

1 HONG KONG LEGISLATIVE COUNCIL -- 27 April 1989

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OFFICIAL REPORT OF PROCEEDINGS

Thursday, 27 April 1989

The Council met at half-past Two o'clock

PRESENT

HIS EXCELLENCY THE GOVERNOR (PRESIDENT)

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

THE CHIEF SECRETARY

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

THE FINANCIAL SECRETARY

THE HONOURABLE PIERS JACOBS, O.B.E., J.P.

THE ATTORNEY GENERAL

THE HONOURABLE JEREMY FELL MATHEWS, C.M.G., J.P.

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

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

SECRETARY FOR DISTRICT ADMINISTRATION

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

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

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

THE HONOURABLE CHAN YING-LUN, J.P.

THE HONOURABLE CHENG HON-KWAN, J.P.

THE HONOURABLE CHUNG PUI-LAM, J.P.

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

THE HONOURABLE HUI YIN-FAT, O.B.E., J.P.

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

PROF. THE HONOURABLE POON CHUNG-KWONG, J.P.

THE HONOURABLE SZETO WAH

THE HONOURABLE TAI CHIN-WAH, J.P.

THE HONOURABLE MRS. ROSANNA TAM WONG YICK-MING, J.P.

THE HONOURABLE TAM YIU-CHUNG

DR. THE HONOURABLE DANIEL TSE, O.B.E., J.P.

THE HONOURABLE ANDREW WONG WANG-FAT, J.P.

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

THE HONOURABLE CHAU TAK-HAY, J.P.  
SECRETARY FOR HEALTH AND WELFARE

THE HONOURABLE RONALD JOSEPH ARCULLI, J.P.

THE HONOURABLE MARTIN GILBERT BARROW, O.B.E.

THE HONOURABLE PAUL CHENG MING-FUN

THE HONOURABLE MICHAEL CHENG TAK-KIN, J.P.

THE HONOURABLE DAVID CHEUNG CHI-KONG, J.P.

THE HONOURABLE MRS. NELLIE FONG WONG KUT-MAN, J.P.

THE HONOURABLE MRS. PEGGY LAM, M.B.E., J.P.

THE HONOURABLE DANIEL LAM WAI-KEUNG, J.P.

THE HONOURABLE MRS. MIRIAM LAU KIN-YEE

THE HONOURABLE LAU WAH-SUM, J.P.

THE HONOURABLE LEUNG WAI-TUNG, J.P.

THE HONOURABLE JAMES DAVID MCGREGOR, O.B.E., I.S.O., J.P.

THE HONOURABLE KINGSLEY SIT HO-YIN

THE HONOURABLE MRS. SO CHAU YIM-PING, J.P.

THE HONOURABLE JAMES TIEN PEI-CHUN, J.P.

THE HONOURABLE MRS. ELSIE TU, C.B.E.

THE HONOURABLE PETER WONG HONG-YUEN, J.P.

ABSENT

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

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

THE HONOURABLE MRS. RITA FAN HSU LAI-TAI, O.B.E., J.P.

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

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

THE HONOURABLE RONALD CHOW MEI-TAK

DR. THE HONOURABLE LEONG CHE-HUNG

IN ATTENDANCE

THE CLERK TO THE LEGISLATIVE COUNCIL

MR. LAW KAM-SANG

## Second Reading of Bill

### APPROPRIATION BILL 1989

Resumption of debate on Second Reading which was moved on 1 March 1989

MR. STEPHEN CHEONG: Sir, the Administration in general and the Financial Secretary in particular should be congratulated for having done a near perfect balancing act on the 1989-90 Budget. Many of our colleagues in this Chamber may murmur or even criticize the Government for being too cautious or not properly funding our individual pet area of concern. The call to spend more is seemingly made more irresistible, by reference to the size of the windfall surpluses for the past two years. Yet in formulating strategies to manage our public finances so as to provide for our longer term needs, it should not be unduly influenced by short-term peaks and troughs of budget surpluses. Hence the need to provide balance to the interplay between the three key factors as mentioned by the Financial Secretary is crucial. In broad terms, Sir, I fully support the approach adopted.

Nevertheless, I would like to make one suggestion for serious consideration in formulating the 1990-91 Budget and also make a few observations that will have a bearing on our future economic growth or the efficient management of our public finances.

First, the suggestion. This relates to the need for the Government to recognize the existence of an imbalance in the eyes of our middle income group between their needs, aspirations, contribution to society, and the benefits received through tax concessions or otherwise. The Honourable Mrs. Rita FAN's concise and clear analysis illustrated the point cogently. I fully support her call as well as other colleagues' call on Government to address this issue urgently but positively lest Government would ask a whole host of questions, such as where the funds will come from, which programmes to cut, and so on. May I venture to suggest that in future budgets, there is no need to consider any further cuts on the standard rate of taxation for individuals as well as for corporations. In my view, both our high income earners as well as our corporations ought to be content with the current low rate of taxation we now enjoy. Any further tax concessions to be distributed arising from future surpluses should

first be passed on for the benefit of our middle income group. After all, half a per cent or even one percentage point cut in profits tax would not make or break individual tax paying corporation. On the other hand, if the overall benefit of that half a per cent cut in profits tax amounting to \$695 million in a full year were passed on to taxpayers, with an annual income range from \$100,000 to \$500,000, it will have a real benefit effect on close to 300 000 tax-payers. I therefore plead that this particular suggestion be given due consideration and adopted in formulating the budgetary strategy for the 1990-91 Budget.

Turning to issues that may have a bearing on the health of our future economy, may I first express serious concern on this year's surge of recurrent public expenditure. This in fact is the most worrying aspect of the Budget. Economic performances of the past years may not be repeated easily and if our public sector recurrent component continues to draw a bigger proportion of resources from the economy, we may face very unpalatable problems if and when the economy turns sour. I can only hope that such short spurt surges will not develop into a trend and that the Financial Secretary and the Finance Branch must do everything possible this year to cut away any excess fat if and when they detect it. In any case, I certainly feel it in order to seek assurance from the Financial Secretary, first to contain such surges, and then within a period of two to three years, the medium-term trend growth rate of GDP will be adopted as the upper limit of any further growth in the public sector expenditure.

Secondly, I am heartened by the fact that the Financial Secretary recognizes the need to monitor closely the monster known as "inflation". Not only should we monitor its development, we should also be prepared to hit this monster at its head if there are signs of it running out of control. Nevertheless, allow me to put in a word of caution on possible methods deployed to curtail inflation. There are some within our society who believe that the ills of inflation can easily be solved by removing the Hong Kong dollar link. It has been argued that as our currency is linked to a weak currency such as the US dollar, most of our troubles would be over if we remove the link. Such reasoning is an over-simplification and ignores Hong Kong's need for long-term stability. We must not forget that the HK-US dollar link was introduced not so much for economic reasons but for territory-wide stability considerations. Hence I must urge that the dollar link should not be tampered with lightly.

The third issue that would have a bearing on our future economic development is the likely adverse effect given rise by the possibility of a prolonged period of

shortage of human resources. I did not use the term labour shortage, Sir, because I feel that this issue has been charged with too much emotion, rather than clear-headed rational analysis.

Eighteen months ago, when this issue was first raised, I openly voiced objections to the call by some quarters for import labour. I objected then because I felt the issue of shortage of labour merits detailed and careful study before any definitive assessments were to be made. I urged the government economists to do a macro-economic study on how our future economic growth might be affected, if at all, if there were to be a prolonged period of shortage of labour. Unfortunately, my suggestion has fallen on deaf ears and therefore, apart from general conceptual statements or generalized assertions, there has not been evidence of any detailed and serious attempt from the Government to analyse this issue. For example, it has been argued repeatedly by the Government that the labour shortage problem can be solved by automation. Surely the Government cannot go wrong with statements like this but does Government realize that the labour shortage situation is not experienced by the manufacturing sector alone? It is faced by all employers be they in the private or in the public sector. Be they big corporations or private stores -- "Mama and Papa" shops. We cannot bury our heads in the sand and continue to deny the fact that there is a general manpower shortage for the smooth operation of our present economy. Insofar as automation is concerned, does Government realize that our economy is moving more and more towards a service economy? The ingredients of the success of a service economy is the quality and efficiency of service one can provide. This has a direct bearing on staff to job ratios. Surely we are not suggesting that machines can be deployed to give the same degree of satisfaction to customers of the service sector such as hotels or restaurants. Sir, for the sake of the future stability and prosperity of Hong Kong, I hope and pray that we will always have a full or near full employment situation. In order to achieve this, we must have enough foresight and courage to face up to any problem that may pose a constraint on our future economic growth or the long-term health of our economy. I am sure that the business sector in Hong Kong will support me in declaring that we are not interested in raising the labour import issue just for the sake of our own pockets as we have been alleged. We are people who have a conscience like any other members of the community. And above all, we collectively do have the decency to recognize our responsibility to work and contribute for the community as well. Our call to study the import labour issue was not designed to deprive our work force of their chance to improve their quality of life or wage rate. We are perfectly happy to sit down and talk about proposals that may be workable and acceptable to both parties. We are not asking for a carte

blanche to enrich our pockets only. We only ask that our suggestion be given due consideration without all the drama of charging the issue with unnecessary emotion and innuendoes. The Government must be seen to be addressing the issue rationally, analytically and it must be seen by all sides to take the lead in fostering a dialogue; the repeated calls to establish a committee under the auspices of the Government to study the issues in depth has not been heeded. Sir, unless the world economy collapses, this problem of lack of human resources will continue to plague us for the next year or even years beyond. If we do not address it and try to solve it, we may run a great risk of choking the future economic growth which certainly is undesirable.

Fourthly, allow me to put in a few words on the need for the Government to seriously review our current attitudes towards investment in research and development (R&D) for the future. Sir, in a short-term interest-oriented society like Hong Kong, it is understandable that we raise our eyebrows to any suggestion of sinking millions of dollars on some intangible and ill-understood notions such as R&D. Nevertheless, one cannot deny that circumstances are changing rapidly in the world. Rapid advances in science and technology nowadays have placed and will place more pressure on our economic structure to keep up with the rapid changes if we are to have any chance to continue to compete for a fair share of future economic growth. Indeed, it will also have a bearing on our future survival. Just to catch up alone will require us to make continued commitment to investments in education and tertiary education. Unfortunately, it is a fact that successful investments in tertiary education nowadays need to go hand in hand with reasonable, if not comparable, investments in R&D. One complements the other. The lustre and quality of any tertiary institution will certainly be lost if the R&D side is purposely suppressed or discouraged. Therefore, I would like to make a plea to the Government. We should start preparations for a detailed review or study of the subject of R&D in Hong Kong. Questions like: to what extent should the Government be involved; what can be done and needs to be done to pull together the resources of both the public and private sectors and address this particular important issue that would find some answers for our future. Sir, already we are at least 10 years behind the efforts of our neighbouring countries in addressing the issue of R&D. We should not and we can no longer afford to delay any efforts in catching up.

Finally, Sir, I applaud the Administration's efforts in trying to improve both the efficiency and the effectiveness of the system which manages public finances. An exercise I believe being considered right now involves the concept of delegating

more authority to different heads of department so that they will be able to manage their own resources better. Whilst the principle is perfectly right, I must point out that it may be very difficult to achieve the desired results in practice. Sir, in examining the total resources available to various departments, it is perhaps true to say that the bulk of their allocation is for staff provision. Personal emoluments constitute about 70% to 80% of the budget of most departments. The staff element, particularly salary level and the right to hire and fire, is beyond the control of the controlling officers. For example, a controlling officer does not have the automatic right to dismiss 10 clerks even if they are found to be redundant or to adjust the salary levels upwards or downwards having regard to market trends. Furthermore, controlling officers generally do not have the necessary working experience to manage large sums of money effectively. Therefore, if too much autonomy were given away in too short a period of time, casual spending rather than savings might be the initial result. We did experience such a situation when we tried to give the responsibility of creating posts to the respective departments concerned. If I remember correctly, Sir, the first year saw about 20% increase in posts created. It would therefore be wise for us to bear all these in mind when we make our final assessment on this issue, one way or the other.

Sir, the Financial Secretary did specifically ask for some input from all of us in the Legislative Council on the ideas for the introduction of an element of sales tax into Hong Kong. I regret I cannot help very much in this particular area except by promising to the Financial Secretary that any detailed proposals will be studied with an open mind. I do not think we should oppose the introduction of a sales tax for opposition's sake. It is perfectly right in my view for any responsible administration, and I believe this is one, to raise issues for discussion and debate so as to prepare for possible rainy days. Just as Government should not prematurely stifle opinion and ideas from the public, we should not stifle initiatives from the Government to seek public discussion and debates. Nevertheless, it is true to say that the subject of sales tax has not been fully understood by the public. We each may have our own interpretation of its implications, and really, without some input from the Administration on what the proposals are likely to be, it will be most difficult to take part in the debate intelligently. Our Honourable Financial Secretary, the ball actually is now in your court.

Sir, with these remarks, I have pleasure in supporting the motion.

MR. HO SAI-CHU (in Cantonese): Sir, the Financial Secretary has as usual taken a cautious and pragmatic approach in preparing the 1989-90 Budget. In view of an anticipated huge budget surplus and a projected continuous economic growth in the next few years, tax concessions have been proposed, which will somehow benefit different sectors of our community. However, a less than 10% increase in personal tax allowance does no more than offsetting the rate of inflation. The concession is very insignificant in real terms.

I would like to say something about public assistance. Recipients of public assistance are destitute people. The meagre sums in public assistance they are receiving just are not enough to meet their basic needs given rapid inflation. Adjustments by Government are often too small to be significant, or often fail to adequately take into account the pace of inflation or are belated by almost a year. The recipients are people who once contributed to Hong Kong's prosperity. They should be treated fairly now that our society is getting more affluent.

During the Budget debate last year, I asked the Government to encourage manufacturers to invest on replacement equipment and new technology by way of direct incentives. I am pleased to see that responses have been made in this year's Budget. The initial allowance for expenditure incurred on qualifying machinery and plant will be increased from 55% to 60%. Although the increase is not substantial manufacturers will find it an incentive and also benefit from it.

As pointed out in the Budget, the formulation of the Budget is primarily based on the performance of the economy. Hong Kong escaped unscathed from the stock market crash in October 1987 and our economy has seen two consecutive years of double-digit growth in gross domestic product. There was a slowdown in 1988 but growth nevertheless reached 7.5%. Our external trade has also performed remarkably well. As our economy is already operating at full capacity, the great demand for various resources and the tight labour market have driven production costs up and we are confronted with increasingly keen competition from neighbouring areas in Asia. As our economy has entered a new phase of development, the Government should seriously work out a long-term strategy to ensure that the economy of Hong Kong will remain buoyant. At present as labour shortage prevails in various industries, to ease the problem many manufacturers have moved their production lines to the Mainland and it is estimated that about four million workers in Guangdong Province are being employed by Hong Kong manufacturers, directly or indirectly. In the event of such a major change, certain long-term effect may be rendered on our economy which is not to be

overlooked.

I fully agree with the Financial Secretary that employees be given a share in the fruits of prosperity. None the less, the economy will no doubt be affected if labour shortage remains a problem yet to be solved. In plain words, how are we going to share the fruits if prosperity itself is threatened? I therefore urge the Government to consider relaxing restrictions on labour import, not only to safeguard the interests of local workers but for the sake of the people of Hong Kong as well.

The issue of sales tax is again mentioned in the Budget. It is quite obvious that the Government has the intention to introduce such a tax. In the Budget debate last year, I listed out the reasons for disapproving the widening of the tax base by means of an indirect tax. I will not give my general comments on the pros and cons of a sales tax again. Instead I shall make an assessment of the proposal in the context of the actual situation. In view of our huge budget surplus which will amount to about \$71 billion by the end of March 1990 and the fact that the forecast of our economy does not show any sign of a downturn in the near future, a conservative estimate of GDP growth for 1989 is 6%. I think the present taxation system should be maintained and any attempt to complicate it should be avoided. It is pointed out in the Budget that direct taxes will represent 65% of the total revenue and our dependence on this source of revenue is growing. A sales tax will provide a wider and more stable tax base. Nevertheless, one should not forget that Hong Kong is in a period of transition and there is only eight years to go before the year 1997. I think we should leave the sales tax to the discretion of the future Hong Kong Special Administrative Region. In the meantime, we should try our best to make good use of our large reserves. I am sure it will be more beneficial to our economy. Our share of the costs of maintaining a garrison force here will taper off on a yearly reducing scale. After 1997, government rent will be levied in respect of land north of Boundary Street. Proceeds from land sales which we have accumulated over the years will help defray the huge costs of large-scale infrastructural constructions. I think at that time there should be no cause for worry as far as the Government's financial viability is concerned. Japan has introduced sales tax in April this year and is facing widespread opposition from the public. This is a lesson for us.

Sir, I find the Budget to be a sound and well balanced one and acceptable to the general public. The only fly in the ointment is that concurrent with optimistic forecasts there is a hint of lack of confidence in the future. This ambivalence is manifested in the proposal to expand indirect taxation as a means to meet increased

expenditure. The huge infrastructural projects the Government is having on its drawing board, such as extension to the airport, building of a new airport, extension to the container terminal, building of a third cross harbour tunnel and improvement of transport facilities, are aimed at promoting Hong Kong's prosperity and are most welcome to the citizens. The Government should not shilly-shally but should go ahead with these projects without worrying about the financial impact. In formulating policies the key to success is to follow the popular will. With these remarks, I support the motion.

MR. PANG (in Cantonese): Sir, in the 1989-90 Budget presented to this Council, the Financial Secretary estimated that government revenue will reach \$80-odd billion and expenditure will amount to \$70 billion, resulting in yet another surplus of \$11.5 billion. The growth in the gross domestic product is estimated to be 6% whereas the inflation rate is expected to be 8.5%.

I agree with the Financial Secretary that it is imperative for the Government to put aside a huge sum of money from the surpluses to finance infrastructural development projects in future. However, with substantial surpluses accumulated annually over the past few years due to sustained economic growth, this year's Budget does not only appear to be conservative, but also fails to follow the principle emphasized by you in your policy address in October 1988 that "the whole community should be allowed to share the fruits of our economic success". The well-being of the workers and social welfare as a whole have still been neglected, contrasting sharply with our economic growth. The inappropriate and unfair distribution of social resources has widened the gap between the rich and the poor, posing a serious threat to the harmony and stability of our society.

"Tax allowance" was originally designed to keep the low income group out of the tax net so that these people may maintain a basic standard of living. However, such allowance has not been adequately adjusted in accordance with economic growth or inflation to a level that may enable the middle and lower income groups to upgrade the quality of their lives. In retrospect, the personal allowance for 1973-74 was \$10,000 and although it is raised to \$39,000 for 1989-90, broadly speaking the increase can only barely offset inflation. In other words the living standard of these people still remains at the 1970s' level and it is grossly unfair that they cannot enjoy a better life brought about by our economic success.

Sir, the Government is actively studying the possibility of widening the tax net and introducing a "sales tax" so that all residents, including even those who cannot help themselves and public assistance recipients, will fall into the tax net. This oppressive tax, if introduced, can be said to be even more fierce than a tiger because all people without any exception will be swept into the net.

I am extremely discontented that the Financial Secretary has been unnecessarily generous to the business sector and the high income group in order to appease them and to win their support in maintaining "economic prosperity"; but to the middle and lower income groups, the blue-collar workers in particular, he refuses to offer any timely assistance.

Sir, yesterday we all heard about the acute labour shortage which Hong Kong is now confronted with. What is the truth like? I will not bother myself quoting examples here. It was also mentioned yesterday that in the past a number of Legislative Council Members had been immigrants. Hong Kong's economic development has to rely on the hard work and efforts of immigrants. I believe none will dispute this. Truth shines in our hearts. This is a matter that could best be discussed some time later.

Sir, I would like to conclude my speech by quoting one paragraph from the speech I delivered in last year's Budget debate, "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 with regard to reducing 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 as well as introducing a sales tax. Apart from affecting the 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 serious. It is therefore in my opinion that the idea of sales tax is unworthy of our consideration."

Sir, with these brief remarks, I support the motion.

PROF. POON: Sir, it is easy to congratulate the Financial Secretary for what is

contained in his Budget for 1989-90 for it is balanced and wisely cautious. But while I join my colleagues in supporting the motion, I am more concerned with what is glaringly absent in the Budget. I refer to the apparent reluctance on the Government's part to make a vigorous investment in Hong Kong's future in the important area of science and technology. I also refer to insufficient incentives to industry to meet the pressing need to go high-tech; insufficient funding on research and development; and a seeming unawareness that, with more imaginative funding arrangements, we could do a lot more in our manpower training to cope with the effects of our brain drain.

These are the main issues I shall address this afternoon, and I also hope to offer some suggestions for the Financial Secretary to consider in his task of trying "to meet the aspirations of the community without exacerbating the current inflationary situation or placing in jeopardy our prosperity in the longer term."

#### Science and technology

Sir, one year after the Committee on Science and Technology has been set up, and despite repeated pleas, there is still no provision for an annual budget within the Draft Estimates with which the committee can plan its activities or launch projects like exhibitions, conferences and educational programmes. I am particularly disappointed because I sought an assurance in the Budget debate last year that, wherever possible, sufficient financial resources would be provided to implement the recommendations of the committee. And in the face of the budgetary surplus, there is really no excuse anymore to delay funding in this important area of investing in Hong Kong's future development.

Of course, I realize that science and technology constitute a long-term endeavour and the benefits may not be immediately apparent. Typical lead times would be five to ten years, and because of this, science and technology tend to lose out to other demands of the public sector budget which may be more visible and whose urgency more apparent, such as social services or security, or our infrastructural development. In this regard, I heartily support the Financial Secretary's intention to earmark some of our accumulating surpluses to finance various infrastructural projects over the next 10 to 15 years. But I would argue that while the need for a replacement airport or another container terminal is apparent, the need for enabling our industries to go high-tech, to promote research and development in our tertiary institutions and technology awareness within our community is just as acute. If the

Government takes only a myopic view of immediate urgencies, we will lose out in the long run and be overtaken by the other newly industrialized economies in the Asian region. And once the competitive edge in our industries is gone, the heavy investments made in our infrastructural developments could end up, as it were, water down the drain.

I cannot agree more with my honourable colleague, Mr. Allen LEE, that provision for expenditure on science and technology in the budget speech and the Draft Estimates is fragmented to a ridiculous degree. In fact, science and technology cannot even compete with recreation and culture or broadcasting and entertainment for mention as a programme area for expenditure in the key classification of expenditure in the Annex to Appendix B of the budget speech. I recommend that in the long-term interest of the community and to prove the Government's commitment to this important aspect of Hong Kong's development, the Financial Secretary should properly identify science and technology as an expenditure programme area and rationalize the various bits of expenditure on this subject currently provided within various departmental heads. I am almost certain that unlike other expenditure programme areas, this would be one which would not require the "periodic dieting" which the Financial Secretary suggested is good for health. In fact, it would need a lot of fattening up.

Of course, I realize that the committee probably missed the boat last year in seeking funds because there had not been sufficient time to identify and draw up a programme of work and the financial implications thereof. However, the committee has just completed planning the programme of work for the coming year, and funds are surely needed in addition to the \$3 million allocated for use by the committee through other sources. In order to sustain the momentum of ideas and work of the Committee on Science and Technology, I recommend that the Financial Secretary gives sympathetic consideration to allocating funds from the \$4.3 billion under additional commitments to the following requirements :

1. Additional staffing for the Electrical and Mechanical Services Department and the Government Data Processing Agency to cope with ever-increasing work arising from the committee;

2. Supplementary funding to the meagre \$3 million so far allocated for consultancy studies and professional services, subject, of course, to the proven need for these studies and services. One such consultancy study is on biotechnology, a subject which has wide-ranging implications for industrial development in future;

and

3. Financing of the proposed international technology exchange fair which would aim to matchmake companies possessing innovative technologies and corporate technology buyers, and thereby achieving international recognition for Hong Kong as a regional centre for facilitating the exchange of commercializable technologies.

Sir, this may sound a tall order, but the benefits to be derived from the projects I have just mentioned are considerable. And given the will, I am sure the Financial Secretary will be able to find the means. After all, I cannot help but observe that within a few months of the announcement of its formation, the Central Policy Unit has been allocated over \$7 million for its first year of operation.

Industrial development

Sir, last year I strongly urged the Financial Secretary to consider an increase on the capital allowance so as to encourage our industrialists to invest more on new technology through upgrading their plants and machinery. I am glad to see a quick response this year. However, in my opinion, an increase of the initial allowance from 55% to 60% is not really sufficient. As the Financial Secretary pointed out, much of the additional investment expenditure of businessmen is likely to be spent on imported goods and should not therefore contribute to inflationary pressure. So why not increase the capital allowance by a larger percentage? The return, in the long run and in terms of overall benefits to Hong Kong, would be much greater than the cost of the \$150 million a year estimated. This is another area of essential support for industries which require immediate investment but which may not pay off all that quickly.

I refer to my hobby horse: the need to spend much more on research and development (R&D) in order to train and keep people with ideas and perspective to spearhead our industrial development. Consider this paradoxical situation. We boast a \$14.2 billion budget surplus, we claim to be one of the leading economies in the region, and yet our performance in the area of R&D is quite appalling. For example, the Government has allocated \$120 million for research in the 1988-91 triennium for our five tertiary institutions. But \$40 million a year spread over these institutions represents only about \$8 million per institution. This is less than the research grant for one single established professor in the United States. It is also less than 0.02% of our GDP. It compares miserably with R&D spending in other countries in the region,

such as 0.6% for Singapore, 0.7% for Taiwan, 1.4% for Korea and 2.5% for Japan.

Sir, I cannot over-emphasize the importance of R&D in the overall context of our industrial development. First-hand contact with research sparks innovation and entrepreneurship. Our only resource is our people. And what Hong Kong needs most are alert young minds who are innovative, who can apply their knowledge and adapt to changing environments. There is an urgent need to develop and foster a sufficient number of people who have experience in research, particularly in the face of our brain drain. One way to stem the drain, I feel, is to show our energetic young men and women that there are opportunities for further growth and developments for them in Hong Kong and to offer them those opportunities through stepped up efforts in our R&D facilities. Once these young men and women see themselves as part and parcel of the scientific and technological capability of Hong Kong in any of our tertiary institutions and our industries, they may find very positive reasons for staying in Hong Kong.

#### Manpower training

At this point, I would like to highlight the need for a more imaginative and flexible funding approach to meeting our manpower training requirements for industry.

To its credit, the Government has over the years developed a sound, forward looking educational infrastructure to guarantee a ready supply of skilled engineers and technicians to meet the changing needs of industry. However, the effects of the brain drain are being felt in every industry in Hong Kong, and with the best will in the world, our tertiary institutions, old and new, are finding it difficult to produce graduates and diploma and certificate holders fast enough to cope with the problem. I suggest that, short of creating yet further tertiary institutions, the Government should look more closely at those post-secondary colleges or institutions which have proven and internationally accredited abilities, to see how they could be better utilized. And through a more flexible funding arrangement, I am sure we will, within a short time, have a larger pool of suitable and skilled manpower to meet the needs of our industry.

One positive and practical move would be to encourage more in-service training programmes in industry, whereby the Government probably in conjunction with our overseas investors could jointly finance such schemes. Another area where the

Government can actively contribute is to strengthen the ties between education and industry. We look in vain for the sort of cross-pollination that occurs all the time in science parks in Taiwan or Singapore. When will Hong Kong establish its own science park?

The only heartening piece of news is that the long-awaited technology centre proposal is finally taking shape, and we on the Industry Development Board (IDB) have just received the final draft of the consultancy report on it. While the board is still in the process of studying the report, I want to enter a marker with the Financial Secretary who is also the chairman of the IDB. That is, if the board finds the recommendations in the report worth pursuing, the setting up of Hong Kong's first technology centre should not suffer through bureaucratic delays on funding.

Sir, in conclusion, I merely wish to borrow for the attention of the Financial Secretary what our Chief Secretary said to the Foreign Affairs Committee last week. We need action as well as words, particularly in the hitherto neglected areas like science and technology, and research and development. Only through more effective funding in these areas can the Financial Secretary hope to "make maximum use of the redevelopment of existing resources in order to achieve the nature and quality of services that are needed today and in the future."

With these remarks, Sir, I support the motion.

MR. TAM (in Cantonese): Sir, following Executive Council's approval on 4 April to relax the application of the policy governing the importation of labour, labour importation has become a popular topic in this debate. As a representative of the working class, I am very disappointed about this decision. Everyone is well aware of the socio-economic impacts arising from the importation of labour. The decision to relax the criteria has reflected that the Government does not fully appreciate the problems posed by imported labour. As many people are aware of the arguments against the importation of labour, I am not going, nor will it be possible for me, to elaborate on the various arguments here. I only wish to talk about some interesting problems envisaged in the course of the heated discussions on the labour shortage issue in order to point out the political effects on economy and some people's misunderstanding of the economic phenomenon.

In fact the controversial labour shortage issue is nothing new, because since

1987 this issue has aroused many people's interest in taking part in the discussion. It is regretted that the Government was slow to respond to this problem and the public was under the impression that the Government was wavering in its stand. The community at large found it difficult to understand Government's policy and the labour shortage problem therefore prompted some people from the industrial and the commercial sector to put forward inappropriate suggestions which in turn exerted pressure on the Government.

In this controversial labour shortage issue, it is apparent that the Government has failed to show concern for the interests of the working class. In delivering the policy address for the current year, Sir, you emphasized "allowing the workforce to share the benefits in good years as they share the difficulties in lean years." However, with these remarks still ringing in our ears, it is indeed baffling to learn that the Government has decided to relax the criteria governing the importation of labour. Our society still lacks a social security system and a retirement scheme to provide safeguards. Despite strenuous efforts made by the workers and the social welfare sector, only slight improvement has been made on the legislation relating to social welfare. Regarding this controversial issue of labour shortage, the working class has put forward quite a number of convincing arguments of which, however, the Government has not taken heed. On the contrary, when the industrial and commercial sector incessantly urged to import labour, the Government decided to relax its policy. This is a disappointing decision.

A review of recent social reactions and the findings of several surveys shows that an overwhelming majority of the public are opposed to the importation of labour. However, the existing system fails to reflect the wishes of the people, mainly because the working class or people from the grassroots level are not adequately represented in the Executive and Legislative Councils. As a result, the wishes of the people are not fully taken into account, thereby severely weakening the acceptability of the policies made. Therefore, the Government should give the working class and the people from the grassroots level more chances of participation.

Recently the industrial and commercial sector has emphasized that a free economic system is a key factor in Hong Kong's economic development and that the Government has to allow the importation of labour to uphold a free economic system. However, a careful analysis of related problems reveals the following: other than favourable international economic conditions, the supply of cheap raw materials and foodstuffs from China has contributed tremendously to the prosperous development of Hong Kong's

economy. In practice, the impetus of a free economic system is not as great as people generally think. On the other hand, the importance of cheap labour to economic development is gradually weakening and, in the long term, cheap labour may not be beneficial to economic development. Therefore, a free economic system based on cheap labour is no longer a valid reason for advocating the importation of labour. Besides, we find it difficult to understand the rationale between some people's request for assistance to the industrial sector on the one hand and for upholding free economy on the other hand. Therefore, I take this opportunity to appeal to the Government that the past policy on importation of labour be appropriately enforced lest the process of social development and economic transformation should be affected.

I made detailed comments on the local taxation system in last year's Budget debate. On this occasion I only wish to reiterate that apart from being effective and simple, a good taxation system must also adhere to the important principle of equity. However, the Government often overlooks this principle. Therefore I wish to put forward the following suggestions on taxation:

- (1) The real value of personal tax allowance should be reasonably safeguarded by means of proportionate adjustments in relation to the inflation rate and changes in income levels;
- (2) Tax bands should be widened;
- (3) Husbands and wives should be allowed to opt for separate taxation. In cases where combined taxation is preferred, tax allowance for working wives should be retained or even raised; and
- (4) The proposal of introducing a sales tax should be dropped.

Furthermore, at present the socio-economic behaviour in Hong Kong tends to be short-term-oriented and it is appropriate for the Government to undertake some co-ordination or even to intervene as the Government represents the long-term interests of our society. In so far as taxation is concerned, the Government should advise the industrial and commercial sector not only to work for immediate benefits, but also care for long-term development. The general public should also be encouraged to have savings. On this basis I wish to make the following suggestions:

- (1) There is no need for the Government to cut profits tax; on the contrary capital

allowance should be increased;

(2) Employees' contributions to provident funds or pensions schemes should be exempted from tax.

Lastly, I wish to make a few points on the monitoring of public bodies.

It can be seen from the Budget that the Government acknowledges the importance of public bodies. The Financial Secretary said, "..... in money terms almost half our public services will be provided by statutory bodies or agencies. But it still remains necessary for the Government to exercise overall financial control and to set objectives and targets." However, is the actual situation like this? In particular, do the public have sufficient and adequate supervision over such public bodies as the two railway corporations?

The so-called public bodies are organizations or bodies set up by legislation to operate in accordance with commercial principles and to take up the responsibility of providing essential public services. Besides injecting some capital into the public bodies, the Government is also responsible for formulation of policy on public services and supervision of the operation of public bodies. Since the services provided by them are closely related to the livelihood of the public and the resources injected into them are public funds, those funds should not be squandered and effective supervisory bodies should be set up to guarantee that public bodies are able to provide the social services that can satisfy the needs of the public. Thus it can be seen that the problem confronting us is how to supervise rather than whether supervision is required. However, a few problems exist in the present supervisory system.

Let us take the two railway corporations as examples. The Governor is empowered under the law to appoint the members to the board of directors of these corporations and to give directions to the corporations. Presently, the Governor has appointed some officials to these boards to enhance the monitoring power of the Government. However, as there are numerous issues that the board of directors is required to discuss, the following dilemma will arise: what sort of business should be considered significant, or otherwise? On what criteria should these government officials make their appraisals or decisions? How do these officials come to know public opinion on relevant issues? Hence, this shows that we lack a set of clear and well-defined criteria in the supervision of the operations of these public bodies and many problems

may crop up. Besides, as these public bodies operate on commercial basis, many important information and decisions are not disclosed to the public. To put it in fashionable terms, decisions made under closed condition can hardly be "transparent." How can the public monitor their operation? Although the monitoring system is affected by various factors, in my opinion, the crux of the issue is the conflicting roles brought about by the appointment system. Officials who are appointed by the Governor as directors have to play two conflicting roles: being a member of the company, he is obliged to safeguard the interests of the company according to commercial principles; on the other hand, being a government official, he is duty-bound to keep an eye on the operations of the company to ensure that public interests are safeguarded. If the interests of the company are at odds with public interest, how should the officials act? Even if the officials insist on protecting the interests of the general public, being a minority on the board, eventually they will have to yield to the decision made by the overwhelming majority. From this we realize that government officials serving as directors are caught by their conflicting roles and they cannot exercise effective monitoring to safeguard public interests.

Some people consider that public bodies should come under the supervisory ambit of relevant advisory committees so their monitoring the public bodies can be strengthened. For instance, according to some suggestions the Transport Advisory Committee (TAC) should assume the function of supervising the two railway corporations. But whether the TAC has the capability of carrying out the onerous job of constant and regular supervision is very doubtful. Moreover, the basic function of TAC is to advise the Government on issue of transport policy. It is not a watchdog of our transport system. Its role is to make proposals on policy matters in the light of an overall perspective of Hong Kong. If the TAC is to assume supervisory functions in addition to its duties, would it spark off the problems of excessive workloads and role conflicts?

There are also some people who consider that the Government can exercise control over the operation of public bodies through the profits control scheme. Irrespective of whether public bodies are qualified to be listed companies and notwithstanding the complex financial relationship between the Government and public bodies, members of the public have considerable doubts about the effectiveness of the profits control scheme. The public have not yet reached any satisfactory conclusion to such problems as whether corporate profits should be linked with fixed assets value and the importance of operational indicators other than profits.

As certain problems do exist in the present monitoring channel, how should an adequate supervisory system come into play?

In my opinion, the more satisfactory way of implementing a supervisory system is that the Government should appoint a supervisory committee to undertake the following tasks: (1) to lay down criteria for overseeing the operation of public bodies; (2) to take up the responsibility of entering into annual agreements with public bodies; and (3) to make regular assessments and report on the operation of public bodies. The above-mentioned supervisory committee should comprise government officials, members from different councils and boards, professionals and people from other sectors of the community. This committee shall act in accordance with established policy objectives and operational standards and enter into annual agreements with the public bodies. Drawing on related experiences of overseas countries, the committee may enter into the agreements with the public bodies to cover the following aspects: (1) the objectives of the public bodies (including commercial and non-commercial ones); (2) the details of their primary and secondary services; (3) policy matter that are of particular concern to the Government and the public; (4) financial arrangements; and (5) the arrangements for a report system.

There are merits in several respects concerning the annual agreements entered into between the supervisory committee and the public bodies. In the first place a set of operational indicators closely related to policy objectives and quality of services can be selected in the formulation of operational standards and the annual agreements so that the scope elements and criteria in the monitoring process can be clearly identified. Thus not only the Government and the public are able to come to grips with the actual elements of monitoring, but also public bodies will not be subject to excessive and unnecessary administrative intervention. In other words, clear-cut contractual relationship can help identify the rights and the responsibilities among the Government, the public and public bodies.

Furthermore, the operational standards of public bodies provide open and objective indicators for citizens to have a chance of knowing the contents of supervision and taking part in monitoring the operation of public bodies. To be specific, the public can participate at two levels. The operational standards laid down by the supervisory committee appointed by the Government are not finalized until public consultation has been conducted and full discussion have been held. At the time of making annual assessment on the performance of public bodies the supervisory committee shall take the initiative of collecting public opinion on public bodies

with a view to reaching a conclusion to be more in line with the wishes of the public.

In summing up I take the view that whilst the Government devolves its administrative and management authority, it should also enhance the right of the public in monitoring these public bodies; this is the way to ensure that public bodies are able to provide the kind of social services that meet the needs of the public.

At the beginning of this Legislative Council Session at the meeting held on 16 November 1980, the Secretary for Administrative Services and Information said, "It has been decided therefore that in order to rationalize the relationship between the Government and statutory bodies in terms of ultimate policy and financial control, a series of reviews should be undertaken to ensure that certain broad guidelines are met." Now that half a year has gone by, what are the results of these reviews undertaken by the Government? I think that the Government should be answerable to the public and disclose the results of the reviews. I also suggest that an inter-departmental working group be set up by the policy branches concerned to review the relationship between public bodies and the Government and that recommendations be put forward as soon as possible for general consultation. The Government should address this problem and promptly tackle the problem area that the public have shown their concern.

With these remarks, Sir, I support the motion.

MR. BARROW: Sir, may I open by congratulating the Financial Secretary for the very clear-cut presentation of this year's Budget which assists Members, particularly us newcomers, to review it in detail. The increasing importance of objectives for each controlling officer -- and the accountability that this implies -- is a good step forward.

I will concentrate my remarks today on the economy as a whole, on the labour shortage, and on infrastructure developments.

In his opening remarks, the Financial Secretary mentioned the need to meet the aspirations of the community, without exacerbating inflation. Many Members of this Council have for a year or so been concerned about inflation and the labour shortage and we welcome the increased focus that these are now receiving.

Trade and industry will remain the backbone of our economy, as the Financial Secretary has pointed out. 1988 was an important milestone year with domestic exports eclipsed by re-exports for the first time. It is a development with enormous ramifications for our trade promotion strategy, for the future of our manufacturing sector, and for our infrastructure. If domestic exports were to increase at, say, 10% per year and re-exports at 25%, by 1997 re-exports would be four times domestic exports.

I am confident that the development of the Pearl River delta will remain largely immune from the overall austerity and rectification programme currently prevailing in the Mainland. This is borne out by the trade figures for the first two months of 1989. Re-exports to China were up 56% and domestic exports by over 30%.

It is welcome news, Sir, that the Central Policy Unit is to review the overall economic relationship between Hong Kong and China as its first project. With the private sector's close involvement in these links, I am sure that many will be willing to give the CPU the benefit of their knowledge and experience.

One of the key elements in ensuring Hong Kong's continued success is the maintenance of a genuinely international and open outlook on every front. It is only by attracting and retaining international business that Hong Kong will be useful to China. Separateness as a truly international city balanced by economic interdependence with China should be our aim. Being international means providing the conditions that will meet the expectations of multinational corporations. It means ensuring that our professions are as open as possible, and in this connection the arrangements for foreign lawyers to employ local lawyers should be settled quickly. It means maintaining a business and social climate that is free rather than oppressive. It means, in short, doing all that is necessary to remain competitive with -- and if possible to surpass -- other international cities in this region, an impressive objective, implying a major commitment and responsibility for our public and private sectors alike.

Turning now to the labour shortage, this has been the focus of much debate in recent weeks. I believe it is healthy that it should be so; it is not an issue that should be swept under the carpet. It affects the community as a whole so it is right that it should have a proper public airing.

The recent Executive Council decision to adopt a more flexible interpretation

of the existing policy on workers with special skills is welcome news. I do, however, urge the Administration to look beyond the immediate implementation of the Executive Council decision to the wider aspects of labour supply and demand and to seek overall solutions. This should be based more on actual needs than on the definition of "skill", which some feel is irrelevant to the crux of this issue. Sir, inflation is public enemy number one and one of its henchmen is the labour shortage.

It is not surprising that there are different views about what to do, but no one can deny that there is a serious problem which needs to be addressed. This problem, Sir, should not be looked on simply as an issue for employers. It is an issue for the whole community. The recent report by trade organizations sought to analyse the issue in detail and recommend some alternative solutions. As anyone who has carefully read the report will see, they have not advocated opening the floodgates and they have clearly emphasized that the position of Hong Kong workers must be protected.

As part of the overall exercise of seeking solutions, the alternatives to increasing the supply of labour from overseas need equal attention. If the policy of keeping the supply side very tight is maintained, then it follows that the Government should be willing to examine, and increase their investment in, the alternatives. What more can be done as Mr. Allen LEE and Professor POON have commented, in research and development, in automation and productivity? Are tax incentives possible? I urge the Government to examine these issues, as well as other aspects such as what additional support can be given for training and for increasing female or student participation in the economy.

The long-term direction of the economy, and how it relates to labour supply and demand, must also be subjected to analysis with a view to developing a realistic action plan. The Hong Kong economy is in a transitional phase as we move towards 1997 and the emergence of Hong Kong at the centre of what I believe will be a Greater China economic entity in the south. Separate from the mainland, yes, but with economic interdependence between Hong Kong and other regional components. As we move through the transition period, we need to adopt a flexible short-term approach on labour to ensure our economy can continue to grow. The issue of "natural evolution" can be argued both ways: it could be dangerous to try to move too rapidly to a high-cost service centre, discarding manufacturing along the way. This might leave us with an unbalanced economy and possibly excessive reliance on the Mainland.

One issue indirectly related to the labour shortage is the size of the Civil Service, which is currently 10 000 people short.

During the past six months, Sir, I have been exposed to a much wider cross-section of the Civil Service and I would say at the outset that I am extremely impressed by the quality, dedication and enthusiasm of the individuals who serve our community. Hong Kong's Civil Service should be the envy of its counterparts around the world. Having said that, however, we must ensure that we control its size as the Financial Secretary has said. I believe the labour shortage should concentrate our minds on seeking opportunities to cut bureaucracy and speed up decision making, leading to manpower saving.

Cutting central bureaucracy should bring the ability to provide more support where it is needed, which is generally at the periphery. Perhaps there should be more internal organization and method studies to show up areas where procedures can be streamlined and staffing requirements reduced. Can written work be more concise? Can paperwork actually be cut out in some circumstances? As one small example, an examination of the requirements in the retail trade indicates that up to 12 different licences can be required for a single outlet. The manpower requirement in both the private and public sectors to complete and review all the attendant paperwork must be enormous. Another example is the question of the basis of licences, such as driving licences -- they are renewed every three years. Why not make it every six years, or, indeed considerably longer, as in the United Kingdom?

Finally, Sir, I would like to comment on infrastructure developments.

I welcome the proposal that the Administration will start to make provision for major infrastructure projects and, in particular, for the new airport and related developments. I appreciate that government departments are working extremely hard to complete the various studies that will enable a decision to be made by the end of this year. I need hardly reiterate the importance of this project not only as a major confidence booster but for the very practical reason that our existing airport will be at maximum capacity before the mid '90s.

While the wider aspects of infrastructure development must also be part of the review, we should also remember that the earlier Chek Lap Kok study entailed a seven-year completion period. A similar period should still be possible if the airport is to be constructed by an autonomous body using a fast track construction

method. Sir, it is not just increasingly clear that Hong Kong is going to need the new airport, it is abundantly clear.

With Kai Tak likely to reach its maximum capacity several years before the completion of the new airport, we need to take action now to minimize economic disbenefits. This means exploring all other alternatives to ensure that at least some modest growth in visitor numbers remains possible which relates to the importance of the tourism industry and the need to maintain the growth of that sector. Over the past six years, the tourism expenditure ratio to GDP has increased from 4.7% to 7.8% and could well exceed 10% by 1993. In addition to infrastructure development, we need to improve our courtesy level and make our visitors more welcome. We need to control pollution and resolve the problems which put Hong Kong's high tourist reputation at risk, particularly inflation which is of increasing concern to the industry. The hotel sector has made an enormous commitment, with an increase from 21 000 hotel rooms at the end of 1987 to around 40 000 rooms by 1992. Incidentally -- at the risk of covering old ground -- this immense private sector investment should receive due recognition by being allowed a freer hand to recruit the staff which so many new rooms will entail, if necessary from overseas.

In conclusion, Sir, Hong Kong will continue to succeed, to the benefit of our community as a whole, if we can keep our economy strong. The machinery at work in Hong Kong's engine room -- trade, finance and industry -- must be tuned for maximum performance during this critical period. We have an able and dedicated Civil Service; we have one of the most innovative and entrepreneurial private sectors to be found anywhere, and we have an increasingly well educated population. Let all these sectors work together to keep Hong Kong moving forward.

With these words, Sir, I support the motion.

MRS. SO (in Cantonese): I believe the general public in Hong Kong are most concerned about two key issues after the Financial Secretary unveiled the 1989-90 Budget in this Council. Firstly, in what ways will the Government handle the historic large surplus of \$14.2 billion of 1988 so that the people of Hong Kong can share in the "fruits of prosperity" mentioned by the Financial Secretary? Secondly, in the wake of three consecutive years of economic boom, how would Government face the subsequent possible adjustment period?

To start with, I would like to comment on the policies of taxation and public

expenditure.

As a consistent policy, the primary objective of our taxation system is to ensure a stable revenue and undoubtedly this prudent approach should be applauded. However, many defects giving rise to inequity in our taxation system have become subjects of public criticism for years, yet they have not been rectified. We should not turn a blind eye to them.

As usual, the Financial Secretary described the increase of "personal tax allowance" as "tax concession." In fact, the annual increase in personal allowance by 5% to \$39,000 this year is only proposed in relation to the inflation rate. By contrast, wages went up by 10% in real terms last year. Besides, the personal tax allowance of previous years has failed to catch up with the inflation rate. With the margin widening, more people in the low income group will be included in the tax net. I therefore suggest that the tax threshold be raised further to about \$45,000.

Though the Financial Secretary has proposed to reduce the standard rate by 0.5%, the ceiling of the marginal rate has not been lowered. Thus only a minority of high income earners will be benefitted. This reduction of the standard rate is still not of much help to the majority of middle income group.

The so-called "sandwich class" are ineligible for most of the social welfare services nor are they entitled to the benefit of public housing. The pressure of inflation is hard on them. They cannot share the economic benefits brought about by the affluence of our society. They are the underdogs in the present taxation system.

I suggest that the ceiling of the marginal rate be brought down at least by 10%, and as the tax bands used to calculate taxable income on progression have not been adjusted since 1973-74, they should be revised from \$10,000 to \$20,000 for each tax band, and thereafter be adjusted as far as possible, in line with the prevailing economic situation.

Under the backdrop of large surplus, the majority of the general public are still unable to reap the harvest of our buoyant economy through the existing direct tax system; yet the Financial Secretary harped on the issue of sales tax again. It is most disappointing to all. Will it be practicable to introduce sales tax? For instance, will its computation procedure be so complicated that it is susceptible

to tax evasion? And if such tax is to be collected at wholesale level, will it involve substantial additional administrative costs? I believe that theoretically, these technical problems can be solved. However, in face of fierce social disapproval we ought to ask ourselves: should the sales tax be introduced? There is still room for improvement in the present direct tax system, which in particular has not adequately looked after the interests of the middle and lower income groups. Besides, we are all aware of the present level of social welfare services in Hong Kong. That is to say, the strain of sales tax on the living cost of the middle and lower income groups can never be fully offset by the provision of other services. Thus, if the sales tax is introduced mandatorily in the absence of any concrete and psychological support from the general public, it will indeed be difficult to estimate the extent of public resentment and resistance. Very often, a tax policy does not only involve the counting of figures on book value. It also involves a broader scope of social principles. Our taxation system should not only aspire for large surpluses, but should aim at equity and cost-effectiveness as well.

Now, I would like to give my views on the policy of public expenditure mentioned in the Budget.

The Financial Secretary stressed again that the purpose of restraining public expenditure was to avoid triggering off further inflation. As interpreted by the Financial Secretary, inflation is attributable to full employment which in turn pushes up wages and prices. However, there are other reasons that may have escaped attention: for example, as pointed out by International Monetary Fund Organization, the exchange rate index of the Hong Kong dollar has dropped by 17% on average since 1985 because the Hong Kong dollar is pegged to the greenback. As a result, inflation cannot be contained effectively by increases of the interest rate. Moreover, rampant inflation in Mainland China has also exerted significant pressure on Hong Kong. The causes of inflation are complicated. Each of its causes must be dealt with individually. We should not only put the blame on our meagre public expenditure.

In fact, inflation is not the worst problem which warrants prompt remedy. The most pressing problem is how the Government is going to consolidate its long-term investments on our potential manpower resources under the present unfavourable trend of serious manpower wastage as a result of the brain drain. Such investments should include provision of educational, medical and health as well as environmental hygiene services, so as to enhance the general qualities of life in Hong Kong. At present the Government has the capability to accomplish these tasks and every effort should

be made to deal with them urgently.

It is noted that this year, the allocation of funds on education only accounts for 16.6% of the total government expenditure, which is even less than the 17.2% of last year. Recently, the question of course structures at various levels of the education system has generated heated debates; among other items that have aroused attention, the extent of government commitment on the development of educational services is considered one of the important issues. Government spending on education usually only accounts for about 2.7% of our gross domestic product. This compares unfavourably with spending on education in other countries. Britain spends about 5.2% of her GDP on education, United States of America 6.5% and Taiwan 8%.

As education is a mainstay of social development, I disagree to the proposed revamping of our education system for money-saving purposes.

Although the Financial Secretary continues to pursue a policy of tightening up spending on education, social welfare and medical services, it is generous of him to make huge transfers to various funds. Transfers to funds amount to \$17.7 billion. Apart from this, a transfer of \$7 billion has already been reserved for the Development Loan Fund to be spent on major infrastructural projects, and on investments in various projects undertaken by statutory bodies while detailed arrangements for these investments have yet to be made. In other words this is a strategy "to set aside for the rainy days". It is advisable to take a cautious step, but such arrangement gives rise to a number of doubts.

How do these funds operate? Will reorganization programme like that of the Housing Authority be further promoted so that organizations in the public sector are hiving off to become statutory bodies one by one? Moreover, the operation and the quality of services of such public companies as the Kowloon-Canton Railway Corporation and the Mass Transit Railway Corporation have recently attracted a great deal of criticism from the public, reflecting that there are serious loopholes in Government's supervision over these companies. The public are concerned about the ways that the Government is going to make reforms on its link with these public companies for the protection of taxpayers' interests. However, in this year's Budget, the answer as to how these funds can be effectively put to use is not found.

I wish to give my views on matters concerning the development of the industrial and the commercial sector as well.

It is a very practical measure for the Financial Secretary to propose an increase in capital allowance from 55% to 60% for initial expenditure on qualifying machinery to encourage manufacturers to buy new machinery and to avail themselves of advanced technology. On this basis I suggest that the Financial Secretary should consider a depreciation allowance on expenditure incurred on qualifying machinery in a bid to encourage industrialists to upgrade their machinery.

To set up an industrial technology research centre is a basic step in promoting industrial development in Hong Kong, particularly when the majority of industrial undertakings in Hong Kong, being medium-sized to small factories, are not too well poised to cope with the risks involved and the enormous expenditure required for making research in new products. As Hong Kong's major competitors in the region have already made a start in this direction, our Government should not drag its feet any longer.

On the subject of local industrial development, both the employers and the employees have their attention on the possibility of importing labour. Firstly I wish to make clear my stance that the negative effects of importing labour will most probably outweigh the positive advantages. In considering the issue we must ensure that the livelihood of the community will be least affected.

Current requests for imported labour are largely made by the building sector and some manufacturing industries. Labour shortage and escalation of wages in the building sector are naturally related to the property boom in recent years. However, whether the property boom will slow down depends on the strength of the market. To put it in another way, there are cyclical changes in the ups and downs of individual trades and they have their limits. Consequently, the demands for labour are also subject to upward and downward adjustments. The Government must consider whether it should make changes and re-formulate its labour policy which will have far-reaching effects.

As regards the development in the manufacturing sector, higher skill level and education standard and the attraction of the service sector have a bearing on the pay trend. This is inevitable as the industry sector in Hong Kong is undergoing a period of transformation. If Hong Kong is to import large number of unskilled labour at this juncture for the sake of lowering wages, then undoubtedly it will slow down the pace of industrial transformation and even bring about a regression.

Import of labour is unfair to the working class who have made contribution to the prosperity of Hong Kong. Although some employers recommend that the wages paid to imported workers should not be lower than the current income level of local workers, this is tantamount to allowing employers to control the increases of wages which otherwise are subject to adjustments by supply and demand in the market.

Lastly, we must consider the implications that the importation of labour will have on the cost of social services which in fact are largely borne by taxpayers. Import of labour will produce a strain on various sectors of social facilities such as transport, housing, law and order or even give rise to problems of ethnic integration. Therefore, the practicability of importation of labour is not merely a matter of technicality. I hope the Government will maintain a firm stance in considering the views and the well-being of different strata in our society in a fair manner and take a long-term view in formulating a labour policy that is conducive to the robust development of our economy.

All in all, it is my belief that all Hong Kong people hope that the authorities concerned will commit themselves to providing a scenario where various sectors of the community will be able to "share in the fruits of prosperity" by way of a fair and effective taxation system, adequate public services funded by ample resources and a reasonable economic investment policy. Unless this is done, the accumulation of huge surplus each year is no more than a figure that brings no real benefits in the eyes of the public.

With these remarks, Sir, I support the motion.

MR. TIEN: Sir, each year, the speech by the Financial Secretary on the Budget covers wide-ranging issues. I would like to consider certain questions in the field of industry, trade and labour. Hong Kong is in economic terms a formidable international actor, with a GDP of \$425 billion. Per capita each one of us produces the very respectable figure of US\$11,000.

Now with industry, trade and labour we have the fuel to drive the engine of Hong Kong. However, Government must do its part to ensure a favourable environment for this engine to operate efficiently.

At the beginning as well as at the end of his speech, the Financial Secretary

spoke of "conflicting pressures".

These are in the order given:

the problem of inflation;

how to manage budget surpluses;

how to pay, without seriously over-heating the economy, for major infrastructural requirements, for example, for the new airport.

Now, I see balancing these three matters in the way proposed could lead to a serious contradiction. For if we were already experiencing severe overheating - - mainly the result of the labour shortages -- how can we consider major infrastructural projects in the very near future? It seems as if the Financial Secretary will shortly have to see how he can use this year's \$14 billion SURPLUS (together with reserves of some \$60 billion) without turning an overheated economy into a raging inflationary inferno.

What he seems to be suggesting is that he can put his resources aside into the Capital Works Reserve Fund, and the new fund for investment. These will help to finance a new airport and other projects. But, if Government is going to have the airport built, with or without private sector participation, this will certainly increase inflationary pressures.

Sir, if we are overheated now, we will be more overheated before the year's end. The Financial Secretary should explain how his worries about inflation can suddenly end within a few short months. In short, he has presented us as well as himself with a basic philosophical contradiction, and I will return to this point later. For the moment, I would like to say something about the general state of the economy.

As far as our economic development is concerned, we have reached an important watershed. Our economy is drawing inevitably closer to China -- both in terms of imports, exports and re-exports. The figures quoted by the Financial Secretary are eloquent testimony to this.

Our industries are now highly dependent upon China. Up to 2 000 000 workers in China have been drawn into our economic net. We can certainly tap this source

further.

As for those businesses and enterprises which cannot tap this source, we should make properly-worked-out proposals to import labour from China or elsewhere.

I have previously addressed this Council on the question of the labour shortage -- what I then termed a labour famine.

I spoke then particularly of the problems of the garment industry where the position is particularly serious. Members may recall my reference last November to the garment industry and its need for skilled labour. I do not accept the Government's position that workers in the garment industry are, in fact, unskilled, and that such workers should not be allowed to enter Hong Kong.

The garment industry pays skilled-level wages to skilled workers. This industry cannot automate very much further. We operate on a fast-turn-around time. We often have to meet deadlines which cannot be met by total automation. Fashion can vary from month to month.

Let me also remind Members of the Council of the problems caused in the labour field by the Multi-Fibre Agreement (MFA). The MFA takes account not of a worker's nationality, but of his location, where he is actually working. Hence garment manufacturers simply cannot re-locate to China. If foreign labour were to come here, the rules of the MFA would not be contravened. We will not lose our export quotas.

Discussions have also been held recently with the Department of Trade to see whether the country-of-origin rule could be relaxed, so that parts of a garment can be made up in China. The department rejected these proposals on grounds that the United States might then give our quotas to China.

The only recourse, it appears, is to import labour, seeing that even a proposal to allow part of the process to be completed in China is not likely to be successful.

As an industry, we are ultimately based in Hong Kong, but the current labour shortage has resulted in a loss of 50 000 workers in the past three years.

Now, since my speech on 10 November, the question has been looked at in general by the Joint Associations Working Group of nine employers. The report of the working

group has come up with some sensible suggestions. It advocates short-term contracts to bring semi-skilled workers here from China or elsewhere for periods of between six months and two years.

I personally see it the responsibility of the employer to provide for contract workers accommodation and transportation. With single young people there should be no problems of education, social welfare or anything other than rudimentary medical care. I do, however, oppose the idea of bussing workers, say, from Shenzhen. Workers cannot be expected to travel for excessively long periods and then work competently all day on our construction sites, in our hotels, and our factories.

I hope Government will seriously look at the labour importation proposal, a version of which has been developed in Singapore. The economy in Singapore is highly dependent upon semi-skilled contract labour, with some 150 000 overseas contract workers in construction, manufacturing, retail trade, hotels, shipbuilding and ship repairing. The Singapore labour shortage has apparently now been relieved and no adverse social and economic conditions have resulted.

As far as the question of inflation is concerned, I believe that the labour shortage must bear much of the blame. This is accepted, rather obliquely, by the Financial Secretary, when he argues that, "the economy has expanded rapidly and unemployment has fallen to an historic low. The resultant overheating has led to an increasing inflation." But he is too fatalistic about inflation. He argues, in resigned fashion, that there is little we can do about it. He hopes that the economy, as he puts it, "will adjust" -- whatever that might mean -- and do the trick for Hong Kong.

Let me refer also to the proposed increase in the size of the Civil Service by 7 200 people, which, I am sure, will lead to a considerable strain upon the supply of available labour. Perhaps this figure of 7 200 people refers to more police or correctional services personnel. But why not reduce civil servants simultaneously in other areas where old-fashioned form-filling is still the order of the day.

Government should show the way with more efficient use of office management, modern information system, data storage and efficiency audits. The solution for Government, as for everyone else, is better use of modern techniques, including more computers and automation generally. This is the solution advocated by Government for the private sector when faced with the labour shortage. Let Government, in its

own operations, now practises what it preaches.

In my opening remarks, I mentioned that I have looked carefully at the budget speech to discover, if any, the underlying messages. The speech has a number of themes. However as I suggested, I am uneasy at the underlying assumptions.

Let me first consider the balance between public expenditure and inflation. We might expect the Financial Secretary to argue that public expenditure should be kept under stringent limits. Of course, we have, in a number of places, an insistence on prudence and caution. I agree with the need for control. Like the Financial Secretary, I do not approve of inflation, high interest rates, demands for excessive spending -- and all the ills that the overheated economy is heir to.

But having dispensed the conventional wisdom he then moves into a series of contradictions. He says: "In the current inflationary situation, there is particular merit in seeking to keep down the shortage of available resources re-absorbed by the public sector."

On the other hand, without too much reliance on logic, he draws attention to what he describes as his "dilemma". This "dilemma" is that public expenditure is a necessity. As he puts it: "We simply cannot afford to delay unduly the upgrading of our infrastructural framework if Hong Kong's economy is to continue to develop in the years ahead."

Now, he is obviously talking about the airport -- and other related large-scale projects. Our economy is clearly overheated. I am not sure that the Financial Secretary has adequately resolved what he calls his "dilemma".

We must not spend, he appears to be saying, but we cannot, and indeed should not, avoid it.

Let me now consider secondly the matter of trade generally. I was pleased to see that the Financial Secretary referred to our continuing satisfactory performance in trade. In this context, this Council, and the public at large, should not forget the steadiness of our exports in recent years, and of our trade and industry in general.

We are looking at constant growth. We are also looking at self-reliance.

Thus, when the financial world was in turmoil during the October 1987 stock market collapse, the traders and industrialists just kept on going.

No industrialist will telephone the Financial Secretary at 4.00 am to be rescued from the results of his own folly. This may be one of the points that the Financial Secretary should consider before deciding to put all his and Hong Kong's eggs in one basket, that is, into finance and service sectors.

Sir, my third point concerns our budget surpluses, amounting for the year 1988-89 to \$14 billion.

The Financial Secretary argues that we should not spend simply because we have, to use his own words, "a pot of gold". In short, we are collecting money from the public (that is, via fiscal policy), in order to store up cash.

But if he will not spend these surpluses, for fear of exacerbating inflationary pressure, why collect them? After all, the number of taxpayers is not unduly large. The middle income group, or the sandwich class, which so many of my honourable colleagues have referred to, certainly deserve a better deal.

Some suspicious members of the public have argued that the Financial Secretary intends to give a "present" to the Central People's Government. Let me, however, remind them that the future Special Administrative Region has already got their useful "pot of gold" amounting to some \$12 billion, and moreover already takes on board land revenues to the tune of some 50%.

Let me also remind the Financial Secretary that his "pot of gold" will be subject to the hazards of inflation, spent or not. Nevertheless, if his intention is to offer the surplus in part payment of a new airport, then he will have to cut away at the whole philosophy of this Budget, namely to get the right balance for his "conflicting pressures".

Sir, I am not denying the economic challenges which we face.

However, Mr. Financial Secretary, what are you planning to do with your "pot of gold"? My suggestions are, go ahead and spend it on the airport and other major projects. However, having to contain inflation at the same time and not to compete for workers with the private sectors, you have to import construction workers, skilled

or unskilled to do it for you.

Sir, I would like now to consider the question of anti-dumping legislation. The document known as Economic Prospects refers to the problems of anti-dumping actions taken in Europe. The reference correctly stipulates that "anti-dumping disputes within the European Economic Community (EEC) may have some adverse effect on Hong Kong's domestic exports to European markets in general. Thus, the growth rate of domestic exports to the Federal Republic of Germany in 1989 is forecast to be only 2%".

Another important matter, not covered in the budget speech is the matter of Europe in 1992. In 32 short months the spectre of "Fortress Europe" will clearly face Hong Kong as well as many other countries.

There are problems for Europeans in learning to adapt to the new realities of a truly common market. But the problems for trade and industry in Hong Kong are, in relation to 1992, quite serious.

In the last 16 months alone, eight anti-dumping initiatives have come from the EEC. Protectionism is something we have learned to live with. Indeed, protectionism is, sadly, part of the furniture of the future as regards international trade.

The year 1992 will see the ultimate drawing closer together of the 12 EEC countries. The twelve will form a common bloc with a common external tariff against all outside trade. Hong Kong's traders will be largely excluded from 350 million people constituting the largest trading bloc in the world.

The EEC authorities calculate what the price of a product should be in the Hong Kong market and then compare it with the export price.

But, after all, our home market is very small. For, we export up to 90% of what we produce.

I note that in November and December last year, anti-dumping proceedings had been instituted by the EEC against our manufacturers of small screen colour television sets, photograph albums, video-cassettes and more recently of denim fabric. Anti-dumping legislation is sudden, painful and pernicious.

Governments in Europe and elsewhere are like addicts returning for further shots as far as anti-dumping is concerned. Once started, those who complain about dumping find it difficult to stop even when there is little or no justification for their protests. We see here a most insidious development.

We look to the fullest government support on this matter to make our case fully known internationally.

Sir, my intention is not merely to plead the cause of trade and industry.

We Hong Kong people are all too prone these days towards unnecessary internal conflict. There are too many groups, associations and professions which devote an undue amount of time to pushing their own selfish claims.

In this regard, doctors, industrialists, factory workers, civil servants amongst many others have all recently been in the news.

I sincerely hope that the end result of all this is not social discord. We must beware of fragmenting our society and my earnest hope is that the earlier co-operative spirit of Hong Kong can be restored.

This Budget does contain many sensible and welcome measures. I thoroughly approve of the modest tax reductions proposed. I accept the reasonable and limited increases in fees and charges given in paragraphs 106 to 111. I also think the Financial Secretary has a fruitful idea when he speaks of a wholesale sales tax, for the reasons he gave. All these things I applaud.

I consider that the Financial Secretary has achieved a useful interim budget. However, I feel that, at bottom, the Budget is somewhat confused in its key objectives. The contradictions between labour shortage, containment of inflation and the embarking on of large-scale infrastructure projects are undoubtedly worrying.

I sincerely hope that next year the Financial Secretary will try to offer us an equally useful budget but without the contradictions.

Sir, with these remarks, I support the Bill and the Budget proposals contained therein.

MR. CHAN (in Cantonese): Sir, you have indicated in your policy address that there is a need to improve education and for the first time in the draft estimate of expenditure, the Education Department has listed the upgrading of the quality of education as one of its objectives. However, the spending on education will only increase by 5% as compared with last year and only part of the allocated fund will be used to upgrade education. Moreover, as the average annual increase in real terms for the coming four years is only 4%, the growth rate in expenditure will in fact decrease rather than increase, and so one cannot help but feel that the possibility of achieving the above objective is very remote indeed. I think the inability to raise education quality should be attributed to the parsimony on the part of the Government in providing funds for education.

While the financial strategy of "basing expenditure on income" which Government employs to "divide the cake" can assure us of a budget surplus, it has stifled many department projects and obstructed many long-term plans. As a result, government departments have little or no ideals and only know how to muddle along. I do not believe that our policy-makers are so devoid of ideals, education ideals in particular. But unfortunately, their hands are tied because of lack of funds.

Sir, education cannot exist without ideals. Our young people have become increasingly materialistic. They only set their eyes on the present but have no plan for the future. For this, our education system has to bear the greater part of the blame.

There is an old Chinese saying, "It takes ten years to grow a tree, and a hundred years to educate a man." ( ) Our Government and Councillors have also said that education is a long-term investment. If our education work is to be successful, we must not allow the Education Department to lose its ideals. The defects in our education system under criticism include: poor Chinese and English language abilities among students; adoption of floating class by secondary schools; bisessional primary schools system; no professional training for kindergarten teachers; curriculum failing to meet real needs; discrepant standards among private schools; too high a teacher to student ratio; incompatibility between grammar schools and prevocational schools, shortage of student counsellors and school social workers; inadequate training for teachers to deal with problem students and the lack of a sense of mission among teachers who generally regard education work as a kind of occupation. Students

brought up under such a system will have no future at all, and worse still, some may become juvenile delinquents. The youth problem is becoming increasingly serious, so much so that remedial actions has to be taken by the Social Welfare Department; and even the Police, the Judiciary and the Correctional Services Department have to be involved to deal with it. I believe that it is mainly due to the lack of objectives on the part of the Education Department that has given rise to the above long-standing problems. The department has now taken up courage to face reality and to expose its own weaknesses. For the first time it has put down in black and white in the Draft Estimate that it aims at improving the quality of education. This is highly commendable and I hope the Financial Secretary will try his best to look for additional resources for this improvement programme instead of stifling it.

However, in order to persuade the Government to provide more funds, first of all the Education Department has to do its own work well. In regard to policy implementation, it must spell out clearly the objective of upgrading education quality and ask various divisions within the department to faithfully implement the policy so that each and every staff may recognize the objective and strive after it. As far as management work is concerned, the rigid and inflexible way of doing things must be changed and the existing resources must be fully utilized. For instance, many school principals and teachers hold the view that the inspection system can monitor education standards, but the practice of conducting one inspection every three years leaves much to be desired. For example, if the standard of English teaching for Form I is poor and the matter will not come to light until three years later, much harm will have been suffered by Form I students in those three school terms. In other words, if a school is not run in the right way, great harm will be done to its students. May I ask whether the Education Department has ever considered conducting random inspections or fully utilizing its existing inspectorate staff to monitor the performance of all schools?

Furthermore, the traditional conservative style of the department should be completely changed. The Legislative Council question on the provision of photocopying machines raised by my colleague the Honourable David CHEUNG is a good example of the conservatism of the Education Department. If Legislative Councillors have to take the trouble to press the Government for the provision of some equipment needed by schools, there is no wonder that people become frustrated and morale is sinking.

In my opinion the policy branch concerned should conduct a review of the established aim of our present education policy which is: to provide the best

education to every child of school age, according to his or her abilities, at a cost which both parents and the community can afford. I believe this is what the Finance Branch is most pleased to hear. However, if we continue to follow the above education objective, the quality of education will only deteriorate, producing generation after generation of students of even more inferior calibre.

Sir, I agree with what you said in your policy address, "We must build up our educational facilities so that we can stay in the front rank of technological advance and train the generations who will be running the Hong Kong Special Administrative Region after 1997." However, I am of the opinion that apart from providing the necessary manpower for the market, training should, more importantly, fit in with the full development of individuals. Why is it that so many parents are so eager to send their children to international schools? It is because apart from transmission of knowledge, these schools also attach great importance to fostering relationship with parents. They inspire students to use their brains, broaden their horizon and enable them to plan for their own future as well as develop a sense of belonging towards their own countries. All these are far more superior to our traditional education system and they have not been covered by our existing education objectives. The Government should therefore identify the full development of individuals with its education objective and not be so parsimonious in its education spending. It is only until then that all problems can be resolved and the quality of education be upgraded.

Sir, I have recently read the Report on the Need for a Youth Policy in Hong Kong released in January 1989 by my colleague the Honourable Mrs. Rosanna TAM, who is also the chairman of the Central Committee on Youth. I find the section describing the youth policy exceptionally good because what it says just reflects my own opinion of what education should be all about. I hereby urge all members of the Education Commission to read that section and above all, I hope all my colleagues in this Council will support the Honourable Mrs. Rosanna TAM to improve the existing education system according to the direction indicated in the report so as to create a better future for the younger generation.

Sir, I support the motion.

MR. SZETO (in Cantonese): Sir, the unprecedented surplus the Government accrued over the past year reflects that Hong Kong has an unparalleled boom in her economy. In

the meantime, the tide of emigration is rising apace, indicating that there is a further loss of confidence in Hong Kong's future. Some people keep saying that if we keep our economy in good shape, Hong Kong will have a bright future. The fact before us speaks for itself that the majority of the Hong Kong people think otherwise or else the conflicting situation as described will not have come into place. Political issues have to be resolved by political means. If we turn a deaf ear and a blind eye to political issues, our economy will be affected as time goes by.

Under the pretext of containing inflation, the Financial Secretary has turned down public request for better social services. Such pretext, however, cannot explain why the provision for primary and pre-primary education is only increased by 3.5%. Such an increase cannot even keep up with inflation and is in fact a reduction in real terms. It is right and proper for the Government to direct her attention to develop post-secondary education. However, this should not be done at the expense of primary and pre-primary education which is the foundation of the whole education system. Primary and pre-primary education should not be taken for granted or overlooked. A top-heavy situation is an unhealthy development.

The six-year free primary education policy has been implemented for 15 to 16 years and the quality of education so provided needs to be improved. Pre-primary education has long been a kind of general education but it is just like nobody's child in the whole education system, for it has never been given any subsidy from the Government. Why should the Government be so mean to the youngest school children?

Over the last decade, members of the community have been crying out for better salaries for kindergarten teachers. The problem is particularly serious in the face of the present wastage. Not only will it affect further development in the quality of pre-primary education, but it may also bring about a fall, or even a crippling fall, in pre-primary education services. On behalf of the school children between three to five years of age and the kindergarten teachers who treat their pupils like their own children, I urge the Government to address this problem and seek a solution for improvement.

The Government seems to be very generous with the controversial expatriate English language teachers' scheme which is still being pursued. Even if the scheme is to be a success, only some 40 secondary schools will be benefited. If the same amount of provision is allocated to finance the salaries of all the kindergarten teachers in Hong Kong, their salaries will be improved remarkably and the morale of

the whole profession will be boosted. All the school children between the age of three to five and the whole pre-primary education will be benefited. Why is there such disparity in government policies? I demand a positive reply from the Financial Secretary and the Secretary for Education and Manpower.

After years of appeal, married couples can choose to have their tax separately assessed and paid for this financial year. However, the present tax system still leaves much to be desired. The case is especially so with the middle-income class who are still being ill-treated and exploited. Their entitlements to social services and welfare benefits is not commensurate with their contribution to our society.

The middle-income class are most affected by the tide of emigration. It is therefore necessary to reinforce their sense of belonging. To this end, the Government must, among other things, improve their position in the taxation system. Their main requests are: (1) an increase in the personal allowance; (2) removal of the clawback provision in personal allowance; (3) widening the tax bands on progressive tax rates; (4) tax exemption on the mortgage interests paid in the purchase of private premises; and (5) tax exemption on contributions to provident funds.

All Members who spoke on pre-primary education and the taxation system in the debate held yesterday and today are concerned about the improvement to the salaries of the kindergarten teachers and alleviation of the tax burden of the middle-income class. This can be regarded as a concensus reached by this Council.

In order to fight for separate taxation for married couples, I voted against the budgets in the past two years. Yesterday, the Financial Secretary asked me if I would vote for or against the Budget this year. I told him I would let him off this time. But be warned, this is a polite gesture before war. If the next budget still pays no attention to or ignore the concensus of the Legislative Council on improving the salaries of the kindergarten teachers and alleviating the tax burden of the middle-income class, I may vote against the budget once more. I shall take respite this year, though.

Lastly, I would like to talk about the importation of labour. At present, Hong Kong is in its economic transformation. Even if some trades are really experiencing shortage of labour, it is but pain "in labour" that accompanies the economic transformation and must be endured. The importation of labour will surely prolong

or even stifle the smooth and speedy economic transformation and it will definitely produce adverse effect on the overall interest of Hong Kong. For the time being, I am not going to elaborate on the sharing of economic prosperity, the damage to the existing harmonious labour relations and the various social problems that may result. I strongly object to the importation of labour. All the trade unions and workers in Hong Kong should unite together to guard against the trick of putting new wine in old bottle.

With these remarks, Sir, I support the motion.

MR. DAVID CHEUNG: Sir, a \$14.2 billion surplus is a miraculous achievement, particularly so when some people are leaving Hong Kong for lack of confidence in its future. It is fantastic, and it demonstrates that Hong Kong is a place where things that happen are very often difficult to explain, more so its economic developments.

It is a pity that the huge surplus has not been used to better improve the quality of life of the people of Hong Kong who, in one way or another, have demonstrated our admirable qualities of perseverance and economic shrewdness.

First, I wish to comment on the provisions for education. My honourable colleague, Mr. CHAN Ying-lun, has just hit the nail on the head with his comments on educational provision.

The 3.7% increase in pre-primary and primary education is far from adequate. The fact that the financial provision for pre-primary education is not even 1% of the total expenditure within the Education Department is, in my view, quite ridiculous. Strong outcries have been voiced, but I doubt if they have been heard, in recent years that more resources should be allocated for pre-primary education services. If it is not Government's policy or intention to provide adequate financial backing to pre-primary education, which by itself is a subject of intense arguments, it is only right for Government to allow operators to charge higher fees so that by virtue of adequate income from fees, they can improve the qualities of their services. When the kindergartens are not adequately financed, how can we expect them to employ teachers who are trained and how can we expect kindergartens to provide good quality education? When the product is not good, what is the significance of offering fee assistance (subsidizing the customers) to buy the undesirable product. The fee assistance scheme in its present form puts the cart before the horse.

For primary education, the call for doing away with bisessional schools at least for the senior primary classes, are loud and clear. But nothing along this line is outlined in the estimates. Only a very small additional grant and lunch tables and benches for whole-day primary schools have been provided as extra help. Is that a good enough incentive to encourage bisessional schools to turn unisessional? What about additional manpower? To have only one clerk to look after 36 classes of students is sheer inadequacy. It is imperative that Government can take immediate and constructive steps to begin phasing out bisessional schools beginning with Primary Six and Five, doing as much as the situation in each school district permits. I certainly do not wish to see a two-year programme of review and a further three years of deliberation and planning before any further action is taken. Procrastination is a sin, not virtue.

For secondary schools, the percentage of increase is 7.5 as compared to 19 for 1988-1989. While I appreciate and am grateful for the provision of an additional teacher of Chinese to all secondary schools, a gesture scheduled for last year, I do think that much more could and should be done. The teaching profession is fast becoming much less attractive. The appointment services of the two universities can verify that the percentage of their graduates who opt for the teaching profession is shrinking. As society becomes more pluralistic, and more complex, and the institutions of marriage and families gradually disintegrate, children have become more and more difficult to manage and teach. Unruly behaviour is very common. Other than teaching, a teacher spends a substantial proportion of his time handling problem children, and sadly, and very often without the co-operation and support of the parents. It is true that several extra teachers have been given to schools in the past several years. Yet, these teachers cannot be called extra teachers from the establishment point of view because they are given specific tasks such as remedial teaching. They are, therefore, insignificant in terms of enlarging the staff establishment. They are extra teachers with special duties. On the other hand, moral education, sex education, civic education, community involvements have been included in the teachers' workload, particularly so in the past five years. Furthermore, the amount of clerical work teachers have to do increases year by year. It is high time that Government started thinking seriously of providing more money to schools to engage more clerical staff to reduce the teachers' clerical duties and to purchase the necessary equipment to make the administrative work of the school easier and more efficient. In this day and age and with such a huge surplus, I find it a bit ludicrous that Government has yet to wait until 1990-91 to provide

photocopying machines in schools, subject to funds being available! Computers, let alone photocopying machines, should be provided to schools to ease administrative burdens. A short time ago when the doctors and nurses were on strike, some of my honourable colleagues asked me, "Are the teachers happy?" My reply was: "Getting more and more unhappy." Unless and until we can attract and retain high calibre teachers in the schools, the future of our schools would be bleak.

I do not intend to go into the complicated subject of floating classes. When they were first implemented, school authorities were told, or led to believe, that it would be a temporary measure. Fifteen years later, the number of floating classes has not been reduced. In some areas, it has increased. Needless to say, floating classes have made school life for both students and teachers more tedious and trouble-prone.

One further sore point I wish to mention is the Government's persistent reluctance to provide schools with an official vice-principal. Repeatedly we have made our views and needs known, and repeatedly we were told that there was no justification. As more and more principals are now involved in community services and projects, I myself being one, the call of such duties very often take them away from schools. Official vice-principals are urgently required to ensure that schools are, administration-wise, well looked after in the absence of the principals. There used to be two vice-principals in the past, now we cannot even have one. In most schools now, we still have vice-principals; they are only in name but without official and proper recognition. Now that justification has been accepted by the Education Department, the hurdle, we were told, is the Standing Commission on Civil Service Salaries. Sir, can schools be given a vice-principal in the next academic year?

Turning to other subjects, I would like to say something on behalf of the sandwiched class, or middle class. Though this point has been covered by many of my honourable colleagues in the last two days, I would like to give them my full support, and I hope that the message is loud and clear to our Honourable Financial Secretary. In Hong Kong, the middle class people have not been benevolently taken care of by the Government. They are really sandwiched in the sense that they form the bulk of the tax-paying public and yet they do not have the privileges enjoyed by the lower income bracket people -- for example, relatively cheap public housing and medical care.

The Financial Secretary seems to adopt a budgetary strategy of giving everybody

something? I wonder if it is a sound fiscal policy. In my view, the half per cent reduction in the standard rates of taxes on profits and salaries serves no significant purpose. For those who have been paying 17% and 15.5% respectively, the 0.5% reduction does not make much difference. Whereas, if the amount of money could be re-channelled to alleviate the "hardship" of the people with greater needs, it would be very different. Financially, we can afford to give the middle class a bigger tax cut.

In these days of brain drain of the professionals and the middle management people, Government must take concrete steps to offer better care to the sandwiched class so that they can genuinely feel better and thus have a stronger sense of belonging to the community. They have long been neglected. The Administration should take steps to :

- (1) increase the basic personal allowance to \$48,000 for a single person and \$96,000 for couple;
- (2) abolish the "clawback" system on additional personal allowance;
- (3) implement separate taxation for married couples as soon as possible;
- (4) exempt from taxation interests on mortgage loans for genuine home buyers; and
- (5) exempt from taxation employees' contributions to approved provident/retirement fund schemes.

With regard to sales tax, I simply want to say that it is better to offer more attractive tax package to the middle class to keep them here, than to introduce sales tax.

Our Government must be seen to be a government which cares. In an atmosphere of uncertainty, a government must be trying and be seen to be trying her best to improve and enhance the quality of life, and be determined to do all she can to maintain and elevate the confidence of the people. The huge budget surplus must be put to better use for the sake of the people of Hong Kong because the money rightfully belongs to the people of Hong Kong.

With these observations and remarks, Sir, I support the motion.

MR. TAI: Sir, I wish first to congratulate the Financial Secretary on his achievement in presenting to this Council another well-balanced Budget. It is indeed pleasing to hear that he has achieved again a very huge surplus. One wonders whether this surplus is the result of a considerable under-estimation of revenue generated, or an over-cautious expenditure or both.

In the Financial Secretary's speech, he mentioned a significant growth of 3.9% in the size of our Civil Service, which has exceeded the target growth of 2.5%. This, I feel, is a worrying sign. Not only must we now look at the parameters of how to increase productivity and efficiency, we must also look at our present Civil Service establishment system. Is it too involved and cumbersome with too many policy branches, and increasingly complicated procedures, which together hinder efficiency, resulting in civil servants being bogged down with an increasing number of conferences between departments before a conclusion or a decision can be reached?

The cases which I may have some personal knowledge concern the Building and Lands Department, where there are so many interdepartmental meetings involving difference in application of many policies that these hinder efficiency as well as the decision making process. If we are going to look at the cost of efficiency of our Civil Service, not only must we encourage our departmental managers to get more out of the increased resources that they are advocating, we must also encourage them to look at the procedures that they are applying to ensure that they are operating with maximum efficiency as well as cost effectiveness.

Efficiency in the Building and Lands Department is the subject of constant complaints by residents in a number of areas in the New Territories. For example, during the '60s and early '70s applications to build a house could be finalized in six weeks; now this takes anything from six months to nine months onwards.

As regards the payment of compensation for land resumption, land owners frequently have to wait for periods of three or more months after their land has been resumed before they can finally receive their compensation. These delays are in marked contrast to the situation existing in the '70s. Similar delays are experienced in the implementation of the improvement programmes in the New Territories. Not surprisingly, people are saying now that we have a larger establishment and better equipment, why does it take longer to get things done?

In terms of budgetary allocation, following your address, Sir, there is now \$680 million to be allocated for future rural improvements. However, over the years, Government has done little to improve the living environment of our rural citizens. At the present time, there are only some small programmes being managed by the City and New Territories Administration, whilst several larger programmes are being managed by the Territory Development Department and these are for the urban fringe improvement programmes. The majority of the rural residents remain comparatively neglected.

During your last visit to the New Territories, Sir, you were briefed by your officials on the improvement to be made, but I can tell you, Sir, most of these programmes are being delayed because they are really too large to be handled by the City and New Territories Administration, whilst the smaller programmes handled by the Territory Development Department are invariably given a low priority because of their modest size.

Taking this opportunity, Sir, may I ask the Administration to look at the departments responsible for the overall co-ordination, with a view to ensuring that planning in the rural areas, new towns, and the implementation of the works proposed are actually carried out and carried out in time.

During the '60s and early '70s the predecessors of the City and New Territories Administration, apart from being responsible for the management of the day-to-day affairs of the region, were also responsible for the overall development of the new towns. Within a span of approximately 10 years they have successfully developed Tsuen Wan, Sha Tin, and Tuen Mun.

Now, all land matters are divided between Town Planning Office, Territory Development Department, Building and Lands Department, and the Registrar General's Department, whilst the role of the City and New Territories Administration has been reduced to virtual insignificance in respect of land development and improvement. Improvement in efficiency, in overall co-ordination, and advice given at the local level of development must be strengthened and heeded. After all, the City and New Territories Administration is the main establishment which is in daily contact with the community on the ground. In matters of policy, and administrative procedures, which affect the livelihood of our citizens, a responsive government should re-examine the overall role of the City and New Territories Administration in improving community development.

Sir, the next item I wish to raise concern is Vietnamese boat people. I note that the bulk of the rate of increase in our Civil Service goes to the disciplinary forces and, in particular, the Correctional Services. Not only have we, over this year, spent so much on this, but with the continued influx of Vietnamese boat people we may have a bigger and unending problem than Hong Kong can handle.

Time and time again the Finance Committee has been asked for more funds. Understandably, the Administration has tried its best to resolve the problem. But from the very outset Hong Kong has been unfairly and unequally treated by the international community, in particular, in respect of the financial contribution by UNHCR to our Asian neighbours who provide centres for Vietnamese boat people. Malaysia and Thailand have almost received total reimbursement for the running of their centres, including construction costs; however, Hong Kong is only partially reimbursed for the provision of such services.

Our disciplinary forces have been dramatically increased, funded by general revenue, but the manpower is diverted because of the growing number of boat people now staying in Hong Kong. This, in turn, has deprived our society of their services despite an increase in their numbers. I am not saying that Hong Kong should not have a spirit of benevolence to other people in cases such as natural disaster affecting the livelihood of our fellow human beings. However over the past few years, Hong Kong has done its fair share on this issue but, in return, has been unfairly and unequally treated. Apart from finding a solution to stop the influx of boat people, we must also look again into the financial implication in comparison with the financial contribution by Thailand and Malaysia.

In regard to the Financial Secretary's taxation proposal I am disappointed that more concessions and greater consideration were not given to those in the lower and middle income brackets by increasing the married couple and children allowances, as well as allowances for the elderly. The very small increase in the taxation threshold was also a great disappointment to our low wage earners, especially in view of the present rate of inflation. In my view the fear of fueling inflation does not justify the very meagre taxation concessions given in this Budget.

The last topic I would like to raise is the health service. From the budgetary allocation I noted that we have approximately a 9% increase to improve our health service. Apart from our new regional hospitals, which will generally alleviate

overcrowded condition in our existing public hospitals, little has been done to improve equipment, the working environment, or to resolve the many problems now faced by our medical staff. The increase in allocation to the health service will be largely swallowed up by an increase in pay, and the increase in cost of medical equipment and medicine due to inflation. Surprisingly, and suffice it to say, our newest Tuen Mun regional hospital is not computerized. This hospital is scheduled to become operational by the end of this year.

With the growing affluence in our society, our citizens rightly expect a better and an improved quality of medical services. These services, being funded by general revenue, are expensive and, understandably, they are over 90% subsidized. Moreover, most first-class beds in our public hospitals, and free dental services, are available mainly to civil servants and their families. Given this opportunity I would urge the Government to look at the possibility of some degree of reimbursement by the Civil Service when the Hospital Authority is to be set up in April 1990.

In the Financial Secretary's speech, mention was made of setting aside a fund to cater for our infrastructural development programmes over the next 15 years. I would say this is advisable, as we have to be assured that our long-term infrastructural planning and development will not be hindered by fluctuation in the economic development of Hong Kong, so that a long-term programme can be planned and carried out in an orderly manner, so as not to affect the overall development of Hong Kong.

However, our budgetary allocation to any particular heads of expenditure is linked to GDP. In the case of health services, where they are over 90% subsidized and non-means-tested, we are unlikely to see any marked improvement in quality. The provision of B-class beds for our public hospitals, as suggested in the Scott Report on delivery of medical services, will never materialize if we continue to follow the present policy of budgetary allocation.

Can we not set aside some funds to cater for the future development and improvement in the quality of our health service over the next decade, together with a national health insurance programme which could contribute to the running and development costs? This would involve an initial outlay but a fairer contributory system; it would be beneficial to the middle income group in particular, who are willing to pay more for their medical services, but cannot afford such services as are now being offered by the private hospitals

With these remarks, Sir, I support the motion.

MR. LAU WAH-SUM: Sir, inflation is one of the biggest headache today around the world and all governments are trying their best to put it under control. Our inflation rate is even more serious than other economies as they are both importing and self-generating it.

I congratulate the Honourable Financial Secretary for his well-thought Budget and I fully agree with his strategy. He strikes a reasonable balance between the level of tax concessions and the increase of public expenditure. And by setting aside part of the surplus in reserve, this strategy, I believe, will go some way towards checking the growth of our inflation rate.

After a period of sustained economic growth and huge budget surpluses, there must be many calls from differing sectors of our society for increased spendings. But surely these surpluses should best be invested in our major programme of infrastructural works in order to maintain Hong Kong as an international city. Also we should not forget other investments to improve our quality of life to make Hong Kong a better home for all. This is particularly important now when we want to attract the middle class people to stay on and to contribute in the 1990s and beyond.

Sir, as you said in your policy speech in October last year, "we need to develop our social and medical services so that we have a society which is both healthy and caring."

Our population density together with high rate of passenger traffic will continue to make the territory highly vulnerable to epidemic diseases. We must therefore concentrate to improve our health services.

We are now moving in full swing with an ambitious hospital construction programme which will bring our population to bed ratio to an acceptable standard.

And I welcome the formation of a Hospital Authority to deal with various problems arising from the delivery of hospital services in both government and subvented hospitals.

There are many pitfalls in the present hospital organization and management

structure. I believe it is essential to introduce professional management concept supported by modern information technology to improve the working condition and provide a better environment for the medical staff to perform effectively.

But the mere delegation of the management of hospital services to a statutory body will not achieve the best results unless sufficient additional resources are made available in a flexible manner. The authority will require substantial investments in start-up expenditure relating to the improvement of terms and conditions of medical staff, implementation of updated information technology, extra equipment installations and other new functional set-ups.

Financial flexibility between the Government and the Hospital Authority is utmost important. It may be achieved by devising a formula on a set-up budget with the growth rate related to a percentage of GDP growth and the number of hospital beds to arrive at a one-line vote to be allocated to the authority on a tri-annual basis. The authority must be given financial flexibility and should not be asked to follow the present government resource allocation method which require departments to compete annually for additional funds from general revenue.

Financial allocation on tri-annual basis should allow the authority to accumulate surpluses in good years in a reserve account. The surplus would then be used to offset operating deficits in bad years. In order to guard against unforeseeable circumstances, a loan fund up to certain pre-determined limits should also be made available to the authority by the Government.

Sir, when considering subsidized medical fees and charges, we should also address the disproportionate lack of benefits of the middle class in our community. Because of the weaknesses of the present system, they have no choice but to use private clinic and hospital services. They are usually burdened with the need to provide for their old age parents but have to pay for nearly all health services they use.

Special health care services should therefore be provided free to the elderly who have contributed to the enormous growth of our economy in the past but without the central provident fund to look after their retirement life. This is important in the light of our ageing population.

Sir, let me say a few words about our public revenue strategy. I believe that maintaining low direct tax is essential for our continuous development as a low-tax international city. We should therefore explore new sources of revenue which

are less affected by the cyclical movements of our economy and also less dependent on our direct tax. Personally I think the sales tax is a good source, but I do know there are many problems which are difficult to overcome, whether it is levied at wholesale or retail level. I feel that unless we could resolve all problems, sales tax would not be acceptable to the public. I wish luck to my honourable friend, the Financial Secretary on this issue.

Let me suggest another area to explore. Over the years, many privileged public utility undertakings have been enjoying compound growth both in revenue and profit, such as our local airline, container terminals, cross-harbour tunnels and so on.

Apart from normal fee and charges, the Government has not enjoyed any share of profit through equity participation except the cross-harbour tunnel.

Since we are confident in our future economic growth, these privileged undertakings should continue similar trend of growth. Government should consider sharing the benefits of their prosperity through equity participation. One would imagine that if Government own say 25% equity of our local airline or other privileged undertakings, the revenue from this source could have been very substantial.

I am sure there are many arguments for and against tapping this source of revenue. Some may argue that these privileged undertakings are "private enterprise" which should not be interfered by Government. But my suggestion is aiming at sharing their prosperity through investment returns without management interference. As we shall have new projects such as the new airport for private enterprise to finance and operate and other operating privileges for allocation or renewals, opportunities for minority equity participation by Government is always available. May I suggest that this source of revenue be carefully studied by your Central Policy Unit.

Sir, with these remarks, I support the motion.

MR. PETER WONG: Sir, the Financial Secretary's Budget has been unspectacular and almost boring. These words are usually reserved for my profession; but to the financial community they reflect confidence because of the steady and hard work that has been put in. As a package, the Budget has given me confidence that Hong Kong is moving down the right track; and that the noises coming out of Lower Albert Road, though faint, are becoming increasingly intelligible. I mean, the five-year rolling

forecasting tool -- the medium range forecast and recently the public sector reform proposals. Of course, we will all be criticising them -- I hope constructively, since there is always room for improvement.

## Interest tax

As a Hong Kong tax practitioner, I thank the Financial Secretary for his generous act of abolishing interest tax by repealing section 27 of the Inland Revenue Ordinance. However, as a legislator, I must state here my reservations as to whether he has been over-generous.

There is a fine correlation between how an investor chooses to take his earnings out of an investment and how that investment will be taxed, whether by way of dividends, interest or some fees and charges. Dividends are paid out of after tax profits; so theoretically, a full tax charge has been levied before the dividend is paid and that dividend is thereafter tax free in the hands of the recipient. However, interest is normally a deduction to the payer and income to the recipient. Within these parameters there is room to manoeuvre on the source of that interest for both the payer and recipient, and interest tax was one of the main tools to restrain such manipulation.

I refer to the former Financial Secretary's budget speech in 1984 when he was highly concerned about the potential tax leakage in the form of interest and introduced the highly unpopular location of business test.

Have all those those concerns been proven groundless?

With the repeal of section 27 all those interest provisions have now been dismantled and there remains only the anti-avoidance provisions sections aimed at back-to-back loans and general artificial transactions.

I am echoing the warning put out by the chairman of the Tax Committee of the Hong Kong Society of Accountants that interest tax is a fine tuner of the overall tax balancing act in Hong Kong and the repeal of section 27 could herald the beginning of yet another tax avoidance season for Hong Kong.

## Other taxation issues

1. I am disappointed in the 0.5% reduction in the standard tax rate. I know that the Financial Secretary was worried about inflation and that a further drop could be said to be inflation. I question whether a greater reduction would automatically mean higher personal expenditure leading to more inflation. Should there have been some encouragement to saving such as higher tax limits for provident fund contributions by employees?

2. The increase of 5% to 60% of the initial allowance can hardly be said to be an incentive for investment in hightech labour saving devices in Hong Kong. Why not go the whole hog and make the entire investment deductible in the year of acquisition? Then, we will not need any annual allowances.

3. The venture capital market's request to have clarity of tax treatment on the profit/loss on disposal of investments should be sympathetically treated because they are asking for certainty of tax treatment in what is otherwise a very uncertain and risky business.

4. I like to address what could be done to simplify our tax structure and reduce inequity in taxation in this Budget?

Firstly, the 10% rule for charitable donations should be reviewed. If we need a new wing of a hospital costing \$100 million, the cost to the Government of a totally deductible donation is only \$15 million for an individual, assuming he has taxable income of that amount. What is the logic of limiting that to 10% of his taxable income only for the Government to have to pay the other 90%?

Secondly, the last time the estate duty bands were reviewed was back in 1982. Since then, inflation has gathered pace and the bands should now be upwardly adjusted. Further, the location of asset test is a powerful disincentive to keep any asset in Hong Kong. Why not do away with estate duty altogether?

Thirdly, if simplification of the taxes was really the objective, I would advocate the repealing of the clawback provisions in salaries tax instead of granting the 0.5% reduction in the standard rate. The separate taxation for married couples to be introduced will surely add complications to our tax structure, so why not get rid of the rather clumsy clawback now?

Changing domiciles?

Much has been said in public about the flavour of the month of relocating your holding company to a safe haven. Hong Kong companies do not have places of domicile and I am surprised that this term has been used in the Hong Kong context.

The genuine fear relating to 1997 and thereafter is something that we cannot directly do anything about in this Chamber. However we can assist in two areas to avoid this morale damaging shift.

Firstly we can look at the Companies Ordinance in the area of a company being able to assist someone else to acquire its own shares or the use of treasury stock which indeed allows a company to buy its own shares. Much work has already been done and agreed in principle by the Law Reform Commission and the professional bodies and it should be relatively easy to bring that forward onto the legislative programme.

Secondly, we can give an assurance that it is not the intention, nor is it feasible under the Letters Patent for this legislature to tax the genuine offshore earnings of a Hong Kong enterprise or group. This message must also be got across to the drafters of the Basic Law.

Environmental protection

Sir, we all welcomed your policy address at the opening of the Session in October when you said that the Administration will spend \$10 billion over the next 10 years on cleaning up the environment. I understand that in the coming White Paper this will be increased to \$20 billion.

I have gone over the estimates and found precious little that I can easily attribute to this purpose. The 1989-90 estimate for the Environment Protection Department of \$180 million is only 20.2% up on 1988-89.

Even if I add up all those objectives that are remotely connected with cleaning up the environment, such as Head 43 Objective 4 being the design and construction of sewage projects, I can only come to \$592.4 million. I know of no substantial environment clean-up projects on capital account apart from sewage treatment works which are necessary anyway and which I do not consider to be part of that \$10 or \$20 billion.

I believe that the following are some of the vital problems that have to be addressed:

1. The treatment of special wastes and sludges and how and where they are ultimately disposed of;
2. The disposal of packaging wastes such as plastic bags and bottles and sterilfoil lunch boxes;
3. The disposal of building wastes such as timber;
4. Pollution of our in-shore waters resulting in beaches unfit for recreational use and destroying of life forms;
5. Compelling the use of sewers as soon as they are built. I understand that up to now perfectly good sewers are not being used;
6. Enforcement of air quality standards such as vehicle exhaust and chimney discharges.

So \$20 billion may sound an awful lot of money but I think the bulk of it is indeed needed for sewerage projects. Even then \$20 billion is likely to be a low estimate because it was \$10 billion just six months ago. May I make a plea that the building of sewers for all of Hong Kong, especially in those endangered areas such as Tolo Harbour be made a triple A category as immediate overriding priority.

Those of us, and I think that means all, who are concerned about the state of the environment will like to see how this \$20 billion will be spent and why the Administration thinks it is adequate. I hope that the remedial action will not be too late to save present environment which are in dire danger of being destroyed.

Hospital services

Lastly, I must make one comment on the sad plight of the Hospital Services Department. That is the miserly 9% increase in the provision for 1989-90, which increases by 3% more than the 1988-89 increase over the preceding year.

Sir, with inflation of at least 7.5% for 1988, which figure I keep saying is

understated, that is hardly any increase at all. Hong Kong can only come to the conclusion that those responsible for this department have not managed to win any improvements in services. Little wonder that the staff have to resort to industrial action.

I am grateful that this is the last year that the budget for our hospitals will be tackled in this way. Those of us in the provisional Hospital Authority, led by Sir S.Y. CHUNG, are making plans for the Hospital Authority which we hope to submit by the end of this year. We are planning many changes based on what we understand to be the best practice in the medical and other fields where scientific management is needed in order to effectively deliver services. Hospitals are not unique in that we simply cannot leave everything to the doctors and there is no accountability. I sincerely believe that we will produce a package that will surely and steadily bring our hospital management systems from Nightingale's era to the 21st century. Some improvements will become apparent immediately, but some of necessity will take us up to the 21st century to complete. It will be a Hong Kong solution to a Hong Kong problem.

This change should start with next year's budget for the hospitals. We have to get away from the notion that it is just another government department. It is not like the KCRC or the Housing Authority which are self-financing. Government has to be relied upon to make so much money available over a predetermined period of time. The Hospital Authority must then be given a fair amount of autonomy as to how it will deliver those services by deciding how much to pay to its employees and for outside services. It must also be able to decide who are the best people or organizations to deliver those services. It must also have latitude as to how much to charge for those services and the mode of their delivery. All this is to ensure the economical usage of resources.

Only then, Sir, can the Hospital Authority have the flexibility to plan ahead and be responsive to the changing needs of Hong Kong.

Sir, with these remarks, I support the motion.

MR. HUI: Sir, in view of Hong Kong's booming economy returning a huge surplus for the third consecutive year since 1986, the Financial Secretary's Budget this year is excessively prudent, extremely conservative and totally disappointing. For one

thing, it has failed to bring about a fair distribution of wealth for the people of Hong Kong.

Emphasizing the impact of inflation, the Financial Secretary saw fit to put into capital work reserve \$7 billion out of the \$11.5 billion "deliberate surplus". In the light of Hong Kong's volatile economy and the foreseeable downturn of inflation trends, the wisdom of saving up excessively for the building of our infrastructure is questionable. The concessions made on salaries tax and profit tax no doubt benefit the opulent rich who become richer, while the genuinely poor still remain poor. Neither can the tax allowance of \$20,000 for single parents meet the needs of low-income working parents who fall outside the tax net. It is indeed ironical that our government departments need "periodical dieting" in order to get rid of some fat accumulated over time, when our pressing social services needs have been left unmet.

With two-thirds of the social welfare expenditure (\$3.98 billion) this year being absorbed by the social security payments, and after deducting inflation-adjusted costs, very little is left for expanding existing social welfare services, not to mention improving service standards. Our care-and-attention homes and multi-services centres for the elderly are stretched to their capacity limits; home-based training programmes for the disabled are in urgent need of additional staff; we are short of 14 children and youth centres; and agreed staff ratios for family case work, home help service, and family life education are still waiting to be implemented. Here, we are not talking about frivolous spending, but basic social service provisions that should have been granted when the economic condition permits. Unfortunately, the backlogs keep appearing on our social welfare programme plans while a plethora of budgetary surplus accumulates.

### Social policy change

For the past three years, I have been harping on increased expenditure for improving the quantity and quality of social welfare services. While the Administration has responded to the request, albeit cautiously, it is necessary for me to outline here once more the rationale behind my plea.

Critics of the re-distribution of primary income argue on the principle of equity, claiming that some people get less rewards than their contributions to social progress. Social welfare, they contend, discourages hard work and entrepreneurship. However, social services are part of an economic stabilization package that mitigates the

undesirable effects of unemployment, illness and old age. In any society, there are the socially deprived whose number is increasing with rapid industrialization and urbanization. There are the juvenile delinquents, battered spouses, drug addicts, the disabled and the elderly who cut across all social strata. Social welfare, which ensures that the costs of change are not borne disproportionately by these people, is a social right for all. Thus, a progressive society does not only cater to those who are least able to help themselves, but also aims at enabling all sectors of the community to become self-reliant and contributing members.

This responsibility, Sir, falls on the Government which has both the moral obligation and the resources to meet changing social needs. In Hong Kong, social welfare development of necessity relies on Government's auspice, since overseas support for local charities had dried up more than 15 years ago. With improved economic conditions and a sizeable surplus comes the legitimate demand for more generous social welfare spending to meet people's rising expectation for a higher quality of life. However, the increase of Social Welfare Department expenditure and social welfare subvention from HK\$1.18 billion last year to \$1.30 billion this year is far from adequate in meeting current shortfalls in provisions and enhancing service standards that have rolled back and deteriorated over the years. How, then, can the life of our people be adequately improved?

#### Lotteries fund allocation

Let us first of all look at the social benefits for welfare recipients. In face of competing demands on public funds, it is understandable why social welfare cannot receive a bigger slice of the cake. However, there is no justification for the paltry allocation given to the Lotteries Fund set up with the specific objective of promoting social welfare development. Although there has been an increase in allocation from 1.5% of the total proceeds from Mark Six Lotteries in 1985 to 3.5% last year, the amount can hardly be enough to launch the 100-odd capital and renovation projects put on the waiting list, particularly with the tender price index rising by 43% in 1988. The argument advanced by the Administration to justify its allocation is that recurrent expenditure required for capital projects would incur long-term commitment for the Government. This puts the voluntary agencies in a "catch 22" position - with recurrent expenses, voluntary agencies are compelled to hold back new projects which enables Government to claim that few project applications have so far been rejected, and therefore there is no need to increase the fund.

Here, I must demur to the existing appropriation of the lotteries proceeds comprising prize money (59%), betting tax (30%) and Administration cost for the Jockey Club (7.5%), leaving a meagre 3.5% to the Lotteries Fund. To my mind, the Jockey Club should concede 1.5% of its share, while Government should reduce the betting tax back to the 25% of 1973, so that the Lotteries Fund's portion could be boosted up to 10%. Furthermore, the 3% supervision fee clawed back from the fund should be waived. In this respect, I would like to draw Members' attention to the Central Lotteries Fund operated in Mainland China which offers a good example to follow. In China, 50% of the proceeds from the sale of 50 million lotteries tickets is used for prize money, with the other 50% allocated to welfare projects run by the provinces without any administration charges levied by the central government. I would also reiterate my previous proposal that half of the 10% Lotteries Fund allocation should be designated for capital grants, while the other half should be used as a revolving fund to generate interests for the improvement of social welfare services.

It is high time the Government released its firm hold on the Lotteries Fund to give social welfare funding a breakthrough. Sir, I see this as an urgent, reasonable and practical solution to meet our pressing social needs which have not been fulfilled due to the lack of resources.

Sales tax objected

Concern for the well-being of our people has led the social work profession to object to the proposed introduction of sales tax in Hong Kong. We look upon Government's expressed need for securing more stable income in the light of rising inflation as an excuse to build up its own resources. Furthermore, Government's intention to tap the "untapped underground economy" by broadening its tax base presents an unconvincing argument. To lower the direct tax rate after introducing sales tax could only widen the gap between the rich and the poor. While sales tax set at a standard rate affects all social strata, it has a punitive effect on the low-earning families, thus further aggravating the inequity of various income groups. If applied to a broad range of commodities, sales tax could fuel inflation, rendering invalid Government's claim that "sales tax causes minimum distortion to our economy".

If however, a sales tax must be levied, I would first of all insist that sales tax be imposed only on luxurious goods. Sales tax at the wholesale level should be confined to items such as jewellery, adult films, night clubs, gambling and entertainment which would not have direct impact on the daily life of the general

public. Secondly, I would call for a low rate of sales tax at a maximum of 3%. Thirdly, there is a need to modify the sales tax with allowances and refunds given to exporters, small retailers and the sandwiched class. In this respect, a formula of tax exemption should be drawn up, providing guidelines for future use to avoid the annual debate. Fourthly, welfare expenditure has to be increased to offer compensation for the large families and single parents on public assistance who suffer the inflationary pressures imposed by the sales tax. These suggestions are geared towards minimizing the erosion of social equity and the solidarity in our society.

6.00 pm

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

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

Question proposed, put and agreed to.

HIS EXCELLENCY THE PRESIDENT: Please continue, Mr. HUI.

MR. HUI:

Sandwiched class neglected

Talking about the principle of equity, the time has come for upgrading the quality of life for a long-neglected group -- the sandwiched class. I refer to the 112 000 households in the 1984 census, whose monthly income falls between \$8,000 and \$12,000, who are not benefitting from our social welfare provisions, and who do not have the means to purchase social services provided by the private sector.

Biggest among the problems confronting the sandwiched class is the exorbitant rentals that often absorb as much as 50% of their monthly income. The rising cost of medical services also adds to their cost of living. The absence of income protection in retirement is another problem for the sandwiched class for whom financial independence in old age cannot be guaranteed by their small savings from

meagre salaries.

There is an exigent need for Government to provide financial assistance in the form of tax concessions on home purchase down-payments of up to \$50,000 for the first-time home buyers. Furthermore, tax concession on mortgage payments, full or partial, should be progressively introduced to relieve the financial burden of the sandwiched class. At the same time, Government should consider building more home ownership flats catering to this group, since home ownership helps to create a sense of belonging which Hong Kong people need so much at this time. As the Provisional Hospital Authority begins to make changes to our hospital and health services, it is also timely to consider a medical insurance scheme with tax concession by which Hong Kong people, especially the sandwiched class, can benefit from private, medium-priced hospital services. Since private provident fund schemes will take many years to give employees of private firms universal coverage, and in view of our increasing social security payments estimated at \$8 billion by the year 2001, I once again call for a compulsory provident fund scheme offering tax exemption as an incentive for employers. These are some equality-producing social policies to assist the sandwiched class who are getting little return for the income tax they pay.

For many years, Hong Kong has enjoyed a flamboyant economy due largely to a hard working population. We do not see signs of stark poverty or beggars on the streets -- a common sight in some of our neighbouring countries. Yet, behind this illusionary picture of prosperity, the lower and sandwiched classes are toiling, without being given the opportunity to share our wealth. Entrepreneurship is a myth for these people who cannot even give their younger generation an equal opportunity to compete. For Hong Kong to become the kind of "caring community" that you, Sir, pledged to build in your policy speech last October, we have to make our financial decisions based on honest social needs. In his presidential inaugural address, President George Bush of the United States said, "Our problems are large, but our hearts are larger, and our economy can accommodate"; and he said this at a time when the United States was facing a huge national deficit. What price are we prepared to pay for maintaining social equality and solidarity in Hong Kong?

Sir, with these remarks, I support the motion.

MRS. TAM (in Cantonese): Sir, despite confronting many unfavourable political and

economic factors, our economy is able to maintain a satisfactory performance over the past year, adding huge surpluses to the government coffer. Admittedly, Hong Kong is now under the threat of inflation, and as in the medium term we have to be wary of the possible political and economic tremors that may rock Hong Kong at any time in the 1990s, it is beyond reproach that great care must be exercised in determining the growth in public expenditure. Nevertheless, the objective and the task of upgrading the quality of life of Hong Kong people, to which the Government has already committed itself, cannot be completely ignored, especially at a time when our public finances are in such a sound position. As the saying goes, "If we do not act now, when shall we have a better chance?" However, as far as upgrading Hong Kong people's quality of life is concerned, there are many areas in the Budget proposals for this year which fall short of our expectation and are worthy of our attention.

This first point is concerned with the provision for social welfare services. Although it is estimated that the total government expenditure for the coming year will increase to \$70 billion, the funds allocated for social welfare services which can directly raise the living standard of the lower income group amount to no more than \$4 billion. In percentage terms, the provisions for welfare services only make up 5.7% of the total expenditure, which is even lower than last year's figure, although in money terms both the surplus and total expenditure of this year are estimated to be larger than those of last year.

Moreover, about two-thirds of the social welfare expenditure is to be spent on social security whereas the allocation for other services provided by the Social Welfare Department and all voluntary agencies amounts to no more than \$1.4 billion. Under the circumstances, some social welfare services which have long been awaiting improvement cannot yet be improved in the coming year. Information obtained from the authorities concerned indicated that there are about a dozen welfare services which require improvement and have been promised that improvement will be made when resources are available, such services include elderly services, family services and homes for children. With substantial surpluses in hand, Sir, it is high time that these services be improved. But to my disappointment, the authorities concerned have not made use of this good opportunity to bring about improvement.

As a matter of fact, apart from service improvement, the social service sector has been very concerned about the pay and benefits for employees of voluntary welfare agencies. Although employees of voluntary welfare agencies have been doing the same kind of work as their counterparts in the Civil Service, they are lagging far behind

as far as remuneration and benefits are concerned, such as housing allowance and medical care. In the medical field, the Government is beginning to look after the welfare of the staff of subvented hospitals, why is it that no improvement has yet been made in the social welfare sector? I sincerely hope that the Government will improve the pay and benefits for employees of voluntary welfare agencies as soon as possible so as to help these organizations deal with the staff wastage problem which is becoming increasingly serious.

So much for social welfare services, Sir. Now I would like to dwell upon the problem of youth training. Hong Kong is a small place with a large population, and so the physical and psychological development of our youths merits our special attention. To organize more sport activities and to expand the camps and hostels service have always been the dreams of those who care about youth development. It is a pity that the Government has long been neglecting these two aspects of work. Let me say a few words about sport activities first. At present, there is only one sports centre in Hong Kong specially engaged in training outstanding athletes for competition purpose. Only a few hundred young people can obtain scholarships which enable them to concentrate fully on training. This may explain why Hong Kong always fails to achieve better results in international competitions. Putting aside the subject of elite athletes, I would like to point out that even the promotion of sport activities at the district level has often been impeded by the lack of funds. It is believed that many people hope that the Government will attach importance to the development of sport activities, but unfortunately in this year's Budget, the Government has not directly touched on this subject, and the fund allocated for sport activities development in the current year only stands at \$11,043,000, the same as that of last year without any increase at all.

I cannot help but ask, "How sincere is the Government in promoting sport activities?", "What importance do the authorities concerned attach to the physical and psychological development of our youths?" and "If the authorities concerned realize the importance of the physical and psychological development of young people and are aware of the long-standing inadequacy of sport activities, why are they not yet ready to make appropriate improvement in this area when our public finances are in such a sound position?"

In regard to camps and hostels service, since the responsibility for managing this service has been transferred from the Social Welfare Department to the Municipal Services Branch on 1 April 1988, a three-year programme to improve the staff

establishment for camps and hostel service has been formulated. This year is the second year of implementation of the above programme. Initially, the Municipal Services Branch has estimated that \$26 million was required, but eventually the Government only provided \$11 million to voluntary agencies to improve camps and hostels services which is far below the estimated amount. Without adequate resources, the provision of camps and hostels service and the implementation of the staff establishment improvement programme will certainly get into difficulties. I would like to take this opportunity to invite the attention of the Government to this matter.

Sir, the third topic I would like to deal with is taxation. For the past few years, the tax burden borne by the middle and lower income groups has always been a cause for deep concern by Members of this Council and the community. I have pointed out repeatedly during the last two budget debates that our taxation system is unfair in that it is placing a very heavy burden on the middle income group. I have also appealed time and again to the Government to introduce separate taxation for married couples and to conduct a comprehensive review of our progressive salary tax structure.

In this year's Budget, I am happy to see that the Financial Secretary is making a pledge to introduce separate taxation for married couples as early as possible. I believe that this piece of news will be welcomed by many families in Hong Kong. However, I am not satisfied with the extent to which reforms are made to the overall salary tax system--

The Financial Secretary has proposed two changes to salary tax in his Budget proposals for this year. Firstly, the basic personal allowance will be increased by \$3,000, which means that the new basic allowance plus the existing additional personal allowance will total \$39,000 as compared with \$36,000 last year. Secondly, the standard rate will be reduced from 15.5% to 15%. In regard to the first change, while an upward adjustment in personal allowance should be welcomed, the increase of \$3,000 is obviously inadequate to offset the accumulated inflation over the past few years. The concession is thus of little benefit to the general public. As for the reduction in the standard rate, it will only benefit the high income group who are paying the highest tax rate. The concession is likewise of little benefit to those in the middle income bracket, because part of their income may still be taxed according to the marginal rates of over 15% and even up to 25%.

I am therefore of the view that the existing salary tax system has to be further improved so that the quality of life of the middle and lower income groups will be better safeguarded. Once again, may I urge the Government to review thoroughly our

progressive salary tax structure with a view to widening the tax bands so that the lower income group will not fall into the tax net so easily. Moreover the Government should consider the feasibility of introducing tax allowance for mortgage payments to home buyers as a means of providing assistance to those middle income families who wish to buy their own home so that they may be able to upgrade their standard of living through this tax concession.

Finally, Sir, I would like to take this opportunity to talk about the monitoring of statutory public utility companies, a topic which has once again aroused much public concern lately. In order to enhance operation effectiveness and upgrade the quality of service delivered to the public, the Government has granted the franchise of operating certain public services to some statutory public utility companies. All along, the community has been concerned about how these companies which have drawn its capital from public fund should be monitored by and held accountable to the public. An important way to realize the above objectives is to establish the means and procedures by which these statutory companies are made constitutionally and financially accountable to government departments, the Executive Council and the Legislative Council. However, the relationship between the Government and these companies in these respects often leaves much to be desired.

For instance let us take a look at the Kowloon-Canton Railway Corporation and the Mass Transit Railway Corporation which have both announced that they would raise their fares in May this year. These two companies enjoy a high degree of autonomy in financial affairs and are not subject to the supervision of the Government or the Executive and Legislative Councils. According to existing arrangements, these two companies have the power to fix their own fares, although as a matter of procedure, after they have decided for a fare rise they still have to submit the relevant facts and data to the Executive Council for consideration. Even if the Executive Council does not endorse the increase, it may have to pay the companies a sum of money commensurate with the proposed adjustment as compensation for not imposing the increase on passengers. Thus, we can see how much power the two railway companies possess over their financial affairs.

I fully appreciate the misgivings and concern of the public about the way statutory public utility companies are monitored. I am also aware that if these companies are not adequately monitored the quality of life of the general public will be greatly affected. I therefore, urge the Government to review thoroughly the existing rules whereby these statutory companies are monitored with a view to seeking

effective improvements.

To sum up, Sir, given the present sound financial situation, I think the Government should seize the opportunity to improve the quality of life of Hong Kong people, bearing in mind that the remarkable economic achievement and social development we witness today are only made possible by the concerted efforts of each and every member of our community. They should have the right to share the fruits of prosperity.

Sir, with these remarks, I support the motion.

MRS. LAM (in Cantonese): Sir, delivering his third budget speech in this Council on the first of March this year, the Financial Secretary expounded with sincerity and thoughtfulness his mission in formulating the estimates and the three key factors taken into consideration. I welcome and support his approach. As if he was a magician, the Financial Secretary made wonderful achievements last year. Notwithstanding the October crash of the stock market, he was still able to turn the estimated \$5.5 billion surplus into an actual surplus of \$14.2 billion. The only difference is that a magician works through the imagination or an illusion, whereas the surplus brought about by our Financial Secretary is now actually in the public coffer. Apart from the surplus last year, the Financial Secretary also anticipated a further surplus of \$11.5 billion in the current year. I should like to commend the Civil Service for its efficiency and devotion and also the Financial Secretary for his expertise in financial matters.

Sir, I fully agree to the Financial Secretary's proposal of setting up funds for the future infrastructure, and wish that such funds would be put to use at an early date. In other words, I hope that the new airport would soon be built, while the road and railway network, port facilities, drainage and sewage systems would all be developed in the near future too.

Another praiseworthy point is that public views have been adopted and separate taxation for working wives, which married women have been longing for, will finally be introduced in 1989-90. The adoption of this policy is not only good news for married working women, but also a milestone in their constant struggle for equality. However, I am of the view that under the premise of separate taxation, a married couple

should be given the discretion to choose between combined or separate taxation, and should not be subjected to a mandatory provision. For a single parent family, our Financial Secretary recommends an increase of \$20,000 in allowance. Although the benefit is not that great, it is still a benevolent gesture. As to the reduction of 0.5% in the standard rate, it is merely better than nothing; only a few score any gain.

Sir, with a surplus of \$14.2 billion, the entire Budget appears to be rather conservative. I therefore have the following observations:

The sandwich class has not been looked after

The sandwich class -- the middle income group in Hong Kong -- has again been neglected in the current estimates. Apart from being the backbone of taxpayers, our sandwich class have a definite contribution towards the prosperity and stability of Hong Kong. However, where welfare is concerned, they are the least benefited. The Financial Secretary has recommended an increase of the personal allowance from \$36,000 to \$39,000, which is considered to be comparatively low. In effect, it means that, a single person with a monthly income of \$3,250 or above will have to pay tax. Under the circumstances, it can be foreseen that more people will fall into the tax net. Now that we are almost faced with a double digit inflation rate, I am of the opinion that the personal allowance should be increased to \$48,000. At the same time, in order to encourage those married women to join the blue collar workers, so as to relieve the serious labour shortage, the allowance for working wives should be retained. As regards the children's allowance, the diminishing allowance system has been adopted during the past years. I think this method is unfair as well as troublesome. All of us would agree that under the propaganda of "two make up the number", the number of children of local families has been lowered to the average of 2.1 at present. So, it is impractical and meaningless to work out the allowances for as many as nine children, and it is also irrational to have a different amount of allowance for each child. I therefore consider that the same allowance should be given for all children. In fact the expenditure on a child is not much less than what is spent on an adult. Hence I think that children's allowance should amount to half of the personal allowance for adults, that is \$24,000. Yet this allowance is to be restricted to two children only.

The people of Hong Kong always hold the view that one must have a stable dwelling place before one can work happily. Thus the question of housing ranks high in

people's mind. In the case of married couples in the sandwich class, they are ineligible for public housing or "Home Ownership Scheme" (HOS) flats if their total monthly income exceeds the set limit, albeit by a small margin. Thus, tax exemption for downpayment and the monthly interest payment for owner-occupied flats will only be reasonable. It will also encourage those people who are ineligible for public housing or HOS units to become flat owners, thereby strengthening their sense of belonging towards Hong Kong. The Government grants to the industrial sector capital allowances and initial allowance for expenditure incurred on plants and machinery. But no tax concession is granted to people who purchase their own homes for the first time. Why is there discrimination in this respect? Furthermore, employees' contribution to provident funds and medical insurance schemes and any contributions by a pensioner should also be exempted from tax.

#### Inadequate allocation of funds for social welfare

In this year's Budget, the proposed expenditure on social welfare is only \$4 billion, with two thirds of it to be spent on social security and old age allowance, leaving only \$1.33 billion for all other social services.

It is disappointing to find the Government unwilling to expand social welfare service and increase its allocation despite an enormous surplus in the public coffers. This is especially the case in the vote for family services. All government and voluntary bodies providing such services only get \$380 million in total. Apparently, there seems to be a growth of 9.3%, but with the deduction of the 8.5% inflation rate, the increase is negligible, given the increase in tens of thousands of new families each year. Family tragedies are frequent in recent years. When I spoke during the policy debate on 10 November last year, I mentioned the inadequacy of family services and the ever mounting pressure faced by families nowadays. This phenomenon has correlation with the change in family structure and the gradual disintegration of ethical concepts. Not a few families are faced with crises and problems of various degrees, and there is a genuine need to expand family counselling and supporting services. In new towns and other districts, contacts with problem families should particularly be strengthened, so that problems can be detected in advance and thus avoided.

Under the prevailing shortage of child care centres and nurseries, the Social Welfare Department's active promotion of the foster-care scheme is indeed laudable. However, it is regrettable that despite the growing demand for such service, few

families come forward to participate. Apart from the responsibility involved, does it also imply that the allowance provided by the Government is too low to attract any potential participants?

The population of Hong Kong is ageing, with the number of people at the age of 65 approaching 500 000. But the care for the aged provided by the Government is far from adequate. The admission quota of homes for the aged as well as care and attention homes for the elderly are limited while the waiting list is very long. Sometimes, old people pass away while waiting for their turn. When they go to consult government doctors, they again have to wait, often for several hours. Since there is a medical service scheme for school children, why does the Government not consider a "medical service scheme for the elderly"? The old people who live alone without family care are very vulnerable to accidents when falling ill and when their health deteriorates. It is hoped that the Government would implement the out-reaching service scheme for the elderly, to render community support to the old people who are alone, feeble and neglected. At present, neither family members nor the community have given enough support for the care of the elderly, and news of old people being deserted or abused are frequently heard of. In this respect, promoting education at the community level and raising the allowance for dependent parents may be helpful.

In many countries or places, senior citizens are entitled to taking public transport at reduced fare or free of charge. I therefore suggest that free public transport services should be provided for the senior members of our community. They have contributed to the prosperity of Hong Kong when they were young and should enjoy more benefits in their old age.

Lack of emphasis on pre-school education

There is a common saying among the Cantonese that "One's character at eighty is determined at the age of three" meaning that a person's future is determined at a very early stage. It reflects how important childhood is in one's entire life. Pre-school education also starts at the age of three, when children are taught how to get along with others, to respect their teachers, to behave themselves and to abide by the law. The clear and firm foundation laid, the correct way of learning and the concept of values established at the pre-school stage will be conducive to a child's learning in his later life. All these learning habits and attitudes will become intrinsic qualities throughout his whole life. It is therefore evident that pre-school education has its own value and bears significance. Nevertheless, it

seems that the Government does not consider this stage of education a necessity. There are neither government run nor subvented kindergartens in Hong Kong. Kindergarten teachers are generally poorly paid. With no prospect in sight, many professionally trained kindergarten teachers turn to other trades. This situation is not only a waste of resources pertaining to professional training, but it also deals a direct blow upon the quality of kindergarten teaching. Should there be no improvement to the situation, there will not be adequate staff to look after the 230 000 kindergarten pupils.

Sir, pre-school learning is part of a child's education. The Government should implement as early as possible the policy of directly subsidizing the salaries of non-profit making kindergarten teachers to ensure that those low-fee but high-quality kindergartens which are non-profit-making can continue to survive.

Sales tax should not be levied

I support the Financial Secretary in his consideration when drawing up the Budget of the principle of preparing for rainy days, but disagree with the proposed levying of a sales tax when there is a surplus of \$14.2 billion. Although it is said that the sales tax will be collected at the wholesale level, yet as the saying goes, "where else will the wool come but from the sheep?" In other words, the consumers will eventually be the ones to pay. Widening the indirect tax base will only enlarge the disparity between the rich and the poor, since everyone will be subjected to the same amount of tax regardless of his or her income level. This is contrary to the tax policy of Hong Kong, which has always been renowned for its low tax system. Every year, tourism contributes handsomely to our public revenue. The introduction of a sales tax will not only damage Hong Kong's reputation as "a shoppers' paradise", but also create inflationary pressure and smear the image of Hong Kong as a port of free trade. In addition, if imported materials are subjected to a sales tax, the cost of production will rise and the competitiveness of Hong Kong products in the overseas market will be reduced. The loss thus incurred in our overall industrial development will be hard to estimate, and such a loss will have an indirect bearing on the financial condition of the whole community. I therefore ardently hope that the Financial Secretary will shelve the plan of introducing a sales tax.

Sir, with these remarks, I support the motion.

MRS. LAU: Sir, the Budget presented by the Financial Secretary is yet another masterpiece of his fiscal prudence. Hong Kong having enjoyed three consecutive good years with budget surpluses one year larger than the other, the surplus for the last year being a record \$14.2 billion, one would have thought that the Financial Secretary has little excuse not to make substantial tax concessions and loosen the reins on public expenditures. But a good and responsible government must be prudent and far-sighted with its attention focused not only on the immediate present but also on the years ahead. Hong Kong's economy has undoubtedly thrived over the past few years, thanks to the industrious efforts, diligence and perseverance of the Hong Kong people, and it is only natural that they should have high expectations that they will be able to enjoy a larger share of Hong Kong's economic success. How to devise a scheme whereby such high expectations can be reconciled with the need to maintain prudent management of public finances must have been a problem which has given the Financial Secretary a few grey hairs, I should say a few more grey hairs, and I congratulate him for coming forth with a budget package which should by and large be palatable and acceptable to the people of Hong Kong.

The Budget shows that due consideration has been given to the current needs of our people and at the same time not losing sight of the need to adopt the approach of careful forward planning. Over the next 10 years, Hong Kong will embark on major infrastructural projects which will cost multi-billion dollars. Hong Kong has had good years and whilst we all hope that good years will be perennial, there is no reason to believe that lean years will never come. Programmes for large scale infrastructural works and the new airport which are so vital to Hong Kong all go well into the next decade. We must press ahead with these programmes. We cannot afford to run the risk of having to shelve or postpone any of these projects on ground of insufficient funds if by any chance Hong Kong should become adversely affected by economic recession or otherwise suffer a less buoyant economy. As the Financial Secretary has pointed out in his budget speech, Hong Kong's economy has already slowed down to a more moderate pace last year. Although we should not as yet be over pessimistic, it may seem that the long anticipated worldwide economic downturn which has loomed in the horizon for some time is becoming a real probability rather than remote possibility. In my opinion, the transfer of moneys from general revenue to the funds including the Capital Works Reserve Fund and the Development Loan Fund to pave the way for such programmes is a prudent and wise move in the right direction, and to some extent ensures that we will have adequate finances to proceed with our infrastructural

development.

I now wish to make a few comments on the Budget.

Among the Financial Secretary's many cautious approaches in dealing with public expenditures, the proposed increase of 13.8% in social welfare expenditure must have come as some disappointment to many. Taking inflation into account, the increase in real terms is actually minimal. Sir, let me make myself clear that I do not advocate that Hong Kong should be a welfare state. However I firmly believe that a sound and effective social welfare system is vital to the maintenance of stability of any society, and stability and prosperity are what Hong Kong must strive to maintain during these important years leading up to 1997. The huge budget surplus being a clear indicator of Hong Kong's increased prosperity, we must ensure that improvements in our social security and welfare programmes do not lag too far behind that prosperity.

Sir, I am not unappreciative that over the past few years, the Government has started to increase spending in the area of social welfare. But in the provision of social services, in particular social security which takes up two-thirds of the expenditure on social welfare, I believe that the Government ought to adopt a more realistic approach. It is not acceptable and indeed wrong to make upward adjustments in expenditure simply in line with inflation, when the starting point is so low as to be divorced from reality. I take the Public Assistance Scheme as example. In April 1988, the rate of public assistance was increased by 10% and starting this April, it was further increased by 11%. Even with all these increases, the final figures are (inter alia) that a single person eligible for public assistance will receive \$620 per month and a family of, say, three persons will receive \$1,385 per month. If one simply looks at percentages, one may agree that the annual increases are not unreasonable. But if one looks at the final figures, the absurdity of the exercise is apparent. With the present costs of living, how any person can be expected to live a decent life on \$620 a month really boggles one's mind. And it is worse with a family of three persons when most of the time children would be involved. \$1,385 per month for three persons, that is \$460 per person, is probably not even sufficient to cover food expenses let alone other basic necessities in life. Why should this state of affairs continue when clearly the size of our huge budget surplus shows that we can afford to be less mean.

In relation to the Special Needs Allowance Scheme, I can see a similar problem.

The higher disability allowance introduced last year and the reduction in qualifying age for the old age allowance are of course welcome as is the overall increase of 11% in the various special needs allowances as from April this year. But when one looks at these allowances in dollar terms, one will readily realize how inadequate and unrealistic the allowances are: \$620 per month for the ordinary disabled person and \$1,240 per month for the severely disabled person who requires constant attendance. If we accept that these persons are so disabled as not to be capable of being self-supporting or taking care of themselves, the allowances of \$620 per month and \$1,240 per month respectively are clearly not sufficient. But we should not be so presumptuous as to conclude that all persons who are disabled are unable to work or to look after themselves. There are many disabled persons who have earning capacities almost tantamount to able-bodied persons; there are many disabled persons who are financially self-sufficient so that they do not actually require the allowance; there are many disabled persons who are quite capable of taking care of themselves, but of course there are also many disabled persons who are neither self-supporting nor self-sufficient and have got to totally rely on others. At the moment these special needs allowances are non-means-tested so that all those who are disabled get the allowance regardless of financial means or real needs. This works unfairly towards those who have a genuine requirement for these allowances, as their slice of the cake must necessarily be smaller when the cake is free for all and not just for those who are really starving.

Old age allowance is also non-means-tested for those aged 70 and above. The rate is \$350 per month after the recent increase by 11%. For those who have a real need for it, the insufficiency of this allowance is manifested. Some people call the allowance "fruit money" perhaps because the amount is so small as to be probably just sufficient to buy fruit. I find it difficult to understand why this allowance is given. Is it intended to be a mere gesture to acknowledge people having attained vintage years or is it really meant to assist old people financially at a time when they may not be wanted by their other family members? If the latter is the case, why is the amount so pitifully small?

In my view, if social security is to be provided, it ought to be provided realistically, efficiently and effectively. If social security is dispensed on a non-mean-tested basis, we may in trying to please everybody end up pleasing no one. I believe that social security must be intended only for the needy and I take the view that we ought to consider applying the means test more rigidly or if that may not be appropriate, a needs test, in the implementation of our social security

programmes.

The Financial Secretary in his budget speech stated that the increase in expenditure represents the Government's continuing efforts to secure an improvement in the living standards of the community, especially of those who rely heavily on public services. But if one examines this statement in the light of social security, one will see that the improvements in this area are both slow and inadequate. In my view, a job only half done is a job undone and if the Financial Secretary genuinely wishes to improve the living standards of the community, a lot more is required to be done.

In the other areas of social welfare, I commend the Government for having in place a relatively comprehensive range of social services to meet the ever changing and ever demanding social needs of the community. As our society becomes more advanced, family-related problems become more complex. The rate of divorce is climbing up. The consequential increase in the number of single parents has become so significant that recognition of their existence and needs cannot be resisted. I must give credit to the Financial Secretary for having the understanding and compassion to introduce a single parent allowance this year. The provision of adequate and effectual family services is, in my view, very important as I believe that every family is a vital unit within the framework of this society. I am pleased to note that additional services in this area are in the pipeline including the provision of additional family services centres, day nurseries, home help teams and family caseworker units. Without in any way conceding that current services are sufficient, it would seem to me that one form of service is deficient, that is, marriage counselling. The average social worker cannot be expected to have sufficient knowledge and expertise to deal with the delicate and difficult situation which invariably arises when human relationship is on the verge of breaking down. The divorce courts are not responsible to patch up marriages. I verily believe that if we can have more qualified marriage counsellors to render proper advice and guidance to couples during the early stages of breakdown of marriages, we may not have so many broken families in Hong Kong. I therefore sincerely hope that the Government would constantly assess and regularly review the sufficiency and efficacy of its social welfare programmes to ensure that no area of need is overlooked.

I am also pleased to note that there is the proposal to improve the existing staffing ratio of caseworker to family cases. When dealing with interpersonal relationships, it is not the quantity of cases dealt with that matters. It is the

quality of service delivered that is of crucial importance. If the number of cases dealt with by a social worker is too large, the time and attention that can be devoted to each case must necessarily be attenuated. However, in order that this proposal may be effectively implemented, there must be sufficient social workers to cope with the job demands and there are already loud complaints of staff shortages. The Government must address the problem urgently and embark on effective programmes to recruit and train more qualified social workers to meet the demand.

Under the other heads of expenditure, I cannot help observing that services which are Vietnamese-refugee-related seem to enjoy substantially larger increase than the others, for example, it is proposed that the Correctional Services Department shall have a 37.6% increase and that the Immigration Department shall have a 33.2% increase over the figures approved for last year. Although in all fairness, not all of these increases are attributed to the existence of Vietnamese refugees or Vietnamese boat people in our territory, one cannot help feeling that perhaps if our Vietnamese friends had not imposed on us, we would probably be able to channel more money into other more needy areas. Indeed we have already spent hundreds of millions of dollars on Vietnamese refugees and the boat people. How much more are we expected to spend? Even if we can afford it, why do we have to interminably share the fruits of our hard-earned prosperity with Vietnamese refugees who have not contributed to our achievements and whom we have never invited to come? The Vietnamese refugee problem has been with us for far too long a time. Despite introduction of the screening policy, the problem has apparently not abated and in fact recent indications are that the position is worsening. This state of affairs cannot be allowed to continue. If mandatory repatriation is the solution, we should be allowed to implement it. Britain being Hong Kong's sovereign state and the director of the policy resulting in Hong Kong's present predicament has the obligation to solve the problem for Hong Kong and this Administration has the responsibility to impress upon Her Majesty's Government that this has to be done and done expeditiously.

Lastly, I come to the proposition of a sales tax referred to in the Financial Secretary's speech. Having only just announced a huge budget surplus, I marvel at the Financial Secretary's audacity to bring up once again the subject of a sales tax, particularly at a time when there appears to be least justification for it. This issue promises to be a very controversial one. We have already heard some emotive arguments on this topic from my own honourable colleagues over the past two days and I am sure that there will be more heated debates when the consultative document referred to by the Financial Secretary comes out for discussion. Understandably any

form of tax proposed is likely to provoke resentment and encounter rejection, especially when we have actually no immediate discernable need for extra revenue. I agree that any form of sales tax may be regressive in nature. I agree that it may perhaps produce inequitable results as it hits at everybody from the very rich to those in the lowest income bracket. Perhaps if we had a more solid and stable tax system, we should not even start to think about it. Unfortunately our tax base is very narrow and being so narrow our government revenue is necessarily vulnerable to economic fluctuations. We are committed to building major infrastructural and other projects in the course of the next decade to make Hong Kong a better place to live in. Improvements are being made and must continue to be made in many areas of our public services. All these require money and once started, they must go on. As I mentioned earlier, we cannot expect good times to be with us forever. Bearing this in mind, I believe that it is wise to prepare for the rainy day. I support the proposal to broaden our tax base so that our fiscal system will be less susceptible to changes in economic condition. I believe Hong Kong should have a more balanced tax system. The concept of a sales tax has its merits and is an option which we should consider. Of course it has its shortcomings but much depends on how it is proposed to be implemented. Therefore unless we have details as to exactly what the Financial Secretary has to offer, it is premature to argue on its acceptability or otherwise. We will have plenty of time to consider the issue when the consultative document is published and after weighing all the pros and cons, I am sure we will then be able to decide what is in the best interests of Hong Kong.

Sir, with these remarks, I support the motion.

MR. CHEUNG YAN-LUNG (in Cantonese): Sir, I would like to begin by congratulating the Financial Secretary for presenting to this Council a balanced and cautious budget. Without disputing the overall theme of prudent public sector financial management, I would like to comment on some aspects of the Budget which in my opinion deserve further attention.

#### Sales tax

The Financial Secretary mentioned in his speech the idea of imposing a form of sales tax at the wholesale level to broaden the tax base and to ensure a more stable source of tax revenue less sensitive to economic fluctuations. He also highlighted three criteria to be met if a sales tax were to be introduced in Hong Kong: first, it should produce a stable and worthwhile revenue yield at a low tax rate; secondly,

it should cause minimal distortion to the economy; and thirdly, it should be simple and cheap to administer. I shall deal with these criteria one by one.

Let us look at the first criterion. To achieve the target of producing worthwhile revenue at a low tax rate, I would like to know whether the Financial Secretary is considering an uniform tax rate for all goods and services, or a differential scale aiming at higher tax rate for luxurious commodities. This is important because on the one hand, sales tax derived from luxurious goods is equally susceptible to fluctuations of the economy whilst on the other hand, an uniform tax rate can hardly be regarded as fair to the middle and low income group.

Now take the second criterion. Although I do not admit that the introduction of a sales tax will seriously disrupt our economy, it will certainly bring about a fundamental change to our tax system. It is not an option that we can put to test. Once it is in place, various adaptations have to be made. Reactions of the commercial sector, especially the tourist industry, should be carefully gauged before a final decision is taken.

Finally, will a sales tax be worthwhile to administer? Overseas experience does help in the analysis but we must not lose sight of the fact that Hong Kong is much more a cash society than other countries. The enormous volume of cash transactions will open up opportunities for tax evasion, thus generating the need for further intensive monitoring. The Financial Secretary said that considerable research has been done and a consultative document is under preparation. I would like to reserve my comments until a detailed cost-benefit study is available to justify the case for the introduction of a sales tax, which I hope will be presented to this Council in due course.

As regards the timing, the Financial Secretary has rightly pointed out that with inflation glooming over us, to introduce sales tax at this point of time will be inappropriate. But when then is the right time? Should it be imposed at a time of economic recession, when income of the public will naturally diminish, or at a time of economic prosperity, when direct tax alone would build up enormous surpluses? I sincerely hope that the Government would look at the issue from a social as well as economic angle so that the interest of taxpayers is taken into account.

The sandwich class

This brings me to the second topic. The plight of the middle income group has aroused constant concern in this Council. The term "sandwich class" is no status symbol. People in this category bear a big slice of the tax burden but enjoy a minimum amount of social benefits. Take as an example those earning an annual salary income between \$100,000 and \$500,000. They constitute only 37.3% of the number of taxpayers but account for 61.1% of the total tax revenue.

The Financial Secretary acknowledged the fact that we are experiencing high inflation and expected the Consumer Price Index (A) to rise by an average of 8.5% in 1989. However, in Appendix F(3) (iii) of his speech, we can see that for income groups earning an annual income of \$120,000 upwards, their tax savings will only be 3.2 to 5.5% this year. This is a worrying situation because with interest rates running high and property prices setting new records, many sandwich class families are already spending 50% or even 60% of their income on mortgage payment. One point which we should also bear in mind is that more and more people in the sandwich class are planning emigration overseas. Uncertainty over the future of Hong Kong is of course the biggest factor influencing their decision, but I believe every effort should be made to convince them to stay. Although I agree with the Financial Secretary that any tax cut has to be cautiously handled in order to avoid adding fuel to fire, I do urge that more generous tax concessions should be given to the sandwich class.

The Government's reserves

I turn now to the Government's reserves. Whilst I agree that public spending should be planned on the basis of economic growth rather than the size of the reserves, and that due consideration should be given to protecting our spending programmes against cyclical changes in revenue levels, it is important for the Government to be seen as making positive strides into the future and committed to improving our quality of life in Hong Kong.

The Financial Secretary said that time has now come when we should begin putting money aside for some of the major infrastructure projects in the pipeline. I think this is the right approach but it must be emphasized that by doing this it will become more difficult for the Finance Committee to monitor the future use of these funds. Furthermore, details about these projects should be released as soon as possible. As Hong Kong now enters the transitional period, government investments into the future will definitely carry a positive effect on the confidence of local people and

overseas investors.

The pace in which Hong Kong develops makes long-term planning a tricky task. It is therefore important that we should stay ahead of time and start preparation in anticipation of future needs, adjusting our plans as new circumstances emerge. The new airport, for instance, has been dragging on for a long time. Aggravating traffic congestion along our major highways also calls for urgent improvement. We cannot afford any further delays. I am sure that if the Government proceeds with its usual efficiency, we will be able to look forward to the completion of these important projects very soon.

The Financial Secretary referred in his speech to a new fund for investment in projects with private sector participation or to be implemented by statutory authorities. I would like to be assured that future use of this fund will be subject to approval of the Finance Committee. If this is not the case, clarification is needed as to how the use of this fund is intended to be monitored. As more and more statutory authorities are established in recent years to undertake different tasks, the Finance Committee's role as a watchdog on public spending has been weakened. I am sure my colleagues in this Council will agree that this is an unhealthy trend and should not be allowed to continue.

#### Promotion of sports activities

Finally, I would like to comment on the lack of funds for the promotion of sports activities in 1989-90. I understand that the proposal to set up a Sports Council responsible for the overall co-ordination and implementation of sports policies in Hong Kong is now being actively pursued. But before this proposal gets the green light, sufficient funds should be available during the interim to provide a better variety and quality of sport activities in accordance with prevailing aspirations in the community. Funds allocated towards this purpose in 1989-90 is \$11 million, the same level as in 1988-89. Many sports organizations have already voiced strong concern on the lack of funds to implement their programme of activities. I urge the Government to address these concerns urgently and devise possible supplementary measures to improve the situation.

Sir, with these remarks, I support the motion

MR. ANDREW WONG (in Cantonese): Sir, it is exactly seven o'clock. But Sir, and honourable colleagues, do not worry. I shall not be long. I will not be verbose, rambling from policies, strategies, priorities and estimates to systems and institutions. (I shall take no more than 10 to 15 minutes to finish.) On the contrary, I shall tell a couple of jokes or stories, hoping to lighten the grave atmosphere of debate. (Presumably we have all been delivering speeches or reading from scripts, and that includes myself.) If because of a lack of skill, my jokes or stories are not that funny, or if I offend or irritate you, Sir, or my colleagues, I ask for your forbearance and forgiveness.

Sir, the first story is known as "ZHUANG Zhou's butterfly dream". It is totally relevant to the Budget debate. It is taken from a chapter entitled "Qi Mu Lun" ( ) in the book ZHUANG Zi said to be written by a Mr. ZHUANG Zhou. The text began: " ". In the vernacular, it means: once upon a time there was a Mr. ZHUANG Zhou who dreamt that he turned into a butterfly, wings and all, and gorgeous into the bargain. The text went on to say, " " which means that ZHUANG Zhou (who incidentally was also the butterfly) had a fabulous time forgetting what in fact he was. The text continued: " " which means: a while later he woke up and was shocked to find that he was after all ZHUANG Zhou.

Sir, the story is relevant to this debate. I told it with good reason. Having listened to the 41 speeches made by my honourable colleagues these two days (three more to come, including mine, and the debate will be wrapped up), I feel that we, non-official Members seemed to have turned into butterflies, turned into Financial Secretary, Attorney General, Secretary for District Administration, Secretary for Lands and Works, Secretary for Education and Manpower and so on, or even Chief Secretary or your goodself, Sir, assuming that our remarks will bring about changes in policy and big increases in expenditure. Is it a dream or reality?

Sir, ZHUANG Zhou's butterfly dream takes us to another story -- a real story. The setting to the story is a Finance Committee special meeting where the 1989-90 Estimates were deliberated for three consecutive days from 21 to 23 March. Yesterday and today, in the Second Reading debate on the Appropriation Bill before Council, non-official Members spoke on changes to policies and increases in financial allocation. The Government normally would not immediately respond and make changes or perhaps never would. But at least our remarks will be put on record and act as a spur on the Government. Yet when the Finance Committee in a special sitting deliberated the Estimates, the statutory role of non-official Members was to see

whether the Government, in drawing up the estimates, was asking for more money than was necessary for the implementation of established policies. So if we put forward suggestions or if we tried to force the Government to increase expenditure, it would be ultra vires and abuse of process. Sir, I attended the meeting on all three days. I spoke a lot on the third day, said a little on the second day and remained more or less silent on the first day. Maybe it had to do with the general services items assigned to me in the in-house meeting and these items were scheduled for the third day. So after all I was not too diligent in that I did not speak often enough. On the second and third day my questions and remarks were recorded verbatim in the minutes of the meeting. But a remark I let drop on the first day was nowhere to be found in the records.

Sir, let me repeat this remark so that it will be put on record. And allow me also to quote a remark made on the second day of the meeting to illustrate ZHUANG Zhou's butterfly dream.

Honourable colleagues, depending on whether you are a government official or a non-official, having heard the remarks you may smile to yourselves, you may be irritated, but you will certainly not label the remarks as the wittiest aphorism or bang the table to vent your anger, because after all you are honourable Members. The jokes you heard concerned, among others, myself.

Members who attended the meeting may recall that on the first day, at a certain point in time when deliberation on a category of services ended and we moved on to another category, a group of non-officials left the conference room to be replaced by another group. At that time Sir David FORD, the Chief Secretary, said jokingly, "You are taking me on by turns. It is not fair!" I said, "Mr. Chairman, your team has got the referee as team member!" It was of course a joke. (He was holding a meeting then.) But to official Members, it might have rung a bell.

On the second day, about half an hour into the meeting, I felt that Members asking questions, including myself, seemed to be forcing the Government to change policies and to increase expenditure. Therefore I said, "Mr. Chairman, could I suggest that we swap roles, non-official Members to propose expenditure and official Members to propose cuts?" Is the deliberation exercise not very much the same as ZHUANG Zhou's butterfly dream?

Sir, the story does not end here. There is a deeper meaning to the story of ZHUANG

Zhou's butterfly dream. The text said, " ". It does not necessarily mean that the butterfly came out of the dream. It might have a deeper meaning, that is, the butterfly was disillusioned and came to the understanding that it could be the person ZHUANG Zhou. In other words, ZHUANG Zhou was the ZHUANG Zhou in the dream of the butterfly in the dream of ZHUANG Zhou. I repeat: ZHUANG Zhou was the ZHUANG Zhou in the dream of the butterfly in the dream of ZHUANG Zhou. The text went on to say, " " the meaning of which should be clear enough to all.

The text then went on to say, " " which means that ZHUANG Zhou and the butterfly, albeit nominatively different creatures, are in essence the same. If that is so, shall we not adopt a more relaxed approach to life? Shall we not belittle disputes as insignificant? Should we not be more modest? For officials, must they always be right while unofficial Members invariably wrong? Conversely speaking, are non-official Members always correct and officials invariably wrong?

Sir, once we understand this deeper meaning of the story, the policies and the disputes relating to the Budget should not be exaggerated. And regarding our future political structure, divergence of views could be reconciled. The confrontation between the students and the security forces in Tienanmen Square would not escalate. Indeed, classical texts are meant to be read and we cannot afford to skip them.

Sir, regarding the 1989-90 Budget, I give it my general support. But on a number of issues I hold different views. These views were expressed by me in previous debates, or at meetings of the Finance Committee and other meetings. I shall continue to raise these points, maintain a dialogue and am willing to defer to the majority view.

Sir, I congratulate the Financial Secretary and have pleasure in supporting the motion on the Second Reading of the Appropriation Bill 1989.

MR. LAM (in Cantonese): Sir, in recognition of the background against which this year's Budget was made, I have come to realize the incompatibility between policies and reality. In line with its long-standing down-to-earth style of administration, the Hong Kong Government has geared to progress through stability, and has thus gained remarkable achievements.

A budget should be formulated to meet public interests and public needs. The citizens have every reason to expect budget surpluses to be used to fund new or

improved services. The Government has also indicated that the formulation of the Budget serves as an attempt to meet the needs of the community. Indeed, what is taken from our society should be used for the benefit of its people. As far as this concept is concerned, it can be said that the community and the Government are having the same belief and objective. This is a good sign. In today's debate, our main purpose will be to ensure stability, continuity and a positive attitude in the management of our public finances.

We are now faced with three problems: (1) inflation; (2) the accumulation of substantial budget surpluses; and (3) the need to embark upon major infrastructural projects.

The central Government is the authority to formulate annual budgets, and to co-ordinate social and economic programmes as well as the provision of public services. The valuable administrative experience so gained will certainly enable the Administration to distinguish a radical solution from a temporary treatment of a problem, thereby enabling it to formulate suitable policies according to priorities.

I shall now give my views on the Budget, only in the form of a supplement, with a view to seeking a fairer distribution of public resources to meet the needs of the community.

Hong Kong has enjoyed rapid economic growth in the past few years. Our workforce is approaching full employment. The personal income has also risen to a level which represents a per capita GDP of US\$9,300. With a stronger consuming power, increased inflationary pressures are but a natural consequence.

Sir, I think that at present, the suitable way to cope with inflation brought about by economic boom is to enhance the ability of people to deal with the problem. The positive approach is to undertake major infrastructural projects while the passive way is to make certain tax concessions. In this connection, I would like to talk about the new airport project.

Honourable Members may appreciate the fact that the growth rate of the tourist industry has increased by 25% to 5.69 million visitors last year, exerting greater pressure on local traffic. By 1996, no further expansion of the Kai Tak Airport can meet the demand for service. Between 1997 and 2010, should there be no replacement airport in operation, the territory's trade, tourism and other business will suffer

a loss totalling \$101 billion. Then construction of a new airport is estimated to take seven to 12 years to complete, and so it is time for a decision to be made.

A new airport would require the support of modern port facilities and comprehensive road systems. To date, the Government is still undecided on the question of site selection between Chek Lap Kok on Lantau Island and a site at the Western part of Hong Kong.

The underlying principle for site selection is the compatibility of airport and port facilities. As far as the western part of Hong Kong is concerned, problems involving the mooring facilities in the port, the re-alignment of navigation routes, the co-ordination of transportation and environmental pollution should all be addressed. Space is available for port developments at the north-eastern part of Lantau Island. Such developments can tie in with the new airport project at Chek Lap Kok. In this respect, this site is more ideal than that located at West Lamma Channel situated at the western part of Hong Kong.

The construction of an airport at Chek Lap Kok can be carried out together with a project for the provision of a series of port facilities. With the construction of major wharfs at north-eastern Lantau, Ma Wan and Kau Yi Chau a "western harbour" transport network can be formed, to provide linkage between Tsing Yi Island, Kowloon West and all these major wharfs.

The development of the territory's new airport and port facilities should tie in with the economic development strategy along China's coastal region in order to achieve a complementary effect. I am of the view that private or international consortia may be invited to participate in some of these projects.

Sir, as regards the introduction of sales tax, the major motive behind the proposal is the Government's reluctance to rely too heavily on direct tax, for the sake of avoiding any enormous impact on public revenue brought about by economic boom or recession. Such precautionary thinking is worth consideration. To view the situation superficially, we would find that the economic growth in Europe is slowing down and protectionism is expanding; in Mainland China, there is tighter control over foreign exchange and a cut-down on imports. By 1990, our domestic exports may fall, leading to a drop in company profits which will in turn affect the yields from direct tax. So, the onus is on the Government to prepare for changes, and to examine and work out a contingency plan well in advance. Nevertheless, an in-depth scrutiny of

the situation would reveal that the territory's trade has already achieved diversification. In the Asian region, despite China's curtailment on import, Japan still opens its doors to external trade. As concerns the United States, which is the largest market of Hong Kong products, its rate of import may go up again after a fall of 2% last year. Looking around, markets in South America, Eastern Europe, the USSR and the Middle East are all opening up progressively and the prospect looks encouraging. Optimists hold the view that our export growth rate this year may reach 8%.

Although sales tax is intended to be levied at the wholesale level, additional staffing and administrative fees are required. At present, the public sector has already shown signs of expansion. Since 1987-88, the annual growth rate of the Civil Service has been exceeding the target rate of 2.5%. In the past two years, the growth rate was 3.3% and it may reach 3.9% this year. The introduction of sales tax in future will further add to the swelling of the public sector.

The conventional principle of taxation can be described by an analogy of goose feather picking: "The feather pulled out must be numerous but the quacking should be low". The introduction of whatever form of sales tax will put a greater burden upon the public at large and enhance the inflationary pressure. Our originally simple system of taxation will become complicated, affecting the reputation of Hong Kong as a "shopping paradise". It may also deal a blow to the tourist industry. After the public sector has expanded, if a review is conducted on the introduction of sales tax, one may find that "Not too many goose feathers have been pulled out, yet the quacking is very loud!"

Notwithstanding the trend of an economic slow-down in Hong Kong, I think there is no danger of a recession. For this financial year, there should not be any undue worry about the yields from direct tax, nor would it be appropriate to decide to go ahead with the introduction of sales tax.

Turning to estate duty, it is noted that the exemption limit of \$2 million set in 1982 has not been adjusted for seven years. Given the price differences after a seven-year period, I suggest that the exemption limit should be raised to \$5 million for the sake of fairness.

In conclusion, I would suggest that a decision on the construction of a new airport should be made without further delay. I strongly support the transferring of \$7

billion to the "Development Loan Fund" for the construction of airport, port, rail and road facilities. However, I do not support the introduction of sales tax. As regards my proposal to raise the exemption limit for estate duty, it is made in the light of the actual situation prevailing in our society.

The formulation of a budget concerns the overall interests of the community and warrants an all-embracing observation and comprehensive planning, so that a policy can be made to the greatest benefit, including the intangible and indirect benefits, of our society. In future budgets, I hope that the authority will give due attention to the soon-to-be-released new strategy on rural development. For the time being, consultation should be launched in that respect.

Sir, with these remarks, I support the motion.

MR. CHUNG (in Cantonese): Sir, it worried me when I learnt that I was the last on the list to speak in this two-day Budget debate, as by the time my turn came to speak probably just the two of us, namely the President and I, would remain behind in this Chamber. But now I am delighted to see so many of my honourable colleagues around me, looking so fresh that they can easily carry on with a couple more hours of debate.

Just like many people in Hong Kong, I welcome the 1989-90 Budget which promises to be a "surplus budget" with tremendous revenue even after all the tax concessions and the provision of more services.

The Financial Secretary Mr. Piers. JACOBS predicted that the general revenue for the coming financial year will amount to \$81,175 million and that the total expenditure will be \$69,065 million including transfers of \$17,700 million to various funds. He also expected that the reserves of the territory will accumulate to \$70,000 million after the surplus of \$12,000 million has been brought forward.

The new Budget shows that our Government has confidence in our economy that it will continue to grow in the '90s and that our reserves will be maintained at a high level above the safety margin. When adequate financial resources are available, the development of various kinds of services and the funding plans for the major infrastructural projects naturally will go on a smooth track.

What I appreciate most is the Financial Secretary's proposal to make provision for some major infrastructural projects which are still in the pipeline, especially his proposal to make appropriate transfers to the Capital Works Reserve Fund. According to the Budget, from now on the Government will transfer \$7,000 million from the general revenue to the fund which is expected to reach \$16,300 million by 1992. Such arrangement for transfers to the Capital Reserve Fund is significant for it indicates that the Government is determined to implement the infrastructural programmes such as the construction of a new airport, provision of port facilities and road networks and so on. In all likelihood, these programmes will become reality. The following is particularly worth emphasizing --

Firstly, the fund can be regarded as a symbol for continual stability, prosperity and progress of Hong Kong during its transitional period.

Secondly, it is just like saving for the rainy days. The fund will provide financial support to the normal progress and long-term development for various infrastructural projects regardless of prosperous or lean years.

Thirdly, such an enormous fund together with the new airport project will definitely boost the confidence of the public and other investors on the future of Hong Kong and its free development.

I hope the Government will announce its substantive plan in building the new airport as soon as possible and get it started at an earlier date.

In fact, the new surplus Budget, the funding plans and the budgetary strategy for public finance are built on a considerably robust economy. Notwithstanding the forecast that there will be a slowing down in the development of our economy in 1989-90 in view of the global tendency, the estimated GDP will still grow by 14.3%. After making allowance for inflation, the increase will be 5% in real terms. According to the statistics supplied by the Government, the present unemployment rate is as low as 1.3%; and the average income of our population this year is \$85,000, an increase of 13.3% comparing with \$75,000 of last year. While full employment and increase in income reflect the overall favourable conditions in commerce, industry and standard of living, they also provide ample sources of revenue and other available resources for the Government to formulate its budgetary strategy.

I believe everyone who is working hard should be able to share the fruits of

prosperity. However, it must be noted that the existing rate of inflation may be higher than the increase of personal allowance proposed by the Financial Secretary. According to the latest report released by the Census and Statistics Department, the Overall Nominal Wage Index for February 1988 was 166.6, an increase of 10.2% when comparing with that of the same period in 1987, the increase in the wage index for the personal service sector in that period being the highest, that is, up to 21.9%, while the wage index for the business service sector rose by 19%. If the proposed increase in personal allowance is to be made on basis of the increase in wages, then the new personal allowance which is increased by 8% will bring more people from the lower income group into the tax net. For example, the total number of taxpayers in Hong Kong was 700 000 last year, but it is estimated that the number will rise to 790 000 this year. I wonder how many of them will find their increase in pay be swallowed up as their additional income becomes taxable? As there is a reasonable need, should a review be made on the level of allowances for income tax?

The Financial Secretary worried that inflation would be intensified in the medium term. However, in my view, it has little connection with reasonable increase in personal allowance, as the growth rate of wages and prices are relatively higher than the allowances proposed in the Budget.

The Budget also referred to the labour shortage problem which is bothering Hong Kong at this moment. Probably the Government is contemplating a relaxation of criteria for the importation of skilled labour and the introduction of workers from Mainland China is also likely to be a subject under consideration.

As a matter of fact, I do not consider that there should be any change to the existing restriction imposed on the importation of labour. Generally, I believe that we should uphold the tradition of "staying together through thick and thin" which has been a valuable feature in our labour relations. Any employer and employee alike should share the fruits of prosperity. They should join forces in the hour of difficulties. Even if there may be a labour shortage, the problem is most probably a transient one. If we relax the criteria or allow the massive importation of labour, who can guarantee that the well-being of local workers will not be jeopardized by vicious competition in our free market economy.

Land, capital and manpower are the three indispensable elements in an economic structure. The problem facing us is: not only the main industries of our industrial and commercial sectors are starved of labour, many posts in government departments

and public bodies have been left vacant. As pointed out in the report compiled by the Joint Associations Working Group of nine commercial organizations, there is a total shortfall of 240 000 workers. Besides, according to estimates by the Government, 45 000 people emigrated overseas in 1988. Among these people, 25% were managers, technicians and professionals. The trend of brain drain has not been reversed. In my view, if the problem of labour shortage continues to deteriorate under the circumstances of full employment, economic development in Hong Kong will be seriously impaired. Both the local workers and the employers will suffer in the long run.

To tackle the present situation, I would consider Government's relaxation of the criteria on the importation of labour, including the introduction of workers from Mainland China, a move under compelling circumstances. But it should be stressed that the importation of labour should be considered as temporary, expedient administrative measure to tide over this particular situation.

Specifically, clear stipulation should be made by the Government that employers must not bring in cheap labour to the detriment of the status and interests of local workers. The total remuneration given to any imported workers, including wages, fringe benefits, housing and passage, should not be lower than that received by any local employees doing similar jobs.

I am of the view that, on basis of a friendly and steadily improving labour relationship, restricted importation of workers and professional experts within certain limits after an understanding between the manufacturers and the trade unions has been reached may provide the necessary manpower for economic development and serve as a flexible solution to cater for the overall interests of the community of Hong Kong.

We understand that economic prosperity and social stability are correlative. During transitional period, social stability becomes a prerequisite for economic prosperity. Hence, reinforcement of security facilities and the provision of necessary funds ought to be considered a significant element in the allocation of resources in the Budget.

In the new Budget, \$10,200 million has been allocated as the expenditure on security services of 1989-90, representing 15% of the total annual public expenditure, or an increase of nearly \$3,000 million as compared with that of last year. As Hong

Kong has to make preparation for the gradual take-over of security services from the British garrison, it has been planned that an additional 2 000 posts will be required for the police force this year. In my view, it is really a wise decision after the wishes of the general public.

Judging from the present social structure of Hong Kong, social stability should be secured upon a sound multi-storey building management system. On basis of good management of buildings endeavour can be made to develop a highly functional relationship between the police and the public and to provide proper co-operation. The Neighbourhood Watch Scheme under the auspices of the Royal Hong Kong Police Force and the Fight Crime Committee is now extended to many buildings in all districts of the territory. It is really an effective strategy to curb burglary cases in buildings.

With the work of the Advisory Committee on Private Building Management appointed by the Governor now underway, we hope that a proper legal framework can be set up to assist owners to manage their buildings effectively in accordance with the law. Basically, fair provisions in the Deeds of Mutual Covenants should be worked out through consultation and legislative procedures so that a simplified system can be established to enable all private buildings to have their own management authority.

It is anticipated that a new system for multi-storey building management will be established soon. Our aim is to strengthen law and order from the grassroots level by way of good building management as well as to improve the living condition and the quality of life. However, appropriate financial and manpower support from the Government is required throughout the implementation of the whole programme.

In my opinion, apart from the manpower resources and administrative costs necessary for the Advisory Committee on Private Building Management, a consolidated vote should be specifically granted for various organizations such as the Co-ordinating Committee on Building Management at the district level, City and New Territories Administration and its district offices and the co-ordinating teams for building management.

Obviously, adequate resources should be provided for the planning, co-ordination and division of labour regarding the facilities, assigned duties, preparation of documents, collection of information, survey and research, publicity, seminars, receiving complaint and co-ordination which are all for the purpose of improving the

management of private buildings.

District boards and district offices have all along given financial assistance for activities conducive to the good management of private buildings. The total expenditure in recent years has increased from \$230,000 in 1987-88 to \$316,000 in 1988-89. Though the amount is insignificant, it clearly illustrates that the new policy for private building management should have the necessary financial support if the Budget is to reflect the direction of government policy.

As regards the security aspect, many people are concerned about the problem of Hong Kong being the port of first asylum for Vietnamese refugees. Illegal immigrants from other places are repatriated upon arrest. But as for the refugees or boat people from Vietnam, the Government receives them in the first place and carries out screening afterwards. Those being screened out will be repatriated depending on individual cases.

I think we should seek assistance from the United Nations through the British Government to ensure that the Vietnamese Government will try its best to stop the illegal departure of its people for Hong Kong and that the member states will take, in groups, and finally accept all the Vietnamese refugees in Hong Kong within a prescribed period. Up till now, there is no adequate evidence to prove that the Vietnamese Government has done its best to prevent its people from fleeing the country. If the influx of Vietnamese boat people continues unabated and the situation deteriorates, positive consideration should be given to abolishing the first asylum policy.

Sir, I endorse the 1989-90 Budget and hope that the Government will pay special attention to strengthening the security of the territory during the transitional period and providing the necessary financial resources for the well-being of the residents of private buildings and the community as a whole.

Sir, I support the motion.

ATTORNEY GENERAL: Sir, I move that the debate on this motion be adjourned.

Question proposed, put and agreed to.

Adjournment and next sitting

HIS EXCELLENCY THE PRESIDENT: I commend Members of the Council who have persevered for 10 hours whether in the role of ZHUANG Zi or his butterfly. In accordance with Standing Orders I now adjourn the Council until 2.30 pm on Wednesday, 3 May 1989.

Adjourned accordingly at twenty-nine minutes to Eight o'clock.

Note: The short titles of the Bills/motions listed in the Hansard have been translated into Chinese for information and guidance only; they do not have authoritative effect in Chinese.