, we believe that social welfare services must be of sufficiently high standard in order to achieve the service objectives. When the agreed caseload for family caseworkers is not yet reduced to one worker for 70 cases, which is still below the ideal standard of 1 to 50, it would mean less frequent counselling and undetected problems for our clients. When the agreed standard of having one registered nurse for each child care centre cannot be implemented, children under care suffer from the lack of proper medical attention. The recommendation in bringing down the school social workers to students ratio which has been spoken out by so many of our colleagues here from 1 to 4 000 to 1 to 3 000, when the ideal ratio is 1 to 2 000, has already been formally endorsed by Social Welfare Advisory Committee; while the value of this preventive service among youth has also been acknowledged by the Fight Crime Committee. Yet, no provision whatsoever has been made in this year's Budget estimates for implementing the agreed ratio, which means our school social workers must continue to provide only lip service to students. In the field of services for mental patients, again costs for executing the envisaged amendments to the Mental Health Ordinance have not been included in this year's social welfare Budget. This would mean our ex-mental patients are not getting proper after-care service and are subject to relapse of mental illness, thus threatening the life of the public at large. Indeed, without the necessary improvements in service standards, what we now have is only a shopping list of various types of social welfare services that is totally unrevealing with regard to how our social needs are being served.

Sir, this year's one-line vote for social welfare has succeeded to convince us of the lack of close communication between the Financial Secretary and the Social Welfare Department. It would mean that in following the overall trend of

penning his Budget estimates by touching up on last year's accounts, the Financial Secretary has neglected the commitments Government has made to its welfare plans, so much so that all the hard work of the five-year plan review has gone down the drain. With an overall surplus of HK\$4.9 billion for the current financial year, it is high time that Government honoured its commitments. This then is the second reason for my call for service improvement. It is estimated that only HK\$38.4 million is required to implement all agreed improvements this year and to upgrade all services to a reasonable standard. We have also been told that a sum of HK\$36 million, deriving from surpluses accumulated by voluntary agencies in past years, will be used to fund improvement of services on a three-year basis. Thus only an extra HK\$26.4 million representing a tiny fraction of our total Budget, can immediately resolve our problem. Sir, certainly this is a small amount that our present economy can well afford.

Lotteries Fund

Astute observers would not hesitate to point out that once service improvements are made, we would need to back up with a steady flow of recurrent expenditures. They would put forth the cogent argument that competition for funds is keen, and as the Financial Secretary said, 'resources are not unlimited'. Here, Sir, I wish to draw Members' attention to resources outside our normal Budget; to a fund specially set up for the financing of social welfare services, that is the Lotteries Fund.

In the past, claims on the Lotteries Fund have been on the low side, and there are reasons for this. Without adequate subvented recurrent expenditure, voluntary agencies were forced to hold back their applications to the Lotteries Fund for launching capital projects. Furthermore, the lengthy application procedure, averaging 33.2 months per application coupled with the rigid control exercised for the Social Welfare Department also deters more applications being made to the fund. However, the situation is now different due to increase in the one-line-vote for maintaining and expanding social welfare services. In his official reply during the Budget debate last year, the then Financial Secretary promised to look into the percentage share of the total proceeds of the lotteries going into the Lotteries Fund, which has dropped from 5.75 per cent in 1983 to 1.5 per cent in 1985. My proposal, therefore, Sir, is for Government to reinstate the fund to the original 5.75 per cent and to appropriate 25 per cent of this amount specifically for the improvement of social welfare services. This way, Government does not need to squeeze money from the public purse but simply increases social welfare subvention without much pain. I do not subscribe to the argument that the lotteries is not a stable source of revenue; because let's face it, Sir, the local public's indulgence in gambling cannot change overnight. This proposal is consummated by the possibility that other community organisations may model on Government's example of using the Lotteries Fund for purposes other than financing capital projects, and to meet the need for upgrading the quality of social welfare services.

At this point, I wish to briefly discuss the issue of fee charging for social welfare services that may have crossed the mind of some Members of this Council. While fee charging has its merit including giving service recipients a sense of pride and dignity, it is only applicable to certain types of social welfare services such as recreational and developmental services. In Hong Kong, our existing social welfare policy is geared towards helping those who can least help themselves—the deprived, the vulnerable and people at risk. For these people who do not or may not seek help voluntarily, fee charging is definitely out of the question. Besides, our social services Budget being a meagre 8 per cent of our GNP compared with the 15 per cent in countries like Japan and Australia does not warrant payment on the part of service recipients. As such, I strongly believe that it is Government's responsibility to provide for this basic social need of our people.

Social justice

Sir, this brings me to the third reason for service improvement—Hong Kong's long-term goal of social welfare. When our social welfare policy is aimed at alleviating poverty, the selective system will help create a 'them and us' syndrome, dividing service beneficiaries from the rest of the society. On the other hand, a broadly based system and shared support for welfare spending would make people feel a part in the entire system. Thus, a progressive social welfare policy should aim at not just helping the selected minorities, but enabling people from all sectors of the community to be self-reliant and stand on their own feet. To do this, we would need sophisticated social welfare services of decent quality.

Sir, Hong Kong has progressed to a stage where social welfare cannot be accounted for by the quantity of services we provide. Today, we have to acknowledge that service standards must be adequate for clients to maintain a decent level of living in the community. With improved economic conditions comes our rising expectation for more to be done to improve the quality of life for all sectors of the community, not just the poor, the elderly and the disabled in our midst. By improving the quality of social welfare services, we not only enable people to share the prosperity to which they all contribute, but also take one step further in our pursuit of equity and justice as opposed to charity.

Sir, with these remarks, I conclude my submission.

MR. LIU LIT-FOR (in Cantonese): Sir, I support the Financial Secretary's prudent and progressive Budget. The aim is to maintain Hong Kong's prosperity and stability. In the midst of a relatively huge surplus, the Financial Secretary does not try to rally popular support by having excessive public expenditure items. It is an efficient and effective way to protect Hong Kong in its future development. There are many potential dangers in future such as the threat of protectionism and inflation. Under such situation, I like to concentrate my discussion on social welfare, traffic and transport expenditure.

Expenditure on social welfare increases from 4.8 per cent in 1982-83 to 4.8 per cent in 1987-88. Such an increase is a welcoming sign. However, it appears that we have not attained our expected target in some servicing items, for instance, welfare services related to elderly, homes for the aged and community centres for the elderly. In 1986, we have 81 community centres for the elderly and in 1987, we only have 88. The increase is still not satisfactory. And for bed space, in 1986, we have 6 276 bed spaces for the elderly. In 1987, we have 7 259. So it does not help the elderly people much.

Further more, old people in Hong Kong are not given concessionary rate in transportation service. On this particular aspect, Hong Kong is backward when compared with Taiwan. I hope the Government, in future, could provide concessionary rate for old people in public transportation service. As for functions organised by the Urban Council, concessionary ticket rate for old people should be considered so that they can enjoy these cultural and recreational activities. With the development of small family system, more and more old people do not receive the necessary care and attention of the younger generation. So no matter whether it is on the physical needs or the mental needs, old people require good accommodation, care and pension service. I hope that the expenditure on this aspect of social welfare could have some upward adjustment to meet the needs of the old people.

I feel that Government expects to increase our outreaching social work cases from 2 342 cases in 1983 to 5 400 cases in the new Budget. Obviously, such an increase indicates that the general public has a great demand on this sort of services. Recently, we have a lot of juvenile crimes and the general public has expressed their serious concern on this matter and considers that the Government should improve the policy related to juvenile problem. The outreaching social service team is able to provide educational activities and counselling service for the young people. But because of the shortage of fund, development of the service has been hindered. As far as I know, at present, demand for such service exceeds supply and I hope the Government would give priority to the development of the outreaching social services team and to increase the allocation of funds for its expansion.

I have previously pointed out that the distinction between Category 1 and Category 2 of social welfare subsidies has been too arbitrary, and it cannot fully accommodate the expenses of other necessary welfare services. The term standard cost is ambiguous and the definition emphasises too much on cost factor and ignores the actual social benefits that could be resulted. And these benefits, I think, cannot be measured by money. That is why a lot of applications for fund from voluntary agencies have not been approved. Most unfortunately, because the subsidisation system lacks flexibility, many of the welfare activities cannot be carried out. This also leads to surpluses but the Government cannot make the best use of these surpluses which eventually go to the Treasury. The Government understands the shortcomings of such a system and I know that the Government is conducting a review. I appreciate

such an overall review and hope that in the next financial year, we can implement an improved scheme.

But during this interim period, I suggest that the Government should pool the surpluses in the Social Welfare Department instead of returning them to the Treasury. The Director of Social Welfare can then re-allocate the surpluses to Category 2 applications so as to meet the needs of the public. I hope that the allocation for elderly services and services for young people can be increased.

In traffic and transport matters, the various projects related to highways construction are near completion and we do not have a drastic increase of funds in this particular aspect. As a matter of fact, Hong Kong has a comprehensive and diversify traffic and transport scheme including public transport development such as railway, bus, ferry, mini-bus, train, taxi and lorry services; public road and tunnel development such as the building of the NT circular route, the Eastern Harbour Crossing and the Trunk Route No.5 linking Sha Tin and Tsuen Wan. All these constructions are the recent improvements undertaken by the Government to solve the problem in traffic and transport.

Undoubtedly, the Government has done a lot to improve the problem and spend a lot of public expenditure. But I have to point out that the general public have been paying a lot of money in using these facilities. And recently, we discover that there is an increase of fare for many public transport facilities. I hope that the Government, when approving fare increase for public transportation company, would consider the burden of the general public and maintain the fare structure at a reasonable level. Private car owners are also paying a lot of money. Of course, the guiding principle of the Government in increasing tax is to have a more frequent yet lower range of increase. The Government would also like to increase tax in order to reduce the increase of vehicles, and at the same time, to bring along a handsome revenue for the Treasury. But unfortunately, the Government has not been able to solve the congestion problem.

I think that all these problems, whether they are district-wide or regionalwide transportation problem, require a comprehensive policy and co-ordination to make sure that the resources are fully used. That is why a comprehensive policy has to be produced to replace the 1979 White Paper on Traffic and Transport Policy. I understand that the Government is looking into this matter and is prepared to conduct a second overall transportation review hoping to have a blue-print on the development of traffic and transport policy for the coming 15 years. I appreciate such a study and hope that the Government would provide relevant resources for the completion of the study. But during the interim period, I hope that the Government could speedily handle district-wide traffic and transport matters such as strengthening the staff of the Transport Department so that they can have sufficient staff to have site inspection and solve territorial-wide transport problems, to co-operate with district boards, to consult their views and to have efficient improvements.

Sir, with these remarks, I support the motion.

4.48 pm

HIS EXCELLENCY THE PRESIDENT: At this point, everyone would like a short break.

5.05 pm

HIS EXCELLENCY THE PRESIDENT: Council will resume.

MR. CHEUNG YAN-LUNG (in Cantonese): Sir, first of all, I must commend the Financial Secretary for having presented us with a cautious and sound financial estimate. I would say that I basically support the Budget proposed by the Financial Secretary.

In preparing the fiscal proposals, the Financial Secretary has the aim of maintaining a reasonable growth for Hong Kong's economy. Of course, we all hope that the Gross Domestic Product of Hong Kong can steadily grow to 6.2 per cent this year and that in the next five years, the general trend for growth of 5.5 per cent can also be realised.

Sir, generally speaking, I would say that our future looks very rosy. However, there are some problems which the Government has to face head-on now, and I would like to raise three points for discussion.

Firstly, the sandwiched class. I would like, first of all, to talk about the fact that the Government has been accused of turning a deaf ear to the benefits requested by the sandwiched class. There are some people who feel that the policy of salary tax seems to be in favour of those who are rich and also those who earn a very little income. The former will be protected by the standard tax rate whereas the latter can enjoy low cost housing or home ownership schemes. So some people think that the sandwiched class has been used to subsidise those who are less better-off.

It is always my belief that Hong Kong's tax rates must remain at a competitively low level and I do not believe in the principle of 'robbing the rich to help the poor' in a manner that is peculiar to certain typical welfare states. For Hong Kong cannot survive on plain egalitarianism. Nevertheless, such realisation should not disguise the fact that there are discrepancies of fairness in the treatment of income earners of different brackets. The sandwiched class will have to bear with the deprivation of housing assistance and other social welfare benefits. Their difficulty—though as a result of over-spending for some of them—is realised through the spect of struggling to meet the tax demand note at the beginning of each year.

In my view, there are measures that the Government may consider to help redress the imbalance of treatment towards our middle class wage earners. I suggest therefore that consideration be given for the introduction of a tax rebate system in the form of personal tax allowances for housing mortgages.

One advantage of the scheme, which should only apply to those in the private housing market outside the home ownership scheme, is that the level of allowances may be set against declared income. This shall ward off attempts by people who try to avoid tax through the purchase of expensive flats. Those who wish to claim the maximum level of allowances may find it difficult to do so without declaring their income honestly, thus helping to reduce the incidence of tax avoidance or evasion. Furthermore, the Government may contemplate revising the rate of rebates from time to time in line with the economic situation as a measure of revenue protection. For instance, a 20 per cent rate of allowances on a monthly instalment of \$3,000 for a property valued at \$400,000 may be adjusted upwards or downwards as a measure of revenue protection.

The measure will likely promote the development of Hong Kong's property market as more and more people are attracted to home ownership schemes. This will also induce public confidence in the territory through the private acquisition of housing units.

Such a scheme may cause property prices to go up but in my view, the problem of pricing will be corrected through the mechanism of supply and demand. After all, there is no property boom all the time in countries offering tax rebates on housing mortgages.

The introduction of such a scheme must be considered against the disadvantages—if I should so describe them—of administrative cost and the level of potential loss in revenue, which may be off set to some extent by the increase in revenue on stamp duty and the sale of land.

Sir, I know the system of rebates is a complicated one. Nor do I suggest immediate implementation of such a plan even if it is considered acceptable in principle. I urge that there should be careful considerations and all odds must be weighed carefully with an aim to achieve a fairer tax policy and a fairer rebatement for all.

This brings me to another question: the problem of indirect taxes.

In his Budget speech, the Financial Secretary has argued in favour of developing a broadly based tax system, saying that such a system is more resilient. He suggested that 'one way of achieving a broader tax base is through widening the scope of indirect taxes.'

Sir, politics is an art of compromise. I think this description can also apply to the Government's revenue policy. True, as the Financial Secretary said, there is no immutable or clearly correct ratio between the yields from direct and indirect taxes. We all know this does not mean these two categories of tax can be fixed at any ratio vis-a-vis each other without having an adverse effect on the well-being of the community as a whole. Thus, the need to strike a balance between the two forms of tax is obvious.

Direct taxation set at a high level will no doubt dampen people's incentive and be unfair to those covered by the direct taxation net. On the other hand, a broadly based indirect tax is not without its adverse effect. To broaden the indirect tax base would mean the imposition of duties and fees on more items of commodities and services which will inevitably include non-luxurious items. Such a measure will affect the general public as a whole, particularly the lower income group.

The duties and fees imposed on each items might be mild, but if the scope of indirect taxes were to be widened, the accumulated expenses would lay a big financial burden for the less affluent. Should this happen, the effect of direct tax concession on the lower income groups would be greatly eroded, leading to higher living cost.

Furthermore, the inflated prices of commodities as the result the broadened base may reduce Hong Kong's attraction as a shopping paradise, which hampers its tourism trade.

For the above reason, I urged that great care must be taken by the Government before deciding on any move to broaden the indirect tax base. The problem of taxation should not only be viewed as a mere fiscal measure aimed at generating revenue. A responsible Government must consider the possible economic and social effect of such measures so as not to undermine the well-being of the community at large.

Sir, I mentioned in my speech during the Budget debate last year the possibilities of bigger spending. And I quoted: 'With a brighter future and a healthier state of cash flow, I think we are ready to commit ourselves towards more spending particularly towards the building of a stronger infrastructure.' My belief remains the same today. As Hong Kong now has a handsome amount of surplus and a more robust economic growth, I think it is high time for the Government to spend more in this area. And this in fact is a good investment which will be beneficial to the community as a whole in the long run.

Hongkong's new town development is really something we are proud of. In the years ahead, the New Territories will still be the focus of attention for development, as existing new towns here will continue to grow and new ones will be built. I am sure that the Government's strategy to allocate sufficient development funds for the vast area of the New Territories will meet the growing expectations of the population there. Any attempt to thwart the direction of development will certainly call into question the Government's determination on long-term development of Hong Kong at a time of crucial changes.

Sir, I support the motion.

MR. POON CHI-FAI (in Cantonese) Sir, over the past year a good economic growth rate has brought about a financial year with a surplus of \$3 billion.

However we should not be overjoyed by this temporary good economic performance. We must instead strive to create a long-term stable economic environment. Undoubtedly social stability and prosperity is the prerequisite for the creation of wealth. Therefore when I debate on this Budget, I cannot but appeal to the Government that it should be pragmatic and assume a steady pace in the political review so that we would not do anything to harm Hong Kong's prosperity and stability. Besides, to strengthen our man-power training, to introduce new technology, to provide favourable conditions for commercial and industrial developments, to cut excessive speculation, to restrain rapid increase in public expenditure, to reduce unnecessary spending and so on, are important factors for the development of Hong Kong's economy. On the Budget I have the following views.

First of all for the Civil Service: In the past years, the Government has succeeded to contain the growth of the Civil Service, it should be commended for that. At the same time, the government departments have undertaken value for money studies to increase the efficiency of the Civil Service and also unnecessary ranks have been deleted. These all seem to be very good results. The over-reliance on consultant companies seems to have been improved over the past year. The former Secretary for Lands and Works, when he replied in last year's debate, assured that it was only when Government did not have the professional knowledge in-house for certain projects would it employ consultants. However, I was not convinced when he said that the consultants were employed because there was an urgent need for additional manpower to implement plans for new towns, and the Government was not sure how long such manpower would be needed. Actually all the projects for the new towns have to be listed in the Public Works Programme before they can be implemented and every year the new towns would submit a works programme progress report. Therefore the argument that the Government is not sure how long such manpower is needed cannot be established. However the Government has already improved a lot on its over-reliance on consultants and has already tried to make use of in-house resources to do studies. The results are also encouraging. At present, the supply of local engineers exceeds demand, I would like therefore to appeal to the Government again that before the employment of any consultancy they should try their best to employ local engineers and should extend the value for money studies to the consultancies' work.

The Financial Secretary said that if our revenue is overly dependent on narrowly based direct tax, then it will be difficult to increase such direct taxes significantly during difficult times. If the tax net for direct taxes is widened then there will be modest contribution from a larger section of the community. As regard the widening of the indirect tax net I have different opinions. In order not to widen the gap between the rich and the poor and to avoid the shouldering of the burden by the middle and low income groups, I would say that we should only levy indirect tax on non-necessities. However, as we have a limited number of luxury items and in difficult times, members of the public may refrain from

using such items altogether, the widening of indirect tax may not bring about a steady income as expected by the Government. On the contrary more middle and low class income group people would be included in the wider indirect tax net. If that is the case, then it is contrary to the principles of bridging the gap between the rich and the poor and to have the rich help the poor in our tax system.

Sir, people who have a monthly salary above \$7,000 bear the brunt of the tax burden and they cannot enjoy particular services in terms of social welfare, for example they do not have the chance to apply for public housing or Home Ownership Schemes. Of course the Government has already raised the personal allowances and lowered the standard rate. However these people cannot benefit from these two measures. With the present clawback system, people who have \$7,000 monthly salary cannot benefit from any concession of the personal allowances but if you increase indirect tax then you are adding to the suffering of this sandwiched class. This is very inequitable to this particular class of people. All along, the Government aims at giving social services for the poor and needy. But during this time when we have a large surplus, we should really review why the tax system is so inequitable for the sandwiched classes. And provided if it would not affect or induce a rapid rise in property value, we should consider a low interest loan or house instalment allowances for the sandwiched class or part of their housing instalment can be exempted from tax to enable them to purchase their own properties and they can live and work happily in Hong Kong.

Sir, the most disappointing feature in this Budget is that the authorities has rejected the suggestion for separate taxation for married couples. Actually the status for women in society has risen and the number of traditional housewives is decreasing in the face of a more open society as well as higher education for women. At this time, it is totally outdated if we still pack women's income to the income of their husbands. Of course, if we implement separate taxation for married couples, the Government would have less tax revenue and more administration cost. However, because of the principle of justice, we cannot reject this suggestion on the grounds of additional government expenditure. So I appeal to the Government to reconsider this suggestion to satisfy the demand of the Hong Kong people.

Traffic congestion is a common phenomenon in busy cities and Hong Kong is no exception. We are always faced with this problem on traffic congestion. Though it is a very common problem, it has adverse effects on our economic benefits. It wastes time, increases petrol consumption and transportation cost and also affects land sale returns. Therefore the Government should expedite a long-term improvement measure. Recently on account of the persistent traffic congestion on the Lion Rock tunnel, the Government is considering raising the tunnel to reduce congestion. I am in total opposition to Government's thinking. Actually when the Government set out to develop Sha Tin and neighbouring new towns, it should research into the traffic demands between Kowloon and

Sha Tin and provide enough trunk routes to avoid the wasting of time, petrol and manpower due to traffic congestion. If you rely on the increase of toll to reduce congestion, you are merely increasing the burden of people and workers in Sha Tin and you will affect their employment and increase their living expenses. Indirectly, it will also affect the return of domestic and industrial land in Sha Tin and neighbouring areas. From the previous example of crossharbour tunnel toll increase, unless the Government introduces alarming increases, like \$20, \$50, \$100 or unbelievably, \$1 000 for every increase minor increases cannot reduce the number of vehicles or you can only have short-lived result. At the same time, reducing congestion in the Lion Rock Tunnel may induce the re-routing of vehicles which may cause congestion in other areas. Therefore in the long term, besides building the Tate's Cairn Tunnel, The Government should consider the mandatory measure of requiring drivers to use special coins in automatic toll boxes, or charge vehicles who pay on the spot double so as to reduce the time for vehicles to get through the toll booths. We can also improve the public transport services in order to encourage members of the public to use them. Only then can we aspire to solve the Lion Rock Tunnel problem.

With the rise in the standard of living, the demand of citizens on basic services like medical services and educational services will definitely increase. Since we have a large surplus and a low interest rate, we should have a larger provision for the improvement of these services. In fact it is only with sufficient medical services that we can have healthy minds and bodies and only with a good education can people help to increase government revenue.

As for social welfare, we cannot ask for provisions without definite objectives and we must avoid distributing the free lunches. The latter will affect the development of our economy and encourage healthy people to rely on social welfare. It will also dampen their instinct to earn a living. Social welfare should not aim at passive relief but should provide active assistance to enable the poor and needy to help themselves to improve the standard of living and contribute to the society.

Sir, before I close, I note in particular the large scale new airport plan put forward by Hopewell and Hutchison. Undoubtedly this project would help to foster confidence in Hong Kong's future. However since this is really a very large scale project and it has far-reaching effects on the overall development of Hong Kong, I would say that we should not be hasty about it. We should be very cautious and should think of the pros and cons, assess our ability and conduct very careful studies before we come to a decision. This is to ensure that it will not bring about a harmful burden or unimaginable destruction which will affect the prosperity and stability of Hong Kong. The authorities has suggested that there will be interest free loans for housing tenants to pay for the down payment of private property. I support this move. However we must also pay attention to the impact of this plan on the demand and supply of private property. Will it lead to a demand which cannot be coped with by the

supply and shall we experience a sharp increase in property value so much so that public housing tenants cannot benefit from it or the Government will have to spend large sums of money without reaching its objective? Also the non-public housing tenants will also be deprived of the opportunity of buying private property. In addition I would ask the Government to conduct feasibility studies of constructing three-storey temporary housing areas to alleviate the growth in supply of THA and to make better use of our land resources.

Sir, with these remarks, I support the motion.

MR. ALLEN LEE: Sir, 1986 was a good year for Hong Kong. Let me first congratulate the Financial Secretary for just doing his job. Not many people can do this job properly. In my opinion not even the Lee's of this Council can handle the job of being the Financial Secretary of Hong Kong. I have just noticed two Lee's are present out of four. Sir, I am certain that the surpluses reported in his first Budget presentation are welcomed by the community. In my view, being prudent in the handling of public sector financing and in controlling public sector expenditure coupled with the concept of 'saving a little for the rainy days' is a successful formula for a unique place like Hong Kong. I am glad to see that the Financial Secretary has adopted this approach in his presentation.

In this Budget debate, I would like to put the emphasis on Hong Kong's future and focus the attention on our weaknesses.

In 1986, our economic performance was once again export-led. Even though the manufacturing sector, which has often been described as volatile, is on a declining trend in its direct contribution to GDP, however, few would argue that it is the most important sector of our economy. If we are to maintain a favourable economic performance in the years to come, we must take an earnest look at some of the major problems facing our manufacturing sector today.

Protectionist sentiment is growing in our largest market, the United States. The US Administration is currently under economic and political pressure to correct this situation. Hong Kong, through no fault of our own, is caught in the net with Japan, South Korea and Taiwan, even though we advocate and practise free trade. Many of our industries are predominantly value-added assembly-type industries lacking a strong technical base which, in the long run, will lose its competitive edge due to ever increasing costs. Therefore, it can clearly be seen that protectionist pressure compounded with a weak technology base is a real problem which our Government must tackle and tackle as fast as we possibly can in order to maintain our economic performance in the 1990s. We have spoken time and again about diversification, attracting foreign investment and technology transfer which I agree are all of vital importance. However, we must act and react to our real situation. In this regard, I look towards the Industry Development Board, which is chaired by the Financial Secretary, to come up with some positive proposals and solutions. I would be greatly disappointed if we were to let yet another year elapse without any concrete proposals from the Industry Development Board.

We must also pay attention to our markets and potential markets. On the subject of potential markets, my colleagues in industry have identified Japan as a market where we have not been successful and where concentrated efforts are needed. Our trade deficit with Japan is large with a ratio of about 10:1. In my view, to do business in Japan, we must and should learn the Japanese business philosophy which is the 'THREE Ps', that is, Patience, Persistence and Personal Relationship. We must also adhere to the Japanese strict requirements on quality and design. Although I have every confidence in Hong Kong's ability to manufacture high calibre products to meet the Japanese stringent requirements, I believe that the difficulty lies in the formulation of a sound marketing strategy. The Trade Development Council has recently spearheaded a move to tackle the Japanese market but we need the support of our Government. With a concerted effort, I feel we can 'crack the Japanese nut' and establish a strong presence in this market which will place Hong Kong on firmer economic grounds in the years ahead.

I would now like to turn to my second subject, education and in particular tertiary education, which is related to our future and our future industrial development. Sir, we must never forget that investment in education is an investment in our future. The strength of Hong Kong lies in the hands of our young people. Therefore, I was delighted with the announcement of Hong Kong's third university. I have spoken on a number of occasions, both inside and outside of this Council, on the importance of enhancing the reputation of our tertiary education institutions and how we must strengthen our research and development efforts in these institutions. I believe that the current Budget granted to the five institutions is proportionately one of the lowest in the world. How is Hong Kong expected to keep up with world standards if our Government adopts the attitude that research and development is of secondary importance? I am aware that some changes will be made, but in my view, this should only mark the beginning of Government's recognition of the weaknesses of our tertiary education institutions. I would like to say it again that this investment must be made. It is expensive, but it will result in a great many invisible benefits in our future.

Sir, before closing, I would like to say a few words concerning Hong Kong's position as one of the financial centres of the world. As the convener of the Legislative Council ad hoc group on Insider Dealing, I am aware of the difficulties and sensitivities involved in this subject. However, judging from what has been happening in New York and London, I believe our Government has a responsibility to protect investors from unethical practices. I recognise that insider dealing is only one of the many intricacies of being a financial centre but I feel our philosophy should be one whereby we stand tall on our own merits as our creditability and our reputation are on the line, especially as we have now entered into the world arena.

In conclusion, I support the Financial Secretary's budgetary proposals which I believe to be sensible and well thought of. I would like to bring to his attention and the attention of his colleagues in the Administration, the importance of the subjects I have spoken on today as I believe they are in the interest of the future development of Hong Kong.

Sir, I support the motion.

MR. CHAM: Sir, with the revival of our economy, public finance is now in a much better position than in previous years. As this is the Financial Secretary's first Budget, one looks for his basic philosophy rather than performance based on economic statistics. The Financial Secretary's conviction is to provide an environment in which business can flourish so as to permit the continual growth in investments as well as to maintain our labour force at full employment level. Some further assurance is provided with his objective of low taxation that the growth of expenditure in public services must stay within the expansion of our economy so as not to generate any strangling impact on further growth. Surely, in a place like Hong Kong which is less favourably endowed in natural resources, fiscal and monetary policies must be geared towards the creation of wealth by economic activities but not a mere emphasis on the re-distribution of wealth. To put it simply, the cake will not get bigger whichever way it is cut, it is better to induce everyone to be fully employed to make a bigger cake. I endorse his views in the interest of all in Hong Kong.

Indeed, statistics for the past year have offered a more promising outlook for our economy. The growth in domestic exports of about 16 per cent in real terms is encouraging, together with a virtual balance in our visible trade account. The increase of 8 per cent in expenditure on plant and machinery if it can be maintained presents a cheerful future for our manufacturing sector. The more pleasant state of our economy is well reflected in the growth of the gross domestic product (GDP) of 9 per cent and the relatively low rate of increases in the consumer price index and the GDP deflator. The most gratifying figure is the further drop in the unemployment and the under-employment rate from 3.3 per cent and 2.1 per cent in 1985 to 2.6 per cent and 1.3 per cent respectively in 1986. Taking into account structural unemployment and factor mobility, there is little doubt that we have achieved full employment. The forecast per capita GDP at current market prices is expected to increase from preliminary estimates of HK\$52,759 in 1986 to a forecast of HK\$58,000 in 1987 based on a forecast growth rate of GDP in money terms of 12 per cent. Our economic strategies for the future must be founded on a further improvement in productivity and the increase in GDP without imposing a strain on our labour force. In the short run, further demand for output can be met by marginal increases of productivity or additional output through provisions in overtime employment. In the medium term, we must look for improvements in putput either by improving productivity in all economic sectors or induce the development of sectors which command a higher marginal increase in value-added per increase in input.

In this regard, we must consider the contribution of the different sectors of our economy. In particular, we should note that value-added as a percentage of gross output in the manufacturing sector is about 27.9 per cent. Furthermore, compensation of manufacturing employees as a percentage of value-added is 62.7 per cent. Hence the weighted compensation of employees as a percentage of gross output is 17.5 per cent. On the other hand, in financing services, value-added as a percentage of the gross output is 65.5 per cent and the compensation of employees as a percentage of value-added is 47.2 per cent, thus the weighted employee compensation as a percentage of output is 30.9 per cent for the finance sector. The operating surplus as a percentage of value-added accruing to the entrepreneur is 52.8 per cent in financing services, while employees in this sector enjoy a higher level of compensation weighted as a percentage of output, that is 30.9 per cent compare to 17.5 per cent. As a result, both employees and entrepreneurs benefit from their participation in this sector. Taking into consideration the need for balanced growth, it is certainly unwise to advocate the mere expansion of a particular sector simply because it commands a higher value-added component. However, one must not overlook the benefits of further developing sectors which yield a higher return to our labour component, such that both entrepreneur and labour can share profitably in the resulting growth. In this respect, with the gradual development of industries in nearby areas, particularly in China, Hong Kong must play an increasing role in its position as a financial centre.

It is therefore necessary to continue to foster our development as one of the leading international financial centres. Indeed, the securitisation of debts introduces new dimensions of risks. Part of the solution lies in improving the regulatory framework and suitable provisions as cover for these risks. Part of the solution appears to call for an improvement of the market mechanism available to support the securitisation process. Despite the replacement of the secured assets by unsecured paper assets, this instrument does have the merit of transferability, divisibility and liquidity. While we are contemplating further regulations, the necessary improvements of the market mechanism should not be overlooked. In particular we have to note that securities or paper assets now are traded in a dealers' market. The common feature of such a market is that dealers tend to take a more uniform view in market-making. With uncertainties in the market, liquidity could dry up and brisk trading may stop suddenly. However, if these instruments were traded with a large number of participants in an open market, the depth and liquidity of the market could be enhanced.

Turning to another aspect of the securitisation process, the Stock Exchange of Hong Kong did enjoy a good past year active with improved turnover. In terms of turnover, the size of our stock market ranks among the top active markets in the world yet clearing in the stock exchange is still conducted with the 24-hour physical delivery system. Compare with the other major markets which have all centralised their clearing functions, this not only represents a waste of clerical work and manpower but it will inhibit further growth of our stock

market. It was often said that Hong Kong has a twentieth century stock market and a computerised price quotation system, but it is unfortunate that its clearing system remains in the nineteenth century. Although it can be argued that the Stock Exchange must be left to do its job, Government must provide the needed and necessary legislation to support a simpler and more efficient market mechanism conducive to further development of the market. It is the smoothing of operations which the system needs with lubrication in the form of necessary changes in regulation and legislation. Once detailed proposals have been finalised by the Stock Exchange, Government should give its full support to this important project. I hasten to add that delay in improvements would be detrimental considering innovative developments and fierce international competition, as other centres gear up to challenge our position as a major financial centre.

I am generally satisfied with the package of revenue and tax concessions with increased annual revenue of \$365 million in 1987-88 and \$405 million for a full year offset by tax concessions of \$690 million in 1987-88 and \$1,095 million in a full year. I am especially mindful of the Financial Secretary's repeated indication of the direction which the Government intends to move to maintain a low tax regime in which business can flourish as well as providing a stimulus to the business sector. While I shall leave the advocacy of separate taxation for married women to my other colleagues, both male and female, I do like to address the issue of single parent allowance, a point raised in the OMELCO Taxation Panel. We must accept that in our present day society, single parents having to raise children should be considered for additional allowance since they would not be entitled to the married couple allowance which enables some degree of economy of scale. It is this group of single parents, particularly the widowed with children to be raised who should be granted more generous allowances. I might mention that this is certainly an allowance in the UK taxation.

I have also heard representations from the Hong Kong Committee of Retailers representing some 2 000 local retail, restaurant and entertainment outlets for a downward adjustment of the current airport tax which is \$120 per passenger above 12 and \$60 for those below 12. The major concern is that this will dampen Hong Kong's image as a major tourist centre and that although hotel occupancy rates in Hong Kong have been high, room occupancy rates have marginally declined from 88 per cent in 1985 to 85 per cent in 1986. Furthermore, with the completion of about 8 000 new rooms to be added to the hotel industry in the future, Hong Kong needs more tourists. Indeed, when the airport tax was first introduced in 1983, it was recognised that the airport tax for Hong Kong is higher than the average airport tax charged elsewhere in the world but for lack of other sources of revenue this has been accepted. In a previous Budget speech, I have made clear that recovering costs must be an important consideration. This should be applied to our airport tax especially when we have to improve its facilities further. In this basis, I would support the

travel industry's call for a reduction in the level of the tax, provided that the reduced tax plus other incomes derived from the airport can recover its operational costs. Furthermore, consideration should be given for transit passengers who stay in Hong Kong within a limited stay, say, 24 hours as practised in Sydney airport. While our shops offer goods at competitive prices, our airport tax ranks among one of the highest in the world. Now that we are in a better position financially, we should consider lowering this tax such that the airport tax is in line with the image of Hong Kong as a shopper's paradise.

Sir, I support the motion.

MR. SZETO (in Cantonese): Sir, I shall vote against the Appropriation Bill 1987.

The financial situation of Hong Kong has greatly improved and our future looks very optimistic. However, the Financial Secretary has outright refused the strong request that married couples be allowed to have their tax separately assessed. And he has indicated that this will not be considered in the next few years. Most teachers in Hong Kong are of the middle class and they are working couples. They are extremely dissatisfied about this arrangement. I am a representative from the education functional constituency. To reflect their dissatisfaction and to follow their wishes, I will vote against this Bill.

I have to make one declaration. My objection does not have anything to do with my personal interest. My objection is not just because of the interest of the people who elected me. Their request is also a request made by the general public. The main reason for my objection is that this particular tax is unfair and unreasonable.

The Financial Secretary said that this is a difficult and sensitive subject. What is so difficult about it and what is so sensitive about it? The difficulty is just \$400 million plus \$17 million. This has been a very strong request which has been with us for a long time. For the authorities, I think the word should be 'numb' rather than 'sensitive'. He has quoted an explanation put forward by the former Financial Secretary in his Budget speech in 1983. But the explanation is absolutely illogical and totally unconvincing. If we have to dig up a reason for this unfair and unreasonable tax, then women will have to go back to the kitchen. The institution of marriage is one which should not be promoted. Getting into wedlock is a sin. And it has to be punished by means of a tax. This is the essence of the whole matter. In a prosperous and stable Hong Kong of the 1980s, how can such reasons stand firm?

The Financial Secretary said the cost of introducing separate taxation for married couples would be some \$400 million per annum, and the cost of administering the system could amount to \$17 million. Actually it is not a question of a cost of \$400 million per annum to the revenue, but rather the \$400 million has been unfairly taxed from married couples who are both working. We are exploiting them and we should make the refund now! In order

to implement a fair and reasonable system and to abolish an unfair and unreasonable system, it does not matter how much money we have to spend; and what is \$17 million in the light of the entire Budget.

The Financial Secretary also said that even if the revenue were able to forego a further sum of this magnitude, it would be preferable that the benefit should be spread among personal tax payers generally rather than be enjoyed by any particular group. Yes, it is right that the benefit should be enjoyed by everybody. However, before we can implement this particular principle, those who have been treated unfairly in the long term should at least get a fair treatment first. And on the basis of fairness and reason, we should then implement the policy of letting everybody enjoy the benefit. For a long period of time, we have cut a pound of flesh from a certain group of tax payers every year. We cannot say that we cannot stop cutting them because we want the benefit to go to the general public. Now that we are going to issue one candy to each member of the general public, they get a candy as well. But then they still have to have their pound of flesh cut.

People in the upper echelon are rich and powerful and without uttering a sound, their interest will be taken care of. You cannot get blood from the stone. This is true for people in the grassroots. Besides, too much suppression will just lead to rebellion. Does that mean that people in the middle income group are the easiest victims? The middle income group has always been ill-treated in Hong Kong. The policy must change. And we must start with the tax system. In the past year, we have had remarkable records in our economic performance. This is the result of joint efforts of everybody in Hong Kong. I must congratulate each and everyone including all of us in this Chamber and, of course, including myself.

Sir, I cannot support the motion unless in replying, the Financial Secretary can give us the promise that at the next Budget speech, he will immediately implement separate tax assessment for married couples.

CHIEF SECRETARY: Sir, with your consent, I move that Standing Order 8(2) should be suspended so as to allow the Council's business this afternoon to be concluded.

Question put and agreed to.

MR. LAU (in Cantonese): Sir, this year, Mr. P. JACOBS presents his first Budget since he has assumed office. Generally speaking, the Budget is welcomed by the majority of the people as, in varying degrees, it makes allowances for people from all walks of life. The Financial Secretary has adopted a rather cautious and firm approach in formulating the Budget. As the economy of Hong Kong is affected by external factors and forces, and in particular, by the growing forces of protectionism, it is understandable that the Budget is drawn up in a discreet manner.

However, I personally think that the Financial Secretary has not clearly indicated in the Budget that the Government has formulated an economic strategy or policy to promote and encourage long-term economic developments in Hong Kong.

I wish to suggest the following points with regard to the contents of the Budget:—

- (i) The Financial Secretary mentions in the Budget that the tax base would be broadened so as to widen the scope of indirect taxes. Although by collecting indirect taxes, the Government does not have to rely largely on revenue from direct taxes to cover its expenditure, we have to consider carefully the consequences of widening the scope of indirect taxes as people of the lower and middle classes will surely be affected. Under such circumstances, if it is really necessary to levy some indirect taxes, they should only be imposed on luxurious items and should not be extended to cover daily necessities. Sales tax should absolutely be out of the question. Only in this way can social disparity between the rich and the poor remain at a reasonable level. It is also worth noting that in this way, the image of Hong Kong being a low tax region will not be blemished. Looking back, the economy of Hong Kong was at a low ebb in the early 1980s, and the Government suffered from financial deficits. However, within a short period of two to three years, the financial situation of Hong Kong has greatly improved to the extent that a surplus was achieved. Since we could survive in such adverse conditions, why then should we amend the tax system when the economic prospect is so bright? Thus I think that the Government should give second thoughts to the idea of increasing indirect taxes before implementing it.
- (ii) Secondly, I am happy to learn from the Budget this year that the Government will allocate funds to implement a five-year plan to improve conditions in the peripheral areas of the new towns and the rural areas. This is exactly what I have been appealing to the Government for actions during the past year because there are really vast areas in the New Territories where public facilities and services are required urgently. However in the year 1987-88 (that is the first year of the five-year plan), the Government only allocates \$25 million for the improvement works. Undoubtedly, this amount is utterly inadequate. When compared with funds for other public facilities schemes, the \$25 million is just a drop in the ocean. I thus hope that the Government will consider increasing the funds so as to make substantial improvements in this aspect. At the same time the Government should first draw up a schedule of works for these regions. Priority should be accorded to improving conditions of rural areas within the boundaries of new towns, hence the vast differences between rural and urban areas in respect of public facilities can be minimised.

- (iii) Another point which I would like to bring up is about the assistance for industrial investment. In my opinion, the industrial sector is not duly taken care of as the Government does not introduce any tax reduction measures in respect of the depreciation of machinery and plant. Some people may say that when an industrialist invests in a certain place, he certainly thinks he will make money there, and hence he would not care about minor details. Yet we must not forget that with intensifying competition in our overseas markets, a favourable calculation method for depreciation will definitely be extremely beneficial to domestic products, particularly when the local economy is becoming more and more dependent on industrial development and growth. As a matter of fact, it is already a bit too late for the Government to offer direct or indirect assistance to the industrial sector at this stage.
- (iv) The last point which I wish to make is about the construction of an international airport. Although some people maintain that the Kai Tak Airport can manage even in early 2000, I still think it is high time to build another international airport. The new airport will have a significant political value apart from easing congestions in air transport in future. Since Hong Kong has entered a transition period, its economic prosperity and social stability are extremely delicate so much so that any minor disturbance or trouble will bring about a great impact on both prosperity and stability. If the airport is to be built, the project will undoubtedly be an important economic joint venture among China, Britain and Hong Kong and even other overseas countries. In other words, with the construction of this international airport, a solid foundation will be laid for Hong Kong's economic prosperity and social stability and the impact of any disturbance on these two aspects will also be eliminated.

Sir, with these remarks, I support the motion.

MR. TAM (in Cantonese): Sir, as I am the last speaker on the Budget I am under heavy pressure. This has nothing to do with the content of my speech because most of what I will say have been raised by others. However, I still have to deliver my speech because I have already written it, and if I do not speak, the press cannot have a calculation as to who is in favour of what and so on. So please bear with me, I know that you will have to have a late dinner.

Now after three years of deficit for the general revenue and expenditure account, we have a surplus. The surplus for 1986-87 is as high as \$3 billion. It is a delightful phenomenon. And starting from 1984-85, the ratio of recurrent income to non-recurrent income has been increasing, and the total income has seen a growth. This reflects that the sources of revenue of the Government have become stable.

The income from stamp duty for 1986-87 has seen an increase of 59 per cent while the increase in profits tax is 11 per cent. The figures are higher than the forecast. It shows that internal economy, business and industry in Hong Kong

have shown a vigorous growth. Now that the prospect of economy is good, the Government should think of how to make best use of it. The Government should consider first: lessening the gap between the rich and the poor, and second to assist the industry and stimulate re-investment.

Mr. Chairman, I would like to speak on these two points.

First, lessening the gap between the rich and the poor: first, let me illustrate the gap between the rich and the poor in Hong Kong by some statistics. Just like the situation in many developing countries, there is a big gap between the rich and the poor in Hong Kong. According to the 1986 bi-census, 51 per cent of the total income in Hong Kong goes to the top earning 20 per cent of the families while the income of the lowest earning 20 per cent of families only accounts for 5 per cent of the total income in Hong Kong, less than one tenth of the figures earlier given on. Compared with the figure for 79-80, which stood at 46.5 per cent and 6.2 per cent respectively, it is indeed a major retrogression. Now the gap between the rich and the poor will, of course, exist in a capitalist society. But if the Government does not take any measure to improve the situation and allow it to aggravate so that the rich becomes richer and the poor becomes poorer, then it will lead to tension and instability in the society. The Government should do something in the re-distribution of wealth.

At present, direct taxation and social services are able to do something regarding the distribution of wealth. Indirect taxation has no such functions, rather it produces the opposite effect. This is especially so for consumer items for the general public because indirect taxation is not related to the income, you have to pay the same amount. The ratio between indirect tax and income for people in the low income bracket will be higher than for people in the high income bracket. So, this will have the opposite effect to the effect produced by the progressive rate for direct taxation and social services. In other words, indirect taxation will lessen the effect of the re-distribution of wealth. In the Budget speech, the Financial Secretary suggests that we can widen the base for indirect tax. He hints that the Government will increase the ratio between indirect tax and direct tax. Now, the Financial Secretary studies the taxation problem from the point of view of administrative cost and the stabilisation of social revenue. I understand that. So the Financial Secretary reaches the conclusion that we should widen the scope for indirect tax. However, the gap between the rich and the poor in Hong Kong has increased as compared with the 1970s. Therefore I do not really agree to the suggestion that we should add to the ratio between indirect tax and direct tax. So if the Government is to widen the base for indirect tax, the Government must be very cautious, otherwise the gap will be even wider. When I talk about cautiousness I mean that when selecting individual items for taxation or duties, the Government must be cautious. In other words, consumer items must be confined to high expenditure items that have nothing much to do with people in the low and middle income bracket. I think that the Government should exercise this. Of course, this is just a principle, as to the technicalities, it will have to be studied by the Government.

Another principle I would like to advocate is that there should be constant and regular reviews because as the economy grows in Hong Kong, the living standard also goes up. So some luxury items may have become common consumer items.

Now I want to talk about social services. According to some studies, social services are able to have the function of re-distribution of wealth. It is even more so than the taxation system, especially in the areas of public housing and education. Such services will help to stabilise the society and promote economy. If the Government reduces such services, in the short term, it will aggravate the gap between the rich and the poor, and in the long term, it will be detrimental to the stability of the society. Take public housing tenants for example, they do not have to pay the high rent in the private sector, therefore they can spend a little bit more. Hong Kong is also able to maintain a low wage level in its labour market and it is good for the overall economy. Because of this, people have good living environment and the chances for job and education have been increased. Once again, this adds to the stability of the society. Therefore the Government must not reduce its commitment to social services, rather it should conduct an overall review to see what improvement or enhancement should be implemented. Now because there is not a better way of re-distributing wealth, the Government must not reduce social services and must be very cautious in dealing with the taxation problem in order not to widen the gap between the rich and the poor and not to disrupt the stability of the society.

As regard assistance to the industry and the stimulus to re-investment in Hong Kong, I would like to reiterate some points. In recent years, neighbouring countries have become keen competitors to Hong Kong. So unless we improve the quality and design of our products, there will be a drop for our sales in overseas markets. Now in the past years, we have a growth of some 16 per cent in domestic exports because of the depreciation of the Hong Kong dollar which is linked to the US dollar. It has nothing to do with the quality of the goods. So we cannot rely on the depreciation of Hong Kong dollar for better export performance. We must, or the Government must, support Hong Kong industry and provide better facilities for its development. We must also produce better quality goods and job opportunities if we like to see more investment.

As far as stimulus to re-investment is concerned, the Budget suggests that the profits tax be reduced by 0.5 per cent. This however will not have very strong effects because Hong Kong is a place with low taxation. Compared with Singapore where the profits tax is 41 per cent, and to Taiwan where the level is 30 per cent, Hong Kong's taxation rate is very very low. So how can we stimulate investment. Now from 1981-84, the Government had come up with some ideas, for example, the depreciation allowance for plants and equipment and allowance at the initial stage of investment could be raised and so on. For this year, however, the Government or the Financial Secretary has not really

consider this point, that is, the stimulation of investment. I hope that the Government can take note of this, because it will help in the promotion of our economy.

Mr. Chairman, regarding profit tax and allowances, the Financial Secretary has offered some amendments. I would like to make some responses to these amendments. First of all, the additional personal allowance of \$5,000 and \$10,000 dollars subject to the clawback is not good enough because it has not taken into consideration the inflation factor and also the increase in income in the past six years. I think that the allowances should be raised to \$9,000 and \$18,000 respectively.

Also, dependent parent allowance and child allowances should also be adjusted every year according to the rate of inflation.

Third, I do not think that the Financial Secretary has given us good justifications for rejecting the proposal for separate taxation for married couples. It is not just a matter of a loss of \$400 millions, rather at present some married couples will have to pay much more taxes than unmarried people. It is unfair. So I suggest that married couples should have the option as to whether they want to have themselves taxed separately or together.

Lastly, I suggest that the employees' contribution to approved provident fund schemes should be tax deductible, to enable more employees to participate in those schemes.

Now, Mr. Chairman, from the point of view of economy, the Government finances have four functions. First: proper apportionment of resources, redistribution of wealth, promotion of economical growth and stabilisation of economy. The Government must take a long-term look at these four functions and must have long-term economic planning.

Proper apportionment of resources is of course a very important link in the Government's work. The value for money study has enabled the Government to save some money. But I suggest that when posts at the secretary level in the Civil Service are to be created, the Government must be cautious in order to save money. Regarding the three other functions, well there are still areas which we should study. The former Financial Secretary said that we must first create wealth before we go about apportioning the wealth. So the third function I have mentioned has been given the least attention. Because of that, I think we must create wealth and at the same time consider the apportioning of wealth if we want to have a stable and dynamic society.

Now regarding long-term economic plans, the five-year medium economic forecasts and the establishment for funds are most useful. But regarding development items which will be able to help our economic growth such as the second airport or the container terminal are not mentioned in the Budget, let alone a detailed analysis being given. So to sum up, I feel that for the Budget, there is a lack of analysis of past information and also there is a lack of a

long-term look into the future. I hope that the Government will do more in the re-distribution of wealth and also will promote economic growth.

Sir, I support the motion.

Motion made. That the debate on the Second Reading of the Bill be further adjourned.

Question put and agreed to.

Adjournment and next sitting

HIS EXCELLENCY THE PRESIDENT: In accordance with Standing Orders I now adjourn the Council until 2.30 pm on Wednesday, 25 March 1987.

Adjourned accordingly at twenty-three past Six o'clock.

Note: The short title of the bill listed in the Hansard Report has been translated into Chinese for information and guidance only; it does not have authoritative effect in Chinese.