

**OFFICIAL REPORT OF PROCEEDINGS****Thursday, 21 April 1988****The Council met at half-past Two o'clock****PRESENT**HIS EXCELLENCY THE GOVERNOR (*PRESIDENT*)

SIR DAVID CLIVE WILSON, K.C.M.G.

THE HONOURABLE THE CHIEF SECRETARY

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

THE HONOURABLE THE FINANCIAL SECRETARY

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

THE HONOURABLE THE ATTORNEY GENERAL

MR. JEREMY FELL MATHEWS, J.P.

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

DR. THE HONOURABLE HO KAM-FAI, O.B.E., J.P.

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

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

THE HONOURABLE DONALD LIAO POON-HUAI, C.B.E., J.P.

SECRETARY FOR DISTRICT ADMINISTRATION

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

THE HONOURABLE STEPHEN CHEONG KAM-CHUEN, 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. RITA FAN HSU LAI-TAI, O.B.E., 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, O.B.E., 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 CHENG HON-KWAN, J.P.

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

DR. THE HONOURABLE CHIU HIN-KWONG, J.P.

THE HONOURABLE CHUNG PUI-LAM

THE HONOURABLE THOMAS CLYDESDALE, J.P.

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 DESMOND LEE YU-TAI  
THE HONOURABLE DAVID LI KWOK-PO, 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 TAI CHIN-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, C.B.E., 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 MICHAEL LEUNG MAN-KIN, J.P.  
SECRETARY FOR TRANSPORT  
THE HONOURABLE EDWARD HO SING-TIN, J.P.  
THE HONOURABLE GEOFFREY THOMAS BARNES, J.P.  
SECRETARY FOR SECURITY  
THE HONOURABLE PETER TSAO KWANG-YUNG, C.P.M., J.P.  
SECRETARY FOR ADMINISTRATIVE SERVICES AND INFORMATION

**ABSENT**

THE HONOURABLE PETER C. WONG, C.B.E., J.P.  
THE HONOURABLE HU FA-KUANG, O.B.E., J.P.  
THE HONOURABLE JOHN JOSEPH SWAINE, C.B.E., Q.C., J.P.  
THE HONOURABLE CHEUNG YAN-LUNG, O.B.E., J.P.  
THE HONOURABLE JACKIE CHAN CHAI-KEUNG  
THE HONOURABLE RICHARD LAI SUNG-LUNG  
THE HONOURABLE LIU LIT-FOR, J.P.

**IN ATTENDANCE**

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

**Second Reading of Bill****APPROPRIATION BILL 1988****Resumption of debate on Second Reading (20 April 1988)***Question proposed.*

HIS EXCELLENCY THE PRESIDENT: Good afternoon. The Council will now resume and we will continue with the debate on the Appropriation Bill 1988.

MR. PANG (in Cantonese): Sir, first of all, I would like to acknowledge the change that has been made in the presentation of the Draft Estimates for 1988-89 by our Financial Secretary to this Council. With the new format, this year's Draft Estimates gives us a clearer picture of the objectives of each department and how the funds to be allocated will be used to achieve the set targets. This is indeed an improvement. Take the previous expenditure analysis of the Labour Department for instance, they only briefly outlined the work of the department without listing out its planned objectives for the fiscal year concerned. However, in this year's estimates, the objectives have been explicitly described, which include maintaining harmonious relations between employers and employees, providing free employment service, protecting the interests of workers in Hong Kong and workers employed locally for work outside Hong Kong, the setting up of the proposed occupational safety and health council and ensuring safe use of explosives. Henceforth, we shall be able to use these objectives as our reference in measuring and assessing the performance of the Labour Department. In the past year, Hong Kong witnessed an upturn of labour accident figures and a drop in the number of serving labour inspectors during the concurrent period. The Labour Department has requested additional provision this year and I hope that the Administration will continue to make endeavours and give greater publicity to the prevention of industrial accidents.

The Labour Tribunal was originally established with the intention to streamline the procedures for employees to claim outstanding payments. As reflected by the statistics provided in the Estimates, the number of cases handled by the Labour Tribunal in 1985, 1986 and 1987 is 4 660, 5 485 and 4 426 respectively. According to my understanding, the decrease was largely due to the tribunal's failure to observe in full the provisions of the Labour Tribunal Ordinance which require the Labour Tribunal to hear a case within 30 days after its application has been approved. In recent years, the 30-days' rule is often observed only in formality because most cases are adjourned after the first hearing for an indefinite period of time depending on the nature of each case. Recently we have a case known to most people. The whole process of which takes over two years to complete. I hope that the authorities concerned would see this as a pressing need for review.

As regards public revenue, the Financial Secretary has rejected the majority view from both inside and outside this Council and has insisted on maintaining combined taxation for married couples. Although the tax allowance has been raised, the concession made in real terms is not commensurate with the inflation rate over the past few years. Our tax system must be equitable so as to ensure a fair and reasonable distribution of our social resources and to reduce the disparity between the poor and the rich. Despite its generosity in cutting profits tax, our Government's effort in taking care of the underprivileged is, to my deep regret, apparently insufficient.

Our Financial Secretary is now studying the feasibility of expanding the base of indirect tax and introducing sales tax. Apart from affecting tourist industry, the introduction of sales tax would add another burden to the general public. Its effect on the community and the livelihood of the local population will be far-reaching and its consequences are serious. It is therefore in my opinion that the idea of sales tax is unworthy of our consideration.

Sir, with these remarks, I support the motion.

PROF. POON: Sir, I congratulate the Financial Secretary most warmly for producing a balanced Budget. There are very few places in the world where Government could cut taxes while substantially improving various services. I also congratulate the Financial Secretary for adopting a new, innovative format for the Draft Estimates whereby more information is provided on the objectives of each government department and on how the funds to be allocated will be devoted to achieving these objectives.

This afternoon, I shall concentrate on three specific areas: first, the Committee on Science and Technology; secondly, industrial development, and thirdly, the environment.

#### *Committee on Science and Technology*

At the opening of the current session of this Council, Sir, you announced the decision to set up a Committee on Science and Technology to advise the Government on scientific and technological issues. I am most honoured to have been appointed the chairman of this committee in March. Seven other non-official members, each with expertise in a field of science and technology, have also been appointed to the committee. There are, in addition, seven heads of government departments whose work involves a substantial scientific and technological content sitting on the committee. All of us are keen to offer our best advice to the Government in relation to the development of science and technology in Hong Kong.

Sir, the Committee on Science and Technology held its inaugural meeting at the end of March. All members of the committee agreed to hold a 'brainstorming' session later this month to identify areas or issues which should be examined by the committee with priority. The results of the brainstorming

exercise may take the form of an identified need for detailed studies into certain science and technological issues, or an identified need for improvements to an existing situation, or an identified need for seeking a solution to a problem, or a combination of these. It is obvious, Sir, that some financial resources will be required to support the follow-up work arising from these identified needs.

This may very well mean that additional financial resources need to be injected into various programme areas. They are additional because at the time of compiling the Budget a number of months ago, the Committee on Science and Technology had not yet been set up and the Financial Secretary could not have budgeted for the additional work to be undertaken. Therefore, I would like to seek an assurance that, wherever possible, sufficient financial resources will be provided to implement the recommendations of the Committee on Science and Technology. Without this commitment on the part of the Government, it would be meaningless to have the committee in existence.

Sir, there is a clear and increasing recognition worldwide of the crucial role that science and technology plays in industrial and economic development and, hence, in the improvement of the quality of life generally. Many nations actively encourage and promote their science and technology capabilities as a vital step towards improving their wealth and the well-being of their people. There is a general feeling in Hong Kong that the Government has done rather little in this regard, that Hong Kong is gradually lagging behind some neighbouring countries, and that if a more positive step is not taken as soon as possible, the problem may become sadly intractable. Sir, I am aware of the Government's determination to pay more attention to modern science and technology. I only seek to underline the importance that such a determination to seek improvement is supported by a determination to provide the necessary financial resources where possible and appropriate.

#### *Industrial development*

Sir, I welcome the Financial Secretary's proposal to reduce the rate of tax on corporate profits from 18 per cent to 17 per cent. This, I am sure, will help encourage investment in Hong Kong.

However, I am disappointed to learn that the Financial Secretary does not wish to increase the capital allowance for expenditure incurred on the procurement of plant and machinery. Sir, it is important that industry should be encouraged to invest more on new technology in order to improve both the quantity and the quality of their production. The level of capital allowance is often a significant factor when an industrial operator decides whether to upgrade his plants and machineries. A higher level of capital allowance will definitely stimulate more investment in production tools, especially in the case of small and medium-size industrial undertakings. Sir, I would strongly urge the Financial Secretary to consider an increase on the capital allowance. I further suggest that the magnitude of increase should be a sufficiently large one in order to produce the desired effect.

Sir, the Financial Secretary reported a 26.8 per cent growth in domestic exports in 1987. On the face of it, that represented a very satisfactory rate of growth in the industrial sector in Hong Kong. Such an interpretation, however, must be treated with caution. There has been a significant amount of processing work done in China. The real monetary benefit to Hong Kong arising from the exports has, consequently, been diminished by a significant extent. Hong Kong must not be complacent by this growth figure but must judge its own position on the basis of its competitive edge in production and export in the longer term. Rather sadly, Hong Kong's competitiveness in many areas seem to be eroding over the years, largely due to insufficient attention being paid to the use of new advances in science and technology. Take the electronic industry as an example: Hong Kong's share in US market dropped from 5.9 per cent in 1983 to about 3 per cent in 1987. The way forward is for Hong Kong industry to go 'high-tech'.

The Government has a responsibility to provide the necessary infrastructure and favourable conditions to help industry in the process of adopting 'high-tech'. There are two major areas the Government should actively encourage. The first is computer aid. The strength of Hong Kong has traditionally rested on its supply of hard-working, intelligent and adaptable manpower. It would be naive, however, to rely on this supply of manpower alone in future, as the full impact of the advanced manufacturing technologies being applied worldwide is becoming more and more evident. Many countries have adopted computer aided design and computer aided manufacturing techniques, and they have found that not only the speed of their production has increased dramatically and the cost of production has decreased, but that they are able to produce high quality, precision products that meet the present day demand of their communities, which have generally become more affluent and are putting more and more pressure on the supply of quality goods. Sir, we must start to catch up on computer aided design and computer aided manufacturing techniques before it is too late.

The second area for active Government support is the establishment of 'science parks' or 'technology centres'. The concept is that by integrating industrial operators, entrepreneurs, research and development institutions and academics together in a 'science park' or 'technology centre', there will be a readier and quicker transfer of new technology from the laboratory to the factory. It will encourage more product innovations and facilitate the commercial application of new ideas. There are many, many successful examples of 'science parks' and 'technology centres' in the US, the United Kingdom, Europe and Asia. The subject has been well researched into. There can be little doubt that the establishment of 'science parks' and 'technology centres' in Hong Kong will benefit industrial development. Initially, we might start with a multi-storey building 'technology centre' rather than a land intensive 'science park'. There are plenty of science and technology expertise in our tertiary education institutions. It would be foolish for the Government not to tap such readily available resources. The only pre-requisite in optimising the expertise is

a commitment by the Government to provide the necessary front-up financial resources in starting the projects. Sir, Hong Kong needs a revival in traditional industries by sophisticated new techniques. The Government must seriously consider the establishment of 'technology centres' as a step in this direction.

*The environment*

I am pleased to note, Sir, that the Financial Secretary proposed to allocate remarkably large sums of money to combat environmental pollution problems. The rapid deterioration of our environment has been obvious to anyone living here. We have reached the stage where urgent and serious intervention is badly needed. Like many other places, Hong Kong has come rather late to an appreciation of the true implications of environmental pollution and the real threats that it poses.

Sir, many of the environmental pollution problems could be avoided at no great cost if environmental factors were addressed at the outset of our various enterprises. Many useful techniques and facilities have been developed in other countries to minimise the level of pollutants at source. Some of these techniques and facilities may be applicable in Hong Kong. On the other hand, we must be careful not to follow blindly. Hong Kong has its own special circumstances—a densely populated urban area, a small land area, and a heavy reliance on keeping a strong competitive edge in industry and production. Environmental protection measures need to be custom-made to suit Hong Kong's unique situation. I suggest that the Environmental Protection Department and other relevant agencies in the Government should put more efforts to help industrial operators and farmers to identify ways to reduce their pollutants. This will prove to be a cost-effective way to combat our environmental pollution problems. Monitoring the environment and enforcing environmental pollution control legislations are by comparison rather negative and expensive methods to cure the problem.

With these remarks, Sir, I support the Appropriation Bill 1988.

MR. SOHMEN: Sir, after the Budget speech, various tax experts reportedly criticised the Budget as lacking a 'central theme' or as being a public relations exercise. Others complained that the Financial Secretary's projections were too prudent and that his quest for the possible broadening of the tax base were unnecessary or premature. The professionals seemingly always want something that is big on theory and drama but not necessarily practical or productive. We are lucky in Hong Kong not to have to go in for testing too many theories.

Sir, it is not easy to be Financial Secretary. He gets damned if he does, and he gets damned if he does not. He even gets blamed for things over which he has little control or no control, like a global investor panic and its aftermath. He is accused of not having the staff to deal with all crises, but is supposed to keep the size of the Civil Service in check at all times. He is criticised for departing from the traditional non-interventionist policies, but in the same breath is accused of

not providing enough incentive for industrial investment and scientific development. Members' speeches are no exception to the rule. Everybody is always in favour of general economy and particular expenditure. But then we are now supposed to be politicians, those famous animals who can sit on a fence with both ears to the ground.

It is surprising that we still find people willing to shoulder the burden of having to carry the responsibility of making major financial decisions, often in a hurry and under pressure and at the constant risk of being told by the wise commentators after the event that other alternatives could have been pursued and might have been better. Nobody is perfect but at least we should be prepared to accept effort, dedication, and good intention. I would like to commend the Financial Secretary and the Secretary for Monetary Affairs, and all those who report to them, for their efforts last year in what can only be described as a week of 'trying circumstances', and for their work since then.

The phenomenal export-led overall economic performance of Hong Kong was of course not produced by the Financial Secretary and his colleagues. It is the result, principally, of the continued hard work of all in the community, and of the weaker Hong Kong dollar relative to the currencies of many countries to which we trade or with which we compete. But by the same token, we cannot blame the officials for every and all setbacks. I, for one, am all for prudence, especially when recent events have again more vividly demonstrated than anything else of late, how thin the ice really is on which we perform our pretty commercial and financial pirouettes? And although with a projected 5 per cent GDP growth rate for Hong Kong this year, we are well above the forecasts of 1.75 per cent for the OECD as a whole, or of 3.8 to 4 per cent for Japan, all that is certain about the economic outlook for 1988 and 1989 is its uncertainty. The American economy remains in a precarious state, Third World debt is still with us, the banking system around the world still requires strengthening, and global capital and money markets and the foreign exchanges show persistent volatility.

I personally do not agree with the comment that the Budget has no leitmotif. Reductions in direct taxes, increase in tax allowances, the cut in stamp duty to encourage home ownership, increases in social welfare spending which include education, housing, medical, social welfare, labour which are to reach a forecasted 46.9 per cent with Consolidated Account expenditure 1988-89—all point to a Budget that attempts to combine caution with an effort to allow the population at large to enjoy, as widely as possible, their share of the territory's economic success and the much larger than originally predicted fiscal surplus.

Sir, the Financial Secretary has again mentioned the possibility of widening the tax base in future to reduce the sensitivity of Government revenue to sudden changes in the economic climate. This is a complex and often also emotional subject. I was in fact surprised about the degree of emotion exhibited yesterday by some hon. Colleagues whom I had previously credited with greater analytical powers; but then I remembered that this is of course an election year in Hong

Kong. I am pleased that the Financial Secretary has shown both the courage to pursue his vision, despite the by and large negative comments he heard on this subject in this Chamber last year, and again this year, and has retained the patience not to rush into what is always prone to be a political minefield. Whilst I did express some scepticism myself in the last debate, especially about the wisdom of risking accusations of an inequitable increase in the tax burden for the less affluent members of our society, the events of last October have led me to reconsider.

Particularly in Hong Kong, where a minority only is subject to direct taxation and more are again excluded after this Budget, the regressionary element of an indirect sales tax cannot be considered to be as prominent as it might be elsewhere. By the same token, because our current tax base is so narrow, we are more vulnerable. The argument on inflation could be a red herring. I hope that both this Council and the public at large will at least support the Financial Secretary's continued investigation into a scheme that could achieve his stated objectives. Objectives—and this should be emphasised, particularly since in her speech the Senior Member suggested otherwise—objectives which did not include the generation of more revenue. Indeed, an indirect tax base should help reduce direct taxes or possibly keep rates more steady. When the Financial Secretary is ready to announce the details, then we should make our observations, not now indulge in contra arguments based on hypothetical assumptions derived from wrong premises. Why worry about the 'rice tax' now, when the tax could be on wholesale energy sales? And I incidentally disagree also with those who say that we should wait for the introduction of an indirect tax until there is again a significant economic downturn: with respect, by then it will already be too late and the Financial Secretary of the day will be in terrible trouble!

When discussing new taxes or new tax formats, Government should be aware that acceptance is more easily achieved in an environment of credibility about Government spending. Tough negotiations on the Defence Cost Agreement is an example of a Government seen working hard in the interest of the taxpayers. Highly-publicised reports about the perks of government civil servants, on retirement or otherwise, on the other hand do not help. Nor normally do excessive pay increments for the Civil Service. I believe, however, that Government should do more to educate the public about the background which creates the need for an increase in civil service strength in Hong Kong just now: it is not merely the new medical facilities and the Police Tactical Unit which the Financial Secretary has mentioned that means new posts, but the additional demands made on the community and on the Administration overall by the reality of the transition period, the implementation of the Joint Declaration, the 'patriation' of legislation, the negotiation and administration of separate international agreements, the increased planning, supervisory and regulatory work necessitated by our economic success itself and by novel economic activities over a broad spectrum. I am gratified that the Financial Secretary has stressed the longer-term pitfalls of uncontrolled staff increases; but again, with

due respect to the contrary views of the Senior Member, we cannot realistically expect new tasks not to require additional manpower. This applies equally in the supervision of the securities industry as it does in the flight operations inspectorate of the Civil Aviation Department. Where good government excels is in hitting the right balance. Take environmental protection as, an example, where we do not necessarily want more people and more equipment to just measure increasing levels of pollution; we must at the same time have a true commitment to allocate the necessary funds to effectively stop the many sources of pollution which are still proliferating.

Sir, manpower is currently the magic word in Hong Kong. The tight labour market situation is no longer the hobby-horse of some pessimists but a universal headache throughout the business community. It has potentially very worrying longer-term consequences for Hong Kong's reputation as a suitable service centre and base location in the region, for our competitive trading position, and even for the quality of government services. Government's response so far to this problem has been one of 'head in sand': it argues that productivity increases, the relocation of manufacturing establishments across the border, more training, additional capital investment, larger female participation in the workforce, the attractions of higher wages, and the expected slowdown in economic growth will easily take care of matters. But, Sir, these remedies take time, even accepting that they are readily applicable. And they also cost money and thus increase the costs of production. In the meantime, we keep more than 10 000 Vietnamese refugees in closed camps at a cost to the Hong Kong taxpayer of almost HK\$1 billion since 1979, with more coming and with only marginal hope for an early change in the situation. We talk frequently about the serious effects of emigration, in the full knowledge that it will not abate. And Government refuses, wrongly I believe, the selective importation of foreign labour on fears of the social consequences. And the Administration is still not keen on a more widespread interchange of personnel between Government and the private sector to create more flexibility, such as I have repeatedly recommended.

Instead of showing irritation at the rising, but perhaps not surprising, inclination of civil servants to consider filling the many vacancies in the local commercial arena, Government should make a virtue out of the necessity to attract local expertise into the Civil Service, at least for temporary stints. This may also help to overcome the increasing incidence of 'government by consultancy' which we are now witnessing and which is also quite expensive. Hong Kong clearly has become too big and too sophisticated to be run along the lines of the gifted amateurism which has traditionally been the hallmark of British colonial governments, but I would like to query why practically all major policy decisions now have to be preceded by outside consultancy studies. With a tendency to return administrative functions to the private or quango sector even in China, we shall see this sort of interchange more readily there as well in the years to come. And particularly with a view towards localisation,

why should we fight in Hong Kong what has become a formula for success in many other countries? Potential conflict of interest is mentioned but is a weak excuse, especially since it is only applied one way or for the selected few.

Sir, if I now move from more general to more specific observations, I may be forgiven for again mentioning the problem of the US Tax Reform Act 1986 for Hong Kong-based shipowners which I first raised in the Budget debate in March 1987. I have to declare an interest as someone beneficially interested in ships that are affected, although my arguments are made principally as chairman of the Hong Kong Shipowners Association.

I believe the difficulties and the remedies are now much better understood than they were last year, but the solution still seems as far away despite the fact that the US legislation has now become more imminent in that tax returns need to be filed shortly. The technical question is whether the Government is willing to exchange the relatively insignificant source of revenue from the tax on US ships loading in Hong Kong harbour, against an American exemption for freight taxes on Hong Kong-registered and/or Hong Kong-beneficially owned vessels trading to US ports. The more fundamental question is whether the Hong Kong Government is willing to consider the shipping industry as one different enough to make certain allowances which recognises its international character and mobility, as well as the economic and fiscal contribution a strong shipping establishment at least indirectly makes to Hong Kong. Particularly as we are working on the establishment of an autonomous shipping register, it is of some importance for the shipping community to know whether they can expect understanding of their special needs now and later. After all, factories do not sail around the world to be taxed at random by whoever can put them under arrest for non-payment.

If the answer to these questions turns out to be in the negative, I believe any enthusiasm not only for the future register but for Hong Kong as a place of operations for shipowning and ship management will quickly dissipate. I have witnessed the rapid declining of the British merchant fleets over the last 14 years and would not wish to see it happen here; but shipowners are engaged in an internationally competitive business that is unforgiving, but allows a fairly wide choice of domicile and flag, and shipowners will quickly make their decisions, where to live and operate from, against this background. I can only strongly urge the Government yet again to weigh all factors in the balance and either seek an accommodation with the Americans, or to take the unilateral action open to it by removing the tax on foreign ships in the port here which would achieve the same results but without the need for the feared complications of a tax agreement. We know that exploratory bilateral talks are underway but what is ultimately required is an early decision locally.

I am pleased to see that the rapid port expansion has led Government to recognise and act expeditiously on the requirements for container berths and storage space, but self-satisfaction with that side of shipping should never

obscure the importance of Hong Kong as a base for shipowning and ship management; only the two together have created the major international maritime centre for which we are widely and rightly envied.

I wish I could say the same of the airport; I believe those responsible for the delays in the planning and construction of a replacement facility for Kai Tak will be held to task latest by 1993 when we reach runway capacity limits. Like the currently applied so-called Hong Kong civil aviation policy of 'one airline per route', this miscalculation as to the future growth of air services, and the arbitrary and unwarranted curtailment of domestic competition, despite the mandate of existing legislation, all previous precedents and the rapidly changing international scene, will probably cost Hong Kong dearly missed opportunities in the years to come. In the meantime, the travelling public in whose interest this policy is being propagated, has difficulty not only in getting seats to Beijing but to many other regional and international air destinations on the days they want to travel. Sir, I must of course declare an interest on this subject as Managing Director of Dragonair.

I was also going to mention in some detail the history of increases in bank and deposit-taking company licence fees since the Banking (Amendment) Bill 1982, here readily declaring an interest as a director of the Hongkong and Shanghai Banking Corporation. But Mr. David LI has already referred to them yesterday. Let me therefore just say that far from being a moderate 'royalty loading' measure as originally described, a 45 per cent increase over six years in licence fees for overseas branches of Hong Kong banks is more in the nature of penal taxation than cost recovery. I only hope that it does not reflect the 45 per cent increase in the cost of the Banking Commissioner's Office! The banks consider the level of these fees totally disproportionate to the expense of supervising their overseas branches. What bothers me most, however, is that the Financial Secretary has not offered any explanation or justification for his deviation from a stated policy which the then Financial Secretary reaffirmed in 1982 as 'not raising taxation when the Government clearly does not need money, either for its immediate expenditure requirements or in order to strengthen prudent reserves'.

A similarly unexplained change to policy in this regard of the original legislative intent is present with the allocation of HK\$175 million to the Hong Kong Tourist Association, to help it 'meet the shortfall between its expenditure and income'. Now the 'income' for the Tourist Association for 1988-89 was originally expected to be in the order of about HK\$202 million, HK\$187 million from the hotel accommodation tax and the balance from its own activities. Contrary to the practice since the time of the passage of the Hotel Accommodation Tax Bill in 1965 until last year, when the Tourist Association received the receipts from the special levy on hotel accommodation, it will in future only be given an amount deemed required for its activities and only after Government has vetted and approved its budget.

When speaking in the debate on the Second Reading of the Hotel Accommodation Tax Bill, the then Financial Secretary made it quite clear that the cost of funding the Tourist Association should not be paid from general revenue; indeed, it was the whole purpose of that Bill to raise the funds required by a special tax raised through the industry. Now, if the levy today generates more revenue than the Tourist Association requires or is allowed to have, should not the solution be to consider a reduction in the tax, instead of short-changing the association on funding levels it had every reason to expect? Again, the Financial Secretary has given no clues as to why this should not be done, or why the Tourist Association needs to be kept on a shorter leash from now on.

One can of course not validly argue, without becoming instantly unpopular, against Government keeping a check on expenditure and allocation needs. But to single out an association which has done an excellent job of promoting a Hong Kong industry which today generates something like HK\$25 billion in receipts from tourists per year, or about 13 per cent of the total domestic exports of 1987, for sudden special treatment seems to me a curious thing to do. Particularly so since the Trade Development Council, which has a very similar mandate and functions, and has a governing body membership of stature similar to the Tourist Association, is given approval to dispose of the HK\$314 million annual subvention derived from the TDC Ordinance. Together the two organisations will use up almost half a billion Hong Kong dollars this year, so quite rightly both should be scrutinised. But against what targets are their respective performances measured, or are indeed measurable?

The size of this total expenditure should also be seen in the context of the other large miscellaneous subventions to bodies which are equally charged with the promotion of the quality of the Hong Kong 'product', such as the Productivity Council which receives HK\$90.7 million or the performing arts (receiving HK\$83.1 million, including the Academy for Performing Arts).

To speak of the arts, more and more the cultural offerings of a place also become an attraction to visitors, apart from being obviously important for the development of the human resources and the self-esteem of a community. We are still groping for the best policies for the arts and who should be involved where, how, and with how much. In good Hong Kong fashion, the public more readily believes in progress when they see it expressed in physical facilities rather than in the less visible and much slower nurturing of the large reservoir of artistic talent—both performing and visual—that clearly exists in Hong Kong. I believe that as a community we should be well able to afford at least a philharmonic orchestra, a chamber music ensemble, and one or more professional dance companies which have a firm basis of public subvention to avoid letting them skirt the edge of bankruptcy year after year. Very rarely can, and do, private donations support the maintenance of larger groups of full-time professional artists, and without an ambition to ultimately reach a high level of professionalism at international standards, we might as well save the current amount of public money being expended now.

Sir, I would like to record a call for the ongoing need for full public accountability for any changes in policy affecting revenue and expenditure at all times. Otherwise, and despite some criticism, I believe the Budget to be a good one and I support the motion.

MR. TAM (in Cantonese): Sir, although this is only the Financial Secretary's second Budget, he has responded to many requests made by Members of this Council and has improved on the Budget format. Such readiness to accept advice should be welcome. I believe the Financial Secretary and others in the Finance Branch will continue to learn from experience in financial planning elsewhere for purposes of improvement.

I would like now to speak on some trends in Hong Kong's economic development and on taxation.

*Hong Kong-China economic relations*

In paragraph 14 of the Financial Secretary's speech he says and I quote: 'local producers ... have also made significantly more use of outward processing facilities in China. This increased inter-relationship of our economy with that of China was a marked feature of last year and seems likely to continue this year.'. The Financial Secretary has very accurately reflected such a phenomenon. Hong Kong has become one of the largest sources of investment in China. By the end of June 1987, it is estimated that 80 per cent of foreign investment plans in China are from Hong Kong and Hong Kong accounts for 65 per cent of the total foreign investment. It has been observed that much of the increased investment is in Guangdong, especially in the Pearl River delta. I believe that many of the investment items are productive capital. Many factories invest in China in four areas: processing of materials, assembly of parts, production according to specifications and compensation trading. According to the Government's estimate, up to a million workers have been employed in this way in China. Among industrialists who have moved to the Pearl River delta, some only transferred some processers and orders, but on the other hand, some have terminated their investment in Hong Kong altogether and moved completely to China.

Such a trend in economic development has led to rapid development in the delta area and has also led to very drastic increase in the re-export trade in Hong Kong. Now what other economic and social implications are there?

I am not an economic expert, but I believe that it would be helpful in working out our own micro-economic development if we fully grasp this situation.

First, I would like to speak on the implications of this inter-relationship on our economy especially for industry.

Some commentators are very optimistic. They believe that Hong Kong and the Pearl River delta has formed a new regional division of labour. On the one

hand, we have Hong Kong that has taken great strides in development in market development, product design and quality, development in technology and management. Hong Kong is particularly suited to this because of its being an international port, financial centre and communications centre. On the other hand, the Pearl River delta has a great advantage in labour and land. They can support greater development than Hong Kong export. Simply put, new individual division—industrial division of labour will enhance the development of Hong Kong's traditional industries.

However, some other commentators feel that Hong Kong industrialists are merely taking advantage of cheap labour in China to maintain low costs and competitiveness of their products and that any new and real progress in maintaining competitiveness ought to be based on technological advance. However, Hong Kong in technological advance stands many years behind the other three countries in the four dragons of Asia. I am worried that the transfer of processes, whether in part or in whole, to China is but a substitute for the purpose of easing external competitive pressure and it will lead to a slow process of technological reform and in the long run will impede our healthy overall growth. Some commentators feel that if Hong Kong industrialists only move low-tech labour intensive industries to China, then in the long run Hong Kong and Pearl River delta competitiveness will be difficult to maintain.

So the two areas to strive for are a higher level of co-operation and division of labour. Such discussions on the closer ties between Hong Kong and the Pearl River delta and on the comprehensive economic development strategy are worth giving serious thought. What sort of strategy would be conducive to reasonable and healthy development? What sort of co-operation and division of labour and at what level of technology is necessary for mutual benefit, and as the nucleus of the system of division of labour? What facilities and support services does Hong Kong need? How does this affect plans for training of manpower? There are many problems to solve. Unfortunately, studies or discussions on such new trends in economic development are very piece-meal, by no means systematic and certainly have no policy implications. I may even say that we are—we do not have enough knowledge of the possible effects of such a trend. Perhaps, this is because published material on the different types of investment activities in the Pearl River delta by Hong Kong in the four categories of investment are very fragmentary.

Now I would like to talk about the social implications of such a development trend.

Since most investment that has moved to China is in the form of productive capital, this has an effect on the employment opportunities in Hong Kong. I have pointed out before that many industrialists who have moved whole production lines, even entire factory undertakings into China. Under such circumstances the hardest hit are workers in Hong Kong and in fact some labour disputes arise from this. Furthermore, according to some workers and

labour unions, there have been unpleasant situations arising in certain quarters. For instance, the wages of some workers have been pushed low and some workers have been forced to live on very meagre nominal wages as a result of underemployment. All in all, problems will arise in employment opportunities and wage levels. The situation will not be serious when the overall economic performance of the territory is good and when the overall supply of labour is tense, but when the economy takes a turn for the worse, problems will surface. Problems will be made more serious if workers cannot change trades smoothly.

Close economic ties between Hong Kong and China is a natural trend and that has had an effect on the overall economic development in both places. However, in summary I believe that an integrated economic and social analysis of the trend outlined above is necessary. On that basis I would like to make two suggestions.

Firstly, in view of the fact that Hong Kong has the most readily available information I would like to suggest that branches and government departments such as Economic Services Branch, Education and Manpower Branch, Labour Department, Industry Department and Trade Department set up departmental and inter-departmental working groups to study the situation and Hong Kong's response to the trend towards close relationship between Hong Kong and China economically to Hong Kong's role in China's economy, especially in the Pearl River delta in particular and how specifically to fulfil its function.

Secondly, as a result of the fact that economic development strategy would have different effect on labour in different trades, labour should rank among the highest considerations in working out a reasonable and healthy economic strategy between Hong Kong and the Pearl River delta in particular and ensure that labour will benefit from the co-operation and there will not be any loss on their part.

#### *Taxation*

Now I would like to talk about taxation.

First, on separate taxation for married couples. In last year's Budget debate I mentioned that married couples should have the opportunity to choose whether to pay tax individually or jointly, because forced joint assessment is unfair to middle-income families. This year, the Financial Secretary has proposed a reintroduction of working wife allowance as a response.

In analysing the situation I found that there will be different effects on different strata from separate taxation or with or without the Working Wife Allowance. If there is only the working wife allowance, then families, or husbands and wives with similar salaries exceeding \$5,000 a month will be worse off and the tax will be still greater than two single persons with the same salary. It would still be unfair. However, if we have separate taxation but no working wife allowance, then it would be disadvantageous to husbands and wives, whose salaries are less than \$5,000, than couples whose salaries differ to a great degree. They will not be able to benefit from separate taxation. Such wives mainly come from the manufacturing and service sectors.

In fact, separate taxation and the working wife allowance are different in nature. The purpose of the separate taxation is to change an unjust and unfair system of taxation to avoid payment of more tax simply because one gets married and to change discrimination against women. Whereas, the intention of introducing a Working Wife Allowance is to encourage married women to seek employment in recognition that an increased expenditure is necessary as a result of marriage. Therefore, part of the expenditure should be exempt from tax similar to the expenditures spent on children and dependant parents.

Therefore, I support the proposal by some unions that couples should be able to freely choose between individual and joint assessment. If it is a joint assessment then the assessment unit should be the combined income for the husband and wife and the wife's income should not be seen as part of the husband's income. If we have separate taxation, or if they choose to have separate taxation then there should be independent individual assessment similar to single people and the child allowance, as to who should get it should be agreed amongst themselves and I feel that the \$15,000 allowance is not enough and should be increased slightly.

As far as personal allowance is concerned, there is only an increase of \$2,000 from \$34,000 to \$36,000. The Financial Secretary has said that this adjustment is based on inflation. However, the allowance of \$2,000 is added to the additional personal allowance and that is subject to the 10 per cent claw-back. Therefore, the increase in personal allowance is less than the 6 per cent inflation and certainly very much less than the 12 per cent increase in personal income. Therefore, many lower income people fall into the tax net and the Financial Secretary has, thus, not really met his promises. I request that the personal allowance be adjusted on the basis of rate of wage increase and we should abolish the claw-back system of additional personal allowance and it should be combined with personal allowance to form a new personal allowance figure.

On the matter of indirect and direct taxation, I believe in the principle of fairness. Taxpayers of better means should be paying more tax at a higher rate. This is a basic and vital principle in taxation. On this basis progressive direct taxation should give rise to a redistribution of wealth. Therefore, the intital improvements to progressive tax bands by the Financial Secretary is welcome, but we cannot accept a lowering of profits tax on direct taxation. Fairness is also the key word. The Financial Secretary does not seem to have taken fairness into account when planning for a broadened tax net. As for sales tax, many have doubts and so do I. Ostensibly, it is to stabilise tax revenue, but actually it increases the burden of the lower-income group and widens the gap between the wealthy and the poor.

I would like to venture to say that on the matter of tax revenue—taxation revenue—too much has been overlooked. First of all, and this is related to private provident funds. According to the Inland Revenue Ordinance, employers' contributions should partly exempt them from profits tax and employees

partially exempt from salaries tax. This is unfair and what is worse is if retirement schemes are not recognised by Government, then when the employee gets the lump sum all that will be subject to salaries tax and part of it would be taxed according to the standard rate.

Such an arrangement certainly greatly reduces the protection offered by retirement schemes and superannuation. So I would like to make two requests. First of all, we should encourage participation in provident fund schemes through tax exemption. We should legislate to the effect that employees contributions should be exempt from salaries tax. Secondly, we should provide that all private provident fund schemes and retirement schemes be approved and monitored by Government.

The second matter is related to severance pay. At present severance pay received is seen as part of salary because severance pay, which is based on years of service amounts most to the last 12 months of wages and therefore taxable income will increase by leaps and bounds and severance pay will be eroded as a result of the progressive increase in the tax rate. Severance pay is payable only when the person is made redundant or when the establishment winds up. Its purpose is to compensate for loss as a result of the loss of a job. So the Government should not tax the severance pay.

There are four functions of Government financing, direct appropriation of resources, stabilisation of economy, redistribution of wealth and stimulation of economic growth. Closer economic ties between Hong Kong and China involves the first two and the last functions and tax involves the third.

Lastly, the effectiveness of appropriation of resources. This year we see an increase in the resources allocated to social welfare, but most of it finds itself into social security and there is no commensurate improvement in other areas. The trouble is even though expenditure in social security has risen sharply, the level of assistance offered to the assisted hardly catches up with inflation. As the aging population becomes a more serious problem and people's expectation in the quality of life becomes higher, the Government expenditure on social security will increase and yet not be sufficient to cover their retirement needs.

Sir, with these remarks, I support the motion.

MRS. CHOW: Sir, for a community that is totally committed to the cause of providing education opportunities to anyone up to the age of 15 and beyond that who qualifies for them, we should be particularly proud of the expansion and improvement, in both quality and quantity, of our tertiary education.

Regrettably, I do not think that the upgrading of the quality of education in our schools has kept in step with that of the higher levels.

With the introduction of compulsory education for nine years, the migration of the population to new towns and the phasing out of the JSEA, the ambitious school building programme has only been able to address the fundamental issue

of coping with numbers, of side-stepping a number of measures which are most necessary if we want to see a distinct improvement in the quality of education in our schools.

#### *Whole-day school*

In my first policy debate in October 1981, I called for the policy of whole-day school to be examined and adopted, for I saw it as an essential means to alleviate the tremendous pressure experienced by both teachers and students in half-day sessions. The system would appeal to parents, especially working parents, as the ideal foil against mischief or bad influence for their children in the afternoons. I was glad to be assured by the then Secretary for Education that Government had indeed adopted whole-day school as a policy, and was moving in that direction.

Now, seven years have passed. How far have we moved down that road? The facts that the overwhelming majority of our primary schools are still bisessional, that the Education Department is still engaged in a long drawn-out process of assessing how many tables and benches each individual school might need before funds could be requested, that only 0.03 per cent of the educational provision this year is being earmarked for this purpose reflects to me a lack of enthusiasm and will for the policy. The fact of the matter is, conversion has only taken place when spare capacity has been identified in schools, where the students body may have shrunk as a result of student migration from older districts to newer ones. If this is allowed to continue as the only cause for conversion, it may aggravate the misconception which already exists amongst some parents that the whole-day system is the less desirable system.

The time has come for more positive action to be taken in the implementation of this very worthwhile policy, and I hope a timetable will be drawn up for it very soon.

#### *Private schools*

Sir, I must confess I was going to take the Government to task over the apparent delay in the upgrading of the quality of private schools from which Government continues to buy places. However, information that has come to light in the last two days has not only eased my mind considerably, but has convinced me that current Government thinking is indeed along the right lines, both in terms of the improvement of the quality of education to be offered by private schools, as well as the opportunity for parental choice to be exercised freely.

But as long as Government continues to buy places from some private schools, the most urgent task remains to be the narrowing of the gap between these private schools and schools in the public sector. In my view, we need not have waited and should have initiated action before now. Action in this area in no way pre-empts, and therefore needs not be held back by the consideration of the wider issue of the ultimate complementary modes of school education. I urge therefore that as much should be done as soon as possible in this respect.

Sir, in the midst of all the good work being achieved by the Administration over the years, I am always prepared to be understanding about the need to arrange things according to priorities. But it is difficult sometimes to see how priorities are drawn up. Issues, such as whole-day school, get buried, but perhaps because of the lack of public demand. Some of them, such as the private school issue, get delayed, perhaps because it is difficult for the bureaucratic machinery to feel the same urgency the parents feel for the sake of their children, particularly in the absence of public outcry.

#### *Separate taxation*

But I can neither understand nor accept the Financial Secretary's attitude towards separate taxation between spouses. I do not propose to waste this Council's time to recount the history and rationale for this issue. It has been exhaustively debated inside and outside this Council in the past seven years. I hope a firm commitment to introduce separate taxation in 1989 will be made by the Financial Secretary in his reply.

#### *Sales tax*

If the postponement of a decision on separate taxation is viewed by many among us as consequence of unnecessary caution, then the recent talk of Government's intention to introduce a general sales tax is certainly regarded as a subject of indecent haste. As principle goes I do not disagree with most of what the Financial Secretary has said in relation to indirect taxation and the criteria he laid down for the consideration of new indirect tax. But even before we do that, we must first of all be satisfied whether there is the need to introduce any major change to alter the present balance. In other words, we must be convinced of the reason for the change in the balance. At present, we have a relatively simple system and there is no need to complicate it. But more important, we are facing a surplus of more than \$10 billion this year. We need to raise less, not more, revenue. I submit we do not need any new tax for some time, no matter how cautious we choose to be.

#### *Stamp duty*

There are three areas where I believe less revenue should be raised.

The concession on stamp duty is designed to facilitate wide home ownership and assist the middle-income group. Much as I applaud the spirit and intention of the concession, I am concerned that it does not go far enough. The savings achieved are not impressive. On a \$300,000 unit, the saving is \$750, which represents 0.25 per cent. At the very peak, the saving is 1.25 per cent of the total purchase price. I propose that duty should be waived for all home purchases under \$500,000, and to cut further the rate for duty for properties between \$500,000 and \$1.5 million. At the same time safeguards have to be built in to ensure that the concessions are only extended to home purchase and not speculative activities.

*Beverage tax*

I have been, and remain opposed, to the tax on soft drinks and beverage. As far as I know such a tax does not exist in most countries around the world. I cannot see any reason for retaining it when such a large proportion of the consumers are young people.

*Airport tax*

Our airport tax is still among the highest in the region as has been pointed out yesterday by Mr. Kim CHAM. In the face of growing competition in the neighbourhood and 3 388 more of our own hotel rooms coming on stream in the next year, it will certainly not harm our image or our tourist industry if we could bring the level of this tax in line with other airports in the region.

Sir, in conclusion I would like to congratulate the Financial Secretary on a Budget which, with the exceptions mentioned above, is in my view an excellent Budget. I only hope that all of the compliments he has received, and there have been many, will not convince him that it is beyond improvement, and I wish some of the equally excellent ideas forwarded by the non-official Members in this debate will be adopted.

With these remarks, Sir, I support the motion.

MR. YEUNG: Sir, the Budget shows to the people of Hong Kong that our Government has acquired a large revenue and our economy is a robust one which is operating with great flexibility. It also shows that the rise in our public expenditure has fallen in line with our economic growth. This being so, the income and expenditure in the Draft Estimates have fully reflected the principle underlying the fiscal policy of the Government which is to exercise prudence and to spend within our means. This objective of first creating wealth and then distributing it is conducive to maintaining the profits tax in Hong Kong at a low level, which, in turn, will stimulate the pursuit of wealth by individuals as well as corporations and ease off the pressure on direct tax. On the question of broadening the base for indirect tax, I think indirect tax is a relatively stable source of revenue which will be less vulnerable to the ups and downs of the economy because it is a levy on basis of consumption and not on the amount of profits made. It is also more equitable and has the effect of encouraging thrift. In addition, the increase of indirect tax can have other positive effects, such as promoting the spirit of frugality, reducing our over-heated domestic economy and pre-empting difficulties that may arise when our economic development slackens.

Basically, the Budget has taken care of the interest of every sector in the community, particularly those in the middle-income group. The concession to stamp duty proposed by the Government to lighten the burden of small and medium flat owners will definitely boost the interest of property buyers and people in the middle-income group will be encouraged to buy their homes. Besides, it will no doubt give our property market 'a shot in the arm' and act as

a stimulus to the demand in properties and to this negative evidence that our economy will slow down next year. As a matter of fact, this forecast in the downturn of our economy fits in with the actual circumstances because the Budget has provided very few incentives to new investments, nor has it done much to accelerate the paces of both local and overseas investments. As for additional allowance for working wives, I believe it will encourage more women to work. It will also be helpful to alleviate the problem of labour shortages and in maintaining the principle of equity in taxation. Although the reduction of tax on corporate profits will continue to strengthen the investment environment of Hong Kong and maintain our edge in attracting overseas capital, there is a need for a more vigorous approach. As our profits tax has always maintained or remained at a low level, it will be more realistic if our Government will provide further assistance for the development of our commerce and industry.

Sir, stability is the basis of prosperity. A stable political and social atmosphere will foster the continuation of economic prosperity. Thus, law and order plays an equally important role as economy, culture and medical care do during the nine years leading to 1997 and beyond. In the coming few years, the Royal Hong Kong Police Force will gradually take over the duties of the British Garrison, which will withdraw step by step. Hence, the Government has to strengthen its stability in maintaining security and subsequent annual increase in expenditure on security is anticipated. With the gradual growth of expenditure on security, Hong Kong's commitment to the defence cost should be reduced accordingly in order to make up for the increase of expenditure on the police force. The 15 per cent growth in expenditure of the police force should be regarded as a necessary outlay for consolidating our stability. The strength of the Royal Hong Kong Auxiliary Police Force renders enormous support to the regular police force and the responsibilities they assume cover most of the duties of their regular counterparts. Furthermore, they also play an important role in the prevention and the fight against crime. It is time that the Government should seriously consider an appropriate adjustment in the establishment of the Royal Hong Kong Auxiliary Police Force and a lift in the daily duty hours so that the auxiliary force can effectively provide the regular force with maximum assistance to meet the increasing demand for police service.

Sir, there are indeed reasons for the adoption of closed centre policy for the Vietnamese refugees. However, in view of the fact that the chances of resettlement overseas become slim and the rate of resettlement has slowed down, the Government should revise its policy on Vietnamese refugees so as to bring about more positive results. In order not to make the people feel that the money spent on Vietnamese refugees is wasted, the Government should consider giving more vocational training to the inmates in the refugee centres. This will not only provide them with a skill to make a living, but also keep them occupied. It will also be beneficial to Hong Kong as 4 000 adult refugees in the centres may become an additional workforce in Hong Kong in due course.

The total expenditure proposed in the Budget amounts to \$50 billion, in which about 20 per cent is earmarked for education. This is the highest percentage allotted to an individual head of expenditure. As a matter of fact, a modern society is a computerised society. The use of computers is common not only in the executive, industrial, commercial sectors but also popular among housewives and children. To keep up with the present trend, it is necessary to strengthen and promote computer education. Furthermore, in order to cope with the long-term development, computer education should be extended from Form I to the matriculation level. But before computer education is expanded, a sufficient supply of well-trained teachers must be made available. Although a computer education centre has been established as a training and resource centre for teachers, there is only a limited admission and the duration of the lectures as well as practical sessions are very short. Teachers cannot learn much from the courses offered. The Government should consider extending the duration and increasing the chances of training for teachers in computer education and attracting university graduates in computer studies to the teaching profession. Only in this way can there be sufficient teachers to popularise the use of computers and to train more capable personnel to meet the demands of various professions.

I trust that to improve the language standards of our students, we must first of all improve the quality of our language teachers. To raise the standard of Chinese language teaching in our secondary schools, we must alleviate the heavy workload of the Chinese language teachers so that they can afford the spare time to attend training courses or seminars. In view of this, the Education Commission recommended in its Report No.1 in October 1984 that an additional graduate teacher of Chinese be provided to every secondary school with 18 classes or more starting from September 1988. In August 1986, the commission again recommended in its Report No.2 that for those secondary schools in the public sector with fewer than 18 classes, an additional half non-graduate post for a teacher of Chinese will be provided starting from September 1986. Now as the Government recognises that our society develop a younger generation proficient in both English and Chinese, they should therefore take up the responsibility to make effective use of the 'Budget surplus' and provide funds for implementing these constructive recommendations made by the Education Commission.

Sir, the continued expansion of medical services in the public sector entails an increasing demand for professional staff. Hong Kong is now confronted with the problem of doctor shortage, both in government and subvented hospitals. The shortfall in the next few years is estimated to be around 700 and the situation will worsen if no improvement is made. To ease the problem of doctor shortage, the Government can consider increasing the number of posts for consultants, improving the terms of employment, providing better opportunity for further training and researches and allowing for more flexible conditions of service. In the long term, to tackle the problem of manpower shortage as a

result of brain drain, we cannot simply rely on the launching of recruitment exercise. It is most important that we should let the medical care professionals have a clear picture of the operation of future hospital authority, and enable them to have further development in their careers and profession.

This year's Budget is not perfect in every way. Separate taxation for married couples has been rejected by the Financial Secretary on grounds of technicalities and cost implications. As an alternative, the Financial Secretary introduces an annual allowance of up to \$15,000 for working wives. Now this, however, does not solve the basic problem of inequity in which married couples are made to pay extra income tax due to combined taxation. The Commissioner of Inland Revenue has indicated that although separate taxation for husbands and wives is a complicated issue, he can anticipate the report to be completed in a year's time. If the report will then be submitted to the Financial Secretary and the Executive and Legislative Councils for examination, that means it will take another two years before separate taxation can be implemented. In this regard, the Financial Secretary should make a firm commitment concerning the possibility of introducing separate taxation for married couples in 1990 or 1991 so as to put the public at ease.

Sir, with these remarks, I support the motion.

MR. CHUNG (in Cantonese): Sir, the Financial Secretary estimated the 1988 GDP growth rate would be about 13 per cent in money term and that our average income this year would be increased to \$72,000 which is equivalent to \$9,200 US according to the 7.8 exchange rate.

Mr. JACOBS is confident in the economic prospect for the year to come, but he is not without worries. He describes 1988 to be a year of volatility and uncertainty. He said that there would be slow economic growth, a greater trade deficit and also the inflation rate would increase to 7 per cent, that is why it is forecast that the growth rate in 1988 will only be about 5 per cent.

We all know that last year the GDP recorded a growth rate of 13.5 per cent in real terms, which is a second two-digit growth rate following that of 86 to 88, and during this period investment was buoyant and we have unprecedented boom for our commerce and industry and the properties and the stock markets, although we had a crisis in the stock market last October, it was not detrimental to our inherent strength. We have full employment and most of our citizens are able to enjoy the fruits of economic development. That is why the Government has increased its revenue base vastly and it is estimated that we will have accumulative surplus and consolidated reserve of up to \$40.5 billion. This has provided us more financial support for services and developments and laid down a sound foundation for coping with the changes and demands during the transitional period.

The Financial Secretary in his Budget proposed that there would be an revenue of \$55.6 billion and an expenditure of \$50 billion. There are some minor

tax increases, but more tax allowances given and there would be \$1.8 billion less of revenue because of these tax allowances. But still we are able to maintain a surplus Budget with a revenue of \$3.8 billion and the Budget also contains promises that existing services and construction programmes will not be affected, so I think that this is a Budget which is pragmatic and comforting.

I do have something to say concerning the strategy.

First of all, we need to attract more foreign investments and actively strengthen financial resources. If we have problems, we should try to enact good legislation. I do not think the introduction of negative interest is an effective means to curb speculation in the foreign exchange market. Instead, this will only cause disturbances to foreign investors and lead to the problem of excessive savings in listed companies and private provident funds, thus it may lead to counter effects.

Secondly, since the year is to be volatile and uncertain, we need a reliable long-term strategy to maintain the financial income necessary for our community. So we can consider enlarging our indirect tax base, but the principle should be, we should only tax the luxury items and not daily necessities. We should not increase the financial burden for the general public.

Thirdly, I welcome the Financial Secretary's proposal of giving more supporting services to the industry in his Budget, and I also welcome the proposal of reducing our corporate tax rate from 18 per cent to 17 per cent. But we know that the investment on industrial facilities, such as plants and machinery has already increased from 0.2 per cent of 85 to 27.3 per cent in 87, but it is estimated that this will again drop to below 4 per cent in the coming year. That is why I think that while the Government is supporting the industry, it should also utilise the strength of our financial resources to provide more incentives to our investors. Concessions such as a depreciation tax allowance for the machinery and more supporting services to the industrialists so that they can have imported retain machinery are means which are helpful to maintain a high growth rate of long-term industrial investment. These means would also help our new industry to move towards automation and diversification and enhance industrial productivity.

Fourthly, is the new Budget adequate in reflecting the actual need in the area of law and order?

I think on this important question, we really need to do something for the future. I do not think we have serious problems in law and order at present, but the expenditure on social security only accounts for 8.9 per cent of the entire expenditure which is only 1 per cent of the average income of a Hong Kong citizen. I think that the financial commitment has not adequately reflected the importance of the police to social security.

I think that during the transitional period, it is only natural that the police should receive more financial support. I think in more specific terms, we should

enlarge establishment of the police, strengthen the modernisation of police equipment and increase the salaries for our policemen so that their morale will be boosted, especially when the police force will be gradually taking over from the British Garrison.

It is most important to have such proposals and I think the district offices and the police should also help the multi-storey buildings in various districts to set up a joint security communication network. The existing Neighbourhood Watch Scheme can form a development foundation for civil security measures. This will certainly help strengthen the co-operation between the police and the public and also be beneficial to our efforts in crime fighting. Such a measure warrants reasonable financial support. In addition, we should also encourage and help the multi-storey buildings to set up sound organisation and management I think we should enact the Watchmen Ordinance and also try to revise the clauses in the deeds of mutual covenant concerning the management of multi-storey buildings.

Sir, now I would like to turn to the topic of social welfare. In theory, a good social welfare system would eliminate the risk of riots. In the new Budget, Mr. JACOBS said that he would like to take care of the weak and the elderly. This is a good thing. The social welfare expenditure amounts to \$3.9 billion and it takes up 6.3 per cent of our entire expenditure. But according to preliminary estimates, elderly people would only have a share of \$500 million. According to estimates, among the population of 5.6 million, we have 450,000 people of an age over 65. But under the system of social welfare, we are assisting less than half of our elderly people. What is more notable is that, it is estimated that the Consumer Price Index will increase by 15 per cent, from 1986 to 1988, so, I wonder whether we should consider an adjustment of the amount of the assistance to the elderly.

What is more, I think the Government should now try to enact ordinances concerning the management and operation of homes for the aged, including criteria for assistance, application or purchase of places. We have more and more private homes for the aged which reflects the actual need of our society. But if the Government is only responsible for the registration of homes for the aged; or, if the Government only has a set of 'code of practice' without any legal authority, this is meaningless. We should try to help all the homes of the aged to have a set of good regulations, and an efficient management system, so that they will fight for the standardisation of services among themselves. What I mean is, a good welfare system for the elderly is helpful to the maintenance of stability, not only for the families in our community, but also for the entire society. And so such spendings are really worthwhile.

Care for the young is equally important as care for the elderly. We are spending over 45.5 per cent of our entire expenditure on social welfare. Within this amount, we should consider allocating more to child care and pre-school education. In the long run, the Government should pay equal emphasis on care

for the elderly and the young, and we should provide more financial support to related organisations providing such services to the young and the elderly.

Sir, the topics of personal allowance and separate taxation are now being heatedly debated upon. The Financial Secretary suggested a reduction of a standard tax rate to 15.5 per cent. That is a reduction of 1 per cent which also means a 6 per cent increase of the allowance for basic and extra tax. This is, of course, welcome. But actually, the 'Salaries and Incomes Index' has already increased by 49 per cent in the past five years, so I just wonder whether the allowance being given is out of proportion.

I think we should have separate taxation for married couples because after a citizen marries, he not only has to look after himself, he has to shoulder the burden of a new family. It is totally unreasonable if we have a marriage tax levied on such a person. If we look at the interests of Hong Kong as a whole, the Financial Secretary may feel that it is difficult to please everybody regarding the request of separate taxation. But, I think the most important thing is to strive for a better and a fairer society. That is why I think the Government should seriously consider the feasible measures for optional separate taxation.

I welcome the Financial Secretary's prudent financial philosophy in order to maintain a high level of fiscal reserves. But I have something to say about the revenue; the Financial Secretary suggested that when the China Ferry Terminal in Canton Road is operational, a \$15 embarkation fee would be levied on every departing passenger. But the thing is, no such charge or fee is being levied on other embarkation points for China-Hong Kong traffic. So, is this charge really fair? If we say that such a fee is to cover operational costs, or to meet demands for better services, then are we levying such a fee for other road transport embarkation points? I hope that the Government will pay attention to this, since the OMELCO has already received some complaints.

Sir, in principle, I support the Budget for 1988 to 1989, but I hope that we will spend more on social security, and do something more about the balance distribution of social welfare expenditure, and also have more personal allowance. I hope that we will strive for a better and a fairer society.

Sir, with such remarks, I support the motion.

4.07 pm

HIS EXCELLENCY THE PRESIDENT: There are still a number of Members due to speak. We are likely to need two breaks; Members might like to take their first break now.

4.30 pm

HIS EXCELLENCY THE PRESIDENT: The Council will resume. I have Mr. Martin LEE down to speak next but he said he has been unable to be here yet. I will call him later.

MR. ALLEN LEE: Sir, 'how can something so small, make it so big? And how can such a small place have such a big influence?' These are the words of Mrs. Corizon AQUINO, President of the Philippines, when she addressed a dinner gathering held in her honour by the Trade Development Council during her recent visit to Hong Kong last weekend. She wanted to learn from Hong Kong and what makes Hong Kong so successful. Sir, I listened to her with immense interest as she spoke on her desire to lead her country to be another miracle in Asia. When she was talking about Hong Kong and its achievements, I could not stop myself from thinking about the ingredients of our past success. What are the areas in which we must pay attention and invest in order to enhance our success in the future? What is our future?

Today, Hong Kong ranks 13th in world trade. We are the number one in the export of garments, toys, watches and clocks. We possess the largest container port in terms of throughput and we are one of the major financial centres in the world. This is why such a small place has such a big influence. In my view, we should not, and must not, allow ourselves to be complacent. We should look forward to the future. We should address ourselves on how to maintain and strengthen our competitiveness and to seek ways to correct our weaknesses.

Sir, I would like to speak on two topics this afternoon as I believe they are directly related to our future and our future economic performance. They are education and technology. Firstly, Sir, I would like to speak on the topic of education stating that although I am not an expert in this field, I recognise the importance of education in our society. Not only is education a social necessity, it is also an investment. An investment which cannot be measured in monetary terms because the return on investment is in the future; whether it is the future of a nation or a territory. We speak often on prosperity and stability. I believe that in providing a good education for our people, we are assuring ourselves of our future prosperity and stability. Today, I would like to focus particularly on tertiary sector education as I believe this is where we train the professionals, the managers and the leaders of tomorrow. For many years, I have been observing the progress that we have made in the tertiary education sector. I must say I commend the achievements made in such a short period of time. However, I am of the opinion that we have not paid much attention to research and development, mainly because it is very expensive and our high-ranking civil servants cannot see the return. This philosophy, Sir, in my view, is shortsighted and will hurt Hong Kong in the long term. We have already experienced the effects of lagging behind our main competitors in research and development and in fact, we are behind in every aspect of technology. I welcome the establishment of the Hong Kong University of Science and Technology and I supported the Hong Kong University of Science and Technology Bill on 1 July 1987. I believe that it is this type of commitment to higher education which is the best guarantee of the future. I want to stress here that I also believe we should target ourselves a much higher percentage in post-graduate studies for this university and suggest that we should set the goal at 50 per cent. To achieve this, strong research and

development is required. This investment will bring Hong Kong to another plateau in the field of higher education. It can also attract famous professors to come to Hong Kong to teach.

Sir, there is much talk these days about brain drain and emigration. We must acknowledge that this is a fact and a problem for Hong Kong. I do not believe that anyone has the solution to stop the brain drain. In fact, we should not interfere. Emigration is a very personal decision. I have been asked by many of my acquaintances whether or not they should emigrate. I always tell them that the decision is theirs. For me, Hong Kong is my home. I have travelled extensively during the past 30 years during which I had lived in the United States for seven years. I can honestly say that there is no place better than Hong Kong. Because this is my home, therefore I am critical about our Government, our system and our philosophy. When we are facing a major problem of brain drain, we must speed up the programme of training our younger generation to fill the gap. Although I realise that there will be a time lapse in the whole process of perhaps as long as 10 years, I believe that if we have a sound plan we should be able to maintain our prosperity and stability. In the meantime, we must increase the intake of our current education institutions and substantially increase the research and development Budget. We must encourage them to do more in educating and training of our young people. My experience at the Hong Kong Polytechnic tell me that there is no lack of talent in our young people. Let us develop them so that they can fill the gap and become the leaders of tomorrow.

Hand in hand with education is technology. I keep repeating myself, both inside and outside of this Chamber, that we are in the technological era. We must catch up with the rest of the world. I am glad to see that after 10 years of urging Government to do something on science and technology, an advisory committee has been set up. I hope to see the committee get on with its work of advising Government on how to upgrade the technology base of local industries. Hong Kong now stands on the threshold of a new phase of economic expansion, a phase in which the rate and pattern will be increasingly dependent on our technical capability. When I presented my paper in the recent 'Computer Conference 1988', I placed much emphasis on information technology. The development in this field has been astonishing. Sir, Hong Kong cannot, and will not, survive without technology. On the one hand, we must show our own commitment towards technological development. I am disappointed somewhat that after such a long time, the subject of a 'science park' is still in the primitive stage of study. This type of attitude is certainly contrary to the usual Hong Kong tradition and I fail to understand why. Perhaps, it may be due to a lack of expertise within our Government, or perhaps, there is lack of commitment. Let me say it again that we are lagging behind in our technology and we must catch up. We need a firm commitment from our Government. On the other hand, the quickest way to acquire technology is through technology transfer. Again, in this arena, whatever Government has done has been on a very limited scale. In

the case of other countries, and more recently Thailand, their Government have set up a board of investment in order to provide centralised services for foreign investors and to promote foreign investment and technology to invest in their country. What has Hong Kong, as an international city and a gateway to and from China, done in this respect? What is our Budget for overseas investment promotion activities? I have suggested in the past to Government to give the duty of overseas investment promotion to the Trade Development Council. However, if Government wishes to keep this important function, efforts must be better organised and executed in a more professional manner. Foreign investment is very important to Hong Kong. It does not merely provide local employment, but more significantly, it brings in modern management and technology. I believe our Government should look at this urgently.

Sir, I realise that there are many other aspects, such as housing, transport, medical and social services, infrastructure and so on, that are important to Hong Kong. I have chosen to speak on the above two subjects which I feel we have to depend on for our future long-term survival. I have always believed that if we invest our money on the development of our human resources, we will succeed and all the rest will fall into place. I am glad to know that we had a surplus of over \$10 billion last year and overall speaking, the Budget presented by the Financial Secretary is a good one. I would like to see our money spent wisely in order to enhance and ensure a better future for Hong Kong.

Sir, I support the motion.

MRS. FAN: Sir, the Budget has been welcomed by many as balanced and reasonable. In particular, the 1 per cent unexpected tax cut is good news for many taxpayers. The sandwich class is pleased with the tax concessions on personal taxation. Among these concessions, the most significant measures are the revision of marginal tax rate, and working wife allowance, which will bring considerable benefit to the lower and middle-income group. These concessions are expected to reduce revenue for 1988-89 by \$1.34 billion against a net estimated surplus of \$5.5 billion. The Financial Secretary indicated in his Budget speech that an average overall surplus of \$2.7 billion will leave a comfortable margin to maintain the real value of our reserves and provide a cushion for unforeseen events. With an estimated surplus of \$5.5 billion, which is twice that of the necessary amount, and an expected surplus of \$10 billion in 1987-88, is the Budget proposal suitably cautious or is it over-conservative? Has the opportunity for implementing some long overdue tax measures, such as tax exemption of severance pay for workers been allowed to slip away by default? If there is a serious downturn in our economy in the near future, as what the Financial Secretary has predicted, this cautious approach will probably be justified. However, if the prediction is wrong, is it fair for the affected parties for example, the workers, to keep on paying tax on the compensation which they received when they lost their jobs? Sir, I believe the Financial Secretary has been less generous than he can afford to be, so I welcome an undertaking from

him that if, in 1989, there is no clear evidence of an economic downturn, he will review the possibility of granting tax exemption for severance pay, increase the allowance for machinery depreciation, and remove 10 per cent claw-back on personal allowance and the tax of soft-drink and cosmetics.

Sir, I welcome the introduction of a working wife allowance, as an interim measure for separate taxation. However, I believe the time has come for the Financial Secretary to make a firm commitment on the date for the introduction of separate taxation. And may that date be as early as possible. In 1970, a working wife allowance was introduced and only to be removed three years later. I would not wish to see the present introduction of the allowance face the same fate, but if the Financial Secretary accepts separate taxation as a feature of our tax system, then I can be confident that working wife allowance will only be removed by the introduction of separate taxation.

The Financial Secretary said in his speech that due to the complexity of the subject, it would not be feasible to introduce separate taxation overnight. It was also reported in the press that the Financial Secretary said if people wish to influence the Budget, they really need to start at least six months ahead, and the representation from Legislative Councillor on separate taxation came about three months before the Budget and was, therefore, too late to have any impact. For the sake of record, I wish to point out that the first written representation from the OMELCO Taxation Panel urging for separate taxation, was submitted to the Financial Secretary in February 1987. And this was followed by a personal visit to the Financial Secretary by the hon. Peter POON, convenor of the panel, and myself, to convey the strength of the panel's views. Our views and requests were made known to the Financial Secretary 12 months in advance of the present Budget. The representation referred to by the Financial Secretary, I suppose, must be the second one. Are we going to believe that the Financial Secretary and his top aides have forgotten about the first representation? I suppose not. Is it possible that they did not hear the 12 Councillors on the 18 March 1987 urging for separate taxation in this Council, the speeches of three Members on 5 November 1987, along the same line and not to mention the speeches in the past 10 years in this Council, asking for the same thing?

The Financial Secretary referred to the complexity and difficulty in ensuring broadly equitable treatment in separate taxation. We know what they are, because they have been referred to many times by the top assistants of the Financial Secretary. But many, like me, remain unconvinced that such technical difficulties should necessarily delay the implementation for two years. In order to understand the practical difficulties, the taxation panel requested in December 1987 for a paper outlining such difficulties. The Administration undertook to prepare such a paper. When the panel met with the Administration two months later, there was no paper. Nor could the Administration clearly indicate whether they had started working on this. The whole episode is so out of character from the usual efficiency of the Administration that I cannot help

wondering if such delay and lack of response may be associated with personal conviction of certain officers. In contrast to separate taxation, the highly complex and sensitive subject of widening the indirect tax net, is progressing with impressive speed. While the Financial Secretary has stressed both inside and outside this Council, that many factors remain to be considered, and he wanted community support for this measure, within one month of his speech. A senior officer of the Finance Branch indicated to the press that, \$5 billion is expected from wholesale tax and service tax, and that implementation can be as early as next April. If there is any truth in the press report, then I can only wonder at the enthusiasm and determination shown by the officers to push ahead on this wide-based indirect tax in the face of considerable reservation in the community. Separate taxation reminds me of a deprived and neglected child side by side with the favourite son, indirect tax. I believe the Financial Secretary must exercise, and to be seen to be exercising, fairness and objectivity in dealing with separate taxation and indirect tax, regardless of personal preference of his advisers.

One argument against the introduction of separate taxation is that some taxpayers actually have to pay more. This can be removed simply by giving taxpayers the option for individual taxation. A number of countries, including the United States, the United Kingdom, Singapore, Malaysia, the Philippines and Germany, practise this approach. I believe separate taxation does not need to be mandatory for everyone, couples should have the choice, and the benefit should be to the taxpayer.

Turning now to expenditure, the 4 per cent growth in the size of the Civil Service for 1988-89, in terms of head-counts, means over 7 000 additional staff. This increase, even though warranted, cannot be taken lightly, nor should it be allowed as a continued trend. I fully agree with the Financial Secretary on the importance of determining priority and ensuring effective deployment of resources. Constant vigilance and timely review will be needed over all sectors of the Civil Service so that valuable manpower is not devoted to functions or activities that have been performed as a tradition but may no longer be necessary due to changing circumstances. I, therefore, look forward to a reasonable but firm control over the growth of the Civil Service by the Financial Secretary.

Education, in particular, secondary and primary education did not receive much attention in this Budget. While I am pleased to see a start made in the development of school-based curriculum, I am disappointed by the omission of two items. They are the additional graduate teacher of Chinese for every secondary school with 18 classes or more, and the recurrent grant to schools for strengthening civic education.

The additional graduate teacher of Chinese for secondary schools was recommended, as pointed out by my hon. Colleague Mr. YEUNG Po-kwan, was recommended by the Education Commission in its first report published in

1984. The commission recognised the need to strengthen the teaching of Chinese and the heavier workload of teachers of Chinese should be suitably reduced to ensure quality and professional updating. The recommendation was accepted, and the Education Commission in its No.2 Report published in August 1986, indicated that this will be implemented in September 1988. Regrettably, no fund was proposed in the 1988-89 Budget for employing this additional teacher of Chinese although the problem was long recognised and the commitment was made with a target date. Surely, this cannot be due to a lack of funds in 1988-89. Proposals for strengthening the teaching of English, including two additional teachers of English for each secondary school using Chinese as the medium of instruction, the pilot scheme to employ expatriate graduate teachers; all these have been, or will be implemented; and the Chinese Textbook Committee has also been in operation for some time. I cannot understand why this additional Chinese teacher should be held up for so long. Is it not logical that when we are encouraging schools to use Chinese as the medium of instruction, we should ensure the students' skills in reading and writing Chinese are up to standard so that they can fully benefit from the change in the medium of instruction? May I respectfully ask the Financial Secretary to reconsider his decision. After all, the cost of introducing this in 1988-89 is only half of that of a full year.

Sir, in August 1985, the Education Department issued a set of 'Guidelines on Civic Education in Schools', and since then, considerable effort has been devoted by schools to strengthen civic education. Two evaluation exercises have since been conducted. In the last evaluation, it was identified that schools need additional financial support, in the form of recurrent grant, for strengthening civic education. Such grant will be used to finance civic education projects carried out by students and enable them to achieve a higher level of civic awareness through actual participation. I am very much in favour of this idea. Based on my experience in promoting civic education in the community in the past few years, I find participation is the most effective way for achieving better understanding and motivation towards public service. If we want our young people to have a sense of belonging to Hong Kong, then they must be given the opportunity to 'try their hands out' in the primary and secondary schools. But the funds which will make this 'participation' possible for all students, and strengthen this participation, is not forthcoming. I hope they can be made available in the next financial year.

Sir, just in case you are forming the impression that I would like to spend and spend, there is at least one area in which I feel further additional expenditure should not be allowed. This is the expenditure on Vietnamese refugees. The Secretary for Security, when answering Mr. SOHMEN's question in the Special Finance Committee Meeting last month, indicated that he did not know the share paid by the United Nations Higher Commissioner for Refugees Office in other countries of asylum as compared to the UNHCR's share in Hong Kong. But he thought the share paid by each country depended on their ability to pay.

Hong Kong is a prosperous place. Does it follow that we have been paying more in the past and are expected to continue doing so or pay even more in the future? Surely this is unfair. Hong Kong people want a fair deal, and indeed deserve a fair deal after spending nearly \$1 billion on this. The Administration should no longer seek to use taxpayers' money to improve the living conditions of Vietnamese refugees. They should be asking those who urge for improved facilities for the Vietnamese to put money where their mouths are. UNHCR which is well supported by international funds, including contributions from the United States and the United Kingdom, should be able to do much more in financial terms. I strongly suggest that the Administration negotiates a better deal with UNHCR, and be more persistent and firm in their persuasion. In this, the Administration can be assured of the full backing of Hong Kong people.

Sir, with these remarks, I support the motion.

MR. DESMOND LEE (in Cantonese): Sir, some time ago, I quoted from a Sung poem: 'Ludicrous is the imperial academy scholar producing paintings of the good off the same pattern year after year' to describe the annual Budget. To say that the good is painted after the same pattern means that the same basic pattern is used, only certain parts are modified. This is exactly what is happening with the Budget. Every year, individual heads see increases or deductions, and on the whole it is rather conservative and there is nothing innovative. Every year, the same old pattern is adopted; adjustment is made to a couple of items—just like modifying the good—and the routine annual exercise is completed. In the past two years, I suggested that the overall tax structure and strategy should be reviewed comprehensively. Normally, tax policies are reviewed every 10 years. It was last done in 1975. There are nine more years to go before the change of sovereignty, and it is appropriate that we conduct such a review now. If all that is done in the Budget is to reduce profits tax and standard tax by 1 per cent; to increase personal allowance by a couple of thousand dollars; and to reduce air passenger departure tax from \$120 to \$100; then it is nothing but the work of a bookkeeper. The Budget is no way a policy paper of an efficient Government.

Families are the basic components of the community. The way family income is assessed now, is out of pace with our society. Since family planning is popular, most families have only two children. In tax assessment, allowance is still given to the third and up to the ninth child. This policy does not benefit most families. Last year, I suggested that the aggregate total of \$12,000 should be apportioned between the first two children, so that there will be an additional \$6,000 for each, then all families will benefit from this. This is a simple method and the cost to revenue is minimal. The Budget this year has not considered this and I would like an explanation from the Administration, or I will feel that my views were ignored. I raised the question of separate taxation for married couples last year and popular opinion is now all for this. However, the Government still rejects the idea. This is ignoring public opinion. To reintroduce the working wife

allowance can be taken as a compromise, but that after all, is not what the public demand. This shows that the Government is lacking in goodwill. It is shirking responsibility and refuses to face the problem. I strongly urge the Government in its reply to give a definite commitment as to when separate taxation can be implemented so that they can be accountable to the people. The young working population, especially professional middle-income group, are most important for social stability. Hong Kong neglects this group. They gain the least in welfare services according to the distribution of social resources and become the sandwich class; they are ill-treated by the Government policies. On the one hand, separate taxation for married couples is delayed; then the Central Provident Fund is rejected; the minimum wage for foreign domestic helpers is unreasonably raised. These greatly affect the financial position of young couples. The Government must review its fiscal policy so that the situation of the sandwich class can be improved. The idea of a Central Provident Fund should be re-examined regularly; reasonable arrangements should be made regarding minimum wage for foreign domestic helpers. It is vital that the Government should not adopt the bureaucratic attitude of—'I'm right, and I'll go ahead and do what I want to do'—otherwise the sandwich class will be excessively aggrieved and it will be a potential danger threatening social stability.

Provision for education amounts to nine-odd billion and enjoyed the highest percentage in estimated expenditure. When we look at the proportion it takes up in the distribution of public resources, we can hardly ask for more. What we need to look at now, is equity in allocation and the use of private sector resources. There are two tertiary education institutions registered under the Post-Secondary Colleges Ordinance. Its unit cost—that is the annual recurrent expenditure on each full-time student—is much lower than that in universities and the five institutions under the University and Polytechnic Grants Committee. One of these institutions has already accepted accreditation by Council for National Academic Award. The report has been completed. I hope the Government will consider increasing subsidy to that institution as quickly as possible, or even to put it under the University and Polytechnic Grants Committee. Tertiary education places should be increased, while matriculation courses should be run by secondary schools. Furthermore, the quality of popular education leaves much to be desired. Subsidies to education amounts to \$5.7 billion and its cost-effectiveness needs to be reviewed. Then, places provided by private schools are much cheaper than those in subsidised schools. The number of private schools from which we buy places has decreased from 70 to 23 in three years' time. Quality is ensured. The Government should increase the resources and to give them assistance. For instance, to buy Form IV and Form V places; to relax the restriction on school fees for Form I to Form III, or to introduce whole-day school gradually. Recently, some private schools from which the Government no longer buy places, still continue to operate. The Government should assess them annually and if the standard improves significantly, we should reconsider buying places from them in order to be fair.

Sir, in past Budget debates, I made a number of proposals and yet I received no response. I hope that all these can be taken together this year. As to whether I support the motion or not, that will depend on the replies given by the Administration.

MR. SZETO (in Cantonese): Sir, in the last financial year, due to the Financial Secretary's rejection of the community's strong demand for separate taxation for married couples, I casted a dissenting vote against the Budget. During the policy address debate this year, I restated my stand. This is why, as many already know, I would not support the motion today, and I would again cast a dissenting vote against the Budget.

The Financial Secretary said, and I quote:

'I am also aware of the trend in some other countries' tax administrations is towards the direction of separate taxation. I am prepared to consider further how separate taxation for working wives might best be introduced.'

The Financial Secretary also said, and I quote:

'This is a complex subject. It would, therefore, not be feasible to introduce separate taxation overnight.'

I heard that it would take two years to further consider the question.

I am interested to know whether it is true that the direction of separate taxation still remains only a trend in some other countries' tax administration, or whether the truth is: many other countries' tax administrations have already implemented separate taxation for a long time. When did the Financial Secretary first become aware of this trend? Why wasn't he aware of this trend before that? This may indeed be a complex subject, but why are the other countries' tax administrations able to solve the problems and Hong Kong alone, finds it difficult to implement? Why would further consideration take as long as two years? Why can't the Financial Secretary affirmatively accept the principle of separate taxation for married couples and proceed to further consider only the practical measures of realising this principle? The naked truth is: such are only stalling tactics.

The introduction of working wife allowance is used as a smokescreen to shelve the public's strong demand for another two years. Why do I say that the introduction of the working wife allowance is a smokescreen? A smokescreen will disperse eventually, and the working wife allowance can be withdrawn anytime. Did we not have a working wife allowance before? It was withdrawn shortly after implementation. This is already a precedent. But this will not be the case for separate taxation. It would not be so easy to withdraw the system once introduced. This is the crux of the whole issue, and not reasons such as: 'The question needs to be further considered'; 'the subject is complex'; or, 'it is difficult to implement'; and so on. I cannot help but wonder, when the newly introduced working wife allowance will again be withdrawn.

Some may ask: Am I not making a mountain out of a molehill?—fussing about trivialities as if they are vital issues, by casting a dissenting vote against the entire Budget just because of the simple question of separate taxation? But I feel that from another point of view, this is not something trivial. It is, by itself, truly, and indeed, a vital issue.

Separate taxation has long been a strong demand of the public. On this question, the Members other than Officials of the Legislative Council have truthfully reflected public opinion and we have reached a consensus within the in-house meeting and lend our unanimous support to the demand. Yesterday, I learnt that Mr. Andrew WONG also objected to the idea of separate taxation for taxation. So perhaps Mr. Andrew WONG should be excluded when I said that we reached a consensus within the in-house meeting. The Government has deliberately turned a deaf ear to the consensus of the Members other than Officials, and totally disregarded the strong and long-standing public demand unanimously supported by the Members other than Officials. Is this trivial?— or, is this vital? This has reflected the status of the Legislative Council in the minds of the Government. Is this trivial, or is this vital? There are some who repeatedly stress the importance of consensus. It is not that we fail to reach a consensus, but today we are shown the value and meaning of our consensus. Is this, again, trivial or is this vital?

I am casting a dissenting vote on the Budget not only because separate taxation is not implemented, but also because of the Government's response to the consensus of the Members other than Officials, who have presented truthful reflection of public opinion.

Finally, from a more objective point of view, I would like to say something about the educational provision proposed in the Budget. In recent years, the Government has been actively developing our tertiary education. Almost immediately after the establishment of our City Polytechnic and the University of Science and Technology, the Government has said about the setting up of an open university. All these should be welcome. But the Government should also show the same concern for the quality of the nine-year free education. The nine-year free education system has been implemented for almost 10 years. Since it was rushed into implementation, more and more problems were exposed throughout the years. Is it not the time now to allocate more resources to remedy the situation? The nine-year free education is the foundation of our entire education system. Without a firm foundation, even the most majestic and impressive superstructure would topple.

Sir, with such remarks, I object to the motion.

DR. TSE: Sir, last week I had the privilege of representing the Hong Kong Government at the 44th Commission Session of the United Nations Economic and Social Commission of Asia and the Pacific (ESCAP) which was held in Jakarta. I am proud to say that although Hong Kong is a small territory among the many countries that were represented there, and is only an associate

member on account of our non-nation status, yet when we made our statement on the state of the economy of Hong Kong, people did sit up and listen because our trade and Gross Domestic Product—the GDP figures were so impressive. Delegates from many ESCAP countries could not but be envious of our double-digit GDP growth in the last two consecutive years. Our export growth rate was 23 per cent in 1987, while imports from the ESCAP countries grew by 38 per cent. As a member of the Hong Kong delegation, I was proud of our presence in ESCAP despite our less than full membership status.

But when I got to the point of projecting the trade and GDP growth figures for 1988, I found myself sounding less forceful and convincing as I forecast a drop back of GDP growth to 6 per cent and of export growth to 9.5 per cent, because I was somewhat disturbed by the gross inaccuracies of our projections in the last two years.

In 1986, we projected a GDP growth of 4.5 per cent, it turned out to be 16 per cent. In 1987, we projected a GDP growth of less than 9 per cent, and now we know that it is 13.6 per cent, or possibly higher, despite the stock market crash last October. Of course, we are happy to see the large surpluses as a result of these phenomenal growth rates and, if we had to err, it is much better to err on the surplus side. But as I ponder on these large discrepancies, I cannot help but be reminded that this kind of large surpluses is a direct result of gross under-estimation of revenues, which in turn could arbitrarily suppress the level of public expenditure to an unrealistic degree. That being the case, a practice of overly conservative revenue estimate, when carried out as a matter of course, would in the long run render the overall development of the community incompatible with the state of the economy of the territory. Therefore, while I totally subscribe to the philosophy of spending within one's own means, I am bound to say that unrealistically conservative revenue estimates must be avoided in order to allow the social development, through public spending, to be commensurate with the economic development. If a conservative approach in Budget estimates must be continued on account of the open nature of our economy which is subject to direct influences from the outside, perhaps a mid-year Budget revision exercise should be adopted so that some badly needed community development policies or projects, which were left out in the original estimates, could be reconsidered for implementation in the light of the mid-year growth of the economy. And the concept of cash-limit should not be held so rigidly. Alternatively, part of the surplus of the previous year could be transferred to the next year as an additional source of income designated for specified purposes.

Take for instance the huge surplus of over \$10 billion we have in 1987, which has been termed 'embarrassing' by the press. I agree that it is embarrassing when compared with the original projected figure. I hope that a part of this huge surplus could be set aside for specific projects designed to bridge the gaps which exist in the ongoing development of our community. These gaps are normally of such nature that they cannot be closed by the incremental funding provision.

For example, there is a well recognised gap between our present research strength in science and technology and the need for advanced technology in our industrial development. A very substantial injection of research funds will be necessary if this gap is to be closed within a short period of time. In this regard, my hon. Colleagues Prof. POON and Mr. Allen LEE, have just eloquently put forward their arguments in support of the drastically increased funding for research, it would be redundant for me to dwell further on this point.

Another gap I would like to see closed through the prudent use of the surplus is the gap between the quality and the quantity of our primary and secondary education as the hon. Mr. SZETO Wah has pointed out. As proud as we are of the nine years of free education our community can provide, and of the generous provision of senior secondary education at nominal cost to the students, those who are directly involved in the field can readily testify that there is much to be done in the improvement of quality in primary and secondary education. Areas such as, effective language teaching, personal attention to students' intellectual and social growth, provision of proper activities to cultivate the sense of civic responsibilities, just to name a few, are all important and manpower intensive.

Before Government makes its commitment in large and regular resource terms to tackle the problem, it would be extremely useful if a pilot scheme is carried out in a selected number of schools to identify the best and the most cost-effective ways of achieving the desired level of quality improvement in our educational system. This kind of experiment, when fully funded and carefully conducted in a sufficiently large sample of different types of schools, will go a long way towards solving the tough problem of ensuring proper quality in our mass education system.

In a recent consultation session with some district board members of my district, it was also suggested to me that another gap that should be closed quickly is the gap between our present social service to the aged and the actual needs of the old people due to the changing structure of the Chinese family. It has been said that the present generation of senior citizens in our society has been sadly disadvantaged due to the change of attitude towards the aged within the lifetime of this group. When these people were young, they were taught to honour and support their old aged parents, and they did. But by the time they become the old age parents themselves, to their dismay, that good old Chinese tradition is no longer intact. Instead, the trend is now for the young people to leave their parents and to organise a world of their own (二人世界). As a result, we find many old people living alone, with or without adequate financial means, but certainly lacking in social support in our community in which the social service policy is still very much reflecting the tradition of the old Chinese extended family. Therefore a quantum jump in the caring of the old is necessary if our social service policy for the elderly is to be caught up with the changing family tradition in our society.

Sir, I have cited three areas which could benefit from some extraordinary injection of funds from an extraordinary surplus. No doubt there are other areas which can be identified for similar assistance. My main concern is that while we should continue to exercise prudence in spending within our own means, we must not be tempted to think that the larger the surplus, the better is the financial management. On a long-term basis, our resources must be properly deployed so that the well-being of our community will be commensurate with the state of our economic health.

Sir, I have the pleasure in supporting the motion.

MISS TAM (in Cantonese):

*Medical services*

Sir, two years ago, the medical services panel gave a very thorough discussion and debate on the Report on the Delivery of Medical Services in Hospitals. Eight recommendations can be implemented before the establishment of the Hospital Authority.

First of all, in most general wards, the ratio of a consultant to beds should be reduced to 1:60 to 80. There should be improvement in the framework of nursing services, reduction in overcrowding, improvement in working environment and manning ratios. The fee basis for standard beds should be enlarged and collect fee for other medical services. Moreover, there should be a pilot scheme whereby beds are set up that are better than third-class beds, but the fees for which are lower than second or first-class beds. And if the pilot scheme proves successful, then there should be a private insurance scheme that is commensurate with Government guidelines. Lastly, we should identify major cost areas and conduct value for money studies.

Items 3,4,6 and 7, of the eight recommendations, have been implemented in part and/or in whole. The first one has already been agreed in principle. Perhaps the Secretary for Health and Welfare may like to report on that in his reply.

Hong Kong has been fortunate in having Sir S. Y. CHUNG as the Chairman of the Provisional Hospital Authority. He has a rich experience in civil service salaries, in ranking criteria and in administration in general. I am sure he will be able to contribute much to Hong Kong and I wish him and the Provisional Hospital Authority every success.

In this debate, members of the medical services panel will be speaking on medical fees, medical beds, increase in staff, different categories of people needing medical care, increase in usage, school medical service, British Military Hospital, and the difference in capital costs for government and subvented hospitals, measures for prevention of disease, health education, use of preventive medicine, wastage of doctors in government and subvented hospitals and Hospital Authority and so on. But may I speak on a very serious problem, that is traffic congestion.

*Traffic congestion*

Sir, recently, the Mass Transit Railway Corporation has announced a peak-hour surcharge and there will also be toll increases by the Hong Kong Cross-Harbour Tunnel Corporation which has changed its way of increase yesterday. Now, this has given rise to a lot of debate and this is certainly something that should be covered in the Second Comprehensive Transport Study.

Now, although transport and traffic does not come under a particular head in the Budget and there is no separate expenditure subhead for road construction and traffic management, but the government's expenditure in road construction is very high indeed. In your policy address 1987-88, Sir, you said that there has been a grave increase in the number of cars per road space. And this is because the number of lorries has increased by 30 per cent and the journeys covered have also increased more than 60 per cent, and that is a sharp increase.

You have also pointed out that a number of large-scale projects are being planned or are in progress. That includes the New Territories Circular Road, Junk Bay Tunnel and Route 5. In the next five years, \$5 billion will be spent on roads.

As for links with China, we have the New Territories Circular Route which will be completed in 1989, by which time the daily maximum cross-border throughput would increase from 9 000 to 50 000.

These figures reflect the prosperity and prospects for further economic activity in Hong Kong. The Cross-Harbour Tunnel and the Lion Rock Tunnel have achieved capacity, and during rush hours the MTR has also reached capacity. Taxi, commercial vehicles and private cars have reached their capacities too. I believe that it is time to strengthen traffic management and to make use of the Second Comprehensive Transport Study to set priorities of road-use and duration of road-use and to control the number of certain modes of transport. This is very important because it has a great bearing on the long-term economic development and the cost-effectiveness of our transport system.

First of all, the traffic management measure of increasing fares and charges and tolls during peak hours when use exceeds capacity, is an authoritative one. It is one that is found in many textbooks, but in actual implementation, I think it should only be the last resort. In handling the Lion Rock Tunnel question, it has been proved that not charging a toll would give rise to greater congestion and cannot solve the problem. So, I think that the Government should handle the matter in similar ways. It should first prove to the public that it has already done all it can to find alternative solutions.

As to economic loss as a result of traffic congestion, there is very little information. But in paragraph 2.79, in the Final Report on the Electronic Road Pricing Scheme, it was pointed out that if the Government can constrain the number of cars, then it is estimated that by 1991, time saved in public transport

and in commercial vehicles, would give us a value of \$300 million a year in savings; that is one sixth of the cost of building the Island Eastern Corridor. Of course, disruption and inconvenience cannot be calculated.

Every morning, between eight and nine, the queues of cars outside the Cross-Harbour Tunnel on Hong Kong side, is 2.5 km and on Kowloon side it's 2.6 km. This certainly, is very drastic economic loss.

On the other hand, in provision for building roads, the Island Eastern Corridor is elevated and it has cost \$1.725 billion. It is 8.3 km in length—that means \$280 million per km. The road that runs from Sha Tin to Tai Po North, along Tolo Harbour, costs \$1.263 billion; it is 10.1 km in length. It's built on the foot-hill and therefore costs \$125 million per km. If we do not restrict reasonably, use of certain roads by certain vehicles, at certain time, then it will be inevitable that the economic benefits of building roads will become a mirage.

Sir, I think that in building roads, private consortia participation should be enlisted, and good examples include the Route X, the trunk-road from New Territories West to Tsing Yi and West Kowloon; as well as possible Western Harbour Crossing. This will not only serve to reduce the burden on Government, but also enable Government to spend more on traffic management, staffing, and computerisation programme on traffic flow.

I am sure traffic management can be accepted by the people of Hong Kong, but not when their own cars are involved. The second CTS will take the form of a Green Paper for consultation. Population is gradually moving into the northern part of the New Territories, but the service sector jobs and import/export, transport, concentrates in the Kowloon Peninsula, and on the northern part of Hong Kong Island. It is inevitable that there should be some restrictions on the number of vehicles. An increase in charges, as a result, has been inevitable. I have often thought that devising traffic strategies is a very rational sort of work, but its implementation becomes increasingly political. So, I think it is a good idea that there should be a Green Paper for consultation. And let the people decide on the sort of strategy that we should adopt. And, in the process, I think Government should spend more time in explaining what it means by restricting different kinds of vehicles in using roads.

#### *Sales tax*

Mr. Piers JACOBS has invited opinions on this. My initial reaction is that this would shift the tax burden to those with a lower income and it does not seem to be in line with the traditional taxation system. In his Budgets for 1978-79 and 1980-81, Sir Philip HADDON-CAVE said that the taxation system should follow six principles.

*Number 2*

With regard to the cost-price structure and investment decisions, the tax should be impartial as far as possible.

*Number 4*

Indirect and direct taxes should be easy to administer. They should not give rise to evasion because we cannot afford high management fees in the case of a tax system whose net is small and rate low.

The tax system should be fair for all sorts of people including prospective taxpayers. There should be higher personal allowances. And for the lower-income group, very little of their disposable income should be paid in tax.'

Sir John BREMRIDGE, in his 1986 Budget, also lists a number of factors. I'd like only to read item 4.

*Tax policy*

The Government's liquid cash overall balance has already achieved a balance of payments, so we should maintain the real value of the various fees and fixed amounts taxes and review allowances on a regular basis.'

Sir Philip's Point 5, and Sir John's Number 4, point out:

'that the tax burden should not be shifted easily, especially affecting those with lower income. After all, we have a very narrow tax net, we do not want to make drastic changes. The taxation system has been running well; improvement is in order; but we must first of all, see whether any drastic changes are necessary.'

On the matter of Sales Tax, there are a number of advantages. First of all, stable tax revenue, because that would mean a wider tax net.

I understand that yesterday, some of my colleagues said that a sales tax is regressive. But in the long run, the purchasing power of the low-income group is rather weak, and so therefore the chances that they have to pay sales tax is also lower. The most important thing is that necessities should be exempt from sales tax.

In paying salaries tax there is no flexibility, whereas sales tax is based on consumption and those who wish to be thrifty can choose to do so.

And then, fourthly, the responsibility is shared more evenly by all.

And five, which I think is more important. From the comprehensive and long-term point of view, if Hong Kong is to maintain a low tax rate, not only for salaries but also for corporate profits, in order to attract more foreign investment and improve competitiveness with South Korea, Taiwan and especially Thailand, a stable low-tax system is a very persuasive factor. Other advanced countries know the advantages of a low tax rate, only they have very deep-rooted tax systems and cannot change overnight.

The difficulties of a sales tax include the following: First of all, the definition of 'wholesale' is difficult to make. When the goods are imported or have left the manufacturer, and whenever there is a large number, there may be several levels of wholesaling. So, where exactly do we levy the sales tax, if that is to be done, for wholesaling?

Second, it would seem that one is taxing the poor. First of all, we must erase the impression that we are taxing the poor. The Government must be clear on that. For instance, necessities must be exempt from the sales tax. Sales tax can be levied on luxuries but the mere mention of these things reminds us of the innumerable problems involved and there may be evasions.

Thirdly, procedure. What about tourists? Investigations and documents—how do we set the right level and how do we prevent evasion?

What other taxes can we reduce as a result of increasing indirect taxes? Sales tax increases the tax burden of the public, but will there be any increased in expenditure which will benefit the masses?

Sir, in stabilising the tax system and maintaining fairness, I think we can study further the possibilities of having a sales tax, but not on the retail level. I do not think we should rule it out altogether but the questions that I have raised are for his consideration. Sir, in 1982-83 and 1983-84 Budget debates, I asked the then Financial Secretary, Sir John BREMIDGE, to implement separate taxation. He could only give me a maple-leaf that there would be such in the next year; there would be separate assessment. But I would like to congratulate Mr. Piers JACOBS because not only has he brought on a surplus Budget, but probably for the first time, acknowledged in public the advantages of having a separate taxation. Although he is not running for election next year—but he certainly merits our credit.

Sir, I support the motion.

DR. IP: Sir, through studying the Budget and Draft Estimates of Expenditure, I have made the following major observations.

Firstly, whereas in 1979, the percentage of medical and health fees and charges to that of the total expenditure was 6.3 per cent, it has dropped to 3.7 per cent in 1988-89. Furthermore, using the year 1983-84 as a common baseline, cumulative projected growth in expenditure on medical and health services will exceed the cumulative projected growth of GDP as assessed by the Medium Range Forecast by 16 per cent in 1991. This estimate does not even take into consideration new or improved services which is inevitable.

Secondly, whereas across the world in all developed countries, the rate of hospitalisation is dropping in spite of their ageing populations, it has increased by 2.6 per cent in Hong Kong, even after deducting the population growth rate.

Last but not least, on calculating the expenditure under minor plant, vehicles and equipment block vote for medical services, it works out that \$2,784 will be spent per government hospital bed in contrast to only \$838 per subvented hospital bed. Thus Government spends 332 per cent as much on replacing and purchasing new items of equipment for their hospitals as compared to subvented ones. This pattern of funding has gone on for more than 10 years, and accumulative difference must be in terms of 1 000 per cent or more by now, already.

Sir, allow me first to draw some conclusions from these observations before making proposals for change.

1. I reiterate what I said in my speech on the Budget five years ago and similarly stressed by our Senior Member yesterday, that there is: 'evidence of public expenditure running out of control', certainly, in the medical and health sector.
2. The increasing rate of hospitalisation spells out one or more of the following:  
inadequate health education,  
inadequate preventive health,  
ignorance of early symptoms of disease,  
increasingly bad health of our population,  
unnecessary hospital admissions and  
inadequate ambulatory care.
3. The chronic imbalance in the expenditure on minor plant, vehicle and equipment block vote for hospitals fail to maintain and upgrade the standards of subvented hospitals contributing to the public's preference for government ones. This leads to under-utilisation of subvented hospitals, overcrowding of government hospitals and an exaggerated need to build more.

Sir, my following proposals might appear at first glance, to dig deeper into the government's pockets, but they will have far-reaching beneficial effects. After all, we are not looking at Hong Kong for the next one or two years. For those who have confidence in Hong Kong and I am one of them, we must plan for Hong Kong into the 21st century. My proposals are as follows:

Firstly, to contain our public expenditure on medical and health services, the following should be considered.

- (1) A policy should be made on charging the public at a fixed percentage of the actual costs. This charge must be affordable of course. Children, the elderly, the handicapped and the poor, are to be exempted.
- (2) Medical insurance should be actively promoted and tax concessions now available to companies should be extended in the future to individuals as well.

- (3) Public hospitals must then be given the right, like private hospitals now are, to recover from insurance companies the full cost, rather than none at all as they are now.
- (4) The charges for newly introduced types of medical services which are not previously provided, and not catering for life-threatening situations, should not be so heavily subvented and should be provided perhaps even at costs. Introduction of such new services should aim towards reducing the need for other heavily subvented and already committed heads of medical expenditure. I will give an example which in itself is my second proposal for change.

A health centre, primarily geared for adults, should be established to promote healthy living, medical preventive, and early detection of disease. It should include the following services. Annual check-ups for adults over 30 years of age, (I think we all qualify) physical assessments, advice on physical recreation to promote health, classes to educate those with specific diagnosed chronic disease on how to look after themselves. Such diseases include asthma, hypertension, coronary heart disease, cancer, diabetes, cervical-spondylosis, tuberculosis, and so on. Immunisation against Hepatitis B and other preventable diseases, screening for cervical carcinoma and other types of cancer should all be made available.

To effectively benefit the working community, it must operate by appointments even at night and weekends. Not to incur more cost to Government, it must be self-financing. The main objective of this centre is to keep our working community strong and healthy, and out of hospitals.

How many of us go to hospitals annually for health check-ups? Do we not make the inevitable mistake of seeing the doctors only when illness becomes serious. And then to demand instant cure, so that we can continue to work! This is all wrong, and we know it! So many of us make the same mistake. It is therefore about time we changed our attitudes and invest in our health when we are still healthy. This investment requires both time, time to keep-fit and money spent on preventive care. Medical preventive for children at maternity and child health clinics has been so successful. So, why don't we transplant this concept to serve adults. I assure you that it will be worthwhile, not only to increase life-expectancy, but more important of all, the quality of life as ageing sets in.

Turning now to my third proposal. To exhaust the potentials of our subvented hospitals a working party chaired by a non-official, with rich hospital experience, must be set up immediately to study the state of hospital equipment in subvented hospitals. The main objective is to upgrade the equipment there. A fund of no less than \$18 million should be immediately made available before the end of 1989, to match the expenditure on government hospitals under a similar head. I am fully aware, Sir, that the inadequacy of equipment is only the

tip of the iceberg, and insufficient staffing is by far the more important cause of a low occupancy rate in subvented hospitals. However, we have to begin somewhere, and equipment is an easily quantifiable item. Anyone would agree that new technological advances save human resources which we so lack. \$18 million is a small sum compared to the cost to build a new hospital, such as the planned new hospital for Eastern District which is estimated to incur a capital cost of over \$1,800 million with an annual recurrent cost of over \$350 million. I have made a conservative estimate that by raising the occupancy rate of all hospitals to the optimum of 85 per cent, we would have instantly created 1 082 hospital beds in 1987.

This working party need not wait for the birth of the Hospital Authority, or even the provisional one. I am confident that Sir S.Y. CHUNG, he is not here today, whom I know so well as a person of wisdom and vigour, will certainly accord high, if not top priority, to this matter as well.

Sir, it is true that maximising the utilisation rate of all public hospitals would not offset the need to build some new ones, particularly in the satellite towns, and the heavily populated urban areas such as the Kowloon Peninsula and Kwun Tong area. We are all aware of the acute needs of Queen Elizabeth Hospital, its camp-beds and its overflow of patients next door to the British Military Hospital. The B Block extension to be completed in 1991, is now estimated already to be insufficient to meet the needs of the area, as it does not cater for an increase in the much needed surgical and orthopaedic beds. BMH had for many years kindly extended its assistance to the Hong Kong Government, but of course not without a hefty compensation. I sympathise with the difficulties faced by BMH because the hospital is old and not designed for public use. It is therefore conveniently located next to the overcrowded Queen Elizabeth Hospital.

Sir, I will come to the point. With the Defence Cost Agreement still under discussion I respectfully request for your consideration, Sir, in your negotiation with the United Kingdom Government that the BMH should be pulled down and replaced by a women's and children's annex for the Queen Elizabeth Hospital. For women and children to be cared for in such an annex has three advantages. Firstly, the vacated beds in Queen Elizabeth Hospital proper can then alleviate the overcrowded general, medical, surgical and orthopaedic beds. Secondly, the more expensive infrastructure for laboratory and investigatory services at the Queen Elizabeth Hospital proper can be shared with the annex. Last but not least, the children in Kowloon can at last be catered for in a hospital annex of their own, like their counterparts in Hong Kong at the new Queen Mary Hospital annex.

A small new hospital or a renovated one in the New Territories should be more convenient for the British Forces. When any specialist treatment becomes necessary, referral can be made to the vast resources at the public hospitals, as the case now is.

Sir, before I close I would like to add that Government will be spending \$300 million this year to look after handicapped adults, most of whom are without a job. A study revealed that many of them are willing and with a bit of help in training, transport and adaptation of equipment, able to work for a living. Top priority should be given to plan, and funds made available for the development of large scale innovative projects to secure jobs for these people. This will give them self-respect and a quality of life they yearn for so much. Furthermore, it will in the long run save the unnecessary Government expenditure to sustain lives without meaning.

Sir, prevention is still better than cure and before I follow the footsteps of our Senior Member and plunge into marriage, I continue to wait the materialisation of separate taxation for married women.

Sir, with these few remarks, Sir, I support your motion.

DR. CHIU: Sir, the Financial Secretary in the 1988-89 Draft Estimates of Expenditure generously allocated a bigger slice of cake for various public services including medical and health services, social welfare and education. The share for medical and health services is boosted to 9.7 per cent of total Government annual expenditure, equalling \$6.1 billion.

Past experience tells us that a large proportion of the medical Budget will go to hospital care. In recent years, hospital costs have been soaring and the demand for costly hospital services is ever increasing.

Today the cost of in-patient care has become so high that our acute hospital should evolve into an institution where only those who need highly technical and specialised care would be admitted for treatment. At the same time, the practice of medicine outside hospitals, particularly at the neighbourhood level, should be stretched. In the next decade, a balanced health system in which personal and continued care are available at the neighbourhood level will be needed. Hospital will assume a subordinate role: it will only provide specialised support when it is called for.

Why is the demand for expensive hospital services on the rise? To a large extent, it has to do with the condition of health of the general public, the adequacy or otherwise of family medicine, the existence of administrative and management problems in our current health institutions as well as the frequency and seriousness of industrial and traffic accidents.

The health condition of the people can be improved by public, personal and intensive health education programmes. The administrative and management difficulties are a problem for the Hospital Authority which is due to be formed in 1989. It is expected that, following the review of the family medicine which will be undertaken in the near future, family medicine will play a more important role in keeping patients out of hospitals. As for industrial and traffic accidents, this should be dealt with through more effective preventive measures.

*Preventive medicine*

The scope of preventive medicine is not confined to the control of communicable diseases or the prevention of genetic disorders or diseases alone, it also includes a number of preventive measures.

By convention, preventive medicine can be divided into three categories, namely, primary, secondary and tertiary preventions.

The ideal form of prevention is primary prevention which is the avoidance or removal of the cause of disease. Secondary prevention is the early detection of disease so that treatment can be started before irreversible damage has occurred. Tertiary prevention means an effective management of established disease so as to minimise disability or handicap.

As secondary and tertiary prevention involve many technical details such as those relating to diagnosis and treatment and which perhaps only the medical profession will be interested in, I, therefore, shall today concentrate on the discussion of primary prevention.

*Health education*

Opportunistic primary prevention lies mainly in health education. The Government usually assumes two important roles in this area. They are: educate the general public about the cause, nature and course of various diseases and to promote public health.

In this aspect, clean water, clean air and an acceptable living environment are major determinants of health.

Other significant aspects for health education are balanced diet, suitable exercise, adequate sleep, good hygiene, mental health, immunisation, alcoholism, drug addiction and so-forth.

According to the 1986-87 Annual Report of the Medical and Health Department, the five major leading causes of death in Hong Kong were malignant neoplasms, heart diseases, cerebrovascular diseases, pneumonia and various injuries poisoning. The most common forms of malignancy were cancers of the lung, liver, stomach, colon, nasopharynx and oesophagus. As a matter of fact, many of these diseases can be avoided if precautions are successfully undertaken.

For instance, smoking accounts for a great majority of cancer of the lung and of heart and lung diseases, premature labour and low birth weight. Such health hazards could be prevented through stopping of smoking.

The Central Health Education Unit of the Medical and Health Department has been playing an active role in fostering better understanding of health matters. It is hoped that such health education activities will be more intensified when more resources are available for this purpose.

In areas such as traffic accidents and industrial hazards, there is still scope for improving public health by education and legislation.

*Traffic accidents*

Statistics released by the police showed that in last year, the number of road accidents which caused death or personal injury was 21 563, including 5 232 major injuries and 281 deaths. Driving too fast and pedestrian negligence remained the greatest contributing factors. The road safety campaign for these coming years should concentrate more on pedestrian.

6.00 pm

HIS EXCELLENCY THE PRESIDENT: Dr. CHIU I am afraid I must interrupt you, it is now six o'clock and under Standing Order 8(2) the Council should now adjourn.

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 proposed, put and agreed to.*

DR. CHIU:

*Industrial hazards*

I shall continue my speech. In 1986, the Labour Department recorded 54 138 industrial accidents, resulting in 91 deaths and 6 273 cases of major injuries representing 12.4 per cent of total injuries. Construction industry alone was responsible for 60 deaths and 20 970 injuries representing 65.9 per cent and 38.7 per cent of the total figure in these respective categories.

My hon. Colleagues may be aware that major industrial accident is defined as those resulting in over 5 per cent permanent disability or loss in over 30 working days. From this, we can see that the days lost from non-fatal injuries in 1986 could be translated into a very handsome amount in terms of wages, let alone the lost production, medical costs, industrial compensations and the cost of the long-term rehabilitation programmes.

Do the statistics which I quoted from the Annual Report of the Labour Department present a true picture of industrial hazard? Under the Factories and Industrial Undertakings Ordinance, industrial accidents are only those which take place in a defined industrial place such as a factory, construction site, quarry or mine and involve an industrial process. Unless the accident occurred meets both criteria, such an accident may not be defined as an industrial accident. This means that the total number of industrial accidents when including those related to other work places, may far exceed the figure I quoted just now.

Sir, we believe that most of the industrial accidents occurred are avoidable. The significant number of industrial accidents reflects that there are many holes in the industrial safety net.

A tripartite co-operation in the promotion of industrial health and safety is what we need most. By tripartite, I mean the Government, the employers and employees must join together to tackle this problem.

It is very unfortunate that when industrial disasters occur, the accusing finger is first and foremost pointed at the Labour Department, criticising that its industrial state regulations are lax, its inspections too few because of manpower shortage and advice under its regulations so small that they fail to deter breaches of safety rules.

It is therefore imperative for the Labour Department to play a more aggressive and regulatory role. It must step up its inspections and increase the penalties so as to police the observance of safety standards in hundreds of establishments. Should there be any manpower problem, it is more than justified to recruit more inspectors for this purpose. If the fines are too small to produce deterrent effect, an increase should be considered.

I would like to take this opportunity to urge the Government to strengthen its publicity and education on industrial safety in order to make both employers and employees realise that they are primarily responsible for industrial safety. The message which should get across is that both employers and employees should be equally conscious and responsible. It is the responsibility of the employers to provide a safe working environment and it is the duty of the workers to use protective equipment provided by the employers. Having said this, I must stress that prosecution should not be limited to employers alone.

Though tighter safety regulations and enforcement cost money, in the end, fewer injuries and lawsuits mean substantial saving for the community as a whole.

*Retention of medical staff in the public sector*

Sir, I like to say a few words regarding the manpower wastage in the public sector.

At the last meeting of the Medical Development Advisory Committee, the issue of supply and demand of doctors and nurses was discussed. According to statistics supplied by the Medical and Health Department, the wastage rate of doctors in the government and subvented hospitals are 9 per cent and 23 per cent respectively. In comparison with the average wastage rate in the Civil Service which is about 3 per cent, the wastage rate of doctors in public hospitals is significantly higher.

Some people tend to think that as long as there is no recruitment difficulty, vacancies can be easily filled. This is entirely true if all the vacancies are junior posts. However, many of the current 350 vacancies in the public sector are senior posts.

One thing we should bear in mind is that it is very difficult to replace like with like in this area. A post left vacant by an experienced doctor may remain vacant for quite some time because there is difficulty in recruiting a person with comparable experience. Thus, the quality of service in public hospitals are adversely affected.

Today 89 per cent of in-patient care is provided by public hospitals, the outflow of experienced doctors from public sector to private sector is definitely not for the best interest of the people who mainly rely on the services of the public hospitals.

How can we retain the cream of medical personnel in public hospitals deserves our serious consideration. Some people bend their hope on the Hospital Authority. To them the Hospital Authority means improvements in conditions of service, training opportunities and promotion prospects. All these they believe will help to retain doctors of all ranks in the public sector. But if the outflow of public sector doctors continues at the present rate, quite a large number of doctors will have been lost by the time the Hospital Authority is in full swing. Therefore I strongly feel that some positive measures should be taken now to reduce this outflow. In particular, serious thought should be given to the creation of more senior professional posts in order to enhance the promotion prospect of our doctors in the public sector.

*British Military Hospital*

In the previous Budget debate meeting in this Chamber, my hon. Colleagues and I had expressed our concern over the high operating cost of the British Military Hospital. As the Defence Cost Agreement is now under negotiation, I trust that the Government would take a hard look at this issue again.

With these remarks, Sir, I support the motion.

DR. LAM (in Cantonese): Sir, I have always believed in the principle of respecting professional knowledge and advice and so concerning the 1988-89 Budget which the Financial Secretary and his talented staff have spent months writing. I would like to recommend it to all those who care about Hong Kong for reading. I am a layman in economics and so shall not comment on the Budget in technical terms. I will speak on a number of principles.

First of all on priorities of the deployment of resources and its effectiveness. Hon. Colleagues of this Council come from all walks of life and they represent different levels of society. They may not have the same views on priorities as far as the distribution of resources are concerned. So, before the Government

makes a decision on distribution resources perhaps, it should take certain steps, such as conduct consultation exercises or read market research reports, or listen to experts, in order to ensure that they get the priority right lest there be public dissatisfaction or inconvenience. To take one example, expenditure in transport 1983-84 accounted for 7.6 per cent of the total expenditure, 1984-85 6.2 per cent, 1985-86 4.7 per cent, 1986-87 4.4 per cent and 4.9 per cent for 1987-88. In this period, expenditure in transport has fallen by 30 per cent in real terms. In the past years, reduction in expenditure in transport has perhaps some direct or indirect relationship with the trouble we have had in the Cross-Harbour Tunnel and the Lion Rock Tunnel and also the congestion during peak hours in the Mass Transit Railway. We understand that no programme of resource distribution can satisfy the wishes of everyone in Hong Kong, but a government that understands the public, that is representative and down to earth should not find it too difficult to satisfy specifically the wishes of the majority of the public and be accepted by the public.

No one wants to see any wastage of public funds and that when achieving a particular purpose a reasonable amount of expenditure should be spent, and I stress the word 'reasonable'. The Government may be spending less to achieve a purpose but it may impair its credibility and have counter-productive results. Take clearance related ex gratia payments for commercial tenants as an example, there has been no increase in the rate of ex gratia since 1983. On 27 January 1988 the Finance Committee of this Council agreed that the rates of ex gratia payments for factory owners and commercial tenants should be increased to 13.3 per cent and 33.3 per cent respectively. From 1983 until now whether in respect of removal or resumption of business, Government ex gratia payments have increased three to five times. The purpose of an ex gratia payment is to help commercial and industrial tenants to resume their business elsewhere and to help them to overcome initial difficulties until they find another job. Evidence has shown that the ex gratia payment has not been sufficient even for the moving of machines; how can we say that the increase of 13.3 per cent and 33.3 per cent is reasonable if they cannot achieve the purpose? I hope that in handling similar issues in respect of the Tate's Cairn Tunnel, the Government will be more flexible to avoid itself getting into greater troubles for smaller ones and not to delay the whole project.

The Financial Secretary pointed out in the early 1980s that public expenditure is concentrating more than ever before on social services, this is welcome. The number of beds in government hospitals in 1988 has increased by 16 per cent compared with 1983 and the corresponding figure for subvented hospitals is 2.4 per cent. As far as staffing is concerned, government hospitals have seen an increase of 30.6 per cent, subvented hospitals 55.8 per cent. During the same period, the proportion of total expenditure accounted for by medical service expenditure has increased by 1.7 per cent, or a real growth of 33 per cent. By 1992, the number of beds in government hospitals will be 18 761, representing an increase of 6 130 or 48.5 per cent as compared to 1988. The corresponding

figures for subvented hospitals are 11 885 by 1992 compared with 9 556 in 1988 or a growth of 24.3 per cent, by 1992 the proportion of total expenditure will be 10.9 per cent, or 1.5 per cent increase over 9.4 per cent of 1988. This is an increase in real terms of 38 per cent, which figure I believe is on the conservative side, because expenditure for the Hospital Authority has not been counted yet.

Sir, it is pleasing that the Government is determined to improve hospital services, but I wonder if the Government can provide statistics to show the breakdown of percentage of civil servants, high, middle and low income groups who visit government and subvented hospitals. If we have this information it would be useful for a fairer distribution of resources. In the year before last the Government said that assistance should be offered to those in greatest need. If that is the right direction then the Government should devise a more specific and comprehensive plan and clearly tell the public how it is going to implement that conviction in the context of social services and other public services. For a long time now the sandwich class in Hong Kong has been complaining that it has not been cared for by the Government very much. The Government has responsibility of showing that the middle-income group have not been neglected and it should do so with figures and facts.

Sir, I hope that the Financial Secretary will clearly tell us how the Government is going to handle possible inflation and I hope that the Financial Secretary will not delay separate taxation simply on the basis of complexity of operation.

The Financial Secretary pointed out in paragraph 104 of his speech that the Government is making greater use of statutory authorities. I agree that this is the right direction to move towards, but the Government should provide such statutory authorities adequate support and an effective monitoring system. Take the school medical service for instance. In 1975 the secretariat of the School Medical Service Board was manned by seven staff and at that time, the number of students and doctors participating in the scheme numbered 79 000 and 200 respectively. In 1988, the number of students participating in the scheme has increased to 370 000, or 4.7 times that in 1975 and the number of doctors goes up to 399 or twice the number in 1975. But on the other hand, the staff in the secretariat has decreased to only five. For over one year the board had not held any meetings. When it did come up with recommendations the Government did not lend a helping hand. In certain subvented hospitals, full-time doctors are asked to participate in the school medical service. This may be seen as a contravention of the original objective of the School Medical Service Scheme and there may be the problem of double subvention which some officials have chosen not to handle. In order to make the best use of their services, Government should review systematically and consistently the effectiveness and operation of their services.

The Financial Secretary said in paragraph 103 of his speech that and I quote 'as and when people enjoy a real increase in their income, it is not unreasonable that they should contribute to the funding of our public services.' I find that the

true meaning of that statement eludes me. Every dollar and cent of public expenditure comes directly or indirectly from the people whether or not the income of the people increase or decrease. So long as the Government's requests or proposals are reasonable, usually the people do not refuse to pay taxes. I do not know who T.S. ELLIOT is, but since the Financial Secretary has chosen to end his speech with a quote from him, I feel obliged to end my speech with an amended version of that verse.

What the Financial Secretary calls 'a reduction' is often 'an increase' and to make 'an increase' is to make 'a reduction'. The end of the increase is where the Financial Secretary starts to reduce. Sir, with these remarks, I support the motion.

6.25 pm

HIS EXCELLENCY THE PRESIDENT: Members might like to take a further break at this point. I should like to explain to Members that I have to be absent briefly from the Chamber to attend an official function, in my absence I shall ask the Chief Secretary to preside.

6.40 pm

The Chief Secretary presided at the sitting during the absence of the President.

MR. TAI: Sir, I am indeed impressed by the forecast growth rate of GDP for 1988 of 5 per cent and the unemployment rate of 1.8 per cent which clearly indicates that the economy of Hong Kong remains viable and prosperous.

The first topic I want to draw your attention to is the tax concession. Proposals for decreasing the standard rate from 16.5 per cent to 15.5 per cent, lowering the initial tax rate, and a more gradual progression of the marginal tax rate will certainly be much welcomed by all sectors of the community in Hong Kong. However, according to Appendix F(3) of the speech of the Financial Secretary, it is learned that only 53 000 of the 700 000 eligible taxpayers pay at the standard rate of 15.5 per cent, but contribute 56 per cent of the total tax yield. This tax burden concentrates on a small number of taxpayers. This situation is negotiable as the society of Hong Kong owes so much to so few. Backed by the cumulative surplus in budgeting for the last three years, the Administration should give consideration to the possibility of granting increment in the personal allowance and a tax concession to those in the middle-income bracket as an encouragement for their diligence and contribution to the economy of Hong Kong.

Regarding personal allowances, as mentioned by the Financial Secretary, I would like to point out that the concession in respect of a working wife allowance, child allowance, and dependant parent allowance, can hardly

improve the living standard of the middle-income taxpayer in view of the rapid growing rate of inflation which is anticipated will increase in the coming years. Expenditure should not exceed income, but bearing in mind our very large surplus from our income. We have a duty to the community to improve their living standards, especially those who contribute most to our surplus by taking less from them.

Sir, in Hong Kong and in most divorce cases, maintenance for children and wife is hardly seriously pursued or conceded by the parties concerned. May be both parties prefer a fast and a clean break. The hardship therefore lies with those single parent family and often it is the children of the working mother who are being suffered. I would therefore urge the Financial Secretary to seriously consider some form of relief to those single parent families.

We in Hong Kong have a relatively simple taxation system. Consequently it provides a very good incentive for our people to work without devoting too much time and effort in thinking of various ingenious methods of tax avoidance. The following are factors which the Administration should consider carefully before contemplating new taxation rising schemes in Hong Kong. Firstly, some of these new and more complicated tax measures are likely to give rise to a need for extra manpower to implement them. Secondly, the standard of living of the middle and low income brackets could be seriously affected. Thirdly, in view of the Medium Range Forecast by the Financial Secretary the economic situation in Hong Kong is much better than in most of our neighbouring countries and also taking into account our surplus. Do the circumstances warrant it? Fourthly, the political implication there from.

The increases of ad valorem rates for liquor and duty raised on dutiable commodities show a trend that may encourage the Financial Secretary to adjust the ratio between direct and indirect tax, so as to widen the tax net thereby reducing the chances of our revenue being so vulnerable to economic fluctuations. I see no reason why not to accept this justification, but I would like to remind my colleagues in this Council that the result of change to indirect tax will affect much more to every structure of our society than direct tax does. Any change without strong justification will only distress a wide section of the public. Therefore, every move towards indirect tax should be very carefully considered if social resentment and distress is to be avoided.

The next topic, Sir, I would like to discuss is the medical services. I am pleased to see that expenditure on medical services is to be increased from \$5,130 million to \$6,107 million, approximately 35 per cent in real term from 1987-88 to 1991-92. The establishment of the Tuen Mun Hospital and Pamela Youde Hospital in Shau Kei Wan demonstrate the determination of the Administration to improve the quality and quantity of our medical services.

Nevertheless, it is disappointing that there is no mention in the Financial Secretary's speech of the Hospital Authority. According to the recommendation, the Hospital Authority will co-ordinate the provision of services of govern-

mental and subvented hospitals and also the allocation of resources. Owing to its importance, the public should have the right to be informed of the composition as well as the budgetary implication of the Hospital Authority. Therefore, I urge the Administration to take the initiative now to disclose more about the establishment of the Hospital Authority, its relationship with the Medical and Health Department, and its financial provision.

It is forecast by the Medical and Health Department that there will be a shortfall of doctors in the public sector from 1988 to 1996, ranging from 560 to 740 per annum. The main reason for this is due to the high wastage rate from the public sector. Present conditions of service and training opportunities are inadequate to retain doctors in the public sector. It is reinforced by the finding that the proportion of doctors in the private sector has increased from 50.2 per cent in 1983 to 53.3 per cent in 1987. Therefore I appeal to this Council and the future Hospital Authority to examine such an acute situation and consider appropriate sufficient funds to improve the conditions of service and training opportunities so as to reduce the actual shortfall that has been forecast.

Sir, having participated in the management of subvented hospitals for about five years, may I say the frustration in both the management and staff in the subvented hospitals is being faced with the disparity in manpower, allocation of resources and equipment between the government and subvented hospitals. This, Sir, is demonstrated by the high wastage rate in terms of doctors—23 per cent as compared to the wastage rate of government hospitals—9 per cent. The success of subvented hospital lies not only on the level of subvention by the Government, but also in public support in fund raising. If they cannot effectively deliver satisfactory service to the public at large, then public support will dwindle.

With this observation, Sir, I support the motion.

MR. MARTIN LEE:

*Surplus*

Sir, to the unwary public, the recent revelation that there will be a \$10 billion surplus in this financial year seems to be a windfall. But with respect to the Financial Secretary, he should not be congratulated for it; for he should be embarrassed by it. The public of Hong Kong should appreciate that it is not a windfall, but a miscalculation. It is not a gift, but a deprivation. For such an unexpected surplus means in practice the taxpayer is required to pay too much, while the public in general have been given too little.

While the Government preaches the gospel of caution, we ought to realise that there can be a down-side to over-caution which has resulted in such a huge surplus. For instance, how can we expect our negotiating team on defence costs to be able to persuade its counterpart representing the United Kingdom Government that our contribution towards defence costs should decrease when it is known that we have such a large and unexpected windfall?

*Defence costs*

Sir, I have made my views known that Hong Kong should not pay anything at all towards the defence costs between now and 1997.

During the past few decades it was necessary to station British troops in Hong Kong principally because of the People's Republic of China. But with the signing of the Joint Declaration, such a fear has now been removed. The British troops are therefore being used principally in relation to illegal immigrants coming from China. Such a task will soon be performed by our police force, which means that the British troops will only be required in case of riots, which may never occur.

But then we must acknowledge that the defence of a colony is the duty of the sovereign state, for defence is one of the indicia of sovereignty, foreign affairs being the other. And so when a sovereign state maintains an army in a colony, that colony should not be expected to pay for it at all.

Indeed, it is pertinent to note that according to the Joint Declaration in the present draft of the Basic Law, the future of Hong Kong Special Administrative Region will not be required to make any contribution towards the stationing of the People's Liberation Army in the territory.

At a recent in-house meeting of the non-government Members of this Council, it was decided unanimously that we would give our full support to the Hong Kong Government in negotiating down our contribution towards the defence costs. The principle being the less, the better. Therefore, the least is the best.

Sir, as to the argument that until very recently Hong Kong has been paying 75 per cent of the defence costs, my comment is that the Finance Committee at that time should never have allowed the defence costs to reach such a ridiculously high percentage. but this is water under the bridge, and I do not wish to debate on the rights or wrongs of that decision. But I do submit that no matter how much Hong Kong had agreed to pay in the past, the position has completely changed with the signing of the Joint Declaration which stipulates in clause 4 that 'the Government of the United Kingdom will be responsible for the administration of Hong Kong with the object of maintaining and preserving its economic prosperity and social stability' until 1997. It would be a breach of this clause for the British Government to withdraw its troops from Hong Kong before then. For this reason, even if we were to refuse to make any contribution towards the defence costs, I am sure that the British Government would never withdraw its troops from Hong Kong before 1997.

I therefore reiterate in this Council that Hong Kong should not pay any contribution at all towards the defence costs of this territory.

*Localisation*

Sir, I will now deal with the perennial problem of localisation of the Judiciary and the Legal Department. I understand that the Hong Kong Bar Association has been pushing for an improvement of the terms of employment by the

Government of local judges and local lawyers in relation to housing. The avowed intention of the Government is to attract experienced local lawyers to join government service. These lawyers normally already have their own flats to live in, and so the otherwise attractive fringe benefit of housing will not be an incentive to them. Indeed it may turn out to be a disincentive because a well-established lawyer contemplating to join government service will know that he will not be able to take advantage of this rather substantial fringe benefit. The Bar has therefore suggested that such fringe benefit should be converted to a cash allowance so as to enhance the actual emoluments of these experienced lawyers should they decide to join the Government. I support this idea and I would urge the Government to study this proposal promptly.

#### *Fringe benefits*

On a more general level, it seems to me that the fringe benefits presently enjoyed by our government servants are entirely expatriate-orientated: for example, school fees for the children of civil servants studying abroad and air passages for such children.

I accept that this is due to historical reasons, but in dealing with the future, we should disregard the past when necessary and look towards the future with a completely fresh mind. Our objective is not to encourage the children of our civil servants to study abroad but to study at home. Any student studying abroad may decide not to return to Hong Kong after completion of his studies. This is not good for the long-term future of Hong Kong. We should therefore encourage these students to study in Hong Kong and to work in Hong Kong afterwards. We should endeavour to change the expatriate-orientated package to a local-orientated package, thereby not only encouraging more local people to join government service, but also ensuring as much as possible that their children will also study and work in Hong Kong. This requires some long-term planning and I therefore suggest the setting up of a commission to study this matter.

#### *Sales tax*

Sir, may I now turn to the question of sales tax. Numerous hon. Members have spoken against the introduction of a sales tax, and have given many good reasons in support of their argument that such a tax should not be introduced now. I agree with them.

But as I understand the Financial Secretary, he is not actually proposing to introduce such a tax this year or even in the near foreseeable future. Indeed, his last words on this particular topic were 'There is, therefore, much more to be done before I am able to present any proposals for public debate.'

Of course, the Financial Secretary and his department can continue with their researches even without telling us about it. But I suppose the Financial Secretary believes in open government, and therefore has decided to give us the

benefit of some of his present thoughts, although in his own words: 'our researches are far from complete'.

Sir, it is evident that the imposition of any sales tax will hurt the poor much than the rich. And it is therefore a tax which should be imposed only as a last resort.

But there are two matters which have compelled me to the conclusion that I ought to give my qualified support to the Financial Secretary's proposal to continue with his researches into this area of taxation:

First, it is acknowledged by many of my hon. Colleagues that there are only very few people in Hong Kong who have to pay any tax, whether salaries tax or profits tax.

Secondly, it is now acknowledged, even by the Government, that there is a rather serious emigration problem. And most of our emigrants come from this small bracket of taxpayers.

Suppose this emigration tide were to continue, then in the not too distant future, there may come a time when there will not be too many taxpayers left in Hong Kong. And if our economy should cease to be vibrant as now, the Government may face the very difficult problem of having either to increase taxation, which would cause an even heavier burden on the very few taxpayers left in Hong Kong, or to reduce the social welfare programmes now undertaken by the Government. But if the tax rate were to be increased to an unacceptable level, it would make Hong Kong less attractive to foreign investors and might also force more people to emigrate. In those circumstances, and as a last resort, it may become necessary for sales tax to be imposed. For that might prove to be the lesser of two evils for the poor people of Hong Kong:

- (a) Either to pay sales tax on daily necessities such as 'rice, congee, and noodles' as per the hon. David LI; or
- (b) To face a reduction in social welfare in areas such as medical care education and housing.

During last year's Budget debate, I mentioned in relation to indirect taxation of the need to ensure that such taxes must not be imposed unless and until they have satisfied 'the most stringent tests of necessity and desirability'. I still maintain that view.

Sir, I am proud of the stance taken by many of my hon. Colleagues in not wanting to see sales tax introduced to Hong Kong because they insist that the tax burden should only fall on the 'haves', and not on the 'have-nots'. But there may come a time when, heaven forbid, our economy turns sour and when Government is compelled to look for other alternatives. And it would be totally unacceptable if the Government could not come up with a solution because it had not conducted any research on alternative methods of taxation such as sales tax.

It is perhaps unfortunate for the Financial Secretary that he should have raised this particular topic against an unexpected surplus of \$10 billion. But when his motives are properly understood, I think what he is proposing is laudable. He is doing nothing more than making preparations for a possible rainy day.

Sir, let us hope that Hong Kong will not end, whether with a bang or a whimper, but simply continue to tick.

MR. CHAN YING-LUN (in Cantonese): Sir, I really have no criticism on the Budget which was so excellently prepared by the Financial Secretary with tax concessions and increases of expenditures on social welfare services. However I have been inspired by government's recent proposal to reduce the subsidy to the Student Travel Scheme to air my views on public finance.

As a member of the public, I am of the opinion that public money taken from the people should be spent on the people. It would not give rise to opposition or be considered a wastage even if huge sums of money are spent provided that such expenditures are justified, necessary and equitable. Take for instance, the Government intends to spend more than \$2,000 million on the compensation package of the Kowloon Walled City clearance. No objection has been raised because the money is to be spent on Hong Kong people in a reasonable manner.

The problem of the existing Student Travel Scheme lies in the method of calculation which may lead to wastage of public money. The Government is spending money generously at the expense of the taxpayers while the ultimate beneficiaries are the public transport companies. By revising the scheme, the Government is aiming at reducing unnecessary expenditure and using the savings therefrom to promote other services. However, the immediate response from the public towards the announcement of a revised scheme is that the Government is practising thrift. I think there is nothing wrong in trying to save money. The problem is the public wish to know if expenses are cut down in an appropriate manner and what are the purposes of such savings.

In addition, there should be priorities in the economical management of public money. If expenses are to be cut, I think we should first reduce our spending on foreigners, then on Government expenditure, services for the public should be the last to be affected by the cut. The practice of thrift has to be in line with the principle of 'money taken from the people should be spent on the people'.

Sir, it appears that the Government is putting the cart before the horse by trying to save money spent on the Hong Kong people instead of taking positive steps to save huge sums of unnecessary spending of which the Government is aware. For example, Vietnamese refugees in Hong Kong are foreigners, why doesn't the Government try to save such huge but unnecessary spending on them first? Regarding the defence cost, there is no reason for Hong Kong to continue to share the cost of keeping the British Garrison in Hong Kong and be unable to relieve its burden in this respect.

On the other hand, does wastage exist within the Administration? Poor service or rude attitude of certain civil servants would be a kind of wastage. If the Government just try to save money spent on the public instead of reviewing and improving the above-mentioned problems, how can it convince others? A cracked bell never sounds well.

Sir, although the Government is subject to the influence of certain authority and is afraid of possible damage to its reputation, I hope it would overcome these factors and try to wipe off the public's misunderstanding that the Government would only kill flies, but not the tigers. Therefore, I hope the Government would have the determination and courage to deal with the problem of wastage, which is within the Administration as well as brought about by external factors. In the words of the Senior Member to the Financial Secretary, 'It's our money.'. The money that we earn by hard work should be spent properly. That is my expectation, and I dare say it is also the expectation towards you, Sir, from all the people of Hong Kong.

*Option for separate taxation by married couples*

The revised Student Travel Scheme leads to another issue of separate taxation for married couples. According to government's plan, applications for student travelling subsidy will be subject to a means-test on the parents. This implies that all children from middle-income families will no longer be eligible for such subsidy. In other words, does it mean that all families which have to pay tax will not be entitled to such benefit in the future? Would it be fair for them? Why couples have to pay more tax by combining their income for assessment while they have no right for such minor benefit in return? Why does the Government not further increase the child allowance to compensate their loss in the revised Student Travel Scheme?

The Financial Secretary has been insisting on his viewpoint on combined taxation for married couples. He considered family income should be taxed as a combined unit, otherwise the problems involved would be very complicated. The viewpoint of the public is very clear. They think they should not be charged more after marriage.

In fact, the Financial Secretary has adopted a more equitable and improved measure by proposing an allowance for working wives. What married couples insist is that they should not pay more tax after marriage. Their response towards the revised Student Travel Scheme has strengthened this belief. As the Financial Secretary has indicated that he is prepared to consider further the problem of separate taxation for married couples, why does the Government not widen the taxation bands from the existing \$10,000 to \$20,000 next year. This measure will provide ready solution to the problem of paying more tax after marriage and can be taken as a long-term or temporary arrangement by which the public might be convinced to accept. After all, it is worthwhile trying.

*Introduction of sales tax*

The Financial Secretary said that before introducing the sales tax and deciding on how it should be levied, extensive consultation will be conducted and expenditure pattern of the public will be taken into consideration so as to minimise the effect on the quality of their living. I agree that such step is most essential.

In fact, every citizen has to pay tax. For example, part of what we pay for electricity, means of transport, meals and so on, contributes to the corporate profits tax. The sum, which is minimal and comparatively worth paying, is levied in a most indirect manner without alerting the public, thus making it difficult to raise objection. But every year on 1 April, the so-called 'increase day', the charges for various items connected with people's livelihood usually have upward adjustments under the pretext of in keeping with inflation. In truth, it is a means to ensure the profits of the companies. If the adjustments are higher than the wage increase in real term, protests will definitely be provoked.

The aim of introducing sales tax is to make up for the loss in direct tax in times of economic recession. The Government, however, must bear in mind that the general public have to take in account of very small sum of money say a few dollars in planning their family budgets. Thus even the rate of sales tax is low, it will in one way or other affect their livelihood. Therefore, in my opinion, it is only under very trying condition, that is financial restraints still exist even by reverting the rate of corporate profits tax from 17 per cent back to 18 per cent, should sales tax be imposed because it is an obligation for both the employers and the employees to share the burden in overcoming difficulties during hard times.

*Compensation for squatter clearance*

Sir, after delivering a lot of view on non-tangible issues, finally I want to touch on something that could be effected rapidly, by that I mean compensation for squatter clearance. This issue, being a practical and imminent one, is closely connected with people's livelihood and it demands the government's immediate attention.

In my opinion, the compensation given to the residents and factories owners affected by squatter clearance as well as to fire victims is far below the realistic level. The recipients cannot help but feel that the Government fails to appreciate their actual needs. For example, has the Government taken those necessary expenses, such as telephone reposition fees, into account in the removal allowance? Has the Government ever imagined that the compensation paid to factory owners cannot even meet the expenses of moving their machinery to the place where they intend to resume their business?

On the other hand, homeless fire victims in the urban area are already in a pitiable situation. Resettlement in the New Territories causes them further inconvenience. However, the financial assistance offered by the Government is

so minimal. Take the example of a four-person family, they are only entitled to an allowance of \$2,090, \$1,140 of which is meant to be removal allowance if their squatter is demolished in a clearance exercise. The remaining \$950 is furniture allowance. I wonder what furniture they can buy with \$950 at the current price level.

Therefore I urge the Government to revise the allowance as soon as possible in order not to let such allowances fall out of line with actual needs.

The Chief Secretary suspended the sitting at 7.11 pm and the President resumed his seat and presided at the sitting.

HIS EXCELLENCY THE PRESIDENT: Council will now resume, and I am grateful to the Chief Secretary for presiding in my absence.

MRS. NG (in Cantonese): Sir, the Financial Secretary has spent a lot of time and effort to design a balanced Budget. This deserves our congratulations. In the Budget, some tax concessions have been proposed, these are good news for the public. Today I would like to comment on items about social welfare, education, taxation and care of the elderly.

*Care of the elderly*

First of all, among various social welfare services, I am most concerned about services for the elderly. I am glad to see that in recent years, social services take up an increasing portion of our resources. In the next year, the total expenditure on social welfare services is \$3.9 billion, that is 6.3 per cent of total expenditure. In comparison with the 5.7 per cent in 1987-88, it is an increase. I understand that part of the increase is due to improvements in services for the elderly and for the disabled.

Even though for the existing services for the elderly, the focus is still on community care, but we will not overlook that we should provide institutional care for the elderly who require the service. For those who are getting even older and weaker, when community care cannot accommodate such people, the only way to take care of them is to provide them with institutional care. Recently, the Social Welfare Advisory Committee endorsed a proposal to raise the planning ratio of care and attention beds from five to eight per 1 000 people age 60 and above. I fully support this proposal. To increase the provision of care and attention homes will definitely improve the present situation of long waiting lists on the central register for room in a care and attention home. At the same time, it can also take care of the old people who are now staying in hospitals and who should instead have been staying in care and attention homes. By doing so, it will help the old people and will spare vital hospital beds for the patients. Nevertheless, certain people forecast that even though the provision of care and attention homes have been improved to eight per 1 000 elderly, there will still be shortfalls. Basing on demand and supply situations, in 1987-88, the shortfall for

care and attention beds was 3 731, in 1988-89, the number will be 3 338, and in 1989-90, the shortfall is 2 833, for 1990-91, the shortfall is 2 648. Until 1991-92 the shortfall will still be 886, so the shortfall is serious. I call upon the Government to speed up the building programme for care and attention homes in order to meet the shortfalls. Apart from this, I would call upon the Medical and Health Department as well as the Social Welfare Department to strengthen their co-ordination in the provision of elderly services so that resources can be suitably deployed for the benefit of the old people.

*Floating class system*

Now, I would like to comment on education. In the 1988-89 financial year, the total expenditure on education will be \$9.5 billion, which is 18 per cent of the total. Concerning the percentage, it is a pretty good figure. However, many aspects of our education system require improvement, and I would only like to talk about the floating class system today. I have pointed out for several times in this Council that the floating class system will lower the quality of education. It will waste a lot of teaching time and students will lose a sense of belonging to their schools. All these will lead to a downturn in academic performance of students.

I am glad to know that recently, the authorities have decided on a new design for the standard secondary school. Under this new design, each school will have 26 classrooms, 14 special rooms, and three rooms for remedial teaching or group teaching. Such new design will reduce the shortcoming of the floating class system. I sincerely hope that the Government will speed up building these newly designed school buildings, with a view to abolishing the floating class system and enabling our students to study in an ideal situation. At the same time, I would like to call upon the education authorities, not to attach too much attention to improvement of quantity. They should pay more attention on improving the quality of education.

*Working wife allowance*

Concerning taxation, I welcome that in the next fiscal year, the Government will introduce a working wife allowance, even though the allowance is quite small. It is still a measure in response to public opinion. In fact, on 29 March 1985, during our debate on the Draft Estimates, I proposed the same suggestion. At that time I argued that for many middle-income couples have to work, they have to engage domestic helpers or to request relatives to take care of household chores and their children. This kind of expenditure should be treated on the same basis as an indirect cost of a company, and could be deductible from taxable income. I propose that for working wives, half of their wages should be tax free. By doing so, we are able to provide a tax concession for the working wives, and at the same time, we can encourage married women to work and to make use of their knowledge and skills and make contributions to the community.

Although it has taken four years for the Financial Secretary to implement this proposal, this belated tax concession is still welcomed. I can assure the Financial Secretary that, even though this tax concession would reduce Government revenue by \$340 million, and it is still worth implementing.

Also, at the same time, I would like to call upon the Government again to introduce separate taxation for married couples next year. This long-standing problem has not yet been resolved. It makes me puzzled that in his Budget speech, the Financial Secretary said that this is a complex subject with many options to be considered if we are to ensure broadly equitable treatment. It would therefore, not be feasible to introduce separate taxation overnight. In fact, I remember that this proposal has been put forward many years ago. It takes too long for the Government to study the feasibility of this proposal. Somebody said that separate taxation system is too complicated, therefore the Government has no intention of implementing it. I disagree to this. I sincerely hope that the Government will make no other excuses to delay the implementation of separate taxation for married couples because this proposal has received the support of most of our hon. Colleagues, and this proposal is also supported by most members of the public, in order to reduce the taxation burden on the middle-income group.

Finally, the Financial Secretary has proposed to consider the levy of sales tax. I strongly object to this proposal. Yesterday, many of my hon. Colleagues have spoken against the proposal.

MR. HUI: Sir, the Financial Secretary's middle-class Budget this year, highlighting tax concessions and increased social services expenditures, has won for him salvos from almost all sectors of the community. The surplus Budget, while maintaining continuity and prudence of previous Budgets, has enabled the Government to fulfil its promise of appropriating a fair share to social welfare services. Indeed, the \$3.9 billion allocation for social welfare, representing 6.3 per cent of the total Budget, compared favourably with allocations in the past few years, gave reason for the voluntary welfare sector to rejoice.

While acknowledging the auspicious gesture, I do not hesitate to point out that, social security payments still absorb 83 per cent or \$584 million of this year's increase over the 1987-88 estimates for social welfare. I also hasten to add that increase in social welfare expenditures this year is only adequate for our social welfare provisions to catch up on slippages accumulated in the past. Here I feel obliged to draw Members' attention to several problem areas in the social welfare field that call for a more equitable distribution of available resources.

#### *Social work training*

At the Budget debate last year, I harped on the need to improve the quality of social welfare which hitherto remains comparatively low. Like the medical and teaching professions, there is, in the social work profession an insistence on a

qualified standard of professional practice achieved through formal training, which partly explains our strong objection to the recruitment of general degree holders to fill social work posts. According to the latest social work manpower statistics, some 3 300 social workers possess social work degrees or diplomas, while an equal number have no formal social work training at all. The untrained welfare workers who are serving as children and youth centre assistants, personal care workers, home helpers and sheltered workshop assistants are providing direct services to the public, often looking after their emotional and psychological needs. It is believed that the nature of work and amount of responsibilities carried by welfare workers would warrant proper pre-service training, that is still non-existent in Hong Kong. Furthermore, with the increasing incidence of personal and social problems in our community, comes an expansion in the range and complexity of social workers' responsibilities. Recent tragedies of homicides, battered spouses and mental patients emphasised the need for qualified social workers to have in-depth knowledge of social work practice in addition to the generic training they received.

In the past few years, financial constraint has restricted the expansion and improvement of social welfare services, let alone the development of in-service training for social workers. Under the existing subvention system, there is no provision in voluntary agencies' central administration costs for staff training. Staff development courses organised for agency staff come under the auspices of the Lotteries Fund which is granted to about 50 per cent of applications and provides only 60 per cent of the funds required by the successful projects. Voluntary agencies' main concern, however, focuses on a handful of applicants who are given replacement grants and subsidies by the Social Work Training Fund for acquiring advanced training locally and abroad. The sponsorship of education officers to attend special education courses overseas and the delegation of labour officers of the Selective Placement Unit to take up advanced studies abroad attest to the importance of specialised training for serving officers. Yet no such effort has been made to equip our social workers to deal with new responsibilities arising from the implementation of the Mental Health Ordinance. With the strengthening of the Social Welfare Department's Training Division in the coming year, I must urge the department to ensure that the training needs of the voluntary sector, which employ two thirds of our social workers, will be adequately met.

Staff development, which makes more effective use of human resources, is a necessary investment acknowledged by both the public and private sectors. However, the struggle to extend and improve education and training for social workers are often viewed sardonically by the public and other professions as merely an attempt to gain professional status. Unless Government takes the lead to promote the proper development of social workers both in number and quality, thousands of clients using personal social services will receive inferior standard of care and treatment for many decades to come. At the

same time, a registration system to ensure that social work tasks will be performed by qualified social workers should receive full support from the Government.

*Fringe benefits*

Apart from the competence of well-qualified workers, efficient delivery of services also depends on the working conditions of a well motivated staff. Members may be aware that, at present, representatives of the 70 000 strong employees of subvented organisations are battling to narrow the disparity of salaries and fringe benefits between the civil servants and themselves, and to bring about 'equal pay for equal work'. The obdurate argument advanced by the Administration that different personnel practices and systems render standardised treatment impossible is incredible for three reasons. Firstly, subvented organisation staff are paid on par with their civil service counterparts. Therefore, changes in the latter's salaries and conditions of service directly affect the former. Secondly, with the staff qualification, job nature and workload all being equal, pay packages should in all fairness be the same for both in accordance with the principle of equality. Thirdly, subvented organisations staff are looked upon by the public as equal to civil servants, therefore, it is unreasonable that they should be paid less when public expectations for both groups remain the same.

All along, social workers employed by voluntary agencies acquiesced in a smaller pay package, with little or no concomitant fringe benefits enjoyed by the civil servants. The 1986 pay level survey endorsed by the Government recommends that the actual percentage of salary increase should take into account the differences between the benefits provided by Government and the private sector, which if adopted, would bring about a smaller percentage of salary adjustment this year. To apply this ruling to the voluntary agencies would be to impose a double penalty on them, since that 'loss' over the years has not been remedied while their actual pay package this year will be further reduced. This problem of disparity, if unresolved, could only aggravate the social work manpower problem we are facing. Here, Sir, I strongly urge the Government to lend a sympathetic ear to the grievances of the subvented sector which is playing an equally significant, if not a more cost-effective role in public service.

*Lotteries Fund*

Sir, still on the principle of equity and fairness, I wish to bring up once more the subject of the Lotteries Fund. Indeed, I need to be convinced that the fund, set up with the sole purpose of channelling unspent money raised by the Mark Six Lotteries to social welfare services, could not have a bigger and fairer share. In view of the large number of capital projects applying to the fund annually, it would not be avaricious to ask for a 10 per cent allocation of the Lotteries' proceeds. Under the recently amended Betting Duty Ordinance, the meagre 3.5 per cent allocation to the fund can only benefit the Government Treasury and

the Jockey Club at the expense of social welfare projects. With the stringent grants from the fund, voluntary agencies have to seek other funding sources to cover costs of projects which are seldom fully subsidised.

Here, Sir, I reiterate my previous proposal of reinstating the betting duty from the existing 30 per cent of the Lotteries' proceeds to the 25 per cent level in 1975. At the same time, I would suggest that the 7.5 per cent allocation for administrative costs be reduced to 6 per cent. It is estimated that the 6.5 per cent thus saved for the Lotteries Fund will amount to about \$116 million per annum—a sum which both Government and the Jockey Club can well afford to spare. I wish also to point out that the pivotal question of involving Government in the permanent commitment of additional recurrent expenditures could be resolved by splitting the proposed 10 per cent Lotteries Fund allocation into two parts, with 5 per cent being used to finance capital projects, and the other 5 per cent being put aside to set up a revolving fund, generating interest to cover improvement costs for existing services which have usually been given low priority in normal funding.

#### *Tax concession*

Sir, while this year's Budget has been hailed as a bonanza for the middle class, I must draw Members' attention to the so-called sandwich class, that is, people whose monthly income falls in the \$8,000 to \$12,000 bracket and who have been totally neglected in our Budget provisions. According to the 1986 bi-census, some 112 511 households in this income bracket were non-owner occupiers of the premises in which the census took place. With their income exceeding the waiting list limit for public rental housing, most of them have to bear the burden of high rents in private housing. These people cannot benefit from the 1 per cent tax concession in stamp duty for premises costing \$500,000 to \$1.5 million which are quite beyond their means to purchase. Instead, waiving the 1 per cent stamp duty for premises costing less than \$500,000 would cost the Government less than \$500 million but would induce more lower middle-income earners to purchase their own homes, fostering in them a sense of belonging to Hong Kong. Tax allowances for mortgage payments given to home buyers among the sandwich class is a further step the Government should take when the economy proves to be favourable.

Another area of concern in the Financial Secretary's tax proposal is the sales tax, which will hit hard at the low-income group caught in a widening taxation network. Indirect taxation that begins with luxury items can easily extend to daily necessities, such as food items, clothing and soft drinks, which ultimately affects people's quality of life and widens the gap between the rich and the poor. On the other hand, the token 1 per cent reduction in profits tax, while not making much impact on the business circle, could have been retained. It is thought that the \$760 million collected could be spent on social services which will bring immediate benefit to the lower-income group. Similarly, I fully support the call for the Government to review the outdated scale of income tax,

which should be adjusted according to inflationary trends in order to palliate the hardships of low income taxpayers. Taking the grassroot population's interests into consideration, I would propose the introduction of tax exemptions for employers to adapt the machinery to meet the needs of disabled workers, a tax concession for factory owners who operate day creches for working mothers on their payroll, Child Allowances for working housewives and attendance allowance for families with elderly and infirm members.

The Financial Secretary's forecast of the slow economic growth in the foreseeable future cast light on his cautious Budget provisions. In anticipation of a less buoyant economy resulting in likely expenditure cut-backs in 1989-90, it seems timely now to expand and improve our social welfare services and to make hay while the sun shines. To cope with rising public expectations, Government not only has to attend to unmet social needs using this year's additional manpower resources of some 437 social workers, but also has to uproot inadequacies and inequities affecting the quality of services. Sir, therefore I hereby propose:

Firstly, the training of social workers, which so far receives less attention than a crisis solution, ought to be strengthened, giving emphasis to specialised in-service training. Government's financial commitment towards maximising available social work manpower resources is the key to uplifting the quality of our social welfare services. This is also an effective and concrete measure in counter-balancing the grave brain drain problem we are facing.

Secondly, the gap existing between salaries and fringe benefits of the civil servants and subvented organisations employees should be narrowed, putting both groups of workers on equal footing. I would urge the Administration to come together with the Joint Council on Salaries and Fringe Benefits in Subvented Organisations, formed in January this year, to examine major areas of differences in fringe benefits which serve to boost the morale of deserving subvented organisations' staff.

Thirdly, the Lotteries Fund's allocation should be augmented from 3.5 to 10 per cent of the Lotteries' proceeds, with half of this sum being placed in a revolving fund designated for the improvement of social welfare services. This will do justice to the objectives of the fund and the many worthwhile capital projects awaiting financial support.

Last, but not the least, tax concessions should be made for home buyers in the sizeable sandwich class, who neither have the Financial Secretary's blessings nor enjoy many of the social welfare provisions designated for those least able to help themselves. In making reforms in taxation, consideration ought to be given to the equitable distribution of income needed to upgrade Hong Kong people's quality of life, but definitely not to introduce any form of sales tax to make the rich richer and the poor poorer.

Sir, in the final analysis, social development is a product that cannot be measured by the standard cost-effective analysis. Social development is, however, the milestone of a forward-looking, progressive society that we are all here to serve.

With these remarks, Sir, I support the motion.

MRS. TAM: Sir, the most striking thing about the second Budget presented to this Council by the Financial Secretary is the structural changes to the existing tax system. The Financial Secretary, on one hand, introduces reforms to the tax arrangements of direct taxes, mainly in salaries tax, and on the other hand, shows an intention to adjust the ratio of direct taxes to indirect taxes, by way of broadening the base of indirect taxes and introducing new forms of indirect taxes. Obviously such a move is designed with regard to the needs of Hong Kong in the long run and to bring about improvements to our overall fiscal regime. Sir, I do not oppose to structural changes in our tax system but I am very concerned that these changes should meet the objective as stated by the Financial Secretary in his Budget speech, that is, to move towards a more robust and equitable fiscal regime.

Firstly, on the tax arrangements of salaries tax, I have clearly pointed out in the Budget debate last year that there are inequities in the present arrangements of the salaries tax. As a result, the not-too-well-off middle-income group who are unable to enjoy various social benefits are made to shoulder heavy tax burden. In a society that seeks equity and rationality, the drawback of the present salaries tax system should be rectified as soon as possible. For this new financial year, I am pleased to see that in formulating the tax arrangements, the Financial Secretary has been able to take into account the situation of the middle-income group and present various proposals that should be received favourably. These proposals include the reduction in the standard rate, a revision of marginal tax rates, an increase in the personal allowance, a lift in the chargeable income limit for the maximum marginal rate and so on. I believe that all these new arrangements will help to ease the tax burden of the middle-income group. The only drawback, Sir, is that the Financial Secretary has not given any definite answer to the request for separate taxation for married couples or make any commitment in this respect. We should be aware that separate taxation does not only serve the purposes of bringing improvements to our tax system and promoting the workforce, it also has great social significance in helping to establish women's social status. There is a popular demand for introducing separate taxation in Hong Kong and many other tax administrations are also moving towards this direction. The introduction of working wife allowance as an expedient measure is not a bad idea but it definitely should not take the place of separate taxation. I would like to take this opportunity to urge the early implementation of separate taxation in the next financial year. Even though it may not be technically feasible to implement separate taxation within a short while, the Government should make a clear commitment on the exact date of such implementation.

Secondly, regarding the adjustment of the ratio between direct and indirect taxes, I agree that there should not be any dogmatic or absolute ratio between these two kinds of taxes. The ratio adopted should be in line with the changes of our community. As there is substantial surplus in our public finances at present, there does not seem to be any urgent need for a wider tax base. The proposed sales tax in the absence of proper arrangements, even if introduced at the wholesales level, would bring heavy increases to the tax burden of the general public. However, if the Financial Secretary's proposal for sales tax is made, having thoroughly considered the long-term changes and needs of Hong Kong, then how sales tax could be introduced to enhance the stability of revenue yield without bringing serious effect on the livelihood of the general public becomes the key issue that will have to be considered very carefully. Sir, in this respect I have the following views:

Firstly, the consumer goods to be covered by sales tax should be carefully selected. According to the Census and Statistics Department, last year private consumption expenditure amounted to over \$200 billion, far exceeding the revenue yield required. Therefore, there is a great deal of options for consumer goods for the levy of sales tax. I think that in order to minimise the impact on the livelihood of the general public, the Government can choose up-market consumer goods for the levy of sales tax.

Secondly, the Government may consider applying different rates for different kinds of consumer goods. Although it is an important principle in the design of sales tax that up-market consumer goods should be selected for the levy of the tax, it is inevitable that the user of certain goods may be ordinary man on the street. The introduction of a lower tax rate for such goods may minimise the impact on the general public.

Thirdly, consideration should be given to granting greater concessions to salaries tax upon the introduction of sales tax. Imposition of sales tax will invariably cast the tax net far and wide. This would result in some of the people who are presently not required to pay salaries tax having to shoulder a certain amount of tax. Yet with careful arrangements, its influence on the low-income group will, after all, be limited. But those hardest hit will be the middle-income group who are currently paying a substantial amount of salaries tax. This group of people are already consumers of dutiable goods and with the introduction of sales tax, their tax burden will become even heavier. I therefore suggest that in considering the introduction of sales tax the authorities concerned should give the middle-income group further concessions in respect of the salaries tax, or widen the income levels for marginal tax rates or even abolish the claw-back on additional personal allowances.

Sir, so much for taxation. Now I would like to express my views on the subject of social welfare services. Firstly, the funds allocated to social welfare services this year has seen a considerable improvement with an increase from 5.7 per cent of the total Government expenditure last year to 6.3 per cent this

year. In particular, there has been a substantial increase in the funds allotted to the central administration of voluntary agencies and a number of social services covered by the standard cost subvention system has been increased from eight to 16. Sir, I must say that all these improved arrangements are very encouraging but I would like the Financial Secretary to know that all these have indeed been earnestly sought after for a very long time by the voluntary agencies. Take the case of improvement to the manning ratio of supervisory staff in youth centres as an example, voluntary agencies have waited for this improvement for over eight years. Now with the huge surplus in public finances, the authority concerned could now positively look into the need for improving the quality of social services, this is certainly a good start. However, we must bear in mind that there are still many areas which need improvement. Take camps and hostel service as an example, the quality of service is expected to see improvement when its management is transferred from the Social Welfare Department to the Municipal Services Branch. Hence, the fund allocated to the service this year has only been increased by \$810,000 which is far below the amount required for improving the camps and hostels services. Sir, in an increasingly advanced and developed society like Hong Kong, I really feel that improving the quality of and increasing the provision of social services are of equal importance.

With the proposed expansion of various social services next year, we may experience a shortage of social workers. In fact, there has been a great fluctuation in the supply of social workers over the past few years: periodic surplus may be followed by shortages. As a result, it is difficult to formulate long-term planning on social services. I really hope that the authorities concerned would give full consideration to this situation.

Secondly, on planning the provision of social services, the Government has always taken the population of a district as an indicator in the provision of some of the social services like youth centres and elderly centres and so on. However, with the rapid development of new towns over the past few years, we have seen major changes in our demographic distribution. I hope that the Government will make a thorough study on the impact of the change in population distribution on the provision of our existing social services. The authority concerned should adopt a more flexible approach in planning for the provision of additional social services and make necessary arrangements in line with the demographic structure of each district. While the planning on youth centres has been given a degree of flexibility, the planning of other services like elderly centres and child care centres is not flexible enough. This affects the provision of the services concerned. Moreover, owing to the rapid development of new towns, many planned social services, in terms of quality and quantity, cannot cope with the actual demand. Close attention should, therefore, be paid to the demand of social services in the new towns and early measures be taken to improve the situation. Also, with urbanisation and the forming of a metropolitan society, specific groups of people such as those coming from single-

parent families, teenage girls who run away from home frequently and young married women found helpless after moving to the new towns, are in need of special care and attention. If assistance is to be extended to them, the authorities concerned should consider developing some specifically-designed services to meet the needs of these target groups. These services should be taken into consideration when conducting bi-annual review of the social services development plan.

Lastly, Sir, on the funding for welfare service agencies: apart from the annual allocation by the Government, charitable donations from members of the public and organisations are at present a major source of the funds required. However, according to the existing legislation, organisations that donate part of their profits towards charitable purposes can only enjoy a tax-deductible allowance of not more than 10 per cent of their total profits. Such provision discourages local organisations from making more donations for use on social welfare services. In my opinion, as long as members of the public and local organisations are willing to contribute, the Government should show encouragement by raising the tax-deductible allowance for charitable donations. It is understandable that by doing so, the annual yield to public revenue would be slightly affected. However, we must realise that should there be a lack of such donations or the amount of donations falls short of the cost of service provision because of the meagre allowance rate, the Government eventually has to use more public money to fund the development of services.

Sir, with these remarks, I support the motion.

MR. POON CHI-FAI (in Cantonese): Sir, this is the last time that I speak as the last Member in this Council, but I can see that the pressure on me is very great because if I cannot handle the situation carefully, many people will feel very unhappy, particularly those who have to attend a dinner banquet to congratulate the newly-wed couple. Therefore I will try to speak fast.

Sir, I think the drawing up of the Budget is the Financial Secretary's most important and headache job each year. He has to balance different demands for revenue and expenditure and has to create bright prospects for Hong Kong as well. The current Budget not only proposes tax concessions to reduce the burden on residents, but also increase spending on social and medical services to improve existing services. This Budget should be welcomed by the public. Nevertheless, I have the following comments on the Budget.

*Problems faced by Hong Kong industries*

Hong Kong enjoyed significant economic growth in the past three years. Surpluses were \$3 billion last year, more than \$10 billion this year and the forecast for next year will be \$7.3 billion. But we cannot be optimistic about whether Hong Kong can sustain economic prosperity. In fact, the Financial Secretary has pointed out in the Budget that there are signs for slow down in

the local economy. Although Hong Kong is having an economic boom, the shortage of labour has become a potential problem of our economic development.

All along Hong Kong has relied too much on labour-intensive industries. The shortage of labour makes it difficult to hire workers, deflecting some orders to other places forever. Shortage of labour also pushes up wages and weakens the competitiveness of Hong Kong exports. Due to the shortage of labour and higher wages and production costs, local manufacturers set up factories in neighbouring countries and China. This has become an unavoidable trend. When the global economy is booming, making use of cheap labour and land in China as well as south-east Asian countries can overcome local labour shortage and maintain export growth. This will benefit both Hong Kong and China as well as some other countries. But if there is a recession worldwide, factory orders will decrease and manufacturers who have also set up factories in China will try to reduce production costs to remain competitive during the recession by closing down their factories in Hong Kong and concentrating on their operations in China due to their cheap labour and land resources. That may be a fatal blow to Hong Kong since it has not yet developed its high-tech industry.

In recent years, the Government has become more active in supporting industrial development by providing a good industrial investment environment, training manpower, providing data and information service and developing overseas markets. However, in view of the above-mentioned problems, the Government should consider the following four points:

- (a) To intensify efforts to convert labour-intensive low-tech industries into high-tech industries;
- (b) to increase tax allowances for machinery depreciation, to encourage manufacturers to boost investment in machinery, to better productivity and reduce the impact of labour shortage;
- (c) to review the feasibility of limited, well-controlled and temporary import of cheap labour in times of buoyant economy to solve the problem of shortage of labour and compare this idea with the situation of setting up factories in China by local manufacturers, to see their long-term impact on our economy;
- (d) to assess whether expanding the Civil Service in times of labour shortage will worsen the problem and push up inflation due to increases in wages.

Sir, several tens of thousands of foreign domestic helpers now working in Hong Kong has enabled more local women to join the workforce. This helps to reduce the problem of shortage of labour. But in the past two years, the Government drastically increased the wages for foreign domestic helpers, far higher than the inflation rates or salary increases for our own people. This puzzles me. In a free economy, wage increases should depend on supply and demand factors. For imported goods or labour, we should also choose the cheap and reliable ones as a matter of economic principle. If the Government

believes that foreign domestic helpers may affect the job prospects of local counterparts, which is unfounded, it can ban or restrict their entry into Hong Kong. It should not arbitrarily increase their wages, thus adding to the burden on local people. So this actually jeopardise the interests of the public. And to the foreign maid's present monthly salary of \$2,300, we have to afford the fees for employing her, air passage, food and lodging, visa fees and insurance premium. The total may have exceeded the income of an average local woman; consequently, some families cannot afford the chain reaction which worsened the tight labour market. All these problems require Government's detailed review.

*The change of status of medical and nursing staff in government hospitals and staff welfare allowances for medical and nursing staff in subvented hospitals*

Sir, when we spend public money, we should be careful not to waste any funds, but let us not misunderstand the meaning of careful spending lest it will result in inequity, unfairness and brain drain affecting services to the community. Therefore, since the provisional hospital authority will soon begin its work and the system of hospitals will soon be changed, the Government should quickly map out fair and reasonable measures to resolve the problems of changing the status of Government medical and nursing staff, in order to defuse their anxiety. In fact, there is a shortage of medical and nursing staff and wastage of them owing to emigration. If the proposed changes further adversely affect the operations of hospitals or the quality of service, these will not be welcomed by the public.

Also, the Government should not overlook the welfare of staff working in subvented hospitals. At present, staff in government and subvented hospitals hold similar qualifications and carry out similar duties, but the latter enjoy much less fringe benefits than their government counterparts. So the subvented hospitals face difficulties in recruiting and keeping staff. In the past, the two groups of hospitals have been managed by two different systems. Staff in the subvented sector could still try to forget the difference, but very soon all hospitals will be managed by an independent hospital authority. If by then fringe benefits for different hospitals remain not the same, it will lead to dissatisfaction, confusion and further brain drain.

Sir, in this Budget, Government has allocated more funds to improve medical services for better protection of public health. However, the mere addition of allocation without resolving the inner inequities, will still damage staff morale and result in massive brain drain and unsatisfactory medical services for the public.

*Spending on public housing*

The very great success for Hong Kong public housing construction is clear to all. At present, more than 2.69 million people live in public housing and home ownership flats, which represents about 47 per cent of the total population.

In 1988 and 1989, the Housing Authority will continue to provide 45 000 rental units and the Home Ownership Scheme, together with the PSPS schemes, will provide another 12 160 units for people to purchase. Therefore, I fully agree with the Financial Secretary who said in the Budget that we have already made a considerable impact on the provisions of housing. Nevertheless, due to the demolition of the 26 problematic blocks and the clearance of the Walled City, creates much demand on public housing. Therefore, I disagree with the Financial Secretary saying that now the emphasis can be turned elsewhere, particularly when we have a surplus of exceeding \$10 billion and for next year we are going to have \$7.3 billion surplus. Now, the construction cost is going up. Therefore, the Government in the next few years, should not cut expenditure on public housing.

*The sandwich class*

Sir, in previous Budget debates, I emphasised that for the sandwich class who earn a monthly income of \$7,000 or more, have to shoulder heavy tax burden and enjoy no cheap public housing and Home Ownership Scheme. I urged the Government to improve the unfair treatment for the sandwich class regarding taxation. I think we should help them to purchase their own home and the mortgage loan should be tax-deductible. Unfortunately, my proposals have not been taken heed by the Government.

This time the Financial Secretary proposes to raise tax allowances, reduce the standard tax rates and to improve the progressive tax margins as well as to reduce stamp duty. All these measures will, to a certain extent, reduce the burden on the sandwich class. However, as we have a surplus of more than \$10 billion, an increase of \$2,000 for a single person and \$4,000 for a married couple as additional tax allowance is on the low side. Moreover, many people of the sandwich class spend more than 35 per cent of their income on their own home. A reduction in stamp duty definitely will help the sandwich class to own their own home, but my previous proposal to have a full or partial tax concession for first time home owners definitely will help them more to solve the problem faced by them. As these people cannot enjoy public housing and the Home Ownership Scheme, I think the Government should sincerely consider my previous proposal to help the middle-income group to own their own home and to settle down in Hong Kong permanently without thinking about emigration.

*Environmental improvement*

Due to a rising living standard and the worsening of pollution problem, people have a stronger urge to improve the environment. Last year, the Government decided to allocate more provision for the Environmental Protection Department to improve the environment. This year again, there is another sharp increase for the Environmental Protection Department, the increase of which is the highest among all government departments. All these show that the Government is paying attention and is determined to improve the environment. But take Kwun Tong as an example, Kwun Tong is one of the worst district as far as environmental pollution is concerned and progress of improvement is

slow. We receive more and more complaints from the public regarding pollution problems, and we need to do a lot to improve the environment in Kwun Tong, so we are far from having a very good district. The Environmental Protection Department definitely should work harder and faster to improve the environment of Kwun Tong so that residents can work and live in a very good environment.

*The working wife allowance and separate taxation for married couples*

In the light of labour shortage, the introduction of a working wife allowance definitely will encourage married women to join the workforce. This will help relieving the shortage of labour. The working wife allowance will definitely relieve part of the tax burden on working wives, but the working wife allowance definitely cannot replace or call for separate taxation for married couples. In fact, if marriage leads to a greater tax burden, this is unfair. And if the tax burden of wives must be combined with the husband's share, this is outdated and is discriminating against the integrity and independence of women. Therefore, the Government should promptly consider accepting a proposal to have separate taxation for married couples.

Sir, before I conclude, I want to emphasise that I am most dissatisfied about the heavy spending on the Vietnamese refugees. In the past, I have spoken a lot about my objection to taking care of the Vietnamese refugees so I only want to repeat one or two points. Hong Kong has limited resources. We have to solve a lot of our own problems. Recently, most of the so-called Vietnamese refugees are economic refugees so we should not be asked to shoulder the burden without any limit. The authorities should map out a new policy for Vietnamese refugees. We should turn away the refugees so as to make people satisfied.

Sir, with these remarks, I support the motion.

*Question on adjournment proposed, 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, 27 April 1988.

*Adjourned accordingly at ten minutes past Eight o'clock.*

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