

1 HONG KONG LEGISLATIVE COUNCIL -- 26 March 1992

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OFFICIAL RECORD OF PROCEEDINGS

Thursday, 26 March 1992

The Council met at half-past Two o'clock

PRESENT

THE DEPUTY PRESIDENT

THE HONOURABLE JOHN JOSEPH SWAINE, C.B.E., Q.C., J.P.

THE CHIEF SECRETARY

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

THE FINANCIAL SECRETARY

THE HONOURABLE NATHANIEL WILLIAM HAMISH MACLEOD, C.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 MRS SELINA CHOW LIANG SHUK-YEE, O.B.E., J.P.

THE HONOURABLE MRS RITA FAN HSU LAI-TAI, 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 PANG CHUN-HOI, M.B.E.

THE HONOURABLE SZETO WAH

THE HONOURABLE TAM YIU-CHUNG

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

THE HONOURABLE EDWARD HO SING-TIN, O.B.E., J.P.

THE HONOURABLE RONALD JOSEPH ARCULLI, J.P.

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

THE HONOURABLE MRS MIRIAM LAU KIN-YEE, J.P.

THE HONOURABLE LAU WAH-SUM, O.B.E., J.P.

DR THE HONOURABLE LEONG CHE-HUNG

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

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

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

THE HONOURABLE ALBERT CHAN WAI-YIP

PROF THE HONOURABLE EDWARD CHEN KWAN-YIU

THE HONOURABLE VINCENT CHENG HOI-CHUEN

THE HONOURABLE MOSES CHENG MO-CHI

THE HONOURABLE CHEUNG MAN-KWONG

THE HONOURABLE CHIM PUI-CHUNG

REV THE HONOURABLE FUNG CHI-WOOD

THE HONOURABLE TIMOTHY HA WING-HO, M.B.E., J.P.

THE HONOURABLE MICHAEL HO MUN-KA

DR THE HONOURABLE HUANG CHEN-YA

THE HONOURABLE SIMON IP SIK-ON, J.P.

DR THE HONOURABLE LAM KUI-CHUN

DR THE HONOURABLE CONRAD LAM KUI-SHING

THE HONOURABLE MISS EMILY LAU WAI-HING

THE HONOURABLE LEE WING-TAT

THE HONOURABLE ERIC LI KA-CHEUNG, J.P.

THE HONOURABLE FRED LI WAH-MING

PROF THE HONOURABLE FELICE LIEH MAK, O.B.E., J.P.

THE HONOURABLE MAN SAI-CHEONG

THE HONOURABLE STEVEN POON KWOK-LIM

THE HONOURABLE HENRY TANG YING-YEN, J.P.

THE HONOURABLE TIK CHI-YUEN

THE HONOURABLE JAMES TO KUN-SUN

DR THE HONOURABLE SAMUEL WONG PING-WAI, M.B.E., J.P.

DR THE HONOURABLE PHILIP WONG YU-HONG

DR THE HONOURABLE YEUNG SUM

THE HONOURABLE HOWARD YOUNG

THE HONOURABLE ZACHARY WONG WAI-YIN

ABSENT

THE HONOURABLE NGAI SHIU-KIT, O.B.E., J.P.

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

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

THE HONOURABLE MARVIN CHEUNG KIN-TUNG, J.P.

THE HONOURABLE FREDERICK FUNG KIN-KEE

THE HONOURABLE LAU CHIN-SHEK

THE HONOURABLE GILBERT LEUNG KAM-HO

THE HONOURABLE NG MING-YUM

IN ATTENDANCE

THE CLERK TO THE LEGISLATIVE COUNCIL  
MR LAW KAM-SANG

## Second Reading of Bill

### APPROPRIATION BILL 1992

Resumption of debate on Second Reading which was moved on 4 March 1992

DEPUTY PRESIDENT: Council will resume and continue with the debate on the Appropriation Bill 1992.

MR ANDREW WONG (in Cantonese): Mr Deputy President, the 1992-93 Budget under debate in this Council today and yesterday is in fact the maiden Budget presented by my respectable friend, Mr MacLEOD, the new Financial Secretary. I would like to take this opportunity to express my appreciation of his efforts in preparing this Budget and wish him the chance of presenting his second, third, or even fourth and fifth Budgets in the many years to come.

Mr Deputy President, keeping to my usual style of being straightforward and outspoken instead of evasive, allow me to state clearly at the beginning that I am all for the motion to move the Second Reading of the Appropriation Bill. I would also like to express my support for the Budget in one whole package which includes its expenditure and revenue proposals. I give my support not just because I am an Executive Councillor and, therefore, a member of the executive authority, but rather because the Budget itself deserves support. I would like to commend it to the Honourable Members.

I have been teaching public finance and public administration in the Chinese University for the last 21 years during which the annual Budgets have become the subject of my study. In my view, this year's Budget has carried forward the philosophy of public finance management on which the continuous success and prosperity of Hong Kong rely. This is also a much more far-sighted Budget than the previous ones. For example, its medium range forecast has been extended to cover 1997, thus giving the public a picture of what the economic situation of Hong Kong

will be like in the final year preceding the transfer of its sovereignty. Even Dr LAW Cheung-kiok of the Hong Kong Association for Democracy and People's Livelihood has fairly and rightly made some favourable remarks on this point.

Mr Deputy President, I consider that this year's Budget is, on the whole, a carefully drawn, reasonable and well-balanced statement. Besides, public opinion has, in general, suggested that the Budget is good or acceptable as a whole. According to the findings of an opinion poll earlier on conducted by a market survey company on behalf of a local newspaper, the Budget was, on the whole, found to be acceptable by nearly 70% of the respondents, despite its average scoring of only 44.52 points, which is below the "passing mark" of 50.

I fully agree to the comments made by several Honourable Members yesterday that it was difficult for any Budget to satisfy and please everybody. It is an indisputable fact in public finance and public administration that each and every decision contained in the Budget must have a mixed impact on the public, with both favourable and adverse effects on individual sectors. A Budget that pleases everybody can only be found in paradise. Of course, if some irresponsible persons come into power, they may, for the sake of currying favour with the public, present a Budget that tends to please everyone. But this will surely make a complete shambles of our economy and, as a result, lead to greater financial constraint in this territory. Is it not a destructive approach which will promise to turn Hong Kong into a hell on earth?

Mr Deputy President, the maintenance of massive reserve and surplus is a practice which has come under the severest criticism by many Honourable Members. It has been Hong Kong's strategy in managing public finance to transfer all surpluses to the account of reserve which is kept as far as possible at a certain percentage of the estimated expenditure of the current year. As concerns the figures and rationale in this respect, they were made fairly clear by the Honourable Vincent CHENG yesterday. As the reasons for such an arrangement have also been explained by me in a TV commentary programme of the 1970s called Viewpoints, I am not prepared to labour this point. I only wish to point out that the forecast reserve of \$71.6 billion in 1997 will be equivalent to about 35% of the estimated expenditure of the year. Less the \$25 billion that is to be handed over to the Hong Kong Special Administrative Region Government, the remaining reserve of \$46.6 billion will merely represent 23% of the estimated expenditure of the year. Should this be considered on the high side or the low side?

What consequences will it lead to if some Honourable Members who are not happy with part of the Budget for one reason or another insist on voting against it or amending it to their satisfaction without paying regards to the overall interest of the community? I do not think the final result will be welcome to any of us.

(1) Should these Members succeed in reducing revenue from any one tax source, the Government will definitely need to offset its losses by slashing expenditure or raising taxation in other areas. Do we really want to cause such drastic changes for just a few minor amendments? The aftereffect may go as far as to result in a situation where the poor are robbed to benefit the rich. For example, an increase in personal tax allowance or a reduction in rates may make it necessary to introduce sales tax in economic downturn, a tax which is commonly known for its regressive effect, and end up with exactly the kind of situation I am talking about. While I accept that no Budget is perfect, it is my view that opportunity should be taken at this time of the year to put forth those tax-related proposals which we hope to follow up in the coming 12 months with a view to pressing for their adoption by the next year's Budget.

(2) The preparation of the estimated expenditure is based on policies that have already been formulated. The Appropriation Bill is passed to provide funds for implementing these agreed policies. If we propose to increase the allocation for any one of the existing programme areas or create new expenditure items in the Appropriation Bill, it will virtually mean that the Legislative Council is, in the process of considering the Appropriation Bill, introducing other new policies or rearranging the order of priorities of the policies concerned. Do we really believe that we can manage to handle the annual job of formulating and monitoring a string of policies and finish it satisfactorily within a short span of one month's time in such a hasty manner?

(3) I remember that last year a Member voted against the resolution on rates. If that Member had at that time succeeded in obtaining enough support from other Members to vote down the resolution, the rates paid by the people would not have been reduced from 7.5% to 5.5%. I believe that Councillor had no intention of causing the taxpayers to pay more tax and, of course, he might not even be aware of the consequences of his action. Even though I am not quite sure what his motive was, it is, however, logical to presume that he was just making a political gesture with a view to gaining a lot of political chips for nothing. No wonder he jumped on the bandwagon. Yet,

in so doing, was he reflecting public opinion or was he misleading the public?

Mr Deputy President, as regards salaries tax and corporate profits tax, I would like to point out that the 12% increase in personal allowance is more than catching up with the inflationary rate of last year. Some people hope that the time taken into calculation will be extended to cover a period of two or more years. I think we should not just set our eyes on personal allowance alone, but should also look at the tax band. In the past few years, improvements have already been made to the tax band and the marginal rate charged within each tax band. For instance, the tax band has been expanded from \$10,000 to \$20,000 and the marginal rate for the first tax band has been reduced initially from 5% to 3% and then to 2%. Upon calculation, I find that for a single person earning \$5,000 a month, the tax payable will be some \$20 per month. As regards corporate profits tax, the one percentage point rise is quite modest as it represents only an increase of 6.1%. I am amazed that it should have drawn so much criticism. I suggest that due consideration should be given to the following:

(1) The Government should try to keep the charge rates of salaries tax and corporate profits tax at the same level for a relatively long period. It will help to avoid the confusion caused to the people each year by the adjustments made to these tax rates, and also to ensure stable tax revenue.

(2) The Government should consider reviewing the progressivity for personal taxation and the size of the tax net within this year and examining the net effects which various changes in these two aspects may have on the middle income group.

(3) Given the fact that the minimum age requirement for dependent parent allowance is 60 while the normal retirement age is 55, the Government should consider lowering the age requirement for dependent parent allowance to the normal retirement age.

Mr Deputy President, I am surprised that some Members have compared general rates to "poll tax". "Poll tax" is a regressive tax which is levied at a flat rate regardless of how much one earns. However, rates is a very fair tax because its charge is, to a certain extent, proportional to one's income. The increase in rates by half a percentage point this year is more or less in line with inflation, and its main purpose is to allow room for any possible decrease in rates charges following the

next revaluation exercise. It is not the practice of the Government to reassess the rateable values every year. Instead, revaluation of the rateable values is done once every two or three years. In order to avoid the possibility of a drastic increase in the rates payable by the people immediately after the revaluation exercise, the Government reduced the percentage of rates charges last year before increasing it again this year. It will probably be reduced next year after the completion of the new revaluation exercise on rateable values. As this arrangement is bound to confuse the public, I suggest that the Government should reassess the rateable values each year, and if not, should try to work out the projected rateable values every year so that the percentage of rates charges can be maintained at a constant level.

Mr Deputy President, the Budget proposed by the Financial Secretary is worthy of our support. Another more important point is that through this Budget the Financial Secretary has successfully put across the message of his insistence on holding fast to the strategy that has all along been adopted in managing public finance in Hong Kong. It has not proposed any dramatic changes but rather it is the Councillors who have tried to dramatize it. When the debate on the taxation system in Hong Kong was held in this Council the other day, I just voted against the setting up of a tax review committee without making a speech on the subject. It was for the same reason of not wanting to create the impression that major changes were around the corner that I chose to take this approach. Is it true that new officials or new Councillors can only win the hearts of the public by sweeping away existing practices and launching major reforms?

Mr Deputy President, with these remarks and the courage of my conviction, I support the motion.

MR RONALD ARCULLI: Mr Deputy President, the maiden Budget presented by the Financial Secretary has been described differently. Mine goes something like this: If you live in a flat, have a business, have the odd flutter at the races or invest in covered warrants you would then fall into the group that is hit from almost every angle unless you counter balance this by regularly taking a franchised bus to and from a cinema where you consume huge quantities of soft drinks. If you did that you might give yourself some cushion. Talking about cushion brings me to the points that I want to offer my views on.

The first, Mr Deputy President, is the budgetary strategy outlined by the Financial Secretary in paragraphs 35 to 43 of his speech. In paragraph 37 we are told of the importance to ensure that public spending remains in line with economic growth and in paragraph 40 the forecast trend rate of economic growth which is supposedly to give the Administration the maximum safe ceiling for growth in public expenditure. Perhaps the Financial Secretary can tell us whether the Administration has been able to do this over the past few years! In paragraph 37 we are told that the Financial Secretary has decided to maintain reserves at the level that he judges adequate both to meet known commitments and to provide a cushion against future uncertainties. However, does this mean that Members of this Council can have no input at all? Can we, for instance, ask him whether when he talks about a cushion he takes the following into account:

- (1) fiscal reserves;
- (2) government investments in the MTRC, KCRC, Housing Authority and the like;
- (3) the Land Fund; and
- (4) last but not the least, the Exchange Fund.

The investments in the MTRC and the Housing Authority comes to a staggering \$33 billion. Excluding interest earned and gained on investments the Land Fund is forecast to stand at \$35.7 billion in March 1993. I cannot quote any figures for the Exchange Fund because I do not know what it is. Assuming these two figures stand still but adding them to the surplus of \$71.6 billion on 31 March 1997 we will have a staggering \$140.3 billion excluding the Exchange Fund. Some cushion would you not say and is it therefore surprising that dissatisfaction has been voiced? If that was not enough the surplus of \$5.1 billion for 1992-93 does not include whatever revenue might be recovered on plugging tax loopholes plus the several hundred million dollars that we can collect when a new law is made to catch artificial depressing of import prices for vehicles. The Financial Secretary has also warned us that postal and water charges, tunnel tolls, airport and ferry fees, and other tax loaded fees such as vehicle licences and company registration fees will most likely be increased. But that is not all; he has also reminded us that the moratorium on government department fees expired on 29 February this year and increases will be brought in! However, the Financial Secretary was good enough to assure us that all these will be timed

carefully so that the impact can be minimized! Mr Deputy President, I believe that the Financial Secretary was being unduly modest when he said he wanted to provide a cushion against future uncertainties. The Financial Secretary has also implied in paragraph 42 that the Government's share of the costs of capital works for the airport core projects will be 25% of the total government capital expenditure during the next six years. According to Table 2 on page 7 of Appendix A the total expenditure for the period 1991-92 to 1996-97 is some \$263 billion and 25% is \$65.76 billion. Could he tell us how this fits into the estimated fiscal reserves of some \$71.6 billion in March 1997? As an aside might I lodge a note of protest on behalf of the construction industry. Serious cutbacks of public works projects have made life rather tough for the industry. On top of this their margins are being squeezed quite severely.

The second point, Mr Deputy President, that I would like to deal with concerns revenue proposals. Against the background that I have outlined it is difficult, if not impossible, to justify the increase of 1% in profits tax. The Financial Secretary justifies this increase by relying on a historical high of 18.5% in 1984-85. The business community might grudgingly accept this increase but to say that it is a modest increase and will have no appreciable effect on investor enthusiasm is highly insensitive and wholly unnecessary. Some of my colleagues have already emphasized that in the absence of good cause for such an untimely increase the business community is entitled to express their concern and question whether this is the beginning of a trend. I urge the Financial Secretary to reiterate whenever he can that it is not a trend. The proposal for stamp duty on covered warrants is against the Financial Secretary's remarks that recognition is to be given to a worldwide trend towards eliminating duty on stock transfers. Is he saying that before we eliminate such duty let us collect another billion or so? Or is this a curious example of a level playing field? Mr Deputy President, I have no wish to disappoint either the Financial Secretary or my colleagues and must say a few words on the payment of stamp duty on sale and purchase agreements for residential properties. This, of course, is not one of the revenue measures proposed in the Budget but is it not wonderful that a measure designed to curb speculation has brought a windfall of some \$500 million thus increasing the cost of residential property in the hands of the end consumer. If the additional supply of land for homes has little effect on prices, which is what the Secretary for Planning, Environment and Lands virtually said, what then is the answer? Incidentally, it is a view that I do not agree with for if the supply of such land did not increase there would be upward pressure on prices. Mr Deputy President, I would like to repeat several suggestions that I have made previously

as regards revenue measures. Although introducing duty on diesel fuel used by pleasure boats does get rid of an anomaly the Administration should consider introducing a first registration tax for these boats. Another suggestion is that instead of increasing departure taxes on airport and ferries which must affect our tourism industry should we not introduce a departure tax at our land crossing? I believe that we have over 30 million crossings a year and even if they were charged a nominal of \$10 it will raise a tidy sum. Not unlike other affluent communities the registration plate on a car is considered to a "collectable". Should the Government ask the Commissioner of Police and the Financial Secretary to give up their No. 1 and No. 2 car registration numbers so that they can be auctioned off? Taking this one step further should we introduce, for instance, personalized car numbers? Should we for instance not again allow numbers to be transferred taking a reasonable transfer fee rather than prohibiting the transfer of such number? Mr Deputy President, I could go on but I shall not because I suspect I am running a serious risk of putting more money into the public coffers without having the satisfaction or the ability of channelling some of that money into the sandwich class. My comment on tax concessions concerns salaries tax. I will not repeat what has been said about personal allowances and tax bands. I agree with most, if not all, of such comments but I do want to say that I do not understand why the gap between profits tax and salaries tax has been widened by some 66%, that is from 1.5% to 2.5%. Is this the Financial Secretary's way of helping the sandwich class? Perhaps he might note that the assessable income group earning \$240,000 to \$600,000 per annum now pays 35.8% of the total yield which is up from 33.8% last year. I believe that the great majority of our sandwich class falls into this grouping.

Mr Deputy President, I would like to take advantage of today's proceedings to reiterate the Co-operative Resources Centre's view on this Budget. In view of the huge surpluses for 1991-92 and 1992-93 of some \$14 billion and \$5.1 billion respectively, members of CRC felt that it was appropriate to put forward the case for a measure of relief for the sandwich class. We felt that the most direct way of doing so was to seek the Governor's permission or recommendation, which was done in writing early Tuesday afternoon, to move two amendments: one to increase the personal allowances to \$50,000 from the proposed \$46,000 with corresponding increases for children and dependent parents and the other to widen the tax band from \$20,000 to \$30,000. However, in a written reply which I received yesterday morning the Governor declined to give his recommendation. There was obviously disappointment on the part of CRC because it felt that should the Government be unable to make some adjustments this year or to give a clear commitment which was acceptable then CRC

felt that the best way to help the sandwich class was to vote "no" on the proposed increase in rates thus putting some money in their pockets. The CRC believes that voting "no" to the Appropriation Bill would not be the best way of achieving their primary objective of trying to help or to get a measure of relief for the sandwich class. Apart from this voting down any Appropriation Bill is an extremely serious matter as it will have grave implications not only because of the wider interests of the community as a whole but also the effect it will have on our trading partners and international investors. There are obviously times when we stand up for what we value and believe in. The real question we must ask ourselves is this: Is what we are seeking so vital and compelling that it would be right to vote "no" to the Appropriation Bill? Of course, if one takes the view that voting down an Appropriation Bill is no big deal then I have obviously phrased the question incorrectly. But Mr Deputy President, I believe I have got the question just about right!

Mr Deputy President, much has been said about the partnership between the Administration and this Council. For myself the partnership does not end there. It is always useful to remind ourselves who are the real bosses: the people of Hong Kong are the real bosses! Every year we go through the ritual of the present debate but sometimes we do not pay sufficient attention to the views of the public. In this context I would venture to say that raising taxes and giving tax concessions is but a part of the whole exercise. The other part, as the Financial Secretary and his colleagues know, is the concern over the size of the Civil Service and the expenditure that it consumes. Any Budget proposal would be far more creditable if the Administration went to the public and could say without fear of contradiction that we the Administration are not asking the public to keep paying, we are also tightening our belts and trimming our expenses, we are also making sacrifices!

Mr Deputy President, I should like to conclude by making another appeal to the Financial Secretary to consider giving a measure of relief to the sandwich class this year. It is a reasonable request. It is in his power to give. I hope he does!

MR PETER WONG: Mr Deputy President, the Financial Secretary's maiden Budget was ultra conservative. Like a new bride, he has been too keen to win the approbation of his new family and ended up by not totally satisfying any single member.

On the Budget, I wish to make five points.

Firstly:

#### Public expenditure

One of the principles of financial management cited by the Financial Secretary is "to ensure that public spending remains in line with economic growth". However, statistics indicate that it is deviating from this principle. Public spending, at 18.8% of Gross Domestic Product, shows a 5.6% increase over the 1991-92 figure. Despite the Government's austerity drive, public spending is steadily climbing. The discrepancy between the growth rates in public expenditure and GDP should give cause for concern.

Secondly:

#### The reserves

After deducting all the PADS expenditure, the Financial Secretary now forecasts the revenue reserves to be \$71.6 billion by 1996-97 which is way higher than the level presented to the Chinese during the airport negotiations. The Land Fund plus the inscrutable but certainly sizable Exchange Fund should give the SAR Government a handsome dowry of probably \$200 billion by 1997. This monumental amount of reserves, according to the Financial Secretary, is set at "a level adequate both to meet known commitments and to provide a cushion to help meet any unforeseen adverse developments". Apart from the civil service pensions, it is difficult to decipher future developments that would justify this amount of stuffing in the cushion.

The only rational explanation is that we are heading for a massive overrun in the cost of PADS. When the Governor mentioned \$127 billion for the whole of PADS, I ventured that in the money of the day, this would come to \$300 billion. Is this the hidden agenda?

We have seen clear evidence of economic revival in Hong Kong's markets in the Asian region and strong growth in China; total exports are expected to increase by 14% and re-exports by 20% this year; and inflation should gradually abate as structural transformation progresses. Under these vibrant economic conditions, any attempt to boost the reserves must be looked upon with scepticism. Indeed, public accountability for the accumulating reserves is called for.

Thirdly:

#### Profits tax

The continued growth in government expenditure in excess of stated financial policy, coupled with continuing accumulation of reserves nearly three times the sum promised to China, have made it difficult for the Government to maintain the credibility of its commitment to low taxation. The 1% profits tax increase, estimated to raise \$1.6 billion, is a contradiction in terms of the 1991-92 and 1992-93 surpluses, and runs counter to the stated Budget objective of raising revenue to cover recurrent expenditure. From the viewpoint of sound financial management, the huge surplus of \$14.1 billion threatens to put any tax increase proposal out of context. From the point of view of the business sector, the profits tax increase sent out a wrong signal indicating a growing trend to all investors, and the differential with salaries tax will surely provide incentive to tax minimization to achieve the lower rate. At a time when competitive taxation measures are adopted by our neighbouring countries, any profits tax increase will only give negative indications to the business sector upon which the government revenues increasingly depend.

Fourthly:

#### Sandwich class

It would seem that the Financial Secretary's revenue proposals are substantially dictated by political reality and equity to restore tax benefits for the middle and lower income groups. However, the additional revenue from profits tax has not been directed to benefit the sandwich class which has been hard hit by high inflation, especially housing costs. Compared with 1988-89, the personal allowance for salaries tax for a single person has increased by 27.8% while Consumer Price Index (A) has risen by 48.3%. Further the half percent increase in rates and the ending of the cap hit the average householders and hardest at the sandwich class who tend to own their own apartments. They are facing an increase over last year's payable rates ranging from 9.1% to 20.3%. The larger corporations may have to absorb a 34% or even higher increases.

Thus, instead of upholding the formula of keeping less reserves in difficult times and reducing taxes in good times, the 1992 Budget sends out contradictory messages to both the business sector and the working population.

Fifthly:

#### Tax base/inflation

The 1992 Budget has not really addressed the long-standing questions of broadening Hong Kong's tax base and containing public enemy number one -- inflation. While the Financial Secretary's decision not to introduce capital gains tax is welcome, few measures other than the promised tightening of tax loopholes have been adopted to increase the revenue yield. The increase in profits tax rates would necessitate a review of other tax rates so that all taxpayers, including the self-employed, are put on an equal footing. The balance between direct and indirect taxation -- at 60/40 -- which has been omitted from this year's Budget for reasons unknown ought to be put on record and examined.

Mr Deputy President, while I appreciate the limited options open to the Administration in finding tangible solutions for combating inflation, I am somewhat irritated by the almost inadvertent attitude with which the Financial Secretary addressed this significant issue. Apart from temporarily abandoning the idea of a sales tax and postponing adjustments of fees and charges until later in the Session, fiscal measures have not been used as a tool to fight inflation forecast still at 10% to 11% by 1994-95. Surely more could have been done to curb property speculation.

To sum up, these are my main points again:

(1) Public expenditure should rise by no more than the growth rate in GDP.

(2) The budgetted 1992-93 surplus appears unduly large in view of the current economic prospects.

(3) The differential of 2.5% between profits tax and salaries tax is undesirable.

(4) More should be done to help the sandwich class.

(5) More should be done to broaden the tax base and increase the proportion of revenue which is collected from indirect taxation.

Forward vision

Here, I wish to emphasize the need for the Government to formulate long-term fiscal policies. The five-year medium term forecast is no more than a rolling forecast of what is in the works. We have a government which should be leading us and, clearly, that government must have a long-term vision of what Hong Kong will be like and how it earns its living in 10 or 20 years' time. Only by formulating and sharing such a vision with Hong Kong people can we begin to formulate short and medium-term plans and strategies which are really responsive to current situations and challenges.

#### Final action

For me, this Budget has offered more disappointments than inspirations. I have gone on record to say that I will not vote the Appropriation Bill down. I may have little option but to support the rates amendment in order to drive home the need for the Financial Secretary to deliver the right economic message to Hong Kong and to the world. My final decision on the course of action to take will be governed by the Administration's response next Wednesday.

I will now turn to other matters:

#### The environment

It is not too much to ask that we spare a thought for our precious and endangered environment. There is growing awareness the world over of the destruction of rain forests in our surrounding countries. The northern ozone layer has also been depleted by the usage of CFC's. Nearer home, water quality is very high priority.

In the White Paper: Pollution -- A time to act, the Environmental Protection Department has very carefully laid out a programme of environmental initiatives that must be taken to prevent further environmental disasters. Regrettably there are already slippages and more delays are likely in the face of financial contingencies. Unless we take firm action according to the timetable set out in the White Paper, we stand to be marked by history as being the contributing cause of irreversible pollution with catastrophic consequences.

#### OLI finance

I wish also to address the situation of the Open Learning Institute of which I am the Deputy Chairman. Contrary to misinformation and misguided opinion, I would

like to stress that its academic degrees will be just as meaningful as those of a conventional tertiary institution. Just because entry is open, the OLI must control its output vigorously through very stringent quality control over assignments and examinations, and dropouts are not unexpected. Moreover, the Institute is subject to the full scrutiny of the Hong Kong Council for Academic Accreditation.

I would also urge the Government to review its existing policy regarding the Local Student Finance Scheme which only provides support to UPGC courses, thus denying deserving OLI students who are in need of financial support for their learning. I would also like to know whether OLI students will be able to benefit from the retraining allowances being worked out by the Provisional Retraining Fund Board since some of them are taking full-time OLI courses to acquire new vocational skills.

It has also been nearly three years since its commencement and the OLI will soon have to become financially self-sufficient. Everywhere else, the colleges of open learning get some form of financial assistance from their governments. Why then is our Institute an exception?

While charging our students the recurrent cost of running the courses is fully justifiable, I do not feel that we should make a profit out of our students in order to expand the scope of our services. It is also wrong that the OLI has to pay to the Government a commercial rent which has to be recovered from our students. Unlike the other tertiary institutions which have found the safe haven of the UPGC, the OLI will be left on its own to struggle for survival. Surely, it is not too much to ask for the Institute's own roof under which it operates.

### The Hospital Authority

As a member of the Hospital Authority, I really feel that the text under Head 177 seeking a subvention of over \$10 billion is grossly inadequate to justify the expenditure. I propose that for future years, an ad hoc group similar to the one that scrutinizes the budget of the Securities and Futures Commission be formed. While recognizing the degree of autonomy accorded to the Authority, the group should review in broad detail the Authority's recent performance, its plans for the years ahead and the general recommendation of the Administration as to the level of subvention. This group will offer an additional safeguard designed to increase the transparency and accountability of the Hospital Authority. Once funding proposals are approved, the Authority should be left to get on with its work.

Mr Deputy President, with these words, I support the Appropriation Bill.

PROF EDWARD CHEN: Mr Deputy President, the Budget for 1992-93 is conventional, prudent, and mild. It is also a balanced Budget, not only in that it incurs no deficits, but also in the sense that it gives and takes a little from different sectors of the community. As such, it is inevitable that the Budget proposals will not be applauded or severely criticized. Following the conventional economic approach, I shall comment on the Budget proposals under three major headings, namely (a) growth, (b) stability, and (c) equity.

First, with regard to growth and resources allocation, the major weakness of the revenue and expenditure proposals is the single-minded focus on building physical infrastructure for the purpose of promoting Hong Kong's long-term economic growth with particular reference to the port and airport projects. In doing so, the importance of manpower and technological infrastructure has largely been neglected. It is distressing to note that the share of education in total government expenditure decreases in 1992-93 compared to previous years. As a matter of fact, modern economic development theory identifies investment in human capital as the single most important factor affecting long-term growth and structural change. While technology and capital can quite easily be acquired in the open market, human resources are less mobile and it takes a long time to build up the manpower infrastructure of an economy. Relative to many countries, our percentage of education expenditure in GDP is low. The low figure for Hong Kong, in my view, cannot simply be justified by Hong Kong's relatively small public sector. Education expenditure should be sufficient to promote the long-term growth capacity of the economy irrespective of the size of the public sector. At present, we are only spending about 3% of our GDP on education. It is 6.6% in the United States; 6.4% in Singapore; 5.5% in Korea; 4.8% in Japan. Even in Thailand and Malaysia, where the level of economic development is lower than Hong Kong, their percentage of expenditure on education in GDP is higher than ours. It is most disturbing to note that expenditure on primary and secondary education has been squeezed. Most of the studies indicate that the rate of return for primary and secondary education is high and usually higher than that for tertiary education. The Budget proposals have also paid very little attention to the importance of enhancing the technological capability of our economy. Certainly, the Government has done more in this respect than in the past, for example, the introduction of a matching grant scheme for industrial research and development, and the setting up

of an Industrial Technology Development Council. However, fiscal measures cannot be underestimated as effective means to promote the research and development activities of the private sector. There are very good reasons for the Government to adopt an active research and development strategy. As the private rate of return on research and development is much lower than the social rate of return, there is a tendency for expenditure on R&D to be much lower than the optimal level when the private sector is left to do it all by itself. Tax incentives or concessions, if properly designed, should be more effective than Hong Kong's traditional emphasis on low profits tax in inducing long-term investment. For example, tax concessions for expenditure on training and research and development, and an immediate write-off of capital expenditure could be introduced. In a recent study, spending by companies on research and development was found to be more sensitive to small changes in taxes than economists had assumed. Changes in the 1986 tax law reduced America's research and development spending by as much as US\$2.2 billion a year, in return for only US\$1.2 billion in added tax revenue. In the present stage of Hong Kong's rapid economic transformation, the Government should adopt a more flexible stance with regard to its traditional fiscal objective of maintaining neutrality in resources allocation.

Secondly, the Budget for 1992-93 has, to a large extent, fulfilled the objective of generating economic stability. At the macroeconomic level, although the Budget has a surplus, government expenditure will increase by 7.7% in real terms compared to 1991-92. This should produce a moderate expansionary effect on the economy in the short run. In view of the fact that we have to increase our spending for carrying out infrastructural projects and, at the same time, we face some supply constraints, especially in the supply of labour, this surplus Budget with a modest increase of expenditure should be appropriate for present economic circumstances in Hong Kong which is at the beginning of an upswing in the business cycle. In fact, financing the port and airport projects substantially by domestic and foreign borrowing is a fairer policy which is also less inflationary. It is just fair to ask the future generation to pay for benefits to be realized in the future. Unfortunately, the Chinese Government has unwisely imposed restrictions on how much we can borrow.

A major macroeconomic objective of any budgetary policy is to maintain a reasonably high level of economic growth with price stability. The proposed Budget will sustain a 5% to 6% growth of GDP this year. But it is unlikely that the rate of inflation will come down significantly in the near future. But, inasmuch as current inflation in Hong Kong is structural and related to the economic transformation in Hong Kong, short-term budgetary policy can do very little to combat

inflation. Structural inflation requires long-term structural policies to facilitate the transformation of the economy. It is unfair to criticize the Financial Secretary for not doing enough to combat inflation in his Budget. Overall, the Budget for 1992-93 should be more or less neutral on changes in the price level. On the one hand, the Financial Secretary has removed indirect taxes on some non-luxury goods and increased profits tax by one percentage point; these measures should produce a short-term dampening effect on price increases. But on the other hand, the Financial Secretary has also increased property rates and tax on some commodities. Perhaps, the Financial Secretary has underestimated the inflationary impact of increases in rates. His estimate of adding only 0.14% to inflation has not taken into consideration the secondary effects of rate increases on prices. For example, the increase in rates for commercial and industrial premises will have secondary effects on the price of final goods. However, taking everything together, the impact of the Budget on price changes should be very small.

Thirdly, like his predecessors, the Financial Secretary has not paid very much attention to the equity issue. Nonetheless, the Financial Secretary has made a first step towards bringing about greater equity in terms of salaries taxpayers versus profits taxpayers. In this year's Budget, a 1% increase in profits tax will bring the Government an additional revenue which is exactly the revenue loss resulting from the increased personal allowances granted to salaries taxpayers. The Government had ignored the most inequitable increase in the past ten years in the percentage of salaries tax in total direct tax. In the year 1980-81, profits tax accounted for 69% and salaries tax for 16% of total direct tax; ten years later, in 1990-91, the percentage of profits tax in total direct tax decreased to 58% and that of salaries tax increased to 36%. This sharply increased tax burden of salary earners is unfortunately not the result of any significant increase in the share of labour income in GDP. In fact, in the past ten years, the percentage of compensation to employees in total value added increased only marginally from 49% to 50%. Our percentage share of compensation to employees is much lower than that in developed countries and in many developing countries. This is another indication of lack of improvement in Hong Kong's income distribution over the past ten years. The major reason for the rapidly increased burden of salaries taxpayers is that under a high rate of inflation, salary earners are continuously being pushed into a higher tax band and as a result paying higher effective tax rates. For example, a single taxpayer earning \$60,000 a year in 1981-82 had to pay an effective tax rate of 5.7%. In 1992-93, he will have to pay 12.9%, assuming that he has been getting a pay rise indexed to inflation. Similarly, a single person earning \$80,000 a year in 1981-82 paid an effective tax

rate of 10%, but he will have to pay an effective tax rate of 14.4% in 1992-93. In general, the changes in tax allowances and tax bands have been able to offset the effects of inflation for salaries taxpayers after 1986-87, but salaries taxpayers lost out tremendously for the period 1981-82 to 1986-87 for which they have never been compensated. On the other hand, over all the years, irrespective of inflation, profit makers have been paying the prevailing proportional tax rate without any worry of being pushed into a higher tax band resulting in paying a higher effective tax rate. This is most inequitable and this explains why salary earners have been contributing an increasing share of direct taxes relative to the profit makers. It is therefore totally in line with the economic criteria of both vertical and horizontal equity for the Government to impose a 1% increase in profits tax this year. I cannot understand why businesses should complain. Many criticize the 1% increase in profits tax and complain that this might indicate a trend of rising profits tax rates. But, do they realize that salaries taxpayers have been suffering from a trend of sharply rising effective tax rates in the past ten years even without public recognition? If there is a demand for an increase in government expenditure for a good cause, why should the salary earners alone bear the burden?

Speaking of equity, the Financial Secretary's proposal to increase rates is not a wise move. Despite the fact that this is a proportional not a regressive tax on all households, the impact on the livelihood of the general public is certainly tremendous. It is unfair to argue that rates in Hong Kong are low by international standards. The rentals paid by people in Hong Kong account for a higher percentage of total household expenditure than those in most other cities and countries. Also, the impact of rate increases on prices is perhaps not negligible if we also take into consideration the secondary effects.

Mr Deputy President, like almost everybody else I have so far been commenting on the various aspects of the Budget in isolation. It is in fact important to view the Budget as a whole and as a package and, above all, as part of a long-term financial management strategy for Hong Kong's run-up to 1997 and beyond. If we ask the Financial Secretary to make changes in bits and pieces, the underlying objectives can no longer be upheld. For example, if the personal allowances are further increased and tax bands widened, the implications for revenue loss will go beyond a reduction in this year's surplus and will be extended to our entire financial position in the run-up to 1997. We must note that our reserve balance as a percentage of government expenditure will decrease from 80% in 1992-93 to 38% in 1996-97. The revenue loss due to further concessions must be compensated for by other fiscal

measures. It would not be possible for the Financial Secretary to do all these at this late stage for this fiscal year. Moreover, we must bear in mind that our economic growth has just begun to pick up. There are many uncertainties facing us, such as economic recovery in the English-speaking countries and China's MFN status. It seems reasonable for us to observe our economic changes for another year before we urge the Government to make significant changes to our fiscal system.

Despite the comments earlier in my speech and my view that not enough has been done by the Financial Secretary to reduce the tax burden of the lower middle income class, I think the Budget for this year can serve the purpose of bringing about some degree of macroeconomic stability to our economy and has taken a first step to reverse the trend of an increasing tax burden on salary earners relative to profit makers. Most importantly, the Budget strategy fulfills the need of a sound financial management for Hong Kong towards the year 1997. On these bases, I support the motion and hope that the Financial Secretary will duly give more consideration to our long-term economic growth capacity and the question of equity in our taxation system in his next Budget when our economy is in orbit for another period of sustained growth.

MR MOSES CHENG: Mr Deputy President, in addressing this year's Budget, I want to go beyond the numeric calculations and statistics and address the underlying principle of commonsense that should act as parameters to the territory's budget process now, and into the future. The ethical standard of good representative government that I contend should be paramount is: That officials should manage public funds in a manner consistent with the trust bestowed upon them by the public. This means that the Government should budget with responsibility and accountability and seek to maximize public funds to offer benefits in the interests of long-term planning.

The Administration is to be congratulated to the extent it progresses towards these principles and refrains from unnecessary fee and tax increases that would further burden the territory citizens. Equally significant is whilst its counterparts in other parts of world have to work on deficit budgetting the Administration can start with a surplus of \$14.1 billion for the last fiscal year and plan for what the Financial Secretary described as a "comfortable cushion".

Although the setting up of the Efficiency Unit within the Government clearly indicates the intention of the Administration to improve productivity thus achieving cost-saving, yet I must express my concern that this year's efforts to increase

efficiency are not fully consistent with long-range, comprehensive planning in some areas, while not going far enough in others. An especially glaring example is the Budget's approach to cutbacks in education which has the effect of raising the staff to student ratios in our schools. What price tag do we arbitrarily assign to our children's learning? Are we to begin a slide down the road where this ratio increases until classes are bulging and personal attention in educating our children is all but a memory. That we have begun to toy with fundamental foundation of our social structure, rather than grappling with the root problems of bureaucratic modernization, seems to me a disturbing precedent.

Instead of prescribing "band-aid" remedies from year to year, I urge the Government to learn "preventative care" to keep Hong Kong finances healthy over the long term. Above all, this means that the Government as a whole must implement modern management techniques for increased efficiency and productivity of the Civil Service and public institutions alike. Hong Kong is simply too modern in its technology and techniques to accept lesser standards for the public sector; and we are small enough to reject a lethargic or entrenched, cumbersome bureaucracy outright. We, therefore, have the good fortune of being able to attack inefficiency and waste as unacceptable by-products of public expenditure -- we need only demonstrate the will to do so and act on it. This means that a new commitment to curb excess and contain spending should be pledged and enforced through all layers of management -- not only the upper echelons. A criterion of merit in public service should be the responsible and efficient management of public funds, and training should emphasize dedication to the principles of running a tight ship.

In the Judiciary, there is a woeful inadequacy of basic tools of modern management, and consequently, a lack of professional drive towards streamlined operation. I have the least intention to question the hard work of our judges for whom I have the greatest respect. But my deep concern is the adequacy or the inadequacy to the administrative system within the Judiciary which inevitably would hamper the work of our judges and the efficient performance of our court system. Even as management consultants are being paid handsome fees to perform a study on the system, there exists a virtual vacuum of data and statistics to gauge the Judiciary's performance. We must be able to measure and monitor the public sector's work in order to know where and how to improve. It is our duty to the taxpayer of today, and future generations, to be able to claim "your hard-earned dollar is being maximized to the best of the Government's ability". I am fearful that such a claim today could not be made in complete honesty.

The issue of localization in the Administration, especially the Judiciary and the Legal Department, is another area which warrants our concern as we draw closer to 1997. I question the Administration's dedication in addressing the real and fundamental factors affecting the effectiveness of its localization programme. One obvious example is the failure to deploy reasonable resources for the establishment of training posts within the Legal Department for the professional staff; law graduates cannot qualify as lawyers without completing the required on-the-job training known as articleship or pupillage. Past experience clearly indicates that candidates trained in the private sector would unlikely be considering joining the Civil Service after admission.

In advocating a more stringent dedication to modernized management and increased efficiency, allow me to say explicitly what is implicit in that objective. I do not believe in "the quick fix" or short-sighted visions of temporary solutions. In this vein, I must voice opposition to the fashionable and all-too-easy inclination towards fee increases. The last time the Government sought to "patch" the traffic problem in the Cross Harbour Tunnel with a fee increase, the impact only lasted for about one year when the problem resurfaced again. The only net change to the situation at all was a probable negative effect on inflation and cost of living. As we now approach this unresolved problem again, and others alike, let us strive to be innovative and generate solutions that solve problems for the long term. If we must work against fee schedules, we must target specific goals, such as reducing the amount of single passenger and non-commercial automobiles clogging certain routes. We should strive to offer citizens incentives for innovative alternatives like people in the same office going to work in shared facility, and adequate deterrents to those contributing to this problem further. Anyone can attempt solutions by throwing money at problems; it takes leadership to innovate and implement responsible, comprehensive solutions, and that is the hallmark by which I want this Legislative Council and our Government to be known.

My concern is that this Budget does not express that concept to its fullest potential, and while some of its prudence is pleasing, I cannot find satisfaction with its suggestive solutions. The morale of our young men and women in police uniform is alarmingly low. Are we asserting leadership worthy of inspiring them? They must have a government that they believe is dedicated to modernizing the force, improving their equipment, and supporting them fully with strategic planning and objectives. Could they be indicative of our teachers with increased burdens? Or is the Civil Service under top-heavy bureaucracy? Let us instill pride in the hearts

of those who dedicate themselves to serving the public that the institutions they serve are measured against the highest standards. In doing so we will be better fulfilling our duty as responsible legislators.

Finally, let me reaffirm what many of my colleagues of the Co-operative Resources Centre have already stated so eloquently. I am committed to tax relief for the middle income group through a greater personal allowance, widening the tax band from \$20,000 to \$30,000 and a new moratorium on rate increases. The Financial Secretary predicted the inevitability of continued high inflation but does not wholly account for inflation's regressive effects on middle class income earners. As a result, people are being crunched between a rock and a hard place -- the Government's increases and inflationary pressure. This considerable segment of the population deserves the same fair treatment as others, and I believe that we should not abandon their disposition. While we press the case for no rate increase, it should be evident that increases of more than 25% cannot be justified in light of the people's present burdens.

In illustrating my concerns over the present Budget, I hope I have made clear my standards for this and future Budgets. As individuals we are responsible and accountable to those that finance us; as a government we should hold the same, if not more strict, allegiance to those that finance our existence -- the citizens of Hong Kong. We must utilize the tools of modern management that work to eliminate waste and excess, while preserving merit and morale to the benefit of our society. I urge the Government to act on those principles of commonsense, and with the co-operation of this Council, provide the energy and innovation of active leadership to inspire confidence in long-term solutions.

Thank you.

MR CHEUNG MAN-KWONG (in Cantonese): Mr Deputy President, two of the much-resented aspects of this year's Budget, namely, the proposed cuts in basic education spending and the tax and living burden on the sandwich class, have something to do with the education constituency which I represent. Therefore, my speech will reflect the views of educational workers at the grassroots level as well as those of the sandwich class they represent.

In this year's Budget, the Government has obviously ignored basic education, that is, primary and secondary education, kindergarten and teacher education. In his

speech, the Financial Secretary has been complacent over the rapid expansion in tertiary education, but has only made a bare mention of basic education. He simply indicates that further improvement is needed. He has made no concrete pledges or indications that he is genuinely concerned and attaches importance to the issue.

This trend is most evident in this year's expenditure proposals.

While the growth in expenditure for the tertiary education sector is 18.5%, kindergarten, primary and teacher education are experiencing negative growth, which means our students and our education will have lean times ahead. Even in the secondary schooling sector, the 3.1% growth cannot keep up with the rate of inflation and economic growth. Worse still, a large part of this meagre increase will be put aside for the expansion of matriculation courses and for the supply of more matriculants in order to solve the problem of under-enrolment in local universities. In this year's budgetary proposals, basic education has been neglected, slashed and allowed to be trampled upon. This has aroused the strong indignation of all the already bitterly disappointed educational workers at the basic level.

What is more infuriating is that the Government has proposed to cut back on basic education spending in the face of huge surpluses and reserves. With this year's Budget surplus and reserves standing at \$14.1 billion and \$92 billion respectively, the stable and healthy state of our economy does not justify any attempt to make social welfare and basic education which are the most essential community services the first target of a cutback even if the Government needs to make provisions for the new airport project and reserve balances for the SAR Government. The Government's recent mandatory move to reduce the number of classes and expand class sizes in primary and secondary schools in an attempt to curtail basic education spending has aroused the indignation and resistance of the education sector. As the proposed cutback represents no more than \$54 million, it is most stupid and lacking in foresight to cause damage to the students, teachers and our education and to arouse unnecessary social antagonism just for the sake of such a trivial amount. Here, may I request the Government to withdraw its proposal to curtail basic education so as not to turn confrontation into a crisis, and may I also urge the Executive Council to reconsider the matter.

The Government yesterday announced that the measure to reduce the number of classes and increase class sizes would not be applied to Form IV classes. While no concrete proposals were made, it nevertheless promised to seek extra funds to improve

the quality of basic education. This has been looked upon by some, especially those from outside the education circles, as a victory. Yet I do not see this as a victory, but just the beginning of our cause. This is because while Form IV classes will be exempted, the scheme will still apply to Primary I and Form I classes where our students are still very young and do not know how to safeguard their own rights. Being educational workers, we have a duty to improve the quality of their education. Honourable colleagues, please listen to my views. There are indeed many areas in our basic education where improvements are needed. For example, kindergarten teachers' remuneration should be directly subsidized as over 60% of them are still receiving lower pay than that stipulated by the Government; there should be more staff for primary schools so that whole-day schooling can be achieved; floating classes in secondary schools should be abolished so that students can have their own classrooms; more resources should be allocated to colleges of education so that they will no longer look like old-fashioned middle schools. These improvement measures and expectations are all for the good of the students. The campaign now being launched for improving the quality of basic education should not and will not come to a halt just because the Government has promised to make a partial improvement. Otherwise, we will let our students down and have an uneasy conscience over education. Here, I hope honourable colleagues in this Council, and those who are also Executive Councillors in particular, to give their support to the education sector and make unremitting efforts in fighting for improvements in the interests of students. They should make no concessions simply because some success has been achieved.

Mr Deputy President, the salaries tax is one item in this year's Budget that is closely bound up with the broad ranks of wage-earners. Under the existing salaries tax system, those who suffer most are the middle-income groups, that is, the so-called sandwich class. They pay tax at the 25% marginal rate, which is much higher than the 15% standard rate charged on high-income groups. This gives rise to the following ridiculous situation: A person earning \$9,000 a month will be taxed \$250 for every extra \$1,000 earned whereas someone earning \$20,000 a month will be taxed only \$150 for every extra \$1,000 earned. Such unfair and unreasonable phenomenon must be changed.

The United Democrats have proposed to remove the maximum 25% marginal rate and the 15% standard rate and to maintain the maximum marginal rate at 17%. This will benefit the vast majority of the sandwich class and make the salaries tax system more

equitable and reasonable.

In the meantime, the Government should also note that the living burden of the sandwich class not just comes from their tax burden, but more importantly from their need for housing. At present, a four-member family with a monthly household income of up to \$9,700 can apply for public housing flats while households earning not more than \$18,000 per month are eligible for Home Ownership Scheme flats. Families with a monthly income of barely over \$18,000 are barred from applying for HOS flats and also have to pay heavy taxes. So they simply do not have the means to buy flats in the private sector in the face of skyrocketing property prices. Today, the only way for the sandwich class to purchase their own flats is to join the ranks of property speculators and earn enough money to settle the downpayment before paying the full price by instalments. Another option is to do part-time jobs. Mr Deputy President, I know of a young couple from the teacher profession whose family income is just over \$20,000 a month. Every night, they each have to give three private tuitions after school. Mr Deputy President, it is indeed a sorry state of affairs when the couple have to struggle so hard just to keep a tiny dwelling place of 400 sq ft. There are only two choices left to them, that is, to resign themselves to fate or to resist. What exactly do we want them to choose from?

Mr Deputy President, the Financial Secretary has recently proposed to solve the housing problem of the sandwich class. Albeit belated, this is encouraging news to the sandwich class. Here, I would like to ask the Government to allocate, apart from the existing quotas for public housing and HOS flats, additional land for sandwich class housing for families earning between \$18,000 and \$36,000 a month. Sandwich class housing will not only bring profits to the Housing Department, but will also curb property speculation. More importantly, this will help solve the housing needs of the sandwich class and restore smiles on their faces.

Mr Deputy President, for the remainder of my speech, I would like to make some candid comments on the Financial Secretary Mr MacLEOD's handling of this year's Budget. After delivering his Budget speech, Mr MacLEOD has all along emphasized that the Budget can only be accepted in its entirety and no changes whatsoever can be made. It is said that there is no intention to turn Legislative Councillors into "rubber stamps" as there are many ways for them to exert an influence on the Budget.

Mr MacLEOD, as a Legislative Councillor, I and many United Democrats Councillors honestly do not see what other ways are open to us for influencing the Budget. Take

as an example the education sector which I represent. Several months before the release of the Budget, the education circles have on numerous occasions, including at meetings of the OMELCO Panel on Education, voiced their objections to slashing education spending. On the question of taxation, United Democrats members and other Members of this Council have also made known their views on various occasions. As I can recall, when this Council held a debate on taxation system, Mr MacLEOD had been away from his seat for long periods of time. To be frank, when Members of this Council were putting forward their views on that occasion, they were more or less like speaking to the air. If Mr MacLEOD claims there are many ways for Legislative Councillors to exert an influence on the Budget, I reckon that he may either be joking or simply thinking too highly of us.

Mr MacLEOD, if a Legislative Councillor was unwilling to become a "rubber stamp" as you had already said and had no choice but to endorse the Budget, the only option left to him would be to become a "talking rubber stamp" and to give his endorsement as before after the talking.

Mr MacLEOD, you have obviously miscalculated the situation. Once again, I must reiterate that times have changed. Under the democratic system of government, changes can be made to all proposals made by the Government, including this year's Budget. To defer to public opinion is what a democratic society is obliged to do. It should neither take this as a loss of authority nor a loss of face. Today, what we are after is not an infallible government, but a government that is always ready to correct its mistakes. It is by no means sensible to adopt an inflexible attitude towards the Budget.

Moreover, Mr MacLEOD, I fully support your plans to improve personal allowance and tax band for salaries tax and to look into the housing problem of the sandwich class. But when I was working on this speech, it came to my knowledge that you had come up with a new idea by proposing to reconsider these plans in case this Council should make changes to the Budget.

Mr MacLEOD, I am greatly disappointed by what you have said. If you firmly believe that the two major plans above can bring benefit to the public, you should not have used them as political bargaining counters to compel this Council to vote in favour of the Budget so as to have these plans implemented. To Legislative Councillors, this move is intimidation; to the public, this is something given pitiably in charity. Intimidation will make one feel indignant whereas giving

something pitifully in charity will dent one's dignity. It is only right and proper for the people to seek a happy life and acquire dwelling places of their own. It is the Government's responsibility to satisfy these minimum aspirations of the people. This should not be looked upon as a favour to be granted or to be taken away at another time.

Mr Deputy President, in view of the fact that basic education has been neglected and the interests of the lower middle classes have not been looked after in this year's Budget, and also considering that the Government has yet to respond positively to the United Democrats' four major requests, namely increasing personal allowance, widening the tax band, suspending the rates increase and increasing spending on essential social services, I shall consider voting against the Budget.

Mr Deputy President, these are my remarks.

MR TIMOTHY HA (in Cantonese): Mr Deputy President, preparation work for the "Rose Garden" project is now underway and in full swing. The airport at Chek Lap Kok is expected to be ready for operation by 1997. This, together with its various core projects, will be able to make Hong Kong more prosperous by bringing about another economic boom. But, except for this magnificent rose garden, what else will be passed over to the future Hong Kong Special Administrative Region?

Hong Kong is not rich in any natural resources. Quite on the contrary, it lacks almost all kinds of resources but manpower. However, this year's Budget hardly suggests any special concerns on the part of the Government for the development and training of the local workforce. It is really very disappointing to see that the proposed allocation for the Education Department only shows a meagre growth of 1.5%.

At a time when new problems and challenges are encountered in the area of basic education, how are the actual needs in basic education in the 1990s to be met with this close to zero growth rate of education funds? In the face of a mere 1.5% growth in education funds, kindergartens, primary and secondary schools, special education institutions and colleges of education will need to compete for the "small crumbs" of the "budget cake". Can this, in all its possible senses, be reckoned as a favourable reflection of the Government's sincerity in improving the quality of basic education? We still remember how the Governor of Hong Kong promised in his latest policy address that improved quality of education would be made one of the major

objectives to be achieved. Yet, judging from this year's Budget, we have reasons to conclude that this promise is nothing better than a dishonoured cheque.

What frustrates me is that instead of giving people in the education sector any hope of getting what they have striven for all these years, the recent Budget leaves them with the feeling of their requests being thrown into the big blue sea. The commitments that the Government pledged to make in the past seem to be totally forgotten in this year's Budget. Let me cite a few examples to illustrate this.

Firstly, on the subject of whole-day schooling in primary schools, the Education Commission Report No.4 is quoted as stating, "To meet the enormous increase in the primary school population during the post war years with limited space and capital resources, the Government decided in 1954 to adopt, as a temporary measure, a system of half-day operation in primary schools. However, the ultimate target of primary education remains the provision of whole-day schooling for all." Oddly enough, this system of bi-sessional school operation at primary level, which was introduced as an allegedly expedient measure, should have been allowed to remain in force for as long as 40 years. How long shall we have to wait before we can see any sign of whole-day schooling in primary schools?

Secondly, it is about the introduction of floating classes to secondary schools. The White Paper on Hong Kong's secondary education released in 1974 proposed to introduce floating classes to all secondary schools as one of the temporary measures to achieve the objective of providing education for all. To everybody's surprise, the White Paper issued in 1978 on the development of senior secondary and tertiary education proposed to turn it into a permanent measure for implementation in all kinds of schools. That explains why the education sector finds it hard to give credence to any Government's assurance.

Thirdly, many recommendations in the Education Commission Report No.4 are directed at upgrading the quality of basic education in various aspects such as curriculum development, attainment assessments, and special education. They include respectively the establishment of the Curriculum Development Institute, the development of a new framework of targets-related assessments and the adoption of "whole-day approach" in guidance and counselling work and the setting up of practical schools. It is, however, an exercise of "much cry and little wool". Some of these recommendations, which have long gained acceptance as part of the educational policy, are still waiting to be put into practice. It is therefore doubtful whether the Government is really sincere in promoting the quality of education in Hong Kong.

Fourthly, on the issue of fringe benefits for teachers, I am going to quote three recruitment advertisements for your information. The first one was put up by the Vocational Training Council for recruitment of Instructor/food preparation -- Chinese style, or chef, (published in Ming Pao on 2 March). It was stated that "for appointment to the above post ..... fringe benefits would include leave, medical and dental services, children's education allowance."

The second advertisement was put up by Lingnan College to recruit Driver -- I suppose this is a vacancy for the President's driver -- (published in Ming Pao on 21 March). It mentioned that "fringe benefits included gratuity ..... medical allowance and paid leave."

The third advertisement was about the recruitment of staff by the Hospital Authority (published in the South China Morning Post on 7 March). It stated that there would be "excellent benefits including annual leave, medical and dental coverages and housing loan interest subsidy scheme."

I remember that the Government, when considering the fringe benefit package for staff of the Hospital Authority, was thinking of extending such benefits to teachers. Now that the various fringe benefits for the Hospital Authority staff were announced in 1990 for implementation, what about those for the teachers? Why is there such a great disparity between the fringe benefits offered to teachers and those to the staff of the Vocational Training Council, the Lingnan College and the Hospital Authority as mentioned in the above quoted recruitment advertisements, notwithstanding they are all in the employ of subvented organizations? Does it mean that teachers are less respected by the Government or that their actions in striving for their better fringe benefits are not strong enough? Has the Government forgotten that one major cause of the large-scale industrial actions taken by teachers in 1973 was the insufferable disparity in the conditions of service between the nursing staff and the teachers?

As regards the above four points, they are long-standing issues which the education sector has been looking anxiously to the Government for their solutions. However, judging from this year's Budget, it seems that the Government still has no intention of committing itself to settling these matters.

In recent years, the need to finance some large-scale infrastructural projects has put the Hong Kong Government under greater financial constraint. However, this has only been the case in the past few years and will be no more than a temporary situation. It can be expected that the completion of all these projects will eventually bring about a more prosperous Hong Kong with increased surpluses and reserve.

At present, education has, unfortunately, also become one of the areas where provisions are to be cut down in order to meet the expenditure on the large-scale infrastructural works. However, birth rate in Hong Kong is falling. Statistics show that the student population of primary and secondary schools is expected to drop by about 10% in the coming five years. By that time, the financial situation in the education sector will be less tight than it is now. The troubles being encountered with regard to education provisions are comparable to a short-term cash flow problem experienced by a company. Therefore, while Hong Kong is having a huge surplus, I hope the Government will agree to allocate more fund for the education sector by borrowing the required sum from the reserve fund so as to help it tide over its present difficulties.

Investment in education can hardly admit any further delay, otherwise, its adverse after-effects will gradually surface in the coming years. By then, even though Hong Kong may have impressive infrastructural facilities, yet what good will it do to the whole of the local economy if nothing is achieved in the development of our human resources?

As far as educational planning is concerned, attention should be given to two specific points. First of all, education development is an on-going exercise in which continuity is essential. In other words, it means that education as a whole from basic to tertiary levels is an inseparable entity which cannot be dealt with on a "piecemeal" basis by placing emphasis just on one level at a time without giving attention to all the other levels. It is very much like the Budget which, as the Financial Secretary said, is an inseparable whole. Secondly, education is a long-term investment which yields no effects until after many years. For instance, the drastic fall in the education standard of our secondary school leavers which has come under public criticism is actually due to many years' prolonged neglect of the basic education. Today, our tertiary institutes as well as the whole society are still paying heavily for this mistake. Has it ever crossed your mind that the Primary

I pupils enrolled in September 1992 may in 13 years' time become matriculants who will knock at the doors of the universities? The seeds of trouble that the Financial Secretary sows today will burden the community with their bitter fruits in 2005. Of course, by that time, the present Government will have "gone" for ages and no longer be here to take the blame.

In this year's Budget, the allocations for education are a far cry from meeting actual needs. Apart from the fact that some issues which should have already been addressed are still left unattended, the recent proposal to increase the average class size is bound to affect the quality of education severely. Being greatly disappointed and dissatisfied at this proposal, to be frank, I find it difficult to support the Budget. However, the Financial Secretary has indicated that refusal of this Budget might have serious political effects. He has also urged Members not to put the interests of the whole at risk. As for myself, my conscience is "clear" if I refuse to support this Budget. Should I do otherwise, it is only because I need to do so "under compelling situation".

Mr Deputy President, as I still have some reservations about the Budget, I intend not to make up my mind until I have heard the reply of the Financial Secretary.

DR CONRAD LAM (in Cantonese): Mr Deputy President, every bill has its own focal point and the Financial Secretary's budget speech to move the Appropriation Bill is no exception. Its focus is placed on the new airport. The Financial Secretary has in his speech mentioned the "Airport Core Programme" and its "Memorandum of Understanding" for 11 times. In fact, the various revenue - raising and expenditure - cutting measures mentioned in the budget are directly or indirectly related to the "Airport Core Programme". The Financial Secretary has also mentioned "Hong Kong's remarkable record of economic success during the past 40 years". He also added that the "economic success must be a Financial Secretary's first priority". I would like to point out that Hong Kong owes its economic success to three primary factors, namely, the external, local and human factors. The external factor is the prevailing economic and political climate elsewhere in the world. The local factor is Hong Kong's special geographical position and status. Its significance is confirmed by the Financial Secretary himself saying that much of our success in recent years must be attributed to Hong Kong's growing access to trade and investment opportunities in China. The human factor is the flexibility, diligence and perseverance of the Hong Kong people. Without these factors, it would have been difficult for Hong Kong

to achieve its present economic success. At present, the financial condition in Hong Kong is quite stable. There will be an overall budget surplus of \$14.1 billion for 1991-92, bringing our fiscal reserves to \$92 billion. Yet, will the general public be able to enjoy better living standard in the next year because of this surplus? Before answering this question, let us take a look at some numerical figures and facts. The per capita GDP in Hong Kong is HK\$125,000, being among the highest in Asia. However, the Gini Coefficient has risen to a record high of 0.48, indicating an ever widening gap between the poor and the rich. According to the figures published by the Census and Statistics Department, the median monthly income of Hong Kong people from April to June 1991 was \$5,845 and the average wages in Hong Kong sank by 1.2% in real terms for 1990-91. In the light of this drop in income, an increase of rates and taxes will definitely deal a blow to the lower income group.

As regards the overall spending on social services (including social welfare, health, education, housing and labour services), it will represent 42.7% of the public expenditure, which is 1.5% lesser than the average figure of the 80's. For those urgently needed social welfare, education and health services, the respective growth is only 2.8%, 1.6% and 2.7% in comparison with the corresponding revised estimates for last year. Taking into account the element of inflation, the net growth is in fact negative.

The Financial Secretary has admitted in paragraph 22 of his Budget that he is "less optimistic about the prospects for an early and significant fall in the rate of inflation."

It can also be seen that the workforce in the manufacturing industry has dropped by 220 000 workers in the past ten years. Underemployment rate of the working population is now standing at 1.5%.

Property prices are still very high. The lower and middle income groups have to suffer from exorbitant rents and property prices. In a situation where prices of properties, land and taxi licences are manipulated by a small group of people, the Government still holds fast to the free market principle or adopts an approach of saying much and doing little.

The increase in rates is not as modest as suggested by the Financial Secretary.

The estimated total revenue from rates for 1992-93 will be as high as \$11.39 billion, which is \$2.81 billion more than the \$8.58 billion for 1991-92, representing an increase of 32.7%. Along with this will be various fees increase measures which are to take effect in succession. These include increases in water charges, postage rates, tunnel tolls, airport departure tax, vehicle licence fees, company registration fees, and so on. These measures will have the effect of fueling inflation and directly bring down the living standard of the man in the street.

The Financial Secretary claimed that the increase in personal allowance this year would reduce revenue by \$850 million and benefit 1.3 million people. I have done the sums on the basis of these figures and found that these 1.3 million people could save \$1.7 per day. However, the total revenue from salaries tax estimated for next year "will see an increase rather than a decrease", that is, rising from \$17.3 billion for 1991-92 to \$21.75 billion for 1992-93, representing a rise of \$4.45 billion (or 25.7%). On the other hand, even though corporate profits tax is to increase by 1%, the estimated increase in revenue from this tax source for the corresponding period is only 14.3% (or \$3.55 billion). The way the Financial Secretary plays on the figures to make his revenue-raising measures appear to be tax concessions may well be described as "a tricky game of pluses and minuses in which the ordinary citizens are surely victimized by whatever the Financial Secretary proposes".

The increase in fees charged by government departments and hospitals under the Hospital Authority seems to be inevitable. Eighty per cent of the \$10.2 billion allocation to the Hospital Authority will be spent on salaries and allowances. With the advance of modern technology, medical equipment becomes more and more sophisticated and expensive. In addition, drugs and medicines are costly. Although there will be an increase of 5 600 hospital beds in the next four years, yet the annual estimated expenditure on health services is maintained at 10.5% to 10.7% of the total public expenditure. The overall expenditure on the Department of Health is estimated to increase only by a mere 2.1% in real terms in the next year, but it will include the cost of implementing at least 10 primary health care programmes. With the growing demand for better health services and in face of an ageing population (there were 512 000 old people aged 65 or above in Hong Kong in 1990 and their number will increase by 22% in 1995), spending on medical services for this age group is expected to be three times more than that for the other age groups. Hong Kong's annual expenditure on medical services is less than 4% of its gross domestic product, which is below the average level in other developed countries. Take 1987 for example, the average spending on medical and care services is US\$305 per head in Hong Kong, which is 15%

of that of the Americans for the same period. The Government should formulate as soon as possible a comprehensive policy on medical services to promote the health of the community. I would like to call upon the Financial Secretary to encourage the public to take out medical insurance or to encourage the employers to do likewise on behalf of their employees by providing them some sort of incentive tax allowances.

In concluding his Budget speech, the Financial Secretary has ensured that "everyone receives proper health care" and confirmed the need to "provide a safety net for those less able to look after themselves". Yes, it reflects the Financial Secretary's deep concern about the poor, but the problem is when his concern will find expression in real action. Should you be so unfortunate to suffer from cancer and can hardly afford the charges of a private hospital, there is no need to worry at all because, according to the Financial Secretary's thinking, the safety net will eventually put you to the care of a hospital under the Hospital Authority if you have the patience to wait. As to how long you need to wait before you can gain admission to the hospital, the question can only be answered by the Financial Secretary because it will depend on how resources are to be distributed and who is to decide on the distribution of these resources. May I ask if the Financial Secretary can explain what kinds of people are defined as less able to look after themselves? Can those old people who suffer from incontinence, hemiplegia or pamplegia and are unable to feed themselves be included in this category? Does it cover those severely mentally handicapped people who can neither control their movement nor feed themselves nor control their bowels and bladders? However, the Government will only be able to meet 80% of the demand from the elderly for the necessary places in care-and-attention homes, and 60% of the demand for the sought-after hostel places for the mentally handicapped by 1995. These unfortunate people who need to wait for a few years before they can fall into the belated safety net mentioned by the Financial Secretary, after all, should count themselves lucky because the remaining 20% of the old people and 40% of the mentally handicapped are even more unfortunate as they may not live long enough to see the completion of the safety net. How can one call this "proper" medical care? What does the Financial Secretary mean by "proper"? Given the nearly \$100 billion fiscal reserves, is it proper for us just to look at these people in agony without extending a helping hand?

As an elected Legislative Council member from the Kowloon Central Constituency, I am obliged to speak for the overall interest of this Constituency. The Budget proposed by the Financial Secretary is unfair to both the grassroots and the sandwich class and will have undesirable effects on the quality of their lives. The proposed

public expenditure fails to meet the urgent needs of the grassroots with regard to housing, social welfare, medical and health services and education, nor does it comply with the principle of returning the wealth to the general public. Inequity is more worrying than insufficiency. The United Democrats of Hong Kong are not going after free lunches. Believing in the principle that the harvest one reaps is proportionate to the effort one has made, we hold the view that the people who have contributed to the prosperity of Hong Kong should have a fair share of the fruit of their efforts. I suggest that the Government should introduce capital gains tax and use the revenue generated from this tax source to subsidize those social services that are in lack of resources. Besides, this is also a useful measure to curb speculative trading on property. In levying the capital gains tax, the Government may consider the following points:

(1) to set the capital gains tax at a rate equivalent to that of the profits tax;

(2) to exempt transaction of owner-occupied flats from capital gains tax;

(3) to grant exemption to flats which have completed their last transfer of ownership for more than 10 years; and

(4) to readjust the value of the previous transaction price of the flat concerned according to the cumulative inflationary rate during the period between its last and recent changes of ownership.

Mr Deputy President, I commend the Financial Secretary on his philosophy to prepare for the rainy days and agree that his Budget bears a number of features which include (1) a commitment to drive for economic growth; (2) a commitment to maintain sound financial management; and (3) a commitment to help those who are most in need. However, it is a pity that two things are missing in the statement of expenditure of the Budget, that is, a compass and a timer. Without the compass, the Financial Secretary will lose his direction in the maze of the "Airport Core Programme"; and without the timer, he will not be able to finish the safety net for the unfortunate old and sick before the loss of many more lives which may otherwise be saved if such a net is provided in time.

Mr Deputy President, these are my remarks.

MR MICHAEL HO (in Cantonese): Mr Deputy President, I wish to make a few comments on those parts of the Budget relating to personal allowance, dependent parent allowance and dependent children allowance, public spending, and medical spending in particular, as a representative of the medical and health care functional constituency.

I will, first of all, speak on public spending. The Financial Secretary, in order to control the expenditure of the public sector, has proposed a 1% reduction of public spending. While no one will want to query the effective use of resources, one would find it difficult to accept the slashing of basic services which will have a direct impact on the well-being of society. It is the view of the United Democrats that the reduction will directly affect medical and health, education, social welfare and other basic services, resulting in the aggravation of the already inadequate level of provision. We believe the provision of social services by the Government is the key to social stability. Moreover, social services are investments in society conducive to the economic and social development of Hong Kong. It is for this reason that the increase in recurrent spending on basic services should not be lower than the rate of economic growth. It is for this reason that the recurrent spending on the above five services should grow by 15.4%, of which 10.4% represents the rate of inflation, and 5% the rate of economic growth. According to this calculation, and based on the approved Budget of 1991-92, the Government should then allot in the forthcoming year, in addition to the provisions of the present Budget, an extra \$49 million to the Department of Health, an extra \$494 million to the Education Department, and an extra \$225 million to the Social Welfare Department.

Insofar as medical spending is concerned, the Government has made it known that it has a growth rate of 27%. This figure seems to give the public the impression that a lot of money has been injected into the medical and health services. I have to stress here that the additional 27% provision is only an illusion and that the Government is playing with figures. In fact, a provision which has never been part of the medical account is now under medical spending. We can see that, under medical spending, \$2.4 billion, that is 24.6% of the recurrent expenditure, is the on-cost of paying staff remuneration. On-cost refers to the costs of pensions, refresher courses and recruitment advertisements. Such costs have so far been paid for through "the civil service general expenditure" account. They have never been put under medical spending until this time around; the \$2.4 billion expenditure has now been transferred from "the civil service general expenditure" account to medical spending account. This is how we have apparently over \$2 billion in extra, but it is in fact only a numbers game, not at all a substantial increase in medical and health provision.

Meanwhile, if the over 18 000 civil servants should decide this year not to switch to the employ of the Hospital Authority after all, then \$1.2 billion out of the \$2.4 billion will have to be returned to the Government. I am now holding a chart which was distributed to members of the Finance Committee of the Legislative Council by the Secretary for Health and Welfare at a special meeting which she attended last week (please refer to the chart). The very tall column representing medical spending this year includes the \$2.4 billion, but if we write off the \$2.4 billion, we can see that the real increase is not that significant. This numbers game creates the mistaken public perception that the medical and health services have been boosted by the substantially increased spending; it also misleads the public, and Members of this Council, into believing that the fringe benefits of the medical staff have been substantially improved, and the \$2.4 billion has been pocketed by the staff. I have to stress here that spending on fringe benefits of civil servants switching to the Hospital Authority has remained unchanged, and that there has been no increase in fringe benefits at all.

Now let us have a look at the spending of the Hospital Authority on manpower resources. We are all aware that manpower resources are most vital to the institutional providers of medical and health services because, after all, services are provided by doctors, nurses and other medical professionals. The adequacy of services is to a certain degree dependent on the availability of staff. The Government does not fund the Hospital Authority according to the ratio recommended by the Medical Development Advisory Committee, nor does it do so according to the expenditure of the Hospital Authority in terms of paying the 12-month salaries of its 39 000 employees. The funding is effected on the assumption of a monthly downward adjustment due to a given proportion of staff wastage, and a lapse of several months before appointments can be made to bring the establishment back to the 39 000 level. Put in another way, it is only an average figure and if the wastage rate should fall in the forthcoming year, the Hospital Authority may not have adequate funds to pay for the staff remuneration. This funding methodology will effectively mean that, even if in the forthcoming year, we had several thousand nurses coming back to Hong Kong from overseas, the Hospital Authority would not have the money to employ them. In that scenario, the failure of the Tuen Mun Hospital to become fully operational would not be due to staff shortage, but rather due to inadequate funds to recruit staff.

Spending on medical and health services has only increased by 2.1%; I doubt very much how this modest increase can really cope with the expansion of our primary health

services. If expansion cannot be made to such services, then the series of consultation exercises, full of sound and fury when they were conducted last year, would become no more than feeble attempts at reform, if not being relegated to some selective, piecemeal, reforms altogether, under the auspices of the Department of Health. Should it be the case, then one is prone to ask what is the point of holding consultations last year. I wish the positive exercises in consultation would not come to nothing, for lack of funds.

Tax allowances have all along been inadequate to take proper care of the needs of the middle and lower income groups. With inflation reaching two digits in recent years, wage increases have lagged behind inflation, and indeed over the past two years, tax allowances have been adjusted below inflation, resulting in the weakening of the purchasing power and a decline in the quality of life. In this year's Budget, personal allowance has been adjusted from \$41,000 to \$46,000. Although the adjustment has been enough to cover inflation running at 12%, it is not quite enough to compensate for the shortfalls accumulated over the years, when the personal allowance has consistently fallen behind inflation. It is for this reason that the United Democrats propose a personal allowance of \$64,000, to make up for the shortfalls. We uphold the principle that the Government should not, in the process of collecting its tax revenue, jeopardize the basic livelihood of the individual. The UDHK platform for the Legislative Council Election last year stated very clearly that we would strive for the personal allowance to be adjusted to \$57,000 in 1991, which is equal to \$64,000 this year, after 12% inflation. The \$57,000 was arrived at after taking into account the median wage level of \$5,500 towards the end of 1990, and a survey on household expenditure conducted in 1989-90. The available data indicated that the basic living expenses would take up 87% of the median income. It is for this reason that it is very reasonable indeed to equate the personal allowance with the cost of one's basic living expenses, that is, 87% of the median income. It is the only way the individual will be able to meet his basic living expenses and be protected from being over-taxed. According to the above data, it is clear that people with an income of \$3,800 per month, though they are required to pay tax, can hardly make ends meet. Meanwhile, the Financial Secretary has also proposed to draw into the tax net another 250 000 people, including earners of a monthly salary of \$3,800 and earners of an hourly rate of \$16. The United Democrats will also use the same principle to assess the adequacy of the dependent parent and children allowances.

We hope the Financial Secretary will heed sound advice before the Bill is put to vote, so that public spending will be increased and personal allowance raised.

The demand of the United Democrats is very reasonable and enjoys wide public support; the personal allowance of \$64,000 is soundly based. It has been suggested that the Financial Secretary can make commitments for adjustments next year, but it should be a matter for next year. We are not prepared to accept later adjustments by the Financial Secretary; we are not prepared to add another voice to the chorus vowing to fight now for the sandwich class, now for the low income group, but with words rather than deeds. What other options do we have? The only way Legislative Councillors can bargain with the Financial Secretary is to vote down the Appropriation Bill. If the Financial Secretary is not prepared to make any amendments at all, I believe we are not prepared to support the Appropriation Bill either.

Mr Deputy President, these are my remarks.

DR HUANG CHEN-YA (in Cantonese): Mr Deputy President, the Financial Secretary has made it abundantly clear in presenting his budgetary strategy that he was only concerned with the management of public finance, and that he was not attempting to manipulate macroeconomic variables. It is very difficult to accept his position because there are three key issues which have been overlooked:

- (1) the social and economic impact of the Budget;
- (2) the purpose and direction of public resources allocation; and
- (3) the equitable distribution of tax burden.

These are not simple accounting issues, but political and economic decisions.

As the United Democrats' spokesman on economic policy, I will comment on the 1992-93 Budget from the three perspectives listed above. We take the view that amendments have to be made to the Budget.

First of all, the Financial Secretary said in his projection of Hong Kong's economic future that an encouraging trend appeared towards the latter part of 1990 and the prospects for 1992 would continue to be healthy. He predicts that Hong Kong will have an economic growth of 5%, with inflation hovering at 9.5%. It must be pointed out that, when compared to our neighbouring countries such as Indonesia, Malaysia, Singapore, South Korea, Taiwan and Thailand, which have even higher economic growth rates, our rate of inflation has been more serious, and consistently so for the past three years. Meanwhile, the manufacturing sector has continued to relocate to the north; and foreign investment in Hong Kong has continued to fall, by 4.7% in 1989, and by 11.8% in 1990. By comparison, foreign investment in industry in Singapore increased by 36% in 1990, and by 4% in the first three quarters of 1991. It would seem that we have a lot of catching up to do and we should, for one thing, stop bragging and feeling too good about ourselves. It is indeed disappointing that the Roman Emperor Nero who was singing while the city of Rome was ablaze should actually find a sympathizer in the Hong Kong Government. We have completely failed to see the Budget providing any answer to the problem of low growth and high inflation.

The Government can actually boost economic growth through selective taxation and spending arrangements. Tax concessions can encourage investment in industrial research and development and attract foreign investment, enabling the transfer of technology. Productivity will also be enhanced by investment in manpower training, in retraining and in general education, improvement in medical and health services and the provision of better housing and social security. The Productivity Centre and the Trade Development Council can actually help Hong Kong industry to develop foreign markets; in particular, they can provide impetus to the development of our vitally important medium and small enterprises. But there is no mention at all in the Budget regarding tax concessions. Indeed, the provisions for the Industry Department and the Productivity Centre, and for education generally, have in fact experienced negative growth.

Inflation has an impact on the economy as a whole, and the tourist industry is particularly hard hit. It goes without saying that the quality of life for the common

people is declining. The Government has not been able to come up with anything to combat inflation, and indeed the abolition of the 25% limit while increasing rates will only further aggravate inflation. The Financial Secretary takes the view that the 0.5% increase of property rates will only push up inflation slightly. This is clearly an under-estimation of the inflationary impact. We realize now that the abolition of the limit will actually push rates up by 7% for some properties. Inflation definitely will rise more than 0.01%. My UDHK colleagues will each give a blow-by-blow analysis in their critique of the allocation of public resources. The position of UDHK has consistently been that annual increase in government spending relating to the improvement of people's livelihood and social investment, such as spending on medical and health services, social welfare, education and housing, should not be lower than the rate of economic growth. The Government and the industrial and business sector have always argued that economic progress will benefit everyone. But according to a study conducted by the World Bank, while economic growth may reduce absolute poverty, it is impotent as a means of narrowing the gap between the rich and the poor. The prosperity of Hong Kong in recent years has resulted in the escalation of the Gini Coefficient. This supports the conclusion of the World Bank finding and proves at the same time that the market economy may falter. It is for this reason that we have to increase our spending on medical and health services, education, public housing and social welfare, all of which, we must remember, are key factors which enable us to achieve economic growth.

We consider it unwise to allow negative growth in these important departments. We demand that spending in these key areas be increased by 15.5% over last year. We understand that the Government has to maintain adequate reserves for the building of the mammoth airport project and leave 25 billion to the SAR Government. But is our present financial position such that we cannot afford to allocate \$3 billion to these key areas? Why cannot we take \$3 billion out of the \$7.8 billion earmarked for unspecified miscellaneous spending so that these key areas can enjoy real growth? Is it the intention to let the money accumulate to a surplus, again, in the Budget next year? We believe that the Government can, and should, provide the money for spending on these key areas. We believe that the spending on the airport project should not preclude public spending in other areas. We believe that long-term interests should not be sacrificed for the sake of short-term needs if we do not wish to pay in the future the huge cost of repairing the damage done.

From the perspective of equitable distribution of the tax burden, we can see that, over the past ten years, the contribution of corporate profits tax to the direct tax

yield has declined from 56.5% to 52.4%, while the contribution of income tax has increased from 16% to 36.1%. It is clear that the past decade has seen the tax burden falling more and more on the man in the street. The United Democrats are in favour of increasing the corporate profits tax by 1% in order that the tax burden will become more equitable and just without jeopardizing the competitiveness of our industry and trade. Fear has been expressed in some quarters that profits tax might be increased each year to the detriment of the desire to invest. To allay such unnecessary fears, the Financial Secretary should widen the tax base and explore more sources of taxation which are fair and reliable. The United Democrats take the view that a capital gains tax should be levied on property. It is going to be a reliable source of tax revenue. It will dampen property speculation and stabilize property prices. It will not add to the burden of the middle class and the grassroots. It will in fact reduce the burden of the middle income group in purchasing their residential properties.

On the issue of income tax, the United Democrats take the view that the middle and lower income groups should not be subjected to further increases. In each of the past three years we have seen 20% more people than the year before being drawn into the tax net. This does not mean that there has been an amazing growth in the real income of Hong Kong people, only that the personal allowance has not been adjusted in line with inflation. Presently, even people on a monthly income of under \$4,000 have to pay tax. The Financial Secretary claims that this only implies that half of our working population are taxpayers and he sees nothing wrong with that. The fact is that presently 25% of our population are taxpayers, a percentage which is close to that in Japan but higher than that in other developing countries. The proportion of our income tax to GNP, which stands at 3%, is higher than that in South Korea, Malaysia, Thailand, and even Switzerland. It is in this context that the continued attempt to increase the tax burden on salary-earners cannot be supported.

The United Democrats believe that the personal allowance should be raised to \$64,000, for reasons which Mr Michael HO has already stated, and which other colleagues will also discuss when they speak. We believe that it is not reasonable for the Financial Secretary to raise the personal allowance to \$46,000 merely to cover last year's inflation, because the adjustment has failed to take account of low personal allowance which has persisted over the years. Real wages fell by 1% last year but the number of taxpayers have increased by 20%. It can be seen hence that the failure to adjust the personal allowance has effectively drawn many more low income salary-earners into the tax net.

Meanwhile, non-adjustment this year of the tax band will draw even more people into the tax net. This will further aggravate the tax burden on the middle income group. It is the view of the United Democrats that the tax band should be widened so that the marginal rate of 25% will be done away with. The standard rate of 15% should also be abolished. This will lessen the tax burden on people with monthly income between \$10,000 and \$50,000 and enable them to have more money to develop their careers. We feel that the tax burden should be divided equitably and reasonably such that people will find it easier to save and accumulate wealth and have less need for and dependence on public services. The Government likes to say that there is no need to levy a capital gains tax on property because property speculators are made to pay profits tax. But at the same time the Government says it is difficult to identify the speculators. Why cannot the Government act positively to tax the speculators instead of making a scapegoat of the hardworking and law-abiding citizens?

Mr Deputy President, I would like to sum up here that the Budget has failed to aid our economic growth positively, nor is it capable of combating inflation. It does not take care of the middle income group who are hard pressed by the tax burden. It fails to narrow the gap between the rich and the poor; it does not provide adequate public resources to increase the upward mobility of the lower income group. What it has done is to drag them into the tax net and increase their dependence on public services. It is for this reason that UDHK ask yet again the Financial Secretary to amend the Budget along the following lines:

(1) The personal allowance of the income tax should be raised;

(2) The tax band should be widened while the marginal rate of 25% and the standard rate of 15% should be abolished;

(3) The proposed rates increases should be abolished and the rates relief scheme should be continued;

(4) The growth in recurrent spending on key public services should be kept at a rate of not less than 15.5%.

Mr Deputy President, it might well be the case that the Financial Secretary has, as he has said, done his best. This Budget, compared with the previous Budgets, may not be particularly bad. But we have to move ahead with times. Hong Kong people should be entitled to a better Budget. Hong Kong needs a Budget which will meet its

present needs. It is unfortunate that I cannot agree to the Budget in its present shape. Therefore, unless amendments are made, the United Democrats are unable to support it.

MR SIMON IP: Mr Deputy President, I believe that the Financial Secretary has demonstrated through the Budget his commitment to continuing Hong Kong's economic growth and his belief in maintaining sound financial management.

However, I do have some concerns and I wish to join some of my fellow Councillors in calling for certain revisions to the Budget.

First, I believe the Budget should offer greater tax relief to middle and lower income earners. Given continuing inflation, spiralling property prices and relatively high interest rates, certain members of our community deserve help if they are not to see their disposable income and standard of living continually eroded. I urge the Financial Secretary to review his proposals in this area with a view to increasing personal allowances and tax bands.

Secondly, I suggest that the Financial Secretary should reconsider maintaining property rates at the current 5.5%. Although the Financial Secretary points out that the percentage rate is historically low, the fact is that the amount of rates being paid has increased in real terms because of higher property prices and thus higher rental values.

In addition to these two requests to benefit the "sandwich class", I would also like the Financial Secretary to reconsider the budget for the police force.

The Financial Secretary has said that the police have been given all the funds they need to do the job, but we hear conflicting reports that the force is under strength and overstretched. Requests for more funding seem to be grinding slowly through the bureaucratic mill creating frustration and dissatisfaction in the force.

It is essential that we ensure the force has available to it all means necessary to cope with rising crime, especially those involving the use of violence and firearms. Better pay and conditions are needed to enhance recruitment and retention of officers, especially at the junior end. More funding for training, equipment and manpower will increase the force's effectiveness and morale. The Administration must act

urgently.

Over the last few weeks, this Council has heard about the administration of the Judiciary and the increasing waiting time for cases to come to trial. We have been told that an Information Technology Strategy Study is underway to improve the Judiciary's technology including the introduction of modern methods of court reporting. Difficulties have been encountered in recruiting court reporters with the result that judges still have to record evidence and submissions in long hand. Thus, hearings in court proceed at the pace of the judges' pencil. It is no wonder that trials are lengthy and waiting time is long.

Necessary funds must be made available to recruit specialist court reporters and to equip the courts with modern recording and transcription facilities to speed up trials and reduce waiting time, for justice delayed is justice denied. Besides, the expense involved would be more than offset by the savings achieved as a result of shorter and more efficient trials.

Mr Deputy President, we heard from the Director of Legal Aid last week that the amendments made to the Legal Aid Ordinance last year will probably be brought into force by the end of this year. Those amendments increase the eligibility limits for legal aid and will result in more people qualifying for legal aid. In view of this year's huge surplus of \$14.1 billion I fail to see why those amendments were not given immediate effect last year. There is no reason for any further delay and I ask the Government to give effect to the new provisions immediately.

Mr Deputy President, some of my fellow Councillors have indicated that they would vote down the Appropriation Bill if the Financial Secretary did not give concession on his Budget. Although I have called for certain parts of the Budget to be revised, I would not wish to vote against the Budget if the Financial Secretary is able to undertake to address the issues causing concern and to find relief for those in need of it between now and the next Budget. The Government should not be parsimonious and indeed has every reason to be more generous given the very substantial reserves forecast by the Financial Secretary.

With these words, I support the motion.

DR LAM KUI-CHUN (in Cantonese): Mr Deputy President, I wish to look at the issue of

tax revenue in the Budget from the point of view of the man in the street. Before the publication of the Budget, the general public witnessed two things, that is, high inflation and the huge surplus accumulated by the Government. Then the Government announced the 1% increase in profits tax and at the same time refused to make corresponding adjustment to the progressive tax bands in line with inflation. The personal allowance is still less than what the two successive years of inflation would warrant. Meanwhile, the attempt to increase rates to widen the tax base should have been a measure to tighten money in the hands of the middle, upper and lower classes; it should have served the purpose of combating inflation. But the Budget as a whole does not have the effect of containing inflation. Although Professor Edward CHEN takes the view that fighting inflation should not be the theme of this year, the public perception is nevertheless that the Government has let the opportunity slip by. The public have been forced to make economic sacrifices, for which they cannot see any reward. Regarding the issue of the unexpectedly large surplus, people are thinking about how that windfall might be used profitably to the benefit of everyone. It has never occurred to them that the Government, totally unabashed about the huge surplus, should actually resort to raising tax to further augment our already large reserves. It is in this context that I, like many of my colleagues, would like to query the Government what the real motive might be of further increasing our large reserves. I wish to add here that the Government has stated that the building of the new airport will be financed by our reserves and borrowings instead of by tax increases. Increasing taxes in this context serves no clear purpose other than that of further stockpiling our reserves. It is very difficult to resist the conclusion that the tax increases are entirely for enlarging our reserves, that is, entirely for the building of the new airport. I feel that the Government has already broken its promise to the public.

Although I agree with Mr Vicent CHENG that the Budget is a cautious one, I tend to think that it is also one without a clear sense of direction. The only clear thing about the Budget is that the Government has broken its promise to the public, and all because of the airport project.

I have two points to make on the issue of spending. Firstly, I agree with Mr Allen LEE that the Government should, while striving for economic development, make sure that we have enough resources to meet the welfare needs. I understand that welfare spending may be an open-ended commitment and human wants may be insatiable. In the past two years, we have seen many cases of socio-economic bankruptcies occurring in countries all over the world. I agree that in the long term, welfare

spending should approximate to economic growth. But while colleagues are demanding that the Government spend more on welfare, I also wish to elaborate on the uniqueness of welfare spending. Compared with other industries, like the entertainment industry for example, which tends to boom as the economy booms, social welfare tends to have more demands for it when the economy slumps. Public dependence on welfare is correspondingly less when the economy improves. Given the prevailing excellent economic climate, and given that the middle to long-term economic prospects continue to look good, then I would think that an increased spending of 2.8%, which is admittedly below the rate of inflation, to meet the recurrent cost of our social welfare does not warrant in itself street protests. But there are services which I think we should further expand, taking the advantage of our huge surplus. For example, the existing old people's homes and care centres have a waiting list of over 12 600 applicants. There are over 2 500 severely retarded and disabled persons waiting for the institutional care which they require. And indeed, a lot still waits to be done regarding the day care service which was the subject of an earlier debate in this Council. I understand that, in the development of new services, the Government cannot run the risk of over-commitment. The expansion of the present mode of service centres raises doubt as to whether we have the ability to maintain the services in future. I am also aware that, in recent years, the social services provided by the Government have not been confined to helping the destitute only. Families and individuals who have some economic means but who nevertheless need the services have also been the targets. In this connection, I suggest the Government should inject some of the surplus into new social services provided by the non-profit-making organizations whereby social services may be expanded without becoming a long-term burden to the Government. Let me give an example here. It is impossible for a sandwich class family, on a household income of \$25,000 to afford to send an old folk to a private home which charges between \$7,000 and \$9,000 per month. If they have to queue up behind the 12 600 applicants for a place in a Government or subvented home, they will quite justifiably feel that time is not on their side. If the Government can assist the non-profit-making homes financially such that the sandwich class family can have their old folk looked after at an affordable price of between \$4,000 and \$5,000, then it would be a positive move for the benefit of the sandwich class.

Now that the Financial Secretary insisted that there is no question of raising the personal allowance or widening the tax band, the least the Government should do is to use part of the windfall surplus to assist the non-profit-making social service providers financially which have to even expenditure with their own income, so that the sandwich class families will also be able to benefit from our economic prosperity.

The other thing I wish to bring up on public spending is actually a request that the Government should study whether the following way of spending public money is appropriate. I understand that a considerable number of illegal immigrants regularly go through the motions of appealing, after their status has been confirmed following thorough investigation by the Immigration Department. After the impartial hearing of the Immigration Tribunal, their status of illegal immigrant will still be upheld. In the past two years, as a matter of formality, the Legal Aid Department has accepted applications for a judicial review from these illegal immigrants. It happens that, the Legal Aid Department has already sent out letters which effectively state that judicial review is an obligatory step to take if permission to stay in Hong Kong is not granted before their cases are heard by the Immigration Tribunal. And there are even cases where the illegal immigrant who has indicated that he or she will not seek judicial review nor take his or her case to a higher court but who actually ends up being convinced to do so, by the Legal Aid Department. Some appellants are not so much directly contesting their status as illegal immigrants as the appropriateness of the hearing procedure. Successful appeals are few and far between. I understand during the question time of the Budget that each appeal costs the Government \$250,000, and up to last Monday, the Legal Aid Department had a backlog of 117 appeal cases involving illegal immigrants. If we do some simple arithmetic here, it will cost the Government over \$30 million to clear this backlog alone. Thanks to the enthusiasm of the Legal Aid Department in helping non-Hong Kong residents, the number of appeals has multiplied from 95 in 1989, to 187 in 1990, and 371 in 1991. If this trend continues, public spending on such appeals will run into tens, even hundreds, of millions of dollars. The money is not spent on Hong Kong people though it rightfully belongs to them. I fail to see any justification in the Budget for this kind of judicial review.

How am I going to vote under these circumstances? The way I see this Budget which does not seem to have any particular sense of direction is that the Government does not have any good reason at all to refuse the same demands coming from different quarters. I believe that if this Budget is not passed, then funding for some social services will be ended abruptly, and more generally, fund allocation for old age allowance and subsidized public housing will suddenly dry up. It is a scenario which I do not wish to see. I am not surprised at all that the Government should present the Budget in a "take it or leave it" manner. If I am sure that Members are determined to let it get through anyway, then I can vote against it with a clear conscience. And by standing up to the Government I can actually have my heroism to show for the

middle and lower income groups. However, if I vote no, and the Appropriation Bill cannot get through, then I think I have a case to answer to the people whose subsistence allowance suddenly dries up, to the people who, like Mr NG Ming-yum, will be deprived of hospital care. It is a responsibility which is too immense for me to bear. So how am I going to vote next week? That will depend on how the Financial Secretary will respond to Members, on whether they will be further enraged.

MR JAMES TO: Might I intervene, Mr Deputy President?

DEPUTY PRESIDENT: Yes, Mr TO.

MR JAMES TO (in Cantonese): I would like to ask Dr LAM Kui-chun to clarify the points he has just made. He mentioned that patients in hospitals would be instantly deprived of medication supplies, and that social benefits would be abruptly taken away from the needy people. May I ask him to elucidate his view?

DEPUTY PRESIDENT: Dr LAM, first of all, could you hear the intervention?

DR LAM KUI-CHUN: Yes, Mr Deputy President.

DEPUTY PRESIDENT: It is entirely up to you whether you elucidate any point in your speech.

DR LAM KUI-CHUN: I can offer an explanation. It requires the approval of this Council to enable the Government to mobilize the appropriate funds wherewith to continue with the services now being provided by the Hospital Authority. And therefore if provision of funds is stopped, the Hospital Authority and related services will be starved of funds and services cannot continue. The same would apply to social services.

5.02 pm

DEPUTY PRESIDENT: We shall take a short break and resume in 20 minutes.

5.25 pm

DEPUTY PRESIDENT: Council will resume.

DR SAMUEL WONG (in Cantonese): Mr Deputy President, I believe we will agree that there is at least one thing the Financial Secretary has done to please Members of this Council in the way in which he delivered his Budget speech, and that is, he did not follow the practice of one of his predecessors of using the occasion to deliver an economic treatise of over two hours to torture his audience.

The Budget may be described as down-to-earth though it has, much to the surprise of the Financial Secretary himself, aroused outcry both inside and outside this Council due to its treatment of personal allowance and progressive tax bands and its proposed drastic increases of rates. It seems that the Budget does not go out of the way to please any particular sector of the community. I think it is up to Members to extend to him our qualified support and sympathy, bearing in mind that his maiden speech has come up against such pressure.

I fully support the effort of the Financial Secretary to procure sufficient reserves. The new airport, and the 10 airport core programme and port development projects that go with it, was estimated to cost \$127 billion in March last year. If inflation and other engineering variables are taken into account, it is not surprising at all that the cost will escalate to \$200 billion. What is more, now that we are already stepping into the latter half of the transition period to 1997, we have to be prepared that any unfavourable factor will affect the financing of the new airport, the airport rail and other projects, and that the cost of financing the projects may actually increase. In addition, the renewal of China's Most-Favoured-Nation status will have a bearing on trade with a net worth of nearly \$200 billion; any mishap will have a direct impact on the economy of Hong Kong. If after the works have started we discover that we do not have enough capital, then how are we going to complete them? In this regard, it is always wise to save for a rainy day. However, the issue is how much is enough. Should we have reserves amounting to \$71.6 billion as

suggested by the Financial Secretary? How is the figure arrived at? How are we going to find the money? Mr Deputy President, I wish you could raise these questions with the Financial Secretary so he could give us a positive and honest reply.

Meanwhile, since Financial Secretary's budget strategy spans five years, running a year longer than usual, I presume that he has a good explanation for it. I agree that a five-year strategy, indeed a long-term plan, has its advantages to the overall economy. But when will the Financial Secretary give a detailed explanation for his five-year strategic plan to Members?

I am rather sceptical about the ambivalence of the Financial Secretary's position that our economic growth has been robust on the one hand and that the overall household expenditure will not be affected by inflation. What feasible measures does the Financial Secretary have in mind? Yesterday, many of our colleagues in this Council elaborated on the plight of the sandwich class. They are the people who honestly fill in their tax returns and have to bear the brunt of the inflationary impact on their daily expenses. Their plight is by no means a new issue, only that it has been talked about a lot more nowadays.

Let me tell you a true story. Twenty-five years ago, three years after I finished school, I borrowed \$53,000 from the Hong Kong Building and Loan Agency Ltd., and with the savings between my wife and myself, I bought a flat of 1 446 sq ft at rear Tin Hau Temple Road. The price of the flat was \$86,000, or 35 times my monthly salary. I was then making \$2,400 per month. The 10-year mortgage required me to pay a monthly instalment of \$600, inclusive of principal and interest, which was 25% of my income. Now, 25 years on, my eldest son is already a professional looking for employment. I think he could easily land a job with a monthly salary of \$24,000, which is 10 times what I was making. It is unfortunate, however, that property prices have risen not by 10 times, but by 70 times. If he wants to buy a flat of the same size, he will have to pay over \$6 million, which is 260 times his salary. He has to work 21 years to earn this kind of money, on his monthly income. This is only a hypothetical comparison. Indeed, even if he uses half of his over \$20,000 salary to buy a flat by instalment, he can only afford a flat costing \$1.25 million, and measuring under 300 sq ft, at today's price level. It is a common perception among parents and the public generally that a professional, whether he or she be a medical doctor, architect, accountant, engineer or lawyer, should have nothing to worry about the material aspects of life. The truth is that even they have to struggle to make ends meet, and all for the sake of a small flat. I do not know if Mr James TO, our

youngest and most promising colleague in this Council, has a similar problem now that he is about to get married.

Mr Deputy President, the soon retiring Mr Graham BARNES has said that property price does not have much to do with the supply of land. Although he has devoted his 30 prime years to the service of Hong Kong, I cannot agree with his view. Property prices have been completely divorced from reality. Meanwhile, including the vacant flats of last year, Hong Kong will have a total of 37 000 vacant flats in the next few months. We have this absurd phenomenon of homelessness co-existing with vacant flats lying around. It is up to the Government to reconsider seriously its high land price policy and expedite the supply of land for residential purposes to relieve the property market. This will be an effective way of indirectly helping the people.

In terms of direct assistance, I was very pleased to hear yesterday, and I hope the Government will seriously consider, Mr Stephen CHEONG's proposal for a scheme to help the sandwich class to buy homes at concessionary prices. I would like to propose for the consideration of the Government a tax allowance for mortgage payments for the sandwich class home buyers who are making less than \$40,000 per month. This is a viable solution. If they are buying for the first time a flat for their own occupation then they will be entitled to a tax allowance proportional to their mortgage. The practice in the United States is a good case in point. The owner-occupier actually enjoys an exemption from the federal tax amounting to the whole interest portion of his mortgage loan. Moreover, to minimize the administrative cost, I would suggest that the recipient of such allowance should each year, along with his or her tax return submit documentation of his or her income, bank mortgage and a declaration to the effect that he or she is an owner-occupier. This will not only lessen the administrative cost to the Government but will also help to alleviate the burden of mortgage payment on sandwich class home buyers.

I understand that the Government works on the concept that, once the problems of housing and medical and health services are solved, then the other social problems will be easily solved. It is for this reason that the low income families have been provided with public housing and the Home Ownership Scheme (HOS) flats. It is up to the sandwich class to ask the Government to spare them this time around and give them a hand instead.

I would like to switch to the topic of departmental spending. Hong Kong is beset with increasingly complex problems in the areas of commerce and trade, science and

technology, Sino-Hong Kong relations, and also international relations, let alone those presented by the huge infrastructural projects. But, against this background, government departments have maintained low, and even negative growth. One is prone to ask then whether the upper echelons of the Government have the adequate expertise to cope with, analyse and co-ordinate an overall policy. When they negotiate with the large consortia, do they have the ability and wisdom to secure a good deal? It is certainly good if the Government can continue to cope with zero growth, and yet function with high efficiency. But a number of Branch Secretaries have actually complained to me about the lack of manpower, that we could be doing them a favour if we could raise fewer queries. If there is a shortage of manpower in the departments, I think there is a need to recruit more staff to meet the needs. And redundant staff should be redeployed so as to enhance administrative efficiency.

When the Financial Secretary met separately with Members last week, he undertook to consider seriously raising personal allowance and revising the progressive tax bands, if the tax revenue for the next year meets expected levels. He also undertook to come up with a scheme in six months to help the sandwich class with their housing problem. I hope that he can keep his promises.

Mr Deputy President, if the Financial Secretary can give me a satisfactory reply next Wednesday, I will follow the example of Mr Andrew WONG to vote yes to the Budget courageously.

MISS EMILY LAU (in Cantonese): Mr Deputy President, the Financial Secretary revealed in his Budget Speech on the fourth of this month that Hong Kong has a surplus of \$14.1 billion accumulated in the last financial year with our reserves standing at \$92 billion. These figures are certainly the admiration of many countries and they have raised the community's expectations of this Budget. The sandwich class and the low income group who have been victimized by high inflation are hoping that they will be able to share the fruits of our economic success over the past years. But they are very disappointed now that they have seen the various proposals in the Budget.

Many Members have spoken since yesterday on the most controversial issues, such as single and married person's allowances, widening of tax band, rates increases, funding for welfare and health services, and the need to increase funding for basic education. I would only say here, Mr Deputy President, that I very much support the proposals put forward by Members of the United Democrats of Hong Kong and I will speak

no more on these issues.

Indeed, the Financial Secretary must be aware that the most appealing thing about his Budget is the raising of the profits tax. The move may be opposed by some of my colleagues who represent commercial interests in this Council and businessmen outside this Council, but there are some businessmen who take the move very graciously, saying that it is a worthwhile thing to do. I personally support this move by the Financial Secretary. I am hoping to see this move representing a gradual change of the Government's attitude from being protective of the capitalist's interest to shifting the tax burden gradually to those who are in a better position to shoulder it.

Mr Deputy President, the most controversial thing about this Budget is the part concerning the surplus and the reserves. Many people ask what is the rationale for raising tax when the Government has so much money. The heart of the matter is that we need the money for the building of a rose garden. Since yesterday, many Members of this Council have raised queries, including Messrs Allen LEE, David LI, TAM Yiu-chung, Edward HO, Peter WONG and LAM Kui-chun and myself. We wish to have a clear explanation from the Financial Secretary when he gives his reply next week. We wish to know whether the money is to be used as a hedge against possible and serious cost overruns by the Airport Project. Mr TAM Yiu-chung has even made a point of urging the Government not to play with figures because he does not believe that the core projects of the new airport will cost only 25% of the capital expenditure each year. As a matter of fact, Mr Deputy President, nobody has any doubts that we need a new airport. I personally think that the new airport should have been built over 10 years ago and that it was due to the incompetence of the Government that it was not. The question is are we going to need an airport which has such a massive scale. The question is whether its building should destroy the natural habitat of Hong Kong and whether expenditure on other very needy public projects should give way to finance it. The question is whether the first runway has to be operational in 1997 to coincide with the withdrawal of the British. On the other hand, one also questions the wisdom of adhering to such a tight schedule and designing the project while building it, at a time of high inflation. Mr Deputy President, you can very well understand the concerns expressed by so many Members over such a massive project over-running its cost. The cost overruns of the University of Science and Technology would pale in comparison, if our worries materialize. We can only take comfort from the fact that the Airport Project is not run by the Royal Hong Kong Jockey Club. Given the massive funds involved in the airport project, I hope the Financial Secretary will be able

to give us a clear commitment in his reply next Wednesday, regarding what methods are used, how spending is to be controlled, and what role the Finance Committee of the Legislative Council will be playing in the whole process. He will also have to confirm whether the huge reserves are to be used as a hedge.

Mr Deputy President, there are a lot of people like myself who fear that pension for civil servants is going to be another big drain on our reserves. The communist organs have recently made the point in their newspapers that the Government is fearful of the prospect of a large number of civil servants applying for early retirement before 1997. I think not even the Financial Secretary has an answer to this alleged fear. But I would like to know his attitude towards the issue, whether this scenario is likely to happen. And if it does happen, will it necessitate the use of a lot of public funds? Where is the money going to come from? I would also like the Government to explain to this Council what safeguards exist for the pension of the civil servants who are understandably worried. They fear that the pension they receive will not be worth the same. I raised the possibility of the United Kingdom Government underwriting the pension of our civil servants in the question time. The reply was that possibility did not exist. However, I wish to raise the issue here again and I wish the Government to explain to us what moves can be taken in this regard to put the hearts of our civil servants at ease.

Mr Deputy President, quite apart from the hidden huge expenditures, I am also concerned about the effective use of public funds within the civil service. At a special meeting of the Finance Committee held last week, I asked the Secretary for Home Affairs, Mr Michael SUEN Ming-yeung, how many Administrative Officers are working in the City and New Territories Administration. I queried whether it was appropriate for a department to have so many Administrative Officers. I even said some of them may have already quitted, having already done a service to the community. Subsequently, I have followed up with a written question, and Mr SUEN's reply goes that the CNTA has a total of 81 Administrative Officers, accounting for 18% of the total number of 455 in the Administrative Officer grade. I recalled the percentage he gave me at the time was less than 10%. While I am not saying that Mr SUEN lied to the Finance Committee in his earlier reply, I think that 81 is certainly an alarming number of Administrative Officers working in the same department. Let me reiterate that I do not query the work of an Administrative Officer. I only feel that they have already done their fair share. And there are departments, as Dr Samuel WONG was saying just now, which have a shortage of staff. I understand that Mr SUEN is now conducting a review and I hope he will seriously consider if there is a need for

so many elite officers to be working in the same department. Maybe some of these officers can be deployed to other government departments.

Mr Deputy President, another manpower issue concerns the appointment of the Supreme Court Judges. The Finance Committee has recently approved funding for the appointment of three Judges because we understood that there were a lot of court cases which had to wait a long time before they could be tried. But I made the point to the Registrar of the Supreme Court at last week's meeting too, that I observed for many weeks the court schedule published in the South China Morning Post of many Judges who had very little work to do on a daily basis, some working possibly for less than 20 minutes each day. He later explained to me in writing that some cases needed longer preparation. But, Mr Deputy President, I have recently heard that the Supreme Court Judges were themselves complaining that they did not have enough cases to do. So where does the problem lie? I hope that the Registrar of the Supreme Court will examine the problem carefully. When he came to us for money, supporting his case with this problem and that, my colleagues voted to let him have the money he wanted. But the problem has now surfaced which he did not inform us about, and this is what causes concern.

Meanwhile, on the issue of police manpower, while there has been talk of a shortage of manpower, I have recently heard a new version of the story. Some police officers told me that it is not necessarily a manpower shortage which we are facing because compared with other countries, Hong Kong is not so worse off in terms of police strength and we could even be better off than some countries in this respect. The problem is that the police force has done a lot of things which should not fall within their duties. More importantly, many officers are stationed in police headquarters leaving the patrol duties to the frontline police constables. The latter have to fight the tough war against gangsters who are not afraid to use live ammunition. If this is true, then it is not surprising at all that the morale of the police is falling. I feel that the problem is very serious. I would very much like to see a working group set up by the Government to look at the issue. Some Members will say that it does not matter what problems the police have, they can always count on this Council giving them the funds they want. I think this kind of promise should not be made so lightly. We as Legislative Councillors have to reconcile competing demands. If we say that to the police, then when other groups come to us (with similar demands), how are we going to deal with them? Of course, we are very much concerned with the police problem, but all problems are in fact inter-related. We cannot say to other disciplined forces that they are not as important as the police, that police officers

are super officers, and that we should allocate all of the funds to them. This is something which we have to handle with extreme care.

Mr Deputy President, the Environmental Protection Department is the next department which I think should be given more funds. I do not wish to speak at length on this. I support the point made by Mr Peter WONG that the Government should do its best to save our deteriorating environment. I support the principle, which I understand the Government is studying, of getting the culprit of pollution to pay for the damage done. I hope the result can be made known to the public soon.

The Office of Members of the Executive and Legislative Councils (OMELCO) is another applicant for more public funds. We all know that the workload of OMELCO has increased tremendously, but I am very surprised that no additional funding has been provided to OMELCO this year. I am pleased that the Government announced at the Finance Committee meeting last week that three new posts will be created. In fact, we all know that OMELCO has to cope with extra workload as a result of the Legislative Council being partially directly elected. If the Government makes life difficult for OMELCO, I think this will raise scepticism as to the extent of support the Government has for the development of representative government. Also, the Government seems to have misgivings about our desire to have an independent OMELCO. I hope the Financial Secretary will give us a clear statement of the Government's position on this issue next week. It is not only a matter of concern for the Councillors, but also for the OMELCO staff as well. This has a bearing on their morale. I hope the Government will take a decision without further hesitation.

Many Members have spoken on the Hospital Authority which suffered from a shortage of funds to start with but has now been over-endowed with funds. As many of my colleagues have pointed out, a lot of funds have been given to it but it seems that there is very little monitoring. In this connection, I fully support the proposal of Mr Peter WONG and Dr LEONG Che-hung for an ad hoc group to be set up by this Council to monitor our massive vote of \$10 billion to the Hospital Authority.

Mr Deputy President, I have mixed feelings about this Budget. I do not wish to play the heroine, in the same manner suggested by Dr LAM Kui-chun. I know that we are here to represent the wishes of the people. The Budget is not all bad, only that it has many problems. I feel the same way as Mrs Elsie TU. It is not my wish to vote no, but there are many amendments I wish the Financial Secretary would make. Therefore, I hope that he will do some serious thinking in the next couple of days.

He should know that many Members of this Council want to support him, but the things the public want him to do, they want them done this year, not next year.

Thank you, Mr Deputy President.

MR LEE WING-TAT (in Cantonese): Mr Deputy President, my speech is in three parts. I will first of all speak on the issue of rates, then I will speak on the housing problem of the general public. Finally, I will respond to the views made in the Council on whether the Appropriation Bill should be voted down.

Mr Deputy President, the Financial Secretary proposes in the new Budget increasing rates from 5.5% to 6% while at the same time abolishing the rates relief scheme which has been effective since April last year. That is a double blow to the man in the street. The Financial Secretary gives the following explanations for rates increase in his Budget Speech:

(i) Rates have never been lower than they are now, amounting to no more than 2% for most households;

(ii) Rates as a proportion of rental values have fallen substantially, from 8% to 4%. This means that rates charges have fallen proportionally to the total costs of accommodation;

(iii) Rates are linked to market rent, which largely reflects the affordability of rate-payers;

(iv) Rates are a steady and reliable source of revenue.

Are these explanations acceptable?

First of all, let us see whether the impact of rates increase on people's livelihood is really as minimal as the Financial Secretary says it is. It is a well-known fact that rent has risen by more than 10 times since the end of the war. Living expenditure of the general public has increased by great margins. For example, in the 1960s, rent accounted for about 10% the household expenditure of the average family; rent and rates together made up no more than 12% of the household expenditure. But today, rent easily costs several thousand dollars and, with rates being set at

5.5%, rates charges are not inconsiderable. The two housing costs have risen to almost 40% of the household income, a percentage which is higher in Hong Kong than in most affluent societies. The Financial Secretary has maintained that rates are relatively lower than before but he has overlooked the fact that rent has risen by a far faster rate than income. In this regard, the inference that rates are actually falling relative to the total housing cost is misleading. In addition, the proposed abolition of rates relief scheme will add to the burden of the people. The property re-evaluation conducted last year has pushed the rateable value of domestic premises up by 65% and that of non-domestic premises up by over 100%. The 0.5% rates increase, when implemented together with the abolition of the rates relief scheme, will effectively raise rates by over 50% for this financial year. People are complaining that, while they can save no more than a hundred dollars or so on account of the increased personal allowance, they have to fork out a few hundred to a thousand dollars more to pay for the new rates. Such is the clever calculation of our Financial Secretary!

Regarding the Financial Secretary's third explanation, we have to bear in mind that housing is a basic need and, quite irrespective of the individual's ability to pay for rates, he has to find a place to live. Even though one may be a tenant or a proprietor, it does not automatically follow that one will have the ability to afford the present rates, let alone the fact that rates are set at a uniform percentage which is applicable to both the rich and the poor. Rates increases may have no impact at all on the rich living in a flat costing a monthly rent of \$30,000 to \$50,000. But to the poor ordinary chap who has to put up with the high rent of a few thousand dollars for a flat, the present rates may already be a tremendous burden. It is indeed disappointing that the Budget Speech has failed to take account of the overall expenditure of the lower and middle classes. I believe that the only explanation which stands is that rates are a steady and reliable source of revenue and that the other three explanations are totally unacceptable. Perhaps the revenue consideration is what has motivated the Financial Secretary to find explanations to justify the rates increases in the first place. He has said on other occasions that rates increases provide a viable alternative to the introduction of sales tax, which is considered inappropriate at this stage. But let me warn him not to play these despicable tactics for otherwise he will have to face the prospect of the proposed rates increases being voted down.

Speaking for the man in the street, the United Democrats of Hong Kong (UDHK) are firmly opposed to the rates increases. We reiterate our demand that the rates relief

scheme should be continued.

I hereby declare my discontent with the steep increase of rates charges for public housing tenants. The Rating and Valuation Department evaluates the rateable value by block assessment. I wonder whether upon the completion of the evaluation the Housing Department will then inform the tenants individually, following the practice applicable to private property. The tenants' right to know what is going on and raise objection will be denied in that scenario. I think the Government should expeditiously remedy the situation.

Mr Deputy President, the housing problem is not unique to the lower class. Indeed, we should also be more concerned with the people who have to pay the exorbitant rent of thousands of dollars for a room and the sandwich class who are not eligible for public housing. The Government has adopted a laissez-faire policy towards the property market over the years; indeed, private property prices have almost doubled in the past two to three years, such that they are far detached from the affordability of most people, including the middle class. An ordinary flat of 400 sq ft on the fringes of an urban area sells for at least \$1.5 million. Given the prevailing 70% mortgage, the home buyer has to have \$450,000 savings ready for the down payment. He cannot hope to buy private property without at least \$550,000 in cash, if we include in the cost stamp duty, legal charges and some interior decoration. According to the annual report of the Rating and Valuation Department published early this year, the problem of vacant premises in the private property market is very serious, with the number of such premises over the past three years being put at anywhere between 20 000 to 30 000. It is an obvious sign that the developers and the large and small speculators are trying to lift up prices artifically or block buying by hoarding in order that they can reap the high profit they desire. Meanwhile, the banks have adopted a positive mortgage policy towards the newly completed flats at the same time as they apply a low mortgage rate to old flats, sometimes not accepting their mortgage at all. This practice will reduce the supply and circulation of private property.

The stamp duty on uncompleted flat buyers will only have a slight impact on property prices. The 70% mortgage rate offered by the banks will not put a stop to speculation. It is the view of the UDHK that a long and short-term solution to the housing problem of the sandwich class should be found through different channels. Although I agree that the Government should give urgent consideration to a housing scheme for the middle class, I also wish that Members and the Government would not use that scheme as a substitute to stop the speculative activities of the developers

and the speculators large and small.

In the long term, the Government should:

- (i) study whether the supply of land is adequate;
- (ii) review the Long Term Housing Strategy; and
- (iii) study the possibility of introducing a capital gains tax on property.

In the short term, the Government should immediately:

- (i) study a housing scheme for the middle class;
- (ii) study the possibility of increasing rates charges on vacant property;
- (iii) encourage the banks to adopt a more positive mortgage policy towards the old premises; and
- (iv) study the possibility of further extending the application of stamp duty.

The review of the housing strategy is a very important aspect of the long-term solution. It is because the the Housing Authority is planning to reduce the annual production target of public housing units, from 48 000 in 1991-92 to 30 000 in 1999-2000. The falling production of public housing units will mean that the supply of housing will decrease with the result that the private property market will not be effectively regulated.

The introduction of a capital gains tax on property is worth considering in that it will not only broaden the tax base but also control speculation.

In the middle to short term, the two priority tasks should be the implementation of a housing scheme for the middle class and the clamp-down on vacant premises in the private property market. The Housing Authority has recently raised the income ceiling of Home Ownership Scheme applicants to \$18,000, but people whose household income is above this limit but less than \$40,000 actually find it impossible, or very difficult, to buy private property. Before setting this limit, we have to study a number of key points, including the objectives of the scheme, method of implementation,

annual housing output and price setting. Mr Stephen CHEONG said yesterday that, taking into account the costs of land production, building and administration, flats sold for the Housing Scheme for the middle class will cost 30% less than the current price on the free market. I would like Members to bear in mind that the pegging of Home Ownership Scheme prices to market value has resulted in the escalation of flat prices beyond the affordability of the residents. We should remember not to push the middle class to the edge in setting the pricing formula under the scheme.

In yesterday's debate on the housing scheme for middle class, it seemed to me that Members were evading the issue of the skyrocketing private property prices brought about by unscrupulous developers and speculators large and small. I hope Members will not let go of the "big tiger", whether intentionally or otherwise.

Regarding the issues of vacant premises and "price lifting" of private properties, the Government should consider combating hoarding by raising rates.

Lastly, I wish to respond to a view expressed by certain Members yesterday on the advisability of voting down the Appropriation Bill. Mr Allen LEE said that voting down the Budget had serious implication and would paralyse the Government. Dr LAM Kui-chun said that if the Appropriation Bill was voted down, then patients would be denied hospital care and medication and the elderly would be denied their welfare allowances. However, Members, including Mr LEE and Dr LAM, will recall that on 8 March, the Council has passed a resolution to appropriate \$39 billion to the Government in advance. We will not paralyse the Government by voting down the Appropriation Bill next Wednesday. It is indeed baffling that Mr LEE should be ignorant of such common knowledge about the working of the Legislative Council bearing in mind that he is the most senior Member among us. It may be the case that the job of an Executive Councillor consists of feigning a critical stance but actually facilitating and cheering on the Government, and that it has nothing to do with fighting consistently for the interests of the middle and lower classes.

The voting down of the Appropriation Bill is the only potent weapon which the Legislative Council may use in its scrutiny of the Budget. Members are aware that the Governor has already ruled out making any amendment to any part of the Budget. The only way of getting the Government to re-consider the Budget co-operatively with the Legislative Council is for us to as a first move vote down the Appropriation Bill. Mr Ronald ARCULLI said that voting down the Bill will not help the middle class, but this view is wrong. It is only by voting down the Bill that the Government will

comprehensively re-consider with the Legislative Council the whole budgetary arrangements, including the fund appropriation and tax revenue aspects. And on the issue of tax revenue, we can renegotiate the tax allowances and the tax bands. By voting no to the Rates Bill only is to give up one's most potent weapon and the opportunity to help the middle class with their overall tax burden.

The Budget has come up against unprecedented criticism and opposition, particularly in the aspects of personal allowance, tax band and rates. After the publication of the Budget, the Co-operative Resources Centre (CRC) initially put up a courageous fight, challenging the Financial Secretary to make amendments. It is unfortunate that they have not been able to persevere in their effort. They may not have made a complete U-turn, but at least they have dragged their feet. Now, many Members are fighting for housing benefits for the middle class on high moral ground, but despite their rhetoric, I am sure when the housing scheme for middle class comes into conflict with the interests of the developers, the speculators and the wealthy class generally, then the same Members who were championing the housing needs of the middle class yesterday will invariably make a U-turn. Alternatively, they may drag their feet, or even become truly paralysed, not knowing what move to make.

I did not get to hear a lot of children's stories as a child. But one story I know is the one about the habitual liar crying wolf. The call for lessening the tax burden of the middle class is crying wolf for the first time. The call for solving the housing problem of the middle class is crying wolf a second time. The self-styled champion of the rights of the middle class who are not prepared to continue their fight to the end should beware, no one will take you seriously when you cry wolf the third time around.

Mr Deputy President, these are my remarks.

MR ERIC LI: Mr Deputy President,

I. Cause for celebration: but party in moderation

If it is not against the Standing Order, I think the Financial Secretary would rather pop a few bottles of champagne today in this Council than "to be tortured" -- to quote I think the Honourable Samuel WONG -- by this very long-winded debate. Besides disproving an accusation that he has not been generous, a Budget surplus that

exceeds even the wildest expectation has certainly given good cause for celebration.

I am, of course, stretching my imagination to think of flowing champagne and heaps of caviar in this Council. For the whole afternoon today and yesterday we have only been reminded of "sandwiches". Perhaps, that is more in keeping with our usual style of prudence and austerity. When public funds are at stake, even a party must be celebrated in moderation.

## II. No right answers: blame it on the Financial Secretary

The serious Budget debate has already gone outside this Council for some three weeks after 4 March. The dazzling manoeuvres performed by some of our new style politicians had probably attracted more media attention than speeches made in here. I cannot help but feel that today we are literally going through the motions of saying "Budget with no right answers, blame it on the Financial Secretary". Quite so, if he is still left in charge. But if it is the "clever lot" among us who succeed in taking over matters, then the full responsibilities become ours!

As a matter of fact, the new Financial Secretary has worked like a charm for Hong Kong. He has wrung in plenty of cash and the prospect of the economy is looking bright. How can anyone be less than pleased with such an impressive result?

### A. Businessmen: seem pleased

The businessmen seem reasonably pleased. They even reward the Financial Secretary by conceding to a 1% increase in profits tax rate. They would even be prepared to shoulder quietly the substantial burden of additional rates levied on commercial and industrial properties.

The business community is clearly a small minority in Hong Kong. But it is the all important sector to always keep in mind. They need constant protection by a conscious policy to maintain the lowest possible tax rate. No matter how powerful politicians may have become, they will never be powerful enough to take over the job of the businessmen. Politicians are simply not apt to create wealth and to pay our wages and bills. The cold reality is that politics which stand at odds with the business community will always succumb after bringing the economy down.

### B. Salaries taxpayers: labourer few

The Hong Kong salaries tax base is notoriously narrow. In this land where many would pry to share in harvest but few would labour, it is particularly important for the Government to justify the need for taxation. No doubt, the hard pressed middle income group is the most deserving group to get a tax break first of all and a more generous raise in personal allowance would make a surplus Budget more palatable. In the light of the windfall surplus, I would generally support a revision of the Budget in that direction.

#### C. International investors: the bystanders

Ironically, in my experience as a professional accountant, the "bystanders", the bankers and creditors are frequently the most serious users of financial accounts. In the case of the Budget, it will be the community of international investors who would take the most objective and critical view.

Hong Kong is at a crossroad. The year 1992-93 is going to be the crucial time for fund raising to finance our ambitious infrastructural projects. It is also likely to be the last Budget before 1997 that the Financial Secretary can deliver smiling to announce yet another surplus. Unlike some advanced economy such as the United States, Hong Kong is not self sufficient. We must still rely heavily on foreign capital and expertise. Before responding to our invitations to tender for capital work projects, international investors will judge us harshly on the basis of our financial track records, level of savings and most important of all, the quality of financial management. No shrewd investor will take an interest to work with a government that is lame in decision-making and jittery in its handling of politicians who have obviously a different sense of priority.

#### D. No right answers: may be the wrong question asked

Depending on one's subjective viewpoints, we all have our own perfect solution to the Budget. The Financial Secretary cannot possibly have the right answers for everyone. However, if we accept as our primary aim to serve the long-term economic interests of the economy as a whole, then there is a right time to do the right thing. The key issues of this debate should no longer be a rush to hand back the few hundred dollars in tax saving to the middle income group; we must first think through more coherently some of the fundamental issues raised by different Councillors, today and yesterday:

(1) Has the Airport Core Programme, in short ACP, adversely affected the funding of other essential social services?

(2) In the light of the first question, are we then overtaxing or underspending?

(3) Can we now plan in greater confidence with a healthy reserve?

### III. Budget: a tool to confidently plan

A Budget is essentially a management planning tool to help deal with future uncertainties. The world economy was beset by uncertainties in the last few years. However, most, if not all, of these external uncertainties have now been resolved.

Internally, the Government has put on a much tighter reign over public expenditure. There is already in place the much publicized austerity drive in the course of the coming three years. The fixed term price contracts would also imply greater certainty of cost control over major capital works. Unless there is still some hidden agenda, for example, civil service pensions, the Government has not been placed in such a favourable position for some time to be able to plan confidently ahead.

### IV. Airport core programme (ACP): separate item in funds

The next step of confident planning is to identify priority areas and to isolate material risk factors. On both scores, the ACP stands out a mile from the rest. Hong Kong is now irrevocably committed to building the new airport and its core programmes. The project is an one-off exercise of extraordinary magnitude. Except for government funding and the requirement for construction workers, the ACP would not really crowd out any scarce local resource. At least in principle, the project is supposed to be managed along commercial lines and would attract new foreign investment capital. It is therefore evident that the nature of the ACP expenditure can be distinguished from other public expenditure and therefore lend itself to separate accounting treatment.

I suggest that the estimated \$120 billion costs of ACP be accounted for as a separate item under Funds. The separate accounting will enable the public to easily relate the size of tax increases, the transfer from Reserves to the need of the appropriation to the Fund for the next five years in the medium-term forecast. It

also facilitates the effective monitoring of the overall progress and potential cost overrun. Last but certainly not least, I think that the costs of ACP ought to be excluded from the trend calculations of total public expenditure against GDP and other guidelines such as "half our capital expenditure must be funded by a surplus on recurrent account".

I have great sympathy for the argument that the ACP should not adversely affect the normal pattern of recurrent public expenditure. Despite numerous accusations that it will, the evidence is actually not clear. The Government has insisted that it can afford both. However, to lump the wildly fluctuating ACP costs in the trend calculations will seriously distort the issues in the eyes of the public. In the short term, it may help the Government to hide its errors in cost control and may even indirectly help the cause of an austerity drive. However, in the long term, when the ACP is completed, say, after 10 years, it would be exceedingly difficult to argue the other way. For example, how can we convince the public to restore expenditure level back to the 16% GDP? The refinement in accounting will help us plan with greater precision and confidence.

#### V. Surplus: are we overtaxing or underspending

My position on the level of taxation is clear. I have stated in the previous motion debate on the overall review of taxation that I do not believe anyone in Hong Kong is being overtaxed. Despite the relatively heavier tax burden levied on the middle income group, they are, on the whole, still better paid and less heavily taxed than their counterparts in many other developed countries.

I implore Members to think of social equalities not in terms of less civic duty but more in the way that we should spend on essential social services. At a time when priority for new public spending is high but not always high enough, we must first think of an increase in essential public expenditure rather than to save tax. I believe that there is room for reviewing the total public expenditure ceiling of 16% of estimated GDP. The rule of thumb was established well before the decision to go ahead with the ACP and there appears to be growing evidence that substantial wealth of the Hong Kong people is now hidden overseas and in the Pearl River Delta. The GDP is rapidly losing its function as an accurate measurement of the real growth in wealth of the Hong Kong people, and consequently their ability to pay tax. Persistent underestimation of the above could lead to a growing gap between the tax collected and the planned expenditure, in other words, greater surpluses. It could also

undermine the overriding principle of allowing public spending to remain in line with real economic growth.

It also seems apparent to me that the business community has been against social engineering. I will not presume that it is their wish to pay more profits tax just to enable another group of taxpayers to pay less. In my personal view, it seems more likely that they are willing to contribute more mainly because of their support for the ACP and for the improvement of other essential services such as law and order, better education for our children, care for the disabled and the elderly.

#### VI. Additional reserves: help plan with commitment

The people of Hong Kong believe that public expenditures nowadays evolve entirely around the ACP. The ACP seems to be the only certainty and everything else will have to wait and see. From the way the Government handles its resource allocation exercise and the apparent difficulties shown by some Policy Secretaries in making firm financial commitments beyond the next 12 months, it is probably not far from the truth.

In this increasingly political era, the Government ought to demonstrate an ability to make firm long-term commitments. Like politicians, Policy Secretaries must be given some assurance that they can eventually deliver. At present, all Policy Secretaries will have to return savings to a central pool and the reallocation of the additional resources will be subject to protracted negotiations. Policy Secretaries are not guaranteed a satisfactory minimum baseline for the next year, let alone in future years. If such a restraint is placed on their heads, how can Policy Secretaries sound committed in policy debates. The hollow tones that ring in their speeches make them easy preys for politicians. They lose more than just personal credibility. It is the collective image of the Government that is at stake.

From the point where I stand, if the Government is unable to plan firmly ahead, we might just as well hold the Motion of Thanks to the Governor's annual address after the Budget debate. However, a positive attitude towards the use of our vast reserve and a greater commitment to forward planning can change the story. I urge the Financial Secretary to openly commit to a minimum of 4.5% real growth on recurrent expenditure for the next three years in each area of essential social services including education, social welfare and law and order. The minimum growth rate should be reviewed each year under a triennial rolling programme. The reserve will act as a buffer in the event that the actual GDP growth falls below 4.5%. The request

is absolutely in line with the confidence and forward planning that the Financial Secretary preaches when he has decided not to adhere to the balanced budget approach on a year to year basis.

VII. Conclusion: do not leave the Government to plan ahead in fear

Even before the Budget speech, I have publicly stated that I would accept a 1% rise in profits tax if the Financial Secretary would give an undertaking not to raise it again in the next three years. I have also suggested a gradual increase of personal allowance over and above inflation rate during the same period of time.

With these provisos in place, I was one of the first among Members of this Council to openly pledge support to the Budget. I did so not because of a desire to perform some great feat to please the Financial Secretary, or for that matter, any other audience. A point that I wish to emphasize is that in the realms of finance and taxation, there is great virtue in certainty and stability of policy. We must not leave the Government to plan ahead in fear. A lot of us would even be prepared to make a small personal sacrifice in the interest of the whole economy.

The people of Hong Kong have now entrusted the Financial Secretary with a lot of their hard earned savings. He has the responsibility to explain in greater detail how he is to use that reserve. The vast reserves can be regarded by us as an insurance premium over and above a balanced budget and it would enable the Government to plan ahead with confidence. The confidence in the Financial Secretary however can be destroyed if he insists on keeping his cards close to his chest and decides to make up his own rules as he plays his hands. I therefore look forward to a frank and committed response from him in his reply next Wednesday.

With these remarks, Mr Deputy President, I support the motion.

MR FRED LI (in Cantonese): Mr Deputy President, I and two other Members of Meeting Point in this Council will speak on different areas covered in the Budget Speech. I will concentrate on the relationship between government expenditure and the Gross Domestic Product, and social welfare spending. Mr TIK Chi-yuen will be speaking on the tax burden of the middle class and public spending on education and medical and

health services. Finally, Mr WONG Wai-yin will give a detailed analysis of the gap between the rich and the poor.

In presenting the Budget for 1992-93 the Government has adopted a more open policy than was the case on previous occasions. It has taken the initiative at an early stage to disseminate data to the media and conduct briefings on the key contents of the Budget. Meeting Point welcomes such sensible move which we believe is in line with the political trend. It is unfortunate, however, that the formulation of the Budget was done in absolute secrecy. I believe that not even the Executive Council, the Governor's closest advisory body was consulted on the Budget. The Executive Councillors were only informed of its contents one day, twenty four hours to be exact, before Members of this Council. It is not surprising then that even the Executive Councillors have found the Budget barely acceptable. But, after all, they will have to accept it.

Before his Budget Speech, the Financial Secretary published an article in which he has indicated that he has forsaken the policy of positive non-intervention. However, in the face of the structural transformation of our economy, demographic changes, slow progress in the upgrading of our technological level, high inflation, uneven distribution of wealth and revenues, and narrow tax base, people are actually hoping that the Financial Secretary will in his maiden Budget Speech lay down a more systematic and forward looking strategy to tackle our problems and to redefine the economic roles of the Hong Kong Government. It is unfortunate indeed that he was only able in his speech moving the second reading of the motion to offer a very simplistic view of the key problems with which we are faced today. He effectively reiterated the free market philosophy which has helped bring prosperity to Hong Kong people. The Government's responsibility was very abstractly described to be one of improving public services and to encourage enterprise and strike a right balance between different kinds of investments by means of a liberal economic policy. There is a lack of consistency between his words and deeds. I believe that the Government has failed to inspire confidence in its economic and fiscal policy among the various sectors of society. We are still not getting any closer to finding a systematic solution to any of the problems which Members said Hong Kong was faced with.

Lately, the Government has been talking about controlling the size of the public sector. On the one hand, the public spending to GDP ratio has to be controlled; on the other hand, balance has to be maintained so that as much reserve as possible can be accumulated. It is on the basis of this philosophy that the recurrent spending

on the various public services has been undergoing retrenchment. Recurrent spending on existing services has to be cut on a yearly basis on the understanding that the cutback percentages over the three years will be in the order of 1%, 2.2% and 2.6%, successively. Strong protest has been aired by both the providers and recipients of the public services who have had to confront unnecessary difficulties. The slashing of welfare spending is a case in point which I will elaborate on in a moment. However, the Government has evidently over-reacted, according to the data contained in the Budget for next financial year. The public spending ratio to GDP for 1991 - 92 has been revised from the projected 20.4% to merely 17.8%. Meanwhile, the Sino-British Airport Memorandum, which many Members have touched upon in their speeches, has originally provided for a minimum reserve of \$25 billion in 1997 to be left to the SAR Government; now we figure the amount has already risen to \$71.6 billion. It is our view that a flexibility should be exercised in the implementation of the retrenchment on key areas so that provision will not lose its flexibility nor will social services be sacrificed as a result. Regarding the size of the public sector, in the affluent American and European societies, the public spending to GDP ratio is in excess of 30% and the ratio is over 20% on average in Asia. The Budget predicts that in the run-up to 1997 public spending will continue to account for under 20% of the GDP so practically, there is no need for the Government to over-react.

As a social worker I like to use the time now to offer my view on welfare spending. I think there is a lot of confusion regarding welfare spending which varied from the estimated figure given in the Budget for next year to the figure which appeared in the interim revision. Different stories are making their rounds with one saying that there will be a rise of 2.8%, and another saying that there will be an increase of over 10%. I like to quote the figure given in the most official reply to date, by the Secretary for the Treasury, Mr YEUNG Kai-yin, which is 3.6%. Welfare spending in real terms for 1992-93 will be up over the previous year 1991-92 by 3.6%. I believe that this, when compared to the commitment made in the White Paper on Social Welfare for an annual increase of 4.5%, is already on the low side. Given the enormous reserve we have achieved this year, there is no reason whatsoever why social welfare spending should be squeezed. It has been effectively cut back to a level lower than that given in some of the guidelines in the "Social Welfare into the 1990s and Beyond" -- published last year.

Many services which have been identified for improvement will not see any amelioration this financial year 1992-93. For example the Government has undertaken to improve the ratio of school social worker to students from 1 to 3 000 to 1 to

2 500, but this improvement is unlikely to materialize in 1992-93, unless extra funds are forthcoming. A total of eight elderly centres cannot open in this year due to the financial constraint. Recently the OMELCO has received petitions (there is another scheduled tomorrow) from organizations which are opposed to the slashing of recurrent spending on youth centres, with each centre sustaining a cutback of \$15,000 to \$21,000. The figure sounds small but to the centres involved, which are running on a monthly budget of slightly over \$1,000, any further reduction will cause extreme hardship. Youth services are of course under review at this point, but even before the review in 1992-93 is conducted, they have already been affected by the retrenchment policy. Even at a time when economic conditions are relatively favourable, social welfare spending has to be controlled like this. When the conditions are less favourable than they are now, social welfare will definitely be the first to fall victim to the expected belt-tightening measures. As a matter of fact, social welfare spending has always been maintained at a very low level, accounting for 6.5% of the total public expenditure. The percentage will fall to 5.9% in 1992-93, and 5.5% in 1993-94. This prompts me to ask whether the prospect of social welfare will be gloomier and our own and indeed the Government's commitment to social welfare will become lesser.

On the question of tax revenue, since many Members have already offered their views from the three perspectives, I do not think it is appropriate to repeat the points they have made, except maybe to quote (which some Members have also done so) an opinion survey commissioned by the media. The survey indicates that 80% of the people are against the proposed raise of the personal allowance to a mere \$46,000. Of this 80%, 70% suggested that the allowance be raised to between \$50,000 and \$60,000. Indeed, the personal allowance proposed by our colleagues of the Co-operative Resources Centre (CRC) has the clear support of 29.1% of the people polled. We, Meeting Point Members, have proposed a personal allowance of \$60,000, which enjoys a close 25.6% support. If CRC and Meeting Point can join forces with the United Democrats of Hong Kong (UDHK) and do some hard bargaining with the threat of voting down the Appropriation Bill, then I have very good reason to believe that the Government will on the basis of such strongly expressed public opinion raise the personal allowance. It is unfortunate that three weeks have elapsed and my dream of collaboration has burst like a bubble.

On the issue of tax band, there is not much I wish to add because I unreservedly support the views expressed by all Members on the plight of the middle income earners, or the sandwich class if I may borrow a term which Mr Eric LI said we have been using

a lot the past couple of days. I am all for widening the tax band; even the proposal of CRC to broaden it from \$20,000 to \$30,000 has my full support.

Regarding next year's Budget, I would like to appeal to the Financial Secretary to give serious consideration to the tax burden of the middle income earners. In his speech later today Mr WONG Wai-yin will speak on the phenomenon that, in terms of revenue from direct tax, the proportional contribution of salaries tax has become increasingly large while that of profits tax has become increasingly small and the fact that this has translated into a particularly heavy tax burden for the middle income group.

On the issue of rates, according to the data from the Rating and Valuation Department, a 2.5% rates increase for next year will mean effectively additional charges by 25% for 5.5% of residential premises and 50.1% of non-residential premises, and additional charges by 73% for office premises on average. These increases will definitely further aggravate inflation. In 1994, barring anything unexpected, a reassessment will be conducted of rateable value; even if in the odd event of a reassessment being conducted in 1993, the raised charges will account for a larger proportion of people's income. Although the Government has repeatedly defended itself by saying that rates were set at as high as 18% in 1976 and that the present 5.6% or 6% is in fact extremely low. But we can see from the figures that revenue from rates has consistently been rather considerable in real terms, be the percentage set at 18%, 17%, 16% or even a low 5.5%. The recurring review of rateable value is the reason for this. As such, the lowering of rates does not have any impact on the actual revenue of the Government. In this connection, I wish the Government would not present the calculation of rates by means of percentages; we should be able to see that rates have been a large source of revenue to the Government coffers.

Since I am giving my speech a bit later than many Members who have already made their responses to the political incident, which in fact has just been mentioned by Mr LEE Wing-tat, I will try to be very brief on this point. As a new Member to the Council, and commenting on the Budget for the first time, I am afraid I will make some redundant points which I hope colleagues will not mind, because these are issues which have been very much on my mind.

If, in order to sustain the credibility of the Government, no amendments may be made to the Budget, no objection may be raised, and no other alternatives but to accept the Government's two postdated-cheque promises, then I cannot but wonder what

credibility and what kind of status do we have as Legislative Councillors in the public's mind. And what of our reliability as elected Members? What are the voters expecting of us? Can we just leave the Budget as it is and let it pass without raising any objection or making any amendment? The Legislative Council has been regarded as an advisory body by the Chinese Government in a rather dismissive manner. This view has been rebutted by the Governor who makes it clear that the Legislative Council is a potent body which has the power to control Government finance and to pass legislation. Obviously, we can now exercise the power of whether or not to vote for the appropriation of funds, whether or not indeed to endorse the Budget. However, we have been asked repeatedly by the Government not to make amendments; we have been told in fact that no amendment or objection is acceptable. Our proposed motion for amendments has been rejected. Is this not a typical example of double standard?

I think Mr MacLEOD is a very responsible Financial Secretary. Since his Budget Speech, he has met twice with Members of this Council and finally made two promises. I think he has done that purely in view of the one weapon which we have, namely, to vote down the Appropriation Bill. If we declared at the outset that we would not resort to this weapon, then we are totally defenceless because we have literally surrendered already. I am reluctant to use this weapon, but recently, in a number of meetings with my constituents (I am not sure if Mr Andrew WONG has done likewise), I made a point of informing them of the pros and cons of voting down the Appropriation Bill, and the crisis which the Government will be faced with if the Appropriation Bill is voted down. But they voiced no objection to my rejection of the Bill and were all for me to exercise my right to cast a dissenting vote. I have to be answerable to my constituents and act as requested.

I agree perfectly that voting is a very serious matter and to cast a dissenting vote has serious consequences. But I will reject the Bill in the hope that amendments can be made to the Budget and in the hope that the Government can give us a positive response on 1 April.

Mr Deputy President, with these remarks, I cannot accept the motion.

PROF FELICE LIEH MAK: Mr Deputy President, the Financial Secretary must be congratulated on a Budget that is both prudent and eminently sensible. I appreciate the pains he has taken in attempting to make the Budget presentation simple and comprehensible while also allowing us to study the proposed expenditure in detail.

Unfortunately for him, this approach also rendered it much easier for all and sundry to pick holes in his Budget and to criticize it. These few weeks must be very difficult ones for him and his team. My department is in fact both willing and able to extend our services should there be any need.

The Financial Secretary went to great length to explain how he would deal with inflation. Despite this, most people doubt whether inflation would be kept to a single digit. It is therefore crucial that he should keep this very serious problem in mind when looking at increases in fees and charges as well as the pay rise for the Civil Service later this year. The business community is generally bullish about economic growth in Hong Kong but the Financial Secretary must take heed of the Honourable Vincent CHENG's warning about the tight labour situation and how it can constrain growth. The Budget surplus of \$14 billion came as a pleasant surprise. However if we discount \$5.6 billion due to underspending resulting from the slippage in the airport core programme, the surplus becomes less impressive. However, when we look at the other surplus which is the \$4.7 billion due to buoyant revenues, this was largely due to the increased confidence in Hong Kong after the signing of the Memorandum which sent the Hang Seng Index soaring and increased revenues from land sales. This demonstrates the importance of the airport and port projects not only as a confidence booster but also as an enormous investment for our future. There is life and there has to be life after 1997. The new airport and its related developments will undoubtedly contribute to the improvement of that life. However, this must not distract us from assuring that it will not have serious cost overruns. On the expenditure side, it is worrying to see a continued growth in government spending at a share of the GDP from 15% in 1987-88 to 18.3% in 1992-93. Let us for a moment take note of what happens in the OECD nations where between the mid-1960s and the early 1980s, total government spending relative to the economy as a whole increased by 50% while the economy experienced a reduction of 60% in the average growth rate. This serves to demonstrate that increased public expenditure can adversely affect capital formation, growth, and the job creation process. It is therefore prudent for the Government to keep a tight control over expenditure. For those who are clamouring for more welfare spending, it may be useful to look at the North American experience. Federal spending on welfare increased from 8.2% to 18.7% of the GNP between 1950 and 1980. Yet the protection provided by the American welfare state against degradation and insecurity is only partial and often even counter-productive. Instead of securing the poor more effectively against misfortune, increased welfare benefits have subsidized personal and social responsibility. To avoid going down the slippery road, welfare spending must be more focused by providing

for those who are not able to help themselves, by improving productivity from our staff, by minimizing areas of overlaps and by encouraging the community not only to look after themselves but also others. The best way, in fact, to help the poor is to provide them with the opportunities to improve themselves through the acquisition of marketable skills and for the children to have better educational opportunities. It is in fact gratifying to see that close to 70% of students in the tertiary institutions are from the lower social class. The Government can certainly do more for education for that is the only passport to upward mobility. However, jobs must be available for those who have been trained or educated.

This can only be achieved by continual expansion of our economy. Yesterday, the Honourable Allen LEE and the Honourable NGAI Siu-kit spoke on the direction to be taken for further growth. Today I shall leave this topic to the Honourable Henry TANG and the Honourable Steven POON. As to matters relating to public security, there is generally support and sympathy for increased funding but these should, by no means, be construed as a blank cheque. In seeking additional funding, the Commissioner of Police and the Secretary for Security will have to put up good reasons for doing so. There are half of the problems that cannot be solved by throwing money at them. There are leadership and management problems that need to be addressed.

I would like to see an early start for the inter-departmental study involving the police, the Security Branch, the Civil Service and the Finance Branch. Furthermore, the police should take steps to focus their priorities and to improve their efficiency. The recent improvements in apprehending armed robbers and smugglers are, in fact, well appreciated and this is in the absence of additional funding.

The Civil Service has become too large. Yesterday both the Honourable Mrs Selina CHOW and the Honourable Mrs Miriam LAU, and today the Honourable Ronald ARCULLI, proposed ways to increase efficiency and to work towards a slimmer and leaner civil service. Suffice it for me to say that it has become conventional wisdom to prefer an imperfect market than an imperfect and large government.

Turning now to revenue matters, I frankly do not see the rationale for lifting the duty on soft drinks and the entertainment tax. This move has no significant effect on inflation and just serves to narrow the tax base. If I may be so bold as to suggest -- and I know it is not possible in the Financial Secretary's way of setting up the Budget and expenditure -- in fact it will be better to keep these sources of

revenue in order to improve provisions for primary and secondary education.

As to the expenditure for health, emphasis should be on health education. In North America, education programmes on healthy lifestyles have already made an impact in reducing heart diseases. A large sum of money was used to fund the Hospital Authority, and I would like to see that we do get a better and more efficient service before more money is poured in. In his whole Budget, the Financial Secretary has not only been unable to provide for the "sandwich class", but in fact has increased their burden through the increase in rates, and later in the year they will also be hit by the increasing fees and charges.

I would like to speak for the colleagues with whom I work, and they include the nurses, the teachers, the technicians, social workers, the occupational therapists and the physiotherapists. These people have the choice of leaving Hong Kong to countries where their skills are welcome, but they have chosen to stay. It is, therefore, time that we should seriously consider their needs.

With these remarks, I support the motion.

MR ALBERT CHAN (in Cantonese): Mr Deputy President, the Financial Secretary's Budget for 1992-93 has been presented to a Legislative Council with Members who have been returned from direct elections for the first time in its history. It is apparent that, as the Financial Secretary was putting together his budgetary plans for the next financial year, he had given thoughts to the demands of certain political organizations. But in terms of the distribution of resources, I have a personal feeling that no departure has been made from the spirit of the traditional colonial fiscal policy, with its emphasis on cost-effectiveness. The present practice is to control the growth of the public sector. It is unfortunate that not enough consideration has been given to the impact of economic policy on people's livelihood and on the different social strata. Meanwhile, the Budget this year has been one which is overshadowed by a mammoth infrastructural development project. Although the Financial Secretary has not highlighted this factor of infrastructural development, it is very clear that the Government is bound by many fiscal constraints in the face of the airport project. The conclusion that resources have to be saved for future infrastructural development and enlargement of the reserve is incontestable to the extent that, despite our windfall surplus of \$14.1 billion, we are still forced to increase taxation and put the squeeze on recurrent funding of

the public sector. Today, I will concentrate on the issue of infrastructural development and equitable distribution of resources. Infrastructural development has significant implication for the future social and economic development of Hong Kong. But the issue has so far been discussed only from the perspectives of political viability and cost effectiveness. Every government project will bring with it both benefit and loss to different sectors of society, let alone the Airport Core Programme (ACP) costing \$98.6 billion at 1991 prices. It is up to the Government to intervene appropriately in the financial arrangement, when and where necessary, to make sure no one sector of society will benefit or lose out excessively in the process. Of course, the best arrangement will be for everyone to benefit, but this is not possible realistically. The Financial Secretary should not in drawing up his Budget have treated the distribution of resources as an exercise in adjusting the various accounts of public expenditure. Social benefits and social costs must be shared equitably. Although the Government has often commissioned consultancies on the study of cost effectiveness, the equitable distribution of resources cannot be engineered by experts. It is something to be resolved through political deliberation and consultation. The irony is that the better part of the spending involved in the commission of the experts and consultants has translated into benefits for the consortia and companies from overseas.

1 An analysis may be made as follows of the gainers and losers in the distribution of resources for building of the physical infrastructure

#### 1.1 Benefits to the multinationals, developers and the building sector

The largest gainers of the airport project are the participating overseas contractors, financiers, developers, the financial sector and the various consultancy firms. The \$500 million new airport transit centre contract has been awarded to a British-led financial group. Indeed, the winner of the invitation for tenders for the Tsing Ma Bridge project is going to be an overseas group. ACP items, including related consultancy services, will become the monopoly of overseas groups due to the high level of scientific and technological know-how involved. It is also estimated that the developers will, as a result of the airport project, also benefit a great deal from the redevelopment of West Kowloon and the development of Lantau Island. Suppliers of building and construction materials will also be able to make considerable profits from the infrastructural engineering contracts.

## 1.2 Critique of the squeeze on the public sector expenditure and social services

Public expenditure will definitely increase substantially with the inception of the infrastructural works. Government reserve for the capital reserve fund this year has seen an over 40% growth over last year. By comparison, growth of individual departments has been controlled within a low 1%, with some departments not benefiting from any growth at all. Meanwhile, there has been further cutback to the funding for government departments, going from 1% in 1992-93 to 2.7% in 1993-94, and further to 2.6% in 1994-95. Recurrent funding on social welfare, education, medical and health services, which has a great bearing on people's livelihood, has recorded modest growths only, by 2.8%, 1.6% and 2.7% respectively. Since these services are mainly for the benefit of the lower middle and sandwich classes, the airport project will have a negative impact on them.

Spending on the airport project accounts for one quarter of the total public expenditure, according to the Budget, but that estimation is only a camouflage of real spending. The Government, apart from financing the airport project from the capital works reserve fund and the capital fund, also pays for the costs of ACP works and related studies as well as administrative costs by saving on the recurrent funding for the various departments. Public sector spending has been cut back on the one hand, and on the other hand resources have to be saved and diverted to infrastructural building. This will have a definite impact on the operation of some departments. Insofar as the Civil Engineering Department is concerned, 90 new posts will be created for 1992-93 for the ACP. Projects which are not related to the ACP, such as a massive sewage treatment plant and some community facilities, have not been able to receive extra government funding.

The Government has this year, at the initial stage of the airport project, felt the need to cut back on the various investment items involving people's livelihood and social investment. I cannot bear to imagine the measures to which the Government would resort to further reduce spending on social services when the airport project is in full swing, particularly between the years 1994 and 1996.

## 1.3 Inflation and foreign labour

The Financial Secretary has put inflation in the next six years at an average 8.5%, but I believe it is an over-optimistic projection. Given the immense scale

of the infrastructural projects, and given the perceived need for these projects which together cost \$98.6 billion to be completed in a short span of time, inflation will definitely be led by the strong demands for manpower, materials and other resources. Some economists have projected that inflation would go up to 15% between the years 1994-96 when the airport project gets into full swing. While inflation will have an impact on people of every social stratum, the lower stratum will have to bear the brunt of inflation because they have neither political nor market leverage. Meanwhile, the Government has plans to import no less than 2 000 foreign skilled and non-skilled workers for the ACP projects. These workers will benefit from their participation in infrastructural building on the one hand, and help suppress local wages and retire our middle to old aged workers, who do not have top productivity, on the other. This scenario is not exactly fair to our middle to old aged workers.

#### 1.4 Intergenerational benefits and the issue of uneven distribution of economic benefits

Infrastructural development is massive public works undertaken for the long term. From the perspective of social costs and benefits, there is a long time gap between investment and dividend. The first runway and other core projects will be completed in five years' time, but the economic benefits of the new airport will be obtained after 1997, perhaps a longer time after. The Sino-British Memorandum of Understanding states that neither side wishes to see infrastructural development become a financial burden to the SAR Government. However, it is extremely unfair too for the people of Hong Kong to be made now to bear the entire cost of infrastructural development. The Government has always made it clear that it has the ability to build the entire airport project, but I believe it is not so much a question of ability as one of advisability. The question is whether it is advisable to wholly finance infrastructural development, with the use of a large portion of the past savings of Hong Kong people, with tax increases and cutbacks on our resources for social services. A fairer way is let both our present population and the future residents of the Hong Kong SAR share the burden over a mutually agreed time span, instead of getting Hong Kong people to bear the entire burden over the next five to six years time. Many large projects normally call for the issue of long-term bonds and external borrowing to pay for their related works. This is a fairer and more just practice. On the other hand, if the Government wishes the public to pay for the cost of the infrastructural development, it should at least release relevant details of economic viability and efficiency assessment of the future airport so that the public, the Legislative Council in particular, may be in a position to study them

and give comment.

## 1.5 Prosperity resulting from infrastructural building and harm done to new Territories South

A Legislative Councillor should of course be concerned with the overall community interest. Being a directly elected Member representing the New Territories South Constituency, I cannot however turn a blind eye to the likely impact of infrastructural development on my constituents. Over half of the 10 ACP projects are located in New Territories South. As an elected Member from New Territories South, I should be glad and proud, but in fact I do not feel that way at all. On the contrary, I worry about the negative impact which the ACP projects will have on my constituency.

First of all, on the environmental side, the ACP will bring considerable damage to the historic relics of New Territories South; historic relics at Chek Lap Kok and Ma Wan have made way for the rapid ACP development, and disappear for good. The building of the Lantau Fixed Crossing will cause great destruction to the ecosystem, particularly to coastal marine life. These environmental losses cannot be compensated for by money. Also, the noise and air pollution which will occur along with development and future use of the airport will also affect residents of New Territories South.

Secondly, property development resulting from the ACP projects in New Territories South will cause further escalation of rent and property prices adding to the hardship of the residents.

Thirdly, there are many problems which remain unsolved in New Territories South. We have over 20 000 squatters who live under the constant threat of landslides. Most of the villages in Tai O are still without electricity and metered water supply. The housing problem of "caged" bedspace lodgers in Tsuen Wan town centre is still unsolved. All of these problems call for urgent solutions.

I believe that the Government should not devote a disproportionate amount of resources to development projects which are conducive to creating a prosperous facade, to the neglect of the interests of the sandwich and lower classes who are made to pay the heavy price.

I would like to make the following proposals to the Government regarding the

direction of development of ACP projects:

(a) The Government should consider the actual economic and financial situation of Hong Kong and, after taking into account the real needs of the sandwich and lower classes, make appropriate adjustments to the schedule of the works planned for the airport project, such that the negative social impact will be minimized.

(b) It is stated in the Sino-British Memorandum of Understanding that no borrowing beyond \$5 billion may be made by the Hong Kong Government. In case the borrowing constraint proves to be too great a difficulty for the Government in terms of exploring different ways of financing the airport project, then it should seek to relax that constraint through negotiation with the Chinese and British Governments.

(c) The Government should make public the financial positions regarding all of the ACP projects instead of seeking to conceal the facts, even from the Legislative Councillors as they vote on the funding arrangements.

I appeal to the Financial Secretary to make appropriate amendments to the Budget after listening to Members' views. Thank you, Mr Deputy President.

REV FUNG CHI-WOOD (in Cantonese): Mr Deputy President, expenditure on environmental protection has surged from 0.8% of total public expenditure in 1987-88 to an estimated 3% in 1992-93, or an increase by more than 300%. This growth rate has no rival among other programme areas. It is laudable of the Government to commit so much to the improvement of the environment but there is still room for improvement. Despite the enormous efforts spent on its treatment, 32% of solid waste in Hong Kong will continue to be disposed of in an environmentally unaccepted manner. Because of financial stringency, our sewage treatment programme has to be put off, meaning that our water quality would not get improved as early as we would like to see. Hong Kong produces more than 120 000 tonnes of chemical waste annually but our first chemical waste disposal plant will not be completed until the end of this year. This explains why 90% of the chemical waste has been indiscriminately dumped, posing a serious health hazard. This plant, in fact, should have been completed at least five years ago. In view of the deteriorating air pollution in Hong Kong, I wonder what has been keeping the Government from taking prompt actions and mapping out a concrete programme to tackle this problem. Hong Kong people have every right to enjoy a better environment

with clean and fresh air. However, to our dismay, the scheduled closure of the Kennedy Town Incinerator in mid-1992 would have to be postponed for a year. On the other hand, the new rates of duties as proposed in this Budget have failed to encourage more drivers to use unleaded petrol. The situation of noise control also leaves much to be desired. Take traffic noise as an example. Noise levels in many busy streets are as high as before. In early 1990, I lodged a complaint with the Environmental Protection Department (EPD) that noise from travelling trains recorded at Hin Keng Estate, Sha Tin, was above the legally acceptable level. In response, a few months later, the EPD requested the Kowloon-Canton Railway Corporation to submit a consultancy report on noise reduction. But now nearly two years have lapsed, the consultancy report has not yet been made public. I wonder how long the residents would continue to be subject to this ordeal.

Mr Deputy President, the overall expenditure on environmental protection in 1992-93 will go up by 27.4% over last year's figures. Unfortunately the expenditures on the mitigation of air pollution and noise pollution will only grow by 6.2% and 7.2% respectively, well below the current inflation rate. In other words, allowing for inflation, expenditures on these two fronts will have a negative growth.

On the other hand, public expenditures on the treatment of solid waste and sewage will rise by about 35% and close to 20% respectively. Though the effects of air pollution and noise pollution are not as readily observable as those of solid waste and sewage, yet their hazards to our health are the same. We should therefore double our efforts in dealing with them rather than treating them differently.

The aforesaid measures are all but passive in nature. As far as positive measures are concerned, Hong Kong is lagging far behind other developed cities. In those cities, collecting and recycling assorted waste are being vigorously pursued; shops now hand out paper bags rather than plastic bags to customers; products made of recycled paper are very popular; leaflets are distributed by the governments to disseminate advice on, inter alia, how to cut down and reuse waste, conserve energy and use safe and non-toxic household appliances; and they also attach great importance to planting trees in and around their cities. Hong Kong, though a modern city, is relatively backward in terms of positive environmental protection. Measures such as building more greenbelts, waste collection and recycling, instilling into people routine knowledge on environmental protection, beefing up the environment protection curricula at the primary and secondary levels, controlling the use of foam plastic products to protect the ozone layer, and encouraging energy conservation all need

to be positively promoted by our Government.

Despite the fact that spending on environmental protection has gone up dramatically during the past few years, it still accounts for only 3% of our total public expenditure. According to the Financial Secretary's forecast, public expenditure on environmental protection will be maintained at 3.3% over the period from 1993-94 to 1996-97. This percentage is far lower than that of many other cities with some of them spending more than 10%. On the other hand, Minister or Secretary of the Environment is an office commonly established in many countries. To set up a ministry or department with special responsibility for environmental matters demonstrates that environmental control is taken seriously and makes sure that other policies will not be pursued at the expense of environmental protection. However, we have only the Secretary for Planning, Environment and Lands who is required to wear three different hats. How can he take good care of these policy areas and the onerous work involved? How can he make up his mind when, say, certain land development runs counter to environment policy? We should apply more resources to and concern ourselves more about environmental protection matters.

I fully understand that environmental protection work requires financial resources. As such, the Government should put into practice the principle of "polluters pay" to generate more revenues as early as practically possible. Now 60% of sewage in Hong Kong is generated by industrial activities and more than half of the waste sent to landfills is construction waste. There is no reason for the taxpayers to foot the bill. Besides, the cost involved is staggering. The sewage strategy proposed, which is designed to treat our sewage, has a price tag of more than \$16 billion. the cost required to construct a landfill would be in excess of \$3 billion. I know that the Government is currently deliberating ways to charge sewage treatment fee and is yet to make known the details. Nor is there any concrete plan with regard to the charging of construction waste disposal fee. In the coming financial year (1992-93), a total of \$446.5 million is earmarked for these two services. This is very unfair to the taxpayers in view of the fact that more than half of the amount will be used to subsidize business operations. I hope that the Administration will come up with the details of the scheme as soon as possible to charge commercial and industrial polluters fee for sewage treatment and solid waste disposal.

Mr Deputy President, these are my remarks.

MR MAN SAI-CHEONG (in Cantonese): Firstly, I would like to comment on the tax burden borne by our middle class. Equity is an important principle in taxation, but inequity is found in our existing salaries taxation system. The lower the income of a family, the higher percentage would be its expenditure on daily necessities in relation to its total income. On the contrary, daily expenditure would constitute a lower percentage of a high-income family. A fair taxation system, thus, should look after the middle and lower income groups by relieving them of the pressure of tax payouts. A middle-income earner of, say, \$20,000 a month would spend a much greater proportion of his income on living necessities than a high-income earner of \$100,000 a month. Nevertheless, under the Financial Secretary's proposals, both are to be taxed at the standard rate of 15%. This is not in line with the principle of equity.

Although it is true that Hong Kong's tax rate as a whole is lower than that of a number of developed countries, our welfare system does not compare favourably with them. The Government has been stressing its low tax rate in its fiscal philosophy; but while the rate is indeed low for high-income earners, the rate is not low for middle-income earners who are neither eligible for public housing nor a number of social welfare services. They have to support their families, purchase their homes; and in the end they have to pay tax at more or less the same rate as that of the high-income earners. A couple of days ago, the Financial Secretary proposed that a new housing scheme be planned for the sandwich class. I wonder if the proposal is a compromising measure in exchange for agreement votes from Members of this Council. The fact is that the sandwich class are being exhausted with their housing problem, in particular young couples who have to rent or purchase a flat for their new family. At present, a four-person family earning \$10,000 a month is ineligible for public housing and obliged to pay tax. The monthly income limit for public housing application is \$9,700. I myself and fellow members of the United Democrats of Hong Kong sincerely hope that the Financial Secretary would announce details of the scheme as soon as possible to provide relief to the sandwich class.

The Financial Secretary's proposal to increase the personal allowance for single persons only by \$5,000 has been widely criticized by almost all Members in this Council. In addition, I wish to point out that, apart from personal allowance, tax band should also be widened without delay. There are now four tax bands striding \$20,000 each, and the tax increases range between 7% and 8% for each band. If the Government maintains the tax rate and widens the tax band from \$20,000 to \$30,000, the tax burden shouldered by some middle-income families would be much reduced. This, of course,

will induce trimming on the public coffers, but before practical measures are implemented to help the sandwich class meet their housing and living needs, the widening of the tax band is a way to provide immediate relief to the sandwich class. This will also create a more equitable taxation system, sparing some middle-income earners from paying tax at the standard rate like those high-income earners. Therefore, both personal allowance and tax band should be adjusted accordingly under this period of high inflation. I hereby urge the Financial Secretary to be ready to accept good advice and to consider widening the tax band.

I would also like to comment on the Government's expenditure on education in Hong Kong. While the other three "dragons" in Asia, namely South Korea, Taiwan and Singapore, have been spending 4% to 5% of their GDP on education as early as the 1970s, Hong Kong's spending in this regard has just reached 3% by now. We are worried if Hong Kong is able to nurture enough talent to cope with its needs for economic development. Such situation has also confined Hong Kong's economic transition to service industry, without achieving the state of high technology. Besides, although the estimated expenditure on education for 1992-93 reached a total of \$11.85 billion, pre-school education was neglected and government subsidy, for long, has not covered this sector. But the fact is that about 90% of those aged three to six are attending nursery schools. This demand reflects that the Government should be committed to pre-school education. The imminent task, at least, is to provide training programmes for pre-school teachers. For the sake of our next generation and to sustain our economic development, I urge the Government to enhance its financial commitment on education and, in particular, not to shirk its responsibility repeatedly in respect of pre-school education.

I earnestly call upon the Government not to cut the spending on cultural, recreational and artistic activities. If we hope our society will brim with creativity, rich leisure activities and better quality of life, such expenditure is not a luxury but a must. For some members of the middle class or sandwich class, what they benefit most from the Government may be these cultural and recreational activities. Nowadays, in the 1990s, many people generally attach much importance to the quality of life and cultural life. Cultural, recreational and artistic activities and sports are no longer extras. Subsidies to arts organization have a direct bearing on their existence and on the overall development of the arts circles in Hong Kong. I trust that we do not want to see that graduates of the Hong Kong Academy for Performing Arts would become unemployed or cannot gear their training to practical use.

Finally, I would like to comment on the cost-effectiveness of the proposed corporatization of Radio Television Hong Kong (RTHK). This time the Budget makes no mention of the economic benefits of the corporatization of RTHK. According to the estimates by the authorities, for the first year after corporatization, there would be savings of \$77 million, or 19% of the total spending for 1990-91. In the subsequent five years, there would be further savings of \$97 million per annum, or 25% of the annual spending. That means for the first five years, we will have savings totalling \$500 million. Therefore, the corporatization of RTHK can reduce the financial burden on the Government. After corporatization, RTHK can model upon the administrative system of BBC in the United Kingdom. It can produce a large number of programmes which serve information, entertainment, as well as educational purposes and maybe these programmes can be sold overseas for the promotion of Hong Kong's culture. The administrative operation of RTHK will be more cost-effective after corporatization so that RTHK can become more efficient, meet the needs of the public more adequately and produce various kinds of programmes more flexibly. At the same time, the morale of the staff of RTHK will be boosted and they will no longer have to face uncertainty about their future. Therefore, on the principle of tapping new revenue sources and cutting back expenditure, I hope that the Government will implement the corporatization of RTHK as scheduled in next April.

Mr Deputy President, a responsible government should be a government which will listen to public opinion, care about people's lives and take actions to improve their livelihood. For the sandwich class, they do not benefit from the economic growth as far as their housing and livelihood are concerned. If the Government still refuses to budge and is unwilling to make any change in tax band in response to the sandwich class's pleas, they, who constitute a majority of our population and have long been neglected "in the tax net", will be greatly disappointed.

MR STEVEN POON (in Cantonese): Mr Deputy President, I have some reservations about a number of items in the Budget. I am particularly disappointed in its failure to raise personal allowance to a higher level and its failure to make any attempt at all to widen the tax band.

Suppose a household of a married couple with two children was making \$200,000 annually in 1987. If their income has kept pace with inflation, then their household income in 1991 should be in the region of \$300,000. The salaries tax rate applicable

to them in 1987 was 10.6% but will reach 13% in 1991. In other words, the Financial Secretary has failed to adjust personal allowance and tax band with inflation thus leading to a situation under which the sandwich class ends up paying a salaries tax which, year after year, has been consistently higher than the prevailing inflation rates. Has the Government been fair to the sandwich class? I hope that the Financial Secretary will accede to the request of Members by further raising personal allowance and widening the tax band.

Mr Deputy President, several of my CRC colleagues have spoken on their concern for the plight of the sandwich class so I will not go into that again. I will focus my comments on the Financial Secretary's principles of financial management.

The Financial Secretary has set out the estimated expenditure in great detail and with clear explanation running into three volumes. A detailed account has been given of the work objectives of each government department and their required funding in the coming year. I appreciate very much the effort made by the Financial Secretary in the preparation of such a comprehensive document for the public.

One drawback of the document, however, is that there is no review of the implementation of the Budget last year, nor indeed is there anything on the extent of deviation from the estimated expenditure. Commitments are made and objectives are set by officials at the start of each financial year, but have these commitments and objectives been materialized? What are the causes of deviations, if they occur? The heads of government departments should offer an explanation in the Budget. I wish the Financial Secretary will give an answer to these questions in his next Budget Speech.

Three principles of financial management have been given in paragraph 37 of the Budget Speech, namely, to ensure that public spending remains in line with economic growth; to raise sufficient revenue to cover spending commitments and to ensure that at least half the costs of capital expenditure is financed by recurrent revenue; and to maintain reserves at the level he judged adequate to provide a cushion against future uncertainties.

I agree with the first principle, that public spending must remain in line with economic growth. However, the estimated expenditure for 1992-93 proposed in the Budget is 25.2% higher than that proposed for 1991-92. Real growth, allowing for inflation, is about 15% which is still much higher than the real GDP growth rate of

5%. Public expenditure is apparently expanding, compared to our economic growth rate. Indeed, the ratio of public expenditure to GDP has risen from 14.6% in 1987-88 to 18.8% in 1992-93. The ratio will, according to the Financial Secretary, continue to rise to 19.5%. I wish to point out here that if we include also the expenditure incurred by the Airport Authority and the Mass Transit Railway Corporation, public expenditure will account for far more than 20% of our GDP. In this regard, I think the Financial Secretary should have the determination to curb more effectively our public expenditure in keeping with the principle of aligning public expenditure with economic growth.

The second point, that at least half the costs of capital expenditure is financed by recurrent revenue, is a rather loose principle. "At least half" may be interpreted as anything between half and the total amount; that margin is too large for the principle to be taken seriously. The Budget states that over the next few years more than 70% of the non-recurrent expenditure will have to be met by recurrent revenue. This is an indication that the future physical infrastructure projects will be mostly paid for by taxpayers and the percentage is at any rate over half of the recurrent revenue. Indeed, apart from recurrent revenue, capital expenditure may also be met by borrowing and our reserved fund. I suggest that a clear upper limit to the percentage of non-recurrent expenditure to be met by recurrent revenue should be set by the Financial Secretary so that the shortfall may be paid for by raising funds and our reserves. This will forestall the scenario of Hong Kong people having to bear an excessive tax burden on account of infrastructural development.

The Financial Secretary's third principle of financial management is that reserves must be maintained at a level which he judges adequate. I basically agree that we should put aside sufficient reserves, and I also agree that the reserves level over the next five years should be considered in terms of a mid-term forecast. But the problem is at what level the reserves will then be considered sufficient. The Financial Secretary should give an explanation regarding this point. The Budget projects a reserve of \$71.6 billion by the end of March 1997, which is almost three times the \$25 billion prescribed by the Sino-British Memorandum of Understanding on the new airport project. Is that figure far more than sufficient? Is it justified for the Government to build our reserves up to such a high level through tax and rates increases?

I wish to say here that the mid-term forecasts in the past Budgets have very little credibility in that they seriously underestimated the accumulation of reserves. The

Budget of 1987 predicted a reserve of \$36 billion by March, 1990, but it turned out to be \$72.6 billion, more than double what was predicted. The Budget of 1988 predicted a reserve of \$50.9 billion by March 1992, but that figure has now been revised by the Financial Secretary to \$92.8 billion, which exceeds the original forecast by 82%. If the past deviations are anything to go by, then the actual reserves by 1997 may reach a staggering \$150 billion. According to the Parkinson Law, expenditure will rise with revenue. I hope that the Financial Secretary will not raise taxes because a sufficient level of reserves must be maintained, while allowing public expenditure to continue to expand on the ground that our reserves have been increased.

As to the control of the costs of the airport and related projects, the Financial Secretary has proposed some measures such as a "fixed price lump sum contract and cash limited provision." But there is no mention in the Budget of how the design might be controlled, what measures are in place to prevent the scale of the projects from exceeding actual need, and how the stringent international standards are to be observed in terms of tender selection. We are in fact not only concerned about the amount of public funding going to the Airport Authority and the Mass Transit Railway Corporation (MTRC), but also about cost control over the overall Airport Core Programme (ACP). For the public are not only asked to pay for the funding of the Airport Authority and the MTRC, but they will eventually end up having to pay for the total cost of construction works including interest, during the operational phase. I hope that the Financial Secretary will give a more specific account of effective measures to control the costs of ACP projects.

Hong Kong will revert to Chinese sovereignty in five years. The Government has the financial responsibility of completing on time a new airport which is as functional as it is cost-effective. And what must be left to the Special Administrative Region Government must be a healthy economy with low taxation. In order for this to happen, the Financial Secretary must come up with a set of clear and practicable principles of financial management and at the same time, map out clear fiscal policy directions. I am disappointed that the Financial Secretary has apparently not been able to achieve this.

Mr Deputy President, although some of my CRC colleagues and myself are not happy with certain parts of the Budget and will exercise our right to vote against individual tax proposals, but we will vote for the Appropriation Bill as a whole. I attended a luncheon meeting of a certain organization today. Before giving my speech, I made a point of asking members of that organization if they wanted me to vote down the

Budget, but I found that none of them did. In that regard, I cannot cast a dissenting vote for political reason. Voting down an Appropriation Bill is a very serious matter; it effectively means a vote of no confidence and demands a change of government. Take the Basic Law as an example. If the Legislative Council refuses to pass the Budget presented by the Government, then the Chief Executive will have to dissolve the Legislative Council. It is as serious as that. If the Budget is vetoed, then the operation of the Government will be partially paralysed, with serious social repercussions. More seriously still, overseas confidence in Hong Kong will be seriously damaged as investors become hesitant. And Hong Kong will have difficulty in raising funds for the new airport project. CRC Members, like any other Hong Kong person, are entirely devoted to Hong Kong. Our devotion constitutes a stabilizing force. We will use our veto power very discreetly and responsibly. We do not think that voting down the Appropriation Bill will bring any benefit to the stability and prosperity of Hong Kong. Although I reserve my right to vote against individual tax proposals, I hereby appeal to all Members to put aside political differences and, in keeping with the spirit of co-operation and for the sake of the overall interest of Hong Kong, vote for the passage of the Appropriation Bill.

MR HENRY TANG (in Cantonese): Mr Deputy President, first of all, I must thank my 44 colleagues in this Council for signing their names in support of the joint letter initiated by Mr LAU Chin-shek and myself, asking the Financial Secretary to reconsider and further increase salaries tax allowances and widen tax bands.

That letter says precisely what is on the minds of the majority of the Members, that is, the Budget fails to take the interests of the middle and lower income groups into consideration. This, we think, is why we have succeeded in such a short time in winning the support of so many colleagues by adding their signatures to it, including the four who are also Members of the Executive Council. Today and yesterday, I heard many colleagues, both signatories and non-signatories, reiterate their concerns about the tax burden on the middle and lower income groups. I feel that they did care and were not playing "political games" as alleged by some critics.

After the signatures were collected, the Governor asked Members of the Executive Council to refrain from openly criticizing the Budget. I think that this only exposed his conservative attitude of not accepting public opinion. It is no more than an ostrich policy. The pity is that the Governor this time treated everybody alike by rejecting the different motions for amendment moved by the United Democrats of Hong

Kong, Meeting Point as well as the Co-operative Resources Centre (CRC).

I have yet one personal reason for teaming up with Mr LAU Chin-shek. I want to send a signal to the public that, though the management side and the staff side often quarrel over matters involving their different interests, the relations between them have in fact always been good. This is the pre-condition for Hong Kong's success, and I hope that this cordial relationship will be sustained.

As to the Budget, I am not happy with some of the proposals of the Appropriation Bill. Yet, neither I nor the CRC has ever asked the Financial Secretary to revise those proposals. Our stance has always been clearly defined.

Regrettably, some recent press reports have implied or pointed an accusing finger at us by stating that, in supporting the Budget, we "failed to hold fast to our original position" or that we had "backpedaled." I think that these are not fair criticisms. I am therefore prepared to elucidate here yet once more what is meant by "Budget."

The Budget is composed of two parts: "expenditure" and "revenue." The "expenditure" part is dealt with by the Appropriation Bill which has to do with spending by all government departments. That Bill will be presented to the Legislative Council next Wednesday for its second and third readings.

I will support the Bill.

But this does not mean that I fully support the Budget in its entirety. I am asking the Government to revise the "revenue" part which is to be presented in a "piece-meal" fashion. This part is covered by the Dutiable commodities (Amendment) Bill 1992, the Inland Revenue (Amendment) (No. 3) Bill 1992, the Stamp Duty (Amendment) (No. 4) Bill 1992 and the Entertainments Tax (Amendment) Bill 1992. Starting from 8 April, these bills will be presented successively to the Legislative Council for their first reading. I hope that we will not mix up bills with revenue proposals with those with expenditure proposals. They are functionally two different types of bills.

The Financial Secretary has repeatedly said that the Budget must be treated as a package which cannot be separately revised. Still, I hope that he will heed the opinions of the joint signatories and wisely take the initiative to accept a reduction of the tax burden for the middle and lower income groups. This will avert a

confrontation between this Council and the Administration and show the Government's open attitude and democratic spirit to the general public.

Generally speaking, the present Budget is not too bad. At least, credit where credit's due, it is exhilarating to note that a substantial surplus of \$14.1 billion has been achieved in the last financial year and the present Budget lays down a plan for accumulating a \$71.6 billion reserve by 1997. It is nothing wrong for pursuing the goal of smooth transition by saving against a rainy day and store up grain against famine.

However, while the surplus, which is the envy of other countries, is derived from the people, the Government just fails to realize that "what is obtained from the people should be spent on the people." As a result, even when the economy is booming, the public cannot enjoy a fair share of the prosperity. This really does not make sense. It is regretted to see such an over-prudent and conservative fiscal philosophy, though so good at tapping new revenue sources and cutting expenditure, fails to put resources to good use.

Trained manpower has always been Hong Kong's only resource. Trained manpower can be obtained only under a sound education system. I am a member of the University and Polytechnic Grant Committee. I always support the Government's effort to step up the expansion of post-secondary education in keeping with the transformation of our socio-economic structure.

However, we have to ensure a well-balanced education development. Active expansion of tertiary education does not mean that we can afford to ignore the need to improve the quality of basic education. In fact, the University and Polytechnic Grant Committee has all along been paying close attention to the problem of our students' declining academic quality. Particularly noteworthy is the fact that, in 1994, 84% of all Form VII students will be provided with places in bachelor degree courses. What will the quality of students be like at that time? The key to answering this question of course lies in the laying of solid foundations at primary and secondary levels.

However, after taking inflation into consideration, the funding for basic education will record negative growth. To save money, the Government has plan to add two school places to each secondary school class. This measure, which deviates from the principle of raising the quality of basic education, would certainly dampen

the teaching profession's morale.

Yesterday, I heard the announcement that, at the Form IV level, the number of classes need not be cut and the size of each class need not be increased. This is a good change. I hope that the Education and Manpower Branch will continue to work with the Financial Secretary to increase funding for secondary and primary education.

I also wish to propose that the Government give consideration to letting the Education Department from now on make discretionary use of all the resources that are saved from education spending, without having to turn them over to the Central Government so that the resources may flexibly be used to make up for inadequacies of education where they are found, in the same way that resources are allocated to the universities and the polytechnics. I hope that the Government will give serious consideration to this idea.

Besides education, industrial development is also a source of wealth creation. Despite the fact that Hong Kong's economic structure is undergoing transformation, I still think that we should not rely too much on the service industry. Hong Kong still cannot afford to slacken in its efforts to develop its manufacturing industry and to strive for diversification. Our high-tech industries must break fresh ground in order to catch up with the other three "little dragons". Failing this, I am afraid we will be eliminated sooner or later.

The Government has said time and again that it attaches great importance to high-tech development. It has set up an Industry and Technology Development Council and allocated \$200 million to the Council to finance a research and development project of four or five years. Two hundred million dollars in funding sounds a lot. In fact, however, it amounts to only 0.0007% of our gross domestic product (GDP). Compared with the average 2% in the other three "little dragons", our figure is simply peanuts. It is certainly inadequate. Still, it is better than nothing and is a good beginning.

The Government is not doing too badly in funding trade development and in engaging lobbyists to hold out foreign protectionist forces. But of course there is room for improvement.

For instance, in the Uruguay round of the General Agreement on Tariffs and Trade (GATT) talks, it is proposed that Hong Kong's global textile and garment quotas should

be phased out in ten years. It is not a realistic proposal. I would like to urge the Government to continue its aggressive lobbying effort to obtain better bargaining chips for Hong Kong's industry, commerce and trade.

The present Budget looks solid and well-balanced and appears on the surface to be quite good, as it provides for increases and decreases of taxes. However, the increases are real while the decreases are merely symbolic. I feel that the Budget robs the rich but does not pay the people.

Whom will the Budget benefit the most? As Mr Ronald ARCULLI has said just now, the best thing one should do is to buy some stocks in the the stock market in the morning and then in the afternoon take a franchised bus (not a taxi) to go to a cinema where one may consume a few bottles of soft drink.

Yesterday and today, much has been talked about the tax burden on the "sandwich class" by my colleagues from the CRC and I am not going to repeat their views here.

Still, how much will the Government lose if the tax band is widened to \$30,000? It will lose \$2.7 billion next year. That seems to be a lot. However, if the Government agrees to sell the site upon which the Colvin House now stands next year, the proceeds from the sale will be sufficient to offset over a number of years its revenue losses due to the widening of the tax band.

Finally, I must say that, although I am not strongly opposed to the increase of 1% in profits tax rate, this does not mean that I am in favour of the profits tax increase.

If the Government were operating in the red, I believe that business people would not mind making a greater contribution. However, now the tax increase is introduced despite a huge \$14.1 billion surplus and one wonders if the tax increase is necessary. Generally speaking, tax increase is necessary when there is a need to do so. Increasing tax just because we can afford an increase is not consistent with general taxation principles. If tax is to be increased in good times, does it mean that one must prepare for an increase in a frenzied manner when our economy runs into difficulties?

The tax rate in Hong Kong has always been stable and simple. Varying it all the time will do more harm than good to the overall environment for investment. I wish

to appeal to the Financial Secretary to think carefully before further increasing tax or introducing a new tax.

Mr Deputy President, these are my remarks.

MR TIK CHI-YUEN (in Cantonese): Mr Deputy President, I once again thank the Financial Secretary for staying to listen to Members' speeches.

From between the lines of the 1992/93 budget, I sense that the Financial Secretary tried to please all parties. In the concluding part of the Budget, he declared that there is a real increase in social services spending and that he will continue his effort to help the general public. He made this point with the directly elected Members in mind. Next, to the business circles, he reassured them that there will be no radical change of the present financial policy or tax system. Then, to the destitute, he indicated that there will be a safety net for those who have difficulties in looking after themselves. Besides, he guaranteed that spending will continue to be commensurate with revenue and that there will be an ample surplus going into the reserve. It seems that the last point is intended to satisfy a requirement of the Basic Law or of China. Regrettably, the above declaration, assurance and guarantee have failed to convince all parties to accept the Financial Secretary's first Budget wholeheartedly. On the contrary, many citizens, political parties, businessmen, industrialists and interest groups have expressed strong dissatisfaction. For the Financial Secretary, this is indeed a case of "things turning out contrary to one's wishes," and the main cause of which, in my opinion, is due to the Government's budget-making process, which is a very closed process. Both the general public and Members of this Council were denied a chance to play a part in the process. The Government therefore failed to have a real grasp of the people's needs. Also, after the Budget was put forward, the Government, for the sake of face saving and maintaining the authority of rule, turned a deaf ear to the reasonable suggestions of the public nor accepted Members' motions for amendment. There is simply no room for negotiation. How can this convince people and win their hearts? It is hoped that this lesson of "things turning out contrary to one's wishes" will help the Government to come round to the fact that the prevalent political environment requires the Government to be more transparent and more open. From now on, the Government should try harder to heed and accept the views of the public.

With regard to the substance of the Budget, I will focus my comments on three

aspects: the tax burden on middle income group, education spending and medical services spending.

(I) Tax burden on middle income group

The present tax system is extremely unfair to the middle income group or the sandwich class. According to the Budget, taking into account the implementation of the 1992/93 tax proposals, salaried persons earning between \$120,000 and \$600,000 per annum (that is, between \$10,000 and \$50,000 per month) will make up 35.2% of all salaries tax payers, but the tax they pay will account for 64.8% of all the salaries tax. On the other hand, if a single person not eligible for dependent parent allowance earns a salary in excess of \$200,000 a year, he will have to pay tax at the standard rate of 15%. From this example, it is clear that the present tax system imposes a heavy burden on, and is extremely unfair to, the middle income group.

In his 20 March statement appealing to Legislative Councillors to support his Budget, the Financial Secretary expressed his concern about the housing problem of the "sandwich class" and indicated that he will consider ameliorating personal allowance and tax bands in the 1993/94 financial year, so as to lighten the tax burden for the lower and middle income groups. Given that the Financial Secretary has conceded that the lower and middle income groups are bearing a heavy tax burden, why does he not solve the problem this year when the financial situation is good? The solution is to raise the allowance and widen the tax band. These are what the majority of the Members are demanding. Why must we wait until next year to do such a good thing?

Concerning the tax issue, Meeting Point has a three-point suggestion to make:

(1) Raise personal allowance to \$60,000 or more, thus lessening the tax burden on the lower and middle income groups.

(2) Widen tax band, changing the spread of each band from \$20,000 to \$30,000.

(3) Set up a broadly based committee to conduct a full-ranging review of the present tax system.

(II) Education spending

Many educational groups have commented on education spending. They are strongly opposed to the Government's curtailment of spending on basic education. However, the Government insists that the 1992/93 Budget has increased spending on education as a whole to the tune of 1.5% over the revised Budget last year, amounting to more than \$11.85 billion and made no cuts on basic education spending. Therefore, in Government's opinion, it is a misconception that education spending is to be slashed. Admittedly, the Government will slightly increase its funding for education. However, if inflation is taken into account, the real increase is negative. In other words, the increase in education spending fails to catch up with inflation. Also, it may be found that the unit cost of secondary and primary education has declined steadily and will be so over the years from 1990 to 1994. We think that it is a hard fact that the Government is reducing funding for basic education.

Also, with regard to education spending, I wish to reiterate the importance of linking up basic education with post-secondary education. Over the next three years, the places available in tertiary institutions will increase by 18%. Meeting Point is of the view that a mere expansion of tertiary education is not a satisfactory development of education. We all know that it is of utmost importance for the students to be provided with a good secondary and primary education before receiving post-secondary education. They must lay a sound foundation before they go on to receive specialized or professional training. In budgeting funds for education, it is unfortunate that the Government gives separate consideration to post-secondary education and basic education. For the year of 1992/93, while tertiary education spending will increase by more than 18%, funding for secondary and primary education is going to lag behind inflation. That is to say, there will not be sufficient resources to enable basic education to keep pace with development of post-secondary education. This top-heavy situation will not be a healthy development. Our hope is to train large numbers of talents to meet the needs of the community, but this target is likely to be achieved only at the expense of quality.

With regard to post-secondary education, I wish to make one additional point. The Government gives a sum to the University and Polytechnic Grants Committee as the funds for tertiary education. As the funds are public money, the Government has the duty to make sure that public spending in this direction will be made in the interest of the community and that the resources will be put to effective use. Meeting Point thinks that the Government is lack of supervision over the financial operations of the University and Polytechnic Grants Committee. We suggest that the Government establish a mechanism to enhance its supervisory role.

The Education Department has decided to add two places to each class at the Primary I and Secondary I levels with effect from 1992. This measure will reduce public expenditure by eliminating 62 primary school classes and more than 80 secondary school classes. I wish to remind the Education Department that most new towns are experiencing a shortage of secondary and primary school places. Take my constituency for instance. In Tai Po and North District, there is a shortage of nearly 1 000 Secondary I school places in 1992. We are going to lodge a strong protest if there is further reduction of classes in these districts. We hope that the Education Department will not overlook the needs of the new towns.

With regard to education spending, Meeting Point has a six-point suggestion to make:

(1) Increase funding for basic education in keeping with the development of post-secondary education.

(2) Allocate more resources for implementing the recommendations of the Education Commission Report No. 4, such as setting up a curriculum development council and improving special education.

(3) Ensure reserves for implementing the recommendations of the Education Commission Report No. 5.

(4) Create Graduate Master posts in primary schools and increase the proportion of Graduate Masters in secondary schools.

(5) Step up the Government's reasonable supervision over the financial operations of the University and Polytechnic Grants Committee.

(6) We are strongly opposed to the Education Department for its reduction of secondary and primary school classes in new towns.

### (III) Medical services spending

The Budget shows that the Government is going to allocate over \$10 billion to

the Hospital Authority for carrying out various hospital services. Ten billion dollars is not a small sum. It represents a 27% increase over last year's funding for hospital services. However, if we carefully analyse the detailed distribution of the amount, we will find that 80% of it goes to salaries and fringe benefits, while the resources to be used for actually improving hospital services, such as medicine, equipment and therapeutic technology, will not be as sufficient as one would like to see. Only \$150 million, or 1.5% of the total medical services spending, will be spent on new items under planning. It is thus clear to us that not much resources will be used for improving the existing hospital services, as most of the money will be spent on paying staff salaries and benefits. We can only pin our hope on the hospital employees, after their salaries and benefits are improved, to provide better services for the good of the patients.

It is the current practice of the Government to give a sum to the Hospital Authority as its funds. Members of this Council have been provided with very limited information concerning this money allocation. Relevant information contained in the Budget is but a few words. One wonders what criteria are applied with regard to the allocation. Meeting Point's three Members in this Council think that, with such a very low degree of transparency, it is difficult for us to judge whether the money will be spent appropriately. We think that it is incumbent on the Government to provide further information to this Council, clarifying what criteria it uses in allocating funds to the Hospital Authority. Meeting Point would like to suggest that the Government lay down criteria for evaluating the performance and efficiency of all non-departmental public bodies including the Hospital Authority, so that there may be a basis for the allocation of funds and the supervision of financial operations.

According to this year's Budget, the spending on public health services will merely increase by 2.1%. This meagre increase is far less than the inflation rate. In the part on medical services, the Government expresses the hope to improve people's health so that the demand for hospitalization will decline. However, the Government fails to provide adequate resources for attaining such a goal. We think that the Government must lay out more resources for implementing the recommendation of the report on primary health care service, such as improving out-patient services, dental care and the keeping of patients' records.

As to medical services spending, Meeting Point has a four-point suggestion to make:

(1) The Hospital Authority should increase its degree of transparency and accountability and provide more explanations to the public concerning how resources are used.

(2) The Government should lay down a set of criteria for performance and efficiency evaluation and should supervise the financial management of the Hospital Authority.

(3) Provide additional resources for carrying out the recommendations of the report on primary health care service.

(4) Speed up the construction of hospitals and the provision of other medical services in medically backward areas, such as New Territories North, to satisfy the needs of the public.

Mr Deputy President, these are my remarks.

MR JAMES TO (in Cantonese): Mr Deputy President, since its publication, the Budget has met with strong public response. Grassroots organizations and businessmen alike have expressed their wishes concerning the Budget. The United Democrats of Hong Kong (UDHK) have held extensive consultations with the public to find out their views about the budget proposals. We have also met with the Governor and the Financial Secretary in the hope of conveying to them the feelings of the people.

Take my geographical constituency, Kowloon West, as an example. Most of the residents there are of the working class or the middle income group. Where their jobs are concerned, people of the working class have fallen into the plight of being under-employed as a result of the large-scale importation of foreign workers. Where social welfare is concerned, the Government's gradual privatization of certain departments, such as medical services, has driven up the cost of living, making it impossible for them to have an early improvement to their quality of life. Where housing is concerned, the earnings of the middle income group are lagging far behind the runaway prices of flats presenting great difficulty for one to realize one's wish to own a home. Even those living in public housing are under pressure from rising rents and rates. And now, one will be caught in the tax net when his or her annual salary reaches \$46,000. Under these stresses of life, I wonder what roles the tax

system plays in bringing about fairness and in narrowing the gap between the rich and the poor.

From the sociological point of view, when a certain group of people in society are cornered, they will resort to a sudden force of resistance that may be socially devastating. In this connection, I have talked to some police officials. They all think that, if people are driven to desperation and left with no other recourse, they will "embark on a dangerous course." I am very much concerned and worried about this.

At the same time, I understand that the Government is economically under pressure to leave an ample reserve to the government of the Special Administrative Region (SAR) and to finance the colossal airport project. This is why I plan, during the debate today, to focus my speech particularly on the loopholes in the tax system, that is, tax evasion and tax avoidance, which have thwarted the Government's efforts to collect tax. A paper presented by Commissioner of Inland Revenue, Mr Anthony AU YEUNG to the Legislative Council's Standing Panel on Finance, Taxation and Monetary Affairs shows that, last year, between \$300 million and \$400 million in tax money was recovered by the Inland Revenue Department from more than 500 tax evasion cases during investigation. This highlights how urgent it is to plug the loopholes of the tax system.

First of all, I wish to point out that Hong Kong's civic education is quite deficient in encouraging citizens to discharge one of their obligations, which is to pay tax. This is why some people, particularly small merchants, think that their earnings from business or employment are the fruit of their own labour and have nothing to do with the Government. The worse is some people even mistakenly think that they can complete their tax returns just as they like and will not be held responsible. I hope that the departments concerned will pay closer attention to such misconceived ideas and step up civic education to enhance citizens' awareness.

## Tax evasion

Business practices in Hong Kong have undergone many changes over the years. Our China trade is booming. Is our Inland Revenue Ordinance able to cope with the changing times? Expenses incurred in China by Hong Kong businessmen who operate in both China and Hong Kong would directly affect the cost of operation of their Hong Kong companies. People familiar with China trade have told me, "It is very easy to secure blank receipts." I would like to ask the Inland Revenue Department: Is the

Department aware of this malpractice? What initiatives have been taken for plugging the loophole?

China trade is but one factor contributory to the transformation of our economy. Setting up production lines in China is also very common. It is generally known as "off-shore manufacturing."

Hong Kong's tax system has all along encouraged business development. Profits not derived from Hong Kong are not liable to be taxed. It is precisely such a principle that enables unscrupulous entrepreneurs to avoid tax. Some friends in the accounting profession have told me that manufacturers are often able to obtain receipts as evidence of operational expenses that are higher than the actual operational expenses with a view to artificially reducing the amount of their Hong Kong-derived profits. As such, the tax due from them is greatly reduced, causing loss to the Government in tax revenue.

For off-shore trading and manufacturing operations, tax avoidance takes many forms. Those mentioned above, I am afraid, are just the tip of the iceberg. I have reason to believe that Inland Revenue Department is much more informed about such things than I am. I wonder why it has yet to find any means to outlaw such tax evasion. Is the Department at its wits' end because the present tax system has fallen behind times, or is it refraining from taking action as a matter of policy? I hope that the Commissioner of Inland Revenue will give me a response.

I would like to focus attention on another kind of tax evasion which can be found in those businesses involving instant payments in cash. For instant payments in cash, either no receipts would be issued or receipts that are issued can be easily tampered with to show smaller amounts than actually received. This makes auditing extremely difficult, neither is it easy for due tax to be collected.

To curb such tax evasion, the Inland Revenue Department has implemented a "field audit" system under which officials from the department can gain direct access to the financial records of tax-payers and require them to answer questions. I believe that "field audit" is an effective way of dealing with businesses which involve instant payments in cash. I hope that the Inland Revenue Department will deploy its resources in such a way as to beef up the implementation of "field audit" to reduce tax evasion.

I pin enormous hope on the "field audit" system. However, upon closer examination of the system, I am surprised to find that "field audit" is carried out on an appointment basis and not on an unannounced visit basis. Would this not give the relevant taxpayers the time to make such preparations that the effectiveness of the field audit would be undermined?

Apart from the two major areas mentioned above, attention should also be paid to the flow of emigration. The Commissioner of Inland Revenue is of the view that the Government's revenue loss due to emigration would not pose a serious problem in 1991-92. Yet information available shows that, as 1997 draws near, large numbers of Hong Kong people may emigrate. I hope that the authorities will keep a close watch on how the public revenue is affected in this area.

### Tax avoidance

When I was preparing the tax avoidance part of my speech, many people reminded me that ordinances to prevent tax avoidance should not be like a sword of Damocles over the heads of the businessmen because this would hamper Hong Kong's economic development. I must make it clear here that the United Democrats of Hong Kong and myself are not against big businessmen or tycoons. We believe that a society is composed of various classes of people, each with its own room for reasonable existence and development. We are not calling for class struggle. What we oppose is an unjust social system that shows no due respect to human dignity. I have no intention whatsoever to upset Hong Kong's economic development. I merely wish to point out that the revenue loss stemmed from tax avoidance by big businessmen and tycoons often must be borne by the general public. This is unfair. I strongly appeal to the entrepreneurs to follow their conscience. All must do their individual best to make the territory a better and more harmonious place to live.

So, as far as tax avoidance is concerned, I wish to draw the businessmen's attention to the fact that the Government does have a sword that is to be used to curb tax avoidance.

Hong Kong's profits tax rate is among the lowest in the world. In his Budget, the Financial Secretary proposes to raise it by one percentage point. This proposal has met with criticism from the business circles, who say that it will deal a blow to investors' confidence. I have on hand a list of the 33 companies whose stocks make up the Hang Seng Index. Most of them are among Hong Kong's largest companies.

A rough computation shows that these 33 companies in 1989, 1990 and 1991 paid profits taxes at the rate of only about 10% of their earnings, which is far lower than the official rate of 16.5%. I understand that some of their earnings were group earnings derived from "off-shore operations" and, as such, were not taxable. Still, our figures show that, in 1989, the profits tax paid by some companies was at a rate as low as 5.1% and in 1990 the rate was even lower at 1.4% in the case of some companies. We cannot afford to ignore such a problem. Business people use different ways to evade tax. Together, each year they avoid billions of dollars of tax. Besides, their books do not show revenues from off-shore operations, in which they have an interest.

Audit rules and guidelines can play a very important part in tackling tax avoidance. However, some friends in the accounting profession have told me that it is often possible for particulars in a company's books to escape notice. Take a pen with a cost of \$1.40 as an example. The breakdown may go like this: 20 cents for designing fee, 20 cents for market research fee and one dollar for material. If it is sold for \$2, the profit is 60 cents. However, in the book, it can be entered simply that the manufacturing cost is \$1.40. And the Inland Revenue Department will not ask for the breakdown. Thus, arrangements could be easily made so that suspicious items may escape tax officials' detection.

Therefore, the audit rules and guidelines must be kept under regular review to see if they can cope with the ever changing modes of business operations, so that auditors will not be able to help companies to avoid tax by manipulating some ambiguous rules.

Among all forms of tax avoidance, the malpractice concerning estate duty has started to come under fire. Why? The reason is that estate duty has been mockingly referred to as "voluntary tax" or a kind of tax that only the small citizens have to pay, whereas most of those who are really rich (such as people worth tens of millions of dollars) have plans long in place to avoid tax and after they die, their beneficiaries will not have to pay a cent in estate duty. Only the beneficiaries of those with property just exceeding \$4 million (perhaps retired people owning one flat or two) who do not have a plan to avoid estate duty, will have to pay estate duty of between several hundred thousand dollars and as much as \$1 million.

Tax evasion often incurs a public revenue loss of several billion dollars. If the Inland Revenue Department is really serious about fighting tax avoidance, I

believe the coffers will certainly be boosted by a substantial amount of due tax money.

Apart from stopping different kinds of tax evasion, effective tax collection measures can also swell the coffers.

Going after those who owe tax

The intense property speculation in recent years has given rise to a large number of cases of unpaid profits tax. The Inland Revenue should take swift action to follow up on the cases. In the course of action, if it is found that the existing statutes have some grey areas which may lead to disputes and enforcement difficulties, such as the difficulty to determine whether income from the buying and selling of flats should be regarded as capital gains or profits from speculation, the Government should accordingly review and revise the relevant ordinances. Besides, recommendations by the Taxation Institute of Hong Kong should be given serious consideration and legislation should be introduced to provide that the resale of a flat within a certain time limit shall be presumed to be speculation and the profit is taxable.

The Inland Revenue Department is performing an important duty entrusted to it by the Government, namely, collecting tax for the Government. In face of the increasingly sophisticated methods tax evasion and avoidance practices used by businesses and individuals, the Inland Revenue Department should consider adopting counter-measures of all kinds, including the increased use of computers.

Another matter is tax assessment. The Inland Revenue Department always favours the recruitment of junior tax assessors, with a view to promoting them to senior assessors or even higher positions. The advantage of this is that the promotion prospect is good. But there are also some disadvantages. Firstly, the tax assessors, as fresh graduates, do not have up-to-date information on how businesses evade tax. It is hard for them to uncover the loopholes that are being exploited by tax evasion experts. Secondly, astute tax assessors, after receiving training in the Inland Revenue Department, are likely to be poached by private firms once their talent was spotted. This is why the Inland Revenue Department should review its recruitment policy and keep it flexible. Thirdly, the Inland Revenue Department may well consider commissioning professional accountants who have in-depth knowledge of tax evasion as consultants to study ways to fight tax evasion and tax avoidance and give the department an idea of the current tax evasion trends. The aim is to heighten the department's awareness of the problems.

Now, I have spent a lot of time talking about the problems of tax evasion and avoidance. Together with the United Democrats of Hong Kong and the general public, I seriously hope that the Inland Revenue Department and the Financial Secretary will study ways to fight tax evasion and avoidance, so that the Government may recover tax that is due to it and thus refrain from shifting the tax burden to the salary-earning class. I respect our entrepreneurs' conscience and believe that they will not regard Hong Kong merely as a money-making paradise to which they have no social obligation.

Apart from taxation, another question of late troubling the public is law and order, particularly the question of public spending on the maintenance of law and order.

8.00 pm

DEPUTY PRESIDENT: It is now eight o'clock and under Standing Order 8(2) the Council should adjourn.

ATTORNEY GENERAL: Mr Deputy President, 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 JAMES TO (in Cantonese): As the spokesman for the Security Committee of the United Democrats of Hong Kong, I am concerned and disturbed by the recent armed robberies.

The recent spate of serious crimes such as armed robbery, car theft and smuggling are obviously inflicting serious losses on the victims but we must not overlook their impact on the community as a whole.

For instance, the rampant car thefts have led to sharply increased premiums, resulting in the car owners having to spend more money and to accept additional terms of insurance with reduced protection for them. The insurance companies are also

affected as they are being exposed to greater risks. The deterioration of law and order certainly has a direct impact on the general public.

This is why I think that effective and swift action must be taken to wipe out these crimes.

Fighting crime has always been the mission of the police force. But I think that we should set a priority in combating crimes and it is very important for the police to make effective use of its resources.

Besides, it is necessary to establish a modern police force. I am particularly concerned about the pace of computerization of the police force.

However, upon closer examination of police spending in the 1992-93 Budget, I find that police spending will receive a nominal 6.4% increase but, allowing for inflation, there will be no real increase in the 1992-93. In fact, the nominal increase in spending is allocated not for recruiting more police officers but for some construction projects. I admit that more construction projects are required as they will be helpful to the operations of the police force. Still, I must stress that nothing will be more important than boosting the ranks of the police force. This is because police officers are on the frontline in our battle against crimes.

I deeply deplore the public spending on the police force in the 1992-93 Budget.

The spending increase as proposed in the Budget is absurd. There will be an 8.3% increase in spending on the maintenance of law and order. However, this increase is in reality for some construction projects. The establishment of the police force may be reduced by 296 officers. As for the spending on the prevention and detection of crimes, it will go up by only 3.5%.

This is why I and the UDHK are opposed to the proposal of spending more on construction projects and not on the recruitment of more police officers.

I hope that the Government would share our concern about the present law and order situation and give careful thought to the police force's actual spending needs.

Concerning the deployment of police resources, I would like to put forward the following points:

(1) Vietnamese boat people

The UDHK and I think that the police's spending in connection with the Vietnamese boat people, both for managing the closed camps and for operational purposes, should come from the military vote. This will leave the police with more resources for crime fighting.

(2) Remuneration

Remuneration has recently become the focus of discussions among all the ranks of the police force. On a business visit to the United Kingdom, I found that there is no marked pay disparity between police officers at different ranks in the British police force (such as that between senior police constables and junior inspectors). The pay scales are laid down in accordance with the principle of value for money. And this is a far cry from that in Hong Kong.

The high wastage among the junior police officers and the difficulties encountered in recruitment exercises, I believe, have to do with the fact that, they are not adequately rewarded in view of the risks involved in their work. I hope that the authorities will pay attention to this and may use the value-for-money principle in the United Kingdom as reference when reviewing the police officers' pay scales.

Besides, I do not understand why police officers have to work over-time but with no specific duties assigned for them in advance and are granted over-time pay. I hope that a solution to this dispute between the authorities and the police officers could be reached.

DEPUTY PRESIDENT: Mr TO, the interruption has been deducted; so please try to finish your speech.

MR JAMES TO: I shall be brief. (in Cantonese) Another matter is the collection of intelligence. With the changes in criminal activities and practices.....

DEPUTY PRESIDENT: Mr TO, I am afraid you must finish your speech.

MR JAMES TO (in Cantonese): I shall make known my other remarks to the public in writing.

DR PHILIP WONG (in Cantonese): Mr Deputy President, the major tasks of the present Financial Secretary are how to maintain the continuity and stability of the fiscal policy during the latter half of the transition period so as to promote economic growth and to upgrade the quality of living of our people.

Looking back to the role played by the Financial Secretary during the past six months since his appointment, many people were perplexed by the approaches adopted in his policy. Some people expected certain drastic changes while others preferred the changes to be introduced steadily and progressively. At the outset of his Budget speech delivered on 4 March, the Financial Secretary used the expressions such as "fully subscribe", "do all I can to ensure", "a commitment to .....". He also reiterated the conventional philosophies of financial management such as "a commitment to enterprise, a commitment to low taxation, and a commitment to free markets and free trade", and so on. He also talked much about the economic and social problems of Hong Kong during the latter half of the transition period, and stressed that the main objective of his financial management was to build a new airport and to make ample financial reserve. I think that in the first Budget of the Financial Secretary, he does not only present to us the draft expenditure and revenue estimates of the coming year, but also tries to delineate a general outline of the fiscal policy of Hong Kong up to 1997.

Frankly speaking, the Government has achieved remarkable results in maintaining the low taxation regime, launching the infrastructural programme, providing the social services and accumulating fiscal reserve, and promoting Hong Kong as an international city. Comparing it with other countries such as the welfare states, performance is commendable indeed. The persistent economic growth of our economy is, to a large extent, due to the reformed open door policy of China. It is also attributable to the zealous efforts of the civil servants and the general public. The present prosperity of Hong Kong is achieved through progressive development. In the past, some people tended to criticize the Budget as being "conservative", "dull" and "lack of new ideas". But in my opinion, these remarks are too generalized and simplistic. The free economy of Hong Kong has brought forth many advantages, inter alia, a simple and straight-forward Budget, the balance between income and

expenditure and fiscal management policies being ruled by law. We have about five years to go before this latter half of the transition period comes to an end, the majority of us would not like to experience any drastic change in our fiscal policy, so as not to jeopardize the favourable conditions of Hong Kong as a low-tax free port.

The general public are reasonable and rational. It is natural that they will offer favourable and adverse remarks to the Budget. The Budget has rekindled a heated public debate on whether it is fair and reasonable; the public are concerned about the implications brought about by the major infrastructural projects on our economy as well as people's livelihood, so they urged that the Government should monitor various kinds of income and expenditure, which would then be conducive to the sound development of the economy. Of course, the Budget is an overall estimate, which should be pondered deeply and carefully over so as to strike a balance prudently. But whether it is a good Budget or not, it should be judged by the public and only time would tell. The criteria for making such judgement are its effectiveness in enhancing economic growth and social stability. The impact of certain policies and measures would not necessarily be reflected within a short span of time; it takes a long duration to realize the impact. Thus, we should be careful and rational in the evaluation of the Budget. The present economic situation may be closely related to the implementation of the Budget over the past few years.

As regards the adjustment of taxation, I have mentioned repeatedly that I support the slight upward or downward adjustment of profits tax provided that it is necessary. The profits tax was maintained at 18.5% a few years ago; nevertheless, the industrial and commercial sectors did not raise strong objection to this rate at that time. It is because the industrial and commercial sectors have the unavoidable responsibility of promoting economic growth and boosting government revenue. I believe that the moderate increase of one percentage point to 17.5% this year would be acceptable to the majority of the business sector. I have mentioned just now that the low profits tax is one of the factors that contributes to the success of Hong Kong, thereby attracting foreign investment. In the case of other countries or regions, such as South Korea, Singapore and Taiwan, although a higher profits tax is imposed, some other concessions are offered to investors, which are not provided now in Hong Kong. Should there be persistent trend of increasing profits tax, we cannot rule out the possibility of affecting the environment as well as the incentives for making investment. In order that the economy of Hong Kong may still be flourished after 1997, we must maintain our low tax regime. Taking stock of the situation in some western countries, the economy is put into a mess due to high taxation policies; these

countries are simply hoist with their own petard and the middle and low income groups would suffer ultimately. We really do not wish this situation would occur in Hong Kong. Hence, although the effects may not be serious for a slight increase in profits tax, it does not necessarily mean that tax rise should go ahead in view of the insignificant impact, or worse still, to propose any drastic increase to our tax system. The Financial Secretary ought to give justifications in this case. Should tax rise be imposed for the sake of the new airport projects to be launched shortly, it means that the Government is breaking its promise of "not raising tax" and "not increasing public burden". Should tax increase be imposed because of the need of boosting financial reserve, this would inevitably attract fierce criticisms from all sectors. Besides, it would be an issue of controversy if it justifies itself by professing to strike a balance between different sectors, that is, between the protection of investment and the widening of "safety net"; because some trades with low profit margins may be adversely affected by this measure. It is particularly so because in our neighbouring countries, there is a trend of tax reduction, whereas Hong Kong is running counter to this trend. We have already yielded a hefty surplus of \$14.1 billion last year and we now have an aggregate reserves of \$92 billion, and in view that we can yield some surplus even without any tax rise, it would be unconvincing to insist on tax increase. By the same token, the Government only proposed nominal increase to the personal allowance, while on the other hand, general rates would be increased and 25% of rates relief would be withdrawn, hence the burden of the general public would be increased. To accumulate wealth through such means would certainly arouse social frustration and discontent. Many colleagues have already elaborated their criticisms, therefore I would not repeat here. Although I do not think it is appropriate to make drastic changes, the taxation system should be adjusted in line with the economic situation so as to benefit the general public. A responsible government should adopt such fiscal management policy. As regards the constructive ideas, it is hoped that the Government would listen to the useful advice, sympathize with and understand people's feelings, and make some appropriate adjustment this year or next year. As the Budget proposes to extend the requirement to pay duty on light diesel oil to locally registered pleasure craft, in my opinion, it is reasonable to impose this duty on owners of luxurious pleasure craft which are used for private entertainment. But as far as I know, this is unfair for fishing folks who have to hire such crafts to make their earnings or support their own living. Apart from increasing the operational costs of such fisherman, this measure would affect the young students and general public who spend their holidays in the outlying islands, thereby jeopardizing tourism in outlying islands. Did the Financial Secretary conduct any in-depth research on this issue? Did he consider a separate

taxation system for recreational and commercial use of pleasure crafts, or providing any allowance for exemption? Moreover, I would like to suggest that the methods in the levy of estate duty should be amended to prevent people from transferring the enormous capital abroad so as to avoid paying tax. In view of the huge surplus, may I urge the Government to allocate more funds for education, law and order and the health services which are very much needed by the people, so that law and order as well as the quality of living may be upgraded. Besides, the Government should pay close attention to the housing problem of the sandwich class and early solutions should be sought for these people so as to help them to live and work in happiness and contentment, and making the best possible use of these people.

Mr Deputy President, I always respect and support the executive-led type of administration, I always respect and support the hard work of the civil servants and the professionals. The tax adjustment measures and the amount of fund allocation would not bring about permanent effect. Any excessiveness or shortfall can be rectified within the same year. Although I have reservations over some aspects of the Budget, I do not support to veto against the Budget altogether because it will bring about damaging effect. Hong Kong is a free port. As 1997 is drawing near, it is paramount to maintain the stable image. It is hoped that the Government will listen to the views of all sectors and due consideration be given to these opinions. The Government should adopt the attitude of "listen to both sides and you will be enlightened, listen to partial opinion and you will remain ignorant" and "remedy the mistakes if it has committed them and guard against them if there are not." The Government should review, assess and evaluate seriously the draft income and expenditure proposals, so that the financial policy and fiscal management strategies may become stable, fair, reasonable and sound; it will then be conducive to the overall economy and the smooth convergence.

I have been exchanging views with the business sectors who are also much concerned with the double digit inflation and the future infrastructural projects. They think that it is the major enigmatic problem and challenge to be faced by Hong Kong. The Financial Secretary has attempted to elaborate the complicated causes of inflation and indicated his intention to alleviate the inflation. Compared with last year, the Government has tried its best to minimize the impact of tax increase onto the inflation. However, as the rates increase as well as the fees and charge of public utilities would be raised by stages, it will exert pressure on inflation. I worry that the Government is at a loss of identifying effective solutions to contain inflation and that inflation would be allowed to escalate without control, which would

probably become a factor for social instability, jeopardizing the future development of Hong Kong. If the Government is serious about combating inflation, it should strictly adhere to the stringent financial policy to contain the public expenditure to below GDP, to step up its efforts in monitoring the charge increase of public utilities, and to enhance the efficiency of the Government and productivity of the society as a whole. The Government should also encourage the structural transformation of our economy, the upgrading of technology and training. Recently, people have been asking why the Government is yet to release full details about the estimates of the Airport Core Programme projects; it seems that the public has issued a blank cheque to the Government. There has been criticisms that the British consortium who designed the new Hong Kong Bank Headquarters has been awarded the contract for the design of the airport though it proposed the highest bid. This will make people worry that the Government is paving the way for the British groups to monopolize all contracts; the Government and this Council were urged to monitor closely and efficiently on the contracts awarded by the Airport Authority. In my opinion, the Government is obliged to make the best use of social resources and strictly control the costs. The cardinal principle should be low investment for high efficiency, and priorities should be given to airport project items. Hence, the pressure of inflation and the people's burden may then be alleviated, and then it may ensure that the scale, the speed and expenditure of the infrastructural programme may be brought in line with the present and future affordability of Hong Kong. As the saying goes that we ought to "live within our means", "cut our coat according to our cloth", "proportion the expenses to the incomes", it is not advisable to indulge in luxury and extravagance. We should learn our lesson from the cost overrun incidents of Hong Kong Bank Headquarters and Hong Kong University of Science and Technology, and never should we attempt to justify ourselves with the excuse of accumulating reserves, thus sacrificing future benefits to present gains. It is unwise to extort large sums of money from the public to meet the unknown expenditure and to allocate huge funds for the new airport and related projects. As the scale of the new airport projects are relatively larger than that of the Hong Kong Bank Headquarters and the University of Science and Technology, the impact of cost overrun would be much more serious.

In view of the favourable conditions in this latter half of the transition period, our Financial Secretary is in a better position than his predecessors. He should, in accordance with the provisions of Sino-British Joint Declaration and the Memorandum of Understanding of the New Airport, enhance the mutual understanding and co-operation among China, Britain and Hong Kong, and to hold discussions on major

issues. While launching on the major infrastructural projects, he should also pay attention to the quality of living of its people, maintain a balance between income and expenditure, and to leave behind a reasonable reserves, thereby handing over to the future SAR Government a financially sound, prosperous, stable, dynamic and low-tax free port. Undoubtedly the Financial Secretary has to consider a lot of things when he is trying to make the political, economic and social transition of Hong Kong a smooth and steady one; sometimes he may have to subject to constraints and it is hard from him to state what ails him.

DEPUTY PRESIDENT: Dr WONG, you must observe Standing Orders and conclude your speech.

DR PHILIP WONG (in Cantonese): My Deputy President, these are my remarks.

DR YEUNG SUM (in Cantonese): Mr Deputy President, when I saw the old barracks on my way home via Cotton Tree Drive, I wondered why it was not converted into a park in the interest of the community. I felt that some old things could be changed, if the consideration was the interest of social progress.

The Budget is a major annual event of the Government and the focal point of this Council's annual debate. Since yesterday, every Member in this Council has made a speech concerning this year's Budget. But I say to myself that, apart from making comments, the most important thing for us Legislative Council Members to do is to discharge our obligations as Legislative Council Members and act as a watch-dog on government spending, doing our utmost to urge the Government to change those financial arrangements that are unreasonable, that are contrary to the public's wish and that are not in the public's interest, not giving up till the final hour. This is the way Legislative Council Members show self-respect and demonstrate their sense of responsibility towards the general public.

Through our colleagues in the Legislative Council, who spoke yesterday and today, the United Democrats of Hong Kong have made it very clear what legislative steps should be taken about, and what assessment should be made of, this year's Budget. The United Democrats have always been dedicated to the promotion of Hong Kong's social stability and prosperity and supports any government plan that is good for Hong Kong's economic development. However, the price of such plans must not be the sacrifice of the interests of the middle and lower income groups.

Over the next six years, Hong Kong will gradually launch infrastructural projects that are the largest in the history of the territory. The Government's fiscal planning will decisively be influenced by the Airport Core Programme in these six years. We can accept that the Government has to make early preparations for meeting the huge costs of the new airport project. But we cannot accept that the means to that end should be the deterioration of the quality of life of the middle and lower income groups. Regrettably, we find that the Government apparently intends to do precisely that.

Compared with many other parts of the world, Hong Kong's economic performance was not too bad in the past year or two. Regrettably, however, because of special factors, Hong Kong's inflation rate has for a long time remained high, at a two-digit level. For the general public, the increases in real wages have definitely failed to catch up with the rate of inflation. The result has been a steady decline in the quality of life. During the 1991-92 financial year, the Government had a \$14 billion surplus. Logically, this is a good time to improve the quality of life of the middle and lower income groups. Regrettably, the Government fails to do so. The watch word is "to prepare for the rainy days" for the sake of the new airport. Accordingly, despite the huge Budget surplus, spending on social services continues to be placed under tight control, and tax is being increased for the middle and lower income groups. Dr HUANG Chen-ya has already made ample comments on this. I do not intend to repeat. We cannot accept the Financial Secretary doing things in such a way.

The United Democrats have openly said more than once that, if the Government really feels for the hardships of life now being experienced by the middle and lower income groups, it should make four changes in this year's Budget:

- (1) Raise the personal allowance of the income tax to \$64,000;
- (2) Abolish the 25% marginal rate and the 15% standard rate, and substitute a 17% rate for them. This will alleviate the tax burden for the middle income group earning between \$10,000 and \$50,000 a month;
- (3) Keep the 5.5% rates on property unchanged and extend the rates relief scheme;
- (4) Increase spending on basic services such as education, medical and health services during the coming year. The increase should not be less than 15.4%, which

is the economy's growth rate in real terms plus the rate of inflation.

These four points are fair and reasonable and in line with the wish of the general public. During the past two or three weeks, we tried to fight for them by different lawful means. At first, we hoped that the Financial Secretary would heed the public's views and make a move to change things. So we met with him several times. Regrettably, what we heard was "the Budget must be considered as a package and cannot be revised separately" and "if amendments are made according to your suggestions, the fear is that you may form a bad bargaining habit." Those words are really disappointing.

Since the Financial Secretary refused to take the initiative to revise the Budget, what we could do was to move a motion for amendment ourselves. Regrettably, under the operation of the present executive-led political system, any Legislative Council Member wishing to move a motion for amending the Budget must have the prior approval of the Governor. Regrettably again, our Governor is not broad-minded enough to let us move a motion for amendment or to let us have a chance to debate a motion for amendment.

The above is what has happened so far. Now, there is only one remaining chance for forcing amendments on the Budget. All of the Members of the Legislative Council, acting in unison, can tell the Government that, if it continues along its arbitrary course and refuses to amend the Budget, then, on 1 April, we will all vote down the Appropriation Bill. As this Council some time ago passed a resolution to appropriate a sum of money to the Government in advance, the dissenting votes cast by all the Members of this Council on 1 April would still leave the Government with \$39 billion of the public fund to spend. I stress that we have already voted to approve the appropriation of \$39 billion for the Government to spend. The United Democrats at the time did not oppose the appropriation in any manner. Therefore, even if we all vote "no" on 1 April, thus blocking the passage of the Budget, the operations of the Government will still not be paralysed. Just now, Mr Steven POON said that, according to the Basic Law, if the Budget fails to be passed, the Chief Executive may dissolve the Legislative Council. This is true. But it applies only when the Budget fails to be passed for the second time. If the Budget, upon being presented for the second time, still fails to be passed, then he will have the power to dissolve the Legislative Council. It does not apply to the first time. After we vote "no" the first time, the Financial Secretary will have received a signal. He will accordingly amend the Budget. When he presents his Budget for the second

time, I believe that the Legislative Council will not vote against it. In fact, the real effect of the dissenting votes is to force the Financial Secretary to submit to the public's wish and amend the Budget accordingly. I wish to stress that this is consistent with the power vested by law in the Legislative Council for monitoring the operations of the Government and is something that a Member should do if he is faithful to his duty. Regrettably, after two days of debate, I have been made to feel that the chances are not good. Many Members have said openly that they will fight for the interest of the middle income group. Regrettably, they now say that, on 1 April, they will not vote down the Appropriation Bill. Just now, Mr Henry TANG said that, according to some Members, the Co-operative Resources Centre has changed course, the reason being that the Co-operative Resources Centre has never openly opposed the Appropriation Bill. That is a right thing to say. But the point is that the Co-operative Resources Centre has voiced open support for the Budget too soon; and it has said too soon that it will not vote down the Appropriation Bill. As a result, the Co-operative Resources Centre has missed an opportunity to bargain with the Government, while the Government has been so emboldened that it has turned a deaf ear to all requests by Members to move motions for amendment.

I wish to point out here that, if the Co-operative Resources Centre's whole-hearted dedication to the interest of the public is real, then it should consider changing its mind now. It is true that there are differences between the United Democrats and the Co-operative Resources Centre. Still, we would like to make an appeal here. Let us "forget our past favours and grudges with a smile." Let us hold hands and, on 1 April, openly tell the Financial Secretary that, unless he amends the Budget, we will vote against it in unison. In this way, we can force the Financial Secretary to revise the Budget and further the public's interest in Hong Kong. I believe that Mr NG Ming-yum will support such a position absolutely.

MRS SELINA CHOW: Mr Deputy President, a point of elucidation. Since Dr YEUNG has mentioned that we have voted a 25% interim expenditure for the Government to operate on pending the voting in of the Appropriation Bill, may I ask if we were to vote down the Appropriation Bill and when the 25% voted-in expenditure has been exhausted what will happen to the operation of the Government?

DEPUTY PRESIDENT: Dr YEUNG, did you catch the intervention?

DR YEUNG SUM: Yes, Mr Deputy President.

DEPUTY PRESIDENT: It is up to you whether you do wish to elucidate.

DR YEUNG SUM (in Cantonese): The \$39 billion will be sufficient for the Government to spend for three months. If the Financial Secretary presents a new Budget within this period, I believe that we will not oppose it, especially if he heeds our views and makes some changes in it. As a political party representing the public and championing the public's cause, the United Democrats will consistently adhere to the public's wish. It is hoped that the Financial Secretary will heed the public's wish and revise the Budget. If he revises it, we will be quite willing to support him on 1 April. If the Financial Secretary should continue along his arbitrary course and refuse to make any change in the Budget, then we would be forced to vote "no". Now, when I go home via Cotton Tree Drive, I find that the old barracks have been converted into a magnificent park. The truth is that old things can be changed in the overall interest of the community. This is what we should do. I believe that, in the course of the construction of the park, many decisions were made, requiring patience, hard work and courage. I hope that the Financial Secretary will work with us in the overall interest of Hong Kong.

MR HOWARD YOUNG (in Cantonese): Mr Deputy President, is the Budget for 1992 in line with the principle of "keeping expenditure within the limits of revenues"?

Given the projected surplus of \$14.1 billion this year and the projected surplus of \$5.1 billion next year, expenditure figures are, in my view, far short of expected revenue. So I do not find the expenditure figures excessive. In fact there are some areas, such as resources for the police and education where I think we could spend more. It is a Budget that seeks to keep revenue well above the needs of expenditure.

I do not subscribe to the theory that the infrastructure projects related to the new airport and port are draining resources at the expense of welfare. Members of the tourism industry regard the airport as an essential investment for the long-term future of Hong Kong and without it the employment of hundreds of thousands of people in the tourism and related industries will be at stake. I am confident that

the investment today in our infrastructure will bring economic growth and returns to those who will be staying and working in Hong Kong after 1997.

As a new Legislative Councillor, like many other colleagues, I would confront the Budget of the Hong Kong Government in a totally different light from that of a layman who would say to himself, "How does the Budget and taxation affect me personally". Rather I would look at it from the viewpoint of "How will this affect my constituents -- how will this affect the man in the street -- how will this affect different sectors of the economy -- how will this affect the interests of the whole community?" I would like to repeat what Mr SZETO Wah said yesterday, "Could I represent the views of my constituents?"

During the Budget exercise, I have felt the importance and value of division of labour and co-operation amongst fellow Councillors in trying to sift through the mass of information that comprises the way the Government is proposing to spend the \$115.1 billion of taxpayers' money. Many long hours of discussion and exchange of experience amongst members of the Co-operative Resources Centre has enabled us to compare the philosophies of government spending with the values that we share. I believe that these values are shared not just by a group of Legislative Councillors, but also by the bulk of the members of the travel and tourism industry.

The crux of these values as related to the Budget includes whether the Budget provides for an improvement in the quality of life in Hong Kong; and whether it is conducive to retaining a healthy environment for investment so that more wealth can be created for the whole community. In addition, is the Budget moving towards or against helping to achieve a smooth transition for the long-term benefit of Hong Kong? It is in this light that I make comments on the Budget, both favourable and unfavourable.

#### Corporate profits tax

Firstly, the 1% increase in corporate profits tax has drawn little adverse comment from even owners of businesses in my industry. For those who can show healthy returns to their businesses, most find the increase bearable. However, this is not the start of a general trend of increasing the level of taxation in Hong Kong. It has been pointed out that of the three segments of the tourist industry, hotels, airlines and travel agents, many travel agents are probably hard pushed to make a 1% gross turnover in profit; so to pay 1% out of that 1% will amount only to 0.01%, which is not an

excessive burden.

I do have reservations on whether it is really necessary for the Government to hoard money for the sake of hoarding it, given our substantial surplus which is the envy of many countries and places around the world. After all money sitting in surpluses is really draining resources that could be productively used to encourage growth in the economy through private investment.

The fact that our level of taxation is lower than that of most places in the region is not good enough an excuse to bring in increases. In fact the general trend of developed economies is to decrease the burden of taxation in order to encourage economic growth -- look at Singapore which has recently decreased its taxes.

We also must not forget that right next to Hong Kong there are a number of special economic zones in China where the corporate taxation level is as low as 15%, and the offer of tax holidays is another incentive to attract investment. I am sure that with the recent renewed impetus of reform in China, there will be even more aggressive moves towards attracting investors.

Mr Deputy President, the Financial Secretary has attempted to give reassurances that the economic philosophy of free enterprise as the basis of economic growth will be continued. This is to be welcomed, but will also be watched with a hawk's eye forthwith to see that the words are reflected in deeds.

#### Airport and sales tax

To borrow the words of the Chairman of the Travel Industry Council of Hong Kong last Friday: "The industry is disappointed that, in light of the surplus, the Government has not agreed to lower the airport tax of Hong Kong, but we can take some consolation in seeing that a sales tax has not been introduced." I believe that the Chairman of the Hong Kong Tourist Association, who also sits in this Chamber, will share this view.

The tourist industry and related trades employs over 100 000 people in Hong Kong and the expenditure by over six million tourists that come here injects more than \$39 billion into the economy. We must not be complacent in thinking that since six million overseas tourists, as against two million Hong Kong residents, pay this tax, and that overseas tourists only complain about it after they have left Hong Kong,

we can treat them as cows to be milked. To quote the words of the Chairman of the Hong Kong Hotels Association; "Each of them will leave with the feeling that Hong Kong has tried to extract their last dollars at the moment of departure. It does not help us to promote Hong Kong as a tourist centre."

We want tourists to come back for a further trip, and we want them to tell their friends to come here too. The fact that we have the highest airport departure tax in the world certainly does us no good at all in the eyes of tourists, leaving them with a bitter taste in the mouth.

The Financial Secretary has stated that sales tax is not currently under serious consideration but qualified it by "at a time of relatively high inflation". Reassuring as it may be for this year, the tourism industry is adamantly opposed to sales tax under any level of inflation on the grounds that it will destroy Hong Kong's third largest source of foreign earnings, not just because it is inflationary.

## Rates

On this basis, members of the tourism industry are, given Hobson's choice over the Government needing some sort of stable, broad-based and predictable revenue, prepared not to make too much fuss over the 0.5% increase in rates. However, there are grave concern and protests in the lifting of the cap provided by the rates relief scheme. Whether domestic or commercial, to have to swallow in excess of 25% increase in payment of such a tax in one year is an excessive burden in anyone's book. That is the view of the industry, which may not necessarily coincide entirely with the views of all Members, or even of the views of other Councillors of the Co-operative Resources Centre. The Centre comprises members with a much wider perspective than just one segment of the community, or just the constituency to which I belong, and therefore is a broader representation of what is good for Hong Kong.

## Salaries tax

Whilst members of the tourism industry, the voters of which are mainly proprietors and managers, are less concerned about the increase this time in profits tax, they are in fact extremely concerned about the plight of their staff. A very large proportion of staff in this industry are salaries tax payers, many belong to the so-called "sandwich class". Without these people, the industry cannot survive, as we are a "people industry". On their behalf, I wish to call upon the Government to

be more generous in raising the single and married person's allowances to \$50,000 and \$100,000 respectively, and to widen the tax band so that the burden is eased on those taxpayers who in the main are not fortunate to enjoy public housing and not well off enough to adequately provide for themselves in the area of housing.

### More resource allocation

Mr Deputy President, proposing to spend more money is the prerogative of the Administration in our executive-led style of government. However, there are three areas where I would have rather seen more resources being provided for by the Government.

### Education

One is education in the primary and secondary sector. While it is commendable that places for tertiary education have increased, it is alarming that the standards in certain areas, especially English which is so important to maintaining Hong Kong's international competitiveness, seem to have dropped. This is borne out by many employers who in recent years have had to drop the recruitment standards of school leavers seeking jobs.

Recent measures to achieve cost savings have resulted in the need to consolidate classes amongst schools. Whilst statistically it seems a logical exercise, it creates undue stress on students and parents alike by dislocation. In the travel industry, what consumers are most likely to have anxieties about on joining a group tour is to find that suddenly, before embarking on the journey, they have been "consolidated" or, as colloquially put in Cantonese, "sold off like a suckling pig". However righteous the decision, the end receiver often goes through unnecessary stress, and in the context of this exercise on our schools, both pupils and parents alike are experiencing this stress. Yesterday's announcement on the cancellation of that un-necessary shuffling of students from one school to another which has caused disruption in the middle of their school careers is to be welcomed.

### Vocational training

We must ask ourselves whether cost cutting measures are economically effective in the long run, or whether they are another form of wasting resources. For example, training at the Vocational Training Council (VTC) has become even more important and critical at a time of importation of labour and shortage of labour resources. I am

given to understand that in order to meet the requirement for controlling of expenditure, the VTC is making ends meet at its new Pokfulam Training Centre by operating below capacity and thereby less staff. Is this really a saving, or is it really costing us more in the long run by not being able to turn out as many needed skilled workers for industry as quickly as we can?

#### Recreation and culture

I would like to make a plea not to make recreation and culture a victim of cost cutting and, in the process, destroy the momentum that has been built up over the last two decades in eradicating the image of a cultural desert from Hong Kong's reputation. Life is not all about hard work and making money. Recreation and culture is a way for our population at large, in particular young people, to enjoy the rightfully earned fruits of economic success. We must ensure this fruit is nurtured and not withered on the vine due to lack of resources.

Mr Deputy President, I see no point in preventing the Government from getting on with its work which is for the overall good of Hong Kong. Therefore, based on the views of my constituents, I support the Appropriation Bill. I however call upon the Financial Secretary to heed the sentiments of this Council carefully and in his reply give a firm commitment to addressing Members' concerns.

MR WONG WAI-YIN (in Cantonese): Mr Deputy President, first of all, I regret that the Governor Lord WILSON, as President of the Legislative Council, was unable to attend the debate on the Budget yesterday and today to listen directly to the views of the Members, and that the Members' motions for amendment were formally rejected yesterday.

Just now, two of my Meeting Point friends in this Council, Mr Fred LI and Mr TIK Chi-yuen, have expounded our overall views on the Budget for the coming year and our views on medical services, education and welfare. I will focus my comments on two aspects: "the gap between the 'haves' and the 'have-nots'" and "rates."

Mr Deputy President, The Analects of Confucius says: "Inequity is more worrying than insufficiency and instability is worse than poverty." In Hong Kong, the narrowness of the tax base and the inequitable distribution of the tax burden have been long-standing problems. Very regrettably, the Financial Secretary, Mr

MacLEOD's maiden Budget does not help alleviating those problems. For the lower and middle income groups, the relative burden on them will continue to get heavier. Meeting Point expresses strong dissatisfaction with this situation.

The Financial Secretary proposes to raise the corporate profits tax rate by one percentage point to 17.5% and to increase personal salaries tax allowance by 12% to \$46,000. On the surface, this appears to be an equitable redistribution of the tax burden, but it is not so in fact. Ever since the early 1980's, profits tax has formed a shrinking proportion of our total tax revenue, while in the case of salaries tax, the situation has been just the opposite. In other words, businessmen's relative share of the tax burden has been on the decline though making more money, while that for salary earners has increased.

In the Budget, inadvertently or out of ignorance, the Financial Secretary not only fails to arrest such a trend but allows the situation to continue to worsen. Let us review the proportion of direct taxes in our total tax revenue. In 1980-81, the percentages of corporate profits tax and salaries tax were respectively 69% and 16%. These became 61% and 32% in 1985-86; 56.2% and 36.1% in 1990-91; 55.1% and 40.7% in 1991-92 (according to the revised Budget); and 53.1% and 43% in 1992-93 (assuming the implementation of tax proposals). To put it simply, the Financial Secretary's proposal to increase profits tax and to raise the salaries tax allowance does not change the trend in which the relative tax burden on Hong Kong's salary-earning class is becoming more and more unfair with regard to that on businessmen. This is unacceptable in Hong Kong, given the deteriorating uneven income distribution.

According to information from the Census and Statistics Department, in 1986, the incomes of the poorest 10% of Hong Kong families accounted for only 1.55% of Hong Kong's total earnings, while that of the richest 10% made up 35.7%. In other words, the richest earned 23 times as much as the poorest. Now let us turn to the Gini Coefficient. It was 0.31 in 1971, 0.45 in 1981 and 0.48 in 1991. This shows that the disparity of wealth is getting worse, precipitating a potential social crisis.

Therefore, Meeting Point thinks that we must deal with this problem squarely. The fact that the proportion of corporate profits tax in direct taxes and direct tax revenue has been declining steadily reveals the Government's faulty tax policy as well as serious problems of tax evasion and tax avoidance. It also demonstrates that profits tax is hard to collect at a time when our economy is undergoing structural

transformation (for instance, the relocation of manufacturing facilities from Hong Kong to South China), and that the salary-earning class has fallen victim to the system.

Hong Kong now has a working population of about 2.8 million. Among them, 1.45 million have been caught in the salaries tax net. Of these, 910 000 are salary-earners with an annual income of \$120,000 or less.

Figures show that, in 1986, the median personal income was \$2,573 and the personal allowance was \$29,000. In 1991, the median personal income was \$5,170 per month, up 100% from the 1986 level, but the personal allowance was only \$41,000, up only 41%. Even if we take into account the proposed \$46,000 in the present Budget, the increase will still be only 59%. In other words, the real income of the middle and lower income groups has generally declined. That is to say, they bore the brunt of economic slow-down when the times were hard; nor have they been able to have their fair share of the fruit of strong economic growth during the good times.

Again, where inflation rate is concerned, the aggregate inflation rate was 44% over the four years from 1987 to 1991. Over the same period, the personal allowance, however, rose by only 28%. As a result, more members of the middle and lower income groups were caught in the tax net. The gap between the rich and the poor became even wider. Hence, the 12% increase in the personal allowance this year, as proposed by the Financial Secretary, can barely reduce the effects of last year's inflation, but it still fails to mitigate those of the previous years.

With these in mind, Meeting Point is of the opinion that to lighten the tax burden of the middle and lower income groups, personal allowance should be raised to \$60,000 or more. According to Meeting Point, if personal allowance is increased to \$60,000, then (provided that the profits tax rate goes up by one percentage point) the proportion of profits tax to salaries tax, in terms of direct taxes, will be 58% to 40%. The proportion would be worse than what it was in the mid-1980s (61% to 32% in 1985-86), but the growing proportion of salaries tax would, after all, be arrested. Of course, the progressiveness of salaries tax should also be improved, so that the burden may be spread more reasonably.

Now, turning to the question about housing and rates. In a poem composed after an autumn storm damaged his hut, DU Fu, the famed poet of Tang Dynasty, expressed his wish: "..... It would be nice to have thousands of spacious mansions/ To shelter

the world's poor, who will smile with pleasure,/ And those mansions will stand as firm as mountains in a rain storm." I believe that, in DU Fu's days, housing was very cheap and no rates were levied. Let us now go back to today's sandwich class. Chafing under the yoke of heavy taxation, yet they are denied the benefit of public housing and home-ownership scheme. In fact, the heated property speculation has driven up the prices of flats to unreasonable levels that are beyond the middle and lower income groups' reach. According to figures released by the Rating and Valuation Department, there are now as many as 33 000 vacant flats in Hong Kong, the highest vacancy rate for the past 10 years. Why has this happened? The reason is quite simple. It is the runaway prices of flats that have dashed the dream of potential home buyers, even though they are not poor. What is the use even if there are "thousands of spacious mansions"? Nor are those ordinary citizens who live in public housing flats having an easy time. They have to bear the burden of a doubling of rents. In short, the increase in rates is without a doubt one more straw added to the back of the burdened camel, that is, the lower and middle-income groups.

In his Budget, the Financial Secretary proposes to raise rates by half of one percentage point and to abolish the 25% rates relief. Meeting Point strongly opposes these proposals. The prices of flats have already risen to a totally unreasonable level. The rateable value of all flats in Hong Kong was revised as recently as last year, triggering a sharp rise in rates. In addition, we worry that the rateable value of flats may again be revised in 1993-94. We believe that the public really cannot bear the burden. Also, the proposals, if given the green light, will fuel inflation and make people's life harder. When that happens, the Government will perhaps find that it has lost a great deal because of its greed for a small gain and that it has lost more than it has hoped to gain!

Hence, Meeting Point suggests that the Government should drop the proposals of raising rates by half of one percentage point. On the positive front, it should extend the rates concession, take strong action against property speculation and adopt expeditious measures to enable the sandwich class to buy and own homes. This will ease the tax burden on the middle and lower income groups and allow them to enjoy a little bit of the fruit of Hong Kong's booming economy.

The new airport project has given us a lot of troubles before its advantages are visible. First of all, all government departments are required to slash expenditure and carry out a retrenchment policy. This has affected our welfare, education, medical services and the police and had an insuperable impact on the quality of life.

In fact, Meeting Point has proposed a 4.4.2 financing scheme. This means 40% of the fund contributed by the Government reserve, 40% by foreign investment and 20% by the floating of bonds. If this scheme is adopted, there will be ample funding for the new airport project without having to sacrifice the well-being of the people at all. So we are opposed to the reduction of welfare spending, the increase in charges for medical services. We are even more opposed to such irrational policies as insufficient commitment to the provision of services for the handicapped, retrogression in education and expanded importation of foreign workers.

If the Government recklessly continues to cut spending in its insistence on building a rose garden, even at the expense of the quality of the people's life, then I believe that a doggerel that I wrote for a Hong Kong Radio and Television programme will say precisely what is on the mind of the public. The doggerel goes like this: "His Lordship the Governor says the idea of building a rose garden sounds good./ His Holiness the Financial Secretary begins extorting people's ingots of gold./ Spending is cut without regard for the quality of life./ There will be no welfare left by the time I grow old."

We have a surplus of more than \$10 billion last year. Nevertheless, the Financial Secretary refused to lighten a bit the tax burden on the middle and lower income groups, amid strong dissatisfaction. But Mr MacLEOD eventually succumbed to the opposition from various sectors and pledged that he certainly will study measures for lightening the tax burden on the middle and lower income groups next year. Since Mr MacLEOD has acknowledged that the tax burden of the middle and lower income groups is heavy and must be lightened, then why must amelioration wait until next year instead of being effected immediately? Is this a matter of so-called prestige and credibility of the Government, or is the Financial Secretary trying to save his face? In fact, we must realize that prestige and credibility cannot be achieved in this fashion, nor can a government win the trust and support of the people by remaining intransigent and never admitting mistakes. On the contrary, a government must heed the views of the public and be receptive to good advice. Then, the people will support their government. Take an example. Yesterday, in response to strong opposition from the educational sector, the Government finally announced a change in the previously proposed measure of adding two places to each secondary and primary school class. However, we do not feel that the Government's prestige and credibility have been damaged. The move is widely supported, though still failing to satisfy all. Mr MacLEOD, the Financial Secretary, please show courage and take the initiative to revise the Budget by raising the personal allowance to \$60,000 or more, widening the tax band, dropping the proposed half of one percentage point increase in rates and

keeping the 25% rates relief, thus relieving the people from impoverishment. I believe that this will win you more support and admiration from the public. Of course, we hope that, in the end, we will not have to cast dissenting votes to reject the Budget. We hope that we will not have to resort to such a means. But, as representatives of the people, we must do so when the demand of the general public is justified! Mr Financial Secretary, when I am so earnestly asking for a revision of the Budget, my purpose is not to court votes. My hope is that, during the second part of the transition period to 1997, the Government will stop opening itself to public criticism for not making any further social commitment. Rebuilding the Government's prestige and credibility is of utmost urgency. Mr Financial Secretary, please reconsider your proposals!

Of course, if the Financial Secretary adamantly refuses to revise the Budget, here I have an unusual compromise solution. Financial Secretary, you have made out a promissory note and promised to give top priority in the next fiscal year to the lightening of the tax burden on the middle and lower income groups. This being so, I hope that you will accept post-dated cheques from the salary-earning taxpayers, which can be cashed only on or after 1 April 1993.

Finally, Financial Secretary, you may remember that the authorities have high-handedly rejected my Meeting Point ally in this Council, Mr Fred LI's motion for conducting a comprehensive review of Hong Kong's tax system. Today, Mr MacLEOD, your maiden Budget has been subjected to a full measure of attacks from many sides, with the result that it seems, as in the imagination of the frightened, that enemies are lurking in every shadow. This precisely exposes the problems of the tax system. I am sure should you have known it would come to this, you would have acted differently. So Meeting Point would like to reiterate that it is necessary to set up a broadly based committee for carrying out a comprehensive review of our tax system. As the saying goes, "As one realizes that one is right today, one also realizes that one was wrong yesterday." I hope that the Financial Secretary will gain experience and learn the lesson and expeditiously launch a study of the special features of Hong Kong's tax system and the philosophy behind it. In addition, reviews must be done on some specific problems in our tax system, including the proportion of different kinds of taxes, the tax burdens and tax bases for different classes and the impact of the tax system on Hong Kong's economy.

Mr Deputy President, I hereby submit my speech. I hope that I will not have to cast a dissenting vote on 1 April.

ATTORNEY GENERAL: Mr Deputy President, I move that the debate on this motion be now adjourned.

Question on the adjournment proposed, put and agreed to.

Adjournment and next sitting

DEPUTY PRESIDENT: In accordance with Standing Orders, I now adjourn the Council until 2.30 pm on Wednesday 1 April.

Adjourned accordingly at five minutes past Nine o'clock.