

1 HONG KONG LEGISLATIVE COUNCIL -- 27 March 1991

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OFFICIAL REPORT OF PROCEEDINGS

Wednesday, 27 March 1991

The Council met at half-past Two o'clock

PRESENT

HIS EXCELLENCY THE GOVERNOR (PRESIDENT)

SIR DAVID CLIVE WILSON, G.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 SIR PIERS JACOBS, K.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 STEPHEN CHEONG KAM-CHUEN, C.B.E., J.P.

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

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

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

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

THE HONOURABLE CHAN YING-LUN, O.B.E., J.P.

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

THE HONOURABLE CHENG HON-KWAN, O.B.E., J.P.

THE HONOURABLE CHUNG PUI-LAM, J.P.

THE HONOURABLE HO SAI-CHU, O.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 DAVID LI KWOK-PO, O.B.E., 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, O.B.E., J.P.

THE HONOURABLE TAM YIU-CHUNG

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

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

THE HONOURABLE LAU WONG-FAT, O.B.E., J.P.

THE HONOURABLE GRAHAM BARNES, C.B.E., J.P.
SECRETARY FOR PLANNING, ENVIRONMENT AND LANDS

THE HONOURABLE MICHAEL LEUNG MAN-KIN, J.P.
SECRETARY FOR TRANSPORT

THE HONOURABLE EDWARD HO SING-TIN, J.P.

THE HONOURABLE RONALD JOSEPH ARCULLI, J.P.

THE HONOURABLE PAUL CHENG MING-FUN

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

THE HONOURABLE RONALD CHOW MEI-TAK

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, O.B.E., J.P.

DR THE HONOURABLE LEONG CHE-HUNG

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.

THE HONOURABLE YEUNG KAI-YIN, J.P.
SECRETARY FOR EDUCATION AND MANPOWER

THE HONOURABLE MRS ANSON CHAN, J.P.
SECRETARY FOR ECONOMIC SERVICES

THE HONOURABLE PETER TSAO KWANG-YUNG, C.B.E., C.P.M., J.P.
SECRETARY FOR HOME AFFAIRS

THE HONOURABLE MRS ELIZABETH WONG CHIEN CHI-LIEN, I.S.O., J.P.
SECRETARY FOR HEALTH AND WELFARE

THE HONOURABLE ALISTAIR PETER ASPREY, O.B.E., A.E., J.P.
SECRETARY FOR SECURITY

ABSENT

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

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

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

IN ATTENDANCE

THE CLERK TO THE LEGISLATIVE COUNCIL
MR LAW KAM-SANG

Papers

The following papers were laid on the table pursuant to Standing Order 14(2):

Subject

Subsidiary Legislation L.N. No.

Hong Kong Airport (Control of Obstructions) Ordinance Hong Kong Airport (Control of Obstructions) (Consolidation) (Amendment) Order 1991.....	95/91
Societies Ordinance Order 1991.....	Societies (Suspension of Section 26C) 96/91
Public Health and Municipal Services Ordinance Municipal Services (Public Markets) (Designation and Amendment of Tenth Schedule) Order 1991..... 104/91	Public Health and 105/91
Registration of Persons Ordinance (Application for New Identity Cards) (No. 4) Order 1991.....	Registration of Persons 105/91
Coroners Ordinance 1991.....	Coroners (Fees) (Amendment) Rules 107/91
Labour Tribunal Ordinance Labour Tribunal (Fees) (Amendment) Rules 1991.....	108/91
Lands Tribunal Ordinance	Lands Tribunal (Fees) (Amendment)

Rules	
1991.....	109/91
Legal Practitioners Ordinance (Amendment)	Legal Practitioners (Fees)
Rules	
1991.....	110/91
Small Claims Tribunal Ordinance (Amendment)	Small Claims Tribunal (Fees)
Rules	
1991.....	111/91
Public Health and Municipal Services Ordinance Council) (Amendment)	Hawker (Regional
By-Laws 1991.....	
112/91	
Public Health and Municipal Services Ordinance Markets in the	Declaration of
Regional Council Area (Amendment) (No. 2) Declaration 1991.....	
113/91	
The Chinese University of Hong Kong Ordinance Chinese University of	Statutes of the
Hong Kong (Amendment) Statutes 1991.....	114/91
University of Hong Kong Ordinance Hong Kong	Statutes of the University of
(Amendment) Statutes 1991.....	
115/91	
Securities and Futures Commission Ordinance Futures Commission (Levy)	Securities and
Rules	
1991.....	116/91
Registration of Persons Ordinance	Registration of Persons

(Application for
New Identity Cards) (No. 5) Order 1991..... 117/91

Telecommunication (Hong Kong Telephone Company) (Exemption from
Licensing) Order
Telecommunication (Hong Kong Telephone
Company) (Exemption from Licensing) (Fees)
(Amendment) Order 1991.....
118/91

Gas Safety Ordinance 1990
(Commencement)
Notice
1991..... 119/91

Sessional Papers 1990-91

No. 63 -- Regional Council Estimates of Revenue and Expenditure for the year ending
31 March 1992

No. 64 -- Urban Council Estimates of Revenue and Expenditure for the financial year
1991/92

Miscellaneous

Third Periodic Report by Hong Kong under Article 40 of the International Covenant
on Civil and Political Rights: An Update

Second Reading of Bill

APPROPRIATION BILL 1991

Resumption of debate on Second Reading which was moved on 6 March 1991

Question on Second Reading proposed.

MR ALLEN LEE: Sir, I should like to begin this year's Budget debate by paying tribute to the Financial Secretary. The recent press comments have done a great deal of injustice to the performance by him during his tenure of five years as the Financial Secretary of Hong Kong. People seem to forget that he has built up a substantial reserve for Hong Kong that enables us to plan for the future on major infrastructure projects, such as the port and airport. They seem to forget that he has brought all the personal income tax rate and corporate tax rate down by 2%. They seem to forget that Hong Kong's GDP per capita at US\$13,000 is at the head of the "Four Little Dragons" of Asia, second only to Japan in the region and tenth best in the world today. Sir, I believe in giving credit where credit is due. Sir Piers has done a good job for Hong Kong and the people of Hong Kong ought to be grateful that when he leaves office this year he will leave us with a substantial and healthy reserve.

Sir, I am always critical about public sector financing. Even though I praise the Financial Secretary's performance, that does not mean that we do not have problems on the economic front. First and foremost, the problem of inflation is still with us and is hurting everyone. This is the third time in three years that I commented on inflation. The Government must take the lead to tackle this problem. To start with, the Government must contain salary increases. I remember it was done before when we were facing economic problems and this year is the year that the Government must have the courage to face its staff that it is the responsibility of Government to curb inflation. I have given due weight to our Civil Service during last year's Budget debate. I believe that our civil servants are treated well and it is only right that they should be well paid. But at a time like this when we are facing inflationary pressure for the third year in the row, direct intervention from Government is needed. Secondly, the problem of labour shortage is still with us. I agree with the Financial Secretary that this situation is added to the problem of inflation and must be monitored closely. If needed, we should look at importation of skilled labour again in order to relieve this pressure. We must bear in mind that Hong Kong must be competitive, particularly during the period of economic uncertainty in the world. There are drastic cuts announced by major United States companies which give us an indication that the economic picture in the coming years is not rosy. In fact, a downturn may be on the way. I just hope that our exports will not be severely affected. Internally, we must also do everything within our power to soften the blow of the downturn of the world economy. I believe that if we prepare ourselves properly, we can stand the pressure and overcome the possible adversity. It is with this in mind that I ask the Government to tackle the inflation problem head on.

Sir, my second concern is with the revenue of the Government. Tax avoidance is legal, as we all know. But it hurts the public purse. The mere fact that the companies use the legal means to probe the loopholes of the law is in my view morally wrong. We shall legislate against this practice as far as we can. I have written to the Financial Secretary last year on this subject. So far the response, if I may say so, is disappointing. I cannot understand the difficulties. It was a clear case of tax avoidance. Why the Government is tiptoeing about companies' avoiding paying taxes which they should pay. I urge the Government to take appropriate action to counter such practices. The logic is simple. When a company doing business in Hong Kong makes its profits in Hong Kong, it should pay Hong Kong tax. Anything else to me is a legal jargon and is wrong in the public eye to even argue about it. While I am on the subject of taxation, I want to put on record that I am in support in principle of a sales tax at wholesale level. I say this because I believe we must widen our tax net. Seeing the effects of the narrow tax base this time when the Financial Secretary is looking for possible revenue to balance the Budget, his choice is limited. He chooses to increase indirect tax. In the case of tobacco, it is a hefty increase of 200% in duty. He justifies it on health grounds. Other increases are not small either, for example, a 50% increase in airport departure tax. I am sure the people of Hong Kong view these hefty increases as surprises. In Hong Kong, I believe no one likes surprises. On the other hand, the Financial Secretary's hands are tied in making his choices. Therefore we need to widen the tax net through the introduction of a sales tax. However, I do agree that the timing of introduction is important and this subject should be fully debated in our community. What I am saying is that when the time is right and the conditions are ripe, we should introduce a sales tax to eliminate the element of surprise in the future.

Before leaving the subject of taxation, I want to comment on the duty rate on Chinese prepared tobacco. In his speech, the Financial Secretary mentioned that he is taking this opportunity to remove the differential between the rates of Chinese prepared tobacco and smoking tobacco. I believe that many of my colleagues did not catch the implications of this sentence. Later on I discovered, through a representation made to me, that the duty rate of Chinese prepared tobacco is increased 1350%, not 200%, from \$60 per kg to \$870 per kg. We all know that Chinese prepared tobacco is smoked by the older generation and the lowest strata of our population. They enjoy rolling their own cigarettes and it is much cheaper. I must say a 13.5-fold increase is hard to accept at any time. I have written to the Financial Secretary twice asking him to reconsider this particular duty increase. Perhaps, he can

consider easing off this increase on a year-by-year basis. And at some point in the future, the duty differential between Chinese prepared tobacco and smoking tobacco will be removed. In Hong Kong we believe in doing things steadily and gradually and I am an advocate of this philosophy. So again, I ask the Financial Secretary to reconsider this point.

Finally, Sir, I would like to devote a bit of time to the sentiment of the Budget debate in this Council. Before the Honourable Rayson HUANG retired from this Council, I remember he commented on Budget debates as practically a useless forum. The non-government Members, it was observed, said or proposed what they wanted and the officials did what they liked. I have been a Member of this Council for 13 years. The only proposal that was implemented, if I recall correctly, is separate taxation for married women and that was the result of many years of debate and efforts by non-government Members of this Council. Surely this situation is undesirable. When non-government Members have good proposals, the civil servants ought to consider them as soon as possible, otherwise it will be wasting Members' time to sit here for two full afternoons year after year without the feeling of contributing towards the good government of Hong Kong. I say this at this Budget debate before the dissolution of this Council in August because I envisage the ball game will be entirely different in 1992 and beyond. The subject of accountability is not only for Members of this Council but for government officials too. The new Council will also be very different and our civil servants must adjust to the new scene. When entering the latter phase of the transition, we have to face many challenges ahead. Unless the Administration is willing to listen, it will be very difficult to govern. It is through working together between this Council and the Administration that we can overcome the difficulties of the future. I do not think I will have another opportunity in a full debate to raise this point. Therefore I would like to raise it now.

Sir, I would like also to use this occasion to say to my official colleagues of this Council that we have worked well together in this Council. But there are changes ahead and I want to see that these changes in the future will be beneficial to Hong Kong. If we fully co-operate and listen to each other's views, I have no doubt we will succeed in continuing the prosperity and stability for Hong Kong.

To Piers, my friend, I send you my best regards. You should be proud of your achievement. And do not be troubled by press comments. After all, no one is perfect. In my case, if I believe I have done my best for Hong Kong, my conscience is clear. Whatever the press says is only a reference. With these words, I wish you, Piers,

all the best in whatever you will do in the future.

Sir, I support the motion.

MR CHEONG: Sir, I would like to echo the Senior Member and pay tribute to the Financial Secretary. During Sir Piers' term of office, we have seen an expanded economy. The Hong Kong economy has now developed to a state of high complexity and diversity. Furthermore, given its externally oriented nature, the economy has to adjust to many extraneous forces which are unpredictable and almost always beyond our control. It is therefore not an enviable task to manage our public finances -- especially so, when the competition of the press has to sell on sensational news and headlines. Against this background, Sir Piers has done his best, kept our books balanced even during the relative hard times of the last two years, managed to build up a healthy sum of fiscal reserves and, Sir, in my view laid a reasonably sound foundation for future economic growth.

Before moving to the Budget itself, I would also like, Sir, to echo the Senior Member's concern about tax avoidance undertaken by large companies in Hong Kong. I think if they earn money in Hong Kong, if they earn their fortune in Hong Kong, there is a degree of responsibility that they have to discharge to this community. We have given them the environment to prosper, the Administration has provided the environment for them to be able to do business here. Why should any group of companies consider paying peanuts back to this particular community for what they earn. I have agreed with the Senior Member that there is some moral issue, and if anyone were good enough to employ and engage lawyers to explore the loopholes, it is up to us as responsible legislators to plug them and not to condone them.

On the Budget itself, Sir, I would like to make the following observations.

First, on the economic prospect for the coming year, there are now signs from our major markets that demand for our manufactured products has improved. I can predict that most industries will have better order books in 1991 compared with 1990. Signs from our other sectors also point to increased business activities. Our GDP growth should therefore fare better than the forecast figure of 3.5%. It will not surprise me, Sir, if we can hit 5% and up. Nevertheless, prospects for 1992-93 and beyond may not be so optimistic. Most established economies in the world are still plagued with fundamental problems of high budget deficit, heavy government debt, high

interest rates, sluggish demand for capital goods and a heavily burdened banking sector. Given the poor performance of our economy for the past two to three years, our economy will have to grow at least 7.5% per annum in real terms for the next three years in order to meet the targeted medium-term trend growth rate of 5.5%. Can this be done? This really is a million dollar question.

Secondly, I am extremely perturbed by the fact that for the past four years, public expenditure has grown very much faster than GDP growth rate. This has violated the stated government principle of only allowing public expenditure to grow broadly in line with growth in GDP. As a result, over the past five years, public expenditure has grown from 11% of GDP to 19% of GDP and is projected to go beyond 20%. What is even more worrying in my view is that for the next few years up to 1994-95, government departments and policy Secretaries will be planning their programmes and expenditure levels based on the medium-term trend growth rate of 5.5% in real terms. Assuming, Sir, that medium-term inflation rate will remain constant at 9.5% the next few years, that means in money terms government expenditure will be planned on a 15% year-on-year basis until 1994-95. This means that in money figure terms government recurrent expenditure will rise from \$63 billion for the year 1990-91 to \$95.8 billion by the year 1994-95. That means three years from now Government will need to find an extra \$32.8 billion to finance just recurrent expenditure programmes. Where can these vast sum of money be found? We need to look critically at our medium-term forecast of recurrent revenue. Hopefully, revenue can keep pace with expenditure otherwise hefty increases in taxes will be needed. Some may urge and encourage Government to meet expenses through borrowings year after year. But, in my view, this is a dangerous course of action to take. Our Government has traditionally been a debt-free Government. We only borrowed from the Asian Development Bank to reinforce a point of principle, and I think we shall be sorry if we adopt deficit financing of government expenditure in future years as we get into the habit of pawning off future revenue to meet current spending imperatives.

How then should we tackle this problem of runaway recurrent expenditure? I venture to make two suggestions.

(A) Re-examine the suitability of applying the 5.5% in real terms medium trend GDP growth rate for future expenditure budgetary planning purposes. Since its 1987-88 Budget, the Government has consistently based its expenditure forecast on a GDP growth rate of 5.5% or above. Whilst it would not seem unrealistic, Sir, to forecast a 5% to 6% growth rate in the early and mid-1980s when the scale of our economy

was relatively small, the situation has changed a great deal ever since. Our base has grown very much larger and it may be that much more difficult to achieve the same targeted percentage growth rate year on year. Furthermore, our future growth will be liable to be dragged by the major internal constraints of rising inflation and severe shortage of manpower resources. It is thus prudent for Government to seriously consider revising downwards future recurrent expenditure spending plans. The aim must be to bring back a comfortable cushion between the trend growth rate of GDP and the trend growth rate of recurrent expenditure.

(B) I urge that the Administration should consider taking tougher steps than we have been in the past in keeping expenditure under control. I think all of us should try to get out of the habit of spreading the limited amount of new money around programme areas. We should instead focus much more closely on only a few. We should avoid spreading our resources too thinly. We need to re-examine all current services offered, re-establish priorities after careful debate and should ensure that those new services to which we attach importance are adequately funded.

More importantly, I believe policy Secretaries and controlling officers should be given every possible encouragement to dig below their existing expenditure baselines, scrap or cutback those services that are no longer important. The other day in Finance Committee, I listened with interest as a Secretary listed one service after another that he proposed to introduce in the coming years -- all to be financed from recurrent savings. The need to extend quickly the public sector reform initiative to other programme areas speaks for itself.

Sir, I have probably said quite enough about the Administration needing to exercise tighter restraint on spending. Allow me to offer some food for thought to my fellow colleagues in the Chamber, especially those who need to win votes. Both now and after September this year, we must try to work in closer partnership with those senior civil servants who lead the Administration, particularly in the determination of priorities for future expenditure. This entails a willingness to avoid making too many promises, or promises that cannot be readily delivered. It also entails a willingness to defend publicly those cutbacks in spending that we need in order to fund new and improved services. In short if we expect the Administration to be tough, we ourselves -- whoever is going to be in this Chamber in October or in the latter part years -- must also exercise a degree of self discipline and a sense of compromise. We must, at all cost, try to avoid the scenario where the executive is constantly rendered ineffective and inefficient by the legislature playing to the

gallery most of the time.

Thirdly, Sir, as an interested party, in the sense of being both a smoker and a Director of British-American Tobacco Company (Hong Kong) Limited, I would normally not comment on any tax increase on tobacco-related products. However, it is a fact that the magnitude of the tax increase this year is such that it has drawn quite an outcry from members of the public. Whether such a hefty tax increase will have the intended effect of improving the health of the community beyond recognition remains to be seen. What is really questionable is whether fiscal measures should be used as a tool in support of certain aspect of health policy, especially as it has often been claimed that our fiscal system is intended solely for revenue-raising measures. If tobacco, Sir, should be penalized in order to protect the community from possible ill health, will the Administration in future impose severe fiscal measures on alcoholic drinks? After all, who can deny that indulgence in alcohol is not bad for health? What about coffee, sugar, salt, animal fats, or even Shanghai crabs, and so on. After all, medical reports have repeatedly testified that all the above can be bad for the heart and health. Will they be subjected to the same treatment? Sir, the fervour of self-righteous pressure groups naturally deserves some degree of respect, but overkill and overdose of anything is a trap the Administration should not fall for. I am amazed that a small number of people have gleefully complained that the tax hike should be 2 000% and not 200%. I only hope that the Administration remains sensible enough to take such ill-thought-out complaints as a bad joke.

Finally, Sir, with law and order becoming a major concern of the people of Hong Kong, we must do everything possible to combat violent crimes and the unabated illegal smuggling activities. In that regard, may I suggest that the Administration should take the opportunity of the Secretary of State for Foreign and Commonwealth Affairs' visit to Beijing to press home to the Chinese authorities the importance of both Hong Kong and Chinese law enforcement agencies working closely together to combat such problem, and may I also, in closing, offer my warmest regards to the outgoing Financial Secretary.

I support the motion.

MRS FAN: Sir, first of all, may I associate myself with the remarks of the Senior Member when he paid tribute to the Financial Secretary for his contribution and may I join the Senior Member and Mr Stephen CHEONG in wishing Sir Piers all the best.

The broadening of the tax base and the control of public expenditure featured every year in the Financial Secretary's Budget speech for the past five years. I agree with the underlying principle. The question is how they can be implemented.

The rationale for broadening the tax base is to protect the stability of public finance. The Financial Secretary constantly tried to achieve the ratio of 60:40 for direct tax and indirect tax. But even with the recent proposals of hefty increases on indirect taxes, of which some are overdone in my view, the proportion from indirect tax is still less than 40%. By introducing a broadly-based indirect tax system such as sales tax or general and services tax (GST), the ratio can be achieved. But a number of questions remain unanswered. Has the Financial Secretary explored whether this measure is the only means? Other than sales tax or GST, can we find other new tax sources? To what extent will sales tax hit the pockets of the lower and middle income groups? What effect will it have on invisible income, that is, the tourist trade? Since such an across-the-board tax must have the effect of raising the Consumer Price Index, and add fuel to salary demands, will this not influence the overall attractiveness of Hong Kong as a place for investment and business, bearing in mind that the average wage for Hong Kong employees is already one of the highest in the region? What will be the additional workload that such a system will generate for the private sector, in particular, for small and medium size businesses? These are but a few of the many questions. Before satisfactory answers are given to these questions, I cannot lend support to the introduction of sales tax or GST.

Hong Kong should look for new tax sources. Some commentators have suggested the introduction of capital gains tax. I think this is worthy of very careful consideration. There should however be concessions for the individual, similar to the practices in other countries, such as Canada. Profit on disposal of principal residence is exempted from capital gains tax. In addition, the legislation also allows for a certain limit, above which capital gains will be taxed.

To levy tax on mobile or car telephones is another source. It is an indirect tax that will catch most of us in this Chamber. As none of us wish to be seen protecting our own interest, the Financial Secretary may find an exceptionally smooth passage for this proposal.

While most people dislike paying tax, it is generally accepted that people who make a lot of profit should pay more tax. Yet we are all aware of tax avoidance schemes

designed by experts for large organizations whose tax bill can be dramatically reduced by using such schemes. The general revenue's loss is these organizations' gain. While tax scheme experts are rewarded with money and fame, the man in the street pays more for his daily needs. Clearly, the Administration must be seen to make an effort to clamp down on tax avoidance schemes.

The Financial Secretary referred to powers of a general nature granted to the Commissioner of Inland Revenue in 1986 to counter this problem. I presume he meant section 61A of the Inland Revenue Ordinance, under the heading of "Transactions designed to avoid liability for tax". As I am interested to know how this provision was employed by the Commissioner, I made some enquiries, and was informed that there was no leading Hong Kong case in this area and that the provision has never been fully tested in the courts. Does this mean that section 61A has never been invoked? And if so, why?

Sir, I appreciate that tax avoidance is a complex subject. Examples exist in other jurisdictions where efforts to close loopholes complicate the tax system to no end. However, as the Financial Secretary pointed out, tax avoidance schemes are placing substantial amount of revenue at risk. Prompt and effective action must be taken to reduce such risks. The community, I think, Sir, will welcome such action.

The community, I believe, will also support strongly the concept of "a level playing field". During the special Finance Committee meeting last week, the Secretary for Monetary Affairs assured members that the Government would ensure that there was a level playing field and the interest of investors would be protected. This is absolutely right. In fact, it extends beyond monetary affairs into every sphere of government activities, such as in the awarding of contracts. The days of special privileges are gone. Our market is free and open, and the minimum but necessary regulatory measures have to be unbiased and equitable. This is the only way forward for Hong Kong as an international centre. Not so long ago, the media reported that the British Government was lobbied by some businessmen in Britain to put pressure on the Hong Kong Government because the British interest in Hong Kong was not properly looked after. This is the very type of mentality which can undermine all our efforts to enhance Hong Kong's status as an international centre. I am glad nothing seems to have resulted from that report. But we have to be mindful that such mentality does exist, not only in Britain, but also in China, and in other countries too. The Hong Kong Government can well be subjected to political pressure. But the Government must stand firm and hold the line, because to do otherwise would not be

in the interest of Hong Kong.

Turning now to the control of public expenditure, the Financial Secretary, with the help of policy Secretaries and controlling officers, is achieving some degree of some success in some areas. In education, I believe we see the beginning of better control of expenditure, more appropriate deployment of resources, and clearer demarcation of authority and responsibility. As part of the public sector reform, the Education Department identified savings of some \$37 million and used them to fund improvements for various activities. The introduction of means-testing for the student travel scheme released another \$166 million for other activities, such as the Direct Subsidy Scheme, and doubling the amount for kindergarten fee remission scheme. The school management initiative that was made public last week is nothing less than a revolutionary effort to put accountability back into the school system. I congratulate the Secretary for Education and Manpower and the Director of Education on their efforts and also their courage.

However I must point out this is only the "beginning", and continuous efforts are expected of them in future. There will be heavy pressure to demand for more and better services. Simultaneously, there will be demands from staff in both the tertiary and school sectors for more pay and improved benefits. Staff costs will rise as a result of salary increases and additional provision of services. Unit cost of provision of education will therefore rise. The tools available to the Administration, which the Secretary for Education and Manpower has already employed in this budget exercise, are to cut unnecessary commitments and to increase fees and charges. These tools will no doubt be used time and again in the years to come. However, there is a limit to the manoeuvring space that can be created by these tools. Yet the target of improving quality in education is still some way ahead. To achieve the target of quality, the Government must use a judicious combination of new money for priority areas coupled with a determined slashing of unnecessary spending.

The Secretary for Security outlined to members in the special Finance Committee meeting how the police achieved increased productivity through better deployment of manpower and modern equipment. This is welcoming news.

It is no longer realistic for government departments, including the disciplinary services, to expect a corresponding increase in establishment for every new or additional bit of work. The larger the establishment, the more reason for the head of department to consider ways and means of absorbing the workload within existing

resources. The wider the scope of activities, the more opportunities there are for better co-ordination and rationalization. In the final analysis, it boils down to the leadership and management ability of the heads of departments, plus the instigation and monitoring of the policy Secretaries.

Law and order, immigration and customs control, fire services, management of penal institutions are areas very much in the public eye. The community looks to the management and staff of these services to offer protection and quality. We are always favourably disposed towards requests for resources from these departments, and I would not wish to see any change to our attitude. But in view of this supportive attitude, I believe it is all the more important for heads of disciplinary services to be more vigorous in improving quality and controlling expenditure. This is the surest way to earn respect and recognition of the community.

Sir, I support the motion.

MR MARTIN LEE: Let the rich be richer -- but let not the poor be poorer. Sir, I have said in this Council on many occasions before that Hong Kong must remain a city that encourages hard work and free enterprise and allows those who make their money to keep it. While we hope that the rich will get richer, we must never allow it to be at the expense of others. I am afraid, Sir, that this Budget -- with its steep rise in indirect taxes and its lack of progressivity in direct taxes -- threatens to do just that.

The most striking aspect of this Budget is its regressive nature. And for this reason, although this is the swan song of the Financial Secretary, I regret that the United Democrats of Hong Kong (UDHK) will have to vote against the Budget in its present form. But let me assure the Financial Secretary that in taking this stand, we do not intend to be critical of him personally. For, Sir Piers JACOBS has been a loyal civil servant, and his honesty and integrity is never in doubt.

Few would contest that Hong Kong owes much of its economic success to its simple system of low taxation, the spirit of free enterprise and the overseas investment fostered by our low-tax system. Indeed, there are few, if any, developed economies in the world which can match Hong Kong's low tax rates. As we move towards 1997, it is imperative that we maintain these principles of low taxation and ensure that Hong Kong will remain an attractive place for overseas companies to invest in.

At the same time, we must make certain that our tax system is a fair one and that the public has faith in its fairness. I am afraid, however, that the regressive nature of this Budget is damaging to public confidence in our tax system. People from low and middle income groups feel that they are being forced to shoulder a disproportionate share of the tax burden.

Regressive nature of tax system

A careful analysis of the financial burdens of individual taxpayers over the last several years reveals the increasing regressivity of our tax system. In the last six years, the total number of persons paying income tax has doubled, and it has jumped by almost 50% just in the last two years. Similarly, the number of taxpayers who pay the maximum, or standard, rate, has increased by 59% in just the last two years. The increase in the total number of taxpayers means that many blue-collar workers are now having to pay income taxes for the first time; and the increase in the number of persons who pay the standard rate means that many persons in the middle-income group are now being forced to pay at the same rate as those in the upper income brackets.

While we do not challenge the objective of broadening the tax base, we do insist that the objective be achieved only by taking fair and equitable measures so that one's tax burden will not exceed one's ability to pay.

In an attempt to redress the problems brought about by its regressive tax system, the Government has taken the token step of increasing the income-tax personal allowance, but this increase falls far short of the rate of inflation. Likewise, the Government has made small revisions in the tax bands, but the net effect on the sandwiched class is negligible.

Proposal to raise personal allowance to \$57,000

In order to counter these problems and make the tax system more progressive, the UDHK have proposed that the Government raise the personal allowance from the \$41,000 per person announced in this year's Budget to \$57,000 per person. We started with the premise that a family of four with a monthly income of \$11,500 should not have to pay income tax, for this was the income level last year below which such a family would have been eligible to be a White Form applicant for the Home Ownership Scheme

and the two children could have received benefits under the Student Travel Scheme. If the personal allowance is raised to \$57,000, then such a family of four with a monthly income below \$11,500 will no longer have to pay any income tax. I should note that just in the last week the income limit for a White Form applicant has been raised to \$14,100; hence, even with an increase of the personal allowance to \$57,000, many families now eligible for the Home Ownership Scheme would still be liable to pay income tax.

An increase of the personal allowance to \$57,000 would cause the number of persons paying income tax to remain at approximately 1 million, and it would forestall this year's projected addition of 200 000 persons to the tax rolls. In addition, it would take away some pressure from the sandwiched class, as it would raise from \$359,000 to \$439,000 the level at which a family of four would begin to pay tax at the standard rate.

In order to offset revenue lost from such an increase in the personal allowance, the UDHK recommends that the corporate profits tax be increased by 1% to 17.5%. Some have argued that it would be a mistake to raise the profits tax for it might send the wrong signal to overseas corporations at a time of doubt about the future profitability of investments in Hong Kong. Yet, to accept this argument is to rule out any such increases for the next six years, as it is unlikely that investors' fears will be eased as we approach 1997 and, indeed, beyond. The traditional thinking in Hong Kong has been that so long as the profits tax does not exceed 20%, there will not be much adverse effect on foreign investments. I urge the Government to undertake a detailed study as to the elasticity of the demand of overseas investors so as to test the accuracy of this traditional thinking. As we face increased expenditure demands for the infrastructure projects associated with PADS, it is important that we be able to assess accurately the optimum level at which the profits tax could be set.

In addition, the Government needs to look at the present tax band structure. Currently, the tax bands are too narrow, and middle class taxpayers find themselves reaching the top marginal band very soon indeed. In order to preserve the fairness of the system, the Government should seek to widen the bands so that these taxpayers will not be forced to pay at the same rate as those in the upper-income brackets.

Indirect taxes

A very obvious aspect of the regressive nature of this Budget lies in the increasing emphasis and reliance being placed on indirect taxes. I am very distressed by the dramatic \$3 billion increase in indirect taxes this year and the larger share of tax revenue that will now be collected through indirect taxes. Everyone knows that indirect taxes fall much more heavily on the poor than they do on the rich, and they therefore violate the principle of equity. Further, indirect taxes, such as the 200% increase on the cigarette tax, directly fuel inflation, which is one of the gravest economic problems we are facing now and in the foreseeable future.

On the subject of the cigarette tax, I am sure that everyone in this Council knows my opposition to smoking, yet I feel the reasons advanced by the Government for the cigarette tax are somewhat disingenuous. If, as the Financial Secretary stated, the increase in the cigarette tax is for health reasons only, then why has the Government not proposed to do anything in terms of health care or prevention programmes for smokers? In addition, the Government seems to be very happy to keep the \$2 billion to be raised by this "health measure", much of which comes from low income people, for it is making no effort to offset the tax by raising the personal allowance or taking other steps to reduce the tax burden of those smokers who are in the low income brackets. For those low income persons who are unable or unwilling to give up smoking, this new tax will cut deep into their disposable household income.

I urge the Government, to enact strong laws against smoking in public places, for example, by extending the present prohibition so as to cover the entirety of MTR stations and both decks of our buses. For, smoking in such places is directly harmful to innocent third parties and turn them into passive smokers. In addition, the Government should take the lead by prohibiting smoking in all government buildings and offices. And I would urge the small number of honourable smokers in this Council to set a good example by refraining to smoke once they enter this building.

Despite the regressive nature and inflationary effects of indirect taxes, the Financial Secretary has indicated his desire to increase further the proportion of indirect taxes through the introduction of a sales tax. While many would agree with his aim of broadening the tax base, we insist that he should only do so by taking equitable measures. And I am afraid that the introduction of a sales tax into the current system would serve only to make an already regressive structure even more unfair.

Rather than widening the tax base through a sales tax, I suggest the new Financial Secretary examine other options such as a capital gains tax. A capital gains tax is based on the principle that income derived from the sale of capital goods should be taxed along the same lines as other forms of income, and we know that capital gains tax exists in most developed countries. I accept the fact that there are certain technical difficulties with the implementation of such a tax. But I am far from satisfied that they could not be solved; and I would urge the Government to study the matter carefully and urgently with the view to presenting the requisite proposals to this Council before its next Budget.

Committee on taxation

In order to examine issues like the sales tax and the capital gains tax within the overall context of our tax structure, I urge the Government to set up a high-level committee which will be charged with the responsibility of determining how the future revenue needs of the Government are to be met. It has been 15 years since the Third Inland Revenue Ordinance Review Committee published its report in 1976, and the establishment of a fourth review committee is clearly overdue. Unlike the current Joint Liaison Committee on Taxation, which is composed almost entirely of tax practitioners, this fourth review committee must have broad-based representation from all sectors of Hong Kong.

In particular, a significant number of committee members -- if not an outright majority -- should come from the 18 Members of the Legislative Council who will be democratically elected this September. Since these 18 democratically elected Members can be said to represent the people of the territory, they will be in the best position to convince the people of Hong Kong to accept whatever revenue increases that the committee may propose.

Further, as the PRC Government has increasingly questioned the budget plans of the outgoing British colonial administration, it is of the utmost importance that these budgets have the clear support of the people of Hong Kong. For, such widespread popular support will demonstrate to China that the budget policies of the Administration, especially the provision for budgetary reserves, are indeed in the long-term interest of Hong Kong. If China is thus reassured, there would be no reason for her to interfere in the domestic affairs of Hong Kong, for example, by dictating that the Government should follow certain budgetary policies.

Sir, I would now like to deal with some questions pertaining to expenditure.

Security services

The first area I would like to focus on is that of security services. I am distressed to see that the expenditure on security services will actually be reduced in real terms in the coming financial year. At a time when we are facing a large increase in the number of violent crimes, we must demonstrate both willingness and ability to fight crime. As I emphasized during the debate of this Council on law and order in January, we urgently need to bring our police force to full strength and to maximize the number of officers on the beat. That has yet to happen, and I note that the police force is still suffering from a vacancy rate of 4.2%. We cannot allow any understaffing of the police force to continue; and we must not reduce our security expenditures at such a critical time.

Environment

As convenor of the OMELCO Standing Panel on Environmental Affairs, I am very troubled by the refusal of the Government to meet the reasonable staffing requests from the Environmental Protection Department. In fact, the Department put in a request for 371 extra staff but was granted only 82, or less than one quarter of the number requested. At a time when the Department is in urgent need of staff to monitor, among other things, compliance with the new Water Pollution Control Ordinance, it is unfortunate the Government should have chosen to reject their staffing request. I therefore call upon the Government to confirm to this Council that it is definitely going ahead full speed with the \$14 billion sewage treatment system. For the apparent lack of commitment to the environment displayed in this Budget bodes ill for this important and much-needed project.

Consumer Council

As chairman of the Consumer Council, I must draw to the attention of my honourable colleagues of the fact that the Consumer Council is prohibited by its terms of reference from monitoring public utility companies. I regret that when it comes to the MTRC and the KCRC even the Legislative Council has no monitoring role to play over them. During a recent meeting of the ad hoc group studying the Mass Transit Railway (Amendment) Bill and the Kowloon-Canton Railway (Amendment) Bill, we were told that if the Director of Audit had any comment to make on the accounts of these

two Corporations, then this Council, through the Public Accounts Committee, could assume some monitoring role over them. But during last week's sessions on the examination of the Draft Estimates of Expenditure, the Director of Audit said, in an answer to a question from me, that the Director of Audit does not look at their accounts at all! Sir, is it right that even this Council cannot monitor these two massive public Corporations?

The Consumer Council is also concerned with certain monopolistic tendencies in a number of fields in Hong Kong and we have set up a sub-committee to look into them. We believe that such monopolistic tendencies go directly against the principles of free trade and fair competition, which are the basic principles we must preserve if we are to keep Hong Kong a vibrant international city.

The new airport

Negotiations have been going on for some time between the British, Hong Kong, and Chinese Governments over this very controversial issue. I do not wish to refer to the political aspects of this issue today, and I shall confine myself merely to financial implications.

I must stress that as we in Hong Kong are going to spend our own taxpayers' money, we alone must decide on the extent and cost of the new airport. Further, since the new airport will not be operational until after 1997, it is only fair that the present generation should not be forced to bear the entire burden of such a project which is clearly intended to benefit future generations. We therefore support the issuing of bonds to raise part of the funds required for this project.

It has been reported in the press that the PRC Government has insisted that the new airport project must not eat too much into our reserves, and that these reserves must be kept at a level of at least \$50 billion in 1997. I should note that this \$50 billion figure does not seem to include the Land Fund, which is explicitly set aside by the Joint Declaration for use by the post-1997 SAR Government and which the Financial Secretary has stated may reach \$80 billion by 1997. And like Mr LU Ping, I sincerely hope that he is right. Sir, such budgetary demands of the PRC are not acceptable to the people of Hong Kong because they are tantamount to forcing today's generation to foot the bill of our future generations. We must insist that this question be decided by the people of Hong Kong.

The judiciary

I have in the past repeatedly stated in this Council that the judiciary must be kept separate from the rest of the Civil Service so as to ensure its independence. Yet, I have failed repeatedly to persuade the Government to take such an important step. One immediate result is that it will be extremely difficult now to attract good and experienced practitioners from our legal profession to join the bench because new judges will, like the rest of the Civil Service, be given a housing allowance instead of actual flats to live in at a rent which is fixed to a small percentage of their emoluments. The housing allowance is clearly insufficient to enable these new judges to live in flats comparable to those being now occupied by judges who were recruited into the judiciary just half a year ago. The Chairman of the Bar, Mr Anthony ROGERS, QC, has recently voiced his concern over this matter and I agree with what he has said, and urge the Government immediately to separate the judiciary from the rest of the Civil Service, and ensure that new judges would be given equal treatment in relation to housing as presently enjoyed by their seniors.

Legal aid

I have also failed in all my previous efforts to persuade the Government to privatize the Legal Aid Department to ensure that it will not be subjected to any pressure from the Government in not supporting unpopular causes. Recently, we have seen an example of how pressure was brought to bear upon the Legal Aid Department over its grant of legal aid to Vietnamese boat people in their challenge of the screening procedure in the High Court. Criticisms were likewise levelled against the Director of Legal Aid during last week's session in examining the Draft Estimates of Expenditure. We are fortunate that today we have a Director of Legal Aid who has not succumbed to such pressure. But how long can the Director and those in his Department continue to maintain their independence when they know only too well that they are but civil servants and can be dismissed at the whim of the Crown?

For the sake of our community, I say one more time that it is essential that we keep the administration of legal aid separate from the Government.

Office premises for Legislative Council Members

In October this year there will be 18 democratically elected Members joining this Council who will come from all over the territory. Since these Members will be

devoting a large share of their time to their Legislative Council duties, it is essential that they be given office premises of their own in the Central area of Hong Kong close to this building so that they can function more effectively. Members will need an office in Central to provide space for an assistant, file documents, hold meetings, work between committee meetings, and so forth. Yet, the current stipend is clearly not enough to allow Members to rent office space in an area as expensive as Central, not to mention their undoubted necessity to establish ward offices in their own constituencies and pay their assistants' salaries.

I understand that at least part of the West Wing of the Central Government Offices building will soon be vacated. May I therefore register a request that sufficient premises in that building be reserved at least for the 18 democratically elected members who will take office this October. Ideally, of course, every Member of this Council should be provided with such office accommodation. If this is not possible, we should start with the democratically elected Members, for they do not have functional constituencies to help them set up such offices.

Car numbers

Lastly, can anyone tell me why the two most prestigious car licence numbers, namely No. 1 and No. 2, have still not been auctioned? And in this connection, may I suggest that No. 2 should go before No. 1 so as to maximize the additional income to the public coffer.

Conclusion

In light of the severe shortcomings in this year's Budget, I am afraid that I must vote against it. It is my sincere hope that the new Financial Secretary in the coming year will listen closely to the views of the people of Hong Kong in order to ensure that next year's budget will be more equitable and more acceptable to the people of the territory.

MR CHEUNG YAN-LUNG (in Cantonese): Sir, excuse me for my voice may perhaps be a bit coarse because of my sore throat. I have mixed feelings on the 1991-92 Budget. At the blink of a global economic recession and with the Government's declared commitment to go ahead with the construction of a new airport, the Financial Secretary is compelled to strengthen and stabilize his sources of revenue in the years ahead. I

wish, however, to query the means in which the Financial Secretary has adopted to achieve this end.

Transfer of vehicle ownership fee

The decision to raise the transfer of vehicle ownership fee from \$50 to \$1,000 has understandably created a great deal of controversy and grievance. It is not uncommon for the Government to impose a hefty increase on certain fees for fiscal purposes. Whilst commercial operators can easily pass on the additional cost to their customers. Those who have the genuine need for a private vehicle due to the geographical separation between their home and workplace will be very hard hit by the increase. Has the Government considered whether it will be fairer to levy the tax on an ad valorem basis according to the value of the vehicle involved rather than a lump sum increase? With the recent rise of cost of petrol due to the situation in Middle East, residents in the New Territories are already bearing the blunt of the increasing cost of owning and maintaining a motor vehicle and I urge the Government to consider sympathetically their plight in determining the most appropriate combination of tax increases.

Vehicle first registration tax

Unlike the adjustment on transfer of vehicle ownership fee, I support the proposed increase of vehicle first registration tax on the basis that the burden is spread evenly between owners according to the value of their vehicles rather on a lump sum payment. In particular, I welcome the increase on first registration tax on light vans which have the dual purpose of restricting ownership of these vehicles to genuine commercial operators as well as to reduce the potential hazard to other road users caused by a proliferation of such vehicles among young and inexperienced drivers.

Tobacco duty

Sir, I now turn to the more emotional topic of duty on tobacco. As I pointed out earlier in my speech, one guiding principle in loading tax increases on different commodities and services is the resulting social impact. Whilst I must declare my interest as a non-smoker on this occasion, the proposed increase on tobacco duty will definitely have a desirable effect on public health. Smoking is a personal choice, it is non-addictive and can be cut down or given up. Although the Financial Secretary could have chosen the more palatable option of introducing a milder or progressive

increase, it is necessary in the interest of public health to introduce an one-off increase.

Finally, I would like to point out that on top of the increase proposed by the Financial Secretary, the tobacco companies have also adjusted the retail price of cigarettes by about \$4 for each packet of 20. Calculated on the basis of prices before the increase in tobacco duty, this amounts to a 30% price rise. It is therefore unfair for tobacco companies to distort the situation by blaming the tax increase entirely for the massive price increase on cigarettes.

Air passenger departure tax

With the new level of departure tax at \$150, Hong Kong is now the most expensive destination for travellers in Southeast Asia. The air traffic congestion and inadequate facilities in the existing airport are already casting a bad image on Hong Kong as a tourist attraction. The popularity of a location among tourists are determined largely by spread of word as well as past experience. It could cost more in terms of profits foregone than additional revenue by increasing the departure tax -- and hence our attractiveness to tourists. Will it not be more prudent to confine to a phased but milder increase so that consumer resistance can be carefully assessed at each stage? Can the same amount of revenue be levied from a slight increase on betting duties, entertainments or other luxurious goods?

Tax evasion and avoidance

One primary virtue of the Hong Kong tax system is simplicity. However, this virtue is sometimes exploited by those with the intention to evading or avoiding their tax liabilities. I therefore welcome the Financial Secretary's pledge to curb tax evasion/avoidance and look forward to more concrete measures put forward to this Council.

Control on public expenditure

As regards control on public expenditure, whilst I wish to applaud the efforts made the Government to reduce the size of its establishment, it is equally important for it to review critically the range of public services, the most effective way of providing such services and possible ways to enhance productivity within the Civil Service.

Although I agree with the management philosophy of trimming down the existing bureaucracy by hiving off services that can be provided more efficiently by non-government institutions, one must not lose sight of cost-effectiveness and control. Many quasi-government bodies still rely heavily on public funding for their operations as well as the assistance and advice from the Government. The hidden costs of providing such services and the need for adjustment by the affected departments to provide an effective interface with these bodies should not be overlooked.

Conclusion

I am sure my colleagues will agree that Sir Piers has done a great job as left behind a very valuable heritage, our fiscal reserve, for Hong Kong to embark on long-term capital investments so as to upkeep Hong Kong's competitiveness. I would like to take this opportunity to wish Sir Piers and Lady JACOBS good health and a very happy retirement.

With these remarks, Sir, I support the motion.

MR HUI (in Cantonese): Sir, I remember perfectly well that at a time when Hong Kong experienced a strong surge of emigration and when Government's credibility was at stake, the Administration had pulled out all stops to project the image of a caring society by establishing as an ongoing process the review of policies affecting people's livelihood, hoping to reinforce local people's confidence and determination to stay in Hong Kong. Unfortunately, in formulating this year's Budget, senior Finance Branch officials, who know little about the people's livelihood, lay emphasis on measures which deprive the lower and middle classes of their benefits and safeguarding business investors' interests, thus "producing" a Budget with a consolidated surplus of \$1.3 billion under the pressure of funding large-scale capital projects and catering to a large financial commitment.

I am greatly dissatisfied and indignant with the Government for adopting once again the tactic of "robbing the poor to benefit the rich" in this year's Budget. This is not only because the Financial Secretary has failed to observe the budgetary principles of "getting more from those who can afford to pay" and of distributing resources fairly among the community, but also because this year's Budget, being grossly disadvantageous to the lower and middle classes, has completely ruined the

"caring" image that Government has so painstakingly built up. Today, feeling aggrieved out of a profound love for Hong Kong, I must censure the Government for treating its people meanly. However, because of the limited time available, I shall confine my comment to only three specific areas based on equity and welfare considerations.

(1) Owing to the unique investment environment in Hong Kong, I accept that while there should be a small gap between the rates of profits tax for corporations in Hong Kong and in the neighbouring Southeast Asian countries, on no account should our profits tax be kept so low for so long. Even in Singapore where Hong Kong has long been looked upon as a competitor, the rate of profits tax is as high as 31%, almost double that in Hong Kong. Can we say that Singapore has richer natural resources and more labour resources, or its government has a better way of managing finance than we do? In fact, many people in the business sector, including some of my honourable colleagues in this Council, have said to me that an increase in profits tax by 1% or 2% will not dampen investors' interest in continuing to invest in Hong Kong. What is most important is whether the Government can create an investment climate characterized by clear-cut future prospects, social stability and an ample supply of labour resources.

As the Commissioner of Inland Revenue, Mr A AU YEUNG, has indicated in a reply letter to me, should the corporation profits tax rate be restored to the old level of 18% next year, the additional revenue yield will be \$2 billion for a full year. On the other hand, to increase the personal allowances for income tax from the existing \$39,000 to \$50,000 will cost the revenue only \$1.8 billion for a full year. These taken together, the Government will stand to suffer no loss at all. More importantly, while the former revenue measure should not have any impact on business investors, the latter tax concession will benefit a great number of people. There should be at least some 100 000 low-income people who, no longer having liability to personal tax next year, will have the feeling of being looked after by a caring government. I would like to point out that I have never before discussed with the Honourable Martin LEE or other members of the United Democrats of Hong Kong on the question of personal allowance. That we both suggest the allowance to be increased to \$50,000 is merely a coincidence, or perhaps as some people might like to say, "Great minds think alike."

Although I accept that in the light of the economic situation now prevailing in Hong Kong and in the coming years, we need to broaden the tax base, yet our objective should not be one of adjusting the proportion of profits tax and salaries tax in direct

taxes. Why did the Financial Secretary choose to propose hefty increases in indirect taxes which are bound to stimulate inflation, as well as to introduce a token increase of \$2,000 in personal allowance, instead of raising profits tax by 1% or 2%? I deeply regret the Government's forsaking the principle of fair distribution of community resources by means of an equitable tax system, and turning a blind eye to the people's sufferings while showing favouritism to investors alone. May I give some advice to the next Financial Secretary: Do not imagine you can run the political risk of implementing a scheme to broaden the tax base unless the existing personal allowances for income tax are drastically increased to a reasonable level.

(2) In my opinion, the best evidence for the Government's harsh treatment of the lower classes is the spending on social welfare. Next year's estimated expenditure on social welfare will only amount to \$5.52 billion which, on the face of it, is 8.4% higher than the revised estimates. But this is unable to offset the nearly 10% inflation rate and thus represents a deduction in pecuniary terms. In addition, the proportion of this spending in the total public sector expenditure will drop from this year's revised estimates of 6.1% to as low as 5.5%. This shows that whenever the Government budget is tight, social welfare will become the first victim.

Under such circumstances, I doubt very much what the Government has in mind in publishing the White Paper on Social Welfare into the 1990s and Beyond and commencing a review on the development of rehabilitation services at this time. Let me quote another figure as an illustration: The estimated spending of \$5.52 billion on social welfare only accounts for 0.9% of this year's GDP. In other words, only \$0.9 out of every \$100 earned by Hong Kong people is spent on welfare services. This figure has in fact put the people of Hong Kong to shame but unbecomingly enough, the Government even has the imprudence to publicize the message of caring for the community and speak plausibly to emphasize that it is not desirable for Hong Kong to move towards a western-style welfare state. Being a representative of the welfare constituency, I would like to declare solemnly to the Government and to my fellow Councillors that since welfare funds are not adequate at all, there can be no question of abuse. The Government, therefore, must not shirk its responsibilities in times of economic slowdown on the pretext that "it is not desirable for Hong Kong to become a western-style welfare state". Nor should it put labels on the welfare sector because existing welfare services in Hong Kong and those provided by the western welfare states are still poles apart.

I hope that officials responsible for preparing the Budget would question

themselves whether Hong Kong really has not the capability to upgrade the living standard of the lower classes. Indeed, many citizens loathe the sight of social tragedies caused by a lack of provisions for welfare services. Academics in the field of public finance advise us that appropriate investments in welfare services by the Government can help maintain prosperity and stability or even shorten the period of economic stagnancy. Yet, the Hong Kong Government is trying to do exactly the reverse.

(3) Some people may query to what extent provisions for social welfare should be increased in order to satisfy the welfare sector. My answer to this question was in fact given as early as 1985 when I first joined the Legislative Council. I said that one of the possible ways to increase directly the provisions on welfare services was to raise the allocation of the total proceeds from Mark Six lotteries for welfare services. The existing appropriation rates of the lottery proceeds for prize money, betting tax, commissions for the Royal Hong Kong Jockey Club and allocation to the Lotteries Fund are 59%, 30%, 7.5% and 3.5% respectively. In other words, for every bet of \$100 on Mark Six lotteries, only \$3.5 will go to the Lotteries Fund for designated welfare purposes. This refutes the Government's claim that losers in Mark Six lotteries can regard the amounts lost as contribution to a good cause, because the greatest winner is the Government after all.

Sir, what I request is just a slight reduction of the appropriation rates for the government betting tax and the Jockey Club by 5% and 1.5% respectively, thus raising the allocation to charitable purposes from the existing 3.5% to 10%. We should be very happy with this arrangement -- if accepted by the Government -- as the increase in allocation will mean a substantial rise in social welfare revenue. This proposal, which already has the support of some of my fellow Councillors, is roughly the same as that proposed by the Jockey Club last year. The revenue generated for the welfare sector would then be over \$185 million if 10% of the lottery proceeds were allocated to the Lotteries Fund. In order to avoid wasting resources under the existing policy, I suggest that these proceeds be equally allocated for the following two purposes: One half will go to the non-recurrent investment items of welfare services according to the existing practice while another half should be used as a revolving fund to generate interests for the improvement of services approved by the Social Welfare Department.

In the past, the Government always tried to make sure that the Lotteries Fund had a surplus by slowing down the progress of welfare projects, and by making the

public believe that welfare provisions were adequate. Such tactics have ultimately been exposed by facts. The Lotteries Fund shows a deficit of \$64 million this year, which will accumulate to as high as \$107 million next year. One should not forget that all non-recurrent expenditure items seeking allocation from the Fund must have the prior approval of the Social Welfare Department. In other words, the Government should immediately set aside more provisions to fulfil its welfare project commitments that have been accepted after screening.

All in all, the new airport project will, beyond doubt, contribute greatly to the development of Hong Kong's economy. However, a shadow has already been cast on it as a result of the scramble for power and interests between China and Britain. In the light of the present situation, if the Government wants to restore its credibility and to rebuild the image of a caring government, the least it can do is to show its good faith in making financial commitments, and, together with the public at large, prepare for the difficult times ahead. This is a more pragmatic and effective approach than just making a mere-publicity gesture or reviewing services which affect the people's livelihood without making any financial commitments.

With these remarks, Sir, I support the motion.

MRS TAM: Sir, looking after the health of Hong Kong's finances can be nobody's idea of an easy life.

The Financial Secretary deserves congratulation for the way he has diagnosed, evaluated and prescribed treatment for the economy of Hong Kong for the last five years. He has had to consider the competing claims of all the medicines on the market, decide whether to counsel rest, or suggest exercise, and a change of diet or administer a tonic; when to risk an operation or give a short, sharp injection however painful. He has had to distinguish serious and real symptoms from imaginary or trivial ones.

Perhaps hardest of all, he has been surrounded in this Council by a crowd of well-meaning friends and relations, offering suggestions, advice and their own patent remedies. I think we can be satisfied that he has kept a level head and done well to reinforce the economy's basically strong constitution and given his client considerable freedom to choose her own medicine. Hong Kong has shown good natural resistance to the local and temporary infections that are bound to afflict her from time to time.

Sir, I can understand how it comes about that the emphasis in Sir Piers' farewell Budget speech was on capital investment in major projects. The long-term aims of government policy in this direction are to provide the right framework for the continuing success of Hong Kong as a prosperous, wealth-generating business centre.

This strategy provides hope and confidence for the future, but it would be unfortunate if the emphasis were achieved at the expense of squeezing out aspects of financial planning that most immediately affect a large sector of the community.

Sir, Government must not neglect the adequate provision of care for the community at large -- or even give the impression of neglecting it. I should have liked to hear more about the positive benefits ordinary Hong Kong people will reap from government measures and government policies. In short, if the taxpayer is to make her hard-earned contribution to the economy, she wants to be assured that it will be used in a way which relates to her and to those in the community who need help most.

Sir, I said that Government was planning investment in major projects -- "major", that is, in terms of cost. No less major from the point of view of the man and woman in the street are projects costing much less, which touch them closely. The Financial Secretary said that "spending on public services as a whole is not being cut back to pay for the new airport and other essential capital projects" but we listened in vain for a fuller reassurance of how this would be achieved. He did not, for example, follow up at any length the financial implications of the promises on social services made in the Governor's policy speech, or the sort of needs foreshadowed in the latest Education Commission Report, or in the Social Welfare White Paper.

Sir Piers has expressed regret at having to leave one task uncompleted. He has not found the time ripe for introducing the sort of indirect taxes which would broaden the tax base in the territory, and make for a more equitable and stable fiscal system. This task he leaves for his successor.

Another task left for Sir Piers' successor will be to remedy the contagious inflation that currently affects our economy, as it does many other economies round the world. We shall want to see how our next Financial Secretary can reconcile the task of providing care for the community and supporting much-needed services with the constraints of an inflationary situation. We must remind him that among the

population of Hong Kong, there are people who have no marginal resources to draw on. They must be able to rely on the Government not to erode their livelihood but to relieve their hardship. Any cuts in public expenditure which have to be made must avoid this most vulnerable area.

Hong Kong has always been modest and conservative in its social welfare programme and the latest Social Welfare White Paper is no exception. It is to be welcomed as pointing the direction in which we must move in the 1990s, but it sets out no more than the bare minimum to be achieved. Those working in the field of social service feel that a good deal more is needed: we still do not see the implementation of services for which we have been fighting for years -- more homes for the elderly, for example, to cut down the long waiting lists. We badly need to improve the ratio of school social workers to pupils served. We need more outreaching social workers to handle youth at risk. Our services for the handicapped are still inadequate. For a long time, plans have been ready for meeting all the needs I have mentioned and others, but still do not see these plans being put into action.

Social service is all about people -- the people who are served and the people who do the serving. Without devoted and committed manpower, social welfare breaks down altogether. Unfortunately, turnover and wastage rates of staff in the field of social work are far too high, and the figures show no sign of improving in the foreseeable future. There may be many reasons for this, but one does not have to look far to find one overwhelming reason. Subvented agencies currently employ some 80% of all social welfare personnel. Yet only those in government posts receive the reward of fringe benefits as part of their employment package. Staff in comparable posts in the non-governmental sector feel their lack of parity keenly.

The Social Welfare White Paper makes an important point when it says: "The maintenance of a vigorous and progressive voluntary sector, functioning in genuine partnership with Government in the provision of welfare services, is vital to the future development of social welfare."

Sir, I entirely agree with that view but I submit that the partnership is too unequal, and as long as it remains so it is hard to expect the voluntary sector to do its share. The Secretary for Health and Welfare, answering questions on this subject 10 months ago, assured this Council that the Administration was "considering ways of narrowing the gap in respect of the provision of fringe benefits". So I urge the Administration to act urgently in this matter. The commitment and devotion of

those who work in the field of social services must not be taken for granted but properly rewarded. It is time their difficult jobs were made more attractive and a package of fringe benefits implemented, as it has been in other areas such as the hospital service. If Government tests their patience any longer I fear they will vote with their feet and continue to walk away from this vital work altogether in ever increasing numbers.

Sir, I have spoken so far on topics involving expenditure. I shall now turn to the income side of the equation. I return to the unfinished business that the departing Financial Secretary leaves for his successor, the achievement of a wider tax base for Hong Kong, which I believe is, in principle, necessary.

We have been told that there are plans to move towards more indirect taxation and put in place the structure for a wholesale tax, even though it is not expedient to apply it at a time of high inflation. If any such plans are to be developed I hope there will be a full and thorough debate on the subject in this Council before a decision is taken.

Any new tax is bound to be unwelcome at first and if it is to gain acceptance the public must be prepared and informed in advance as to the reasons for and effects of any such tax. Support must be gained for its introduction if it is to satisfy the objective of producing a more equitable and stable fiscal system.

It should be a principle that any sales tax is levied wholly or primarily on non-essential items to minimize its effect on the poorer members of society.

If this means an unavoidable general increase in living expenses, there must be some compensatory reduction of salary tax at the bottom of the scale and special consideration given to those who are below the tax threshold; the new tax should fall -- and be clearly seen to fall -- on the pockets of those best able to afford it. More personal tax concessions would be needed so that the average person's disposable income at least keeps pace with inflation.

And finally, the system introduced should be a simple one so as to keep to a minimum the administrative costs of collecting the new tax.

On another revenue topic, we have heard the suggestion that the Government should look into the contribution to community service available from the Lotteries Fund.

There can hardly be anyone in Hong Kong who does not know something about the existence and use of the Lotteries Fund. Yet there must be very many who are under a misapprehension as to exactly how it is financed. I am sure that Mr Everyman, when he buys his Mark Six ticket, believes that, out of the money he spends, a considerable proportion goes to charitable purposes. If he is going to risk the wrath of his wife at his profligate habits, it is some consolation to him to think that he is contributing to a good cause.

The sum administered by the Lotteries Fund Board is indeed a large one, but as has already been pointed out in this debate by Mr HUI, it is a very small proportion of the total money wagered. I think the figure of only 3.5% going to the Lotteries Fund would come as a surprise to most punters.

We have now reached a position where the Fund may soon be showing a deficit if it continues with a programme of grants on anything like the same level as hitherto. The Lotteries Fund is the only source of finance for social welfare capital projects and the capital costs of projects such as building and purchase of equipment are rising substantially. As the actual cash sums collected increase, there is a strong case to be made for pushing up the Lotteries Fund.

Sir, I strongly support the plea that at least 8.5% of the takings -- the proposal made by the Lotteries Fund Board itself -- should be deployed for welfare and other charitable projects. This would go some way towards priming the pump for a number of social service endeavours, and I sincerely hope the suggestion will find favour with the Government.

My final point relates to another source of income to be maximized and I am glad to know that this has not been lost sight of. Like other Members who have already spoken, I am concerned that tax avoidance on the part of wily firms and individuals is losing us hefty amounts of revenue unnecessarily. If there are unjustifiable exemptions and legal loopholes to be exploited in our fiscal system, I urge Government to speedily plug the gaps and ensure that tax revenue does not escape collection. Apart from the loss to the revenue, it is important that the public should know that big business cannot wriggle out of its tax commitments, forcing ordinary honest citizens to pay more than their fair share.

It is the ordinary honest citizens to whom Hong Kong is home, who must be able to rely on sound financial policy and an equitable fiscal system. I trust the

Government and its newly appointed Financial Secretary will not disappoint them.

With these remarks, Sir, I support the motion.

DR IP: Sir, I think increasing the tax from smoking for health reason is a jolly good idea. The Financial Secretary is heroic in taking this very big step forward and Hong Kong people have a lot to thank him for their good health, if not now, later.

For the last three years, the finest Financial Secretary appears to have gently paved the way psychologically for the launching of a sales tax. Although this is not part of this year's Budget, it will be incomplete not to comment on it. I support the sales tax if it is to be gently introduced, to be as wide as possible at source and invisible to the purchaser. It must also be low and should not affect basic food items and transport services such that the lower income groups will not be affected.

Now, as regards the policy on expenditure, I have the following observations:

Firstly, the slippage of the capital expenditure for medical and health service. From my eight years' experience in reviewing the Budget, it appears consistent that only some 15% of the necessary capital expenditure on medical machinery and equipment were budgetted each year. Worse still, there is a consistent slippage ranging between 40-60% every year. In essence, only 7-8% of the necessary machines are purchased each year.

Now, technically advanced medical equipment is known to make more efficient use of manpower, while outdated machines waste time with inconclusive results and cause a lot of human suffering. I propose that a future Budget should give higher priority to updating medical equipment and that money should not be clawed back for slippages.

The lack of fee charged for testing of Chinese traditional medicinal preparations. Government charges a fee for the testing of western drugs through their registration. To recover government expenditure for testing of Chinese traditional medicinal preparations, Government should likewise charge a fee.

Thirdly, on double subsidy with the school medical service. This has already been recognized as these children continue to attend the government out-patient clinics and government casualties. Government should either prevent such double

subsidy, failing which the scheme should be scrapped and money spent more cost effectively to ensure good child health. I look forward to an early conclusion to the government deliberation on this matter.

Lastly, on the policy for admission to and discharge from sheltered workshops for the handicapped. I estimate that at least some 30% of those attending the sheltered workshops are capable and some already adequately trained for open employment. The reluctance of these workers to leave for open employment for one reason or another must be addressed, because this deprives the opportunities of those who are on the very long waiting list. Government should therefore set a policy, perhaps on admissions for three years, subject to review, and the policy of discharge under certain circumstances, such that the taxpayers' money will be spent more cost effectively.

With these words, Sir, I support the motion before Council.

MR TAI: Sir, may I, first of all, extend my wish for every success to Sir Piers' retirement from the Civil Service.

Like a private corporation, the Administration cannot function well without prudent financial management, and sufficient income to finance the various types of services to the community at large.

Like the financial controller of a corporation, the Financial Secretary's job is never easy. He cannot please all of the people all of the time, he can only please some of us some of the time. Moreover, not only he has to keep the community at large satisfied with the various resources allocated, but he also has to keep the Government's employees happy with the pay and fringe benefits.

The only difference in financial management between a corporation and the Government in respect of financial affairs is that shareholders in a corporation have a right to vote, but the community at large have no right to vote on the Budget. Also, shareholders in a corporation receive dividends, whilst vis-a-vis that of a Government, and in particular in Hong Kong, we can only hope that the Government will take less from us.

It is through this Council that various financial measures are proposed and that

Members by casting their votes can only support, or not support, the various fiscal measures as proposed by the Financial Secretary.

I trust that the Financial Secretary is one of the many Financial Secretaries in Hong Kong that will long be remembered for imposing a hefty increase in the duty on cigarettes and alcohol, of 200% and 15% respectively, with the stroke of a pen, bearing in mind that these items have been in the past years subject to constant budgetary increment in duties.

Moreover, he will be long remembered by motorists and especially owners of van-type vehicles for slamming a 65% increment on the tax rate, and a 20 times increase on transfer of ownership fees.

It is nice to hear from the Financial Secretary that the Government is taking active steps for valuable monetary studies regarding the Civil Service as a whole, and then as a result of these studies over 2 500 posts have been deleted. If such a move does not affect the quality of services being offered, that would imply that we have achieved greater efficiency.

It is difficult to make decisions regarding resources allocation to various heads of our services. As a mature community, all types of our services now being provided by the Government are essential, ranging from security, housing, education, transport and health. All services need improvement, and the question hangs on the amount of allocation, but we must not live beyond our means.

The Budget and the forecast for the next five years give a worrying sign to our manufacturing sector, where it is on the decline and our local export does not look very promising. Bearing in mind that the amount of labour force being employed in our manufacturing sector, and the growing trend of relocating the manufacturing sector to the Pearl River Delta in China, something must be done by Government to address the problem of our manufacturing industries, and the export of our locally manufactured goods.

We must be prepared for some unforeseen circumstances in the event that we have a bad year. If we lose our manufacturing base of activities within Hong Kong, we may have dwindling revenue, plus massive unemployment in our manufacturing sector. That may cause economic, plus political problems.

With the new budgetary proposals half of the working population, in the region

of 1 200 000, comes within the tax net, and, from the various imposition of increment in duties and charges, the Financial Secretary is trying to con the community into a situation mentally and create a scene for the introduction of the sales tax. I can still remember couple of years ago when the Financial Secretary first announced his ambitious plan of sales tax. The then Lady Lydia DUNN asked him to stick it to its black bird. From the drift of discussion in this Council, I think there is a drift in favour of sales tax. I urge Members to be cautious. The only hesitation that the Administration has in introducing a sales tax now is inflation. But I must caution here that we must not have too large an establishment in the Department of Inland Revenue, as again that would result in an increase of expenditure. Our tax system must be fair, clearcut, simple, and easy to manage.

It is unfortunate that with the revision of the rateable value on property, an increase of duties on hydrocarbon oils, and the successive increases in fares, coupled with the recent upsurge of property prices, Government again has indirectly forced up inflation.

It is not enough that the private sector has to be mindful of inflation; the Government, being the largest employer, policy maker and administrator of this territory, must be seen to have been doing something about inflation. I have seen very little, apart from a new growth in the Civil Service, by the Government in trying to tackle this problem.

The pressure of increase in rates, transportation costs, and imposition of heavy duty on hydrocarbon oils and various other items will fuel inflation and put pressure on wage claims on the private sector, which will in turn lead to higher wage claims in the civil service sector. It is a vicious cycle. Fortunately, the cost of food supplies and clothing in Hong Kong are still reasonable -- housing, food, clothing and transport are the essential elements affecting the cost of living of our community.

Sir, I shall turn to the health service. With the establishment of the Hospital Authority, very soon they will take over the delivery of hospital services. Hospital services are expensive and we cannot for long maintain a free hospital services to our community. It is nice to know that the Administration is taking active steps to look into the viability of introducing a health insurance scheme, because if we want improvement in quality, it costs money, and it needs additional revenue.

If additional revenue is channelled to health and medical care, then it will affect the allocation to other heads of our services -- this I am bearing in mind. I trust that with the flexibility and power being given to the Hospital Authority, there will be a change for the better in respect of our health services sector.

Recently, I had a chance to visit one of the psychiatric hospitals in the New Territories, and I must say that the overcrowded conditions and the quality of service are not commensurate with our so-called Hong Kong standard. A lot of the patients are being detained; hence they escape public attention. From my experience of the hospital and health services, this particular area has rather few complaints. Maybe one of the main reasons is that these patients are too mentally ill to make a formal complaint.

The other area of the health service which I think deserves improvement is to our senior citizens, who have contributed so much to the success of Hong Kong over the past decades, and have received very little in return. They are the tolerance group. I hope that priorities in allocation of funds in the health service can be channelled within the health service to provide some form of dental care and treatment to our old people.

As I said, inflation and the imposition of increasing charges and duties affect our cost of living, in particular, the lower and middle income groups, who are more vulnerable. In view of the tight labour situation, and in order to create more opportunities for residents in the new towns, I hope that more resources can be directed for the establishment of day-care child centres and nurseries. This would relieve existing housewives of some of their child care duties, enabling them to take some form of employment in order to give them a higher standard of living.

Sir, there are a number of ways to raise additional revenue which may not arouse so much public concern, and penalize smokers and motorists. These are areas such as additional revenue from our betting duties, and a modest increase in betting duties. I wonder whether this has escaped the Financial Secretary's attention?

All in all, Sir, I am of the opinion that a number of budgetary proposals are inflationary-fuelled, unfair to low and middle income groups. Yes, these people have successive years of good pay rise but the pay rise has been largely eaten up by inflation. Despite years of budgetary surplus, the community at large is again foreseen to tighten their belts. Against these backgrounds, Sir, I have hesitation

in supporting the vote.

MR CHOW (in Cantonese): Sir, in last year's Budget debate, I used the saying "doing one thing under the cover of another" to describe the Budget for the year. This year, the Financial Secretary has again employed the same tactic in handling his Budget, and I consider this highly regrettable. In his Budget speech, the Financial Secretary emphasizes that the overall expenditure on public services will not be cut down for the sake of financing the airport and other essential infrastructural projects. This promise is merely a smoke-screen. In fact, the Budget this year has completely been distorted by the expenditure on infrastructural development. And more unfortunately, numerous time bombs, which may explode at any time, are hidden behind this smoke-screen.

The local taxation policy has all along overlooked the two major principles of equity and redistribution of resources. In the past, apart from granting marginal concessions for certain taxes or effecting a slight increase of the personal allowance, the Financial Secretary has rarely put forward any proposal on an equitable taxation system and the redistribution of wealth. This is the first time bomb that Hong Kong has to face.

Last year, under the pretext that the tax base of Hong Kong is too narrow and that the major portion of tax comes from some 20 big enterprises, the Financial Secretary increased the proportion of indirect tax. Now, at a time close to his retirement, he finished at top speed the feasibility report on the introduction of sales tax. The Financial Secretary has indeed made painstaking efforts to achieve his intentions.

Admittedly, there is the need to broaden the tax base in Hong Kong. However, in so doing, we must take into consideration the possibility of sacrificing the well-being of the general public. Though it is the hope of the Financial Secretary to discourage young people from smoking through an increase in tobacco duty, the hefty increase will deal a great blow directly or indirectly to the working class, who take smoking as the only form of entertainment. I appreciate very much the determination of the Financial Secretary to discourage young people from being addicted to this bad habit. But is this the appropriate means? Has the Government given thought to the direct and indirect effect of such a measure on the medium and lower income groups? Will such an increase trigger off a vicious cycle and fuel inflation? All points

merit serious consideration.

To broaden the tax base, the best ways would be to increase indirect taxes, such as the tax on certain luxury items or the betting tax on horse racing, and to increase the estates tax. Not only would these measures cause no nuisance to the public, the revenue to be generated would also be substantial. This would also serve to demonstrate fully Government's conscientiousness in the need to narrow the gap between the rich and the poor.

Another proposed means to broaden the tax base is to raise tax on profits generated by the overseas subsidiaries of companies in Hong Kong. It is true that there will be difficulty in defining whether the profits belong to the local establishments or their overseas subsidiaries. However, in order not to give local companies the chance to evade or avoid taxes, the Government must stipulate the kinds of profits that belong to local companies and the kinds that belong to their overseas subsidiaries. Such legislation will have far-reaching effects on the local taxation system and will also give rise to a substantial sum of tax revenue for Hong Kong. The Government should therefore review the relevant taxation laws.

Introducing capital gains tax is another practicable means to raise revenue and increasing profits tax by 1% to 2% can also be considered. As the taxation system in Hong Kong is non-progressive, direct taxes cannot play a proper role. To make our taxation system more equitable, increasing profits tax by 1% to 2% does not leave too much room for criticism, neither would it have a serious impact on the investment environment of Hong Kong. After all, profits tax in Hong Kong is still on the low side in comparison with neighbouring countries in Southeast Asia. And for most investors, the selection criteria is not based on the local taxation system alone. Emphasis is also laid on a city's environment for generating wealth.

Over all these years, the taxation system in Hong Kong only tackles the symptoms but not the root of the problem. We root lack a comprehensive review of our entire tax system. For the sake of consolidating Hong Kong's international status and maintaining financial stability, it is imperative that a comprehensive review of our taxation system and policies should be conducted. The Government should immediately set up a tax review committee to review and study the overall taxation policies in Hong Kong, so as to narrow the gap between the rich and the poor and to avoid having the tax burden unduly concentrated on the sandwich class.

Another time bomb that has been hidden for a long time relates to the expenditure on and resources for health services. We are disheartened by the fact that in this year's Budget, the proposed rates of increase in expenditures for the Department of Health and the Hospital Services Department are only 2.5% and 6.5% respectively, and these rates cannot even match inflation. The projected expenditure is formulated only on the basis of 1990-91 prices, taking no heed of inflation in the current year. As a result, this year's expenditure remains at a level lower than inflation. Such a Budget which ignores the prevailing economic situation would make it difficult to maintain the existing level of services, not to mention effecting improvements or implementing improvement proposals of the Hospital Authority. I hope that the Government is not taking the future policy on fees and charges of the Hospital Authority and the medical insurance concept as a protective shield.

Apart from the fact that no sufficient resources are provided to make both ends meet, what is most frustrating for the nursing sector is that the Government has all this time taken no concrete action to get to the heart of the existing problem. In the recent years, altogether 3 586 persons have left the nursing sector, representing a quarter to one-third of the Government's nursing staff. In the face of such a serious staff wastage problem, has the Government made the best use of and developed existing manpower resources? The answer is in the negative. This is fully reflected by the recent short-sighted proposal of the Medical Development Advisory Committee (MDAC) to import overseas nursing staff. This proposed move by the MDAC, that is, to import overseas staff to relief local nursing staff shortages, arises from the MDAC's inadequate understanding of the crux of the problem in the nursing sector. I hope that the Government can improve the composition of the MDAC as soon as possible. We must understand that this is a medical development advisory committee and not a doctors' development advisory committee. Both the health services sector and the nursing sector should be afforded adequate representation on the committee. Only by so doing would medical services be provided on a cost-effective basis to the benefit of the public.

If the Government really wants to take concrete action to address the crux of the problem in the nursing sector, a timetable should be promptly formulated to get to the core of the existing problem. It should also make the best use of and develop existing manpower resources. I shall discuss this issue and other improvement proposals with the Health and Welfare Branch. In addition, the estimated expenditure on medical services should at least take inflation into account if such services are to be improved. Unfortunately, the Government has not paid attention to this need.

What is more, the Government has not been making the best use of existing resources. Given time, this situation would prove to be a time bomb for those who have determined to stay in Hong Kong.

Furthermore, this year's Budget has not made any financial commitment for the future development of the primary health care service. Coupled with the 2.5% growth in the proposed expenditure of the Department of Health which is lower than the inflation rate, should the public not be worried about the degree of commitment on the part of the Government in this regard? On the future development of primary health care service as mentioned in the Budget speech, I hope that the Financial Secretary is not intending to have part of the service privatized or semi-privatized or developed along the financial philosophy of "payment by users", "assumption of sole responsibility for one's profits or losses" or to shift the responsibility of the out-patient service to private clinics. If that is the Government's intention, the public will have to bear great hardship. Eventually, the poor will be poorer and the rich richer. Would Hong Kong people have to contribute towards military expenses to invite coalition forces to unearth mines and time bombs after 1997?

In last year's Budget debate, I requested the Government to widen its perspective and to narrow the gap between the haves and the have-nots. A year has elapsed. Not only has the Government failed to make any move to improve the situation, it has even subtly added to the burden of the lower income groups through indirect means. This is indeed disappointing to the majority of the public, that is to say, the lower and medium income groups which constitute the bulk of the local population.

Sir, for the above reasons, I cannot support the motion.

DR LEONG: Sir, the Budget last year was a disappointment. The Budget this year, regrettably, is a traumatic one which hurts, particularly the lower income group. It has drawn even more bricks than bouquets. The Budget bears the stamp of conservatism and aggravates inflation trends. Neither has it boldly taken up the challenges that spread across 1997 nor has it offered any clear vision of the future.

As the Budget debate is arranged in such a way that Members speak according to the broad topics that they have opted, I would like to start by commenting on the field I am professionally attached to -- medical and health -- before I venture on with other general issues.

Sir, there are a number of herculean tasks awaiting us in this field and these

include:

- (1) A revamp of hospital services through a management reform by the Hospital Authority (HA);
- (2) An overall reform of primary health care;
- (3) An establishment of the Academy of Medicine to determine and accredit specialist training to attain international standards;
- (4) An exploration of alternative medical funding; and finally
- (5) The co-ordination of the above four tasks.

I would like to say something on the HA.

Before I start, I have to declare my interest as a member of the Hospital Authority.

The Hospital Authority is at this stage a paradox. It is like a car owner who does not have the key to start the engine of his own car. With a fund estimated at \$1 billion per annum to be allocated to it, the HA has yet to have the Memorandum for Administrative Arrangement (MAA) properly ironed out before it can take over the running of the government hospitals.

The staff, particularly those of the subvented hospitals, are still awaiting, frustratingly, for their final packages to come out. But red light is already on and they are losing their patience. It would not be long before their discontent will be ignited with a bang and consequently threaten the well-being of the HA well before it starts.

How much longer would the public have to wait before they see significant improvement to our public medical service?

The HA has set its D-day some time in September or October this year to take over government hospitals and staff then would have to make up their minds whether or not to opt for HA terms or remain in Civil Service. This D-day, however, has been put back time and again and it is now already some 12 months behind schedule.

However, it is yet for the Administration to come up with the final package of bridging-over terms to be enshrined in the MAA -- bridging-over terms between the HA and the Government and bridging-over terms between the Government and the staff.

It is a well-known fact that staff numbers in the hospital settings has three ratios.

Firstly, there is the Medical Development Advisory Committee (MDAC) ratio which projects an "ideal" ratio of resources allocation which the staff and the public would like to have but which the Administration has so far not yet been able to meet.

Then there is the establishment ratio of hospital staff which is less than the MDAC ratio. But due to difficulty in recruitment of staff to fill up vacant posts, about 1 000 posts were abolished in the past two years. The figure left behind becomes the current manpower strength of the department which is quite below even the establishment ratio.

In other words, there is an obvious shortfall between the strength figure and the establishment number but even a bigger or larger shortfall between the MDAC ratio and the current strength.

On what ratio will the Government take as the basis of the one-line-vote transfer to the HA? Will it be the strength that HA will have to live with or will HA be jubilant and be given the MDAC recommendation as hinted by the Secretary for Health and Welfare in her answer to this Council some three weeks ago?

Let me sound a warning note that if the transfer figure in relation to staff is that of the current strength number, there is no way the HA can ask for more money to meet the establishment number which in turn will seriously undermine the operation and development of the HA.

I would like to turn to say something about the overall reform of primary health care.

The budgetary provision for medical and health services falls short of expectation. It fails to substantiate Government's commitment to conduct extensive reforms in the medical and health services. Without the funding, it is meaningless

to talk about reforms. As the saying goes, there is no point to flog a dead horse.

The increase in provisions for the Hospital Services Department this year is 6.5% and the Department of Health 2.5%. And with inflation hovering to around 12%, the increase is but a negative one. Sir, we cannot afford to turn the clock back in this area and be back-tracked.

Sir, Government is not generous to primary health care. While it has allotted a significant sum for the HA even well before the Hospital Authority Bill was passed in this Council last year, it has no such arrangement for future reform of our primary health care. The puny 2.5% up in the provision for the Department of Health could only sustain, if at all, the current level of work of the department.

Where are the funds for implementing the recommendations of the Working Party on Primary Health Care in general, and the pilot district centres in particular?

It casts Government into an unfavourable light on its willingness to improve the much-needed primary health care services.

The working party report has been submitted to the Administration at the end of last year pending the endorsement of the Executive Council.

But nothing is forthcoming yet. The hospital and health services must be developed side by side. We cannot have one leg of the service (the hospital service) making a big step forward while the other (the health service) lagging far behind it.

I urge Government to treat it with proper urgency and release at the earliest possible time the report for public consultation and for consultation with relevant professional bodies.

If it is Government's intention that "nobody should be devoid of medical care because of lack of means" and if it is government policy that heavily subsidized medical scheme should stay, then it is imperative that the future health care system must enshrine the following principles:

(1) Subsidization must be given in such a way that the recipients of the subsidy must be able to receive the dignity;

- (2) Proper job satisfaction must be allotted to the providers of the primary care;
- (3) The system must be cost-effective to ensure that taxpayers' money are not wasted on the roadside.

Sir, with these in mind, a major revamp of our public health care system with the following characteristics must be in place:

- (1) It must be a quality medical service which is easily accessible and affordable by all. A proper waiver system must be enshrined to provide the needs for the indigent.
- (2) It must be able to provide a career pathway, training facilities and job satisfaction to doctors and nurses.
- (3) It must have proper co-operation with referral hospitals on a bi-directional basis.
- (4) It must provide a channel to develop a close collaboration between the private and the public sectors, both of which are aiming at the delivery of an acceptable primary health care.

I would like to turn to say something about the Academy of Medicine.

The Academy of Medicine may hopefully be established later this year. The aim of the Academy is to accredit specialist qualification and to map out the specialist manpower needs and training programmes. But to undertake these programmes, posts for the trainers and for trainees would have to be created. But nowhere in the Budget has given us any hint as to whether or not any money would be forthcoming for this purpose.

Sir, without any fund allocation, it is difficult for Hong Kong to establish its own specialist accreditation system in line with the international standard, a tailor-made system measure for the post-1997 Hong Kong.

I would like to say something on the exploration of alternative medical funding.

The Secretary for Health and Welfare stressed at the public hearing session last week that Government would not introduce a new system to waive medical fees for those

who cannot afford unless the HA increases its charges.

By saying this, Government has once again put the cart before the horse.

The rationale behind the fee waivers is that it helps to provide the baseline for Government to determine who should and who should not be assisted with public money in receiving medical treatment.

In other words, unless Government define its role and commitment in public medical service, it would be very difficult for the third party, be it the HA or the insurance sector, to decide and regulate over the level of new fees and premiums to be charged in face of the ever increasing medical cost.

Government has, once again, hidden itself behind the skirt of the HA to avoid coming up with an updated and comprehensive set of policy to cope with the onslaught of an increasing health cost in the 1990s and beyond.

Sir, the same difficulties face the working group on medical insurance which has been set up under the chairmanship of the Secretary for Health and Welfare.

It would be quite impossible for this working group to determine what alternative funding means, be it private insurance, mandatory medical fund either administered or monitored by Government or user-pay as proposed by the Provisional Hospital Authority report or a mixed model, unless Government clearly spells out in clear terms its future role in and commitment to public medical service.

Sir, allow me to release yet again here today my chronic frustration on the apparent government inertia on medical and health areas. There are two areas of frustration:

(1) Unfair inclusion of medical expenses of civil servants in the total public health budget.

For years, Government has been urged to set up an internal accounting system to charge relevant government departments for medical services the Hospital Services Department and the Department of Health have rendered for civil servants and their families.

And indeed, such expenditure should be separated from public health budget

as it is both unfair and misleading to include in it a significant proportion put aside for civil servants and their families.

In the budget hearing of last year, Government has committed to review the arrangements prior to the establishment of the HA, but regrettably, nothing is so far forthcoming.

(2) Recommendations fell on deaf ears.

Sir, I have, during the last Budget debate, made three recommendations which had been endorsed by the medical profession and these were:

- a policy review on the overall expenditure on medical and health services (both public and private) and this should be conducted as a matter of urgency;
- additional revenues must be sought for future primary health care;
- nobody should be devoid of the best of care simply because he or she is poor.

Whilst Government should be commended on its commitment on the principle of nobody should be devoid of care because he/she is poor and a working group to study medical insurance has been set up, yet there is still a need for a policy review on overall expenditure on medical and health services, both on the public and the private side.

I would like to turn to say something on the co-ordination of the four tasks that I mentioned above.

All the reforms, Sir, that I have mentioned for the coming decade cannot solve the problem of our ailing medical system without a proper co-ordination and integration.

And to achieve this, an overall review and an updated policy for medical and health services is essential to help co-ordinate and integrate the primary health and hospital care, the public and the private sectors and the maintenance and further advancement of our medical standard in line with international standard and development trends.

Before I shift away from the medical and health area, I would like to comment

on the hefty 200% tobacco tax hike.

It has always been the stand of the medical profession that smoking is hazardous to health.

It is therefore a welcoming move for Government to encourage people to quit smoking.

The Hong Kong Medical Association has come out in open to support the move but I would like to take this opportunity to stress that Government should allot the revenue generated from tobacco tax to anti-smoking campaigns and related medical expenditure. Otherwise, it would be hypocritical of Government to raise hefty tax on tobacco products under the pretext of health protection to raise revenue.

Before I leave medical and health issue, Sir, I would like to, as the chairman of the Medical Development Advisory Committee, set the record straight and inform my honourable colleague, Mr Ronald CHOW, that there is adequate representation of the nursing and para-medical professions in the MDAC. Finally, Sir, a few remarks on the overall Budget.

Sir, the Budget is overshadowed by the PADS development. It would however not be meaningful to dwell on the issue as up to today, at the eleventh hour, nothing concrete, particularly on fiscal plans, has been revealed before our eyes.

Alas, it is an engrossing project with a glossy surface. Full stop.

I would like to put it on record that it would not be in Hong Kong's interest that the PADS project, after spending so much resources, be watered down the bridge. Yet it is important that Hong Kong people should know the funding cost and mechanism. Figures put forward so far have been varied and confused. Most of the time, we only came to know of these figures after a series of tacks -- from the media who reported the anger of the Chinese officials who were reportedly told of some alarming figures released reluctantly by the Hong Kong Government on PADS.

Sir, there is a dire need for Government to disclose full details on the PADS, its funding plans and its development and all that.

I now turn to inflation. Sir, it is an inflation-biased Budget leading us to

a very difficult financial situation.

The magnitude of the PADS development, its implications to the economy and other infrastructural projects, the negative impact of tax increase had all taxed on the ordinary man in the street. They are the unlucky people who suffer most from this Budget.

Sir, a tax system which does not penalize lower income group should be designed.

Sales tax should only be used as the last resort. I would like to see an overall review of our tax system to be undertaken in the not-too-distant future with as much public consultation as possible.

Finally, Sir, on the lighter side, I strongly object to the increase in first registration tax for private vehicles, the reason being that members of my functional constituency in an unofficial survey are found to be champions when it comes to cars being stolen. With these very strong reservations, Sir, I support the motion.

4.50 pm

HIS EXCELLENCY THE PRESIDENT: Members might appreciate a break at this point.

5.22 pm

HIS EXCELLENCY THE PRESIDENT: Council will resume.

MR PETER WONG: Sir, the Financial Secretary has produced a balanced Budget that hit nobody hard except the smokers, but made the mistake of taking the high moral ground by attributing the increase to purely health reasons. Since the increases must have been carefully calculated based on elasticity point of view, taking care not to deter too many smokers to give up smoking and thus destroying the yield, health could not have been the primary reason of the 200% increase. This increase in revenue will inevitably find its way to the Consumer Price Indices and add to inflation. No doubt, in an upcoming episode of Yes, Prime Minister, we will see how Sir Humphrey will show us the way to crawl out from under this one!

The Financial Secretary's opening gambit that public expenditure has to be brought under control in order to attack the public's Enemy Number One Inflation is

a point well taken. I welcome the Financial Secretary's commitment to attack the baseline. However, the problem remains that it is only being attacked from the top down. I am more and more convinced that this is the basic problem of the present Administration with the top down approach. The initiative seems to come from the Star Chamber and since there are so few at the top, there is inadequate communication. The Government's service providers do not know exactly why they are doing what they are doing, nor do they care. Our civil servants become automatons in carrying out orders and the only satisfaction they get is a fat salary package.

Public sector reform

Can our civil servants show us how well they have done? Can they tell the public how they make their work more effective and deliver a better service to the general public? While the lack of trust from their superiors or the politicians tends to snub initiatives, the answer lies in appropriate job delegation, flexibility of approach and greater accountability. There must be recognition for a job well done and encouragement for under performers to do better. It will not be amiss even to share financially some of those benefits gained through greater cost awareness and savings.

Sir, I am disappointed by some of my colleagues who complained that because their sectors have not been given an extra 12% for inflation, they cannot provide the same service as last year. Are there no internal improvements, cost-savings and cutting out of unnecessary services? Suspending is not the ultimate objective; we want efficiency and higher economy.

Our Civil Service is getting too large and unwieldy. The size of the public sector, when measured by public expenditure against Gross Domestic Product, bottomed out in 1979 and 1988 at about 14.5% which is well below the acceptable norm of 16%. It peaked in 1982 at over 19%, which is about the present size, and is predicted to surge again in 1992-93 to over 20%. It is just too large to be effectively managed, using our outdated management and communication technology. More efforts to scrap redundant posts as a result of value for money audits ought to be made. The recent Finance Committee Budget hearings showed us that when Secretaries are moved, they can perform wonders in finding savings to do what they want. This message should not be lost on other Secretaries.

Our unified pay structure based on internal relativity is totally counter-

productive. The system of giving pay increases based on last year's private sector increases is totally wrong in concept. Every private sector employer I have talked to tells me that they have had to contend with Government's 15% increase last year when it was supposedly based on private sector increases the year before. Sir, the Administration is wrong in adopting the see-saw approach in salary adjustments, and should correct it quickly.

Fiscal measures

I will now turn to the fiscal measures for containing inflation.

Since it is never too early to bend the Financial Secretary's ear for the next Budget, I would commend the following rules to the Financial Secretary designate:

- (1) Expenditure should increase no faster than the GDP.
- (2) Revenue should rise at least as fast as expenditure and probably faster.
- (3) Growth rate of Civil Service should not be faster than that of the labour force and arguably less.
- (4) Adjustments to tax rates, fees and charges and any new taxes or charges should be chosen with careful regard to their impact on prices.
- (5) Importation of labour in selected trades on a limited scale should be allowed temporarily to ease current labour shortages.
- (6) Policies aimed at improving productivity should be vigorously pursued.

If these rules were to be adopted for the current revenue measures, the swinging increase in tobacco taxes cannot be justified on inflationary grounds. I was concerned that in his press conference the day after the Budget announcement, the Financial Secretary gave a contrary message that the sales tax is expected to be introduced in 1993. I would warn that such a sales tax, although it will broaden the tax base and reduce our reliance on direct tax, will be immediately inflationary. The timing and implementation of such a tax, whatever its merits, will be attacked by vote-grabbing politicians because nobody, especially those from the low-income group, wants to be swept into the indirect tax net. Further, sales tax, once

introduced, will be very difficult to be withdrawn.

Sir, as a non Executive Director of the Securities and Futures Commission, I welcome the cut of 0.1% in ad valorem duty on share transfers as a step in the right direction. However, the writing on the wall is very clear, London will abolish stamp duty next year, Singapore's rate is only 0.2% and openly wants our business. I give a clear warning that unless something is done very soon, we may find that our stock market may have migrated, not for political reasons, but for the fact that it is cheaper to do the deal elsewhere. Electronic screen dealing may mean that the dealer is no longer constrained to deal on the local market.

Sir, increasing productivity and efficiency in the Civil Service alone will not cure our inflation and maintain our competitive international standing. The private sector, which forms the basis of our economic strength, must increase its productivity and not rely on imported labour to remain competitive. We have to adopt the best management tools and techniques to stay ahead of modern trends and only permit liberalization in those sectors that are not constrained by international competition. Construction is such an industry. A good case can also be made for garments which are protected from competition by quotas and have to be manufactured in Hong Kong.

Other problems

The recent strength of the US dollar will again put our exports under pressure because of the linked exchange rate. The peg has served us very well and I will be one of the first to say that we will remove it at our peril. But just because it is such a vital link, we must make a very comprehensive study of its working to see if there is a better way to maintain the linkage without the danger of importing inflation.

The freedom from exchange control is such a holy cow of conventional wisdom that we should study what controls we do need before we can apply monetary or interest rate controls as a tool against inflation. I welcome a healthy debate on the subject and no doubt our eminent bankers will wish to take part.

The 1991-92 Budget should have sent all the right signals to investors that Hong Kong is a good place to invest and does not produce surprises. The proposed field audits by the Commissioner of Inland Revenue should be welcomed by all responsible people because it will help ensure that the tax burden is shared fairly by those who

enjoy the benefits of Hong Kong. However, care should be taken to ensure that the exercise will not unnecessarily complicate our existing simple tax system.

Taxation system

As a member of the Joint Liaison Committee on Taxation, I concur that the Committee is not the appropriate forum to do a comprehensive review of our tax structure. The fact remains that we have inherited the old colonial tax model which is meant for an unsophisticated economy. We are now the world's 11th largest economy. We have a very large dependent hinterland in Southern China and very sophisticated, by Asian standards, commercial and service sectors. In keeping with our achievements and expectations, we need a taxation system that will tax us in a manner which is acceptable to our people and produce the revenue to pay for the infrastructure and services that Hong Kong needs. We like to consider ourselves a caring society and undoubtedly we can afford a reasonable standard.

In the future, I see that taxation policy will no longer be the sole province of the Administration under the Financial Secretary. I see the day when one or more of the political organizations will have developed and matured enough to be able to represent the entire spectrum of Hong Kong society; it will have sufficient experts on hand to research into all the different permutations of economic policy that will suit Hong Kong's unique needs; it will fully debate those options internally before presenting them as a party platform for a general election.

Ultimately, it is the soundness of the economic principles espoused that will decide the fate of our taxation policies. As we progress towards democratic government in the foreseeable future, it will be the voter that, in the final analysis, decide the taxation policy. He will provide the checks and balances to ensure there is no free lunch in our society; neither will all favours go to the capitalists. The taxation policy that evolves will, instead of tinkering with revenue measures, meet the sophisticated needs as well as broad social objectives of our society. The recent development of political groups in Hong Kong has inspired hope that such an ideal policy making process for Hong Kong is possible.

Social and medical services

Sir, 1990 saw the final recognition by the Government of one uniform standard for the delivery of hospital services in Hong Kong and its willingness to fully

subsidize the subvented hospitals on a par with the government ones. As a member of the Hospital Authority, I call upon the doctors, the nurses, the paramedics and indeed all hospital staff to make use of this unique opportunity to create a brave new world of medical care that will serve us for the years to come. We will not get another chance until the next cycle of change, which by past experience, will be another 15 years. We need their goodwill to make the Hospital Authority work.

We at the Authority recognize the need for a hospital to respond to modern management techniques and information technology. I am convinced that we are moving in the right direction and it should not be too long before the Department of Health gets a good dose of the same medicine. I also look forward to the publication of Dr Rosie YOUNG's report on primary health care in Hong Kong and see how we can have a comprehensive health care system. It is very tempting for the hospitals to push all the patients back into the health sector, thereby releasing more resources for hospital operation and I am not sure that this is what we want.

The subvented social welfare and education sectors have long suffered under the inequitable system whereby they are charities and are only second best. The fact that an organization serves charity does not mean that its own workers are also charity cases. An equal job should get equal reward. I sincerely hope that the promise extracted from the Administration that it will now examine the possibility of improving the subvented education and welfare workers' employment benefits vis-a-vis the public sector benefits by early November will be honoured. However, the public has no right to continue exploiting services provided by the subvented sector at the expense of the subvented sector's workers. I trust that the Secretary for Health and Welfare will leave no stone unturned to attack her baseline to make this possible.

Lastly, Sir, a plea for manpower shortage in the accountancy profession. A 1990 Vocational Training Council survey showed that not only have we lost 900 accountants due to emigration (and it was only 400 in 1988), the actual demand for accountants has risen due to business expansion and more sophisticated compliance and accountability requirements. We are estimated to be short of 1 000 professional accountants. Whilst not asking to be marked out for special favours, it must be remembered that we accountants cannot be expected to fulfil our expanding role as public watchdogs unless there are enough of us to go around who are properly trained.

Sir, although I have been very critical of this Budget, there is much that I find is right and therefore, I support the motion.

MRS CHOW: Taxation is always an emotive issue.

Who in the United Kingdom would have thought that the poll tax would give rise to such social disorder even before it came into effect, cause the downfall of one of the greatest prime ministers of the century, and die such a humiliating death so soon after it was born. In fact the negative feeling against it was so powerful that it was quite evident that the Government would likely be toppled if it was allowed to survive.

Before the poll tax was introduced, there were full justification and rationale advanced by the Government to support it. After all what could be fairer than spreading its burden to all who benefit from services provided by Government. Today not many in the Conservative Party would want to be reminded of that debate, although the opposition will for sure want to protract the bad taste in people's mouth, milking as much political capital out of this government fiasco as they can right up to the next general election.

Closer to home, we do not have an elected government. But the reality is that we do have budding political parties and figures who would be increasingly on the look out for issues on which to knock the Government in order to prove their worth as vigilant monitors of the powers that be. It is therefore more important than ever that our Government sharpens its political sensitivity, and feels with the population at large in managing the public finance. And among the many tasks involved in that management, none is more controversy-prone than revenue raising measures.

What must be recognized is that we have a population which is sensible, pragmatic and rational. Ours is a conservative people, cautious to the point of being suspicious, not negative, to new ideas, preferring moderate steps to traumatic shocks. We accept fully the Chinese saying, "Wool comes only from sheep" and we look towards ourselves to provide for ourselves. I cannot see the logic of Mr Martin LEE's argument that this Budget is regressive by broadening the tax base and by imposing indirect taxation. The flaw in his argument surely lies in his claim that it is unfair to make more people pay taxes. Surely, it is the sign of a growing affluent society that more people can afford to share the burden of public expenditure. The question is one of responsibility, not charity. I hope Mr LEE is not, by linking the level of tax allowances to eligibility to public housing, suggesting that those who qualify

for public housing should not be asked to pay any tax, for it is exactly such talk that gives rise to suspicion that free elections would lead to free lunches. Sir, who would not want higher wages, lower taxes and cheaper public service. But to suggest that we should achieve this by leaving to only a handful of the very rich to pay for all the public expenditure is regressive and degrading. To vote against this Budget on that basis is to do a great disservice to the sense of responsibility of our people.

This is the third consecutive year that the Financial Secretary has mentioned the sales tax in his Budget speech. The state of inflation being what it is, I was relieved to hear him say "I would feel hesitant about introducing a sales tax while inflation remains at its present level." With those words still ringing in our ears, Government went on to announce its intention to start the public study of the sales tax within the next few months. There is, therefore, the inevitable suspicion harboured in some quarters that Government might steamroll towards implementation of this concept without adequate opportunity of a thorough debate and consultation. I find this hard to believe as we have been repeatedly assured by the Financial Secretary in this very Chamber that he will ensure the issue will be fully and publicly debated. I hope the incoming Financial Secretary will see to it that this commitment is kept. For I believe there are many like myself who have yet to be convinced that the introduction of an across-the-board sales tax is the best way to increase the proportion of indirect taxation. In my humble view, the present route taken by the Financial Secretary should be further pursued, that is, selective items should be taxed while leaving out essentials so as to contain the inflationary effect of such taxes to the minimum.

Betting duties, entertainment tax, travel tax and taxes on nightclubs and licensed establishments are not likely to meet with too much resistance. The brilliant brains in the Finance Branch would have no difficulty compiling a list that could be well justified on health, moral or social grounds. Sir, I have said before and I would like to say again, no businessman would mind contributing a small portion of their profits to tax. Our profits tax is by any standard low, it was 2% higher and even then it was still regarded as low. I would agree therefore that this is an area where extra revenue can be raised.

Whether there are to be new taxes or increases on old ones, the levels at which they are set should be moderate and reasonable, for beware, Hong Kong reacts strongly to shock treatment. The increase in duty on tobacco is, I believe, unreasonable.

The Financial Secretary cannot argue that the atrocious 200% increase on duty is motivated by consideration of health while in the same breath congratulated himself for the additional \$1.9 billion he will manage to squeeze from smokers. Such a move is singularly uncharacteristic of our Financial Secretary who has always been known for his style of gentle persuasion rather than this harsh punishment levelled against smokers. Here, Sir, may I ask for your indulgence and direct a question to my honourable colleague, Mr Stephen CHEONG, as the declared director of a certain tobacco company. Why, in spite of its protest on behalf of the industry and smokers, the industry should add insult to injury by upping the retail price of cigarettes by another four dollars? They certainly cannot argue that they are doing it for health reasons or in the interest of the public coffers.

Another tax which is strangely out of proportion is the air passenger departure tax. The timing of a 50% increase is unfortunate, to say the least, when our tourism industry needs all the help it can get to draw more visitors to fill many new hotel rooms. The increase further aggravates the anomaly that exists between departing charges through the different points of exit, namely via Macau and China Ferry Terminals, and through land points at Lo Wu and Man Kam To. The passenger embarkation fee is only increased by \$2, while no fee or tax is payable for Lo Wu and Man Kam To. Can the Financial Secretary explain the reason for such a glaring anomaly, and whether there is any intention to address this inequity?

"Tap the source and curb the flow" so the Chinese saying goes. In assessing public expenditure, it is sensible to determine how best to invest our money in order to create more wealth. Hong Kong has been served well by our past investment in our capital projects and our human resources. Such investments, prudently managed, must continue if we are to hold our own in China and the Asia Pacific Region into the 21st century.

It is a fact that we have a good Civil Service -- relatively speaking, efficient, corruption-free and well managed. One of the major reasons is that the Hong Kong Government is a good employer, and generally speaking, looks after its staff well. But in recent years, the view widely held in the private business and professional sectors is that the Government runs the risk of being over generous in its salary review, and has now in fact surpassed the private sector in its award of increases. Last year, Government's 15% pay adjustment has presented problems to many private concerns, which found it difficult to follow suit. If Hong Kong is to tighten its belt, then Government should play the lead. And indeed Hong Kong must tighten its

belt now, with the rate of inflation running and it is standing at 11.9% and with a less than optimistic economy projected for our major markets. So must we look towards Government to take the first step to exercise the greatest restraint when it comes to the next salary review. I hope the updated rate of inflation will not be used as the basis for the review. For after all, it is, in most part, due to the normally high increase in civil service salaries last year. Further, the upward spiral must be halted. It follows that other ways of inflating the pay packages such as restructuring of the pay scale and increasing of benefits should be frozen. For it must never be forgotten that civil servants enjoy security of tenure, a valuable insurance policy particularly during uncertain times like this which is beyond the reach of employees in the private sector.

Sir, this is Sir Piers' last Budget, and I would like to join many of my colleagues to take this opportunity to pay him a tribute for being one of the kindest mandarins that we have had to work with. Regardless of how hard-headed and strong-willed he may appear in public, he is always prepared to be fair and to concede to reason in private. He likes to take his time to be persuaded, but he has finally won the day and the admiration of many a working wife for being the progressive Financial Secretary to have introduced separate taxation for women. Perhaps not everyone agrees that he has done everything right, but most will agree that he has done most things right. Once, when I was complaining about the pressures politicians are subject to nowadays, a wise man said to me "if you cannot stand the heat, get out of the kitchen". Well, Sir Piers has picked his time to get out of the kitchen, as he has been in anticipation of the predictable rise in temperature. But what we should all thank him for apart from a respectable reserve is that his heart is always truly with Hong Kong. Sir, I support the motion.

MR CHENG HON-KWAN: Sir, when the Financial Secretary made his Budget speech on 6 March, it was well received and considered to be based on a fairly steady and conservative approach with caution and prudence. And yet, since then the Budget has attracted increasingly unfavourable criticism from the general public, especially the lower income group, who would suffer from Government's policy of widening the net of indirect taxation.

Since last year, the Financial Secretary has emphasized the importance of broadening the already narrow revenue base and hence shifted some of the burden of taxation from direct taxes to indirect taxes. This year, it is obvious that the

indirect taxation is even more enhanced with direct taxation remaining practically unchanged. As we are aware, higher indirect taxes can have undesirable inflationary impact. Whilst the Government has had no effective measures to alleviate high rate of inflation which is now at two digits level, it is high time the Government should review its taxation policy and if necessary strike an optimum balance between direct and indirect taxes so that the hardship of our lower income bracket may be suitably minimized and the quality of life adequately maintained. In the Budget debate last year, I warned that the Government should be cautious in increasing indirect taxation in order not to impose extra pressure on the public and I think I should reiterate the importance of my caution this year.

Indeed, Hong Kong is suffering from high inflation and low economic growth and has become increasingly less competitive than the economies in the region. Fighting against inflation, I appreciate, is one of most difficult jobs the Financial Secretary has to handle and yet is of utmost importance to our economy. High cost in living and in doing business will make Hong Kong less attractive in investment even though we maintain a low direct taxation system. There are other instances which may aggravate our cost of living. I am terrified by the way in which people were so desperate and frantic in purchasing residential flats and in immediate re-sale for substantial profits during the last few days. I am very doubtful whether this in fact reflects a genuine demand for housing and would hasten to add that such erratic speculation not only seizes the right of genuine buyers and users but also intensifies inflation. This is an area Government should look into very seriously even though we are not supposed to interfere with a free market.

For the second time the Financial Secretary stressed in his Budget speech the importance of financial management. I would agree that this is even more important in our infrastructural development at this time. I am pleased the Financial Secretary has ensured that the Government has made provision for a high level of investment in major infrastructural areas in addition to the airport projects. I certainly do not like to see our normal major capital programme being drastically reduced in view of the airport projects and I am sure the general public would need such capital programme which will be equally important to the continued economic growth of Hong Kong.

Sir, the Financial Secretary particularly mentioned about the option of Government borrowing for financing our major infrastructural projects. I would support this approach which is feasible and acceptable. We have had excellent

precedent such as the case of the Mass Transit Railway Corporation which has been reputed as one of the world's renowned professional borrowers in the financial market. Expert financial management has a role to play in this conventional option. I would agree that in the present circumstances, there is no reason why we should not go for this option to enable the next generation to share the financial contribution towards the large scale capital projects from which they will benefit. However, any means of government borrowing must be prudently managed as cautioned by the Financial Secretary.

For two years now, I have urged the Government through the University and Polytechnic Grants Committee (UPGC) to consider favourably the need for parity in salaries and conditions of service of staff between universities and polytechnics. As the latter are playing a significant role in the expansion of tertiary education and indeed carrying same burden of delivering degree programmes, equal remuneration is essential and will facilitate recruitment and retainment of staff of high calibre. I do hope that the Government will take an open-minded view of this important scenario.

Apart from staff's remuneration, I am somewhat disappointed at the cuts in grants to the tertiary institutions for the ensuing years and am particularly concerned about the implications that the quality of our tertiary education may be unduly lowered. Whilst I am always supportive of expansion of tertiary education which will benefit our young people immensely, I would not wish to see quantity to be achieved at the expense of quality. This would certainly be unfair to our young generation.

Sir, despite the invariable, critical comments and criticisms on the Financial Secretary's annual Budgets, he has prudently controlled our finance and brought us satisfactory surpluses and reserves during his five years in office and in a difficult political and economical environment. I take this opportunity of paying the Financial Secretary a tribute for his service and contributions and wishing him and Lady JACOBS a happy retirement later this year.

Sir, I support the motion.

5.58 pm

HIS EXCELLENCY THE PRESIDENT: It is now close to six o'clock and under Standing Order 8(2) the Council should adjourn at that point.

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

Question proposed, put and agreed to.

MR PAUL CHENG: Sir, I would like to join some of my other colleagues in paying tribute to the Financial Secretary for the contributions he has made during his tenure. At our age, Sir Piers, it is not difficult for us to rise above criticisms of "nit-pickers" so long as we know we have tried our best in the work set before us. May I wish you all the best in your future endeavours.

Today I would like to focus my remarks on the Budget estimates as they relate to trade, labour and industry. Historically, it has been the business community that has been the engine for Hong Kong's longtime success. It is important that budgetary planning supports industry and commerce: in turn, industry and commerce supports people. That is how we sustain this vibrant community. That is how Hong Kong became a leading entrepot in the world today.

Hong Kong still ranks high as the eleventh largest trading entity in the world. This past year, though, has seen us slip from the world's busiest port to the second busiest port. Increasingly, Hong Kong is seen to be losing its competitive edge. The labour shortage. High inflation. Expensive rental fees. I could go on, but many of my colleagues have already catalogued the problems we are facing.

In the face of this climate, the Financial Secretary and his staff have provided us with a safe Budget. Over the past five years, indirect taxes have increased to broaden the tax base. In addition, Government's financial reserves have been built up. This is the last Budget before a new Financial Secretary takes over. Given the macro view of where Hong Kong is at this point in time and history, a safe Budget can be criticized for fine tuning. It does not deserve the huge outcry of "foul play!"

There are those who say personal and corporate taxes should have been raised a half percent or more. Such a suggestion is out of line for several important reasons.

(1) It does not support the direction of broadening the tax base. Approximately 50% of the working population pay taxes. Five years ago, people in the tax net numbered

only 20% of those employed.

The revenue proposals will reduce direct taxation by \$340 million and the simplified four-band scale relating to personal taxation will benefit taxpayers on the lower income levels.

(2) It is vital that Hong Kong continues attracting overseas investment. Foreign investment, be it in manufacturing or the service sector, is critical to the security and prosperity of Hong Kong's future. We can have the best universities, health schemes and social welfare programmes -- but without foreign investment, many people will lose their jobs.

In the past, Hong Kong has attracted business through its low tax rates and simplified system. There is now a need to do more -- if we are to protect our status as a regional financial and commercial centre. Our neighbours are offering tax incentives. One tax consultant clearly identified the problem recently. A 16.5% tax rate is high when you compare it to investors in Malaysia or Thailand, for example, where corporate taxes can be avoided for up to 10 years.

Having made this point, it is timely that I remind the Administration of an important component that needs more resources and planning -- and that is overseas promotion of Hong Kong's image and interests. Hong Kong has long been favoured by the international business and financial community as the pre-eminent location for businesses to operate in East Asia. Hong Kong's image, however, has been tarnished. The changing situations call for changing measures to assure Hong Kong's attractiveness for doing business. We need to allocate more funds so that our overseas offices can have sufficient resources to protect our position as a financial and business heart of this region. We must not be complacent because new companies coming in continue to outnumber those companies which are leaving. By the time we detect the shift, it will be too late. Decisions would have been made to go elsewhere. Preventive medicines, as we all know, are far better than curative medicines.

Government must also think of industry sector support in budget planning. A respected tradition was broken with the 200% tax increase on tobacco products. Never before has a Hong Kong Budget included social engineering as a rationale for generating revenue. It sets a dangerous precedent. It jeopardizes Hong Kong's reputation as a place that supports business and supports legal entities. In one tax gesture, a single industry is asked to provide 4% of the overall budgetted revenue

-- up from 2.7%.

Moreover, the 50% increase in airport departure tax may do serious damage to one of our most important industries -- the travel and tourism industry, an industry that is the territory's third largest earner of foreign exchange, providing tens of billions of investment in facilities and infrastructure and hundreds of thousands of job opportunities which benefit the local community.

In both cases, a dramatic tax increase was put in place with one budget decision -- an amazing gesture when one views the contributions both of these industries have made to the Hong Kong community. Gradual increases are a more appropriate approach to fiscal planning and I continue to believe it is high time that we established our tax review committee. Inflation continues to be a serious problem. The private sector has taken the lead to break the wage-push and inflationary spiral. Government must also play a role.

It means even tighter control over expenditure. During this past year, more diligent attention has been paid to this issue. But it is not vigorous enough. There is a clear trend that expenditure has grown steadily as a percentage of GDP. In 1987-88, it was 11% of GDP. It is projected to be 19.3% in 1991-92. In just six years, we have seen more than an eight percentage point increase.

A measured budget process should also undertake to better reflect real priority-setting in Government. If the airport is to be a top priority, it is unrealistic to continue to indicate that we will also undertake provisions for higher level investment in other major infrastructural projects. We cannot do everything at once.

At the same time, we must continue to see the bigger picture. The move from a largely manufacturing to a service industry economy has resulted in very limited government attention to the needs of the manufacturing sector. Again balance is important.

Upgrading technology must be on our agenda. There is a real danger of delaying Hong Kong's industrial transformation because of the easy access to cheap land and labour in South China. We are neglecting the long-term competitiveness of our manufacturing exports.

Just this week the president of the National Tooling and Machining Association

in the United States visited the territory. After touring Hong Kong facilities, he expressed surprise at our pride in what he considered to be technology from the 1950s for the precision molds and tooling industry.

I have the feeling we are giving up on manufacturing as a part of our broader policy to provide for ongoing economic prosperity in Hong Kong. Because of increasing standards of living, land prices and similar factors, manufacturers are moving away. This is a trend that will continue throughout the decade. It is another way of looking at the trend toward an enlarged service industry.

Yet it would be short-sighted for us to blanketly abandon the manufacturing industries. In the long pull, there must be both manufacturing and service industries in Hong Kong. Government needs to identify purposeful strategies to support selected industries. Electronics, for example, continues a strong presence here. Certain textile and garment industry sectors would also like to continue a strong presence if Government can provide the necessary support. We need to implement strategies that encourage them to stay.

Another area that should receive serious study and consideration is the issue of well-timed privatizations. It has been put forward that the investment on the Mass Transport Railway and Kowloon-Canton Railway alone would realize billions for government coffers. It would also reduce the size of the public sector.

Some valuable steps that have been made in the 1991-92 Budget estimates deserve particular mention. One is the planned local bond programme that is linked to capital expenditure. I would like to voice my support of an innovative and long-term plan with regard to funding capital development. There is no question that a well-structured and managed borrowing programme through the issue of short-term government bonds is now appropriate for earmarked capital projects.

I would also like to take a moment to commend a particular strategic budgeting decision. The decision to plan for another Budget surplus. The Financial Secretary has received some criticism on this decision. Yet, at a time when inflation is running high and unemployment is low, we need to run as large a surplus in 1991-92 as we did in 1990-91. This will keep us from moving to a more expansionary Budget.

Another step forward is the attention given to stamp duty. If we are to maintain our position in the world financial market, we must remain competitive. I encourage

the Administration to continue bringing Hong Kong stamp duty in line with our global competitors with each ensuing Budget.

A Budget should be an important part of a bigger vision. It should be a kind of road map that clearly draws attention to policy direction and a vision for Hong Kong's future. It should not be a one-year exercise, an exercise that begins anew with each new year. Solid budgetting runs smoothly from one year to the next, like a good road map.

In view of our ambitious capital spending plans and the changing world economic environment, we need improved communication on long-term fiscal engineering and policy-setting.

With these remarks, Sir, I support the motion.

PROF POON: Sir, this afternoon I would like to concentrate on two specific areas of expenditure which cause me some concern. The first of these is higher education and, in particular, the funding of the rapid expansion programme for the tertiary level institutions.

The overall expenditure on education represents approximately 17% of total public expenditure and, in real terms, has grown by some 31% over the past five years. The Financial Secretary is forecasting continued growth in expenditure on education but I am somewhat disappointed to see that for the next five years he forecasts a significantly lower growth of 24%.

My particular concern is that expenditure at the tertiary level will not keep pace with the planned rapid expansion of first-degree places which will effectively double over the next few years. This will be the trend despite a slight increase in the expenditure on higher education by 15% next year compared to a growth in student numbers of some 12%, since the additional funding includes provision for launching the Hong Kong University of Science and technology and the incorporation of Lingnan College into the group of UPGC funded institutions. If one examines the details of the allocations to the institutions, it is revealed that funding for next year actually represents a reduction in the cost per student. Government is apparently assuming that the accelerated expansion programme can be achieved with a reduction in the average student unit cost, and that considerable economies of scale can be

achieved over the next few years.

The decision to expand the opportunity for school leavers for further study has been universally acclaimed by the public and welcomed by the UPGC institutions. However, Members will appreciate that the expansion of opportunity means that the institutions will be taking students from a wider ability range than at present. As a consequence, there will be an inevitable drop in the average academic achievement of our entrants. This will in turn have a direct impact on the standard of graduates which may also decline. I am sure no head of institution will want to see any erosion to the quality of their courses as a result, and in order to maintain consistency of the standard of achievement of graduates at the output level, the institutions will need to devote additional efforts to bring improvements to the teaching/learning process, and the overall academic environment, ensuring that there is no such drop in standards.

The achievement of this objective will depend on the commitment and vision of members of the academic communities, but it cannot be realized without the provision of additional resources. It is of course recognized that there are limits on the territory's Budget as a whole and the institutions cannot simply expect to spend more and more. However, it boils down to a matter of priority and I submit that our young people are Hong Kong's most valuable resources. Investment in their future must claim top priority since they will play the most crucial role in Hong Kong's development over the next decade. I would therefore urge Government not to assume that more graduates can be simply produced at a lower average cost, and to review the funding level accordingly.

For students to benefit fully from their study opportunities in the tertiary institutions, there is also a recognized need to improve their language abilities. We understand that no additional money has been made available by Government for language enhancement but the UPGC has managed to earmark some HK\$30 million for this purpose for 1991-92. Whereas this provision by the UPGC is much appreciated by the institutions I wish to point out that this sum is not sufficient to have a major impact on the language problem and to enable the institutions to tackle this issue effectively and fundamentally. To improve language skills and communication, there is no substitute for intensive tuition with highly qualified staff, and I am sure Members appreciate that significant improvement cannot be achieved on the cheap.

In view of these problems and the importance of the expansion programme, it is

time to take a fresh look at the funding methodology employed for resourcing our tertiary institutions, including a case for the removal of the binary system as in Australia. There are current disparities in the funding of identical activities in different institutions which is clearly unacceptable and the need for salary parity amongst all the institutions has become urgent.

The present method of funding involves the imposition, from the outset, of a cash limit on expenditure for the tertiary sector and the task of the UPGC is largely confined to apportioning the overall amount amongst the competing institutions. Now, this severely limits the role of the UPGC and means that we are unable to make full use of the expertise and experience of its members. The grants committee should have a more direct and fundamental input into the determination of the overall funding needed to maintain the tertiary programme before any cash limit is fixed by the Government. This would also ensure that Government receives independent advice on the most appropriate support in funding the institutions and maintaining the academic standards of the courses offered.

My other major cause for concern is the continued lack of support from Government for the development of our technology infrastructure. I have spoken on this issue on several occasions in the past and I will continue to press Government to provide more support for our industries in meeting the growing demand to improve our technological base.

A major contribution to this is the extent to which Government provides resources to promote research and development (R&D), both in the tertiary institutions and in industry. An analysis of the Budget papers shows that there is indeed a small increase in research funds to be provided by the Government but the scenario below indicates that the funding level is still inadequate. Members will note that the Research Grants Council will be allocating a total of HK\$100 million to the tertiary institutions in support of their research activities. Furthermore the UPGC encourages the institutions to devote 2% of their block grant funding to research and all these could add up to a total of some HK\$190 million assuming all the institutions are each capable of making an internal allocation of such magnitude. However, in view of the cuts in recurrent grants which I mentioned earlier, institutions would not find this easy to achieve.

In addition to these sums, the Industry Department is increasing its funding of industrial development research projects to some HK\$6 million. If we assume that all

these amounts are spent on research and development, the total commitment will be in the region of HK\$200 million. I wish to point out that this is less than 0.04% of our GDP and compares very unfavourably with our main competitors in the region.

A recent study undertaken by the Committee on Science and Technology shows that the Singapore Government is spending 0.36% of GNP on research and development, about 10 times the investment made by Hong Kong. In the case of Taiwan and Japan, both Governments contribute around 0.5% of their GNPs.

This same study has shown that, based on Japan's experience, industrial development tends to fall into three phases. The first is technological importation and is associated with rapid industrial growth. The second is associated with technological development and a drive to increase the "value-added" to products. The final phase of industrial development involves the creation of new technologies and markets to keep ahead of world competition.

Much of Hong Kong's manufacturing industry is still in the first phase of development. If it is to retain its position as a major component of the Hong Kong economy, it must move into the second phase of development as rapidly as possible.

The Governments of Singapore, Taiwan and Japan have adopted strategies to promote technological development including a system of tax concessions and direct support for R&D and new product development. In each case the approach is to target certain technologies or market segments.

I believe that Hong Kong should follow these examples and adopt similar strategies to assist our own industrial development. The recent study on Technology Road Maps for Hong Kong undertaken jointly by the six government-funded tertiary institutions has identified a number of possible areas where technological development in Hong Kong could be most productive.

A study by the Committee on Science and Technology will be published shortly making recommendations in this direction and I hope that Government will seriously consider its findings. I look forward to these being reflected in the Governor's address next year. These matters are of real significance to the development of Hong Kong over the coming years, and must be pursued with vigour and determination if we are to see our industries move forward in step with the rapid technological developments that the world is experiencing.

Finally, I would like to join my colleagues to wish Sir Piers and Lady JACOBS a happy retirement and a successful endeavour in the years to come.

With these observations, Sir, I support the motion.

MR SZETO (in Cantonese): Sir, I once voted against the Budget when I pressed for the introduction of separate taxation for husband and wife. In the Budget debate last year, I warned that I would vote against the Budget again if the Government kept on turning a blind eye to pre-primary education and refused to allocate substantial financial resources to help improve the quality of pre-primary education and the service conditions of the kindergarten teachers. Today, apart from the reasons given last year, there is even a stronger case for me to object to this last Budget prepared by "Mr" JACOBS. I am sorry, "Mr" JACOBS. There was not any "good beginning" then, and there will not be any "happy ending" now for your Budgets.

"Robbing the poor to subsidize the rich" has always been the approach adopted by the Government when it formulates its financial policies. Only the interests of the consortia and of the commercial and industrial sectors have been cared for while the quality of living of the middle and lower income groups has been ignored. The gap between the poor and the rich is ever widening. And this time, it goes still further to make the situation worse, taking the least care to conceal its biased policy.

The Government harps on the inflation rate as the most detrimental threat to our economy on the one hand, and takes the lead to push up inflation on the other. This is akin to a robber crying for being robbed.

Apart from huge increases in rates, indirect taxes and licence fees, the Budget this year continues to take pain in paving the way for a sales tax. These measures have in fact, fuelled further inflation. It was announced yesterday that the Consumer Price Index (A) went up by an average of 12% last year. The rise is higher than expected. Yet, on the very same day, the Executive Council gave the green light to the fare increase proposals of the two bus companies. The rise which is 15% and 19% for the respective companies is again above that of the Consumer Price Index. The trend itself tells us that inflation is sure to rise at a rate higher than projected and will become intractable in the coming year if the Government takes the lead to

encourage price increases instead of curbing inflation.

Apart from taking the lead to push up inflation, the Government is also on the frontline to suppress wage increase. It vows to keep the rate of wage increase below that of inflation. In this Budget, personal allowances and allowances for dependent children and parents have not been adjusted to match the rate of inflation. The Government is clearly using inflation as a pretext to exploit the middle and lower income groups and the wage earners, causing a decline in their standard of living. The whole thing is nothing different from cutting a pound of flesh from a client who is just blindfolded and no anaesthetic is being used.

Profits tax was 18.5% in 1984, yet it has been lowered to the existing rate of 16.5%. If the rate then had not dampened the interest of the investors to make investments, why cannot the profits tax rate be adjusted upward now by 1% or 2% so that consortia which are making profits in billions of dollars may contribute more to alleviate the tax burden of the middle and lower income groups and the wage earners? Are there some people who are smart enough not to touch "the tiger's tail" in their dealings with the consortia?

Any budget that develops from a financial policy which aims at taking as much as possible from one group for fear of offending another is unacceptable to me.

As regards education, it is noted from the Budget that the spending on secondary and primary education has only increased by 4.4% and 1% respectively, which lags far behind the inflation rate. As such, I am afraid it is hard to maintain the quality of education, not to mention any upgrading. The Government explained that savings obtained from certain educational items would still be spent on primary and secondary education so as to keep its quality from deteriorating. I beg to ask: From which items can we acquire such savings? What is the amount involved? Would all the savings be ploughed back to secondary and primary education? Which subhead would get the funds? What would be the provision for each of the subheads? Would these savings be proofs of unthrifty management in the past? If not, would this be a stopgap measure to rob Peter to pay Paul?

Recently, the Secretary for Education and Manpower and the Education Department jointly announced "The School Management Initiative", one of their recommendations being "in particular, they (schools) should be permitted to charge Tong Fai to all pupils, up to a reasonable amount." Such recommendation does not only violate the

basic principle of free and compulsory education, but also points to a worrisome doubt as to whether it is the intention of the Government to use the pretext of making savings again in future to shift the burden of educational commitments onto the parents.

This shift of responsibilities is real and obvious in pre-primary education. Last year, in order to contain the serious wastage of teaching staff in pre-primary education, kindergartens were allowed to make drastic increase in school fees. It cost \$800 more a year on average for a place in the kindergarten, that is, an additional expenditure of about \$160 million for all the parents with children in kindergartens in Hong Kong. Of this sum, only \$13 million were given out as fee assistance to needy families, representing only 8% of the total increase. Though remuneration for teaching staff in pre-primary education were slightly improved, 92% of the resultant burden were shouldered by the parents themselves.

This year, though the Government declared well beforehand that fee assistance for parents would be doubled to \$26 million, I must point out that the figures remain at \$13 million in the Budget. I wonder from where the other half of the promised sum may be snatched and to what undesirable consequences it will lead. To keep up with inflation, school fees of kindergartens are bound to increase this year. Though fee assistance may be doubled, it serves no useful purpose to relieve most parents of their increasingly heavy burdens and is like a drop in a bucket to a very limited number of poor families who may benefit from the fee assistance scheme. When would the Government revamp its policy of ignoring pre-primary education, and let its provision for pre-primary education assume a more realistic percentage in the Budget?

The basic standpoints of the United Democrats of Hong Kong towards this year's Budget are as follows:

- (1) to demand increase in personal allowance to \$57,000 for salary taxpayers;
- (2) to protest against drastic increase in indirect taxes;
- (3) to protest against drastic increase in rates on property;
- (4) to propose an increase of 1% in profits tax; and
- (5) to protest against the introduction of sales tax.

I fully support these five basic standpoints.

Even though the Budget may be passed as usual, voices of opposition raised in this Council, low as it may be, would be very significant, because there is already a loud outcry of protest outside this Council. This Council is not dumb as a tin can. We must echo public sentiments. If someone says "No", more people will join in to say "No". Only so could we have the day when our Budget says "Yes" to public opinion.

Sir, with these remarks, I oppose the motion.

DR TSE: Sir, since this is Sir Piers JACOBS' last Budget proposal to this Council, I would like to take the opportunity to pay tribute to the Financial Secretary for his faithful service to Hong Kong during his term of office. Nobody is perfect, and few people can gaze into the future with certainty. Given the political constraints and the trade orientated economy of our territory, the Financial Secretary's fiscal policy has indeed proven to be the right approach for Hong Kong in view of the unexpected yet devastating international events of the last two years which jolted our economy. Like many others, I have once criticized the Financial Secretary for his conservatism which resulted in what appeared to be embarrassingly large surpluses during those good years of 1986 to 1988. But with the benefit of hindsight, I can see now the importance of saving up for the lean years, particularly when Hong Kong must make long-term investments such as the replacement airport and higher education in order to be able to sustain its economic and social developments into the 21st century. Indeed Hong Kong has such an economy that it cannot afford to be complacent with the present status quo. It needs a breakthrough in its level of productivity and capacity for expansion if it is to retain its financial leadership within the region and its trade competitiveness in the world. The strengthening of the infrastructure, both physical and educational, is one of the necessary ingredients if we are to bring about such a breakthrough. To this end, we must thank the Financial Secretary for the large reserves he has built up for our economy. Without these large sums of money in our coffers, and the excellent credit rating which our statutory corporations have earned, Government could not even begin to attempt to put the necessary infrastructures in place to face the challenges of the next century. For this reason alone I think the Financial Secretary deserves more credit than he has been given.

Now I would like to turn to the subject of education which is dear to my heart, but which is full of financial implications. First of all I would like to comment on the funding provisions for tertiary education. Let me first declare my interest as the head of one of the tertiary institutions which receives funding from Government through the University and Polytechnic Grants Committee. I am glad that Government has now accepted the need for developing the research potentials of the tertiary institutions as a matter of policy, and has established the Research Grants Council since last January and doubled the amount of research funding for the coming year. More than five years ago, during a policy debate in this Council I urged Government to pay attention to the importance of research within the tertiary institutions. I likened the lack of research support to building a house at great cost, yet leaving half of it empty. By physical design and staff recruitment policies, our tertiary institutions are equipped to create knowledge through research as well as transmitting knowledge through teaching. With the creation of the Research Grants Council and enhanced funding, I am sure the community will reap the results of this investment in due course with handsome dividends.

However I am less happy with the 1991-92 recurrent UPGC block grant vis-a-vis Government's declared policy on accelerated expansion of first degree places. According to the figures provided by the UPGC Secretary in answer to a question on the Budget, next year's total block grant will increase by 14.9% while the student enrolment increases by 12%. In explaining the increase, the UPGC Secretary pointed out that the 14.9% includes provision for the increase of operation costs, as well as the establishment of the Research Grants Council, and the substantial front-end loading required to set up two new UPGC institutions, particularly the new University of Science and Technology. When the costs of these items are taken into account, plus the fact that some institutions will be upgrading their non-degree courses to degree level to meet the degree place expansion, it is not hard to see that, by whatever means, some institutions will have to find ways to meet the expansion targets but with a less than satisfactory funding provision. Clearly, some belt tightening will be necessary. Of course it is well accepted that belt tightening is not necessarily a bad thing. But Government should at least, through the advice of UPGC, indicate to the institutions what areas could possibly be cut without hurting the quality of education. Simply providing a lesser amount without explanation and still expecting the institutions to meet the projected target would amount to implying that the institutions have a lot of fat that should have been trimmed. I do hope that in the future Government would, through the UPGC, make clearer to the public, as well as to the institutions, the principles and rationale which guide their tertiary

education funding decisions. In this regard, the written answers provided by the UPGC Secretary to the questions raised by Members are simply too general to be acceptable.

Personally, I am for providing more degree places for our deserving young people, particularly in view of the brain drain and the exorbitant costs of tertiary education overseas. But I cannot accept the notion that Government should do so by creating arbitrarily two tiers of first degree places through the policy of differential funding. I say this because at present there are two salary scales applicable to two types of institutions. By way of comparison, the scale of a senior lecturer in a polytechnic or a college is roughly equivalent to that of a lecturer in a university. When the Hong Kong Polytechnic was established in 1972, the lower scale was adopted for the reason that the polytechnic was expected to do only subdegree work. But the polytechnics have since moved away from that position and are now expected to be accommodating 65% of their students on degree courses in the near future. Similarly, when the Baptist College became a public institution in 1983, it was proper that it should be given the polytechnic scale because of its non-degree status at that time. But the Baptist College has since 1989 become a 100% degree granting institution and will be producing its first batch of Master's degree graduates this summer. Therefore Government must face the issue of salary equalization squarely and immediately. Otherwise Government would be seen to be endorsing a two-tier policy on degree education by default, a policy which would be extremely unfair to the students, the staff, as well as to the institutions concerned. Frankly speaking, Government cannot pursue the expansion policy without at the same time addressing the "equal work, equal pay" policy on tertiary education.

Now let me turn to the area of secondary and primary education. I agree with the Secretary for Education and Manpower that this area need significant improvement and even rethinking. I am for retaining the present system of nine-year free education, but free education must be clearly defined as basic education which meets the needs of our citizens in order to justify its total charge on public revenue and its compulsory nature. This "citizen's basic education" must be provided in such a way that a reasonable child can benefit fully from the experience, while at the same time the needs of the community are met. Given the fact that our population is predominantly Chinese and that Hong Kong is a city of international character, the inescapable conclusion must be that students should be taught in their mother tongue, and that they must be given excellent training in English as their second language. But unfortunately this is not what we are doing presently in our schools.

I have been told by a very trustworthy source that if English is used as a teaching medium today, at best only 10% of our secondary students can benefit from such a learning process, the rest of them would have varying degrees of difficulties ranging from inability to express themselves properly to inability to follow the progress of class activities. That being the case, there should be no reason why we need another three years to prove officially what is already so obvious. Instead, we should set a timetable to help, say, 90% of our schools to become truly Chinese medium schools, while helping the remaining 10% to become truly English medium schools for the children of the expatriates and those members of the public who have returned from overseas, and for those few local students who can truly benefit from a basic education using English as teaching medium.

But in order to improve the English proficiency for our young people in general, and for students who would pursue tertiary education locally or overseas in particular, the teaching of English at all levels must be reformed, and the reform must start with a supply of competent teachers of the language. One possibility is to introduce graduate teachers of English into our primary and secondary schools system. Unfortunately this proposition does have heavy resource implication. As it is, the educational slice of the Budget is already quite considerable. But at least from the training point of view there is one possible way to help implement this proposition within the present financial constraints, which is to encourage some tertiary institutions to make use of part of their planned degree student quota to train English teachers. But Government must phase in at the same time a corresponding policy that in due course all English language teachers from Primary One upward would be supplied at the first degree level. Admittedly this would be an objective which would take considerable time and resources to achieve. But if we are convinced of its necessity, we must start now before we let the vicious cycle of poor teachers producing poorer students run our people's English proficiency down even further.

Before closing, I wish to comment briefly on a subject which I normally do not touch, namely, duty on tobacco. I am a non-smoker, and I wish we could find ways to persuade the smokers to quit their harmful habit. I would have no difficulty accepting a 200% jump in the rate of duty if all smokers were as well off and as well informed as my honourable colleagues in this Council who do smoke. But unfortunately, we have hundreds of thousands of common citizens in Hong Kong who have very few luxuries in life they can afford, and smoking a cigarette after dinner is one of them. The reality is, among these people many are too old to kick the habit, and to them having to pay more than \$20 a packet is a true burden. I do hope that the Financial

Secretary will bear these people in mind when he re-examines his revenue proposal. With these remarks, Sir, I support the motion.

MR PANG (in Cantonese): Sir, first of all, I would like to talk about inflation. Last year, in response to your Policy Address, I pointed out that "the Government joins hands with the capitalists in adopting certain measures to contain the wages of the employees. Is this the only viable solution to alleviate the inflation problem?" Judging from the Financial Secretary's 1991-92 Budget, it seems that apart from interfering with wages, the Government is at its wits' end in addressing the problem of inflation. On the one hand, the Government contains wages in a bid to fight against inflation, while on the other hand, it connives at the hefty increases by public utilities which have direct bearings on the livelihood of the ordinary people. For instance, electricity and water charges will go up by 6.9% and 10.1% respectively while KMB, CMB, and the two railway companies have proposed to increase their fares by 16% to 21%. Besides, the Government also spares no effort in taking the lead to introduce drastic increases in rates, transfer of vehicle ownership fee, air passenger departure tax and passenger embarkation fee, as well as higher duty rates on hydrocarbon oils, tobacco, alcoholic beverages, alcohol and so on. Such moves which are bound to stimulate inflation are just like adding fuel to the flames. With this double standard, how can we expect the citizens to be convinced?

To suppress inflation, the Government should first review the control on public expenditure. Yet, the 6.3% growth rate of total public expenditure is 3% above that of the Gross Domestic Product (3.5%). Then how is the Government going to suppress inflation? In fact, very obviously, the prime reason leading to inflation is that the Government has repeatedly taken the lead in fee increases. The Financial Secretary has promised to control public expenditure through reducing the size of the Civil Service. In 1989-90, the Government attained zero growth in this respect. However, after studying this year's Budget, I have found that this is not the case. Of the 69 items of estimated expenditure in respect of Civil Service establishments, 31 items represent growth while only 38 items show zero or negative growth. In fact, the Civil Service will actually grow by 0.8%. It can thus be seen that the Government has yet been unable to reduce the manpower growth to zero. I think that the Government should immediately control the size of the Civil Service while maintaining its efficient and high-quality service.

Sir, you said in your Policy Address 1988 that "I know that the community will

continue to be well served by Council Members, working with the common goal of maintaining Hong Kong's stability and prosperity and improving the quality of life of its people." You also said, "I look forward to working together with you to achieve these aims." Sir, I would like to ask: "Do you still persevere with the task of improving the quality of life of the ordinary citizens? If yes, would you urge your housekeeper, the Financial Secretary -- which, I think, would be most unlikely -- to stick to your aims in the light of an old saying, "The essential thing in politics is not being outspoken but putting things into practice"?"

I extend my full support to the proposed capital projects as the construction of a new airport will be of paramount importance to the continued economic growth of Hong Kong. Conceivably, huge financial back-up will be required and one of the more plausible ways to raise money is to broaden the tax base and issue bonds. Unfortunately, the Financial Secretary is only blindly sticking to increasing indirect taxes in order to maintain a surplus budget. Though I support the capital projects, this cannot be taken to mean that I support the Government in always making the ordinary citizens a target of tax increases. Being a Legislative Councillor representing the labour constituency, how can I support and endorse a Budget that exploits the general public and robs the poor to pay the rich? I wonder why the Government only cares for or even shows favouritism to the consortiums as well as rich and powerful people who have earned or reaped huge profits in Hong Kong, while those citizens to whom Hong Kong is their permanent home and who have been making their contributions silently are being left out in the cold. As another old saying goes, "Be it a benevolent rule, if its benefits do not extend to the people, it is still non-people-orientated." Building a new airport may be a benevolent rule, but it has been employed by the Government as a pretext to harm the public at large. It seems that the Government is more concerned with adding to the ordinary people's burden than with improving their standard of living. Sir, is this attributable to the discrepancies between what you preach and what the Government under your leadership practises? In fact, to broaden the sources of revenue, one should contemplate reducing expenditure first, instead of asking for contributions from the people at every turn. As a folk adage says it well, this tantamounts to "begging for food from beggars."

Sir, I shall now talk about the increase in rates. The Government has all along been encouraging the citizens to acquire their own homes in order to enjoy an easy and comfortable life. Now, over 90% of the rate-payers will have to pay more rates. Though the total charge to rates, territory wide, will be reduced by 2 percentage

points to 5.5%, yet the overall average increase in rateable values will be 85% after general revaluations by the Rating and Valuation Department based on rental values in July 1990. The estimated rates yield to general revenue in 1991-92 resulting from this proposal is in the region of \$3.5 billion. While introducing reasonable increase in rates is one way to generate more revenue by the Government, too hefty an increase will prove to be burdensome for the ordinary citizens who may find it impossible to acquire their own homes. Another point worthy of note is that the common practice is for the landlords to pass on the increase to the tenants in no time, thus triggering off a spate of rent increases. Surely, this will also set off a rise in public housing rents. Under such circumstances, the vicious cycle will go on and on, pushing up consumer prices and lowering purchasing power, thus making it harder for the citizens to earn their livelihood. By 1993-1994, when the capital projects of the new airport are expected to be in full swing, there will inevitably be further tax increases under the persistent inflationary pressures. Besides, as hinted by the Financial Secretary, sales tax may be introduced by that time, and with wages being suppressed and real incomes lagging far behind the inflation rate, the ordinary citizens' standard of living will decline even further. Sir, I must emphasize once again that I have all along been objecting to the introduction of a sales/wholesale tax because it not only increases the burden of the citizens, but also deals a heavy blow to both the tourism industry and the industrial and commercial sectors.

I shall now turn to the subject of salaries tax. The Financial Secretary has proposed a \$2,000 rise in basic allowances for salaries tax. This means an increase of 6.2% and 3% for a single person and a married person respectively, both of which fall far short of the 10% inflation rate last year. In this connection, another 220 000 low income earners are expected to fall into the tax net. With the token increase in allowances, the ordinary citizens simply do not know whether to laugh or cry. Should \$2,000 be divided by 12, clearly one should get a pay increase of only \$166 per month in order to stay clear of the tax net. This is entirely unrealistic and unreasonable. Under the high inflation rate now prevailing, how can one meet the basic living costs with a monthly salary of just \$3,366, let alone supporting the family and footing the bill for huge accommodation and transport expenses? I think the allowances should be raised to \$60,000 or more in order to meet actual needs. This figure is based on a recently-released government statistic which states that the median income of our workforce is around \$5,000.

Sir, you have pointed out in this year's Policy Address that "it is essential

to preserve, strengthen and support the family as the foundation of our community". I shall now talk about the subject of allowances for children and dependent parents. May I quote from paragraph 152 of the Financial Secretary's Budget speech: "I do not propose, on this occasion, to increase the allowances for children or for dependent parents." This runs counter to the Government's policy of "encouraging and supporting the family in providing care to its older members". As the local population is showing a trend of ageing, the elderly problem has come to a point where urgent remedy is required. The Government's decision not to increase the allowances for children and dependent parents, coupled with an attempt to drag low-income groups into the tax net, will surely discourage young people from supporting their parents. There are at present some 100 000 elderly people who live on old age allowance or public assistance. As a more plausible solution to the elderly problem, the Government should actively encourage young people through education and publicity campaigns to support and care for their old folks. Only by promoting education for the younger generation on showing respect for the elderly on the one hand and, of course, by increasing the allowances for dependent parents on the other can we achieve more positive results.

Furthermore, although expenditure on social welfare in this year's Budget will grow by 8.4% to \$5.5 billion compared with last year, this growth rate still falls behind the 9.5% rate of inflation which many economists have considered to be too conservatively assessed and should be upgraded to double digits. When funds allocated cannot keep up with inflation, any additional provision is decreasing in value in real terms. In this way, how can the fiercely-debated White Paper on Social Welfare into the 1990s and Beyond which has been subjected to two stages of public consultation be fully implemented?

Sir, I am not just concerned about seeking more welfare provisions while objecting to any increase in taxation and calling for the control of public expenditure on the part of the Government, for such demands would sound contradictory. I simply wish to make it clear that the Government needs to manage its public finances properly. As I have just said, one feasible way to raise revenue is to broaden the tax base. There is a need to examine our revenue measures if we have to observe the principle of equity in collecting revenue and to ensure fair distribution of wealth and resources among the community. In my opinion, the Government should now be in a position to increase profits tax. While it is understandable that the Financial Secretary is trying to woo foreign investors with a low profits tax rate, low taxation is not the only incentive to investors and factors such as Hong Kong's infrastructural

facilities and geographical location, the quality of its products as well as the working attitude and efficiency of its workforce are also major considerations. Given the many advantages now enjoyed by Hong Kong, a 1% increase in profits tax should have no significant implications for the commercial and industrial sectors. If the rate were now fixed at 17.5%, our profit tax would still be on the low side in comparison with other neighbouring countries. Profits of corporations are taxed at 35% in Japan; 20% in Korea; 35% in the Philippines; 32% in Singapore; and 25% in Taiwan. With a 1% increase in profits tax, Hong Kong still has the lowest tax rate. Therefore, increasing profits tax by 1% will boost government coffers handsomely without driving the investors away.

When the Budget debate takes place each year, Members of this Council will urge the Financial Secretary to set aside more provisions on social welfare. I think the additional revenue generated by higher betting duty on bets and lottery proceeds, if deployed for welfare purposes, will certainly give a considerable boost to the existing levels of public assistance and old age allowance which are considered by many as ludicrously petty and grossly inadequate.

Sir, how much longer do I have to carry on my fight for the well being of the lower working classes before their livelihood is really secure and before they can live and work in peace and contentment?

As the Financial Secretary and our Government seem to have failed to work out effective measures to contain inflation and, without thinking about how to improve the people's quality of life, added to their burden and plunged them into dire suffering by drastically increasing indirect taxes instead, I therefore cannot give my support to this Budget.

Finally, I would like to extend solemnly my sympathy to Sir Piers. This Budget, the last one he presented to this Council, has drawn criticisms from all sectors. The Financial Secretary might perhaps be the Government's scapegoat; to put all the blame on him would be unfair to him.

Sir, with these remarks, I oppose the 1991-92 Budget.

MR TAM (in Cantonese): Sir, I am sure when you entered the Legislative Council Building today, you have seen for yourself the protests staged outside by the

representatives of some local bodies against this year's Budget. These protests reflect clearly the wishes of the general public and their discontent towards the Budget. I believe that a government which really cares for the well-being of the people in its administration will definitely not ignore the wishes expressed by the people, nor will it be so obstinate and opinionated as to insist on those policies which violate public interests. However, I have come to realize that this is only something that exists in my own wishful thinking. In reality, the Administration has always been arbitrary and discriminatory in its policies and has been insensitive to the interests of the middle and lower classes, but mindful of those of the industrial and commercial sectors. How can we expect such attitudes to be changed readily? Nevertheless, as a representative of the labour sector speaking for the interests of the lower income group, I feel obliged to express on their behalf their views on the Budget.

Why has this Budget given rise to so many protests and discontent? The answer is simple. It has failed to solve the prevalent problem that affects people's livelihood, that is, the spiralling inflation rate; in addition, it has evidently added further pressure to the burden of the middle and lower classes. Henceforth, I shall comment on the Budget in the light of the following three aspects, namely, the tax system, inflation and the distribution of resources.

Tax system

In these few years, the Government has constantly made use of various pretexts and activated public opinion to push the idea of a sales tax. The strongest ground of argument it has put forth is the need to broaden the tax net and to stabilize the tax base. In fact, the need to broaden the tax net has become the most powerful pretext used by the Government to reach for the grassroots' wallet and to raise substantially the indirect tax. Whether it is necessary for the Government to broaden the tax net in order to secure a stable tax base is subject to dispute. Academics on economics have cast doubts on this argument. I do not intend to discuss this subject here, but I wish to make the following two points on the broadening of the tax base.

First, the Financial Secretary and some members of the industrial and commercial sectors and of the accountancy profession have repeatedly expressed the view that the sources of tax revenue are too heavily dependent upon a small number of taxpayers. Too narrow a tax base will easily render our tax revenue unstable. However, the

phenomenon that our tax revenue comes largely from a small number of taxpayers reflects exactly the fact that Hong Kong's economy is too monopolistic, the distribution of resources available in a society is grossly unbalanced, and the gap between the rich and the poor is too wide. The Government takes no heed of this economic reality in society and talks presumptuously about the broadening of the tax base. Such a limited outlook will in the end lead to the widening of the gulf between the haves and the have-nots, which will absolutely be unfair to the lower strata of society and will be detrimental to the stability of Hong Kong.

Second, apart from generating revenue, taxation also serves another important purpose of facilitating the redistribution of the resources of our society so as to maintain a relatively fair and stable society. Thus, the adoption of progressive rate has become an important principle of any taxation system. However, Hong Kong's existing tax system has grossly violated this basic principle, for example, the profits tax rate is too low, the marginal tax rate rises too sharply and the tax band is too narrow. The Government ignores the situation but highlights the issue of widening the tax base. That only goes to expose the government attitude of putting the interests of a minority group before the long-term development of society.

On the basis of my understanding of the two main principles of the taxation system, I hope the Government would consider the following proposals:

(1) To lower the level of increase in indirect taxes: The Financial Secretary has raised the rate of indirect taxes substantially in the Budget, among which, the hefty rise in rates on property will affect most families while the increase in the duty on tobacco is as high as 200%. The Financial Secretary has used a ludicrous excuse to rationalize his proposed increase: to safeguard people's health. In fact, if the Government is really so caring, the helpless elderly will not be left in the congested and appalling living conditions of the caged houses. Nor will the expenses on various social services be cut down with different excuses. I remember that the Government justified its scheme of charging fees for social services on the pretext that the general public should have the freedom of choice. Yet it has now deprived people of their right to smoke. It should be noted that to many people in the lower strata of our society who cannot afford expensive entertainments, a puff on cigarettes is their greatest joy in life. Now, even this only pleasure in life is to be taken away.

(2) To increase personal allowance and allowances for children and dependent

parents: In the Budget, the Financial Secretary only raises the personal allowance nominally by \$2,000, an amount which can hardly catch up with the inflation rate. In so doing, the Government is just making tax concession proposals that will not bring any real benefits to the taxpayers. Moreover, 200 000 low income earners will be caught into the tax net as a result of the Budget proposals. According to the calculation worked out by various local bodies using different formula, personal allowance should be increased to around \$58,000 and the allowances for dependent parents and children should be adjusted taking into account the inflation rate.

(3) To increase the rate of profits tax: Our existing profits tax rate is indeed low. As a matter of fact, when the Financial Secretary took office in 1986, the rate of profits tax then was 18.5%. Thus, an increase of 2% or more in profits tax will certainly not be too harsh if the Government is to open up more sources for tax revenue to cope with the need for infrastructural construction. Moreover, there is no doubt that the industrial and commercial enterprises stand to gain most from the port and airport projects. Thus, it is only reasonable that profits tax should be raised.

(4) To shelve the proposal of a sales tax and to study the feasibility of a capital gains tax: Sales tax is regressive in nature. It will have a serious impact on people's livelihood, widen the gulf between the haves and the have-nots, as well as fuel inflation. Therefore, for the sake of social justice, social stability and economic development, sales tax should not be introduced. Recently, more and more people have pointed out that the levy of a sales tax is not the only way to broaden the tax base. One of the other feasible alternatives is the introduction of a capital gains tax. In this connection, the Government may conduct studies in this aspect.

(5) To set up a tax review committee comprising members from different walks of life to conduct a comprehensive review on the existing taxation system. As I have just mentioned, many irrationalities can be found in the existing taxation system which warrant an overall review. The taxation system is not simply a technical matter. It is also a political issue. That explains why the so-called tax experts alone cannot solve all the problems concerned. A tax review committee with representatives from the lower strata is imperative to rectify the anomalies in the existing taxation system.

Inflation

The high inflation rate has become a major threat to people's livelihood in recent

years. Unfortunately, not only has the Budget appeared to be helpless in tackling this problem, it has even pushed up the inflation rate through hefty increases in indirect taxes.

(1) Relationship between inflation and wages

When commenting on the causes of inflation, the Financial Secretary once again tried to put the blame on wage increases in order to rationalize Government's policy of importation of foreign labour and suppressing wages and to let the brunt of inflation be borne by the middle and lower classes categorically. Sir, in October last year, you first associated the inflation rate with wages in your policy address. Since then, some members of society and economists have refuted such association with quite a number of convincing arguments. As a matter of fact, the average growth rate of wages in real term in Hong Kong in the past decade is far lower than that of the productivity of our labour force during the same period. This shows that even in the past 10 years, the working class of Hong Kong has been unable to fully enjoy the fruit of their hard work. Salary earners, especially those in the low income bracket, have always been reduced to a passive and helpless position whenever the wage levels are being set. For those low income earners, the present wage policy advocated by the Government undoubtedly aggravates their plight further. This again reveals that the Government is entirely guided by its wishes to protect the interests of a small group of people when making policy decisions.

(2) The Government should bring the frantic drive for fare increase of the public utilities under control

The Government has on the one hand, repeatedly suppressed wages in order to ease inflationary pressures. Yet on the other hand, it has turned a deaf ear to the call of the general public for inflation control, that is, control on the frantic drive for fare increases by the public utilities. Moreover, it has given a well-versed excuse to evade the issue: "If we are to maintain our free and open economy, we must not tamper with the price of mechanism." Does the Government consider wages not the products of the market force? If so, why, then, did the Government tamper with wage increases through the importation of foreign labour? Even if the Government cannot interfere with prices in the private sector in general, it is absolutely in a position to exercise control over those monopolistic or semi-monopolistic public utilities which have been ceaselessly seeking high profits and thus pushing up inflation.

(3) The Government should not take the lead in raising taxes and pushing up inflation

The Budget has done nothing to curb inflation. Rather, it has joined the ranks of those profiteering businessmen who reap exorbitant profits by making hefty increases in indirect taxes, thus fuelling inflation. Some members of the financial sector have pointed out that the increases in indirect taxes by the Government this year will cause a 2% rise in the Consumer Price Index A. It can thus be seen that it is totally hypocritical and irresponsible of the Government to warn vigorously against the detrimental effects of inflation in a bid to shift responsibility onto the general public on the one hand, and contributes to the inflation spiral on the other.

The distribution of public resources

One basic principle of the Budget for this year is to open up sources of revenue and to reduce expenditure. The former is achieved by raising indirect taxes, the latter by controlling recurrent expenditure.

The Government has given grand reasons for controlling recurrent expenditure, including: the control of public expenditure is a way in which the Government can play its part in the fight against inflation; fundamental to our budgetary strategy is the principle that the public sector must not be allowed to absorb too great a share of Hong Kong's economic resources. Unfortunately, the Government has not been consistent in its approach and strategy. In other words, the Government has evidently adopted double standard: while controlling recurrent expenditure, it has increased capital expenditure substantially. This will certainly become more obvious after 1993 when our infrastructural investments are at their zenith.

In fact, we can sum up the ulterior motive of the Government's principle of opening up sources of revenue and reducing expenditure precisely in one sentence: the opening up of sources of revenue and the reduction of expenditure is to pave the way for investments in infrastructural projects.

Regrettably, the Government has not been open and honest in dealing with this issue. Sir, in both your policy address and the Financial Secretary's Budget for this year, it has been reiterated time and again that infrastructural programmes will not affect other services provided by the Government.

However, the reality has given witness to another story: the real growth rates of the various items of recurrent expenditure over the periods 1986-87 to 1990-91 and 1990-91 to 1994-95 are declining, while the growth rate of expenditure on infrastructural projects has risen and will rise sharply by nearly three times. Meanwhile, we see that in terms of their percentages in the consolidated public expenditure, the average levels of expenditure on several areas of service which affect people's livelihood most are on the decline or barely maintained over the periods 1986-87 to 1990-91 and 1990-91 to 1994-95. The only increase as found in medical services is obviously due to the huge administrative cost relating to the setting up of the Hospital Authority. By contrast, expenses on infrastructural programmes in the consolidated expenditure during the same period have risen substantially by 4%.

Infrastructural programmes will not only affect the improvements to be made on various social services, but will also have grave impacts on other social and economic developments. For example, the Productivity Council, an organization which promotes Hong Kong industries, has to trim its budget due to the infrastructural programmes. This will undoubtedly have adverse effects on the transformation of Hong Kong industries. Moreover, vigorous development programmes which the Government has planned to implement, such as environmental protection programmes, will have to be scaled down to give way to infrastructural programmes.

Actually, it is sheer lying to say that investment programmes of such magnitude will not have any impact on other social needs and developments. Unfortunately, the Government has employed deception tactics to withhold all information concerning the infrastructural programmes, inter alia, the amount of borrowing; the plan for tax increase and the various social and economic implications, thus denying the public the right to choose.

I am of the view that the Government should even list out all the options together with their implications, irrespective of the scale of infrastructural programme development, so that the public can assess the acceptable level of commitment before making any choice.

In all circumstances, the infrastructural programmes will have significant impacts on our social services as well as other social and economic developments. Apart from urging the Government to strike a balance among various spending needs without sacrificing too much public interest, we also demand a right to know and a

right to decide. Regrettably, the Government seems to have ignored our plea. It only depicts all sorts of rosy yet deceptive pictures to dodge our demands and continues to act in an autocratic manner, confining all information and the right of decision-making to itself.

Sir, many members of the public have described this year's Budget as one that benefits the rich by robbing the poor. Such a comment cannot be more appropriate in view of the taxation policy presented in the Budget. On the one hand, the Government, taking no heed of the present injustice caused by the wide gap between the haves and the have-nots nor the tremendous burden on the public brought about by high inflation, introduces hefty increases in indirect taxes which will aggravate the existing unfair situation in our tax structure and create additional burden to people's livelihood. On the other hand, it cuts down spending on social services for the sake of the infrastructural programmes and even introduces the "users pay" policy in respect of charges for public services. In presenting these policies which are unpopular among the public at large, the Government has behaved in an absolutely autocratic manner.

Being a member of the Legislative Council representing the grassroots, I find such policies and the autocratic manner of the Government extremely deplorable. Sir, with these remarks, I oppose the motion.

MR ANDREW WONG (in Cantonese): Sir, I rise to speak in support of the motion on the Second Reading of the Appropriation Bill 1991.

This is the fifth Budget presented by the Financial Secretary Sir Piers JACOBS to this Council, and also his last. As Sir Piers will be retiring, I should like here to pay tribute to him and to wish him and Lady JACOBS happiness and good health in their retirement. I would also hope that Sir Piers would continue to offer his good service to the community.

Sir, this afternoon opposers to the Budget are having a field day outside the Council building. They are raising a hue and cry over tax increases and some are asking Members of this Council to vote against the Budget. Among the Honourable Members who spoke before me, there were some who indicated that they would say no to the Appropriation Bill 1991 when the motion on its Second Reading is put to the vote. These Members included the Honourable Martin LEE, the Honourable Ronald CHOW, the Honourable SZETO Wah, the Honourable PANG Chun-hoi and the Honourable TAM Yiu-chung. From a juristic point of view, the subject of the present debate is the

Appropriation Bill which seeks to appropriate funds to meet the expenditures of the 1991-92 financial year. During the Second Reading debate on the Bill, we can of course discuss taxation and revenue, and even the overall state of Hong Kong's economy or fiscal strategy; it is because expenditure and revenue go together. But when it comes to voting, if the Bill is not passed, the Government will have no money to meet its expenditures. This clearly is not what the organizations and Members concerned have been intending, for they have also been asking the Government to increase spending under certain heads of expenditure.

Sir, whether or not the Financial Secretary's proposed tax increases will be accepted by this Council does not depend on the passing of the Appropriation Bill but on the passing of subsidiary legislation, or resolutions or even amendment Bills which the Financial Secretary has yet to introduce to this Council to give effect to increases in taxes, fees and charges under various existing Ordinances. Those Members who said they would vote against the motion on the Second Reading of the present Bill are in effect casting a no-confidence vote against the Government; short of actually proposing a no-confidence motion or of expressly stating that they do not trust the Government, they are nevertheless coming out in clear opposition to the tax increases, increases which nobody ever likes. Could this course of conduct be an instance of "overtly repairing 'zhandaoy' while covertly crossing to Chen Cang (throwing a smokescreen)" which the Honourable Ronald CHOW mentioned last year and repeated a few times already this year?

Sir, sentiment against tax increases does of course exist. But what in fact goes on behind the current trend of opposition to tax increases is no more than a tug-of-war between two different taxation philosophies -- that is to say, whether the well-to-do should pay even more through a steeper progressive scale of taxation, in other words, whether there should be more reliance on direct taxation or on indirect taxation. In the 1987 debate on the Budget I had briefly touched on this point. I think that now is the time to conduct a full scale review. I therefore agree with the many Honourable Members who suggest that a taxation review committee should be set up. I am of the view that the Government should take the opportunity to carry out a full scale taxation review.

Sir, I am also against tax increases probably because, as some would say, it is a trendy thing to do so. But, unlike some people, I am not indiscriminately opposed to every single item of tax increase. What I am opposed to are particular taxation measures which are inequitable or ineffective. I will not now go into all these item

by item -- tax increases on tobacco, vehicle, airport departure so on and so forth. However, when each particular taxation increase measure is later put before this Council for endorsement, I will argue either for or against it and then vote on it in an appropriate way.

Sir, although I am not opposed to the Financial Secretary's tax increase proposals in their entirety, I must yet pose the question: with inflation currently at a 11.9% high (based on the Consumer Price Index figures published yesterday), by how many percentage points will inflation shoot up once the proposed tax increases are implemented? What impact will it have on people's livelihood? I think there is a need to reconsider the level or margin of increase sought by each taxation measure.

Sir, I must point out that the various tax increase measures proposed by the Financial Secretary will bring an extra revenue yield of \$4 billion; even making allowance for concessions, clawbacks or whatever, the yield will still be as high as \$3.1 billion. It is estimated, however, that the fiscal deficit for 1991-92 will be about \$2 billion. Analysing the additional commitments under Head 106 Subhead 789, one will find that in 1990-91 the provision budgeted for under this subhead was \$0.1 billion; however for 1991-92 the provision asked for under this subhead is \$0.59 billion, in other words, an increase of \$0.49 billion. If it turns out that there is no need to draw on this provision at all, the deficit will shrink to just about \$1.5 billion. Is the \$1.1 billion, or perhaps \$1.6 billion, which the various proposed revenue measures are expected to yield really necessary?

Sir, the Chinese have a saying: "hanging out a lantern for the dead" which has an ulterior meaning to it. The practice is that the age of a dead person is overstated by three years on the lantern, one year each to represent Heaven, Earth and Man. The ulterior meaning is, of course, "overstating the accounts". I would therefore urge the Financial Secretary to reconsider the original levels of increases. If the Financial Secretary, on concluding the Second Reading debate, should manifest no intention to scale down the proposed increases, I would, during later debates on the various revenue measures, put forward my opposing views. Be that as it may, I am still happy to support the present motion before Council.

Suspension of sitting

HIS EXCELLENCY THE PRESIDENT: In accordance with Standing Orders I now suspend the sitting until 2.30 pm tomorrow afternoon.

Suspended accordingly at twenty-four minutes to Eight o'clock.