

## OFFICIAL RECORD OF PROCEEDINGS

Thursday, 24 March 1994

The Council met at half-past Two o'clock

### PRESENT

THE PRESIDENT

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

THE CHIEF SECRETARY

THE HONOURABLE MRS ANSON CHAN, C.B.E., J.P.

THE FINANCIAL SECRETARY

THE HONOURABLE SIR NATHANIEL WILLIAM HAMISH MACLEOD, K.B.E., J.P.

THE ATTORNEY GENERAL

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

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

THE HONOURABLE MRS SELINA CHOW LIANG SHUK-YEE, 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.

DR THE HONOURABLE DAVID LI KWOK-PO, O.B.E., LL.D., J.P.

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

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

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

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

DR THE HONOURABLE LEONG CHE-HUNG, O.B.E., J.P.

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

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

THE HONOURABLE PETER WONG HONG-YUEN, O.B.E., J.P.

THE HONOURABLE ALBERT CHAN WAI-YIP

THE HONOURABLE VINCENT CHENG HOI-CHUEN, O.B.E., J.P.

THE HONOURABLE MARVIN CHEUNG KIN-TUNG, O.B.E., J.P.

THE HONOURABLE CHEUNG MAN-KWONG

THE HONOURABLE CHIM PUI-CHUNG

REV THE HONOURABLE FUNG CHI-WOOD

THE HONOURABLE FREDERICK FUNG KIN-KEE

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

DR THE HONOURABLE LAM KUI-CHUN

DR THE HONOURABLE CONRAD LAM KUI-SHING, J.P.

THE HONOURABLE LAU CHIN-SHEK

THE HONOURABLE EMILY LAU WAI-HING

THE HONOURABLE LEE WING-TAT

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

THE HONOURABLE FRED LI WAH-MING

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, J.P.

THE HONOURABLE ZACHARY WONG WAI-YIN

DR THE HONOURABLE TANG SIU-TONG, J.P.

THE HONOURABLE CHRISTINE LOH KUNG-WAI

THE HONOURABLE ROGER LUK KOON-HOO

THE HONOURABLE ANNA WU HUNG-YUK

THE HONOURABLE ALFRED TSO SHIU-WAI

**ABSENT**

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

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

THE HONOURABLE MOSES CHENG MO-CHI

THE HONOURABLE JAMES TIEN PEI-CHUN, O.B.E., J.P.

**IN ATTENDANCE**

THE CLERK TO THE LEGISLATIVE COUNCIL

MR CLETUS LAU KWOK-HONG

THE ASSISTANT CLERK TO THE LEGISLATIVE COUNCIL

MR WONG WAI-MAN

**APPROPRIATION BILL 1994****Resumption of debate on Second Reading which was moved on 2 March 1994**

PRESIDENT: Council will now resume and continue with the debate on the Appropriation Bill 1994.

MR ANDREW WONG (in Cantonese): Mr President, this Budget is Sir Hamish MacLEOD's third since becoming Financial Secretary. Judging from the findings of public opinion polls, it is more popular and more deserving of our support than the previous ones.

Mr President, Dr David LI yesterday called the Budget a "sugar-coated budget" with ulterior ill intent. He said that self-hypnosis to the point of complacency might well lead to nightmare. I find these to be alarmist observations and I totally disagree with them. Dr LI may have a different method for managing money matters. But no one knows if his is a good method or a bad one. Dr LI has only one concern: inflation. He has only one object of attack: the pegged exchange rate. Everything else seems insignificant. Like myself, Dr LI as a Legislative Council Member has seen two Financial Secretaries come and go. Sir Hamish is the third. Dr LI has had only adverse comments for them. He has never uttered one word of praise. Indeed, Dr LI "will never stop trying to find shocking things to say."

Mr President, inflation is indeed a serious problem. But Hong Kong being an open economy of moderate size in this latter part of the transition period, must maintain the pegged exchange rate, even if as a necessary evil. I wonder if Dr LI would be courageous enough to assume the responsibility should a crisis follow the abolition of the pegged exchange rate. It is indeed very easy to play the role of a shadow Financial Secretary. Dr LI, despite his very heavy schedules, seems very good at it.

Mr President, under the unusual circumstances that now exist in Hong Kong, it is not possible to find a total solution to the problem of inflation. Therefore, we should confine ourselves to dealing with run-away prices in specific situations. The worst situation now is that of soaring property prices, especially residential property prices. I think that the solution most likely to be effective over the short term is not the increased supply of land or the levying of a capital gains tax where the value of property has appreciated. To my way of thinking, the real solution would be to put on the market, offering them for sale at a low price, all of the public rental housing units, provided that anybody who buys a unit should be free to let or resell it without having to pay a back premium charge and provided that every permanent resident who is a head of household may own no more than one unit. If this is done, a second tier residential property market will immediately emerge in Hong Kong. Over time, as more and more public housing units are built for sale to Hong Kong's

permanent residents and as supply and demand are brought into balance, prices will stabilize on this second tier residential property market. This market will not lend itself to manipulation by local hot money or hot money from China. The above is not a new idea from me as I have expounded it in this Council before. Now it seems that the Liberal Party, too, has espoused it. Of course, the Liberal Party claims that the idea is theirs.

Mr President, the Financial Secretary's Budget contains proposals of major tax concessions for the 1994-95 year. It is being highly commended by members of the public. Before I go on to the specific tax proposals, let me say something about a budgetary strategy or principle that is widely misunderstood. Many people think that Hong Kong's traditional budgetary strategy or principle is "keeping expenditure within the limits of revenues". Article 107 of the Basic Law gives this principle the force of law. Actually, Hong Kong's traditional budgetary strategy is "basing revenue plans on spending estimates". These words may jar one's ears when one hears them for the first time. But if one understands what they mean, one will not find them outlandish. Instead, one will agree that "basing revenue plans on spending estimates" is the right strategy for the preparation of public budgets. "Keeping expenditure within the limits of revenues" is just a cliché. It is a warning against waste, against taking things for granted. It is an exhortation to be careful with spending money.

Mr President, the Government's first consideration is: What recurrent expenditures and what capital expenditures will be necessary in the coming year? The next consideration (if there is money) is: Which new spending programmes should be added? If revenue estimates show that there will be just enough money to meet the necessary items of expenditure, then the new programmes cannot be added. However, if it is determined that the new spending programmes will be in the interests of long-term development of the territory, then thought must be given to the feasibility of raising tax to come up with more money to pay for them. The strategy of "basing revenue plans on spending estimates" not only enables the Government to maintain services but also creates conditions for further economic growth. It has been one cause of Hong Kong's success.

Mr President, the Financial Secretary can be described the world's luckiest as far as his Budget for the 1994-95 year is concerned. Hong Kong has enough revenue to meet all the necessary expenditures. It has more than enough money to meet development needs. Tax concessions are quite logical in these circumstances. "Wealth should be returned to the people." "The population should be the store of wealth." The Government has more money than it can spend. So why not cut tax? This is the best example of "basing revenue plans on spending estimates".

Mr President, on specific tax items, many Members say that some of the proposed concessions may represent too steep a reduction. Here are two examples.

(1) The air passenger departure tax will be reduced from \$150 to \$50. Is such a cut necessary? I suspect that there may be a hidden reason for it. As a tax \$50 is probably sufficient. Is this particular tax cut intended to pave the way for introducing a service charge at the new airport, a service charge of \$100 or \$200? If such be the case, then the Financial Secretary should say so plainly. I hope that he will. (2) The profits tax rate will be lowered from 17.5% to 16.5%. There is no strong demand for such a cut. Many companies think that they can cope with the 17.5% profits tax rate. Is it necessary, then, to lower the rate to 16.5%? All right, the rate will be cut. Let us call it a temporary cut and leave it at that. But the Financial Secretary fails to propose tax cuts where it is necessary. There is an element of concession in the proposed manner in which the estate duty will be levied. As far as I know, Dr WOO Pak-chuen, while a Member of the Legislative Council, worked for many years for the total abolition of the complex estate duty.

The Financial Secretary has heeded good suggestions and raised the tax allowance for salary earners. Last year, I took the position that the personal tax allowance should be raised to \$72,000. My last year's request is being fully met this year, but one year too late. I think that no big problem will ensue no matter how this may narrow the tax base. Basically, we do have a tax base that is quite broad — rates are a form of tax that almost everybody has to pay. Last year, I talked about a set of statistics. I said that, about 20 years ago, about 30% of our working population were in the salaries tax net. The Financial Secretary now says that about half of the 2.8 million working population do not have to pay salaries tax. Another 420 000 will now be added to the number who do not have to pay tax. This leaves just over 900 000 people who pay tax, exactly about 30%.

Mr President, lastly, I turn to rates. In the 1992 Budget debate, I said that many people had grave misconception about rates. Rateable values are reassessed once every three years. What usually happens between reassessments is that the rates percentage charge is raised, lowered, raised again and lowered again. It is lowered in the year of the reassessment and then raised gradually in each of the following years. Regrettably, when the Financial Secretary proposed to raise the rates percentage charge from 5.5% to 6% in 1992, he was opposed by the two major parties in this Council. He was then forced to withdraw his proposal. I said at the time that, if people were to have less misconception about rates, the rates percentage charge should be set at a permanent 5% or 5.5%. Even if rateable values must be reassessed once every three years, an interim reassessment can be made yearly and rates are payable at the permanent rate of charge year after year, based on the annual interim reassessment. Thus, rates payments can be adjusted every year but rateable values will be reassessed once every three years. If this is done, everybody will see that rates are the fairest tax in that they are proportional to income. Rates will then be less maligned but become a reliable source of revenue for the Treasury.

Mr President, I concluded my 1992 speech with the following words: "I am courageous enough to support this Budget." Today, I am even bolder and I will say, "I even dare to say that I am courageous enough to support this Budget."

MR PETER WONG: Mr President, the Financial Secretary in his Budget speech headlined "Managing Prosperity" painted a rosy picture of economic growth for Hong Kong and allowed the community to share the fruits of prosperity. Once Hong Kong got over the Budget euphoria, problems underlining our economic success surfaced. Here, I shall highlight some of my concerns over Hong Kong's uncertain growth, unstable tax base, and inefficient environmental and financial management.

### ***UNCERTAIN GROWTH***

Despite the territory's unbroken economic expansion of the last few years, economic analysts have drawn our attention to Hong Kong's sluggish response to the challenges of drastic structural changes and heightened international competition. Of grave concern are our spiralling property and salaries costs which are frightening away would-be investors. The slow-down in trade growth, the supply bottleneck and high inflation that ranks above that of Organization for Economic Co-operation and Development (OECD) countries have exerted pressures on wage earners and savers alike.

Economic growth is further threatened by China's unknown ability to maintain its fast growth and curb inflation. Hong Kong is also held hostage to the whims of China's Most Favoured Nation status, the pressure exerted on China by her trading partners, the new airport and CT9 project developments. Thus, it will be foolhardy to take absolutely for granted a real growth rate at 5.5% for 1994-95.

The Government is trying to harness pernicious inflation by tackling land and labour supply which are the few tools under its control. Although plans are underway to improve the plot ratio and to streamline land redevelopment process, they do not provide quick or complete solutions to our inflation problem. Meanwhile, the heavy rental burden still falls on the business sector and the 20% of our population who have to rent from the private domestic market. In addition, the proposed rates increase which imposes blanket coverage on the domestic, commercial and industrial sectors, will add to the cost of doing business in Hong Kong and further erode Hong Kong's competitiveness. In this coming year, we do not need the extra revenue from rates which will add to our inflation. It is for these reasons that I support the Liberal Party's proposed amendment to the Appropriation Bill. A more proactive and imaginative solution is urgently needed to curb property price-hikes and to increase the supply of office premises.

***TAX BASE***

Equally important for achieving economic success is the stability of revenue sources. By making major concessions in profits and salaries taxes this year, the Financial Secretary has given away some \$4.6 billion of stable tax revenues. The dropping out of 420 000 taxpayers from the tax net will heighten general expectations for similar level of concessions in the future, making it difficult to increase taxes when the need arises in future. Further, as a result of a narrowed tax base, tax revenue is likely to become more volatile and sensitive to the business cycle.

In my view, our fiscal policy should be targetted at enhancing competitiveness, increasing productivity and generating greater wealth which in turn generates higher taxes. The tax base should be broadened by adopting neutral, high yielding and non-volatile revenue measures. Under the existing political circumstances, it takes a great deal of courage to propose unpopular tax measures; yet the effects of a stable tax base on our economy and Hong Kong's status as a centre for regional headquarters are too significant to be ignored.

The current tax proposals rely too heavily on stamp duties and property rates. While the policy of tax concession for off-shore profits must be adhered to, the proposal of a wholesale sales tax should not be wholly forgotten. Taxes on luxury items should be considered, taking into account the proper balance between direct and indirect taxation. The User Pays Principle should also apply vigorously in non-welfare services, and I note with interest the upcoming details of the Sewage Services Charging Scheme which is a good means of recovering the cost of services.

***EFFICIENT MANAGEMENT***

Let me now turn to the efficient management of public funds. The Financial Secretary has not addressed the problem of a consistent budget surplus, and the building up of unnecessarily huge reserves. The 1993-94 surplus of \$15 billion has in fact been concocted after siphoning \$6.8 billion off to the Sewage Services Trading Fund. In view of the original small deficit, the huge surplus calls to question the ability of the Financial Secretary's team to manage the public coffer.

According to an unofficial criterion for budget calculations, reserves at the start of any financial year should not be less than 50% of the estimated public expenditure for that year which, in this case, is \$174.4 billion for 1994-95. Thus, the 1993-94 \$136 billion reserves is almost twice the appropriate amount, and far exceeds the "prudent judgement and reasonable level" set by the Financial Secretary. There is therefore a need to review the 50% reserves criterion, as well as the ratio of public expenditure to GDP, estimated at 18.1% for 1994-95. We must resist the urge to spend just because the money is there.

**A. *Medium Range Forecast (MRF)***

Similarly, the MRF has never been close to actual as far as revenue and capital spending are concerned. The 1994-95 estimated surplus of \$7.7 billion, together with the earlier estimated deficit of \$16.6 billion and the \$6.6 billion tax concessions made would add up to a difference of \$30.9 billion against the original forecast. Although the revised format presents the figures more meaningfully, the MRF methodology still fails to give realistic forecasts. The estimated figures are far too conservative to be able to present a true and fair view of the public sector. It fails to tell us whether the public sector is spending beyond our means, or how much the reserves brought forward will be depleted during the year. Such latitude certainly will not be accepted by the Hong Kong Stock Exchange if the Government were listed.

A better way of MRF presentation would be to provide a list of capital projects and their costs to completion estimated on a rolling accrual basis. Here, I must pay tribute to the Financial Secretary's decision to provide the Finance Committee in future with supplementary financial statements based on accrual accounting, which will help us to see the full cost of selected activities. Indeed, I am convinced that commercial accounting practices are better tools to reflect the real value of our publicly funded activities.

**B. *Environmental protection***

The efficient management of public finance involves allocating appropriate resources to achieve set objectives, and it is in the financing of environmental protection that I identify a major shortcoming. The EPD's estimated recurrent expenditure of \$1.05 billion for 1994-95 has hardly addressed the need for long-term conservation strategies to back up the remedial programmes needed to tackle air, noise and water pollution and to manage waste. Territory-wide waste minimization and re-cycling still remain at the policy proposal stage, while the work of the green managers has been confined to energy efficiency and paper waste reduction in government departments. The exemption of first registration tax for electric cars — the only tax incentive measures for environmental protection, is regrettably too small to be of any real value.

Our Environmental Affairs Panel has long questioned the effectiveness of our environmental legislation. Seldom are maximum penalties imposed on offenders, and an average one tenth of the maximum fines is imposed. Although the budget estimates this year have made provision for substantial increases in the Government's inspectorate power, efforts to clamp down on illegal land use, trade in endangered species and other pollution activities still need to be reinforced.

More importantly, there is inadequate financial support given to environmental education — the key to successful conservation in the long term. Business and industry need to be educated about the indirect health cost of

pollution, energy efficiency and environmental management; while the general public must be rallied to the tasks of waste minimization, water conservation and the 4 R principles. I therefore welcome the Government's plans to develop and establish a community relations network to launch massive public education campaigns. However, I am not happy with the Department's explanation given for the decrease in the budget allocation for community relations when all its other programme areas are given substantial increases, since it made no reference to the community relations network in question. As such, we can only count on the Environmental and Conservation Fund to enable our green groups to carry on with their good work in community-wide environmental education. Even now, we are ignorant of how that Fund works and whether the EPD will monopolize it to achieve its own agenda.

### *C. Tax avoidance*

Before closing, I must register the accountancy profession's strong protest against the criticism directed at the use of personal service companies. Honourable Members should be aware that the taxpayer has the right to arrange personal financial affairs to pay the minimum tax within the existing legal parameters. In many instances, service companies, often used to take advantage of the tax concessions for employment privileges and fringe benefits, may be legitimate in their dealings. There is an inequity in the present system in that an accountant practising auditing must do so as a sole proprietor or partner and pays business profits tax at the standard rate of 15% without the ability to obtain tax free fringe benefits such as company car or retirement plans available to employees. It is not clear whether the Financial Secretary is seeking to deny these benefits in general or just to the practitioner with unlimited liability. If the former, he must explain the rationale for the employee paying tax on only 10% or less of his salary for employer-provided residential accommodation which is perhaps the greatest perk for top civil servants.

Service companies help to attract highly skilled professionals by offering employment contracts in a tax-efficient manner. It is only when some professional advisers go too far and counsel inflated management fees and make abusive uses of off-shore businesses and retirement funds for tax purposes that the system needs to be controlled. We resent the implication that the use of these companies to minimize tax is in anyway illegal.

Accountants whom I talked to see great difficulties in enforcing the proposed legislation designed to tackle tax avoidance. Firstly, it is difficult universally to tax the cash economy and that is why turnover taxes are so resented by practitioners and would-be taxpayers alike. Secondly, some professions such as accountancy, which are not yet allowed to incorporate or provide services which bring in non-professionally qualified partners, have to set up service companies as part of their business operation for commercial reasons. To mount a general attack on service companies could catch the genuine and non-tax motivated business activities. Thirdly, worldwide experience shows that however harsh the anti-avoidance legislation, employees

will find ways to cut down their tax bills, so that the Inland Revenue Department may in the end find that the revenue recovered does not warrant the legislative effort spent.

Recent Board of Review cases have demonstrated that the existing Inland Revenue Ordinance already empowered the Commissioner of Inland Revenue to tackle the abusive use of service companies. The problem of enforcing the existing legislation is attributed to the lack of manpower to spot malpractices and the solution lies with strengthening the law enforcement capacity. If the effectiveness of a tax audit is anything to go by, field audit to plug existing loopholes will only cost a small fraction of the hundreds of millions of tax leakage. But to enact new legislation will stretch the ingenuity of our law draftsmen, complicate our simple tax system, and create more uncertainties in the application of relevant tax laws; in other words, we are using a sledge hammer to crack a nut. The accountancy functional constituency believes that making use of the existing legislation and finetuning the tax deduction items is the best way forward.

Mr President, in the long years of my professional career, I have always examined the pros and cons of the issue before giving advice. The advice I have given to my clients for some time is that the cost of the tax avoidance effort often outweighs the benefit of the tax saved. My conclusion is that their time would be more profitably spent on earning another dollar rather than trying to save the 15 cents of the dollar already earned. A survey recently conducted among the senior executives of Hong Kong's listed companies shows that the business sector wants a tax regime that is fair and equitable, and that 86% of the survey respondents support the field audit exercise. This helps to explain why practical administrative measures are considered to be more effective than legislative means in achieving efficient management of our revenue income.

MR ALBERT CHAN (in Cantonese): Mr President, as the Financial Secretary read the revenue part of his Budget speech, he at first gave many people a pleasant surprise. However, upon closer analysis, it can be seen clearly that nothing substantive has been changed. It is not a case of "returning wealth to the people" at all, because any real attempt to "return wealth to the people" should be based on equitable social and economic principles. These principles should ensure that ordinary citizens' fruits of hard labour will not be eroded by monopolistic market conditions and that their basic livelihood can be maintained. The 1994-95 Budget is not a real step towards "returning wealth to the people." It is created by the domination of political orientation. It aims to protect those with vested interests by giving a token response to the suggestions of the political parties so as to take political pressure off the Government. I must point out that the Government's effort has not been able to cover up the fact that the Government is creating a deformed socio-economic structure and playing a villain's role contributive to unfair social relations and social contradictions.

First of all, the disparity of wealth between the rich and the poor in Hong Kong has been worsening, rather than improving, over the past decade or so. In 1976, the poorest 20% of Hong Kong's families owned 5.4% of Hong Kong's total wealth while the richest 20% owned 49.5%, which is over nine times of the former. Such polarization has been accelerating in recent years. In 1991, the wealth of the richest 20% of Hong Kong's families was 12 times that of the poorest 20%. On the other hand, we often take pride in the sustained and continuous growth of our economy. Our GDP per capita, one of the economic indicators, has grown by more than 300% in real terms since the 1970s. Yet, as shown in the above figures, the financial situation of the lower classes has not improved correspondingly. Even more ironically, the ratio of spending on social security against GDP *per capita* has kept falling. It fell from 13.1% in 1981 to 8.6% in 1993. The Government's indifference to the basic livelihood of those who are least able to help themselves will be seen as a major stain in the record of British rule in Hong Kong. How will those who often accuse the Government of giving out "free lunch" face this fact? I believe that the Government regards their accusation as "a minor irritation but a big help".

We should not imagine that the low-income groups are the only victims of the existing social system and Government policy. Even members of the elite, whose intelligence and hard work have enabled them to pass one examination after another in Hong Kong's gruelling school system, may not be living well or working happily. We are witnesses to what has happened to them. Less than 20 years ago, the professionals or semi-professionals had sufficient disposable income and savings to buy homes, enabling them to enjoy their reward for serving the community. But run-away property prices are now making life unbearable for the same social strata. Taking the figures for 1983 and 1992 as an example, the price of a small medium to small residential unit (76 sq m or under) on Hong Kong Island went up from about \$8,000 per square metre to about \$40,000 per square metre. This was a 400% increase. The causes of the run-away property prices are many. When speaking in the Legislative Council, the Secretary for Planning, Environment and Lands said that he could see no evidence that residential units were being hoarded. "Could see no evidence" was a masterful choice of words. Luckily, having been reminded again and again by the Members, the Financial Secretary finally sees that shortage of land is one of the reasons why property prices have far exceeded affordable levels. The Chief Secretary, wearing a broad smile, has notified us notice that the Government will announce in two or three months a specific plan to increase the supply of land.

I want to take the this opportunity to remind the Government that members of the public have cherished high hopes for it to increase the supply of housing and to keep property prices under control. Failure to live up to their expectation will damage the Government's credibility and lead to a crisis. Mr President, I must point out that the Government must take simultaneous moves to increase the supply of land and abandon its policy of high land prices in order to achieve the desired result. The policy of high land prices supports a speculation-driven economic structure and pattern of behaviour. It also forces

and induces members of the public to engage in all kinds of speculative activities and forget the virtue of diligence and practical work. Our community is already paying a high price for this. Such a policy is a "time bomb" in the community of Hong Kong.

Another matter of much concern to the United Democrats of Hong Kong (UDHK) is "urban redevelopment." On this issue, the Government's attitude has always been "selling the cow and drinking the milk". It wants to increase housing supply and improve community environment through urban redevelopment, but it does not make a reasonable financial commitment. One problem is that, without a good infrastructure (e.g. roads and transport systems), redevelopment is hampered in many ways. Another problem is that the Government has not taken up its responsibility to give proper accommodation to those who are affected by the redevelopment projects. Instead of having their living environments improved, the victims are forced into predicaments where they must pay high rents or sleep out in the streets. The Government's handling of the matter is indeed irresponsible. Let us look at how the London Government redeveloped Dockland. Despite its less than healthy financial position, the British Government has invested one billion pounds sterling in that redevelopment project. In contrast, the Hong Kong Government is running away from its responsibility despite its robust financial position. This is quite wrong.

Summing up the above, I think that a reasonable philosophy of managing the public coffers is missing in the 1994-95 Budget. While the tax concessions are a small step forward, the Budget speech contains no good news in the area of social justice. I will now express my views on what the Budget has to say about infrastructure projects and the capital investment fund.

In regard to the infrastructure projects, works with a bearing on the quality of our daily life, including the duplicate Tsing Yi South Bridge and the Tseung Kwan O Railway, are still delayed. Concerning the projects for widening the section of Castle Peak Road between Tsuen Wan and Tuen Mun, only a few parts have had their commencement dates confirmed.

UDHK expects the Government to take up its responsibility for improving the supply of car-parks, in addition to the construction of roads and transport systems. Of course, it will be a great help to ease the shortage of car-parks if the Government revises the ratio of parking spaces to residential units in the planning guide. The present situation can be ameliorated only if the Government would build more public car-parks to provide a reasonable number of parking spaces. This cannot brook one moment's delay, especially in the remote areas, where members of the public need to use private cars to commute.

Serious landslides occurred in 1992 and 1993 because of the collapse of slopes. But the Geotechnical Control Office still keeps its staff for inspecting the safety of slopes at under 110. The 1994-95 Budget proposes less, instead of

more, slope-improvement projects. Although the Government plans to conduct a systematic registration of all unrecorded slopes in Hong Kong, this alone will serve no useful purpose if the improvement projects stand as they are.

Concerning the financial arrangements for the new airport, there have been repeated delays in the two most important projects of the new Airport Core Project: the Chek Lap Kok Airport itself and the Airport Railway. The delays are due to the failure of China and the United Kingdom to reach agreement quickly on the new airport financial package.

The Government has repeatedly asked the Finance Committee of the Legislative Council for money to meet the needs of individual projects. However, Members have made decisions in the absence of any information on the financial package. UDHK's consistent position is that Hong Kong's overall economic needs must be considered. UDHK does not want unnecessary delays to the new airport project. That is why it has so far approved the Government's requests for money. But such a situation should not continue. The Government has an obligation to provide this Council and members of the public with clear information about the new airport financial package.

It is even more absurd that the Government has refused to disclose any information about the fourth financial proposal on the ground that talks are in progress, although the Executive Council decided to present it to China in early February. The Budget speech contains no explanations on the financing arrangement for the airport either.

I will now talk about the capital investment fund (CIF). The Government first established CIF in March 1990. It was mainly to serve the purpose of financing the MTRC, the KCRC and the Housing Authority. Subsequently, its scope was expanded to include the financing of the Provisional Airport Authority (PAA), the Trading Funds and other statutory commercial entities. The disbursements made by CIF were \$6.2 billion in 1990. The figure will rise to \$20.6 billion in 1994.

CIF, growing all the time, has now become a black hole of the Budget. It has become an unmonitored source of money for government departments.

To begin with, the purposes served by CIF are not clearly spelt out. Its scope has been widened gradually. It not only invests in commercial entities in the public sector but also performs non-profit-making investment services. An example is the recently established Sewage Trading Fund. The expansion of CIF follows no clear criteria. People get the impression that the Government intends to let CIF take over the management of controversial services so as to escape the supervision of the Legislative Council and members of the public.

Secondly, the internal control of CIF is rather lax. There is no proper financial supervision. The Government does not have set rules to exercise financial supervision over the services within the scope of CIF. The Housing

Authority is supervised by the Audit Department, but the MTRC and PAA are not. The Government lacks comprehensive and reasonable systems and rules to manage CIF. From time to time, one hears stories about some entities (for instance, PAA) abusing public funds.

Lastly, the Government has capriciously and arbitrarily reserved large sums of additional money for CIF since last year. It was \$7.5 billion last year. This year it will be \$11.4 billion, which equals to 55.3% of CIF's total disbursements. Government has so far refused to disclose its reason for reserving the substantial extra funds. This lowers the transparency of the Budget. It also visibly undermines the supervisory functions of the Legislative Council over the Government's expenditure.

Mr President, the Financial Secretary says in his Budget speech that the 1994-95 Budget will meet the expectations of members of the public, raise the quality of the Government's social services and strengthen the infrastructure needed by social progress and economic growth. But I must note that the Budget is still a far cry from the expectations of the general public. It is a sin for the Government to tolerate absolute poverty in our affluent society and to tolerate such unfair redistribution. The Government must revise its philosophy for the management of public coffers and stop the continuation of those financial arrangements and administrative policies that depreciate the value of human beings.

Mr President, I so submit.

MR MARVIN CHEUNG: Mr President, I thank the Financial Secretary for his speech. Whilst I support many of his revenue measures, I have serious reservations about some of them.

The Financial Secretary attempted to address concerns raised by Members and the public on the Government's proposed old age pension scheme. He warned that relying on a more "generous" social security system would result in an "open-ended commitment", implying that the old age pension is less of a commitment. I cannot agree. Similar or even more stringent criteria could be imposed on a social security system as far as the proposed old age pension is concerned. Indeed, the level of benefits of either system could be adjusted from time to time by resolution of this Council.

The Financial Secretary also stated that means testing would not be an effective way to reduce the burden because the elderly are the least well-off in our society. Again, I cannot agree. Whilst it is probably a truism to say that the wealth of the elderly as a whole may be lower than that of the working population, it is not a valid assumption that all or a majority of the elderly would require assistance from a social welfare programme. Indeed, given the healthy state of our economy over the last three decades, as stated by the Financial Secretary himself, most of our elderly should have benefited from a

satisfactory level of income. As the Government says in its own consultation document on retirement protection, Hong Kong's population has one of the highest savings rates in the world. It is reasonable, therefore, to conclude that most of our elderly would have put away sufficient savings for their retirement. I do recognize, of course, that there are exceptions and it is these that our social welfare system should seek to target by means of suitable qualifying criteria such as residency and means testing.

The Financial Secretary also suggested that an old age pension scheme would link benefits to contributions. The use of the word "link" is very vague. Clearly, benefits payable under an old age pension scheme could not easily be reduced, so the commitment to expenditure would not differ from a social welfare programme. The only possibility of linking expenditure to the available funds would be to vary the "contribution" levels to match expenditure. The use of the word "contribution" is, as I have said in a previous debate, a total misrepresentation of the truth. What is proposed is, in fact, a tax on employment. The yield from this new form of taxation would depend on the number of persons being employed, their levels of income and the rates at which the tax would apply. As the first two matters are beyond the direct control of the Government, the only way to increase the yield from this form of tax to meet any increased expenditure is by raising the rate of tax. I would ask the Financial Secretary to explain how this is different from raising any other form of taxation to pay for an increase in government expenditure on social welfare.

The Financial Secretary did not really answer the question of how the Government intends to deal with the self-employed nor why he does not believe that employees will simply change their status to self-employed persons in order to avoid the payroll tax. The fact that the old age pension and compulsory retirement schemes present similar problems is no answer. What resources does the Government believe it will require to effectively administer this additional tax? The additional expense, which I suspect would be very substantial, would not, of course, be required under an enhanced social welfare system.

The Financial Secretary acknowledged the Government's responsibility to produce a full consultation document about its proposals on retirement benefits but he failed to specify any date. This is clearly unacceptable. Why, if the Government did its homework before making its policy statement in December 1993, is it still unable, some three months later, to commit itself even to a publication date?

Turning now to salaries tax, I welcome the proposal to reduce the marginal rate from 25% to 20% but urge that consideration be given to further reduce this to the standard rate of 15% in order to eliminate the clearly discriminating treatment of the sandwich class taxpayers.

I also welcome the proposal to reduce profits tax rate from 17.5% to 16.5%. However, I am intrigued by the rationale behind this move. When he increased profits tax two years ago, the Financial Secretary said that this "would have no appreciable impact on either local or international enthusiasm for investment in Hong Kong". Yet he is now able to say that the reduction in corporate profits tax "will enhance our competitiveness as a regional business centre".

The Financial Secretary proposed to simplify duty on wines and spirits with a revenue neutral ad valorem duty of 90% or 100%. The measure sounds fine in theory but I have reservations about it in practice. For example, under the new rules, 90% duty is payable on the imported value of wines. There will, therefore, be an incentive for importers to arrange for the imported price to appear as less than the actual cost through the use of intermediaries. Importers would then save duty on 90% of the reduction in value and pay profits tax at 16.5% on enhanced profits realized in Hong Kong, thereby gaining an advantage of over 60%.

The Government may say it can prevent this but I am doubtful. If it finds it necessary to change the basis of assessing first registration tax (FRT) of motor vehicles because it is unable to determine the correct value of imported motor vehicles, what chance does it have with the many different types of wine which all have different values depending on various factors and fluctuate from year to year according to market conditions? I suspect that the Government would need to devote much more resources to collecting the same amount of tax or run the risk of significant reduction in revenue yield.

The Financial Secretary spoke of the use of "shams and artificial arrangements" to legally avoid tax. He referred to the use of service companies which he described as being wrong in equity and having no commercial justification and proposed changes to deal with service company arrangements. I invite the Financial Secretary to explain why the powers given to the Commissioner for Inland Revenue under sections 61 and 61A of the Inland Revenue Ordinance are ineffective in tackling arrangements which are a sham or artificial or lacking in commercial justification. Otherwise, I see no basis for supporting the proposal.

In any event, the Financial Secretary should make clear what is being contemplated and say when the draft legislation will be ready for our examination. I would remind Members that the Financial Secretary first announced a change in the basis of motor vehicles FRT in February 1992. Nothing was done for a whole year. He repeated the proposal in his Budget speech a year later, yet the blue Bill to amend FRT was published in June 1993 — some 15 months after his initial announcement. As the Financial Secretary has not clearly explained what changes he intends to make to the taxation of service companies, I will oppose any retrospective application of these new provisions.

The drafting of amendments to the Inland Revenue Ordinance must take into account the fact that Hong Kong needs its tax system to be simple and clear. Certain amendments to the Inland Revenue Ordinance in the past have caused severe problems in practice because they fail to specify precisely what income will be subject to tax and what will not. Whilst tax practitioners, including myself, will benefit in the short term in view of the additional work created by the confusion, it cannot be good for Hong Kong in the longer term. Therefore, I will also oppose any changes in the Ordinance which create uncertainty in our taxation system.

Mr President, with these remarks, I support the motion.

MR CHEUNG MAN-KWONG (in Cantonese): Mr President, land and housing have already caused social contradictions and have become the centre of concern of the entire population. This year's Budget contains a most serious political mistake, which is that the Government intends to continue its outrageous policy of high land prices. For a long time, land has been the monopoly of property developers, and the supply of domestic flats has been under their manipulation. Speculative activities just like pouring oil onto the property market, have pushed property prices upward like a rocket. Thousands of citizens can now only dream about owning their homes. At present, while property developers sit on land holdings as extensive as the size of an entire city, ordinary people do not even have standing room. This contradiction has intensified and there is now a public outcry against it.

Who is the mastermind behind this policy of high land prices? Who should be administratively responsible for it? The answer is the Government of Hong Kong, which is making vast fortunes out of land. During the past financial year, proceeds from land sales and incomes from property accounted for 14% of the Government's total revenue. Stamp duty alone accounted for 7% of it. Most of the Government's \$18.5 billion budget surplus of the past year represents incomes from property. When our revenue becomes so dependent on incomes from property, the Government itself has a vested interest in the property market. How then can we expect it to abolish the policy of high land prices?

Under the policy of high land prices, the entire property market, which should be a free market, has been controlled and has become a monopoly. A dozen of property developers own most of Hong Kong's usable land. They can and do jack up property prices by controlling the supply of domestic flats. "In some cases, nothing is built on the land available. In other cases, the buildings erected are not for sale. Property is sold for the purpose of speculation and flats are left unoccupied consequently." The above description shows how absurd the situation has become. Last year, the Government estimated that there would be 37 000 flats put on the market. The actual figure turn out to be 27 000 flats. Of these 27 000 flats, 17 000 were left unoccupied. In other words, only 10 000 newly built flats have really reached the hands of end-users.

This shows that, while the shortage of land and the shortage of newly built flats may be the causes of run-away property prices, their importance has been exaggerated with ulterior motive. The more important cause is the monopoly of land and the monopoly of housing supply. Unless we break this monopoly which is destroying our free market, the people of Hong Kong will be doomed to work all their lives for the property developers. The hard-earned money of the whole family will go to paving the construction of the golden sites of the property developers.

Mr President, public anger has reached a critical point. Should something be done about it or should it be allowed to grow further? This is the political choice that the Government must make. A promise to increase land supply as a long term plan is as futile as fetching water from far away to put out a fire that is burning next door. Building 10 000 Home Ownership Scheme (HOS) flats for the sandwich class is as futile as using a cup of water to put out a fire that is consuming a wagon-load of firewood. One cannot stop water from boiling by stirring the pot; one must remove the firewood from under the pot. The Government must take the right kind of action if it wants to break the monopoly. First of all, apart from sharply increasing the supply of land, the Government must also make rules requiring all completed flats, either built on new sites or redeveloped sites, be put on the market for sale within a set time. This will prevent hoarding of flats from being used to keep prices up. Secondly, a lot more new HOS flats — 20 000, 30 000 or even more — must be built for the sandwich class. This will turn the Government into a principal supplier of residential accommodation. Monopoly will then disappear, replaced by virtuous competition. Most importantly, a capital gains tax must be collected from property speculators, who will thus have to pay a heavy price for speculation. This will force them to put more of their unoccupied flats on the market, where they can be bought by end-users on favourable terms.

Mr President, actually, the question is not one of methodology but one of resolve. The other day, Mr EASON, the Secretary for Planning, Environment and Lands, said that restraining property prices would impair the interests of 850 000 property owners. Mr Donald TSANG, the Secretary for the Treasury, added that imposition of capital gains tax for property speculation would victimize property developers who account for 40% of Hong Kong's economic activities. Nothing can be more absurd than these kinds of remarks, which are based on the logic used by bandits. The Government should not adopt a policy that intends to protect the interests of those who already own property and who want to see the value of their property appreciate day by day. Nor should any policy be adopted with the intention to protect the monopoly or the growing kingdoms of the property developers, who want to accumulate their wealth until they are individually as rich as a whole nation. Instead, the Government should adopt a policy that will ensure those home buyers will be able to buy a flat for their own use. Today, mock logic is being used to incite property owners and to turn them against those who do not yet have, but want to buy, homes. This creates a conflict among members of the public. The secret motive is to protect the interests of the property developers and to protect the sources of ample

revenue for the sunset government during its last three years. No attention at all is paid to how much suffering will be caused to members of the public by the policies of high land prices, high home prices, high rents and high rates, or to what serious problems will be left for the Special Administrative Region Government by these policies. The implementation of such policies on the eve of retreat from Hong Kong is irresponsible and even unethical.

Mr President, as far as education is concerned, the most serious contradiction in the Budget is the imbalance between the development of higher education and basic education. The ratio of basic education spending to total education spending has been declining from 74% in 1989 to the present 64%, dropping by 10% over the past five years. The expenditure on pre-school education is even more pathetic, accounting for only 0.8% — not even 1% — of total spending on education. In contrast, the ratio of higher education spending to total education spending has risen sharply, from 30% five years ago to nearly 40% at present. From the above figures, one can see that the Government tends to undervalue basic education and this tendency is deteriorating to the detriment of the interests of 1 million students and their parents.

There are specific examples of Government's negligence of basic education: a large number of floating classes continuing to be found in secondary schools and no prospect of full-day primary schools becoming a reality any time soon. Not even one new full-day primary school will open in the coming year. The only primary schools that will convert to the full-day system are those which are about to close, having reached the limit in reducing the number of classes. Mr President, the systems of floating classes in secondary schools and half-day schooling in primary schools are the subjects of complaints by the entire population who wants these systems to be changed. But the pace of change is as slow as a snail or an ant. This is indeed a disgrace to our education system. What is even more infuriating is that kindergartens, which are necessary to 200 000 children, are left to survive or perish on their own. Any help they receive is given as charity. They receive no proper attention or financial assistance. Stinginess in funding pre-school education contrasts starkly with the generosity in funding higher education. They are just in opposite extremes.

Mr President, I am fully in favour of the development of higher education in Hong Kong. Our economic development badly needs the support of human resources. But human resources do not solely rely on higher education alone. Basic education and higher education work together to prepare human resources for meeting the community's needs. Tertiary education has been expanding very rapidly in recent years, with visible adverse effects on the quality of tertiary students. Spending more money on tertiary education will not stem this tide. The basic solution — the promising solution — to the problem is to improve basic education first. At the present moment, Hong Kong now has a golden opportunity to do something to reform basic education. Firstly, the number of school-age children is declining. Secondly, the Government has a lot of surplus money. Lastly, the establishment of the Institute of Education will

produce a lot of good teachers. I urge the Government to seize this golden opportunity to build more schools, to improve the quality of our teachers and to revise the syllabuses, thereby giving all students access to high-quality basic education and then high-quality higher education.

Mr President, students are the beneficiaries of education. We must not disregard the rights and interests of students. Therefore, I do question the Government's policy to recover 18% of the cost of education from university students, senior middle school students and matriculation students. Due to hasty implementation of this policy, it has brought an annual increase of between 30% and 40% in tuition fees, which is much higher than the rate of inflation. The levels of tuition fees this year are set at \$3,500 for a senior middle school student, \$5,500 for a matriculation student and \$24,000 for a university student. In addition to tuition fees, there are other expenses: books, classroom fees, transport and miscellaneous charges. The financial burden is quite heavy on a family with several children in school. Mr President, while every child needs to go to senior middle school and the community needs graduates of tertiary institutions, should not the 18% cost recovery rate be reduced? Should we not make a greater commitment to, and a greater investment in, our students and education system?

Mr President, attention should be paid to students' interests not only in the school but also in the community. The Recreation and Culture Branch has been cutting the benefits of students for three years. This year, it will try to cut youth camp subsidies by nearly \$10 million. Primary school students, boy scouts and girl guides must pay for camping activities. Last year, subsidies to the Music Office were cut by nearly \$9 million. This made it necessary for New Territories children to take music lessons in urban areas, travelling a long distance, carrying their cellos. The year before last, the athletic tracks of the Hong Kong Stadium were removed for dubious reasons. It nearly became impossible for schools on Hong Kong Island to find a place for holding sports days. Mr President, I really do not understand where students may have given offence to the Recreation and Culture Branch that for three years in a row, their benefits have been cut. Does this Branch only have eyes to grown-ups but not to children? Are we to assume that children can be victimized at will because they have nobody to speak up for them?

Most absurdly, athletic tracks are not included in the reconstruction of the Hong Kong Stadium. Thus there are no tracks for any school to rent. The Stadium is also too expensive for football teams to rent for matches. Neither could it be rented for concerts because of the noise problem. Due to poor planning, the stadium is useless. It has become a white elephant on Hong Kong Island, a grassy expanse that can be used for grazing cattle. I do not know how much taxpayers' money will yet have to be wasted on supporting it. Mr President, the incident of the Hong Kong University of Science and Technology and the Stadium incident are the masterpieces of the Government and the Royal Hong Kong Jockey Club. The problems are considered solved because they are allowed to remain as they are. A lot of taxpayers' money has

gone down the drain. Have not these problems taught us enough painful lessons? Do we have to pay more tuition fee so that the Government may learn and sober up? Even though the money is a donation from the Jockey Club, it must be managed well so that it will not go deeper into troubles. Mr President, I want the Secretary for Recreation and Culture to make some public explanations on the mistakes in rebuilding the stadium. Why were the athletic tracks removed? Why did it cost an extra \$175 million to decorate the stadium? Why was the noise problem not anticipated since the stadium was planned as a site for large-scale concerts? Which government department will be made to pay for any operating loss that may be sustained by the stadium? I now ask the Director of Audit to review the process of the reconstruction of the stadium and give a report to this Council and to members of the public.

Mr President, this year's Budget contains relatively reasonable proposals to raise the personal tax allowance. This will benefit all classes, particularly the middle class. Such measures deserve praise for being consistent with the principle of storing wealth among the people. However, tax concessions alone will not basically lighten the housing burden of the low and middle income groups. Our community still will not be happy. Our incomes and our savings will still be squeezed by property developers and property speculators. Our quality of life will still decline. Storing wealth among the people will remain an empty promise, a dream that will not come true.

Mr President, I so submit.

MR TIMOTHY HA (in Cantonese): Mr President, the Budget for 1994-95 presented by the Financial Secretary is entitled "Managing Prosperity". The Financial Secretary proposes a hefty increase in tax allowances for salary earners and stresses returning wealth to the people. He wants to lighten the tax burden for members of the public and to improve the quality of their lives. This of course is a good news. However, the quality of life cannot be improved by raising tax allowances alone. Unless the Government also works hard to improve various community services, members of the public still will not enjoy high-quality services in housing, health care, education and transport. Any additional money in their pockets will not necessarily improve the quality of life substantively. Therefore, in the budget for the coming financial year, my greatest concern is on the performance of the Government in community development, particularly in the areas of education and housing.

In the area of education, it is basically true to say that our education service is solely controlled and monopolized by the Government which is directly or indirectly providing the vast majority of school places in primary schools, secondary schools and tertiary institutions. School places provided by the private sector represent only a very small tiny minority. Even though members of the public may be able to save more money as a result of these tax concessions, they still cannot acquire better education by paying more. (In foreign countries, anybody who can afford higher tuition fees can send his

children to good-quality private schools.) I find something strange going on. The Government tells us that it will put more money in our pockets. We can use the money to buy pretty clothes. We can enjoy better daily meals. We can even play mahjong and bet on horses. But we cannot improve our children's education despite having more money. Education is not like housing or health care, where members of the public have a choice. If we want better education for our children, we have no choice: We must rely on the Government. Therefore, any tax concessions will not bring substantively better education.

#### (1) Education spending

The Financial Secretary says, "This switch from manufacturing to services has put a premium on education and skills. Our value added is no longer low-cost manufacturing but the expertise of our workforce, the enterprise of our investors and the integrity of our markets."

I agree with all these remarks. Education is the principal way to improve the quality of human resources and so it should receive more attention. Quite obviously, attaching more importance to education means the Government has to spend more money on education. The Government now has ample reserves. Appropriating more money for education should not be a problem at all. However, the Financial Secretary proposes to increase education spending by only 6.5% in real term, less than last year's rate of increase. Clearly, the Government still has not attached much importance to education.

#### (2) Teachers' benefits

The Government is appropriating considerable additional money for improving the quality of education, particularly for improving language teaching. This is the right course. Regrettably, however, no money is being appropriated specifically for improving teachers' benefits. No one will dispute that good teachers produce good students. In order to attract high-quality graduates of tertiary institutions who are interested in teaching to join the profession, and to retain them in the profession, the conditions of service for teachers must be improved. Teachers should be given reasonable benefits. I have been advocating this for years. Regrettably, the Budget for the coming year shows no sign that the Government intends to provide medical benefits to teachers in subsidized primary and secondary schools. Nor will they receive any improved provident fund benefits. Nor will there be any plan to give them a higher mortgage interest allowance if they buy homes.

##### 1. Medical benefits

Teachers in subsidized primary and secondary schools now receive no medical benefits at all. If any one of them should unfortunately fall ill or require hospitalization, he will be left on his own. In a written reply preceding the Budget, the Government had said something odd like this: "Since any member of the public can, upon the payment of a reasonable

fee, receive such medical and health services as are provided by the Hospital Authority and the Department of Health, the Government has no intention to institute a medical benefit scheme specifically for the staffs of subsidized schools." This is heart-chilling if the stance of the Government is really so firm. If the health care services provided by the Government to any member of the public are really so superior, why is there a need for the Government to allocate resources for the provision of medical benefits to teachers of Government schools, the civil servants and the staffs of tertiary institutions and technical colleges? Isn't the Government giving itself a lie? We are now in the 1990s. Even factories wishing to hire unskilled workers have to offer attractive medical benefits. In contrast, the Government is very indifferent to the needs of the teachers. One really has to shake one's head and mutter, "What else can I say?"

## 2. Provident fund

The University and Polytechnic Grants Committee has filed a report to the Education and Manpower Branch of the Government Secretariat. It is a mid-term review of the tertiary education and it expresses concern that the tertiary institutions might encounter difficulties in finding high-quality matriculation students to enrol. If the cause of such concern is to be removed, the quality of primary school and secondary school students must be improved through improvement measures in basic education. Such a burden must of course rest squarely on the shoulders of primary and secondary school teachers. In fact, as far as development of human resources is concerned, primary and secondary school teachers play no less important roles than their counterparts in tertiary institutions and technical colleges. However, they receive incomparably inferior benefits. The provident fund benefit is a case in point. In the provident fund schemes of subsidized primary schools and secondary schools, the teachers receive only a 5% employer contribution during the first five years of their employment. This contrasts with a 15% contribution (three times as much) in the case of provident fund schemes for teachers of tertiary institutions and technical colleges. Unless such inequality is removed, the subsidized primary schools and secondary schools will find it harder and harder to recruit high-quality graduates to fill their teaching jobs. As employers, they cannot compete with employers in the business sector, who are able to offer better benefits as business continues to improve.

## 3. Housing allowance

The Government has recently announced that housing allowance for civil servants (including teachers in Government schools) will be increased by 35% and that, the Government will advance up to 30% of the cost of the homes to these home buyers as downpayment loan. This really makes the teachers in the other kinds of schools livid with envy. While there is a scheme to pay a mortgage interest allowance to teachers in subsidized primary schools and secondary schools, the amount is marginal and it is

very difficult to be qualified for this benefit. In addition, there is an overall cap limiting the monthly mortgage interest allowance to about \$700 for every \$10,000 in a teacher's monthly salary. Such partiality shows what little regard the Government has for teachers in subsidized primary schools and secondary schools.

In the area of housing, according to the findings of an opinion survey recently conducted by the City and New Territories Administration, the most concerned issue of members of the public is not about the Sino-British political quarrel but about the local housing problem. Every citizen wants to have a happy home and a good job. However, to the ordinary little citizens, the ownership of a snug home is just an impossible dream. A young married couple, both university graduates and both working, probably cannot afford to buy a small home by instalments, which now costs in excess of \$3 million. According to statistics supplied by the Government, property prices have risen 430% over the last decade on the average. In recent years, the rate of increase in the property prices has far exceeded the rate of increase in family income.

In the past, the Financial Secretary tried to bring run-away property prices under control mainly by asking the banks to tighten mortgage lending. But the continuous soaring of property prices shows that tightening measures on mortgage lending has not been effective. In his Budget speech this year, the Financial Secretary has reiterated the determination to bring property prices under control. I am very much supportive of this. But I doubt if his measures will really be any more effective.

At the moment, only measures relating to the following three aspects have been proposed:

- (1) Increase the supply of land;
- (2) Speed up the redevelopment of old districts; and
- (3) Make it easier for private developers to apply for land reclamation in their redevelopment project, where the owners of only a few units are holding out.

We are not going to discuss whether these measures will be effective in the long run, they will have no immediate cooling effect on the property prices. According to statistics, property prices rose by 7% to 10% in January. The asking prices for new flats put on the market followed suit and took off. Even at locations far from the urban areas, the asking price for a flat is now between \$3,000 and \$4,000 per square foot. The report of the Secretary for Planning, Environment and Lands shows that the supply of land will be increased after the completion of reclamation projects in West Kowloon, Hong Kong Island Central and Wan Chai and after the relocation of the airport. In other words, property prices will not come down until all these project are completed smoothly in the future. This will not help the immediate problem.

Even after the supply of land is increased, there will still be a shortage of residential accommodation unless more housing is put on the market. The shortage of housing is due not merely to the short-term inadequate supply of land. It is also due to developers hoarding land and refusing to put completed flats immediately on the market. They deliberately create a shortfall of supply in order to keep property prices up. The Government must address this problem more aggressively and take measures very soon to dampen the interests in property speculation. There is no other way. Everybody knows that this is the truth. Nor can the truth be concealed any longer by senior Government officials, no matter how cleverly they may talk.

I have talked about the Government's attitude towards teachers. What I have mentioned about fringe benefits also applies to the social workers. I have chosen to talk only about the problems of teachers because I do not have much time and they are of a greater number. Actually, social workers' problems are similar to teachers'. The Government has never attached much importance to education or to social welfare. So both teachers and social workers have not been treated fairly. This year will prove to be no exception. What is the reason? One possible explanation is that Government officials are influenced by the profit motive of our commercial society. Government officials think that teachers and social workers need not be treated well because they do not directly create wealth. Such thinking is unhealthy. Teachers are responsible to develop human resources for the society and thus help lay the foundation for our prosperity. Social workers are committed to heal social wounds and help the vulnerable people in our commercial society. These people have paid the price for the community's prosperity. Yet they are not being properly cared for.

Another thing I want to talk about is that the Government is sending a strong message to the property speculators in this Budget. This is a very strong message even if the Government denies it and tries to conceal it with clever words. The message is that the Government can do nothing against property speculators, at least not in the near future. Therefore, property speculators can rest assured as they continue grabbing for money. As a result, it is unfortunate that petty citizens who work quietly to create wealth for the society will be victimized and they are not going to have their own homes and live comfortably.

Mr President, as I have these reservations on the Budget, I cannot applaud it. Thank you, Mr President.

MR MICHAEL HO (in Cantonese): Mr President, as the labour policy spokesman of the United Democrats of Hong Kong (UDHK), I will speak first on the part of the Budget that relates to labour.

In his Budget speech, the Financial Secretary announces a plan to bring in professional and managerial talents from China, purportedly for the purpose of combating inflation. I am unhappy with this. First of all, the Financial

Secretary lays himself open to suspicion of foul play. Bringing in professional talents from China is a policy matter. Any change in policy should be debated by the Legislative Council in advance. Members should have been consulted in this case. But the Financial Secretary has sidestepped the consultation process, purportedly to combat inflation. This is an irresponsible act. Since that policy announcement, officials from the Education and Manpower Branch, in meetings with Members of this Council, have never tried to convince them that the purpose of the plan is to fight inflation. How can a mere addition of 1 000 people produce any helpful effect on curbing inflation? I believe that the Government knows the answer in its own heart.

Officials of the Education and Manpower Branch seem to suggest that the Government is now paving the way for massively importing professional talents from China later on. In Hong Kong, the local supply of university-educated manpower will increase sharply in the next few years following the expansion of tertiary education. There will probably be an over-supply of such manpower by about 1998. Meanwhile, the reverse drain of senior administrators, who previously emigrated to other countries, is continuing. The number of new emigrants is falling. The tightness of labour will be greatly eased. The Government's plan to import professional and managerial talents massively from China will worsen the over-supply of university-educated manpower and will thereby hurt the chances of employment and advancement of Hong Kong's own university graduates.

Concerning worker benefits, I would like to talk specifically about the question of compensation for workers suffering from pneumoconiosis. Though the new Ordinance has been in effect for some time, many of the workers who contracted the disease after 1981 have not yet received compensation under the new scheme. UDHK hope that the Government will review the process now employed for testing the exhaustion of lung functions and pay monthly compensation to workers who contracted the disease after 1981.

The biggest problem plaguing Hong Kong's workers today is inadequate retirement protection. UDHK urge the Government to announce the details of the retirement protection scheme soon, and to make a joint effort with the public to establish a sound retirement protection system for Hong Kong.

Mr President, in the health care area, UDHK had made a number of requests to the Financial Secretary before he drew up his Budget. UDHK's first request was that the Government increase resources for medical services and hire more nurses. The Government's response came in the form of a letter to UDHK from the Secretary for the Treasury. His answer was "yes". At subsequent briefings, the Secretary confirmed that he had acceded to the request of the Health and Welfare Branch of the Government Secretariat. But then, on 16 March, at a special meeting of the Legislative Council Finance Committee, the Secretary for Health and Welfare said that she had not received any complaint about a shortage of nurses. We, that is, myself and many of my co-workers in the nursing profession, were shocked and infuriated. I will cite a

few facts to show that the Health and Welfare Branch had knowledge of the shortage of nurses.

Firstly, on 23 October 1991, in answer to a question from the later Mr NG Ming-yum on Tuen Mun Hospital, the Secretary for Health and Welfare said, "Manpower shortage, particularly of nurses, has been the main constraint in bringing the hospital into full operation .... The shortfall is about 4 000. It will grow to about 6 000 by 1995." This response showed that the Secretary for Health and Welfare was well aware of the shortage of nurses. In 1992, the Health and Welfare Branch presented a document (No. 3809192) to this Council's Health Panel. In this document, the Secretary for Health and Welfare said clearly that the anticipated shortfalls were 5 310 nurses and 5 240 nurses for 1994 and 1995 respectively. The same document said that the public sector would require 2 700 nurses during those two years. There is now only about 17 000 nurses with the Hospital Authority. In August 1993, the Association of Hong Kong Nursing Staff also presented a document to the Health and Welfare Branch clearly describing the shortage of nurses. On 24 February 1993, this Council passed a motion urging the Government to set up an inter-departmental working group to deal with the shortage of nurses. The above facts show clearly that the problem exists. I find it hard to accept the statement by the Health and Welfare Branch that it has not received information to that effect.

The Legislative Council's role is to monitor the Government's operations. We should monitor this problem through one of the policy branches of the Government Secretariat. If that policy branch can say that it is not aware of the problem, then something is wrong with this monitoring system. Let me return to the shortage of nurses. The Government said that 1 000 additional nurses were hired during the past two years. True, this did happen. But many new hospitals also came on stream during the past two years, including Lady Pamela Youde Hospital in Eastern District and the new wings of Nethersole Hospital and Ruttonjee Hospital. The Government also set up many patient resources centres, outreaching service teams and some high-tech medical facilities including liver transplant facilities. All of the newly added nurses went to work for these services and facilities. The old services and facilities did not receive any additional nurses.

I visited four hospitals during the past few days. I can tell the Secretary for Health and Welfare that Prince of Wales Hospital in Sha Tin, which is supposed to have more than 500 student nurses, has only between 200 and 300 of them. United Christian Hospital and Kwong Wah Hospital were originally subsidized hospitals providing only limited accident and emergency (A&E) services. Whenever they had too many A&E patients, they were supposed to refer the excess cases to Queen Elizabeth's Hospital. But they are now basically taking on the excess cases themselves even though they have received no additional manpower resources.

At seven this morning, I had breakfast with some nurses at Lady Pamela Youde Hospital in Eastern District. The first nurse I met told me that he had been on night shift on 20 March and 23 March and was rostered for night duty again on 26 March and 30 March. He is on night shift every third or fourth day. What kind of life is this? What then is this if it is not a case of shortage of nurses? The same nurse told me that he had not yet taken his compensatory leave for the 25 December public holiday when he had to work, not to mention compensatory leave for the Chinese New Year holidays. He has been on the night shift so often and worked on public holidays so often that he has accumulated many days of compensatory leave. This is precisely proof of a shortage of nurses. I wonder what the Government will be thinking after listening to me. The frontline nurses have worked themselves to exhaustion. But they continue to do their work quietly. They hope that the Government will do something for them. I feel that they should not be exploited any longer. Does the Government realize how demoralizing it is for them to hear that the Government "has not received any complaint about a shortage of nurses"? What anguish will these words cause the nurses, who are looking forward to improvement? If the Government does not even realize that the problem exists, then it has not been monitoring the way in which health care services are being provided.

Today, the Public Service Commission discussed a study report by the City Polytechnic. The report notes that government officials have found the attitude of some Legislative Council Members to be rather unacceptable. Mr President, though I am very angry, it is not likely that I will use abusive language. I am saying only that we are "anguished". As a Member, I have responsibility but no power. I can only through the operation of this Council put questions to the Government and thereby raise a hue and cry. The Association of Hong Kong Nursing Staff has asked the Governor for a full investigation of the matter. I support this request. I also support their request that the Government lay down an appropriate staffing ratio within three months. There is no reason why such a ratio should not be laid down. Mr Timothy HA, school principal, said a moment ago that the Government was treating social workers and teachers unfairly. I would like to tell Members that the Government is also exploiting nurses. In the schools, there is a teacher to student ratio and there is a limit to the size of each class. But let me tell Members that there is no limit to how many patients a hospital must accept. Nobody will be turned away. There is also a social worker to student ratio. In the Residential Care Homes (Elderly Persons) Bill that we recently discussed, there is a provision that there must be one registered nurse for a specific number of inmates and that health assistants and other health workers must bear a certain ratio to inmates. How come there is no such ratio for hospitals? Because no such ratio has been laid down for them, many hospitals operate despite a shortage of nurses. I invite the Secretary for Health and Welfare to join me on a tour of hospitals to listen to the complaints of nurses.

I would also like to respond to what the Secretary for Health and Welfare said yesterday in answer to a written question from Mr WONG Wai-Yin. It had to do with Tuen Mun Hospital. The Secretary said, "..... hospitals are designed to cater for long-term medical needs. Commissioning to full capacity involves the careful identification of service needs, population growth, disease pattern and demographic structure". These words are totally inconsistent with the words said in 1991 in response to a question from the late Mr NG Ming-yum about Tuen Mun Hospital. Is the Government trying to tell us today that there are enough hospital beds and indeed there is no need for that many? Is it trying to say that that particular community does not need so many sick beds and therefore will not need more nurses? I am worried that this may be the Government's new strategy. I am worried that Government will say that we do not need those hospital beds, that we do not need those nurses and that the services do not need improvement. Mr President, nurses, who are on the front line of hospital work, are very indignant. I hope that the Government will give a positive and realistic response on this matter as soon as possible.

Mr President, I so submit.

MR SIMON IP: Mr President, the past year has been another one with a massive budget surplus making it possible for a 1% reduction in profits tax and other adjustments in the coming year. The resultant benefits to our businesses and ordinary citizens are to be welcomed. The estimates, however, show a lack of commitment on the part of the Government to make much needed improvements in some crucial areas.

First, the Judiciary.

We have often heard the expression made by government officials that you cannot put a price tag on justice. When I read the estimates, I realized that this is just plain wrong. The estimated expenditure of the Judiciary is the price tag the Government has put on justice. The problem is that the Government is selling justice to the community at a discount.

The price the Government puts on justice determines how much it considers justice is worth. I said in last year's Budget debate that the very unsatisfactory situation prevailing in our courts was to deteriorate further unless the problems were taken seriously and tackled urgently. Unfortunately, I have been proved correct. Court waiting times remain far beyond the Judiciary's targets and improvement is not in sight.

In the course of the year, this Council's ad hoc group on the administration of justice prepared a detailed report on the shortcomings of the Judiciary's administrative system and made recommendations for change. In recognition of the importance of a modern and efficient Judiciary, this Council established the Panel on Administration of Justice and Legal Services as a catalyst to promote improvements. I am encouraged that a number of measures

have been adopted by the Judiciary pursuant to this Council's recommendations including the appointment of a high-level Judiciary Administrator, the provision of recording and transcription facilities in the High Court, the re-establishment of Court Users Committees and the introduction of computer technology. However, there is still much to be done.

In January this year, Members of this Council paid a visit to the District Court, the Family Court and the High Court. Whilst the facilities and conditions of the High Court are generally satisfactory, those of the Family Court and the District Court are below the standards which one would expect in a developed and affluent society. Immediate steps must be taken to upgrade those courts and make them more user-friendly and provide litigants and their lawyers with a greater degree of comfort. Further, consideration should be given to establishing a Family Court. The Panel on Administration of Justice and Legal Services will consider proposals from the Law Society, the Bar and the Family Law Association next month.

Waiting times in the High Court have improved marginally, but those in the District Court have deteriorated markedly. The problem may be attributed partly to one of listing. This is a complex issue for which no ready answer is available. Other jurisdictions have faced similar problems and many are still afflicted by them. The problem is due, in Hong Kong, mainly to the shortage of judges. This is borne out by the fact that many District Judges have to sit as Deputy High Court Judges to cope with the volume of business in the High Court. This has resulted in an inadequate number of judges to deal with business in the District Court. On the day of our visit to the District Court, out of an establishment of 29 District Judges, only 17 District Judges or 58% were actually sitting. It is no wonder that the waiting time in criminal cases has risen from 217 days to 252 days and in civil cases from 271 days to 313 days, exceeding the Judiciary's own targets by three to four times. Borrowing from Peter to pay Paul has not worked and will not work. More efficient listing systems are unlikely to remedy the situation completely. The proposed appointment of recorders to the High Court will alleviate the problem to some extent but will not make a substantial impact. The only solution is to appoint more judges to both the High Court and the District Court as soon as possible. Yet the estimates have not provided for the appointment of a single new judge to the bench despite the Judiciary having asked for three more High Court posts. The Government's explanation for this is that pending the review currently conducted by the Working Party on Judiciary Administration chaired by the Chief Justice, new appointments to the bench would not be appropriate. It is astonishing that the Government has denied the Judiciary's request. I repeat what I said last year. There is a high risk that prosecutions will be dismissed under the Bill of Rights because they take too long to come to trial. This will seriously undermine confidence in the legal system and expose the Judiciary to ridicule. Is that the price the Government wants to pay for justice and the rule of law?

I now turn to legal aid.

I am concerned that the Budget contains a sharp cut-back in litigation services. The provision for litigation services next year will be 16.8% lower than the revised estimate for 1993-94. The explanation given by the Government is that some large legal aid cases which resulted in exceptionally high provisions in the revised estimate are not expected to occur next year. This sharp reduction does not show a commitment by the Government to promote the resolution of human rights or constitutional issues which make a constructive contribution to the development of human rights jurisprudence and the cultivation of a human rights culture in our community. This neglect is one of the compelling reasons for the establishment of an independent Legal Aid Authority.

Also with regard to legal aid, I have been consulted by expatriate officers of the department on the long-term implications of Chinese Language Examinations. Those officers were informed in November 1993 that they would have to sit a Chinese Examination in January 1994 if they wished to transfer to local terms. They were thus given only two months' notice. Of the six officers who enrolled for the examination, two withdrew before the examination and three passed. This requirement had the undesirable effect of screening out two of the department's most able lawyers.

I agree that greater Chinese language proficiency among serving officers will help to foster a customer friendly service to legal aid clients. I must, however, reiterate my concern that language examinations must be administered fairly. It is unfair to measure an expatriate officer's commitment to public service in Hong Kong on the basis of his past efforts to gain Chinese language proficiency. They could reasonably have assumed in the past that language proficiency did not have any bearing on their continued employment in the civil service. To suggest, as the Government has done, that they should have anticipated the Administration's recent shift in localization policy, and to penalize them for failing to have done so is to apply the new policy retrospectively.

I hope the department will consider favourably my suggestion to allow expatriate officers a reasonable opportunity to prepare for language examinations in the future.

On the question of localization generally, the guiding principle is set out in the Bill of Rights with eloquent simplicity. Article 21 stipulates that every permanent resident shall have the right and the opportunity without distinction as to race, national or social origin and without any unreasonable restrictions, to have access, on general terms of equality, to public service in Hong Kong. My reading of this provision is that it requires that all Hong Kong permanent residents shall be guaranteed not only equal access but also equal pay for equal work in the public service. This requires the abolition of differential terms of service among those who call Hong Kong home.

In the Financial Secretary's Budget speech, he mentioned briefly the question of road congestion. No matter where one lives in the territory, congestion-free travel has become but a fond remembrance. The situation is most acute for those living in the New Territories.

For those wayfarers who have aged considerably while sitting behind a steering wheel, the situation is unlikely to improve for some time notwithstanding the Government's road and transportation projects now being planned.

My own experience on the road tells me that something more basic needs to be done. Much of the congestion that plagues us is the result of accidents. Most of these are due to reckless or careless or simply undisciplined driving. None of these can be remedied through capital improvements. They must be tackled through publicity, education and, most importantly, stepped-up law enforcement and traffic patrol.

Speed is the greatest single cause of accidents. Ironically, we might all move a little faster if speed limits forced us to go a little slower. The high volume of traffic on our expressways, the heavy vehicles that use them and the appalling driving standards all make the speed limit of 100 km per hour too high.

Road accidents are not just a threat to life and limb. They hurt our economy through the loss of hundreds of thousands of man hours. They are also a flaming nuisance.

I now turn to education. By the end of this month, the Hong Kong Institute of Education Bill will have been passed creating an autonomous tertiary institution for the education of teachers. This shows a commitment on the part of the Government to upgrade the quality of teacher education in accordance with the recommendations of the Education Commission's Report No. 5. A new purpose-built campus for the Institute is being planned with a target date for completion in 1997. The resources which the Government is willing to commit to upgrading teacher education will be to no avail if the teaching profession remains unattractive to those who have the necessary qualities to become good teachers. Given the varied career choices available to our school leavers and the expansion of tertiary places during the last decade, the Institute of Education will face strong competition for students of top quality. Ultimately, we will only be able to attract a sufficient number of high quality students to join the Institute if the Government is willing to upgrade the status of teachers at every level. This will require better terms and conditions of service, enhanced promotion prospects and improved working environments. Not enough is being done in this area.

Finally, on a lighter note, I would like to say a few words about sin. It is hard to figure out what the Government's intention is in slapping 90% to 100% duties on the finer things in life. The revenue raised from levies on alcoholic

beverages is not significant in the overall Budget picture. Why then tax them at such a high rate?

Taxing vices like smoking makes sense from a health perspective, but the high rates on alcohol have not been justified on these grounds. And the claim that the new system puts all beverages on a level playing field is only partly true. The change will result in quality products being made much more expensive and encourage people to consume the cheaper products.

To many Hong Kong people, the Budget is good news. But for those who like to celebrate good news with a toast, there is much less to say "cheers" about. *(Laughters)*

DR HUANG CHEN-YA (in Cantonese): Mr President, I will speak on behalf of the United Democrats of Hong Kong on the macro-economic aspects of the Budget. I will talk about the structural transformation of the economy, inflation and the Government's revenues and expenditures.

For more than 10 years, Hong Kong's internal economy has been going through a structural transformation, a switch from manufacturing to a service-led economy. At the same time, Hong Kong has been gradually integrating with China's economy and with the global financial system. These changes have brought economic challenges and challenges in the employment area. We must take up these challenges.

This Budget shows that the Government is taking a square look for the first time at the structural transformation of Hong Kong's internal economy. Well, "better late than never". We have often stressed the need to pay attention to insider trading, to the financial derivatives and to the flaws of the Companies Ordinance. Finally, these problems are going to be reviewed. We welcome this. But we must point out that Hong Kong must yet work harder on all fronts if it is to become Asia's leading financial centre. Services do not mean financial services alone. Tourism, cultural activities and entertainment have also made remarkable contributions to Hong Kong's economy. The Government is still failing to provide adequate substantive support to the service industries. The Government should study the service industries more extensively and in greater depth and then lay down more constructive support policies. Take tourism for instance. Hong Kong's tourist industry is actually undergoing a structural transformation. More tourists are coming to Hong Kong from Southeast Asian countries and other nearby countries. Their demand for or choice of hotel accommodation and their spending habits are different from those of tourists from Europe and America. Because of inflation, Hong Kong has already lost its reputation as shoppers' paradise. Hong Kong's hotels and inns, in number as well as in quality, are failing to keep pace with changes in tourists' pattern of demand. The saturation of the airport's capacity is putting further limits on the prospects of Hong Kong's tourist industry. The Government should conduct a full review of Hong Kong's tourist industry and lay down matching policies to

provide support in the areas of planning, manpower and economic measures. Rushing headlong to cut the air passenger departure tax is not the way to help the tourist industry.

The air passenger departure tax was raised to \$150 in 1991. This is equivalent to \$200 in 1994 dollars. Because its nominal amount has not been further raised since to catch up with inflation over the past three years, the tax has declined by 30% in real terms. Air passengers' objections to it have waned accordingly. But now a proposal is made to reduce it sharply to \$50. In real terms, only a quarter of the 1991 amount will be collected as air passenger departure tax. When the tax was increased, the increase was inordinately steep. When it is reduced, the Government is unusually generous. One really gets the impression that the Government does not have a standard rule to follow. The Financial Secretary's explanation is that transit passengers should be induced to leave the transit hall to do some sightseeing and some shopping. Such a wish deserves support. However, it seems that this wish can be realized by extending some privileges to transit passengers. There is no need to be so generous to all air passengers. Cutting the air passenger departure tax so sharply will cause the Government to lose nearly \$1 billion in revenue. Has the Government given any thought to the alternative, which is to use the \$1 billion to support the tourist industry, with possibly better results?

The global economy is undergoing a structural transformation. Hong Kong's economy, like economies elsewhere, is buffeted by the free movement of money and the improvement of communication technology. Money now moves to wherever the rate of return is the highest. And as a result of improved communications technology, geographical distance is disappearing. Manufacturing and services will be relocated to areas where rents and labour are cheap. Blue and white collar workers who are doing low-skilled, routine jobs must adapt to jobs requiring higher skills or accept the fate of unemployment or wage cuts.

The Government must realize that unskilled labour in Hong Kong is being replaced by cheaper labour from other countries or regions. The importation of foreign workers into Hong Kong will make things worse. It means that employees will face the prospect of displacement even though employers have not moved their money elsewhere.

The Government must lay down a long-term labour policy to keep employment opportunities in Hong Kong and to prevent a further worsening of the disparity of wealth. This policy must seek to train Hong Kong's workers and raise their skills and productivity to cope with new developments in Hong Kong's manufacturing and service sectors. Hong Kong's workers should not be workers of the traditional type who work for as long as they can during their prime years and are then shoved aside when they become frail. The importation of workers is a way to bring supply and demand into balance in a labour market under traditional static economic conditions. The free movement of money has led to mismatching between supply and demand in the local labour market.

Under these conditions, foreign workers should not be imported, but local workers should be retrained. To do otherwise will be like quenching thirst with a poisonous liquid. More and more local workers will be displaced, thereby heightening demand for welfare payouts and precipitating social unrest.

### *Inflation*

Inflation has remained high in recent years. It is eroding citizens' savings and damaging Hong Kong's competitiveness. The Government has lost all its confidence in fighting inflation, probably because it has lost every bout of the fight. The Government has become too lethargic to think of the most effective tools for fighting inflation in the service industries: raising productivity, increasing competition and reducing monopoly.

The Government has merely made some tantalizingly remote suggestions about fighting inflation in the property sector and restraining run-away property prices. In theory, increasing land supply will bring property prices down. But this move has three flaws. Increased land supply will not result in increased housing supply until several years later. It is like fetching water from far away to put out a fire next door. Most of the available new land in Hong Kong is located in the New Territories or other remote areas. An increase in supply will not bring property prices down in the urban areas. Hong Kong's land resources are limited. Cash-rich speculators can easily manipulate the property market. Therefore, we think that a capital gains tax on property appreciation is necessary. Home owners and long-term holders of property can be exempted from paying this tax, which is collected only from speculators. This will give citizens an opportunity to buy homes, homes where they themselves will live.

Mr President, business has not been good for restaurants and retail shops over the past year. Clearly, consumers have spent the greater part of their incomes on housing. Not much is left for spending on other consumer items. Business is slow in every trade except the property sector. This is a sign of sickness. The Government must not drag its feet any longer. The Government must immediately take effective action against property speculation. It must stop tantalizing members of the public with dreams of home ownership.

### *revenues and expenditures*

UDHK always think that the personal tax allowance should not be an arbitrary figure. It must be set in terms of objective standards. I think that one objective standard is how much a citizen must spend on necessities which include clothing, food, housing and transport. This amount should be the amount of the tax allowance. Taxing this amount will mean forcing citizens to cut back on spending on clothing, food, housing and transport in order to come up with the money for paying tax. This will damage their quality of life. Therefore, UDHK have been asking for a higher personal tax allowance for years. This year, we ask for \$76,000.

The Financial Secretary proposes to raise personal tax allowance to \$72,000 this year. This is close to our request. It is a big improvement. I hope that the Government will continue to apply objective standards to the setting of tax allowance. There will be a tax allowance for grandparents. It encourages citizens to honour the elderly members of their families. The tax system will thus be helpful to family cohesion. We approve of this. Regrettably, some Members yesterday objected to these tax concessions by the Government but not to the cut in the profits tax rate. I really cannot tell if these Members care about Hong Kong's poor and helpless. I wonder if they know how much the lowly citizens are suffering from high inflation and high property prices. There is also the question of rates. Property values and rental values have risen sharply in recent years. Because of this, the Government has felt the need to put a cap on rates increases. This year's rates will be increased by 36% for residential property and by more than 40% for commercial property. UDHK think that these increases are too steep and should be cut back. However, we think that, instead of having to argue it out every few years, it will be better to set a lower permanent rates percentage charge. This will lighten the burden on citizens. It will also provide the Government with a predictable source of revenue. I would like to point out that the rates percentage charge should be on a progressive scale. It should be higher for luxurious residential flats and for office space in prestigious buildings. If rates are cut too sharply, the Government's revenue will decline, leaving the Government with less money to spend on the poor. Therefore, UDHK think that rates should be cut only as appropriate. This is not a vote-getting gimmick, as Mr Jimmy McGREGOR calls it. We will thus continue to hold discussions with other political parties in order to come up with a consensus as to the reasonable amount of rates to be levied.

The Government says that the cut in the profits tax rate will be good for Hong Kong's competitiveness as a commercial centre in the Asia/Pacific Region. In fact, as many surveys have found, companies are more concerned about the soundness of the political and legal systems, the infrastructure, human resources and property prices. Instead of cutting profits tax by \$1.6 billion, it is better to keep the profits tax rate as it is and spend \$1.6 billion on the infrastructure, on education, on manpower training and on social welfare. This will reduce the likelihood of social unrest and the effect will, I believe, be sounder in that companies will be more readily attracted to come and base their operations in Hong Kong.

On the spending side, Members from UDHK will be making a microscopic analysis. I would only like to point out that the Government's spending plans carry no comparative analysis of chances of success *vis a vis* costs. Take medical services for instance. The Government is worried that costs will escalate year after year. But it fails to give financial support to an all-out strategy to reduce the incidence of diseases and thereby to reduce demand, like getting rid of cancer, cardio-vascular ailment and stroke, Hong Kong's

three killer diseases. Such a failure will cost the Government dear because demand for medical services will not shrink. I hope that the Government will greatly improve its thinking next year about revenues and expenditures.

Mr President, I so submit.

DR LAM KUI-CHUN (in Cantonese): Mr President, it has always been my belief that a major consideration that the Government has had in its mind when drafting Budgets in recent years is political consideration. With the year 1997 drawing near and relations between China and the United Kingdom turning sour, such consideration is becoming increasingly apparent.

Domestically speaking, the Budget this year talks about how Hong Kong's prosperity can benefit the livelihood of the general public. This fully bears out the consistent belief of our Liberal Party that we must create an affluent society before we can all partake of its affluence.

Externally, the Budget presents to the world a rosy picture of Hong Kong's future. It serves not only to strengthen the confidence of foreign investor, but also, to a certain extent covertly, tells China's leaders that Hong Kong is still a goose that can lay golden eggs and that they must avoid making this goose stop laying golden eggs for political reasons, in which case the loss would ultimately be borne by the Hong Kong Special Administrative Region (SAR) Government and, more importantly, it would become doubtful if the SAR Government could take over a fiscal reserve and a land fund worth \$269 billion when coming into being on 1 July 1997.

Aside from these overtones of the Government, I would like to comment on several areas that warrant our attention.

First, the Government has responded to the Liberal Party's request by dropping last year's 1% increase in the profits tax, and has proposed, in its own initiative, a 5% reduction in the top marginal rate of salaries tax. Such tax cuts will certainly be beneficial to both the business community and the sandwich class, in particular those high income earners. However, I must point out that in promoting Hong Kong's overall economic prosperity, the Government must make sure that the poor will not get poorer as the rich get richer.

I have such a concern because the poor, who are already outside the tax net, will not in any way benefit from the proposed tax concessions. Instead, they have to contribute more to the Government because of the rates increase which in turn will lead to higher shop rents, prices of goods and thus inflationary pressures.

Secondly, I would ask those who bade the Budget welcome not to give their thumbs-up too readily. As I see it, the present Budget is just "part one" of a whole financial package which will probably contains a hidden "part two"

where the core of the scenario lies: For that reason, this well-packaged Budget speech most deliberately and carefully produced by the Government seems to serve only as a prelude.

In fact, that the Government has such design in mind is indicated by the inconsistencies in the Budget that it shows "generosity" in some areas and "stinginess" in others. On the one hand, the Financial Secretary has, on his own initiative, offered many tax concessions which exceed in terms of scale and extent what one would expect from his normally prudent financial philosophy. On the other hand, the Government is vigilantly on the defensive when the various political parties press for a reduction in rates. In defending its position, the Government even goes as far as to threaten that, if the rates are cut, it may be forced to withdraw the profits tax concession and cut its spending on health and welfare. Such inconsistencies, characterized by a co-existence of "habitual stinginess" and "real generosity", can only be explained satisfactorily if one assumes that there is a "part two" to the Budget.

If you ask me, I would say the "part two" will exactly be a compulsory old age pension tax scheme that the Government is going to unveil in a year or six months, which will be likely to require every employee and employer in Hong Kong, irrespective of personal means or business profitability, to contribute an approximate 3% of his own or individual employee's wages.

The whole thinking behind the revenue proposals should be interpreted in such a way that the tax concessions now will be offset by the new tax later on. Therefore, the present generosity seems to be just a sweetener. Time will tell if it is real generosity. Members of the public must take everything into consideration before deciding whether to applaud enthusiastically or perfunctorily next week, when the Government will appear on the stage to be congratulated on the passage of the Appropriation Bill.

Mr President, on the livelihood front, I would like to mention the following points:

In the area of welfare, I support the Government's proposal to increase its expenditure on social welfare. Yet, to avoid repeating the same mistakes committed by most welfare states, that have translated into increasing burdens on taxpayers, the Liberal Party believes as it always does, that the Government should explore more new sources of revenue, instead of raising taxes to pay for improved welfare. One of the easiest ways of getting the needed money is to increase the share of lottery proceeds to be allocated for welfare services. During the Legislative Council's debate on the Lotteries Bill on 9 June last year, I already made such a request to the Government on behalf of the Liberal Party. The Government has now acceded to this request in the interests of the community. I know that the Lotteries Fund will, in principle, only finance the non-recurrent expenditures of welfare projects. The Government has always worried that, if the Lotteries Fund continues to finance an increasing number of projects, its recurrent expenditures will be on the rise. However, I am also

aware that the Social Welfare Department has in recent years extended its services beyond the destitute to cover those who are better off but have the need — the sandwich class being one of the examples. Therefore, to relieve the Government's concern, I would suggest that the Government should, as the first step, consider joining hands with non-profit-making organizations to provide some self-financing social services. Such social services are increasingly needed by our thriving economy in recent years. Despite the rising demand, due consideration has never been given to these services.

In the area of health care, the Hospital Authority can keep for its own use the \$140 million that it saved last year. The Government's health care spending will increase by 6.9% in real terms next year. In addition, the Liberal Party's nine requests in the health care area have all been adopted by the Government. For this, I must, together with members of the public, say a loud "Thank you" to the Government. Nonetheless, I would like to make the following four additional points:

First, in respect of allocation of funds for health care services, I have repeatedly urged the Government for the past few years that it should consider enhancing the effectiveness of public medical services with the aid of their private counterparts so that taxpayers' money can be used most cost-effectively.

Here, I want to urge the Health and Welfare Branch and the Hospital Authority to speed up the launch of a few pilot schemes in which public and private health care services are complementarily integrated. Their advantages and disadvantages should then be thoroughly assessed so that the plan can be perfected for implementation.

Secondly, Messrs Allen LEE and Edward HO, when speaking for the Liberal Party yesterday, made it clear that with an economy doing so well today, the Government should invest for tomorrow. In the area of health care, investing in the future means promoting preventive medical services. The Liberal Party has reckoned that each case of heart disease successfully prevented will save more than \$1 million for the community if the possible medical costs and loss of productivity are translated into money terms. I have some first-hand information to show that out of every 100 Hong Kong people undergoing physical check-ups, more than 20 are found to have early symptoms of various serious diseases. If these 20 odd people can be cured with early medical treatment, which is relatively inexpensive costing \$34,700 each for the necessary manpower and materials, more than \$20 million that may otherwise be wasted can be saved for the community. Similarly, for each case of gynaecological cancer, if detected and treated in its early stage, medical costs of about \$100,000 can be saved for the Government, plus the benefit of more effective treatments for the patient.

Well aware of these figures, the Government should quickly put into services the 10 health clinics for elderly people and women that have been on the drawing board for a long time. But the Government has only undertaken to

make these much needed clinics fully available in 1996 or 1997. With a robust financial position, the Government should for the benefit of both the community and itself, invest now in the prevention of diseases to avoid the escalation of medical expenditure in the future.

Thirdly, the Hospital Authority continues to spend 81% of its budget on staff salaries. In other words, only 19% of its budget goes to medicine and facilities. Last year, I already asked the Government and the Hospital Authority to consider a rise in the ratio of spending on medicine and facilities. Yet, I have seen no improvement in this year's Budget. Such problem is mainly caused by the substantial rise in the salaries and indirect costs of staff when the Hospital Authority took over the hospitals. At the moment, there is no immediate solution to this. However, as regards the money spent on the redundant staff, the Hospital Authority must urgently work out some streamlining measures. For example, the Hospital Authority has already privatized some of its services, but is still retaining the staff for these services. It is imperative for the Government to cut such waste and redirect the resources to the development of new medical technologies to improve the standard of Hong Kong's public hospitals.

Fourthly, a year ago, I reminded the Government that Hong Kong had a total shortfall of 5 400 convalescent beds. I am afraid that the number has since grown worse. In this year's Budget, the Government says that it plans to add 295 convalescent beds and hire a few more teams to assess the needs of those on the waiting list. Among those who badly need these 5 400-odd convalescent beds, one-third of them are now staying home, where no appropriate facilities or qualified help are available, over 60% in various types of nursing homes which suffer from a shortage of qualified personnel, and the remaining few occupying expensive beds in casualty clearing hospitals. The situation is not satisfactory at all. Last year, I asked the Government to look into this. Now, a year later, the situation remains the same. With a robust financial position this year, the Government should allocate more funds for this area and speed up the building of more convalescent homes. If the Government has such worry that the future recurrent expenditure may become a swelling burden, one feasible option will be the provision of some self-financing yet relatively inexpensive convalescent services, possibly in co-operation with non-profit-making organizations. Such services can be made available to the sandwich class first to meet their pressing need.

I still have some time left. I want to respond to Mr Andrew WONG's idea of putting public housing units for sale. He sounded that his idea was something unique. However, in drafting its political platform, the Liberal Party has already reckoned that in the present circumstances, more resources could be made available for the construction of new houses and that opportunities should be created for those without property to buy their own homes. As the low and middle-income earners become property owners, the disparity of wealth will then be narrowed. Moreover, tenants of public housing estates are unhappy with the way in which their estates are managed. The Liberal Party notes the good example of Singapore, where low-rent public housing units are simply

given to their tenants. As property owners, the tenants then take the initiative to take better care of their homes. That indirectly explains why Singapore's lowprice housing blocks are so clean, tidy, well-managed and well-maintained. The Liberal Party's proposal on the sale of public housing units is modelled on Singapore's experience. Our focus is on livelihood, totally different from Mr WONG's commercialism which seeks to create a secondary property market.

Mr President, despite all these criticisms, I nevertheless feel that it is still a well-intentioned Budget that takes heed of people's livelihood and helps to promote prosperity.

With these remarks, I support the motion.

DR CONRAD LAM (in Cantonese): Mr President, in 1994-95, the recurrent expenditure for health services will grow by 6.9% reaching the amount of \$1 billion, with the Hospital Authority being allocated \$720 million. The increase in the allocation of fund is mainly intended for the implementation of services promised in the previous two policy addresses by the Governor, including the provision of 960 additional hospital beds, a new health centre for the elderly, rehabilitation services for 3 900 patients suffering from chronic diseases, and the expansion of the renal dialysis programme. The introduction of these new services is really good news to the suffering patients. Unfortunately, hidden behind this good news is a huge economic burden, to the effect that fees for health and medical services are to be pegged to costs. The United Democrats of Hong Kong, believing that the provision of cheap medical services to the public is an obligation on the part of the Government, firmly opposes the policy of pegging medical charges to costs. The challenge which we are now facing is, given the present constraints (that is, the unchangeable size of the cake), how we are going to achieve the best results with the existing human and material resources.

First of all, we have to get a clear picture of the future demands and trends of the market for medical and health services. Let us take a look at what the Government did in the past — the delayed opening of the Pamela Youde Nethersole Eastern Hospital; and the hasty construction of the North District Hospital in the New Territories both indicate that the Government has failed to catch up with the market demand in terms of fair and even distribution of medical and health resources at district level. The population of the Tseung Kwan O new town has reached 130 000 at present, yet there is a shortage of public medical facilities. By the year 2001, the population of Tseung Kwan O will grow to some 300 000. With only seven more year to go before 2001, the Government must promptly decide on and formulate plans for the construction of a hospital in Tseung Kwan O, in order to cope with the requirements and needs of the Tseung Kwan O residents.

According to the information provided by the Hospital Authority, the Administration has established a priority list for medical services to cater for patients with urgent needs. This is a move in the right direction, but what leaves something to be desired is the absence of a more concrete plan to meet the demand of the community for specialist out-patient services. With the advancement of our society, the public will expect better quality in medical services. Despite the continuous efforts of the Hospital Authority and the Department of Health in improving efficiency, out-patients at the specialist clinics still have to wait for quite a long time before they can be treated by a specialist. Take as an example ophthalmic treatment at the Kwong Wah Hospital, a patient normally has to wait about 270 days for his turn. The situation at the United Christian Hospital is a bit better, but a patient still has to wait 160 days before treatment by a specialist is available. The Government should understand that one of the main reasons leading to an influx of patients to the public specialist out-patient clinics is that the charges of private medical specialists are too high for the under-privileged to afford. As my colleague put it, the Government should, and can provide services in co-operation with private medical practitioners at a cost lower than that of government services. As far as I know, some private medical practitioners are willing to provide service, on a partly-charitable basis, to the needy who are in financial difficulties (for example, over the last three decades, it has been possible for Our Lady of Maryknoll Hospital in Wong Tai Sin to run a specialist out-patient clinic with the support of many of such doctors.) A few years ago, the Provisional Hospital Authority proposed to conduct a study on the feasibility of part-time or sessional employment of doctors in private practice to work in government hospitals. I do hope the Authority will consider this proposal seriously, and that the scheme would not be given up despite the anticipated problems. In fact, the Hospital Authority can lay down the guidelines for the employment of doctors under such arrangement and allow the Governing Committee of each hospital to implement the guidelines flexibly according to the individual needs of each hospital. The Hospital Authority stresses the importance of allowing its hospitals to enjoy a high degree of autonomy, and I hope the Authority will actually implement the policy of de-centralization. Otherwise, the Hospital Authority will become a top-heavy "giant", which is also against the purpose for which the Authority is set up.

Mr President, when I spoke in last year's Budget debate, I pointed out that staff members of the Hospital Authority at all levels are to a certain extent subjected to pressure of some sort and there is the sentiment of discontent. In view of the above, their feelings may, in a direct or indirect way, and sooner or later, affect the quality of the medical services provided. The recent signature campaign organized by the nursing staff adequately reflects the state of mind prevailing among some staff members. I hope the Administration and the departments concerned will deal with the problem promptly so as to avoid affecting the operation of the hospitals and the services for the patients. I have pointed out several times in this Council that inadequate transparency on the part of the Hospital Authority will not only pose adverse effects on both vertical and horizontal communications within the Authority, but also entail monitoring

difficulties. The Secretary for Health and Welfare stated in her speech that the Hospital Authority had obtained the resources it asked for. However, if the Secretary spent more time on dialogue and direct communication with the frontline workers of the hospitals, she may have a deeper understanding of whether there are adequate resources. The Government has unexpectedly accrued a surplus of \$14.8 billion this year, but as far as expenditure on health services is concerned, there is only a growth of 6.9% in real terms, which is even lower than the 7.8% growth of 1993-94. In view of the plight of those members of the community who are old and infirm, the Government should allocate resources as far as possible in the coming years to enhance both the quality and quantity of medical services. A point which must be mentioned is that around October 1995, the currently low-priced Student Health Services will be withdrawn. The new Student Health Services will be preventive rather than curative in nature. It is believed that some school children who are not so well-off will have to go to the general out-patient clinics at government hospitals for treatment. This will inevitably increase the pressure on the general out-patient clinics. The Government should be prepared for such situation in advance and deploy extra manpower at the general out-patient clinics to serve these school children.

As a member of the medical profession, I would like to respond to two more points in the Financial Secretary's Budget.

The first is the practice of tax evasion among members of a professional body mentioned by the Financial Secretary. Although he did not specifically name the professional body, everyone will associate it with the medical profession. I was asked by certain members of the public why the Financial Secretary talked in such an evasive manner, not daring to mention the name of the profession, and they wondered whether this reflected fear of or favouritism towards the professional body. It was really difficult for me to give an answer. Mr President, it is shocking to see that out of the 237 cases being examined, 244 (that is 95%) involved tax evasion. The Government should really take appropriate measures to rectify the situation. As for the question of using service companies to avoid tax, I agree that the Government should plug the loopholes as soon as possible. I think legitimate tax avoidance is allowed by provisions laid down in the Inland Revenue Ordinance. To change the rules of the game in the interest of the public is a manifestation of social progress, and is worth our support. However, while the Government is determined to swat the flies (the personal service companies), please also take action to capture the tigers. At present, some companies carry out property transactions under the names of registered overseas companies, or achieve the transfer of properties by means of share transfer, so as to avoid tax which can amount to hundreds of million dollars. I do hope the Government has the will to swat the flies as well as the courage and determination to capture the tigers.

The second point which I would like to respond to is the issue of admitting 1 000 graduate professionals and managers directly recruited from China into Hong Kong. Although I, being a member of the medical profession,

have not yet been subjected to the effect of the scheme, it made me think of the tactics used by the Administration in promoting its Housing Subsidy Policy, which enabled it to collect double rents from the better-off tenants. The so-called "those who can afford should pay" spirit has developed at a tremendous speed. Before long, similar principles were adopted for increasing charges in tertiary education and public medical services. Therefore, those professionals who have not yet been affected by the scheme should not be happy prematurely, thinking that they can remain unaffected. Which, do you think, carries a heavier weight in the minds of the Chinese leaders: the interests of 6 million Hong Kong people or that of 1.1 billion Chinese? We all know the answer pretty well.

Mr President, holistic health includes a healthy living environment. It is really difficult to achieve holistic health at a time when property prices keep spiralling up and the Government fails to come up with any solution. When I spoke in the Budget debate two years ago, I urged the Government to do something and I put forward certain proposals in the hope that the Government would take measures to stop property prices from going up and curb speculation, but the Government turned a deaf ear to what I said. Now even the Chinese officials think that property prices in Hong Kong are so high that the living standard in Hong Kong may be affected, bringing an adverse effect on the stability and prosperity of the territory. If the Government still ignores what is going on, I believe that apart from its losing the support of the people, the situation will also give rise to a suspicion in the community that there is collusion between the Government and the developers to push up property prices.

Mr President, I so submit.

MR LAU CHIN-SHEK (in Cantonese): Mr President, it is said that the Government intends to "return wealth to the people" by proposing drastic reduction in various taxes in this year's Budget. Yet, can the government policy really benefit the people? Actually, who will benefit more? The middle to lower income groups or the tycoons? We should not merely judge from the Government's revenue policy but, at the same time, we must look at its commitment to social services spending and its other socio-economic policies. Unfortunately, viewed from the perspective of the cumulative impact of the Government's various policies on the community, the middle to lower income groups' quality of life over these few years has been falling.

The surges in property prices in recent years have driven rental values to a high level and, as a result, there is a corresponding rise in the rateable values. The reassessment of the rental values each time will lead to a remarkable increase in rates. In my opinion, the unreasonable rates level is precisely the shoot that has sprung from the root which is the unreasonable property prices. In the last few weeks, the Hong Kong Confederation of Trade Unions carried out in various districts a signature campaign against the frantic increase in rates.

From our contact with the public during the campaign, we clearly understand that in signing their names to oppose rates increase, quite a number of people were in actual fact opposing property price increases and rental increases. For this reason, as long as the property prices are still soaring frantically and rents are ever being driven to new heights, I think the Government should not take mean advantage of the situation by increasing rates.

Representatives of the Confederation of Trade Unions had a discussion with this Council's three major political parties yesterday. The Confederation hopes that the three parties will, through a co-ordinated effort, work out a proposal which will freeze the rates in the short term and lower the rates percentage charge in the long term. I am convinced that the point at issue is crystal clear. In any case, it behoves this Council to amend the Government's proposal of rates increase. Whichever way that will lighten the public's burden most will be a good option.

The Government has vigorously opposed freezing the rates by pointing out that any arbitrary reduction of tax rates will have a long-term impact on government revenue. Yet, I fail to understand why it is, on the one hand, proposed in the Budget to increase rates drastically but, on the other hand, the corporate profits tax rate is reduced from 17.5% to 16.5%.

Given the rapid economic growth in Hong Kong, the business sector has made enormous profits year after year. However, disregarding such huge profits, the Financial Secretary has, to our surprise, proposed to reduce profits tax. This will mean that \$1.6 billion which would otherwise have become revenue will be put back in the pockets of large consortia each year, giving rise to a total decrease of over \$10 billion in revenue in the coming four years. Among all commercial organizations, the Hongkong Bank should be the one which will benefit most from the profits tax cut — the Hongkong Bank made a profit of \$13.6 billion in 1993 and the profits tax cut of 1% will mean \$136 million. In other words, Hong Kong people will be paying Hongkong Bank shareholders an additional subsidy of over \$100 million. As for the ten major consortia in Hong Kong, it is estimated that a profits tax cut of 1% will translate into a total of \$500 million, constituting one-third of the \$1.6 billion in lost revenue resulting from the profits tax cut.

Among the social services items, I am most concerned about retirement protection for the elderly. As early as the end of last year, this Council's three major political parties, namely the Liberal Party, the United Democrats of Hong Kong and Meeting Point, already urged the Government to increase the Old Age Allowance to \$2,100 upon the commencement of the new financial year so as to immediately improve retirement protection for around 70% of the old people in Hong Kong. At that time, we estimated that the financial year 1993-94 would end up with a surplus of \$10 billion, thereby providing sufficient resources to cover at least two years' additional expenditure the increase in the Old Age Allowance would entail. In the event, the Financial Secretary announced in his Budget speech that the estimated surplus would amount to \$15.1 billion.

However, he has not accepted our proposal of increasing the Old Age Allowance. In fact, the three parties merely requested the Government to make an extra commitment to cover the coming two years which is the interim period when no sound retirement protection system will yet be in place. This will absolutely not constitute a never ending commitment. From his Budget speech, I am afraid the Financial Secretary has misunderstood the three parties' thinking.

At present, the specific details of the Government's proposed old age pension scheme have not yet been finalized. Even if the scheme is put into practice, we will have to wait at least two years before it will be up and running. As the Government has already pointed out that old people's financial problem must be addressed immediately and as the general fiscal position is sounder than expected, the Government should not adopt the stalling tactics any longer. Since actions speak louder than words, the Government should immediately increase the Old Age Allowance for the benefit of the old people instead of letting them down again.

Mr President, the proposal that I find most unsatisfactory in this year's Budget is, of course, the importation of 1 000 professionals from China.

The labour importation scheme has been expanding in the past few years. The government has also concocted all sorts of pretexts to increase the number of workers to be imported. Today the Government is even too "lazy" to do any consultation work. The Financial Secretary has announced the new importation scheme under the section "inflation" in the Budget, implying that the expansion of the labour importation scheme can solve the inflation problem. However, in response to a written question on the Budget raised by me, the Government has in fact clearly stated that since its introduction the labour importation scheme has done little to contain inflation. On the contrary, labour importation will heighten the risks of workers, especially the middle-aged ones, losing their jobs or being forced to switch to other trades or vocations; it will also depress the wages of our workers.

The Government has all along emphasized that the importation of labour and professionals will not affect the employment of local workers. Yet, I would like to ask:

- Do the Immigration Department and the Labour Department have enough manpower and effective measures to check whether imported workers have been exploited? How can they ensure that the employment opportunity of local workers will not be affected? In fact, a considerable number of imported workers have to sign a contract when they come to Hong Kong. It is required in the contract that during their stay in Hong Kong they shall not provide any authority, trade union, organization, newspaper agency, radio company, television company or other mass media with information, or talk to them or answer any of their questions.

Failing to comply with this requirement, they will have to bear all financial and legal responsibilities involved. Indeed, what can the Immigration Department do?

- As the Financial Secretary has said that the importation of 1 000 professionals from China is only a pilot scheme, why is it that the term of their contracts will not be restricted to six years but, on the contrary, they are offered the opportunity to become permanent residents taking up permanently our local workers' posts?
- Presently there are already 105 Chinese citizens immigrating to Hong Kong with one-way permits every day. Before importing more than 1 000 so-called professionals in such a rash manner, why is it that the Government does not conduct a survey to find out the number of degree holders and experienced management professionals among these immigrants to see whether they have been offered reasonable posts?

It is undeniable that the Government is still at a loss in dealing with inflation today. In fact, increasing land supply is a good solution but, for the sake of protecting major developers' interests, the Government insists on maintaining a policy of high premium and high property price. As a result, the Government has decided to tackle the inflation problem at the expense of the working population. It has expanded the labour importation scheme step by step and, as everyone knows, labour importation will set back the employment opportunity of our local workers and their bargaining power in the labour market. The Government has time and again exploited the working population because our workers can take it on the chin, because they have neither money nor power, because their organization is loose, because they are unlike major developers and tycoons who can just pick up the phone and hold secret talks with senior government officials.....

The property prices are staying high but the Government just turns a blind eye to it. Inflation is raging fiercer than a tiger and the grass-roots citizens are chafing under it. In such circumstances, the Government has adopted no measures to improve the situation and even passed the buck to the working population. In face of the further expansion of the labour importation scheme under camouflage, the suppression of wages, the heavy burden of inflation .... and the Government's perverse policy of exploiting the working population, I believe one day there may eventually come a point when the public can take it no more and will fight back.

Mr President, to show my dissatisfaction with such an unreasonable and unfair labour importation policy camouflaged under all sorts of pretexts, to show my dissatisfaction with the Government's act of laying inflation at the door of the working population, I will leave in protest.

Thank you, Mr President.

MISS EMILY LAU (in Cantonese): Mr President, I speak in support of the Budget proposed. Since the presentation of the Budget by the Financial Secretary on the 2 March there have been numerous responses from many members of the public. Members of this Council also have responded to it in different ways. Some critics say that our colleagues are splitting hair. I do not agree with such criticism. Generally speaking, however, I feel that this year's Budget is quite good. It shows that the Financial Secretary has given in-depth consideration to various aspects. In fact, this Budget was a joint product by the Financial Secretary and his colleagues in the Government. As an elected Member in the Legislative Council, I feel that as far as members of the public are concerned, this Budget should be acceptable to them. Of course, among the proposals in the Budget, the most welcome ones are certainly the proposed tax concessions. However, other people have pointed out here that, if the Government is going to cut tax sharply now, it will be very painful to raise tax later, and any tax increase measures will be taken after 1997, thus creating great difficulties for the future government.

Mr President, I believe that tax concessions are warranted when the financial position of the Government is robust. It enables everybody to partake of the fruit of our economic success. I believe that, in case tax has to be raised in the future, we should be brave enough to face that difficult situation. Therefore, I think it would be illogical to take the view that tax should not be cut now simply for fear that it may have to be raised later.

Mr President, the first point that I want to make is about the reduction in the profits tax rate by 1%. I have discussed this matter with many people and their comments are varied. I fully understand the Financial Secretary's statement that tax concessions should be made at various aspects when Government's financial position is robust. I do not want members of the business community to feel that the Legislative Council is hostile to them. But why should they be singled out? However, what real good will a one percentage point tax cut do? The economy is so vigorous and so many companies are making great profit. Can they not afford to pay the extra 1% profits tax? Although, I have no strong opinion on this matter one way or another, I want the Financial Secretary to reconsider the necessity of this proposed tax concession. I believe since these companies are making a lot of money, it is not too much to expect that they should pay profits tax at the 17.5% rate.

Furthermore, I am very supportive of the Government's plan to take action against tax evasion. Dr Conrad LAM, being a frank and outspoken person, said something just now that the Financial Secretary did not have the guts to say it. He said that the proposed plan might be directed against the doctors. I do not care what profession a person may belong to. If he evades tax, the people of Hong Kong will not support him. If the plan is directed against service companies by which some people can avoid paying salaries tax as required, then I see a problem. Will all the professionals, including lawyers, doctors and accountants be affected by the plan? I believe that the Financial Secretary should tell us clearly where he will draw the line.

Mr President, I believe what the entire population most concerned about is what the Budget proposes to do about property speculation, which has caused property prices to soar. The Government gives us the impression that it can do nothing. I remember a Legislative Council Member told me a decade ago that the Government's policy over the years had fattened up a few dozen property developers. I believe that this former Member is still feeling the same way. Such is still the thrust of Government's policy and it is disgusting to members of the public. In response to our questions on this matter at last week's meeting of the Finance Committee, Mr EASON, the Secretary for Planning, Environment and Lands, said that any unwarranted action would harm the interests of 850 000 property owners. Of course, we do not want to harm the interests of these property owners. But has the Government even given any thought to the important question of who is going to ensure that property prices will be maintained at reasonable levels acceptable to members of the public? Thus, from the statement of Mr EASON, we have an impression that he did not know much about the suffering of the general public. In contrast, the Chief Secretary, interviewed by the press yesterday, gave us the impression that she had a better understanding of the matter. The Chief Secretary said that a couple earning \$30,000 a month could not afford to buy a 600-square-foot flat, which, at more than \$10,000 per square foot, would cost more than \$6 million. I am very glad that the Chief Secretary understands the problems of the public. Understanding, however, is one thing. Taking action to solve the problem is the most important.

The consul general of a foreign country told me recently that Hong Kong's rents are the highest that his country has to pay anywhere in the world. He said that this has put a great strain on him. Therefore, I feel that Hong Kong's abrupt sharp increase in property prices has reached an intolerable degree. Mr Edward CHEN, Member of the Executive Council and Chairman of the Consumer Council, talking to the media recently, accused the Government of irresponsibility in the way in which it handled property speculation. He said that, the supply of land was limited, yet there was a great demand. He therefore concluded that the law of supply and demand in market economy has been distorted. He said that there was a *prima facie* case that some developers, real estate agents and even lawyers were taking advantage of the opportunity to make money. Mr CHEN also said that, according to estimates of the real estate agents, half of the 25 000 new flats completed in the private sector last year and sold on the market were still unoccupied. Meanwhile, according to a recent media report, a Hong Kong member of the Chinese People's Political Consultative Conference (CPPCC), who was also a building contractor, estimated that only 80% of the new flats completed in the private sector last year were put on the market for sale. Therefore, I want to ask the Government once again. Does the Government know that some flats are being hoarded? What measures will be taken to deal with the situation that is causing so much hardship? Of course, one serious problem is that a lot of "hot money" is rushing into Hong Kong from China to buy property. The Hong Kong Government may not be able to deal with this problem. Therefore, I am very glad to hear that Mr TAM Yiu Chung, a colleague of ours and a member of the

PWC, has raised the matter with the Chinese Government in Beijing. We hope that the Chinese Government, by all means, will control its people and tell them not to send so much "hot money", so much "illegal money", to Hong Kong to buy property. The influx of such "hot money," if not controlled, will bring chaos to Hong Kong and it will be to nobody's advantage.

In addition, Mr President, I am very disgusted with the issue of old age pension scheme. In 1991, when we first have all the elected Members for the Legislative Council, the Government already told us very clearly that there would be compulsory retirement protection. The Government is now going back on its words. I totally agree with what Mr Vincent CHENG said yesterday. He said that Government made a policy decision after very little investigation and that the Government was looking for consultants to advise it on implementation. Mr President, I believe, if the truth must be told, that the Government does not intend to put the old age pension scheme into effect. We have only three more years. By the time the Government receives the consultants' report, conducts consultation and makes much ado about things, it will be its time to leave. How can it put the plan into effect? It would be better for the Government to tell members of the public officially that the plan will not and cannot be put into effect. As a matter of fact, the Government does not intend to put the retirement protection plan into effect. Its announcement of November 1991 was made under the pressure of our Members. Many directly elected Members, when running for office, said in their platforms that they were in favour of the plan. The Government then announced the plan because it had no other choice. However, after announcing the plan, the Government did not implement it. It then returned to square one and put forth an old age pension scheme. It has commissioned consultants for a new report. This is simply bothersome and misleading to members of the public. I hope that the Government will at least be gracious enough to come out and admit that the scheme cannot be put into effect, that there is not enough time for implementation and that it will not be put into practice. Therefore, I agree with Mr LAU Chin-shek's earlier observation that the Government might as well just increase old age allowance and subject recipients to a means test, so that each elderly person in a difficult financial situation may receive \$2,000 odd a month. This would be more practical. It does not make sense to try to deceive members of the public. Nor can they be deceived.

Mr President, we are of course very glad to hear that, besides spending money, the Government sometimes saves money. At the meeting of this Council's Finance Committee last week, we learnt that the Hospital Authority had saved \$130 million. I was at first very glad to learn the news. Later, however, some people asked me if I knew how the money was saved, if I knew that a bit was saved here and a bit there, thus lowering in the quality of services. Still, I do not want to speculate on the Government's moves. I just want the Government to tell us, during the replies later on, how the savings came about. If the money was well saved, our colleagues will definitely applaud and voice support.

Another thing is that the Government, of course, must look at the distribution of resources. It makes no sense to keep adding hospital beds *ad infinitum*. Parts of the population have already moved from the urban areas to the New Territories. Can we redistribute our resources in a better manner rather than a net increase in them? In this connection, I am in agreement with several colleagues who said a moment ago that medical facilities were very inadequate in Tseung Kwan O. We hope that the Government will give some thought to the timing of building a new hospital there. A northern New Territories hospital is under construction at the moment. We see realistically that the Government cannot build two major hospitals in quick succession. Still, will the Government consider building a major clinic as soon as possible? The Secretary for Health and Welfare seemed to say at one time that she had such an idea. However, at the meeting of this Council's Finance Committee last week, she said that apparently there was no available site. This gives me a lot of worries. I hope that the Government will quickly build a major clinic there, if not a major hospital.

Mr President, regarding the problem of shortage of manpower in various departments of the Government, many colleagues have already commented on it. I want to talk specifically about the shortage of police officers and judges. In a question that I raised in this Council in April 1992, I asked how Hong Kong compared with other cities, say, London, Tokyo and Singapore in terms of the ratio of police officers to population. I asked if Hong Kong's police force was under-strength, relatively speaking. The answer that I received was that our police force had a higher ratio. Therefore I keep wondering if our police force is really under-strength or our police officers are being deployed to perform non-police duties. Of course, we are very glad to learn that the Government is reviewing the management aspect of the police force. We hope that the Government will consult the Legislative Council soon on this matter. Though some colleagues always advocate additional manpower for the police force, I believe the Government is also aware that other colleagues are of the opinion that better management is even more important. We should find out if the manpower is being deployed properly rather than adding manpower blindly. However, if there is justification to add manpower, then it should be done so.

The shortage of judges presents a similar situation. Some colleagues say that there are not enough judges because the Government is too stingy in its plans for the judicial establishment. However, suppose that a judge tells us that he spends some three hours a day on the hearings and that he cannot tell us clearly how much work he does during the rest of the day. Meanwhile, we have not observed any high efficiency in their administrative work. Well, then, putting the above factors together, we may wish to ask if more judges must be added blindly or if there are other solutions. In this respect, can we say that the Government or its Financial Branch is trying to suffocate the Judicial Department? I remember that, back in the late 1980s, a suggestion was made to

create a senior administrative officer post in the Judicial Department and this suggestion was rejected by the judges, including the Chief Justice himself. It was only recently, after repeated suggestions were made by our colleagues and with their great support, that a D8 Administrative Officer post was created. This is why it is sometimes necessary to put history in front of us before we can debate an issue meaningfully. Of course, it seems certain that more judges will be appointed. Still, we hope that this will be done in accordance with proper administrative procedures. In relation to staff increase, the D8 post is a very sensitive one. Mr President, the post of Hong Kong's Special Representative to Washington was created last year after a lot of arguments. I hope that the Government will tell us which previously inaccessible United States VIPs are now accessible to this Special Representative. This information is very important. Without it, our colleagues will feel cheated by the Government. When the Government asked our colleagues to approve the creation of the post, it said that, unless the post was created, certain VIPs would not be accessible. Well then, now that the Special Representative has been at his post for several months, whom has he met since then? Please let us know. If the Government does not know how to present its answer, I will show it some reference. This Council's employees in London would submit a monthly return to us detailing which personalities they have met. We are not seeking a detailed list from the Special Representative to Washington. We just want to know which VIPs he has met, who were not accessible to his D4 predecessor. I demand the Government to give us such information.

I am very glad to see that the Secretary for Works has returned to his seat because it was said that there would be less delays in public works projects from now on. However, there is one thing that he knows well about and which is of great concern to our colleagues: road excavation works. There must be tens of thousand of cases each day where the road surface is dug up. The resultant traffic jams cause members of the public to waste a lot of time. I want the Secretary for Works to give us a report as soon as possible telling us how he proposes to deal with the problem.

Lastly, Mr President, I went to see the Governor this morning. I told him that I was very concerned because it seemed that nothing that the Government has planned or done during the remaining years of the transition period would endure beyond 1997. I believe that this is due to the lack of agreement or tacit understanding with China. However, the development of a community cannot come to a stop. The Government must make arrangements for continuity beyond 1997. There must be arrangements for continuity in education, facilities and infrastructures and other things. Of Course, this cannot be done unilaterally by the Hong Kong Government. Still, I hope that the Government will understand that some colleagues are very worried. I hope that the Chinese and the British Governments will quickly set aside the things that they want to argue about and, just as quickly, reach a tacit understanding on the other things like facilities and infrastructures. I hope that any plans to be submitted to this Council's finance Committee will provide for continuity beyond 1997. We want Hong Kong's prosperity to last beyond 1997. The necessary arrangements must

be made now. I hope that the Chinese and the British Governments will understand the concerns of our colleagues.

With these remarks, I support the motion.

MR LEE WING-TAT (in Cantonese): Mr President, the United Democrats of Hong Kong (UDHK) thinks that this year's Budget is better than those of the previous two years. The personal tax concessions proposed therein can most directly alleviate the tax burden of members of the public. In light of its ample reserves, this is a correct step for the Government to take. We hope that the Financial Secretary will show the same concern to ease the citizens' tax burden next year and further raise the personal tax allowance and the tax allowances for parents, grandparents and children by a large margin.

Regarding other proposals in the Budget, the UDHK has criticisms and reservations of varying degrees. We are most disappointed at, and most unhappy with, three things:

- (1) the absence of any measures initiated to curb soaring property prices;
- (2) the increase in rates; and
- (3) the failure to increase the ratio of expenditure on social welfare against the GDP, despite the large budget surplus.

Today, we would like to focus our discussion on soaring property prices and transport services.

In private housing, home prices have risen three-and-a-half times over the past 10 years, compared with a 96% increase in inflation rate and a 78.6% increase in wages over the same period. The figures from 1990 to the end of 1993 show that property prices rose by 116% in just three years.

In the urban extension areas (such as Tsuen Wan or Ma On Shan), the latest price of a 600 square-foot home probably lies between \$2.42 million and \$3.3 million. An average couple of the sandwich class (earning between \$22,000 and \$44,000 a month) simply cannot afford the 30% downpayment (\$720,000) and the mortgage repayment of nearly \$20,000 a month.

Members of the public across various social strata are becoming increasingly impatient and unhappy with the soaring property prices. Many young people in the middle-income group are particularly disturbed by the soaring home prices in private housing. Some of them have to put off marriages temporarily or permanently. Those who are lucky enough to have saved enough money for the 30% downpayment on a home may have to spend between 60% and 70% of their family income on mortgage repayments. In

many cases — no, in most cases — both the husband and the wife have to take up part-time jobs for extra income to make ends meet. Unless the Financial Secretary does something decisive about the problem, discontent will grow among members of the middle-income group and the ensuing social unrest will become a time-bomb.

We think that among the many causes of soaring property prices, the principal two are:

- (1) the supply shortfall in both public housing and private housing, in terms of either land supply or the output of flats; and
- (2) the lack of aggressive tax disincentives to property speculation.

Despite the a long-term strategy for public housing, which stipulates the quantity of flat supply, more than 70 000 families are still on the waiting list for public housing. Furthermore, on each of the recent occasions when Home Ownership Scheme homes were put on the market, there was over-subscription by more than 20 times. According to the statistics of the Housing Authority, the output of public housing flats will be declining in the coming years. People who fail to rent a public housing flat will have to turn to the private property market for a home.

The Government has put into effect a housing loan scheme and housing construction projects for the sandwich class. Over a three-year period, loans will be given to 3 000 successful applicants and 10 000 flats will be supplied. But over 50 000 homes are needed for the stratum now and the demand is growing every year. The supply is no more than a drop in a bucket.

In response to a question asked by Dr YEUNG Sum, the Secretary for Planning, Environment and Lands said that he did not agree that flats were being hoarded or that the supply of homes was being restricted and asked the Members for evidence. I am now giving some data for the information of Mr EASON and the Planning, Environment and Lands Branch. According to the information provided to the Housing Panel by the Rating and Valuation Department, 17 500 of the 27 500 new flats completed in the private sector in 1993, or 63.6% of the total, were unoccupied at the end of 1993. Only part of these unoccupied homes were completed at the end of 1993; most of them were completed at the beginning or middle of the year. So they had been completed and left vacant for a long time. Is this not *prima facie* evidence that developers or speculators are hoarding flats and restricting the supply of homes? Professor Edward CHEN of the Executive Council agrees that there is *prima facie* evidence showing that some people are restricting the supply of private sector flats. The South China Morning Post's editorial this morning quoted a well-known developer, saying that as far as he knew, 80% of the output for private housing in 1993 were not put on the market. I want to ask Mr EASON and the Planning, Environment and Lands Branch what other evidence do they want before they will start an investigation. Are developers and speculators not

hoarding private flats? Is the supply of homes not arbitrarily restricted? Yesterday, the South China Morning Post published a rare letter from Mr EASON responding to the criticisms of Members of this Council and the public on soaring property prices. I read it through and found that it just contained a summary of the existing measures together with some cliches. Mr EASON said towards the end of his letter that he would give priority to finding solution for the soaring property prices. Yet nowhere in his letter could one find any positive suggestions. Mr EASON also said that a fall in property prices would upset 850 000 property owners and harm their interests. This saying is absurd and groundless. To these 850 000 small property owners, the soaring prices of their property are but a gain in book value. If they do not trade in their present homes, it does not help to improve the quality of their life when the prices of their homes, have gone up by \$1 million or even \$2 million. It is merely "soaring" of the property prices.

By simple calculations, we can see that the faster property prices rise (as compared with the rise of wages in real terms), the more unlikely it is for small home owners to trade in their present homes for bigger ones. In fact, the soaring property prices have made it impossible or even improbable for a home owner to change his present home of some 400 or 500 square feet for another of 600 to 700 square feet. In fact, soaring property prices harm not only the interests of those people who have no properties but also harm the interests of small home owners who want to improve their living conditions. The only beneficiaries are those who intend to emigrate after selling their flats in Hong Kong and live abroad for good. In contrast, when Mrs Anson CHAN, the Chief Secretary, was interviewed by *Ming Pao* yesterday, she showed genuine concern about Hong Kong's soaring property prices. I do not mean to "lick her boot", but what I am now saying may sound like flattery. Although she mentioned in her suggestions that she was considering selling to developers some land without infrastructure in order to speed up housing construction, I feel that more information is needed to study these suggestions. Still, Mrs CHAN's strategy looks so similar to the UDHK's that I am almost tempted to think that she had joined the UDHK. She talked about the strategy of increasing the supply of land massively. I am in favour of this strategy. Let me quote her, "If we announced tomorrow that more, much more, land would be released, there would definitely be a psychological impact. Hong Kong is a strange place. The brisker the market is, the more people will rush to buy. In contrast, when the market is sluggish, nobody buys."

Since assuming the post of Chief Secretary, Mrs CHAN has apparently not yet brought any present to the Legislative Council or to the public. She has never given me a treat, not even a bunch of bananas. I believe that her success in leading the Government to level off property prices will be the biggest present that she can give to members of the public.

The Financial Secretary and the Secretary for Planning, Environment and Lands predicted two years ago that 70 000 new flats would be completed in the private sector in 1993 and 1994. However, the actual figure turned out to be

about 54 000 only. Mr EASON said in his replies to questions that we should not look at the figures of just one or two years. But I am citing figures of the last six years. On average, the actual output of new flats in the private sector fell short of predictions by 10%. Over the last two years, the shortfall amounted to 16 000 flats. In both the public and private sectors, the most essential cause of the shortfall in output is shortage of land. But there is another cause. As everybody knows, more than 50% of all private sector flats come from urban redevelopment Lands for redevelopment are different from those for new development. The time for construction on new lands is restricted. For urban redevelopment projects, however, developers can adjust their construction and marketing schedules to meet the market demands. Developers thus in fact have room to control and adjust the supply of flats in the private sector.

Concerning taxes, early collection of stamp duty on property transactions, a measure introduced in 1992, had a very short-lived cooling effect on property prices. This effect has dissipated completely. Property developers and speculators have no risk exposure at all. It is inevitable that speculation in the property market should be very active.

Based on the above analysis, I have four suggestions to make:

- (1) The supply of land for public housing should be sharply increased;
- (2) Discussions should be held with the Chinese authority, aiming at increasing by a large margin the supply of land for private housing and the Home Ownership Scheme (HOS);
- (3) The law should be amended to enable deadlines to be set for the completion of urban redevelopment projects and for the sale of those flats; and
- (4) A capital gains tax on property appreciation should be introduced.

The first suggestion is to increase the supply of land for use in building public sector housing, meaning chiefly to provide the Housing Authority and the Housing Society with more land. As we all know, land for public rental housing is not included in the 50 hectares of land to be supplied annually under the Sino-British land agreement. Therefore, there is basically no need to seek China's approval for an increase in the supply for such land (though we may choose to do so). The increase can be effected quickly. More public rental housing units can then be built to shorten the public housing waiting list quickly, thus making it unnecessary for some people to look for private housing.

The second suggestion is to increase the supply of land for private housing and the HOS. The prospect that more private sector and HOS flats will be completed in a few years will result in higher risks for property developers and

speculators. This psychological pressure will help to slow down the "runaway" property prices.

My third suggestion is to set deadlines on redevelopment projects. This will make it impossible for developers to manipulate the supply of buildings. The property market will become healthier when the supply of buildings is not being held back.

A capital gains tax on property appreciation will quickly bring property speculation under control. We suggest that the capital gains tax rate should be higher than that of the profits tax, so that property speculators will have to pay a higher cost and take a greater risk in their activities. Of course, home owners who trade in their small flats for bigger homes should not be required to pay this tax.

Soaring property prices are causing members of the public to cry out in pain. They have complained to us again and again that they are working all their lives to earn money for property developers and speculators. Should such a trend worsen further, the consequences will be disastrous.

In his Budget speech, the Financial Secretary also mentioned Hong Kong's deteriorating road congestion and traffic problems. Since the Governor showed in his policy address his resolve to do something about road congestion, the Government has been sending out mixed signals. At one time, it said that there would be no increase in first registration tax for motor vehicles. At another time, it said that the proposed electronic road toll system would be revived and tried. Before the delivery of the Budget speech, it was rumoured that vehicle licensing fee and first registration tax would be raised, making many members of the public scramble to buy new cars or renew their licences. Mixed signals from the Government made it impossible for members of the public to tell what they should do. The Financial Secretary merely disclosed that a working group formed by the Government was studying the problem of road congestion. But he did not elaborate on it or give clear details. Therefore, the UDHK thinks that the Government should make public the outline of the working group's terms of reference and its time table, so that Members of this Council and the public may have enough time to study the matter and give their views.

The most important way to solve the problem of road congestion is to improve the infrastructure for transport and attract more members of the public to the mass transit systems. Traffic control measures are less important. However, the Government's Appropriation Bill mentions very few new infrastructure projects for transport. Ting Kau Bridge is the only new project. The other projects have either been announced before or are related to the Airport Core Projects. We are waiting eagerly for the Northwestern Railway, MTR's Tseung Kwan O extension and the Tsing Yi South Bridge Duplicate. I hope that the Government will not delay them any longer.

Lastly, I want to mention that we are hoping for more competition in the provision of public transport services. I hope that the Secretary for Transport, Mr BARMA, will soon tell us how competition will be introduced to make the bus companies provide better services at lower fares.

Mr President, I so submit.

THE PRESIDENT'S DEPUTY, MRS ELSIE TU, took the Chair.

MR ERIC LI (in Cantonese): Madam deputy, "If I Had a Million Dollars" is a common and popular topic for secondary school students to write essays on. There is always something new to say when writing on this topic, and it enables young people to give free rein to their imagination. I wonder if Governor Chris PATTEN, when he was a boy, ever thought that he would buy an aeroplane and fly from the airport at Chek Lap Kok in 1997. When the Chief Secretary was a girl, did she ever imagine that she would buy and have a good time in a mansion on the Peak which overlooked the harbour and featured a perfect blend of Chinese and Western styles? All essay writers know that imagination is just imagination and that not everybody will be lucky enough to see his dream come true. While I do not know what the Financial Secretary's "One-Million-Dollar Dream" in his boyhood might be, I am sure he must have never thought that when the time comes that he really has the chance to realize his "dream" with a much bigger sum of \$100 billion, it could become such a headache, and indeed a totally "thankless" task.

The Financial Secretary will perhaps tell us that his Budget speech is a masterpiece of "collective art", a perfect social consensus based on realistic political consultation and a composite version of 60 "dreams" coming true in the Legislative Council. However, its separation from the Executive Council, the Legislative Council has been "lacking in a set of consistent and standard criteria" to evaluate the Government's policies. I would say quite a few colleagues, under the disguise of monitoring the Government, have gone so far as to voice "indiscriminate" opposition and criticism, yet their real intention is just to win the hearts of the people. As a matter of fact, for any Appropriation Bill to pass this "impregnable 56 orators with a siever tongue" in the Legislative Council, it is never easy to buy the hearts of many of our colleagues, even if the Government has an enormous sum of money to spend and plans to spend it. I will give some honest advice to the Government: Be always realistic in administration and managing financial matters. Refrain from playing myopic political games. When financial resources are ample, be more far-sighted and confident enough to tackle structural problems that have a long-term impact on the interests of the economy as a whole, such as property prices, inflation, the narrowing revenue base and so on.

As soon as the Budget speech was made public, I immediately gave it 90 marks and praised it as a "fat-cutting" Budget speech that has the interests of the public in mind. I was satisfied with the Financial Secretary's apparent confidence in cutting the excess fat out of the reserves. Recurrent expenditure on social welfare would increase by the biggest margin, and the Lotteries Fund would also gain an unexpected larger share of lottery proceeds. I was the least happy with the narrowing tax base. The explanations on proposed measures to fight tax evasion were blurred. Those who legitimately use limited companies to provide professional services were made to feel threatened. Aspersions were cast on their character for no good reason. Now that I have studied the Budget speech more closely, I want to make some remarks on the structural problems of Hong Kong's economy that the Government must address.

1. *Fat-cutting Budget speech*

When I spoke to thank the Financial Secretary on the occasion of his 1992-93 Budget speech, I said clearly that, with the economy doing so well, the Government should not show a lack of confidence, should not underestimate tax revenues, should not sit on its reserves, and should not "play it by ear". This year's Budget speech at last shows a big improvement. It is no longer a plan to "bleed the people". One percentage point will be taken off the profits tax rate. This will be done in keeping a promise made to the Legislative Council in 1992 in response to my query about a proposal to add one percentage point to the profits tax rate. That one percentage point should not have been added in the first place. Removing it now is quite right and proper. Substantial salaries tax concessions will be offered to members of the sandwich class. Such tax cuts are really warranted now that our reserves are ample by international standards and more than enough to finance all of the Government's planned spending programmes in 1997. The economic pie has grown bigger. For this, we must thank the "good bakers", that is, those citizens who have made the greatest contributions to Hong Kong's economy. The tax concessions are well deserved for those who have worked hard and planned well, and it is only fair and natural that those working harder should gain a bigger reward. It sends a most positive message to the community.

2. *Welfare spending to help those in need*

The Budget speech also shows consideration for the poorest 10% of Hong Kong's population. For this group of people who cannot benefit from the tax concessions, spending money directly on social services is probably the most effective way to help them. It is commendable that welfare spending will rise substantially in the coming year. Nevertheless, compared with other areas of social service, such as health care and education which are basically adequate in quantitative terms and need only qualitative improvement, social welfare is lagging way behind in terms of "quantity". Demand always outstrips supply and there is a lot of hard catching up to do. With an economic growth stronger than anticipated, plans proposed in the White Paper on Social Welfare and those made by the Social Welfare Advisory Committee will probably be implemented

ahead of the timetable. Yet to those welfare recipients, it means only an earlier availability of the services, not an improvement in their quality of life on a par with those who are better off. The gap between the rich and the poor is widening. Unless the Government continues its commitment to improve Hong Kong's social welfare, the poor will remain "bogged down" in the hard realities of life, while others are enjoying "progress and prosperity".

### 3. *Narrowing revenue base*

In an apparent change in revenue strategy, the Financial Secretary will stop collecting salaries tax from 420 000 people, whose cases answer the description of "high collection cost" and "low revenue yield". Such change will not only save the manpower resources, it also enables the Government to do "a favour" at little cost and win immediate political support among the public. Meanwhile, the Government will increase revenue from other more predictable sources, such as, rates and business registration fees. The change is a mixture of additions and subtractions and the result is almost neutral in terms of total revenue. Increasing rates and business registration fees will not broaden the existing revenue base as both are already part of it. However, the tax base will be narrowed permanently by excluding more from the salaries tax net. The Government argues in public statements that the narrowed salary tax base will remain elastic. However, any discerning person can see that it is easier to narrow this tax base than to broaden it. Since the introduction of directly-elected seats into this Council and since the separation between the Executive Council and the Legislative Council, people have got used to the scenarios that the Government and Legislative Council Members are trying to outmatch each other with greater generosity. Putting 420 000 people back into the tax net sounds like a tale from "The Arabian Nights". It is a shame that Miss Emily LAU is only an independent member. If she were the leader of a major party, I might have to rewrite this paragraph. Undoubtedly, with a buoyant economy and strong reserves, even if we rely solely on unpredictable revenue sources, such as profits tax, land sales and stamp duty, which yield high revenue only when the market is robust, we will still be able to last until 1997. But what about three years, five years or seven years after that? I agree with Dr David LI's observation that, in economic activities, what goes up must come down. When a Legislative Council Member talks about "spending", he does not have to draw any money from his own pocket. But when the Financial Secretary talks about the same in his annual Budget speech, he really needs to spend public money, or even undermine his own supply of money by narrowing the tax base. If such was the case, we might last until 1997 if we were lucky. But what about after 1997? Who will cross over to the other shore and leave the problems behind? Who will stay on and bear the consequences?

### 4. *Giving taxpayers a wild chase*

The Financial Secretary makes some most "artificial" arrangements to drop 420 000 taxpayers out of the tax net. However, to the minority sandwich class, who must pay their annual tributes, he suddenly puts on the look of a

formidable hunter. This is very puzzling. Aspersions are suddenly and openly cast on the several hundred thousand professionals, who have always been law-abiding and are now smeared as fraud or criminal suspects. Politically, this has the effect of "a pre-emptive strike launched while the enemy is unprepared". If such a tactic was used against political rivals or unpardonable criminals, it might be forgivably regarded as a "technical foul". But Launching such a blurt, if not brutal, propaganda blitz against the professionals, who always closely co-operate with the Government and strictly comply with the law, is not only an ungracious move, but, more importantly, a grave mistake of political judgement.

The Hong Kong Society of Accountants (HKSA) is always positive in asking the Government to crack down on unlawful tax evasion. It has worked closely with the Government on several occasions to rectify major loopholes in tax law. In the current Legislative Council session, the HKSA has so far voiced its support for the passage of no fewer than three amendments to the Inland Revenue Ordinance and many practice guidelines of the Inland Revenue Department. In commenting on this year's Budget speech, the HKSA has also urged the Inland Revenue Department to deploy more staff to do the work of "investigation and field audit". All these are put down in public records. Undoubtedly, in combating tax evasion, which in many ways is similar to crime fighting, we must consider such general concepts as human rights and freedoms. Clearly enough, the Legislative Council definitely do not withhold its support in principle for curbing tax evasion. But the question is how to deal with the specific issues. Based on only some specious arguments, and without giving a clear definition of "tax avoidance" or explaining how the Inland Revenue Department will handle the avoidance cases, the Government wasted no time to point the finger at the professionals in order to seek more "political assets". In such circumstance, how can people not feel that it is "wronging the innocent and over-correcting a mistake"?

As a matter of fact, what the tax consultants like most to see is the enactment of many anti-tax evasion laws which are complex and vague. This is because while the tax laws are proliferating and getting more incomprehensible to the ordinary people, the business of tax consultants will be going up and up. However, bearing the interests of the public in mind, professional people in compliance with high ethical standards will help the Government to make reasonable, simple and effective tax laws. I want the Government to clarify that making tax avoidance arrangements is not an offence and that professional people do not have the "privilege" of tax avoidance. Until a conclusion is reached in the Legislative Council, no "unsubstantiated allegations" should be made groundlessly against a vast number of people who lawfully use limited companies to provide professional services. I hope that the Government will learn a lesson and quickly come up with relevant legislation which, after meaningful consultations with the professionals concerned, will then be submitted to this Council for consideration. By that time, if somebody is found to have been motivated by self-interest, there will be no need for Government officials to point an accusing finger at him. Public opinion will not easily let him off.

### 5. *Property prices and inflation*

When I was in university, I majored in economics. Nevertheless, about 70% or 80% of the economic theories that I learnt have not been retained. I am now not even a semi-economist. In last year's Budget speech debate, I made only comments. This year, seeing that the Government is simply at a loss as to what to do about the spiraling property prices and inflation pressures, I can no longer hold my patience and feel obliged to make some bold suggestions on these important livelihood issues. I am not particularly hopeful that they will be adopted. Notwithstanding, they will at least stimulate the brains of civil servants who dare not or do not want to be innovative.

The Government blames inflation solely on the shortage of manpower and land. It says that a limited importation of professional talents and a substantial increase in land supply will ease inflationary pressures. I will talk about manpower first. Take professional accountants. The preliminary findings of a survey being conducted by the Hong Kong Society of Accountants indicate that one of the major factors contributing to the shortage of accounting professionals is the fact that Hong Kong's accountants have to perform a vast volume of services for businesses in China. Every year thousands of Hong Kong accountants have to shuttle between China and Hong Kong, but still find that they just cannot cope with the volume of work. This is because China lacks not only a few thousand professional accountants, but 300 000 of them. If China's acute shortage of professionals remains unsolved, bringing in 1 000 Chinese professionals will be of little help to Hong Kong. It is like trying to put out a burning cartload of faggots with a cup of water. A more practical option will be to maximize the quota of two-way permits for Chinese professionals coming to Hong Kong for short-term training.

A big increase in land supply will certainly help to bring down land prices. However, the Government has its own revenue strategy in mind — even if the high land price policy cannot continue, "selling more at the lower profit margin" is still equally good. It at least makes sure that there will be a steady inflow of revenue into the Treasury. However, a large supply of land alone cannot bring down the property prices in a short period of time. This is because:

- (1) The developers have reaped hefty profits in recent years from property sales. They have abundant cash reserves to sustain high land prices for a long period.
- (2) Interest rates are very low and rental income is relatively attractive. The developers would prefer to pay the little cost of holding the properties for some time rather than see a big drop in land prices.
- (3) It will be a long time from the sale of land to the completion of houses. As the Chinese saying goes, distant water cannot put out a nearby fire.

- (4) Presently, there is no mechanism to prevent the banks from issuing banknotes massively. It is also easy for developers to raise funds abroad. Financial experts estimated that of Hong Kong's total lending in 1993, the proportion of mortgage loans has probably dropped to less than 30% from 80% ten years ago. It is a clear indication that property buyers are cash-rich. Given that, situation will not improve even if the mortgage lending ratio is further reduced.

Many respectable colleagues are keen to find some measures that can bring immediate effect. One example is the imposition of some form of capital gains tax. It is highly doubtful, however, that this tax will work in the long run. In fact, many other options are available for solving the problem more fully. However, a lot of thinking must be done before they are adopted. Here are some examples: (1) Countries like Japan and Switzerland restrict home ownership only to citizens and foreigners who have a proven long-term housing need. But such a measure will seriously interfere with the operating principles of a free-market economy. (2) Some colleagues may perhaps say that Singapore, by providing a vast quantity of premium-exempted high-quality public housing estates, has artificially confined the private property market to a limited scale in order that a balance of supply and demand can be achieved. But demand for housing may go up and down with fluctuating prices and interest rates. Unless there is a permanent imbalance of supply and demand, the free market itself should be a more effective mechanism for regulating property prices.

I would think that declining interest rates have mainly contributed to the recent sharp rise in property prices. The Government and developers have both adduced statistical data to show that there has never been an under-supply of housing flats. Yet, the fact is that overseas and local buyers stampede into the market, snatching houses as investment bonanzas. Despite sharply raising the stamp duty on property transactions and intensifying its action to collect the profits tax, the Government has failed to stop them. Why? From the angle of investors, Hong Kong's interest rates, because of the pegged exchange rate, have dropped by more than five percentage points since 1990. In 1990, property investors would generally expect a rental return of 11% or 12%. With declining interest rates, rental income has become relatively more attractive. It will now be reasonable if rental income yields a return of only about 5%. In other words, even if the rent remains at its present level, the value of the house has already doubled and it means a handsome gain from the investors' point of view. There are other factors notably the influx of foreign funds into Hong Kong, return of Hong Kong emigrants, property hoarding and a two-fold rise in rents, and so on. It is fully explicable why property prices have gone up by 300%.

The rocketing property prices may have indirectly induced local banks to issue more banknotes in the absence of a regulatory central bank. When property prices are rising, mortgage loans are relatively safe and profitable.

Banks may find it irresistible to lend more. Between 1990 and 1993, Hong Kong saw sharp rises in its M3 money supply, at the rates of 23.1% in 1991, 11.6% in 1992 and 25.5% in 1993 respectively. Most of the increased money supply was for making local loans. As the money supply has grown much faster than that of savings in the corresponding years, it is hardly surprising that inflationary pressures are high in the territory.

In such a situation, obviously, any country in the world will slightly raise the interest rate on savings deposits. I am convinced that, if this is done, it will definitely help to cool down the property market, or even push the prices downward. Regrettably, Hong Kong has tied its own hands with the pegged exchange rate. And this most effective monetary measure has become beyond the reach of the Government. However, today the pegged rate system is no longer a sacred cow. Hong Kong's economic prospects are bright. Foreign exchange reserves are strong. The future of the Government is clearing up. With an economy which has proved largely immune to the political climate, I think that we are in an excellent position to ease up on the pegged exchange rate and let interest rates float within appropriate limits. This will be good for fighting inflation, for cooling the property market and for narrowing the gap between the interest rates charged and paid by the banks. It will "kill three birds with one stone".

Madam deputy, my time is running out. I so submit.

MR ALFRED TSO (in Cantonese): Madam deputy, in this year's Budget speech, the Financial Secretary claimed that he was "returning wealth to the people." The drastic increase in salaries tax allowance for the second year in a row and other tax concessions have pleased many people. After the Financial Secretary had finished reading his Budget speech, he assumed that he had made everybody happy, even the Policy Secretaries in attendance could hardly wait to cheer by pounding the desk.

However, if we read the Budget speech more closely, we would find that the Government has failed to put forth specific policies to improve those aspects of livelihood that are of the greatest concern to members of the public. The Government thought that tax concessions and increased expenditure in some aspects would constitute "a benevolent rule" and would appease members of the public and Legislative Council Members alike. However, this Budget speech is in fact lack of foresight and over-optimistic.

A government official who is in charge of public finance should have not only the foresight but also a clear understanding of the biggest problems plaguing the community. He can then formulate specific policies and adequate financial arrangements to improve the situation. As the proverb runs, "One who fails to see far will count immediate danger." The people of Hong Kong are worst hit by the immediate dangers of widening disparity of wealth, high

inflation and run-away property prices. Regrettably, the Financial Secretary fails to prescribe the right remedies for these problems.

The Financial Secretary says that Hong Kong has been described as "one of the richest and most sophisticated urban societies in the world". Our GDP *per capita* is expected to rise to US\$20,600 this year. Yet there are all kinds of latent crisis behind our robust economy. Economic growth has failed to improve in real terms the quality of life for the lower middle-income groups.

According to statistics in 1991, the income of the richest 10% of Hong Kong's families was 29 times more than that of the poorest 10%. The Gini Coefficient, which measures disparity of wealth, has risen to 0.48 in 1991. Hong Kong tops other Asian countries where disparity of wealth is concerned, an honour which Hong Kong does not necessarily need. A more telling figure is the total number of Public Assistance cases, which has doubled over the past 10 years and will reach 12 700 in 1994, far exceeding the 13% overall population growth over the same period. This shows that our poor population has been fast expanding.

Another example to indicate the failure of the grassroots to share the fruits of economic prosperity is the slackening increase in salary. In some trades, there are even cases of a negative growth in salary with the relocation of a great number of manufacturing industries to China, many blue-collar workers have lost their employment opportunities, or their wage increase has lagged behind the inflation rate, or they are underemployed. Their living standards have thus been seriously affected.

Although expenditure on social welfare will be increased substantially in the coming year, that does not mean that services will become adequate. For the 120 000 families in Hong Kong now under the Comprehensive Social Security Assistance Scheme, their allowance will only be increased by a mere 7.7% with effect from 1 April, which is hardly enough to catch up with last year's 8.5% inflation. How then can they improve their quality of lives? Apart from having to take care of the old, the infirm, the disabled, the Government also has to face the increasing number of broken families in recent years, which has indirectly led to various youth problems. Therefore, the Government should collect more revenue from various sources to be spent on social welfare and on programmes to improve the people's livelihood so that the general public can have a better quality of life.

Madam deputy, now I want to talk about inflation. Although the double-digit inflation rate of last years has dropped to the present 8.5%, the Financial Secretary concedes that it is still too high. Regrettably, the Government has, over the years, been implementing a policy of non-intervention without paying heed to the seriousness of inflation, and has failed to tackle the problem. Can such a government claim to be accountable to the public? I am afraid that, unless inflationary pressure is removed, any benefits that the proposed tax

concessions may bring will be totally eroded by inflation before they reach the hands of the public.

One of the major causes of high inflation is the frenzied soaring of property prices. Many people still cannot afford to buy a nice home after a lifetime's toil. This is not a healthy development. Although property prices have been soaring for a few years, the Government has taken no action apart from saying that rising property prices is due to the shortage of land supply. Even a three-year-old kid can give such a simple reason. We do not need the Government to tell us. The Administration fails to mention in either the Governor's policy address or the Financial Secretary's Budget speech any measures to deal with property hoarding and the proliferation of property speculators. As a result, property prices have rocketed and social stability has been hampered. I do not know if this is due to the incompetency of the Government or inadequate monitoring of the Government by Members of this Council. As a Legislative Council Member who is accountable to members of the public, I feel very ashamed for failing to urge the Government to remedy the situation.

The Government not only fails to cool the property market, but also fans the fire. The Financial Secretary's proposal to lower the stamp duty on property transactions can be said to be helpful in the wrong way. The particular proposal will only lower the speculator's cost and pour oil on the current over-heated property market.

Why does the Government not do anything to curb the problem of soaring property prices? Can it be that the higher the property prices, the more revenues will be receivable from land auctions, stamp duty and profits tax, and any measures to curb property speculation will undoubtedly cut off these sources of revenue? Or does the Government intend to make use of the thriving property market to create a "bubble economy", a mirage of prosperity? Such act of seeking short-term benefits regardless of consequences is like "drinking poison to quench thirst." I hereby warn the Government, if the bubble is getting bigger and bigger, it will burst eventually. By that time, serious social unrest may result and ultimately, it will be the mass of people who suffer.

I hereby advise the Government not to deceive the public any more. Instead, it should take immediate actions to stop the wave of property speculation. I suggest that this be done in four ways.

First, if the Government thinks that the present land supply is restricted by the 50-hectares-a-year rule stipulated in the Joint Declaration, it should immediately hold discussions with the Chinese Government to increase substantially the annual supply of land. I believe that the Chinese Government will be aware of the adverse impacts of high property prices on the people of Hong Kong, and adopt discretionary measures in dealing with the allocation of land.

Secondly, on stamp duty. If the Financial Secretary really intends to help genuine users, he should maintain the stamp duty on property transactions at its original level. A property owner does not sell his flat during the first year of occupancy can prove his status as a user, not a speculator. He will then be eligible for a tax concession and be reimbursed for the stamp duty already paid. Only this is the appropriate tax measure.

Thirdly, actions should be taken against property speculation of commercial properties. Since the beginning of 1994, there has been a new surge in property prices, and prices for office space have risen most sharply. This may affect foreign investors' desire to invest in Hong Kong and Hong Kong's position as an international commercial city may be affected. I suggest the Financial Secretary to extend the measure of levying stamp duty on the property transaction to that of commercial property transactions as well.

Fourthly, the Government can amend the law, requiring the lawyers' firm to hold up a certain amount of money in connection with each profitable property transaction for paying profits tax. In this way, speculators can no longer hide their identities, and the difficulties of recovering the tax in future can be avoided. This measure can on one hand cut the administrative cost of tax recovery, and on the other hand reduce the amount of "hot money" from reploughing into the property speculation market. I believe that implementation of the above measures will clearly demonstrate the Government's resolve to curb property speculation. Speculators will have to think twice before acting and hopefully, the property prices will fall to a level affordable to members of the public.

This year's Budget speech is based on a very optimistic forecast. The Financial Secretary expects the Government to have buoyant revenues in the coming years. I of course hope that his forecast is correct but we should all bear in mind that our economy is very susceptible to external factors. When the times are good, the Government should prepare for the rainy days, so that when the economy takes an unexpected turn for the worse, the Government would still have adequate financial resources to meet the necessary social expenditures.

I think that the 1% cut in profits tax is unwarranted. Hong Kong's profits tax rate is already the lowest among other Asian countries. I believe that the business community is willing to pay profits tax at the present rate. Besides, for foreign companies investing in Hong Kong, the profits tax rate is just their secondary consideration. The most important factor is that Hong Kong provides the best conditions for doing business. It is justifiable for any businessman, whether a local resident or a foreigner, to pay a reasonable amount of profits tax should he make a profit. While the Financial Secretary talks about "returning wealth to the people", his decision to cut the profits tax rate means he is just "returning wealth to the rich".

Furthermore, some of the Financial Secretary's tax concessions are also perplexing. For instance, the striking reduction of the air passenger departure

tax from \$150 to \$50 will cause the Government to lose \$960 million in the coming year. This, coupled with the \$1.6 billion loss due to the 1% cut in the profits tax rate will amount to a total loss of \$2.56 billion in annual revenue. If the Government withdraws these two unwarranted tax concessions, the amount is more than sufficient to cover the \$1.8 billion revenue loss due to the freezing of rates in the coming year.

Madam deputy, I want to make the following specific suggestions on government expenditure:

- (1) Although the MTRC has started to gain profits in recent years, with a profit of \$600 million last year, it still has to raise fares each year to pay for the high amount of interests arising from the \$18.8 billion debt. Fare increase will add to the burden of passengers, directly fuels inflation and affects people's livelihood. In order to make a better use of the Government's huge reserves, I will, at a later stage, move a motion at the Legislative Council sitting to urge the Government to increase its funding, so that the MTRC can pay off its debts sooner, thereby reducing its interest payment. This will indirectly ease the pressure for the MTRC to raise fares, and benefit ordinary citizens.
- (2) The Legislative Council adopted a motion on 9 March, urging for an early construction of the Northwest New Territories Railway. The Secretary for Transport anticipated at the time that a policy guideline would be laid down in three months' time. I hope that the Government will bring us good news by that time and make appropriate financial arrangements.
- (3) The Financial Secretary says in his Budget speech that he hopes that the franchise to construct and operate the Country Park Section of Route 3 will be awarded by the end of this year. As the operating franchise will span for 30 years, it is necessary to obtain the approval of the Chinese Government. In view of the present adverse Sino-British relations, the process of negotiations may be beset with obstacles. Therefore, I hope that the Government will adopt precaution measure by setting aside \$6 billion from its reserves for the construction of the Country Park Section of Route 3 so that if China's approval of the operating franchise is not forthcoming, the Government can still proceed with the project on its own reserve. This will ensure that the construction work of Route 3 will not be further delayed, and the 800 000 inhabitants of western New Territories will no longer have to suffer from traffic congestion.

Lastly, I urge the Government to take advantage of the robust financial position to implement expeditiously various cost-effective infrastructure

projects, such as road projects, which will benefit all the people of Hong Kong. This should be good for Hong Kong's long-term growth.

Madam deputy, I so submit. As the Financial Secretary has failed to offer effective solutions to my above-mentioned questions about livelihood, I shall abstain from voting on the Appropriation Bill.

THE PRESIDENT resumed the Chair.

MR FRED LI (in Cantonese): Mr President, Members from the Meeting Point will be expressing our views on various aspects of the livelihood of our community. Mr TIK Chi-yuen will speak on education, retirement protection for the elderly, manpower development and new towns; Mr WONG Wai-yin will speak on transport, security, housing, land development and Comprehensive Social Security Assistance. I shall make a general assessment on the overall Budget, and give our views with respect to the response given by the Secretary for the Treasury to the three parties' request to reduce the rates increase.

The Financial Secretary's proposal on a number of tax concessions in his Budget for the next financial year pleases everyone. The Meeting Point particularly welcomes the fact that the Financial Secretary has accepted the request by the community to raise the personal tax allowance considerably so that the burden of the middle income taxpayers can be eased. However, as has often been stressed by the Meeting Point, Hong Kong needs to conduct an overall review on its financial policies and tax system so as to conform to its social and economic developments. We welcome these concessions.

However, it is not necessary at all to lower the corporate profits tax. Yesterday, Dr David LI of the financial sector also expressed the same view. I agree with him that the business sector would not care too much about the 1% increase or decrease. The most important things are the economic development of Hong Kong and whether the tax system is widely-based and fair. The Financial Secretary himself has also admitted that the tax environment of Hong Kong is very attractive to investors. One of the arguments given in the Budget for reducing profits tax is that the purpose of the Government's tax revenue is to meet the necessary expenditure. As the Government has the resources to allow a tax reduction for the business sector first, why is it not possible to lower the rates and increase the resources for social services so as to benefit more members of the general public?

To people of the lower classes, raising the personal tax allowances means more people will be out of the tax net. But the majority of the lower classes have never been in the tax net at all. To these people, real care means concessions on indirect taxes and improvement on social services.

It is regrettable that the Government has decided to reassess rateable values. Reassessment of rateable values is in effect increasing the rates, which affects every family directly. Therefore, the Meeting Point is of the opinion that the Government should lower the rates from 5.5% to 4.5%.

In view of the Government's principle to keep the growth of expenditure within the rate of economic growth, even if genuine needs arise in the community, they cannot be met because of the constraint on the expenditure on social services. Hence the lower classes cannot benefit from it.

Quite a large proportion of the Government's revenue comes from land sales and stamp duty from property and stock transactions. The Financial Secretary pointed out that public expenditure for the year 1994-95 would take up 18.1% of our GDP. In other words, more than one-third of the expenditure does not come from recurrent tax revenue.

This is in fact not a sound way of financial management. It virtually prompts the Government to stick to the high land price policy and take little initiative to cool down the property market, in which high prices sustain. Hence an inflation fuelling pressure is built up, and a vicious circle is created.

The Meeting Point has been making requests in recently years that an overall review of our tax system be conducted in accordance with the tremendous changes in our social and economic environment. The Government has been turning a deaf ear to this request, which is in reality letting the matter get worse. It may become a time bomb in future.

Meanwhile, it is the Government's policy to keep the rate of growth of public expenditure within that of economic growth. This policy is subjective, arbitrary and without good justifications.

Quite a large portion of the Government's expenditure is an investment in economic development. Social services are an investment in the quality of the people. Infrastructure is an investment which speaks for itself. There are investments which are more suitable for individuals. However, there are also investments which ought to be made by the Government. Therefore, it is a high-sounding but specious fallacy to say that more wealth will definitely be generated by putting resources into the hands of individuals than by placing them with the government.

As regards rates, the three parties are joining efforts with a view to coming to a consensus. The Government has put forward the following reasons to justify its dissent to make further concessions on rates:

- (1) the present increase is quite modest and is lower than inflation;

- (2) people living in public housing estates will not be affected, and almost half of the population of Hong Kong are now living in public housing estates;
- (3) further concessions would undermine the tax base;
- (4) it is the Government's view that Members with party affiliation are possibly taking this opportunity to win over the public and make trouble.

I am now responding to the above reasons one by one:

As to the point "the increase is lower than inflation", does it mean we must make the increase higher than inflation or equal to it? Obviously, though prices do not rise in line with the rents, reassessment of rates would bring about indirect effects. Although many people would benefit from the 20% cap set by the Financial Secretary, in the second year, most of the people would be paying the new rates after the reassessment. Therefore, the provision of the cap could only reduce the extent of the increase. The Government has forecasted that there will be a surplus of \$7.7 billion for the year 1994-95, and by 1997, there will be a surplus of \$120 billion. The figures do not include the Land Fund. At it is in such a robust financial position, we cannot see why the Government should freeze the rates increase so as to ease the burden of the public.

Secondly, as to "people living in public housing estates will not be affected", according to government data, the average increase in rates of public housing estates after the reassessment is 18%. Would the Housing Authority shift onto the rents the whole 18%? This is something still unknown, but I do believe that the Housing Authority will not shoulder the whole of the 18% increase by itself. It will surely make adjustments in the rents accordingly. That is why it is incorrect to say that people living in public housing estates will not be affected. Even if the increase in rents may not be as high as 18%, it will be rather substantial.

Thirdly, as to "undermining the tax base", the Financial Secretary admitted that making concessions on tax items would naturally undermine the tax base. The Financial Secretary said, "We cannot have the cake and eat it. It is impossible to make concessions on taxes and at the same time broaden the tax base." I do not wish to dispute about this. The point is whether we can reduce the rates increase. I think it is possible to do so in the present circumstances. The Government would have an additional income of \$1.77 billion after the rates reassessment. Suppose we did not have this tax revenue of \$1.77 billion, would it give rise to a deficit Budget? Would it be really necessary to make up for the loss of income from this by making adjustments elsewhere? I cannot see why such a situation should arise. Nobody has asked for removing the rates altogether. We merely request that the rates increase be reduced so as to ease the burden of the public. The same reasoning applies to reducing personal income tax and reducing the profits tax by 1%. I think that the Financial

Secretary should not vote down the proposal to reduce the levy of rates by arguing that a concession on rates would undermine the tax base. I hope that other Members will also support our views, and I sincerely hope that the Government will take the initiative to make concessions so that Members will not have to resort to amendment motions or voting against the Budget, as these are not the ideal ways.

Mr President, Members from the Meeting Point will vote in favour of this year's Budget.

MR MAN SAI-CHEONG (in Cantonese): Mr President, in his Budget speech this year, the Financial Secretary frequently stresses the point of "returning wealth to the people." But it is not yet known if people will become better off as a result. One thing, however, is clear beyond doubt: The Hong Kong Government is the richest government in the region. It sits on a huge reserve. Its treasury is awash with money. But the citizens' quality of life is still headed for a downturn. There are many of them who have to endure hell in return for 300 square feet of living space. Yet the Government speaks high-soundingly of "returning wealth to the people." Where is the wealth for them?

The wealth that the community has accumulated is very largely the fruit of the citizens' hard work. It is only right and proper that the citizens should partake of this fruit. Regrettably, however, the Government does not mean what it says. Even as it talks about "returning wealth to the people," it refuses to yield any ground on the issue of rates. Since the Government says that it wants to return wealth to the people, why is it that the Government cannot make this one concession on rates to the citizens? Why is it pursuing a rates increase relentlessly? Why is it pushing people up against the wall?

Property prices are being sustained at a high level. Society has been divided into two classes: the property-owning class and the property-less class. A home is critically important to every citizen who wants to live well and work happily. The supply of land must be increased. This cannot brook one moment's delay. Regrettably, however, most land at good locations is in the hands of big property developers and is being hoarded. When the Housing Authority needs land for building public housing, it only gets land in remote locations. Urban land for residential development is sold to the highest bidders. The prices of property in urban areas can only go up, subject only to minor corrections from time to time. For the lowly citizens, buying a home will create too heavy a financial burden to carry. For those members of the sandwich class who do not yet own homes, home ownership has become an impossible dream. I doubt that the Government really has the *bona fide* intention to curb property prices. To illustrate this, I will give one example, with which we have all recently become familiar. After the new airport is completed, the site of Kai Tak Airport will be redeveloped. This redevelopment project, plus the various land reclamation projects, will provide 102 hectares of land for private sector residential development but only 40

hectares for public sector housing development. Evidently, urban land will not be distributed even-handedly. In the context of Hong Kong's long-term housing strategy, the land supply for public sector housing development and private sector residential development should be set at a ratio of 3 to 4. But Government policy is often inclined to favour the selling of land to private developers. This is the diametric opposite of the principle of "returning wealth to the people". Besides, the upper limit on the incomes of those eligible for public housing or Home Ownership Scheme housing is set too low. The sandwich class and the middle to lower income groups are not eligible. The United Democrats of Hong Kong suggest a 60% increase in the upper limit on the income of those eligible for public housing and a \$31,000 upper limit on the income of those eligible for HOS housing. These higher upper limits are warranted because property prices are now so high. I wonder how the Government will respond to this suggestion.

Everybody can see that the Consumer Council did a lot of work last year to protect the interests of consumers. It took action against monopoly. It educated consumers. Regrettably, the Consumer Council has long had a problem of under-staffing. The Financial Secretary will make a lot of money available to the Consumer Council to meet its non-recurrent spending needs. This additional money is to be used only to pay for studies and surveys to determine, for instance, if there is monopoly in the banking industry. It is not to be used to pay for additional staff, which is precisely what the Consumer Council needs. The Consumer Council needs a larger permanent staff to do the work of educating consumers, acting against unreasonable business practices and protecting consumers. This could be said to be one of the deficiencies of the Budget.

Mr President, I will now make some comments on the Budget in so far as it affects culture, broadcasting and information. I believe that, if one is looking for a way to describe in general terms the relevant parts of the Budget, one will find the following phrases suitable: "no firm financial commitment", "evasive attitude", "short-sightedness" and "a lack of new ideas".

The Budget this year proposes an appropriation of over \$40 million for subsidizing the performing arts, \$3 million or so more than last year's figure. But the public will not forget that, citing financial stringency, the Government froze the amount of subsidy at \$35 million from 1991 until last year. Last year, the Government was shamed into adding just over \$1 million to the amount. Therefore, the \$3 million or so increase this year will not be — as the Secretary for Recreation and Culture has called it — a "sharp" increase. At the most, it will provide no more than a bit of lubrication to a machine that has stopped moving, by which I mean that subsidies for the performing arts have stopped growing for several years.

The Government stresses that the Sir David Trench Fund and the \$100 million in seed money will provide extra subsidies to the performing arts and subsidies to the literary and visual arts respectively. But I must point out here

that only \$3 million (10%) out of the \$30 million Sir David Trench Fund was used last year and that there is no assurance that the fund is a stable source of future subsidies. It is not known if another 10% of the fund will be spent in the coming year. Secondly, we must stress that the \$100 million in seed money should not become a source of "regular" subsidies for the literary and visual arts. The Government must subsidize the literary and visual arts out of its regular subsidy appropriation. The Government should not draw on the seed money every year. In his Budget this year, the Financial Secretary fails to give a clear assurance or to enunciate a clear principle. Members of the public are having misgivings in this respect.

Broadcasting is another important policy area. Very disappointingly, the Government has been evasive regarding where Radio-TV Hong Kong is heading. It has not had the courage to proceed without demur to corporatize RTHK. Nor has it had the far sight to let it mature into a public broadcast station.

It appears that the discussions on the corporatization of RTHK have come to a full stop. The Government's final conclusion says strangely, "Corporatization is the best option which, however, cannot be put into effect because of the political circumstances." If the Government has not yet abandoned the corporatization option, it should tell the public the details of its discussions with China. If it is not ready to go ahead with corporatization, it, too, should let the public know the truth. It will be naive for the Government to think that it can back down gracefully by blaming China for the fact that the corporatization issue is still-born. We certainly cannot accept that the Government may hastily call it quits and not tell the truth to the public. That, I believe, will not be the responsible thing to do to the staffs of RTHK.

The development of RTHK should not be hindered whether it is corporatized or not. Hong Kong's television media first started with just two TV stations. The said media have grown and now satellite TV and cable TV are available. However, commercial competition does not necessarily guarantee the diversity of programmes. No station has wanted to put BBC's documentary on MAO Zedong on the air. Children's programmes are neglected by the media. Cultural and religious information programmes are excluded by the commercial media. This shows that a public broadcast station has a lot of room for development and is very much needed even in an environment where the commercial media are growing vigorously. However, RTHK's air time will be cut from 12 hours a week now to about 10 hours a week in the coming year. Its air time during the past years grew only at a rate fluctuating between 2% and 4%. Even so, the Government talks unabashedly about long-term commitments to broadcasting!

In response to a written question from me, the Government says that there are 864 educational TV programmes. At the rate of 150 a year, it will take between seven and eight years to have all the programmes replaced. This shows the ill consequence of the Government's move to squeeze resources for RTHK!

The Budget says nothing about how the Government plans to use the three no-pay channels that Cable TV will make available in 1995. The Government does not have the vision to see that these no-pay channels can open up new avenues for public broadcasting. Nor does it have the innovative mind to provide citizens, cultural groups, religious groups and education bodies with air time or with channels to promote freedom of expression. I urge the Government to appropriate money in the next financial year to fund studies to find out how the three no-pay channels of Cable TV should be used and how much this will cost the Government. These public access channels should be in place and operational by 1997. Lastly, I would like to say a few words about environmental protection.

Waste disposal is a social problem affecting all developing cities. The Government will be appropriating a lot of money for waste disposal this financial year. Waste disposal is very expensive. The Government should therefore adopt the "polluter pays" principle. The Executive Council on 7 December 1993 decided to collect charges from users of landfill sites, hoping that the landfill sites would break even in a few years from now. I hope that the Government will hurry up and start collecting charges officially this financial year. The Government should also take a square look at the dumping of construction wastes at the landfill sites, which in 1993 cost taxpayers \$175 million to clean up. The Government must come up with an effective plan to ameliorate the situation.

In the context of the waste disposal strategy, the disposal of medical waste is no longer a new topic. The Government began several years ago to make plans to solve the problem. But no specific commitment has yet been made to this day. There have been delays, too, in the Central Incinerator Project. True, there is no evidence that medical waste is the cause of communicable diseases in Hong Kong. Still, the Government should not neglect the potential risk. I hope that the Government will this financial year approve and announce a long-term action programme for dealing with the problem.

The Governor, in his policy address, promised to set up an "environment conservation fund" to promote environmental education and support the work of green groups. This money will be very helpful to the operations of the green groups. I hope that the Government will quickly make an announcement on who can apply for financial allocation and how. This will enable eligible groups to receive financial allocation to carry out environment conservation work beginning this year.

I so submit.

MR HENRY TANG (in Cantonese): Mr President, the percentage increase in personal tax allowances in this year's Budget, breaking all previous records, will benefit the public generally. In addition, the newly added dependent grandparent allowance can even be said to be a surprise gift. I have heard that

this proposed new allowance has lately led to more people visiting their grandparents. I do not know whether one should be happy or sad about this change of attitude towards the grandparents. I think that the Financial Secretary, in conceiving and devising this new allowance, has probably not contemplated that, besides benefitting the younger generation, this allowance will also bring unexpected care and warmth to those grandparents who have been neglected by their grandchildren. I think that this can be said to be a "bonus" of the proposed allowance.

With the exception of the rates revaluation which is strongly criticized by the public and Members of this Council for bringing substantial tax increases, the Budget is generally welcomed by the public. Even Miss Emily LAU, who is so demanding, supports it. However, I still think that the Financial Secretary has not tried his best. Take education as an example. The overall expenditure on education has undeniably accounted for 16.5% of the total public expenditure, which is already a large amount when compared with other expenditures. But if the Administration thinks that a 6.5% increase is enough already, then I think it is too bureaucratic and has disregarded its important responsibility in education.

I have no wish to bargain with the Administration item by item as to how much the increase or decrease should be, because that will only be a meaningless game of figures. I only pay attention to what return the spending will yield. With all the money spent, can we solve the many difficulties in the development of education in Hong Kong? Can a satisfactory result be achieved both in terms of quality and quantity? If everything is done solely for the purpose of fulfilling the Administration's promise of providing a certain number of places or generating a certain number of university graduates without regard to quality, this will be a very dangerous development. The success or otherwise of education will have a very important bearing on our future social development, economic well being and the moral orientation of the people. Education has a more far-reaching influence than any other policy. Raising our next generation is surely not like operating a factory where mass production is the objective. Besides, even a factory operator has to pay attention to the quality of his products.

A few days ago, I watched a television newscast where an official of the Education Department was giving an interview. He was talking about the difficulties faced by new immigrant children in finding schools. Sidestepping the crux of the matter, the official insisted that these new immigrant children and local school children should be treated alike and he refused to give them any extra assistance. Mr President, this is a telling example and deplorable into the bargain. Officials of the Education and Manpower Branch have said that as the quota for One-way Permits has increased from 75 to 105 and half of the number will be school age children, so it is necessary to increase the resources. In this regard, the Administration has planned to build two more secondary schools and one more primary school in the next three years.

However, I am afraid this is again just a cosmetic measure. The fact is that many children coming from the mainland have been refused admission to government or subsidized schools and the fees of private schools are unaffordable to the families of these children. What are the reasons for the schools' refusal to accept these children? As far as I know, the schools are worried that these children, given their poor academic performance and conduct and their not being conversant with Cantonese, will undermine the overall academic performance of the schools. Those with this kind of utilitarian outlook are surely wrong because they have forgotten that "the spirit of providing education for all without discrimination" is a prerequisite to the running of a school. But the Administration is also wrong in refusing to provide assistance to these children and not giving extra grants to the private schools which accept these children.

This is only one of the many examples, but it serves to reflect that the Administration has only been presenting an outward look of balance without any *bona fide* intention of finding a thorough solution. The most problematic area in our existing education system is basic education, and it is unnecessary for me to set out one by one all the problems involved. Basic education is, I think, the only compulsory social service in Hong Kong. As it is a kind of social service, I am afraid that the principle of "cutting one's coat according to one's cloth" should not be applicable as far as the allocation of funds in this regard is concerned. Funds should be allocated according to needs. Money is of course not omnipotent, but the adequacy of funds can really solve many problems now existing in our education system.

Mr President, the industrial and commercial sectors have been complaining that the standards of university graduates are now much more varied than before. In this connection, the Administration should no longer deceive itself and others by saying that this is a matter of course under a universal education system. After all, if basic education is unsound, then even if one manages to enter university, one will not emerge as a good quality graduate from lack of a sound foundation. But the point is that we are in fact not short of funds wherewith to improve basic education. Yet if the Budget is only giving scanty financial allocations to the authority concerned for solving problems like whole day schooling in primary schools and the floating class arrangements in secondary schools, both of which are regarded by the Administration as problems to be tackled vigorously, then I do not know when the problems arising out of our piecemeal or fragmented education policy will ever be solved.

Mr President, I have two points of concern in relation to labour matters. First, the Administration has disregarded the proposal put forward jointly by the three major political parties of this Council, namely the Liberal Party, the United Democrats of Hong Kong and the Meeting Point, which calls for the Administration to adjust, by way of public expenditure in the 1994-95 Budget, the payments under the Comprehensive Social Security Assistance Scheme, raise the eligible income limit of those over 65 years old to \$121,000 and increase their assistance to \$2,100.

The Administration has pointed out that our demand, if met, will constitute a limitless commitment. It has also posited the view that even if applicants are required to undergo a means test, the burden on taxpayers will still not be lessened. Mr President, I do not agree with the Administration in this regard.

Towards the end of last year, the Administration, in proposing to set up an Old Age Pension, clearly pointed out that a provident fund system cannot immediately solve the problem concerning the retired elderly persons who are in financial difficulties and that there is a social consensus that these people really need more care and attention. We agree in principle to this view and are therefore proposing a more positive scheme that will address the problem so that these needy persons can benefit "immediately" instead of, like what Mr LAM Woon-kwong has said, having to wait until 1996. Under our proposal, they will not have to put up with a few more years of poverty. However, the Administrative does not agree with us.

In fact, the Administration's argument that the proposal will "constitute a limitless commitment" is weak, because whether it is the money of the taxpayers, the employers or the employees, it comes anyway from the public. So how come that our proposal will become a limitless commitment if funded by public money but will not be so if funded by the money of employers and employees? Moreover, as the Old Age Pension Scheme proposed by the Administration will benefit all the elderly people, so it goes without saying that it will be more expensive than our proposal which a certain criterion as regards declared assets. How come that there should be a double standard?

Mr President, not long ago our colleague Mr WONG Wai-yin moved a motion which urged that the payments under the Comprehensive Social Security Assistance Scheme be adjusted to 30% of the median wage. On that occasion, the Secretary for Health and Welfare took issue with such a proposal, saying that it would lead Hong Kong in the direction of a western welfare state and that a welfare state had no prospect of success. I find this an extremely curious remark to make. If it will lead us down the road of a welfare state just by giving \$2,100 to those who are in need and living in abject poverty, then will Hong Kong not become a "super welfare state" if the proposal of the Education and Manpower Branch, which will give \$2,100 to all those who are over 65 years old, is implemented? How come that a welfare state has no prospect of success but a super welfare state will have it? I hope that the officials of the various Branches will stop making such kind of silly remarks and stop attempting to confuse the public. The three parties will stick firmly to their position and will never give up.

Mr President, the Liberal Party welcomes the plan to import 1 000 professionals from China. We think that the Administration should be praised this time for readily listening to good advice. However, I consider that the people of Hong Kong should definitely have the priority right to get employed. So we must pay close attention to whether these 1 000 Chinese professionals will

affect the employment opportunities of our local professionals, because there should always be a precondition that the employment opportunities of our local talents be safeguarded and that healthy competition in wage be ensured. But I believe that if the Administration has in place sufficient preventive measures against abuse of this policy, then given the increasingly close economic and commercial relations between China and Hong Kong in the latter part of the transition period, these Chinese professionals will only become an asset of, rather than a burden on, Hong Kong.

Finally, I would like to talk about the so-called simplified *ad valorem* tax system for wines and spirits which is a disguised way to encourage the public to consume cheaper wines and spirits of lower quality. This system is not in line with the rising living standards in Hong Kong, and these kinds of wines and spirits are not good for the human body. Besides, this system will, as is the case with cigarettes, encourage smuggling activities and the sale of faked products, with the result that the tax revenue in this regard will drop the way it does with cigarettes. In terms of trade, this measure has aroused the discontent of the exporting countries of high quality wines and spirits. For example, France has readily taken retaliatory action by preventing Hong Kong from attending as observer at a GATT panel meeting. This is obviously a very serious threat to Hong Kong's position in international trade. So what this system has gained cannot make up for the loss it has caused.

In fact, the revenue coming from this tax is really negligible. As an international financial centre, Hong Kong has long since been able to afford doing away with the tax on wines and spirits in order to enhance Hong Kong's reputation as a free trade paradise. The Financial Secretary may consider my proposal.

Mr President, with these remarks, I support the motion.

MR TIK CHI-YUEN (in Cantonese): Mr President, the Financial Secretary appears full of confidence in this year's Government Budget. He rather conceitedly entitles his Budget speech "Managing Prosperity". Regrettably, however, the Meeting Point does not share the Financial Secretary's view that we have a perfect Budget. We are of the view that the Budget speech is merely passable and that it is not totally flawless, particularly when it comes to the improvement of people's livelihood.

As soon as the Budget was made public, everybody's attention was drawn to the tax concessions proposed by the Government, particularly the proposal to raise the personal tax allowance from the present \$56,000 to \$72,000, exactly what the Meeting Point has suggested. The proposed tax concessions are generally welcomed by the public. The Meeting Point finds it reasonable that, when its revenues are ample, the Government should return wealth to the people. The Meeting Point further thinks that the Government not only must do its utmost to lighten the tax burden of taxpayers, but it must also work hard to

improve the livelihood of members of the public and to raise people's quality of life. The Financial Secretary says in his Budget speech, "the Government will continue to raise the standards of its services to the community, in particular through funding the various undertakings and proposals announced by the Governor in his policy address to this Council last October." The Financial Secretary seems to think that, simply by funding the undertakings announced in last year's policy address, he will have done his duty and can expect great improvement in people's livelihood. But the Meeting Point wants the Financial Secretary and the Government to know that the promises of livelihood improvements made in last year's policy address are still a far cry from the expectations of members of the public. The promises in the policy address are old stuff. The same promises were made many years ago but have not been honoured. Therefore, honouring the promises of the policy address does not mean the same thing as meeting the expectations of members of the public.

The Meeting Point has three reasons for thinking that people's livelihood must be further improved:

- (1) Improving people's livelihood will narrow the unhealthy disparity between the rich and the poor. I believe everybody will agree that the disparity of wealth in Hong Kong is now rather serious. A further worsening of the situation will cause social instability. Social services have a redistribution effect on resources. Therefore, further improvement of people's livelihood will be meaningful in terms of narrowing the poor-and-rich gap and improving the quality of life for the lower strata of society.
- (2) The Government, with its robust financial position, can well afford to provide more social services. The Financial Secretary estimates that, despite the many tax concessions, there will be a budget surplus of \$7.7 billion in the coming year. The cumulative reserves will reach \$269 billion in 1997. The Memorandum of Understanding on the Airport Core Programme requires the Government to keep a reserve of just \$25 billion for the future SAR Government. In addition, the Government has to reserve \$7 billion for the civil service pension fund. These two items add up to less than \$35 billion. Does Hong Kong, then, need a reserve of nearly \$270 billion? The Meeting Point is not suggesting that the Government should spend money freely to exhaust the reserve, but we think the Government can well afford to do more for people's better livelihood.
- (3) The livelihood services now being provided by the Government are still far from the expectations of members of the public. Acting on behalf of the public, Members of this Council have asked the Government to improve people's livelihood in many aspects. For instance, the Government should quickly set up a Central Provident Fund, increase the manpower for medical services, speed up the

construction of public housing and raise the Comprehensive Public Assistance payments. The Government has been dragging its feet in responding to all these requests. In fact, the Government, as a responsible government, has an obligation to appreciate the feelings of members of the public and to proceed quickly to meet their reasonable expectations.

The Financial Secretary will perhaps say that public spending must not grow faster than the economy and that this poses limitation to the work of improving people's livelihood. Honourable Members from the Meeting Point have just now explained that such a constraint is not really warranted. Therefore, we hope that the Government will not use it as an excuse for putting off programmes aimed at improving people's livelihood.

Mr President, I will now put forth the Meeting Point's specific proposals on education, old age retirement protection, manpower development and new town development, to the extent that they are related to the further improvement of people's livelihood.

#### *Education service*

In the coming year, the Government will provide funds for improving education service mainly to meet the suggestions made in *Report No. 5 of the Education Commission* and in the Governor's policy address. But the improvements expected by members of the public and by educators are not limited to these suggestions. The Meeting Point thinks that the Government should put additional resources in at least three areas:

- (1) Pre-school education. The Education Commission has set up a working group to make recommendations on the development of pre-school education and on the Government's obligations in this area. The report will be completed in March. Most groups involved with pre-school education hope that, beginning in the next financial year, the Government will provide more resources for improving the quality of kindergartens. But the Budget speech makes no mention of setting money aside for carrying out future recommendations of the Education Commission. All that the Government will do is to expand the kindergarten fee remission scheme. This scheme is helpful only to needy families, enabling their children to go to kindergarten. It does not give kindergartens more money to improve their service. We worry that, without financial support, recommendations of the Education Commission will remain on paper.
- (2) Setting up an Education Quality Research Fund. The Governor's policy address contains a suggestion to improve Chinese and English language skills and computer literacy. In addition to this, the Government should adopt a comprehensive and forward-looking

strategy for improving the quality of education in order to cope with future political and economic development needs. We suggest that the Government provide extra money in the coming year for the setting up of an "Education Quality Research Fund". This fund should finance the Education Commission's research on ways to improve the quality of education. It should also provide money, upon application, to tertiary institutions and education researchers to finance relevant research work. We believe that such research work will be directly helpful to the Government in the formulation of a strategy for improving the quality of education.

- (3) Building more schools to cope with children who come to live in Hong Kong from China. Currently, 105 people come to Hong Kong from China on one-way permits every day. Among them are children of school age. The Government has an obligation to provide school places for them. But the Government, when planning school places in the past, did not take into consideration the fact that there would be children coming from China. As a result, there is now a shortage of school places in some districts. In Taipo and northern New Territories, for instance, there is a lack of over 800 Secondary One places this year. The Government should quickly review its current school building programme and provide funds to speed up the construction of additional schools in areas where there is a shortage of school places.

#### *Old age retirement protection*

In his Budget speech, the Financial Secretary points out that, in light of the ageing population, it is necessary for the Government to meet the needs of the old people and, in particular, to provide them with financial security. Some paragraphs of the Budget speech are devoted to describing the advantages of the old age pension scheme proposed by the Government. However, there is no indication of what will be done in the coming year to give better livelihood protection to the elderly people or how to deal with the problem of an ageing population. On this issue, I would say the Government is just stepping in place. We are particularly disappointed at the Government's failure to adopt the suggestion of the Meeting Point, the United Democrats of Hong Kong and the Liberal Party that each person in Hong Kong aged 65 or above, subject to the passing of a means test, should receive an interim allowance of \$2,100 a month in the 1994-95 year pending the implementation of the old age pension scheme. This suggestion of our three parties will immediately help the elderly by providing livelihood safeguards. Adoption of this proposal will show the Government's sincerity and resolve to improve retirement protection for the elderly in the long run. We hope the Government will come up with a sound and long-term old age retirement protection scheme in 1996. The above suggestion is just a two-year interim plan, and it will require no more than \$10 billion in extra funding over the two years. The Government is financially strong enough to implement the suggestion.

*Human resources development*

The Meeting Point is surprised at the Government's plan mentioned in the Budget speech, to bring in 1 000 professionals from China. We also feel disappointed because this plan, about which this Council and members of the public have not been consulted, will be hastily put into effect next month.

The Meeting Point has three reasons for thinking that the Government should immediately shelve the plan.

- (1) The plan is not well considered. The Government's explanations about the plan have so far been self-contradictory. Many details of the plan have yet to be carefully sorted out. Evidently, there is a lack of all-round consideration and careful planning on the part of the Government.
- (2) The plan is myopic. When announcing the plan, the Government pointed out that, in the two coming years, Hong Kong would lack 6 000 university degree holders who know about China, and that this was why Hong Kong would have to bring in professional talent from China. However, the Government's 1990 forecast on human resources estimated that 23 000 students would have graduated from universities by the year 2001 and that there would be an over-supply of university graduates in a few year's time. This being so, is there any need for us to bring in talent from outside?
- (3) The Government should take active steps to train up local talent. With a substantial increase in Hong Kong's university places in recent years, the Government can train local talent to be China trade experts through tertiary education. There is hence no need for us to rely on outside forces while leaving local talent unused.

For the above reasons, the Meeting Point suggests that the Government should shelve its plan to bring in professionals from China. Instead, the Government should actively review the development of tertiary education in Hong Kong so as to meet the community's needs and should lay down a comprehensive and long-term human resources strategy covering such aspects as: strengthening vocational training, encouraging women to join the workforce, reviewing immigration policies and encouraging the use of automation technology in industry. This will solve Hong Kong's manpower shortage problem.

Mr President, I am an elected Member representing northern New Territories. I want to make some requests here on behalf of residents of northern New Territories concerning improvements in people's livelihood.

(1) Family service

A lack of community facilities in new towns may easily lead to domestic problems and hence a rise in the number of single-parent families. Existing family service tends to be remedial and superficial in nature. There is a total absence of preventive or developmental family service. The Budget speech proposes setting up 19 family activities and resources centres, which will use the staff and resources of existing community centres to carry out family service. We consider this a good start, but the service ought to be further expanded. The Government should provide additional resources for the setting up of a family-style neighbourhood centre in every housing estate to help families as they grow. This may reduce domestic problems and hence their resultant youth problems.

(2) Improvement of traffic problems arising from cross-border transportation

The problems include road congestion, illegal parking, road repairs and noise pollution. The Government should conduct a comprehensive review of the development of cross-border transportation and draw up plans to build supporting facilities such as car-parks, new road networks and truck depots.

(3) Full resolution of flooding problem

Serious flooding occurred in northwestern New Territories on several occasions last year, resulting in serious property damage. This exposed problems in the planning and drainage works of New Territories districts. Meeting Point urges the Government to immediately provide funds for the improvement of streams and drainage works in northwestern New Territories. To totally resolve the flooding problem in northwestern New Territories at an earliest possible date, the improvement work should cover the Indus River, River Beas, the Lam Chuen River as well as the Sham Chun River, the regulation of which has already been delayed for many years.

Mr President, these are my remarks.

MR JAMES TO (in Cantonese): Mr President, in each year's Budget debate, the Secretary for Security assures this Council time after time that the security agencies (especially the police force) will definitely receive the necessary resources to shoulder their heavy workload and cope with the ever-changing social environment. We have no doubt about this statistics or data. However, we will take his assurances with a grain of salt. We must consider different

security needs, trends of situations, opinions of the public and cost-effectiveness of resources while making recommendations and decisions.

With regard to the five agencies, namely the Police Force, ICAC, Immigration Department, Customs and Excise Department and Correctional Services Department, the recurrent expenditure estimates for them will increase by 2.7% in real terms this year, accounting for 11.5% of the total recurrent expenditure estimates for all government departments. Their establishment will reach 52 189 persons, accounting for more than 25% of the civil service. As their establishment and resources carry so much weight, and security needs have changed in recent years, we must provide them with adequate resources. At the same time, resources have to be allocated reasonably to maintain law and order.

In connection with the police, it was 17 years ago when the last general review on its manpower needs was conducted. The Secretary for Security announced at one time that the overall establishment and management structure of the police force would be reviewed to enable the force to meet the operational needs of the 1990s. We believed that the review would have long-term and far-reaching impacts on manpower planning, allocation of resources and effects on fighting crime since it concerned over 20 000 police officers and more manpower would probably be needed. It has been two years since the review was conducted. The police have also indicated that they accepted most of the recommendations. The Secretary for Security has pointed out many times that studies have been made of most of the 116 recommendations concerning the command structure. Yet we have so far only received a few pages of scant data. The Government has for years been using the ploy of "much talk but little action". Hence the Members do not have adequate information to monitor the development of the Police Force and to make suggestions, particularly concerning the allocation of resources. I am unhappy with this.

I have made a comparison between March this year and December last year in terms of the number of police officers assigned to each district. I can see clearly that the numbers of police officers on Hong Kong Island and in Kowloon East have been decreasing systematically, while the numbers in the rest of Kowloon, southern New Territories and northern New Territories have generally risen. According to press reports, since the crime rate in the urban areas is on the downward trend, the police have re-deployed some of their officers in uniform and CID detectives in the urban areas to other areas. The impacts of this change in deployment policy on law and order closely affects the public. We, as well as members of the public, absolutely have a right to know about it and comment on it. It is true that people in the new towns often complain about law and order problems and want more police officers on the streets. This happens on festive occasions, when many police officers, especially those of the Police Tactical Unit, are re-deployed to watch flower markets and lantern parades. On those occasions; not many police officers are seen on the streets of the new towns and the people there consequently feel unsafe. We of course hope that the police will have more civilian staff for paper work. This is quite important. Further implementation of computerization will also assist the

management and promote efficiency greatly. But we hope that the Government will appreciate from another perspective that the police are doing a lot of work that is not traditional police duties, such as issuing tickets for traffic offences, hawkers control and assisting the Television and Entertainment Licensing Authority (TELA) to search for obscene posters and pornographic publications. This situation must be reviewed. For instance, it is possible for 300 traffic wardens to issue 700 000 tickets a year, accounting for 30% of all tickets issued. In fact, the police can pass this type of work to the traffic wardens, who are certainly competent to handle these duties and cases as they are non-essential and no danger is involved. Furthermore, we find that, after the General Duties Teams have been given additional manpower, the police officers deployed for hawkers control can and should be posted back to maintain law and order. Actually, TELA should have its own staff to enforce the law. The work need not be done by police officers. Of course, where violence is involved or reinforcement is needed, police officers will dutifully step in and help. The types of work mentioned above may sometimes unnecessarily spoil the image of the Police Force. For instance, some people say that police officers are good for nothing except issuing traffic tickets.

Morale is also a very important issue in the management of the Police Force. With the transition to 1997, senior police officers are leaving the force in growing numbers. There may not be enough qualified officers to replace them. Matters concerning re-training, increasing resources, morale and declining efficiency in fighting crime should be faced squarely. Over the past ten years, more and more senior positions have been created in the Police Force. However, there does not seem to be much improvement in the promotion prospects for front-line and junior police officers. This constitutes a potential problem. During the past few years, after the police force failed to find enough new recruits, its establishment was slashed. It can of course be said plausibly that, since the positions cannot be filled, they should be cut to release resources for use by other departments. But then, when the recruitment exercise of the Police Force turns more successful this year, will the Government maintain the flexibility to increase immediately the necessary positions that have been cut now that the Police Force is able to find the recruits to fill them?

In connection with crime fighting, the number of juvenile delinquencies has risen sharply. Last year, the number of arrested youths between the ages of 16 and 20 rose by 1.4%. The ratio of juvenile arrests to the total number of arrests rose to 34%. The police acknowledge that juvenile delinquencies are particularly bad in new towns such as Tai Po, Sha Tin and Tuen Mun. In this respect, it is the persistent stand of the police that they have no particular measures to inform us. We are convinced that the Police Force must work closely with the Education Department and the Social Welfare Department to launch some promotion campaigns with properly chosen themes and to provide more services of family counselling and education. More resources should be allocated to support the programme for police superintendents to caution and counsel youth offenders.

The problem of triad activities is shocking. There are at present 57 active triad organizations. According to experts on triad problems, some of the triad organizations may have 50 000 to 60 000 members each. Taken together, the triad organizations probably have more than 100 000 members, which is four or five times the number of police officers. Triads do big business. They have widespread networks. Everybody can see that they are well-equipped and cash-rich. In addition to allocating resources to fight the triads, I suggest that the Government should stop arguing with Legislative Council Members about definitions in the Organized and Serious Crime Ordinance. Even if Members agree to give the police these arbitrary powers, I believe that the investigations into these two kinds of cases: first, triad cases, and secondly, repeated offences involving two or more people, can never be exhaustive even when the Government's existing resources are utilized. I believe that, if the Government obtains the powers it requests (it could have obtained them a year ago as Members already approved), and achieves conspicuous results without abusing them, Members will see no problem in approving more of such powers, and members of the public will be supportive of this move. That ordinance also contains many provisions on investigating a person's financial resources. These provisions will indeed improve the efficiency in investigating triad activities. Therefore, I hope that the Government will stop arguing about the definitions and proceed quickly to obtain the powers, even if they are limited, and get on with its work immediately. This is the best way. On the other hand, it is indeed necessary to increase manpower for investigating triad and organized crimes. We need more capable detectives. We have recently read about many cases which were solved with the use of undercover agents sent by the police. Some cases, for example, involved extortion on construction sites. Members of the public are delighted to read about such police successes. They are also convinced that the police do not rely solely on them to report crimes. If members of the public do not have enough confidence in the police, the latter can send undercover agents to solve some cases so as to encourage the public to fight crime and convince them that they are delivering a full challenge to the triad organizations. I believe that this will increase the public's trust in the police so that they will co-operate with the police in reporting crimes.

Meanwhile, efficiency is quite important. I do not want to appear as if I am flattering some police officers while disparaging others. My constituency is in Sham Shui Po. Many local residents said to me that, since a certain commander was assigned to the area six months ago, the number of local triad crimes, extortion cases and juvenile delinquencies has fallen sharply. The policemen are almost tired out because their commanding officer is very hard-working and exerts so much pressure on them that they have to go out and investigate every day. The police morale in the entire area has improved. Members of the public are full of praise for them. Our point here is not to flaunt one or two commanding officers who are working very hard. Our point is to say that people do appreciate the senior police officers in their areas who lead by personal examples, work hard and exercise their intelligence in assigning tasks.

Furthermore, I want to talk about the procedure for approving spending programmes. I have asked the individual security agencies how many of their requests for resources have been rejected, that is, rejected by the Government after considering their competing requests. The answers I received were the same in all cases. They all said that they got the resources they had requested. After a careful study, I found that the Government made them give the same reply. The Government does not want the Members to ask those divisive questions, which may cause disputes among the departments and embarrassment to the officials of the policy branch. But I want to ask one question. If Members are told only the spending figures in the Budget speech and not given the details about the resources requested by each branch or department, how can we comment on the Government's priorities? How can we grant meaningful approvals?

Another thing is that many Members have commented on the unaffordability of property prices. As property prices are high, the Government is doing us an easy favour by promising to increase the supply of land. I do not object to an increase in land supply. I approve of it. But the Government says that it wants to help property developers to demolish old building and recover properties. I want to talk about the plight of the people who were evicted from their homes during the redevelopment of old districts. The number of public housing units has been cut; the waiting list for public housing is infinitely long. A public housing unit in the urban area is an impossible dream. Rent controls are being lifted. There will be no more rent control in 1996 as all rents will then be based on rental values in the market. The statutes on redevelopment do not guarantee re-accommodation for evictees. This is a policy error. I have moved a motion urging a review of the policy on the redevelopment of old districts. That was 18 months ago. Nothing has happened at all. The Land Development Corporation, too, has been reviewing the relevant policy for over 18 months. I feel that the invisible hand of property developers is really too powerful. They have been able to control the entire Executive Council. They are now forcing the Government to facilitate their land recovery. It must be realized that the right to recover land in the public's interest should belong to the public. The Land Development Corporation may have made policy mistakes, but I hope that the Government will not for this reason "remove its teeth". The Corporation was set up for good reasons. I hope that when the Government really wants to recover land, Members will study the Government's request and then let the Land Development Corporation and the Housing Authority have the priority to redevelop old districts. In addition, the Government must keep fighting for a bottom-line from the property developers, which should include re-accommodating the evictees in the same areas where their homes or shops used to be, offering homes for homes and shops for shops. There is no reason why evictees cannot be re-accommodated in their original areas where six-storey buildings are redeveloped into 16, 26 or even 60-storey buildings. Such policy is absurd.

Lastly, I want to talk about extending the jurisdiction of the Land Tribunal. I hope that the Government, when giving its response, will not evade

the issue for the sake of just 3 million odd dollars. Such an amount is often wasted carelessly. But I want to tell the Secretary for the Treasury and the Financial Secretary that this amount of 3 million odd dollars, spent on the Land Tribunal, may lead to a solution for people living in the old districts and for the occupants of multi-storey buildings having disputes with management companies. The Government is merely asked to add more staff members to the Land Tribunal so as to give people an opportunity to settle disputes justly. The Government is not asked to give out alms. I hope that my hopes for more judges and resources to expand the Land Tribunal will come true.

I so submit.

DR SAMUEL WONG (in Cantonese): Mr President, this Budget speech also scores 88 marks from me because it has adopted a number of tax concessions to benefit people's livelihood while the government's financial situation is affluent. These measures include the substantial increase of personal tax allowance, the reduction of stamp duty for properties valued below \$3,000,000 and so on. As to who can benefit or the extent of the benefit, it really has to depend on each individual's specific economic activities. It is hard to say that everybody will get the same benefits.

I welcome the Administration's determination to take positive actions against tax evasion because it will bring more revenues to the Administration. I also support the importation of 1 000 professionals and managers graduated from the prestigious universities in China since this can help our economic development and ease the labour shortage. However, I hope the Administration can limit the importation strictly to those coming with work permits, which will be valid for one or two years only. Applications should be restricted to companies with investments or links in China. A review should be conducted after a year and revisions made according to the effect and the demand for labour.

On the other hand, in addition to its tax reduction measures, as a responsible government, the Administration, in drawing up the Budget, should also consider how to ensure a steady source of income so as to provide adequate resources for our capital construction and social, educational and medical services. This is particularly necessary in view of the forthcoming transfer of sovereignty in only 39 month. We need an abundant reserve to cope with the possible unstable financial situation immediately before and after the transition.

Under these circumstances, I am surprised that the Financial Secretary should propose to reduce the profit tax by 1% since this means that the revenue will suffer a decrease of over \$1.6 billion in the coming year. Moreover, I think we should also be cautious with the rates issue. Rates are a steady source of revenue and rates collection is quite cost-effective. I support the Financial Secretary's proposal to introduce a cap on increases in rates in percentage term so as to avoid a one-off increase in the rateable values. Regarding the Financial

Secretary's sudden move to reduce the air passenger departure tax from \$150 to \$50, I think it is not necessary. Last week, the Secretary for Works and I returned to Hong Kong from Beijing. The departure tax in Beijing is RMB 100 yuan. However, if we compare the facilities of the Beijing airport with those of the Kai Tak Airport, the \$150 charged by Hong Kong is really good value for money. During the latter part of the transition period, the Administration needs to put in extra efforts to improve Hong Kong people's quality of life as well as to ensure stability and smooth transition for Hong Kong. Therefore, housing and transport are the two areas which need prompt attention. The Budget mentioned nothing specifically on measures to curb property speculation and to lower property prices. Those who wish to own their own flats can only feel helpless in the face of the soaring property prices. I think only by increasing the supply of land with ancillary basic facilities and housing supply can property prices be dampened, thereby enabling the lower-middle income group to have a chance to purchase their own flats and save them from working themselves out all lives just to fulfill the hope of owning a flat.

Apart from lands, we need also supporting capital works to give the lands practical use. In this year's Budget, there was only 18% real growth in the infrastructure policy area group of the total public expenditure and the increase in real terms of the Administration's recurrent public expenditure in this area is only 0.6% while the increase in real terms of the total public expenditure for the transport policy area is only 6.6%, which is insufficient to provide adequate resources to improve and to have more capital works on roads. Hong Kong is ever-developing. Development in suburban areas such as Ma On Shan, Tin Shui Wai and Tung Chung in Lantau Island indeed requires a lot of resources. Moreover, Hong Kong needs a new and well-equipped airport with sophisticated transport network to usher Hong Kong into a new era. Therefore, I hope the Chinese and British Government can reach an agreement on the financing of the new airport as soon as possible, and solve the problems regarding the lands along the Airport Railway as well.

With these remarks, I support the motion.

DR PHILIP WONG (in Cantonese): Mr President, one of the key contributing factors to Hong Kong's economic success lies in a stable, simple and easily administered tax system which is based on a low tax rate. I am glad to see that this year's Budget does not propose any major changes to our tax system, but I would like to raise some points regarding the Budget.

The first point I would like to raise relates to the financial arrangement for the new airport. The Financial Secretary once claimed that a loss of \$19 billion will be sustained within the three years from 1997 if the new airport is not available by 1997. If this is the case, why does the Government not present a practical and feasible financial arrangement as soon as possible, so as to reach an early agreement with the Chinese side? In the Memorandum of Understanding Concerning the Construction of the New Airport in Hong Kong

and Related Questions, one of the clauses stipulates the need for the airport project to be cost-effective and not to impose a financial burden on the Government of Hong Kong Special Administrative Region (SAR), whereas another clause states that the total amount of debt straddling 1997 shall not exceed \$5 billion and the Chinese side shall be consulted if the total amount of debt shall exceed \$5 billion. It is still premature to tell the cost-effectiveness of the new airport but we are all aware that our airport will rank top in the world in terms of cost. I understand that the construction cost of a recently completed 10-runway airport in a major city in the United States is only a quarter of that of our new airport. By making such a comparison, we are all aware of what all this boils down to. As to the debt ceiling, it has been put down in clear terms in the Memorandum of Understanding (MOU) but the packages of financial proposals variously put forward by the Government still seek to leave the SAR Government with excessive debt: the first package outlines a "contingent liability" of up to \$73 billion while the second one will leave behind a debt of \$45 billion. The third package allows for a borrowing of \$28 billion and the fourth one still provides for a borrowing of \$23 billion while excluding the debt incurred by the Provisional Airport Authority and the Mass Transit Railway Corporation from the total amount of debt. All four packages represent an excess which is several times to over ten times the agreed ceiling. The Government has time and again introduced extra complications. Is it a result of the Government's misunderstanding of the terms as laid down in the MOU? Or does the Government deliberately disregard the terms or does it have an axe to grind? Two and a half years have elapsed since the signing of the MOU on 3 September 1991. The unwise move made by the Government has led to a considerable loss of time and resources. The Government has failed to live up to the expectations of the public. We are thus justified to request the Government to bear the full responsibility of offering an explanation to the public. Now that the British and Chinese sides are exchanging views over the fourth package of proposals, the Chinese side has repeatedly expressed its wish of striving for the early construction of the new airport in accordance with the requirements provided for under the MOU. Will the Financial Secretary inform this Council whether the Government is prepared to make the brisk move of submitting a *bona fide* MOU-abiding "final proposal" to facilitate discussion, so that precious time will cease to be wasted and the responsibility dimension will not worsen?

The next issue that I would like to talk about is social welfare. The social welfare system in Hong Kong is different from that adopted by some "welfare states", such as Western Europe and North America, chiefly because of the unique characteristics of economic development in Hong Kong. Quite a number of commentators have always been criticizing the Government for its insufficient commitment to social welfare. How come the expenditure in this area makes a sudden and drastic jump at a time when 1997 is approaching? What is the intention behind this "late-coming spring"? In the Budget this year, a lot of welfare benefits are offered to the public. The expenditure on social welfare, set out by reference to Policy Area Groups, stands at nearly \$11.9 billion. The rate of increase of some items are unreasonable, for instance, the

expenditure on some of the welfare services is estimated to rise almost 60% from the level in the year before last year while the actual expenditure may be even more. On the other hand, the Government, however, tries to reduce its commitment where more spending is needed. For example, Hong Kong nowadays is widely recognized as the ninth largest trading economy in the world, which is the fruit of Hong Kong people's unstinting efforts. The Government should inject more resources into the expansion of trade, the enhancement of competitiveness and the improvement of investment environment, with a view to reinforcing the basis for Hong Kong's long-term development. What has the Government done in this aspect? I observe that the Government is recently trying to "rob" money from the Trade Development Council by diverting some of its income to the Government's coffers. This is one of the typical examples. It is obvious that some of the Government's proposals may offer some short-term benefits to some people, but the long-term burden cannot be truly reduced; in particular, with Hong Kong smarting from high inflation and with the policy of high property prices holding sway, our loss usually outweighs our gains.

Despite the Financial Secretary's denial of embracing the policy of high property prices, the Government cannot simply shirk the responsibility. In recent years, the sharp increase of Hong Kong's property prices has made property here the costliest in the world. The proportion of housing expenditure in total household income stands at an intolerably high level. Although the Government has struck a pose to appear to be combating the spree of property speculation, land premium, property prices, rentals and rates keep going way beyond control. Owning a home seems to be beyond the reach of the general public. For the sake of ensuring Hong Kong's status as an international financial centre and fulfilling basic social needs, I hope that the Government will make serious efforts to find a solution. Before feasible measures are formulated, I suggest that the Government consider the addition of a new clause in the terms for land auction, providing an upper limit for the selling price of the flats, which is to be determined by the Government and set at a level compatible with the affordability of the middle and lower classes. The new clause shall also state that the developers shall not sell the completed flats at a price which exceeds the originally agreed upper limit while the purchasers shall not be at liberty to resell before they have lived in the flats for a certain number of years, thereby eliminating the possibility of property speculation. This may not be consistent with the spirit of free market economy. But is it not the case that this same observation can equally apply to the enforcement of rental control over the years and the provision of a time-frame for the developers to complete a project, as laid down in the terms for land auction? Are these not in breach of the spirit of free market economy? I believe that the above additional clause will not have any significant impact on the developers' intention to bid and their eventual profits. The only possible effect will be on the revenue generated through land sale, because if the developers are aware that there is an upper limit for the selling price of their flats, they will, for the sake of ensuring reasonable returns, refrain from bidding at an excessively high price. If this policy can be implemented successfully, consideration may then be given to

relaxing the percentage limit on mortgage lending by the banks, thereby reducing the burden on the purchasers. It is not important whether my proposal will be accepted or not. In fact, I am just proffering some crude suggestion in the hope that Members may come up with even better proposals, and eventually, a proposal acceptable to all parties can be adopted. This is, in my view, an urgent and meaningful task. If the Government disregards all the constructive proposals, refuses to implement some practical and effective measures, or even lacks the interest or determination to cause a moderate price correction on the property market, but rather sits still and watches the property prices keep on spiralling, how can the public be convinced that the Government is not adopting the policy of high property prices?

I would also like to take this opportunity to talk about monetary services. How to strike a balance between maintaining Hong Kong's status as an international financial centre and, at the same time, safeguarding the interest of the public under the principle of fair competition and a level playing field for all is also something that we cannot ignore. In recent years, quite a number of foreign consortia have established their offices in Hong Kong one after another and it is learnt that they have made considerable profits. We should of course congratulate them for being able to harvest large sums of money, but if we were to think more seriously, we would find that people are perplexed with the wide variety of investment tools available and the pace with which new investment tools are emerging. Foreign-owned institutions are very familiar with these tools but the general public does not possess the professional knowledge and skills; therefore, quite a number of them have to pay very expensive "tuition fees" to learn the lessons. This, in some way, resembles playing mahjong games. If those who are accustomed to the old game rules are required to play the game with new and ever-changing rules, it is more than likely that they will become the losers. The Government should take up the responsibility of reminding the people to remain alert and of implementing necessary monitoring measures, with a view to reducing the loss on the part of the general public. However, the government departments concerned, although using the investing public's and taxpayers' money, turn a blind eye to the foreign consortia's manipulation of the stock market and their control of share prices. The Government's indifference to the manipulative behaviour which has caused the local investing public to lose money is regrettable. No wonder the public suspects that the Government may be working in collusion with these undisciplined and avaricious consortia. It has been widely known that there is a foreign company seeking to retain its status as a listed company but at the same time requesting to enjoy the special privilege of being exempted from the regulatory mechanism. If no such privilege is granted to it, it will rather choose to be delisted. This is obviously an irresponsible behaviour in utter disregard of the interests of the local people. I hope that the government departments concerned and the Stock Exchange of Hong Kong can, in the interests of Hong Kong people, handle all cases by applying the principle of impartiality.

I so submit.

THE PRESIDENT'S DEPUTY, MRS ELSIE TU, took the Chair.

MR MARTIN LEE: Madam deputy, I have counted 20 times but I think we are still short of a quorum.

PRESIDENT'S DEPUTY: We will take a short break so that we can bring some Members in.

PRESIDENT'S DEPUTY: We now have a quorum. Dr YEUNG.

DR YEUNG SUM (in Cantonese): Madam deputy, in this year's Budget speech, the Financial Secretary proposes many tax concessions, using the concept "storing wealth among the people" as the appeal. Meanwhile, the Government has unveiled an amazing reserve forecast: Hong Kong's financial reserve will hit \$120 billion on 31 March 1997. This forecast exceeds last year's by \$44 billion. No wonder the Financial Secretary begins his Budget speech on a bright note.

Since the Budget speech was published, the community has had two weeks in which to discuss it and put questions to the Government. We now have a better understanding of the Budget. The Financial Secretary talks about "storing wealth among the people", leaving money in the pockets of taxpayers and allowing all the people of Hong Kong to partake the fruit of economic success. But will these goals really be achieved as a result of this Budget?

Honourable Members from the United Democrats of Hong Kong (UDHK), speaking yesterday and earlier today, have already carefully analyzed the expenditure and revenue figures for various policy areas and the overall budget strategy. We welcome the Financial Secretary's proposal to substantially raise the personal tax allowance, but this proposal is still a far cry from the goal of "storing wealth among the people."

We are now into the 1990s. Different classes in our society are perturbed by two major concerns. The middle class is being plagued by run-away property prices. The Financial Secretary, too, acknowledges that property prices have become unaffordable to the average households. As for the lower classes, their major worry is that social security and social services provided by the Government fail to catch up with the community's needs as the ageing of the population continues. Does the Financial Secretary have a good plan for addressing these two major concerns? The Financial Secretary, as well the Secretary for Planning, Environment and Lands, seems to be helplessly keeping hands off any fight against property speculation. We will very probably find that the money saved by the middle class as a result of the tax concessions will ultimately end up in the pockets of property developers. Of course, the

Financial Secretary can say plausibly that, because property developers, too are taxpayers, the goal of putting money in the pockets of taxpayers will still be achieved.

My remarks below consist mainly of two parts. I will talk first about Government spending on social welfare, which closely affects the livelihood of the lower classes. Then I will sum up UDHK's overall comments on the Budget.

### *Welfare spending*

As he did last year, the Financial Secretary again stresses this year that economic growth should bring about an improved quality of life for the community as whole. Such a goal is the consensus of Members of this Council and the general public. To the lower classes, this year's tax concessions will probably mean little benefit as they are either not included in the tax net or have been paying little tax. For them, improvement in the quality of life relies largely on the redistributive role of the Government budget. Social welfare is where the Government can do something to improve their living standards.

The lower classes do not only rely on social security as a supplement to their income, but they are also the principal users of social services provided by the Government, such as rehabilitation, family assistance, health care and services for the elderly. Since they cannot afford substitute services such as nursing homes and health care provided by the private sector, they rely mainly on the Government to provide the welfare services that they need. Therefore, the Government's spending on welfare services directly affects the quality of life of the lower classes.

About the social services that will be available in the coming year, I will first of all take a general look into welfare spending to see if it is in reasonable proportion to the Government's affluent financial position. I will then analyze the principal types of social services, including health care, services for the elderly, rehabilitation and social security.

### *Economic growth and social welfare spending*

Hong Kong's budget strategy is governed by the principle of "basing spending plans on revenue estimates" and the criterion that public spending must not grow faster than the economy. Undoubtedly, such a prudent financial management philosophy has so far been a supporting pillar of Hong Kong's success. However, in recent years, the job of "basing spending plans on revenue estimates" was poorly done. The estimated surplus in the year before last was \$2.5 billion, but the actual surplus turned out to be \$20.5 billion at the closing of books. Last year's estimate was a deficit of \$3.4 billion, yet it turned out to be a surplus of \$15.1 billion this year. What should we believe? That the Financial Secretary is a poor forecaster? Or that he has deliberately under-estimated revenues in order to come up with distorted public spending figures?

It is true that the cumulative growth of the Government's social welfare spending over the past five years exceeds that of the GDP. But the Governor, in his policy address, noted that social change was creeping upon us, catching the public and the Government by surprise. The change is that Hong Kong is becoming a senior society. If the Government really wants to be well prepared for the change, it must act in time to make well-funded social service plans. Are we to assume that we are justified in dealing with the change at a slow pace simply because we have adopted a budget strategy in which spending is strictly based on revenue estimates and in which spending growth is stringently kept below economic growth? Are we to believe that we can ignore the plight of the elderly for the sake of adherence to such a budget strategy?

We are already aware that medical and nursing services for the elderly are woefully inadequate. Yet, according to the Government's plans today, the shortage of nursing home services will continue into 1997. Why? Please do not tell us that tight spending control is the reason. Such a reason is just too absurd in light of the Government's robust financial position today.

It is true that there will be a 9.1% increase in real terms in this year's overall welfare spending, but this is still a far cry from what is needed to provide adequate services. With such a robust financial position and a huge surplus, the Government certainly can afford to move faster to make Hong Kong an advanced economic entity and a caring society at the same time.

*Specific problems with the Government's social services spending*

*(1) Public Assistance*

Elderly people now account for about 70% of all Public Assistance cases in Hong Kong. Because Hong Kong does not have a sound retirement protection system, many retired elderly rely on Public Assistance as their principal income. Members of this Council have passed a motion urging the Government to raise Public Assistance for the elderly to a level equivalent to 30% of the median wage, and we have stated time and again our arguments for the increase of Public Assistance. I do not want to repeat. I just want to refute what the Financial Secretary has to say on page 28 of his Budget speech about the consequences of a "generous" social welfare system. The Financial Secretary thinks that such a system will create an open-ended commitment on the part of taxpayers and that it will become a blank cheque to be honoured by taxpayers.

I want to reiterate that UDHK's request — that the Government should immediately raise the amount of Public Assistance for the elderly to equal 30% of the median wage — is just a stop-gap measure. It is an interim step pending Government's launching of a retirement protection scheme. As soon as the retirement protection scheme is fully in place, the Government's spending on social security will decline substantially. Many elderly people will then have

their own retirement protection, so they will no longer need Public Assistance. We are not asking taxpayers to make an open-ended commitment. The Financial Secretary has, in fact, misunderstood our position. If the Government really intends to launch the old age pension scheme in 1996, then the interim broader and higher Public Assistance benefits will appreciably affect Government spending only during 1995 and 1996.

Social security spending will only see a 5.2% increase this year, which is far below last year's rate of increase. In response to a written question from me, the Secretary for Health and Welfare said that the old age allowance under the Public Assistance Scheme already rose by 4% to 16% in real terms last year, and therefore it would be enough this year to adjust for inflation only. But the fact is that the level of Public Assistance has always remained low. While Hong Kong has become an advanced economic entity, the poverty line has not been raised accordingly. I have told the Chief Secretary that, though we no longer have absolute poverty now as we did in the past, we should still draw a line of relative poverty. The living standards of the recipients of Public Assistance have not risen but have declined instead (that is, relatively). Disparity of wealth in society is getting worse. This shows that Public Assistance does not work to improve relative poverty in Hong Kong. Linking the amount of Public Assistance to the median wage and redefining the poverty line will be an effective measure. I hope that the Secretary for Health and Welfare will stop scaring people with talks of "dangers of a welfare state."

(2) *Elderly services and medical services*

In the light of the ageing population, services for the elderly face the most acute shortage in the areas of medical and nursing care. At the moment, there is a shortage of 5 400 nursing home beds and 2 890 care-and-attention home beds. The latest policy address talked about a plan to add 1 400 nursing home beds, all of them before 1997. Even so, the serious shortage of beds will remain a problem as it does now.

The Budget speech, too, talks about a plan to add 1 660 places in care-and-attention homes. Under the five-year social welfare plan, subsidized institutions are to provide 6 900 care-and-attention home places by the 1994-95 year. Even if the 1 660 places are added, there will still be a shortfall of 1 474 places. This shortage will not be solved until 1997. According to the five-year social welfare plan's projections for other types of elderly services, the supply of day care centres for elderly people will not be in balance with demand until the 1997-98 year. Even supposing that demand does not grow further, there will still be a shortfall of six elderly activity centres and two multi-service centres by the 1997-98 year. Outreaching service teams for the elderly were experimented in 1991, and the results assessed in 1992 and 1993. However, in the 1994 plan, the number of outreaching service teams still remains at two only.

Medical social service closely concerns the elderly people. There will be an increase of 35 medical social worker posts this year. Nevertheless, I suspect that the present ratio of medical social workers is based on the 1979 plan of the Medical Development Advisory Committee and has not been reviewed ever since. It is not known if these additional services which are based on outdated standards will truly meet the needs of the present time.

The Governor already knows that the population is ageing at a rate which catches the Government by surprise. The Government is aware of the seriousness of the problem, but is not getting resources ready for an expansion of services. Instead, it is still proceeding at a snail's pace in making plans for services. Statistically, a 27.1% increase in elderly and medical social services gives the illusion of a big leap forward. But if we examine more closely the shortage of specific services, as I have just done, we will find that, behind this illusion of a big leap forward, a lot of helpless elderly people are still waiting in line for places in care-and-attention homes or are just waiting quietly for death to come in homes for the aged where there is neither care nor attention.

### *(3) Rehabilitation service*

I recognize the Government's past achievements in the active development of rehabilitation service. You will notice that I have been very positive in certain things this time. Some officials complain that we praise the Government too rarely. So I would like to acknowledge the Government's achievements in developing rehabilitation service. The development of sheltered workshops is one area which is not so satisfactory. In addition, I hope the Government will pay closer attention to pre-school education for handicapped children. Because of deviations in the Government's planning of services, there is now a very serious shortage of pre-school education and training centres, as well as special nurseries, for handicapped children. In response to a query from me, the Social Welfare Department indicated that requests would be made in the 1994-95 year for resources and sites for expansion of the service. But I am afraid that, by 1996, when new service comes on line, many of the handicapped children of today will have passed the right age for receiving service. They will have grown up. It is necessary for the Government to solve the problem quickly.

### *A summing-up of UDHK's comments on the Budget*

First, the Budget speech exemplifies the budget strategy in transition. The Financial Secretary's many tax concession proposals make people wonder if the Government is changing its budget philosophy during the later part of the transition period. Budget surpluses are expected to increase sharply. Government's financial position is more robust than it has ever been. The Financial Secretary wants to respond to this situation by reducing the Government's revenues and storing wealth in taxpayers' pockets. UDHK is always in favour of lightening the public's tax burden. We welcome the proposal to substantially raise the personal tax allowance, but we cannot accept a financial policy with an obscure direction and objective. At a time when fair

and reasonable distribution of resources in society is not yet achieved, it is not a far-sighted thing to do to cut surplus merely by reducing revenues and to neglect long-term spending needs. This is not the way to achieve the goal of storing wealth in the pockets of taxpayers.

Lastly, I want to sum up UDHK's comments on the Budget in several specific areas. UDHK's final attitude towards the Budget will depend on the Financial Secretary's specific response next week to the following issues. We will be seriously studying his response.

The first issue is rates. UDHK hopes that the Government will reconsider the size of the rates increase. We will be moving an amendment to the increase.

#### *Property prices and land supply*

Property speculation and run-away property prices have become intolerable to the Hong Kong community. They are doing great harm to Hong Kong's social stability. We hope that we do not have to resort to social action to force the Government to be serious, but I now declare that, unless the Government does something about the problems, UDHK will launch a series of social actions to press the Government to solve the problems of land supply and property prices for the people of Hong Kong.

#### *Ageing population and livelihood protection*

I hope the Government will soon raise the Public Assistance benefits in dollar terms. The Government can well afford to do so. We similarly hope that the Government will put social and health services for the elderly on the agenda and give them the highest priority.

I so submit.

MR HOWARD YOUNG (in Cantonese): Madam deputy, the Budget speech has taken the interests of all sectors into consideration. It is a good act of the Government resulting from Hong Kong's sound economy. It is the fruit of Hong Kong people's hard work and it is something that we deserve.

#### *Airport tax*

The tourist industry is encouraged by the fact that the request we have made for many years has finally been responded to the airport tax, now the highest in the world, will drop to almost the lowest in Asia. Since the airport tax was raised to \$150 in 1991, operators in the tourist industry have been expressing their disapproval in many ways. They felt that although the increase of tens of dollars might not make Hong Kong totally unattractive to foreign tourists, it would tarnish Hong Kong's image as an international centre of tourism, an image that had been built through years of hard work on the part of

the tourist industry. Our objective is not only to maintain tourism as Hong Kong's second biggest earner of foreign exchange but also to boost it further to surpass the textile industry and make it the No.1 foreign exchange earner. The Liberal Party does not want any measures that will harm Hong Kong's reputation in the international community. We greatly appreciate the Financial Secretary's acceding to the request made by the tourist industry years ago.

The proposed cut in airport tax is a pleasant surprise to the tourist industry but it also gives us food for thought. First, most of the 7 million tourists who fly to Hong Kong do not enjoy the welfare benefits in Hong Kong or work here to earn a living. They come to Hong Kong to spend money and bring in foreign exchange with them. But the Government taxes them and put their money into Hong Kong's coffers. I think this is untenable in principle and unfair in practice. A more acceptable way is to make air passengers pay an airport service charge instead of the airport tax. The service charge collected from air passengers should be spent entirely on the operating costs of the airport. This exemplifies the spirit of the principle that "the user pays", which is fairer than the existing practice. Secondly, the Secretary for Economic Services said at one time that part of the airport tax would be spent on maintaining the operations of the airport. Although tax is now lowered from \$150 to \$50, will the Government raise it again from \$50 by a large margin later on? Should this happen, it would throw the tourist industry and foreign tourists completely off balance. It would be like giving them sweets first, followed by bitter pills. I hope that the Government will very clearly spell out its long-term plan for the tax. This plan should be fair and reasonable in principle. It should also taken into consideration the interests of the tourists and at the same time provide the Airport Corporation with a source of income. I hope that the Government will consider formally allotting the \$50 to be levied to the airport service charge. In other words, the Government should stick to the original intent of the levy and follow the principle that "the user pays", which is adopted in many countries. The Government should not regard the airport service charge as a form of tax. I also suggest that the Government should consider waiving the airport tax for those transit passengers who will be in Hong Kong for less than 24 hours. I believe this measure will then encourage these passengers to walk out of the crowded transit hall to visit downtown areas and do some shopping.

#### *Financial arrangements for the new airport*

The new airport financial package remains an impasse. China and the United Kingdom are still arguing about how much money the Government should inject into the projects. From a purely commercial angle, a sound financial practice is to set a proper ratio for capital injection and loan. But some members of the community say that, with its huge surplus and reserve, why cannot the Government increase its capital injection and reduce its loan (since only a \$25 billion reserve will have to be left to the SAR Government)? Besides, the Sino-British Memorandum of Understanding on the new airport specifies that the Government's contingent liability for the new airport projects

must not exceed \$5 billion. The Government's position is that this ceiling does not include the debts raised by the Airport Corporation or by the MTRC. But the Chinese side worries that the Government, being the sole shareholder of these corporations, will surely have a liability to some extent.

I want to propose a compromising solution to narrow the differences between the two sides. My suggestion is based on the idea of "a boat will ride higher on a rising tide". The United Kingdom should seek an agreement with China to let the Government's contingent liability move up to \$30 billion while the loans made by the Airport Corporation and MTRC will also be counted as part of this amount. At the same time, the total amount of reserve to be left to the SAR Government should be raised to \$50 billion. In other words, the minimum reserve and the maximum contingent liability should both be raised by \$25 billion. This is what I mean by "a boat will ride higher on a rising tide". I think that this will bring about three advantages. China will be reassured that there will not be too much contingent liability and that there will be enough reserve. The Government can be more flexible while applying the commercial and financial principles in managing public offers. We the Hong Kong people can receive the economic benefits of the new airport at an early date. I ask the Financial Secretary to think about my suggestion.

#### *Importation of professionals*

The Government plans to bring in 1 000 experienced professionals from China. I support this but I am not satisfied. I am not satisfied because the quota of 1 000 is too small. This is like trying to put out a fire consuming a wagon-load of firewood with a cup of water. It will not be much help to solving Hong Kong's shortage of high calibre staff, let alone curbing inflation. According to statistics supplied by the officials of the Education and Manpower Branch, we need 6 000 more university graduates to fill the professional and managerial vacancies at present. According to the same statistics, the supply of local tertiary institute graduates will not meet the needs of Hong Kong's economic growth until the year 2001. Why can we not act more decisively to bring in the 1 000 experienced people with tertiary education? Hong Kong has always been bringing in high-calibre professionals from abroad. We have never set up any barricades to curb such people coming to Hong Kong. In fact, people from the United Kingdom can enter Hong Kong without a visa. It is laughable that some people, who say that they uphold fairness and justice, are ignoring this fact. They want to discriminate against those Chinese people who are our fellow countrymen.

Some people keep imposing their "sense of mission" on us. Without citing any concrete evidence, they try to frighten us into believing that these 1 000 university-educated professionals from China will probably take employment opportunities away from Hong Kong's own tertiary institute graduates. I do not think that this will happen. Hong Kong's university students have grown up in a competitive environment. With their excellent achievements, they stand out among the others. Often, when they do not like their employers, they can just

quit. As princesses would not worry about their marriage, the local graduates will not worry about their jobs. I believe that Hong Kong's university students, who are so smart and intelligent, will not be misled by the alarmists' rumour that their "rice-bowl" would be snatched.

Furthermore, I want to point out that some Hong Kong political groups, voluntary organizations and even party leaders have hired professional assistants and executives from the United States, United Kingdom and China. Recently, a local labour organization hired a researcher from China. It is reported that a working visa was applied for on behalf of this researcher on the ground that he had experience and knowledge in the area of China's labour movements and nobody with comparable experience and knowledge could be found in Hong Kong. I have never criticized the practice nor thought that there is anything wrong with that. We respect knowledge and expertise and we do not recognize national boundaries in this area. What surprises me is that some people should apply double standards. They mindlessly block anything that is conducive to better relations between China and Hong Kong. I hope that from now on nobody will vow to make it his mission to drive a wedge between China and Hong Kong and hinder the development of China-Hong Kong relations.

Scholars and economists keep pointing out that Hong Kong should play the role of China's window to the outside world. I personally feel that Hong Kong is now playing the role of a window only for South China and Guangdong Province. The role has not yet been extended further into the mainland. To benefit both sides' economic development, we should look farther into China, aiming at exploring the markets in all provinces and counties and becoming the economic and trade window for the whole country.

China has more than 20 provinces and five autonomous regions. It will be most desirable if the Government considers laying down a quota system so that the 1 000 persons to be brought in will come evenly from various provinces and tribes. For instance, there should be people from Gansu and Qinghai provinces and there should be Hans, Mongols, Tibetans, Huis and Uygurs. In short, so long as they are representative of their respective regions and are equipped with professional skills, they can be brought in. They know the conditions of China. They also know the potential of the areas from which they come. And they will learn the local experience while working in Hong Kong. I think that, in due course, they will play the role of bridges through which Hong Kong's money can be invested further inland. This will strengthen Hong Kong's position as an economic and trade window for China. It will also strengthen the economic argument for Hong Kong's capitalist system to remain unchanged for the next 50 years.

#### *Recreation, sports and art*

I am quite disappointed at the amounts that the Government will appropriate for culture, recreation and art. In some cases, the amounts show negative growth in real terms. This makes people feel that the Government is

not quite willing to spend too much money on this policy branch. The Liberal Party thinks that culture, recreation and art are important to the improvement in the quality of people's spiritual and cultural lives. We hope that the Government will attach importance to these aspects which deserve more attention.

In his policy address, the Governor promised that he would facilitate Hong Kong's athletes to win more medals for Hong Kong. In the last financial year, \$100 million was appropriated for attaining this goal. But the appropriation for recreation and sports will increase by only 7.7% in 1994-95, which falls behind inflation. If the Government really intends to train medal-winning athletes to represent Hong Kong and gain reputation for us in the Asian Games and in the Commonwealth Games, which will be the last occasion for Hong Kong, these athletes should receive more support from us.

Moreover, I notice that the Government is quite serious about preserving Hong Kong's relics of historical value and Hong Kong's cultural heritage. As far as I know, Chek Lap Kok, the site of the new airport, is rich in relics of the past. The airport projects are now under way and proceeding apace. We must race against time to save our cultural treasures. We should offer more manpower and material assistance to the archaeological groups that are digging there.

I welcome the promise of the Secretary for Recreation and Culture who said subsidies for the voluntary organizations to operate camp sites will not be cut in the year 1994-95. But I am disappointed at the cuts, which came in two successive years, in subsidies for the Outward Bound School. The Government has even warned that financial assistance to the school would be gradually withdrawn. The Outward Bound School is operated not purely for the purpose of recreation. The essential responsibility that it shoulders is to build up young people's courage, self-confidence and uprightness through training. The community needs more services of this kind to instill in the younger generation new values of life. All the Outward Bound School students receiving the Government assistance are those with financial difficulties. With these subsidies, they are exempted from part of the tuition fees. Many such students come from broken families and some are physically handicapped. The training plays a significant role in cultivating their self-confidence and self-respect.

RTHK acknowledges that the Government's appropriation for it in the coming year will not cover the resources for making new programmes or broadcasting through Cable TV or other public channels. RTHK has been popular for making high quality and educational programmes. The Liberal Party looks forward to seeing its successful new productions on new channels. However, as the saying goes, "even the cleverest housewife cannot prepare a meal without the necessary ingredients". Even if she is preparing a dish out of leftover items, she cannot make it delicious without spice and sauce. We think that members of the public really do not want to see on public channels the reruns of RTHK programmes that they have seen on other TV channels. We need

new productions that will meet the information needs of our time. The Government cannot shirk its responsibility in this respect.

Madam deputy, with these remarks, I support the motion.

MR WONG WAI-YIN (in Cantonese): Madam deputy, the annual budget debate has again lit the flame of war in the Legislative Council. Some describe it as a major test of strength between our Members and the Government. The test of strength this year is mainly about rates. The Government originally planned to boost its revenue by \$5.1 billion through reassessing the rateable values of all property in Hong Kong. This plan of wishful thinking probably will have to be scrapped in view of amendments proposed by the three major political parties in this Council. Madam deputy, during the past two weeks, with the Meeting Point's New Territories West branch, I launched in Tuen Mun and Yuen Long a signature campaign against sharp increases in rates. The campaign received overwhelming support from members of the public. Many said, "Increase in rates is occasioned by rising rental values, and the rise in rental values is stimulated by soaring property prices. In the final analysis, the Government is to blame for failing to effectively curb property prices. Therefore, a sharp increase in rates is unfair to members of the public." The Meeting Point suggests that the rates percentage charge should be lowered by 1% to lighten the burden on the people of Hong Kong. A number Members have already commented on the problems of rates and run-away property prices. I do not want to go any deeper into these problems. I will instead talk about the Meeting Point's suggestions in several policy areas.

### *Transport*

Paragraph 18 of the Budget speech says that, in 1993, there were 7.4 million road crossings by cars and lorries between China and Hong Kong. This shows how busy the traffic is between China and Hong Kong. Therefore, the compatibility of road networks on the two sides of the border has become an important issue. The Meeting Point has been suggesting all along that there should be a "cross-border traffic liaison group", which is to meet regularly to co-ordinate traffic arrangements.

The traffic congestion on Tuen Mun Road is a great disappointment to over 700 000 residents of northwestern New Territories and Members of this Council. The Government has appropriated \$3.7 billion for the early construction of Ting Kau Bridge along Route 3 (Country Park Section). But the bridge project, to be completed in 1997, will be of little help in easing the Tuen Mun Road congestion. Therefore, as it always does, the Meeting Point strongly requests that the Government approve further funding for the construction of the rest of Route 3 (Country Park Section) — namely, the Tai Lam Tunnel and Yuen Long Approach Road. This will allow work to start early and complete in 1997 together with Ting Kau Bridge. Route 3 (Country Park Section) will then be able to bring its function into full play.

The Western Corridor is important to passenger transport and freight transport alike. It will be able to cope with the drastic rise in freight movement between China and Hong Kong and ease the passenger flow between northwestern New Territories and the urban area. Therefore, the Meeting Point stresses once more that the terminus of the proposed railway should be located at Tuen Mun town centre instead of Tin Shui Wai, so as to benefit the 430 000 residents of Tuen Mun as well. A firm decision should be made soon to proceed with this proposed railway project. It should not remain just a proposal.

Meanwhile, Madam deputy, I want to raise a worsening problem here. It is about the of LRT service in Tuen Mun and Yuen Long. Since the LRT service started in 1988, it has faced much criticism from local residents. Complaints range from the lack of enough cars to the overcrowdedness of the narrow platforms that poses danger to the passengers. Although 30 new cars were added to the service in the past years, the completion of various public and private housing estates in Tin Shui Wai has led to an increase in population and hence a growing demand for transport service in the area. This further accentuates the inadequacy of the LRT service, and there is every justification for the purchase of additional cars. Regrettably, however, the company operating the LRT has no plan for the time being to buy additional cars, and this is because, sources say, the proposed West Corridor Railway project, to be completed in year 2001, is likely to be extended to Tuen Mun. I am quite worried that this will further aggravate the inadequacy of the LRT service. In fact, the LRT and the railway train are two totally different types of service. The LRT operates a local short-distance passenger transport service, while the railway train provides a non-local long-distance passenger and freight transport service. There is no conflict or rivalry between the two, is there? Therefore, the Meeting Point thinks that more new cars should be bought soon to improve the LRT service.

### *Flooding*

Madam deputy, flooding has become an increasingly serious problem in western and northern New Territories. Besides the problem of road congestion in northwestern New Territories, this is another problem that has drawn the attention of Members of this Council and for which our Members would like to seek early solution. The Government has already approved funds for river training, and some of the projects have already begun. But New Territories residents will have to wait five or six more years before they can see any improvement. I wonder how many more nightmares the some 2 million population of the New Territories will have to go through during rainy seasons before the situation can improve.

Taking care of the aftermath of a disastrous torrential downpour is of course important, but that does not help reverse the damage done to the victims. When a home is flooded, most of the things in it are ruined, particularly things like electrical appliances, mattresses, wardrobes and clothes. Of course,

everybody would like to be rich enough to buy new furniture and new appliances every year. Poor residents in the New Territories are, however, forced to replace their flood-damaged furniture and appliances every year, and this adds to their living expenses.

I remember the Tuen Mun flood on 5 November last year, which resulted in landslides and stoppage of water supply for several days, affecting 430 000 residents. Serious flooding occurred in the areas of Alpine Garden and Chi Lok Fa Yuen. Sir David FORD, the then Chief Secretary, indicated publicly during an inspection tour that the Government would consider paying compensation to flood victims. Regrettably, since Sir David moved to his new post, the Government has failed to follow up this promise. I now hope that Mrs Anson CHAN, the incumbent Chief Secretary, will give new thought to that promise. The Meeting Point further suggests that a "Rainstorm Damage Compensation Fund" should be set up. This is because, at present, the Chinese Temples Fund and the Agriculture and Fisheries Department provide funds for emergency relief only, and compensation for damage is virtually unavailable. Therefore, the flood victims have nowhere to air their grievances which recur year after year. A Rainstorm Damage Compensation Fund should at least compensate victims for some of their losses.

#### *Law and Order*

About police manpower, the Commissioner, of Police, Mr LEE Kwan-ha, has told us proudly that the Police Force is now up to its establishment strength for the first time. But he has not told us the whole truth, which is that many police positions were abolished a few years ago because of recruitment difficulties and have not been restored. Therefore, to say that the Police Force is now "up to its establishment strength" probably means that it is actually a smaller force compared with a few years ago.

The rapid growth of new towns means a greater demand for police. This accentuates the Police Force's manpower shortage. We will cite one example. The populations of Tuen Mun and Tai Po are 430 000 and 450 000 respectively. But the two districts have only 48 and 44 police officers respectively on patrol. This means that there is only one police officer on the street for nearly every 10 000 people, which is evidently not enough. In Yuen Long, there are 75 police officers on the beat. But Yuen Long is a big area, and it includes a second town centre, Tin Shui Wai, where the population is growing rapidly. The police officers assigned to Yuen Long have an additional duty to deal with illegal immigrants. Therefore, Yuen Long, too, does not have enough police either.

In light of the growing demand for police strength, the Police Force should speed up the process of civilianization of its staff. This will release more police officers for street patrol and law and order duties. We are very glad to learn that the force establishment review is now in its final stage. One purpose of the review is to determine the feasibility of allowing civilians to take up

certain positions currently filled by police officers. As far as I know, a number of such positions have already been identified. I hope that the Government will continue to head in this direction, speed up the conversion of police positions to civilian positions and put more police officers on the street.

### *Housing*

#### 1. Land resumption by private developers

Paragraph 42 of the Budget speech says that the Government will increase the supply of land as soon as possible. The Meeting Point fully supports this. However, the specific policy stated in of the Budget speech is seriously deviant in that the Government is going to deliver most of the increased land supply into the hands of private developers. This will easily result in monopolization or make it possible for private developers to hoard up land. And yet this is the faulty housing strategy that has all along been pursued by the Government.

Home prices in the private sector have now become unaffordable to most members of the public, but prices are still on the rise and there is no sign of a downturn. Evidently, the market mechanism is not working. For the Government to put its hopes on the market mechanism is as unrealistic as asking a tiger for its skin, so to speak. The solution is to quickly increase the supply of land for the construction of public housing of various types to meet the housing needs of the vast lower and middle classes.

The Government set up the Land Development Corporation a few years ago. Its original intention was to speed up urban redevelopment. However, the Government has been reluctant to allocate resources to the Corporation to meet its operational needs, causing the Corporation to face tremendous difficulty in resuming property for redevelopment. The Meeting Point has some reservations at this time about the proposal in the Budget speech to give private developers the power to resume property. The Land Development Corporation already has such power. It is just not exercising it fully or effectively. Evidently, the crux of the problem is not power but whether supporting resources are available. Instead of cooperating with private developers to evict occupants, the Government should help the Land Development Corporation with resources and with favourable policies, so that the Corporation may proceed with urban redevelopment on a non-profit making basis and at the same time provide adequate re-accommodation.

#### 2. Use of Housing Authority's surplus funds

Paragraph 92 of the Budget speech says that the surplus funds of the Housing Authority will be used to speed up the construction of housing. The Meeting Point supports this. However, the Financial Secretary goes

on to suggest that the surplus funds will also be used on infrastructure work such as road building. Such projects ought to be financed by the Government with its own revenue. The Housing Authority only carries out these projects on behalf of the Government and is supposed to be reimbursed by the Government afterwards. If the Housing Authority is to use its surplus funds to finance such projects without getting any reimbursement from the Government, this will mean its surplus funds are turned over to the Government. The Meeting Point opposes this.

### 3. Home Ownership Scheme for sandwich class

Phase One of the applications for the sandwich-class housing assistance scheme was closed with rather poor response. Requirements are relaxed for the Phase Two applications. But response is not expected to be very good either. Therefore, the solution to the problem remains that the Government should supply HOS housing directly to the sandwich class.

At a recent meeting with Mr KWAN Wing-wah, Deputy Secretary for Planning, Environment and Lands, I learnt that the Government had agreed that an increase in the supply of sandwich-class HOS housing could help curb property prices. I think the Government should, as soon as possible, make land available for more homes to be built. 10 000 units of HOS housing for the sandwich class are now under construction, and will be released for forward sale in early 1995. The Meeting Point suggests that these 10 000 units, which are due to complete in two phases, should be put on the market together for forward sale of both long and short periods. This will serve to test market response and slow down the rise in property prices.

Most importantly, the prices of HOS housing for the sandwich class must not be linked to home prices in the private sector. If they are, they will rise with home prices in the private sector. Therefore, Government should set the prices of HOS housing on a cost-plus basis instead of linking them to home prices in the private sector.

### *Comprehensive Social Security Assistance Scheme*

On 2 February, I raised in this Council that payments under the Comprehensive Social Security Assistance Scheme should be increased to 30% of the median wage. Regrettably, we do not see such an increase being proposed in this year's Budget speech. We feel very sorry about that. The Financial Secretary stresses that everybody should partake the fruit of Hong Kong's success today. But he says one thing and means another. The proposed distribution of resources does not appear to take care of the recipients of benefits under the Comprehensive Social Security Assistance Scheme, the lower classes who are living at the poverty line. I believe that the people of Hong Kong are very unhappy with a policy that only pays lip service to helping the poor.

*Conclusion*

Madam deputy, the general public of Hong Kong have many praises for this Budget speech, but many Members of this Council have been quite critical. We hope that, in giving his response next week, the Financial Secretary will not accuse the Honourable Members of splitting hair. We also hope that he will not make negative comments like: However much the Government may do will be deemed inadequate. Actually, a criticism directed against the Government, whether by an Honourable Member of this Council or by a member of the public, is a show of affection and concern. It is an act to spur the government on to improve people's livelihood. I hope that the Financial Secretary will heed our good advice and really attain the goal of returning wealth to the people as he promises.

Madam deputy, these are my remarks.

THE PRESIDENT resumed the Chair.

PRESIDENT: Miss Christine LOH, I have to interrupt you at eight o'clock, I fear.

MISS CHRISTINE LOH: Mr President, the Financial Secretary has given us a very generous Budget, there is much to be praised. I agree with many comments made by the Honourable Jimmy MCGREGOR and the Honourable Vincent CHENG so I will not repeat what they have already said very eloquently. I would like to, however, make some observations and suggestions which I think have not yet been addressed.

I would like to start, however, by making a complaint about the pink Supplement to the Budget. The pictures shown here depict the male person as the only thinking person. Mr President, we know that is not the reality, we know that the Chief Secretary thinks as much and as hard as the Financial Secretary. May I suggest that for next year, the Financial Secretary re-draws these pictures as part of his commitment to promoting equality in Hong Kong?

The Financial Secretary said on Budget day that "a whole generation has grown up in our community which has never known anything other than unbroken economic expansion" and that "this generation takes it for granted that enterprise, education and personal endeavour will bring improved personal incomes and a better quality of life year by year".

I am a member of this lucky generation. I agree with the Financial Secretary that Hong Kong's success also rests upon our efficient and honest administration, the rule of law, a questioning media and a legislature, able and willing to monitor and query the executive. Therefore, I too, am concerned

that the fruits of our education and the spirit of our enterprise should continue to be supported by an incorruptible Civil Service, an authentic rule of law, a free press and a representative legislature to hold the executive accountable.

*Legislative Council's relationship with the executive*

Mr President, I would like to say a few words, therefore, about the relationship between the executive and the legislature. The Financial Secretary may be cursing that after presenting a most generous Budget this Council is still dissatisfied with the major parties thinking of amending Budget if the Administration does not give way to its proposal to raise rates. The Financial Secretary does not have the comfort of the British Chancellor of the Exchequer who can count on his party's majority in the Parliament. The Administration only has three votes in this Council and will have none by 1995.

Does it matter if the Administration is defeated on important issues? Well, it does, because in a sense the Administration is the party of the Government. In Hong Kong's unusual political system, political accountability is not expressed in terms of parliamentary supremacy or policy making by the legislature. The problem is that the government party, that is the Administration, cannot be made to resign and nobody else can really govern instead. So until we have a fully-elected legislature, and I hope it will happen sooner rather than later, this is the unsatisfactory situation which everybody has to live with.

8.00 pm

PRESIDENT: Miss LOH, it is now eight o'clock and under Standing Order 8(2) the Council should adjourn.

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

*Question proposed, put and agreed to.*

MISS CHRISTINE LOH: The Administration can no longer set policies on its own and expect this Council to follow them. In an executive-led government, with no legislative majority and in a developing democracy, officials who have not had to deal with real politics and political parties before may be feeling that the exercise of their executive powers are being interfered with by an obstructive legislature. They might even resent Private Members' Bills. Mr President, if the executive should hold such a view it is, with respect, an incorrect view about this Council. This Council, although imperfect in democratic terms, represents the people of Hong Kong. We have our

constitutional rights and duties which we must perform to the best of our ability.

If Government defeat from non-money Bills means, in practice, that this Council insists on amending legislation so comprehensively that the Governor declines to sign it into law, then I suppose it has already happened in the matter of the Court of Final Appeal. It was just that the Government did not want to bring things to a head and so it held back the legislation which was sure to fail. Money Bills are a special case because this Council genuinely does have blocking powers and the Administration does eventually have to bend to this Council's will.

I hope the Financial Secretary will understand that since this Council has negative, as supposed to positive powers, legislators are bound to hunt for weak areas in his near perfect Budget. He should be praised for devising a new consultation process where he asks legislators for their wish-lists when he formulates his Budget and he should be looking for ways to improve upon that consultation process. For example, on expenditures, he may consider releasing to this Council each department's resource allocation scheme priority list which will show how each department views their respective priorities. It will make it easier for this Council to look at expenditure.

I suppose, like most people, civil servants too like to be praised for the very good work which they are doing. If legislators are often critical, much of it has to do with our unsatisfactory political system where power and responsibility do not go hand in hand. The relatively powerless legislature is bound to concentrate on the Administration's problems and mistakes. In any case, it is not our job to praise the executive but it is our job to be its watchdog.

#### *review GDP Forecast*

Turning to the detail of the Budget itself, I am pleased to read the Administration's intention to commission a comprehensive review on gross domestic product (GDP) forecast. I urge the Financial Secretary to look at the concept of GDP afresh because as it stands, it is an insufficient indicator of our well-being. GDP calculations exclude important factors such as the depletion of resources, the pollution of the environment and the state of public health. Indeed, the increasing resources Hong Kong has to spend on cleaning up the environment adds to our GDP. With GDP per head reaching US\$20,600 this year, Hong Kong people should know what that really means to them. To what extent has our quality of life improved from last year, for example, where GDP per head was US\$18,500?

It will be helpful, I think, to have a new index to chart Hong Kong's overall progress. It should include such factors as distribution of income, services such as transport, cost of commuting, spending on health and education, cost of pollution and government accountability. If we had such an index, we

can then set it alongside the traditional one based on GDP to see whether our quality of life is indeed improving. If it is not, it is time for us to take stock.

*Adjust financial incentives for sustainable progress*

The Financial Secretary also said that growth is "essential for economic and social progress". Yes, but we must ensure that our economic progress is sustainable. If that is to be the case, then the environment and the economy must be better integrated. This is a task which I urge the Financial Secretary to take on. More than anyone else, he recognizes that economic decisions reflect the incentives people face and the information which they possess. If our decisions are environmentally destructive, then the incentives which we face must somehow be inappropriate. To improve the quality of our decisions we will need to adjust the incentives.

The most important incentives are market prices. Very often, public policies end up actively encouraging unsustainable development. For example, our fuel taxes fail to distinguish between the environmental effects of petrol and diesel; our vehicle taxes do not discriminate against less efficient engines and it is perverse that our schemes of control regulating power companies reward building new power plants but not energy efficiency. The Financial Secretary could establish a task force within his department to examine how market incentives can guide us towards a sustainable future.

*The regulatory environment and the Monetary Authority*

Turning to the issue of our regulatory environment, I would like the Financial Secretary to release more information about the funds managed by the Monetary Authority which is directly answerable to him. Presently, the Authority only releases annual data about its total assets and the return on those assets. Bodies taking on the role of Central Banks in other countries release more information, more frequently, than our Monetary Authority does. There is no reason why the Hong Kong public should not know more about the types of asset held and the return on each type of assets, on a quarterly basis.

The Monetary Authority already manages a vast amount of money today. In future, it is likely to manage an even greater amount. The Financial Secretary tells us that by the end of 1997-98, reserves are forecast to swell to \$269 billion, which includes \$141 billion in fiscal reserves and \$125 billion expected to be held by that time with the Special Administrative Region land fund. Hong Kong wants to ensure that it will have the absolute authority to manage its own reserves for Hong Kong's own use as has been promised in the Joint Declaration. A good way of ensuring prudent management of the fund is to ensure the highest degree of transparency in the types of assets held and the return on them.

Mr President, I believe at present this Council also has no direct monitoring role over the Monetary Authority. Questions put by this Council to

the Authority are answered by the Secretary for Financial Services. I would like to know the relationship between the Secretary for Financial Services and the head of the Monetary Authority. Can the Secretary always answer for the Monetary Authority? I would like to hear a specific response about this from the Administration next week. In addition, I suggest that the Monetary Authority should also lay before this Council an annual report.

#### *Property Prices and Inflation*

Turning to the issue of property prices, there is obviously no quick and easy solution to the very high property prices in Hong Kong. As we try to temper rising prices through various means, it is crucial that we at least ensure that there are laws in place to govern the protection of prospective buyers in relation to inadequate or misleading sales information. I understand that the Law Reform Commission is about to publish recommendations in this regard and I would like to see the Administration consider legislation very promptly.

#### *Independent legal aid department*

The last issue which I would like to mention is legal aid. The Director of Administration is attached to the office of the Chief Secretary and the Legal Aid Department falls within his purview. It has been said many times in this Council before that Hong Kong should have an independent legal aid unit. It is time to revisit this issue urgently and seriously. There is no reason why the head of the civil service should oversee the grant of legal aid where the case under consideration may be to challenge the Government. I would like to see the Governor address this issue no later than in his 1994 policy address so that the Financial Secretary can reflect this policy change in his next Budget. I hope to see, too, that the Chief Secretary will give her full support to an independent legal aid department.

Mr President, I support the Bill.

MR ROGER LUK: Mr President, at a Budget debate some years ago, an Honourable Member described the Budget then presented in one word, "prudent" and added if two words were allowed it would be "overly prudent". If I were asked to do the same and use one word to describe this Budget, I would say it is "surprising". And if I were allowed to use two words, then I would say it is "very surprising".

The theme of this year's Budget is Managing Prosperity. To most taxpayers, the initials MP perhaps stand for MacLEOD's Presents, the billions of dollars being put back into their pockets. The tax relief package is unprecedented and benefit almost everybody. Some 420 000 salaries taxpayers will drop out of the tax net, and a further 1.13 million will pay less tax. Corporate profits tax rate is reduced to 16.5%. Some 100 000 home buyers will pay less stamp duties on their purchases. Air passengers will pay less in

departure tax. The increase in rates arising from the latest review of the rateable values will be capped for each of the next two years, providing relief for about 80% of all properties.

The only "no-surprise" is perhaps, the conversion of the Budget deficit into surplus. Once in a while, the Budget presented to this Council has shown an estimated expenditure in the excess of revenue. As one Honourable Member commented in this Council some 30 years ago, each time this somewhat pessimistic expectation had failed to materialize and deficit had been converted by some magician's wand into a handsome surplus. Moreover, each time, the Honourable Member who presented the Budget had explained that this had resulted from an unique combination of providential circumstances which should not be counted upon for the future.

Yet, the capabilities of Financial Secretaries should not be measured by the variances of their Budgets. The dynamic of the Hong Kong economy lies in its adaptability to the changing external environment. Thirty years ago, Hong Kong was in the process of replacing entrepot trade by manufacturing. Thirty years later Hong Kong is in another process replacing manufacturing by services. No other major economy has gone so far or so rapidly within just four decades. Such paces of changes make the public treasurer's job particularly challenging.

As the Financial Secretary recognizes, our future economic success "will more and more be based on our ability to sell our services to the world, the region and, above all, to the Chinese economy". Our continued economic prosperity lies in our ability to sell our expertise with the same enterprise as we have been selling our manufactured goods.

The latest transformation in the way which Hong Kong earns its living has important policy implications on public finance. Accordingly, the ability to keep track of, and to predict with reasonable accuracy, the economic performance is important to policy makers. I also welcome the Government's decision to engage a consultancy study on the comprehensive review and enhancement of the GDP forecasting framework, and the undertaking to compile GNP statistics.

With the extensive tax relief proposals, there are renewed concerns over the tax base. But, critics seem to have mixed up tax base and tax net. Tax base is the sourcing of revenue, and tax net is the population of taxpayers.

Save for the total abolition of interest withholding tax on bank's deposit over 10 years ago, our tax base has remained intact for decades. However, the net for salaries tax has been changing with the annual adjustments of allowances and revision of tax bands. As a matter of fact, any radical attempt to broaden the tax base would likely compromise the simplicity and predictability of our tax system. The question of "sales tax", in one form or another, for instance, is a case in point. Given Hong Kong's inherent dependence on imports for

consumer goods, any form of general sales tax would undesirably have an element of import taxation for this free port.

In recent years, our taxation is increasingly reliant on direct taxation rather than indirect taxation. About one half of the tax revenue now comes from the direct taxation, mainly profits tax and salaries tax. The generous direct tax concessions, as proposed, would not alter this structural characteristics. What would be achieved is a re-balance between the salaries tax and profits tax, and to a less extent between direct and indirect taxation.

As the income profile of salaried taxpayers is already skewed towards the high income individuals, the relief package this year would mean that the distribution curve will inevitably be further skewed towards the high income earners. This is virtually no way that a tax burden can be relieved without narrowing the tax net. If there were any, the Financial Secretary would not be facing the same dilemma year after year. However, if a handsome unbudgeted surplus means that the Government has taken more revenue than was necessary by way of taxation, he hardly has any other choice this year.

General revaluation of properties for the purpose of rates is essential for keeping the tax base intact and maintaining the balance between direct and indirect taxation. As rates are stable broad-based tax and a progressive and reliable source of revenue, regular revaluation to reflect up-to-date rental values is necessary so that the tax will continue to fall equitably on those more affordable.

With the accommodation cost being the biggest part of the family budget, any extra taxation as rates-payers would certainly be resented despite the relief measures to cushion initial impacts of the latest general revaluation. However, could home-owners, having benefitted from the appreciation in value of their properties, complain? The latest round of reassessment of the rateable value is the first in three years and the increase in rates payable will be capped at a two-third of the inflation rate for the same period. After all, most rates-payers will find the increase more than compensated by the generous relief in salaries tax burden.

Against this background, the political initiatives to press for further concessions in rates do not seem to be echoed by the community at large. A leading newspaper, for instance, comments these moves as "politician's invented outrage".

The community is in fact more concerned about the more pressing problems of persistence of relatively high inflation, saturating external transport capacities, congesting road network and caring for the aging population. These are intractable challenges to be met if our economic prospects are to remain promising. The Financial Secretary has discussed these problems at length but regrettably gives no substantive answers.

Inflation as measured by consumer prices has slackened to the single-digit level. The Financial Secretary has clarified the common misconceptions about the causes. It is not the result of the over expansion of the public sector; it is not imported; it is not the result of the Hong Kong dollar link with the US dollar. What he has not explained is the underlying cause. It is brought about by the rapid expansion of the service sector to support the enlarging manufacturing capacity of the economy through the relocation of production plants to southern China. It has persisted because we are no longer able to adjust the domestic cost/price structure as before by exporting inflation through manufactured goods. So long as this division of functions within the manufacturing sector remains intact — and it will — consumer price inflation is unlikely to further come down dramatically. The disparity between Hong Kong and United States inflation rates would persist.

It is true that the currency link handicaps our ability to fight inflation through conventional tools like interest rates. However, is interest rate a practical option given our experiences in the early 1980s? No anti-inflation dose is not bitter. Is it pragmatic to dampen inflation at all costs?

Our current problem is that inflation as measured by asset prices has been escalating. In particular, property prices are rising to uncomfortable levels, making home-ownership practically beyond the reach of salary earners especially first-time buyers. Notwithstanding, the end-user demand and supply of residential housing are in balance in terms of number, but not in terms of quality and location against a background of growing prosperity and understandable home-ownership aspiration of families.

The question here is the excess demand: what it is and from where it comes. In the circumstances, one could only draw conclusion that it is basically speculative demand attracted by, among other factors, negative interest rate scenario and price appreciation prospects. As such, the re-balance could hardly be achieved just through increasing the supply of new land and encouraging the redevelopment of existing sites. So long as the opportunity cost remains nominal and the opportunity gain continues to be attractive, speculative demand would persist.

What we need now is positive measures to convince the general public that housing supply pertinent to their purchasing power is forthcoming. In this regard, I share the views of many Honourable Members that public housing has an important role to play. Releasing rental public housing stock to the home-ownership market, for instance, would be an innovative step forward. The poor response to such an attempt last year reflected the inadequacies of the pilot scheme rather than the viability of the idea in general.

With the new housing supply in recent years concentrated in the new towns, commuter transport to and from work in the urban areas has become a pressing inconvenience for many people. The heavy road traffic so generated

has been aggravated by the increasing freight movements across the border. The traffic condition in the years ahead would hardly be much better.

It must be realized that most new job opportunities still continue to be found in the urban areas. It must be realized that most new housing supply will continue to come from the new towns. It must also be realized that crossborder freight traffic would continue to increase. The only practical solution, therefore, is the provision of mass transit links for the commuters and separate corridors for the freight movements. In this light, the agenda for the northwest New Territories/urban rail link and the MTR Tseung Kwan O extension, for instance, should be accelerated.

The provision for financially-secured retirement to those who have contributed to the well-being of this community is perhaps our biggest challenge for the next century. I share the enterprising view of the Chief Secretary that we need to bring the same vision and resourcefulness to solving the challenge of retirement income as we did in taking the challenge of housing the poor 40 years ago.

Public discussions are now focused on some form of Central Provident Fund (CPF) advocated by the political groups and the Old Age Pension Scheme advocated by the Administration. They have one thing in common: both require government participation and commitment.

I do not subscribe to the belief that a pension scheme is the socially and financially responsible solution. Experiences in many Western countries have demonstrated the drawbacks of such schemes as the dependency ratio of the population rises.

Neither do I subscribe to the belief that the CPF concept is the ultimate answer. The Singapore experience is inappropriate. Hong Kong today is very different both socially and economically from the time when Singapore launched its CPF a few decades ago. After all, entrusting the management of a multi-billion dollar retirement fund to the bureaucrats is the last option for Hong Kong.

Hong Kong's economic achievements have been built on free market and free enterprise. The best way forward, I believe, is still the encouragement of private sector funds through tax and other incentives complemented by the more comprehensive social security plan for the unfortunate senior citizens.

Mr President, while we applaud the Financial Secretary for achieving a fine balance between the different aspirations of political groups and the realities of public finance this year, we must also bear in mind that there is a limit to such acrobatic stunts. After all, he is hardly an acrobat himself.

Finally, the concerns about the inflationary pressures of this year's generous tax relief are understandable. Yet, one could hardly argue that a surplus Budget is inflationary and imprudent.

With these remarks, Mr President, I support the Appropriation Bill.

MS ANNA WU: Mr President, the Financial Secretary, in his Budget speech, came up with remarkably innovative ideas for the reduction of taxes. However, the Budget speech was lamentably short of ideas when it comes to checking escalating purchase and rental prices of commercial and residential units — an issue that affects every one in Hong Kong.

Over the last 10 years, commercial rents have risen by 230%. Recent newspaper articles indicate relocation of regional headquarters of international companies away from Hong Kong to other areas in the region because of exorbitant rentals. In the long run, this cannot help but affect the prosperity of our city. Even more alarming is the fact that the purchase price of flats has soared by 430% over the same period of 10 years. Recently, the asking prices for some flats have been close to \$10,000 per sq ft. We are rapidly approaching the stage when only the super rich, or expatriates whose rents are paid for by the corporation can afford flats here. We are also rapidly approaching the time when the people of Hong Kong can no longer afford homes in Hong Kong. What, I wonder, is the Government planning to do about this?

Government officials say that if property prices fall, the interests of property owners would be adversely affected. However, we do not hear enough about the Government responsibility to protect the little people — people who are unable to afford their homes, people who are unable to find liveable flat at rents they can afford. If the Government gave priority to the livelihood of the average person rather than priority to special interests bidding up the price of land, there is much that it could do. For instance, it can provide more land for public housing and home ownership schemes. Home ownership scheme housing has been sold for less than market price. Building more home ownership scheme housing can help to deflate the escalating prices. This is within the Government's control. Because the resale value of this type of housing is controlled, making available more would not spur inflation if the owners subsequently sell their homes. While the home ownership scheme housing is an attractive alternative to buying homes from the developers, nevertheless, the upward adjustments in prices, being three times a year varying between 5% to 10% each time, put even this type of housing beyond the reach of some families whose incomes do not increase at the same rate or frequency.

Another matter which is completely within the control of the Government is to improve, expedite and streamline the processing of land grants, land exchanges and lease modifications. The Government bureaucracy has been subject to severe criticism in these areas. I am frankly surprised that the increase in staff to deal with the processing was not put in place sooner. It must

be borne in mind that the problem is not just a question of increasing land supply, we must improve the turn-around time between raw land and homes.

Establishing schemes to expedite development of old sites has also been suggested. I would support this for so long as there are sufficient safeguards for potential victims of these schemes. There must be speedy hearings, reasonable relocation or alternative housing for those affected and adequate compensation given to the displaced owners or occupants.

In the meantime, the Government can consider interim measures in addition to limited control of rental, restricting mortgages and requiring early stamp duty payment. For instance, the Government can more aggressively go after speculators by vigorously enforcing the collection of profits tax. May I add that this does not require a change in the law.

There are many vacant units not rented out, but instead kept vacant waiting for the next surge when a quick sale can be made. Buying property, keeping it vacant and reselling at an opportune moment is the operation of a business. Like other businesses, such profits are chargeable to profits tax. This is something the Government might have failed to pursue actively, thus encouraging the speculators who profit by forcing the market up artificially. Perhaps the Government can also consider increasing rates for vacant flats or charging a fee for keeping them empty!

The Financial Secretary also attributed inflation to the rise in the cost of labour but is not the rise in labour cost itself attributable, at least in part, to the soaring price of land and rentals?

Allegations of failure of the Government to make available land quickly and to take measures to curb sky-rocketing prices have been raised. Allegations of hoarding of land and completed units have also been raised by many in this community. These allegations should be investigated and the findings disclosed to the public.

The Financial Secretary, in his Budget speech, had this to say:

"We need to be clear about the causes of inflation and the consequences for Hong Kong. And honest about what we can and cannot do to tackle it."

I cannot agree with this more. If the Government feels incapable of tackling this problem, then it should make public all the studies it has undertaken, at public expense, I might add, and make available all its findings as well as all relevant data in its possession so that members of the public can be fully informed of the options and make up their minds.

Mr President, I support the Bill.

CHIEF SECRETARY: Mr President, I move that the debate on this motion be adjourned.

*Question on the adjournment proposed, put and agreed to.*

**Adjournment and next sitting**

PRESIDENT: In accordance with Standing Orders I now adjourn the Council until 2.30 pm on Wednesday 30 March 1994.

*Adjourned accordingly at twenty-eight minutes past Eight o'clock.*

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

