

1 HONG KONG LEGISLATIVE COUNCIL -- 25 April 1990

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OFFICIAL REPORT OF PROCEEDINGS

Wednesday, 25 April 1990

The Council met at half-past Two o'clock

PRESENT

HIS EXCELLENCY THE GOVERNOR (PRESIDENT)

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

THE CHIEF SECRETARY

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

THE FINANCIAL SECRETARY

THE HONOURABLE SIR PIERS JACOBS, K.B.E., J.P.

THE ATTORNEY GENERAL

THE HONOURABLE PETER JAMES ALLAN, J.P.

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

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

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

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

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

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

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

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

THE HONOURABLE CHUNG PUI-LAM, J.P.

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

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

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

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

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

THE HONOURABLE POON CHI-FAI, J.P.

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

THE HONOURABLE SZETO WAH

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

THE HONOURABLE TAM YIU-CHUNG

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

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

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

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

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

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

THE HONOURABLE RONALD JOSEPH ARCULLI, J.P.

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

THE HONOURABLE PAUL CHENG MING-FUN

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

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

THE HONOURABLE RONALD CHOW MEI-TAK

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

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

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

THE HONOURABLE MRS. MIRIAM LAU KIN-YEE

THE HONOURABLE LAU WAH-SUM, J.P.

DR. THE HONOURABLE LEONG CHE-HUNG

THE HONOURABLE LEUNG WAI-TUNG, J.P.

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

THE HONOURABLE KINGSLEY SIT HO-YIN

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

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

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

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

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

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

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

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

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

ABSENT

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

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

THE HONOURABLE PANG CHUN-HOI, M.B.E.

THE HONOURABLE TAI CHIN-WAH, J.P.

IN ATTENDANCE

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

Papers

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

Subject

Subsidiary Legislation

L.N. No.

Import and Export Ordinance

Import and Export (Fees) (Amendment)

Regulations 1990 .....

106/90

Legal Aid Ordinance

Legal Aid (Assessment of Resources and

Contributions) (Amendment) Regulations 1990 ..... 107/90

Public Health and Municipal Services Ordinance

Hawker (Regional Council) (Amendment)

By-Laws 1990 .....

108/90

Interpretation and General Clauses Ordinance

Declaration of Change of Title (Housing

Assistant) Notice 1990 .....

109/90

Arbitration (Amendment) (No. 2) Ordinance 1989

Arbitration (Amendment) (No. 2) Ordinance

1989 (Commencement) Notice 1990 ..... 110/90

Road Traffic Ordinance

Road Traffic (Construction and Maintenance  
of Vehicles) (Amendment) Regulations 1990 ..... 113/90

Public Health and Municipal Services Ordinance  
Public Health and Municipal Services (Public  
Pleasure Grounds) (Amendment of Fourth  
Schedule) (No. 3) Order 1990 ..... 114/90

Public Health and Municipal Services Ordinance  
Public Swimming Pools (Designation) Order 1990 ..... 115/90

Registration of Persons Ordinance  
Registration of Persons (Application  
for New Identity Cards) (No. 7)  
Order 1990 .....  
116/90

Public Health and Municipal Services Ordinance  
Pleasure Grounds (Urban Council) (Amendment)  
Bylaws 1990 .....  
117/90

Sessional Papers 1989-90

No. 66 -- Police Welfare Fund

Income and Expenditure Accounts with Balance Sheet and Certificate of the Director  
of Audit For the Year ended 31st March 1988

No. 67 -- Report of the Director of Audit on the results of value for money audits  
March 1990 Director of Audit's Report No. 15

Miscellaneous

White Paper on the Annual Report on Hong Kong 1989 to Parliament

Second Reading of Bill

APPROPRIATION BILL 1990

Resumption of debate on Second Reading which was moved on 7 March 1990

Question on Second Reading proposed.

MR. ALLEN LEE: Sir, I have never been so troubled by Budget debates such as this one. I am concerned about our future, our people, and our relationship with our future sovereign state. 1989 has been a turbulent year for Hong Kong. Rising inflation, brain drain, morale of the Civil Service, shortage of labour, just to name a few problems, and worse of all, we are facing a confidence crisis that seems very difficult to resolve. Against this background the Financial Secretary is trying to present a balanced Budget. However, his revenue proposals have met with much criticism. I have read a number of reports commenting on the Financial Secretary's proposals; ranging from fueling inflation to totally unacceptable. I am not here to defend the Financial Secretary, but we are facing difficult time ahead as demand for services is on the increase whilst the resources are limited.

General overview

I spoke on inflation, public sector expenditure, labour shortage during last year's Budget debate. I just want to say that the situation has not changed and we are facing the same problems except, in my view, the Financial Secretary perhaps disagrees, that the problems are getting worst instead of better. My disappointment is that there are no concrete proposals to really tackle these problems. If we let these problems continue, I am certain economic forces will take its natural course and we will be heading for a recession if not a depression. Many of the problems that we are facing today are inter-related. I want to mention again, on the side of the economy, inflation is the number one public enemy. Government must take the lead to resolve this problem. It is hurting everybody. I totally disagree with some of the so-called experts saying that there is nothing Government can do. In fact, it is the Government's responsibility to ease inflationary pressure; perhaps drastic actions are required. This brings me to the subject of budgetary strategy. I view the current Budget as a lack of strategy. It is predominantly a balanced Budget which is expenditure-driven. That is to say, here is the expenditure and where we can increase taxation to take care of the expenditure. This is simply not good enough for modern-day Hong Kong. Planning and anticipation should be the name of the game today.

## Airport

Sir, we all know we need a new airport and we need it quite urgently. It is an enormous project. We all welcome the project. The question is how to finance it. We heard a lot about private sector participation. But I think the public and the business circle want to know exactly what portion of the capital expenditure and what type of services will be privatized and how? Is it commercially viable? What would be the planned public sector expenditure? If there is no private sector interest, will Government go ahead with the project out of necessity? Where is the money coming from? All of these questions need to be addressed and answered. I would like to hear more on this subject in the near future. The Finance Branch must improve in the area of planning. Maybe there is already such information; if there is, the public ought to know about it.

## Civil Service

Sir, this afternoon, I want to concentrate on one subject, that is, the Civil Service. During the last year and recently we saw gatherings, sit-ins, hunger strikes and marches of various civil service organizations demanding salary increases, better benefits, and so on. There is a sign of uneasiness in the Civil Service as a whole. When the Government announced a 15% salary adjustment against a rate of inflation of around 10%, civil service organizations expressed strong disappointment and some even threaten industrial action unless Government adjust the salary in accordance with the result of the pay trend survey. Sir, this situation concerns me and, I am sure, all of my colleagues in this Council greatly. What is happening to our Civil Service? Are our civil servants remunerated adequately? Is it because the anxieties and uncertainties of the future that created the uneasiness in the Civil Service? First, let me state categorily that in general we do have a good and efficient Civil Service; our civil servants are dedicated to their jobs. There is now an element of uncertainty which is no different from what our community is currently experiencing. Perhaps the future is more important to the people in the Civil Service because they have to make a decision in the near future as to whether they want to continue to serve the Special Administrative Region government in 1997. I entirely understand this sentiment. I just want to say to our civil servants that money cannot buy peace of mind. The current Government can do only so much, and it would be wrong for the Government of the day to use money to buy the Civil Service. As far as the future is concerned, it is a serious matter that the Chinese Government must address. Secondly, I am of the opinion that our civil servants are remunerated



adequately. I have compared their package of remuneration with those comparable jobs in the private sector which I am familiar with. I can say without reservation nor hesitation that, in general, our civil servants are remunerated adequately. I subscribe to the philosophy that the Government should be a good employer and I can say, during the years I am a Member of this Council, our Government has been, and I believe will continue to be, a good employer. As far as this year's pay increase is concerned, I want our civil servants to listen carefully to the public reaction. The general public may not understand what the pay trend survey is, or what the budgetary constraints are. They do know what a 15% salary increase is as they are comparing what they are getting versus the Civil Service. The people who have voiced their opinion are from the general working class, that is to say the man in the street. Their views should be known to the union leaders in the Civil Service. Thirdly, I urge our civil servants never to forget that their duty is to serve the public at large; it is their job as civil servants. If the service to the general public is disrupted in any manner, the people of Hong Kong will not be quiet. We can ill afford social unrest locally and bad publicity overseas. Hong Kong is at the present moment at the crossroad of changes in the political matrix that has attracted international attention. Whether we will succeed in the future will depend much on the performance of the Hong Kong people and the goodwill of both China and Britain. Civil servants have a major role to play. What we need is a stable Civil Service to take up challenges of the future. My last comment on the Civil Service is with regard to its size. It has been doubled during last 10 years. I understand the requirements for services are on the increase. However Government must review the necessity of providing the services. Is there any fat that can be trimmed? How can we have a more efficient and effective Civil Service? Can the productivity be increased? It is definitely worthwhile for the Government to look into this aspect, and as Chairman of the Establishment Sub-Committee, I certainly will look into this matter when requests for additional posts come forward in the future.

## Conclusion

Sir, in this two-day debate, my colleagues will raise various subjects concerning the current Budget. I do not intend to be long-winded to comment on every subject that I feel we can improve. I have given weight to the Civil Service because I believe we need a confident Civil Service for the future well-being of this territory.

On the other hand, I also want our civil servants to recognize fully their duties toward the people of Hong Kong. We are in the same boat together. Whether we will

sink or swim will depend on our attitude towards the future and the togetherness of our community as a whole. We should face problems together, tackle problems together and resolve problems together. I want to initiate the feeling throughout our community of togetherness, in what I call "The Hong Kong Spirit". Let us not forget not very long ago Hong Kong was merely a fishing port and our trade was mainly entreport trade with China. Today we are the tenth largest trading territory in the world. Our people have achieved this by working hard as a community. I recognize the problems that we are facing today are complex, but I truly believe we can overcome them if we work together in the true Hong Kong spirit.

With these remarks, Sir, I support the motion.

MISS TAM: Sir, I am concerned that in this Budget we see no abatement of the growth of public sector expenditure. In 1987 the Financial Secretary said in his Budget speech "if the objective of low taxation is to be achieved, the growth in expenditure on public services must stay within, rather than run ahead of, the expansion of our economy.

This year, he said "in the period of the Medium Range Forecast up to 1993-94, real growth in Consolidated Public Sector Expenditure is forecast to average about 6.6% and this is higher than the trend growth rate assumed for the GDP of 5.5% ... " I shall not try to quote the whole paragraph, but that is the key message. And I must remind the Financial Secretary that what he said in 1987 remains a sound budgetary guideline and I am concerned that he cannot practise what he has preached.

In this Budget the Financial Secretary said of his strategy for public finances: "What I am seeking to do in this Budget is to begin putting in place a structure for our public revenue that can be used as a basis for financing the infrastructural projects, whilst at the same time maintaining as far as possible our low rate of direct taxation." However, there is no indication within or beyond the period of the Medium Range Forecast on how he intends to curb public sector expenditure. I am extremely concerned that, with the enormous commitment to infrastructural development to be completed before 1997, and growing pressure in the Civil Service for better pay, there is a real danger that we have to either raise the rate of direct taxation or expand on the scope of indirect taxation, or to do both in order to foot the bill for public sector expenditure.

I certainly hope that the strategy of the Financial Secretary will be successfully

implemented. But at this juncture I must put in some words of caution.

(A) Do not say good-bye to revenue based budget planning

With the completion date of the Chak Lap Kok Airport in mind, many infrastructural projects will have to be completed in time for the airport opening. In this year Port and Airport Development Strategy (PADS)-related studies would be creating 339 posts and incurring an expenditure of \$620 million. Public expenditure, PADS-related, will run beyond the period of Medium Range Forecast, and we know that the Mass Transit Railway Corporation extension to the new airport will cost about \$15.5 billion, and in Appendix A of the Financial Secretary's Budget speech, it is not included because in Appendix A we were talking about public sector expenditure in the consolidated account. We used to believe that we must cut our coat according to the cloth we have but it seems to me that we may have designed quite an oversize coat and must look around to find sufficient cloth to do the job. The danger is that we may lose control over spending, and in looking for ways to raise revenue, lose sight of a well treasured principle "that the tax burden should not be shifted easily, especially affecting those with lower income." (Sir Philip Haddon-Cave)

I see real danger in budget planning based on expenditure. I also believe that we are beginning to find ways of shifting the tax burden to the lower income groups. To reduce such dangers we must trim down on public sector expenditure. I think the Financial Secretary should :

(1) be austere in keeping down the cost and scale of the public service. Staff cost is already 60% of our annual recurrent expenditure and will be increased to 62.8% after the proposed 15% package pay rise;

(2) look for areas to trim down on the establishment. I shall not go into the details in the Establishment Sub-Committee's report. Suffice it to say that one very good example of trimming is to use automation, and I hope it will be looked into so that the establishment will not only be kept at 2.5% growth but it can match what actually happened last year, and that is only 1.8% increase in real strength.

I have no doubt whatsoever that it is getting more and more difficult in working out an acceptable pay and service condition package for all concerned. Hence, among the increases in establishment, I support the one in the report of the Standing Commission on Civil Service Salaries and Conditions of Service. I hope the extra

manpower there will help to work out an acceptable and reasonable package for future pay with civil servants; and in respect of the Civil Service, I respectfully associate myself with the Senior Member's remarks that civil servants are part of the community and we are in it facing the challenge together. I hope they will accept the 15% pay package because that, I believe, is what the community can best afford.

(3) The Financial Secretary should impose strict control on the phasing in or co-ordination of various public works projects with the PADS-related projects to avoid as much as possible over heating of the economy in any one year;

(4) watch out for the costs of privatization of any government services, and the details appear in paragraph 50 of the Establishment Sub-Committee's report. I think it is time for us to take another look and give a halt to the idea of further privatization of any public services which has not yet started because experience has told us that this could be very high in costs.

I sincerely hope that with the combined effort of the above mentioned control measures, we can still design and make the coat according to the cloth we can afford.

(B) "The tax burden should not be shifted easily, especially affecting those with lower income." (Sir John Bremridge)

The Financial Secretary says (at page 35 of his speech) "The revenue proposals to produce additional revenue of \$3.1 billion for 1990-91 will convert the estimated overall deficit of \$2.4 billion to an overall surplus of \$720 million. The proposals will achieve the objective of reducing the percentage of total tax revenue derived from direct taxes, from 65% to 62%."

Although, in this Budget, the Financial Secretary has not taken further steps to push for the wholesale tax, the increase in revenue and charges have similar effects in spreading the tax burden as the wholesale tax. Water charges and fuel costs affect everyone in Hong Kong, rich or poor and the increase in rates does affect 1 094 322 ratepayers.

In 1983 there was an increase in fuel oil tax and that, we record, was a deficit year. The percentage increase was 60% but "in order to avoid an additional burden on public transport users who tend to be the less well off, the increased duty rate will not apply to diesel oil used by enfranchised public buses." (Sir John Bremridge)

This year the tax on diesel oil is increased by 30% with no corresponding rebate given to enfranchised public buses, and this will result in an increase of 4 cents a passenger trip. It certainly gives the impression that Government is prepared to rope everyone, including the less well off, deeper into the tax net. The move from direct taxes to more indirect tax is a sound household finance management strategy, but we must remember the burden it can create on the less well off. One can say that for wholesale tax it is up to the individual whether he wishes to spend money on goods and services. But public transportation expenses cannot be avoided.

Another cardinal rule is that "one should not increase any existing tax too sharply because of the impact it can create on the less well off." (Dame Lydia DUNN)

In the five years between 1985 and 1989 public transport costs have increased by 33.8% compared with a 29% rise in the consumer price index. According to the Report on Economic Background 1989-90 transport costs rank second in the increase of private sector expenditure. Before the Budget date, in an average household, 8% of the household income is spent on public transportation and we may yet see increases in other charges in the remaining months of 1990. The effect of the 30% fuel increase means an extra 25-cent cost on a taxi ride and 40-cent on a ride on a public light bus. I think it right to sound a word of caution. Tax imposed on public transportation is tax levied on essential services. It must therefore not be too steep and too sudden because it will affect the less well off.

Let me be frank in stating my concern.

My concern is that in looking for revenue to pay for public sector expenditure the Financial Secretary will seek to introduce wholesales tax on the one hand and impose taxation on the basic essentials on the other. Thus in the process of achieving a more comfortable ratio between direct and indirect taxation we end up not only widening the tax base but also raising higher revenue on existing indirect tax. The result is that we shall go down a slippery slope of rising inflation. On this point, I hope that the Financial Secretary will give us a clear answer on "the strategy" he actually has in mind.

(C) Private sector inflation

Supply of labour, according to the 1989 Economic Background Report, is relatively

static. Near the end of the year, the number of vacancy in most sectors showed a significant decline. Referring to the May 1989 special scheme to import skilled labour it says that the scheme is "intended to be a temporary measure ... the take up rate is only 63% because of time required for recruitment and less intensive demand." However, in spite of this scheme wages have not eased. This is not surprising because if one looks at the Economic Background Report, it says at page 50 "vacancies in the manufacturing sector fell by 20% to 44 000; in the building industry by 47% to 4 100" and it goes on and on; we find that in hotel services, transport services and other services, there are in fact many many vacancies unfilled.

In respect of the fact that "wages have not eased", I think we can cite some examples from the same report (at page 50) which show that the payroll per person engaged, for example, in transport services has risen last year by 16% in money terms or 6% in real terms and wages remain the strongest factor in causing increase on public transport costs. The problem is that when you have wages rising in the private sector, it will be reflected in the pay trend survey in the following year, and this will result in a very strong indicator for pay rises and perhaps high pay rises for the Civil Service, and there you will find the vicious circle.

Shortage of manpower and skilled labour will prove a significant restraint in the development of our economic activities. In paragraph 46 of the Financial Secretary's speech and in referring to the PADS problems he said "we may need to consider exceptional arrangements to ensure that they (the engineering projects related to PADS) are completed on time and without unacceptable inflationary impact."

In planning for future manpower supply, surely we must be able to learn from this trial scheme launched in May 1989! It is because as at 1 April 1990 only a total of 1 844 entry visa applications were received by the Government. And of these only 1 741 were successful; the remaining ones are said to be under process. I am very surprised that with the number of vacancies reported in the Economic Background Report, only a small number, that is, 1 844 applications were made. Is it due only to recruitment difficulties? Or are we being too restrictive in the conditions for their entry? I think we should make an assessment on the success or otherwise of this scheme and see how it can be extended to work for the overall interest of Hong Kong. It will also give some indication on how "exceptional arrangements" can be made where it helps to ease pressure on the internal cost and price structure.

We must not forget that whilst our inflation rate for the coming year is predicted

at 7% to 9%, our competitors, for example, South Korea's forecast is at 5%-7%; and Taiwan at 3.5% only. Our trading partners, for example, USA's forecast is at 4.5% and OECD countries also at 4.5%. I trust we do not wish to see the internal pressures on wages and prices affecting our competitive edge in providing services and manufactured products to our customers. I hope that the Financial Secretary can give an assessment of the imported labour scheme in his reply on whether it is working to satisfaction.

(D) General observations

I have in this speech expressed my concern that within and even beyond the period of the Medium Range Forecast, we shall be living under the shadow of inflation. I also appreciate that with a 3% growth in GDP in 1990, we will need to achieve higher rate of growth in the later years to reach the 5.5% average in this period. No one can say if this will be easy. Hence we should start with trimming expenses.

I agree, Sir, that we should move towards more indirect taxation but on balance, it is better to have wholesale tax than tax on essentials, such as on electricity. It will be difficult in 1991, and beyond, to launch it because it may not get popular support in the community -- look at the experience in Japan on introducing sales tax. In Canada the debate on the 7% general services tax may even cause the Conservative Party to lose the next election. The Financial Secretary, I hope, was suggesting two years ago to conduct a review on whether we have an alternative to wholesale tax, and what other sources we can explore to achieve a better distribution between direct and indirect taxation. I have heard suggestion that maybe profit tax on companies could be a little bit higher, and I hope in this review we will be given a chance to make an overall assessment of the options available to us. That, in my opinion, is the way to establish the basis of the future strategy.

With these observations, Sir, I support the Appropriation Bill.

MR. PETER POON: Sir, in his 1990-1991 Budget speech, the Financial Secretary referred to the effects of events in the international scene on the economy of Hong Kong. Further, he stated that the Administration had committed itself to ambitious long-term projects which were considered essential for the continued progress and prosperity of our community. He emphasized that it would be necessary to control public sector expenditure in all its forms, achieving value for money, containing

the growth of the Civil Service and increasing their productivity. I agree with his observations and shall comment on them later.

The performance of the economy in 1989 was disappointing. After a GDP growth of 14% in 1987 and 7% in 1988, our GDP recorded a growth rate of only 2.5% in 1989. Despite such factors as economic problems in China, reduced overseas demand for our products and the inevitable effects of the trade cycle on the performance of our external trade, we had hoped that we could achieve a better result. After several years of rapid growth, we must now accept that our economy is losing steam and we must brace ourselves in anticipation of several years of slower growth. In fact, the world economy has sustained a longer period of growth than expected. Like other countries faced with their own economic problems, we must face our problems with resolve, and must not be complacent about our flexibility and adaptiveness. We can unite to overcome the financial problems in the years to come only if we recognize our own difficulties.

The Financial Secretary has predicted a growth of 3% in our GDP and 2.5% in our domestic exports in 1990. These I think are achievable. However, I have doubts on his forecast of a slowdown of inflation to 8.5%. I am afraid that we have to live with high inflation for some time in view of the heavy commitment on infrastructural development and public sector expenditure. The increases in petrol tax, rates and other forms of indirect taxes would all contribute to inflation in the year to come.

What then is the scenario for the next few years? We will be expecting a general slowdown of our economy. We will be faced with high rents and rising wages. The extremely low unemployment and under-employment rates are not likely to change and this will place a limit on our growth and undermine our competitiveness. In short, we are likely to experience stagflation. The normal economic adjustment mechanism will, I am afraid, work too slowly for our comfort. From another angle, it is heartening to note that we will have a per capita GDP of US\$12,100 in 1990 which is amongst the highest in our region, but the persistent threat of inflation cannot be treated lightly.

Whilst rents have stabilized somewhat in the past few months as a result of increase in supply in some areas, the spiral of wage increase may only be the beginning of another serious problem. In fact, what is more important is productivity and its impact on our competitiveness. We should not grumble about having to pay more if we get value for money. Unfortunately, work ethics has degenerated and efficiency



declined because of the shortage of labour. As a result, wastage is becoming quite alarming. A staff turnover rate of 25% to 40% is not uncommon in some sectors. Normally a recession will help by providing a period of consolidation, but our grand projects and internally generated consumption in both the public and private sectors will compound the problem. Furthermore, we continue to lose some of our best talents through the brain drain.

There is no simple solution. Perhaps better labour relations and more training opportunities will help. But in the short term we still have to live with the disruptive effects of the shortage of manpower on our production and services. More wage disputes are likely. In resolving labour relations problems, I hope that employers will be more pragmatic and reasonable, and labour will exercise restraint in their actions.

I now turn to the subject of public sector expenditure. There are three points of concern. First, Consolidated Public Sector Expenditure is expected to represent about 17% of GDP. Secondly, the growth rates of Consolidated Public Sector Expenditure and recurrent expenditure are both higher than our GDP growth. The Financial Secretary has estimated a trend recurrent GDP growth of 5.5% in the Medium Range Forecast. I have to register my reservation over the estimate growth although it is generally believed that heavy investment in our infrastructure may help us achieve this. Recurrent public expenditure and Consolidated Public Sector Expenditure have been estimated to grow by 7% and 6.6% respectively, which implied that we would have a budget deficit in the years 1991 to 1994 if extra revenue was not raised.

The third point of concern is that although financial advisers will assist the Administration in controlling the costs of the huge civil engineering projects associated with the port and airport development, and that the Financial Secretary is confident that these projects would be completed on time without producing unacceptable inflationary pressure, it is very likely that we would have to foot a bill which greatly exceeds our original estimates judging from the present condition of our labour market and our resource problems.

The Civil Service represents 60% of the Government's recurrent expenditure. Though the Financial Secretary said that nil growth had been achieved in 1989-90 through reductions in establishment levels, most of the operation was done with unfilled posts only. We must be aware that apart from the size of the Civil Service,

pay adjustments and benefits also contribute to the increase in the total staff costs. While additional posts are justified in certain essential services, restraint must be exercised on the question of staff costs which have grown to a stage that causes concern. I can well understand that we must be mindful of the morale of our Civil Service, but when our economy is having problems, we must exercise the same degree of scrutiny that we impose on other aspects of public sector expenditure.

Without the new revenue measures, the draft estimates of expenditure and revenue have a deficit of \$2.4 billion. In my view, the Financial Secretary could deal with the deficit in three ways or any combination of them. First, he can increase taxes, direct or indirect. Second, he has the option of using part of our fiscal reserves of \$70.8 billion. Finally, he may raise money to finance expenditures on the long-term projects. He has prudently adopted the first way of raising revenue through indirect taxation. His reluctance to increase direct taxes is understandable. First, direct taxation has only been reduced in recent years and he does not want to upset investment decisions; secondly, the proportion of direct taxation to indirect taxation is already on the high side. By raising \$2.9 billion from indirect taxation and \$1 billion by other revenue measures and giving tax concessions totalling \$800 million, a small surplus of \$720 million has been budgeted for.

Let me now touch on the tax proposals. The Financial Secretary has referred at length to the progress of the Administration's examination of the introduction of a wholesale tax. While it is true that our tax base is very narrow, he has concluded that it would not be appropriate to introduce the tax at this stage without further thoughts and that he is not working to any specific timetable. This must have taken a load off the minds of many people who feel that the tax is regressive and unfair. Nevertheless, there are some who feel that such a tax should be introduced in the future to stabilize our tax revenue since only 7.7% of our 980 000 salaries taxpayers are estimated to pay 57% (\$6.7 billion) of our total salaries tax yield in 1990-91.

The 25% increase in rates is hefty. It affects a wide section of the public. Although the contribution of \$1.3 billion is substantial, I am concerned that the future impact would be greater since all rateable values are to be revised with effect from 1991-92. In this regard, I am happy to note that the Financial Secretary has assured us that the purpose of the 1990-91 review is to ensure that the burden of the charge is equitably distributed between different classes of ratepayers and that

the percentage charges would be looked at again after the review.

As to tax concessions, I welcome the abolition of the clawback on the additional allowance. The merging of the additional allowance with personal allowance, however, does not result in any real increase in these allowances in total which remain at \$39,000 and \$80,000 for individuals and married persons respectively. The abolition of the clawback does, however, reduce unnecessary complication and will benefit the middle income taxpayers. The reduction of the rates of salaries tax for the first two \$10,000 bands of net chargeable income from 3% to 2% and from 6% to 4% respectively will benefit taxpayers with lower income. Nevertheless, the widening of the tax bands has been the wish of many taxpayers. Even with the concessions in 1990-91 only 12 000 of the 980 000 taxpayers will fall out of the tax net which catches more and more people each year on account of inflation.

The revision of the annual rebuilding allowance for commercial buildings is long overdue. The allowance of 0.75 % which effectively takes 133 years to write off the value of such buildings is unreasonable. The reduction of the writing off period to 50 years is more realistic and costs only \$85 million for a full year.

I support the raising of the exemption limit for estate duty to \$4 million to keep up with inflation and welcome the exemption from estate duty of all death benefits from approved retirement funds under the Inland Revenue Ordinance.

Finally, from the Consolidated Cash Flow Statement in the Appendix to the Budget speech, it is noted that our reserves will drop from \$71.5 billion at 31 March 1991 to \$56.6 billion at 31 March 1994 if no new revenue measures were assumed after 1990-91. While we do not mind a small drop in the percentage of our consolidated reserves to our Consolidated Public Sector expenditure, we must try to maintain an adequate reserve, in money or, ideally, in real terms, in order to fortify ourselves financially to promote the confidence of the international investors on our proposed infrastructural projects. The Financial Secretary is fully aware of this and said that we must maintain our reserves at an adequate level.

The 1990-91 Budget is a sensible one but a lot must be done to ensure that our means meet the ends. More importantly, we must continue to scrutinize the enormous public sector expenditure tightly. This is particularly difficult in times of economic downturn, but the Financial Secretary has already identified the problems in his Budget. Every one of us in Hong Kong must work hard to contribute to our future

success. I am sure the Administration, on its part, will take effective measures to steer us through the difficulties in the years to come.

Sir, with these observations, I support the motion.

MR. CHUNG (in Cantonese): Sir, the Honourable Financial Secretary Sir Piers JACOBS has presented to us the 1990-91 Budget. In my view, it is a farsighted and enterprising fiscal plan.

The Budget is characterized by the increasing financial commitments to be undertaken by the Government for the well-being of our community. Therefore the Financial Secretary has to issue a lot of promissory notes in order to cater for our future needs.

There is no point for me to repeat chains of tedious figures in the Budget which has indicated that both revenue and expenditure will be exceeding \$90 billion this year. My foremost concern about the Budget is the great magnitude of proposed increases in public expenditure in comparison to the rate of growth of our economy.

According to the preliminary forecast made by the Financial Secretary, the economic growth rate will be less than 3% this year while the expenditure in the public sector will be increased by 9.4% in real terms. Moreover, in view of future needs, it is expected that the situation where growth in expenditure is not confined by growth in the economy, will continue for the first few years of the 1990s.

It is understood that the Budget, particularly with a sharp increase in planned expenditure, has been drawn with the sole purpose of implementing various policy initiatives and measures formulated by the Government.

As we know, the multi-billion dollar infrastructural mammoth programme will surely go ahead. These major programmes which go beyond 1997 will serve the following purposes: firstly, to cater to our actual needs in accordance with current development trends; secondly, to stabilize the confidence of Hong Kong people and attract more international investment; and thirdly, to create even more employment and development opportunities for the territory. In a nutshell, the major investment and public expenditure items under these programmes are in line with the benefit of the whole community and the interest which the relevant sectors are after.

In drawing up the infrastructural programme, the Government has also finalized some plans on four major service areas, namely social welfare, housing, education as well as medical and health. The new Budget has indicated the line of thought shared by most members of the public that expenditure on these public services should always move in an upwards direction and never come down.

The further we move towards the middle of the transitional period, the more we need to maintain a substantial and stable Civil Service including the disciplinary forces, which can operate with high efficiency. It is quite logical that expenditure required in this aspect should not be reduced.

According to the forecast, the growth of the economy will be overtaken by the growth of expenditure. Apparently this has caused changes to the traditional approach in dealing with fiscal matters. In the new Budget, Sir Piers JACOBS has in fact departed from the old rigid rules of "keeping expenditure within the limit of revenue" and switched to a positive approach of "planning revenue in the light of expenditure".

The main feature of this approach is that plans are made for the three major expenditure items, namely infrastructure, services and emoluments and ways are sought to bring in the necessary revenue afterwards.

The question is: where does the money come from?

Sir, while studying the programme of expenditures in this year's Budget, I discover an inherent weakness in our fiscal policy, that is, large sums of non-recurrent expenditure have to be met only by general revenue of a recurrent nature.

I believe it is neither reasonable nor practical to increase the tax burden of the general public in order to meet the huge capital expenditure in future investment. Should we just ask the man in the street to "invest" in this mammoth programme?

The establishment of various funds is a good way for the Government to build our sound financial strength. But this should only apply where there is a surplus in our Budget. Members of the public have their own economic principles and their own plans for recurrent expenses. They do not want to see the Government turning to its exclusive remedy of increasing taxes and charges with a view to meeting the needs

of funds for capital works.

Naturally, the Administration has its own reason to increase the rates. However, if the increase is too drastic, for example, exceeding the growth rate of income of the public, it will then completely nullify the effect of any tax concessions granted by the Administration on personal income in the same period.

We must bear in mind that almost certainly the landlords will immediately pass on the increase in rates on property to their tenants, thus inevitably leading to a general increase in rents. In these circumstances, it may spark off a spiral of rising consumer prices and the purchasing power of the general public will be weakened subsequently. It is quite clear that the increase in rates can only meet a small portion of the investment outlay, but its impact on our daily living will be considerable. Therefore prudent consideration should be given by the Administration when it intends to increase the rates sharply in the Budget.

I believe nobody will object to any reasonable increase in rates if there is such a necessity because rates on property constitute the major source of funding for various services. However if rates are increased as a way to finance the investment outlay, it is certainly not one of the best options at the present moment. As a matter of fact, even if it is necessary for the territory to widen its tax base, to increase the proportion of indirect tax in addition to direct tax, or to gradually introduce sales tax in future, the importance of rates and fuel tax to our revenue should however be correspondingly reduced and concessions should be granted in this respect.

In view of the costly programmes, I submit that as a matter of top priority, steps should be taken to explore new sources of revenue and this should be followed by restraints on expenses. Traditional revenue measures can no longer meet the financial requirements of our new policies.

To broaden sources of funding, we should first, as far as possible, seek financial help outside Hong Kong and not just turn to our local people all too readily. As Hong Kong has established its status internationally, we may take advantage of our outstanding economic position to tap sources of funding overseas under reasonable terms. The first thing to do is to accelerate our plans to attract foreign investment for the infrastructural programmes and other development projects.

Essentially, the beneficiary of such major infrastructural developments into the

next century will be the Special Administrative Region (SAR) Government that will come into being after 1997. Some of the most important works have been designed to improve and extend the major traffic links between Hong Kong and Guangdong. Thus, the involvement of the existing Land Fund for the SAR Government in form of sole proprietorship or partnership in financing our projects is not only reasonable but also appropriate in serving dual purposes.

The third way to seek sources of funding abroad is to raise loans. The Hong Kong Government may either borrow loans directly or issue Hong Kong dollar bonds or capital works bonds. Both ways appear to be feasible at present. I am of the view that, so long as the capital expenditure programmes are cost-effective, raising foreign loans is after all better than imposing heavier taxes on the public.

Of course, exploring local sources of revenue should not be ignored. Certain luxury commodities and bets tax should be high priority items for raising additional revenue. My point is that any attempt to raise revenue locally must in principle be financially profitable and not detrimental to the livelihood of the people.

As we all know, the present trend of development of Hong Kong is towards the goal of making this place a leading international financial centre. Financial transactions in respect of stocks, gold, foreign exchange and futures are growing in volume. Should the main targets of our taxation policy be shifted in correspondance with the changing focus of our economy? In other words, in the foreseeable future, will the financial sector become the major contributor to our revenue? In the light of the current development, many local people having concern for the resources required for fiscal policies will probably regard it as a way to explore revenue sources which is worthy of further study.

Judging from the Government's attitude, the introduction of sales tax seems to be a matter of timing. I have to remind the Administration in advance that it must not rope daily necessities, textbooks and ordinary medicine items into the tax net by imposing sales tax on them. While there is a need to broaden the taxation base, legal measures should be strengthened to protect consumers.

All in all, sales tax should only be introduced under suitable economic conditions and reasonable public response. The Government, when necessary, should set up an ad hoc committee to advise on matters relating to sales tax.

I shall now turn to constraints on expenses.

Under the pressure of huge expenses, a tightening of spending is of particular importance in planning the Budget. According to some statistics in the new Budget, the actual total public expenditure for last year would probably be 6% more than the original estimate. The sum of "over-spending" is already greater than the total revenue estimated to be brought by the proposed tax increases this year.

There may be various reasons for the over-spending, but it definitely has nothing to do with the estimated emolument for civil servants for it has been reported that savings arising from vacancies were used to meet part of the additional expenditure last year.

Effective control of estimated expenditure is a normal approach and strict control and restraints on the growth rate of the civil service establishment certainly does help save expenditure. However, it must be borne in mind that the control of growth of the civil service establishment should primarily hinge on the requirements of the services and that the quality of Civil Service must not be affected.

In my opinion, to trim expenditure, we must keep an eye on whether there will be unjustified expenditure and waste of resources on the part of the Government. I understand that there have already been rigorous internal monitoring systems for such purpose however reasonable stepping-up and continuous improvement of the monitoring process may still be necessary.

The Financial Secretary has pointed out that expenditure from various funds last year exceeded the original estimate of \$16.8 billion by over 20%. It is quite clear that one of the reasons is that the construction cost incurred by various items under the public works programme have become higher. However, since the works were programmed, why was there still a sharp rise in the cost? Is it attributed to inadequate estimation of or loss of control over the cost of the works? In the context of controlling expenditure and cutting expenses, it is something on which review and improvement should be made.

Sir, government policies have been formulated and financial commitments have been laid down in the Budget. I believe that the next step to be taken is to support the reasonable arrangements for broadening revenue sources and cutting expenses for these costly projects. We must recognize that a stable livelihood is a prerequisite for



a progressive fiscal system. Modifications can be made on any programmes or measures of significant financial implications subject to economic and social developments. Revisions were generally made to the original estimates in the interim reports of the Financial Secretary in past years. Review should therefore be conducted whenever necessary to keep the policies sound and progressive. In addition, suitable and flexible measures should be formulated in order to achieve our planned goals.

For a long period of time, Hong Kong has been enjoying a prosperous economy and there has been full employment in the territory. Labour shortage has been common in a lot of major sectors. According to government estimate, Hong Kong's per capita GDP this year will rise to US\$12,100, that is, more than HK\$94,000. We are also told that the accumulated surplus will go up to HK\$71 billion one year from today. Basically, it is the fruit of the diligence of Hong Kong people and the effectiveness of government measures and fiscal operation. Such good results during this special transitional period have underlined the fact that our adaptability can stand any stringent tests. On this basis, even if there is a short-term slow-down of our economy giving rise to a new Budget deficit of only \$2.4 billion this year, it should not be a matter of grave concern. Such a slight deficit is more acceptable than big tax increases to offset deficits. I hope that the Government will update information about the prevailing economic situation both before and after the implementation of the proposals and give due regard to the aspiration of the public and their affordability and adopt methods other than raising tax to support the infrastructural programmes.

Sir, in welcoming foreign investment, the Government has indicated in its statement that Hong Kong has adequate means to meet the expenses for the infrastructural programmes. I am sure that such an assurance will gain popular support.

Sir, with these remarks, I support the motion.

MR. MARTIN LEE: Sir, in looking at this year's Budget, the first Budget of the 1990s, we have to prepare ourselves for the fact that Hong Kong in this decade is unlikely to enjoy the spectacular double digit real economic growth that it enjoyed for several years in the eighties. Compounding the problem of lower growth is the high inflation rate that we experienced in 1989 and are projected to face in 1990.

Against such a background of lower growth and higher inflation, the Government is prepared to launch a very ambitious scheme for the development of the new airport. The Financial Secretary proposes that the best way to meet our future revenue demands is to increase the proportion of indirect taxes and decrease the share of direct taxes.

The Financial Secretary has not, however, made out a very persuasive case. Many of the reasons lying behind his decisions are not fully explained. Without detailed explanations and arguments supported by facts, a number of his choices in this Budget seem arbitrary. Though many of these choices may in fact be correct, the dearth of information means that one cannot fully understand the motivations behind these choices, nor does one have the opportunity to evaluate them.

As 1997 approaches, the Government needs to adapt to the changed realities in Hong Kong. It can no longer make decisions by fiat and expect the Members of this Council to accept passively whatever the Government decides upon. Rather, the Government must provide the necessary information to the public and encourage them and their representatives in this Council to have a healthy, and full-fledged debate on any major policy matter before coming to a final decision on it. The Government prides itself on its wide network of consultative bodies. But it is important to bear in mind that the proper time to consult is before the final decision is made, and not after.

In this connexion I point specifically to the Financial Secretary's decisions to increase indirect taxes and decrease direct taxes. No doubt his aim of broadening the tax base to provide for unexpected future economic events is a sound one. But increased indirect taxes will most likely lead to higher inflation, and will also make our tax system more regressive. Inflation for 1990 is forecast to be 8.5%, and thus one must question the wisdom of any increase in indirect taxes -- such as the 30% increase of the petrol tax -- that will lead to higher prices for almost everything from taxi fares to chocolate bars.

Sir, I am very disturbed by changes to the tax system that lessen the system's progressivity -- in other words, new taxes that fall just as heavily on those least able to pay as on those most able to do so. The lower and lower-middle income classes, which suffer most from high inflation, are also facing sharp increases in their housing rates and water charges. A typical family, for example, could well find themselves about \$200 a month poorer as a result of the higher transport, rates, and water charges. Over the course of a year, the additional burden of, say, \$2,400 would

exceed the total tax obligation of a married couple with two children with a household income of \$140,000 a year.

Forcing the less well-to-do among us to bear a disproportionate share of the new tax increases raises serious questions of social equity. Furthermore, if the public strongly feels that the system is inequitable, we run the risk of causing social instability. And in this connexion, we must not lose sight of the fact that those who find these new indirect taxes unbearable are likely to be those who are not expected to benefit from the nationality package contained in the British Nationality (Hong Kong) Bill 1990. We must therefore make every effort to assure the poor as well as the rich that the Budget is fair to everyone.

The Financial Secretary argues that raising direct taxes would "adversely affect investment decisions," yet he offers little evidence to support this assertion. Given that direct taxes in Hong Kong are among the lowest in the developed world and that they have been steadily reduced over the last few years, the Government needs to offer a better explanation as to why a top tax rate of 15% is necessary to attract investment. Moreover, the Financial Secretary owes the public an explanation as to why he thinks it is necessary to provide for a slight surplus in the Budget in spite of our economic difficulties and the ambitious new projects undertaken.

In deciding to increase indirect taxes, the Government must bear closely in mind the entirety of the situation faced by many lower and middle income families, who, according to government statistics, account for over 90% of Hong Kong's families. For while the Government is increasing indirect taxes, it is also planning a major privatization programme in health care.

The subject of privatization will be addressed at a later date by this Council, yet I would like to say now that, while no one would oppose the goals of decentralizing the health care system and making it more efficient, privatization must not be used or be seen to be used as a way to force people with lower income to assume much larger health care costs. The same rationale supplies with equal force to any privatization efforts in housing programmes.

Hence, the Government cannot simply look at each tax or rate increase separately. Rather, it must appreciate the cumulative effect of the raise in indirect taxes such as that on petrol, the increase in rates and water charges, and the much higher costs consumers may face under certain privatization schemes. Sir, no one is asking for

free lunches. Yet, we must ensure that those least fortunate among us are able to afford their lunch, are able to receive adequate health care, and are able to have decent housing.

There is a Chinese saying " ", "You cannot pull one hair without moving the entire body". In the present context, it means that you cannot expect to change one tax without affecting the whole tax system. I therefore urge the Government to undertake a comprehensive review of the entire tax system. That review should examine the philosophy behind the Government's revenue policies and whether that philosophy is being actually implemented through the current tax system. In particular, the review would examine the present tax band structure and the relationship between direct and indirect taxes; it would also seek to determine what are the optimum rates for the salaries and profits taxes.

In such a review, the question of the sales tax, now renamed wholesale tax, should also be studied as one of the many components of the tax system. For so far, only the opinions of selected professional bodies had been sought on this tax. This will not do; for what we need is a comprehensive review of the tax system during which opinions from all sectors of the community should be taken into account. I would strongly urge that the possibility of a tax allowance for mortgage interest be also examined in such a review, as it is very important to our "sandwiched" class. In addition, the review should determine how the extensive infrastructure programmes planned by the Government ought to be financed.

The subject of the infrastructure plans brings me to a different, but very important point: that is, the danger of not discussing the social or political aims of certain declared fiscal policies. The Financial Secretary explicitly states that the petrol tax is "not for transport reasons," that the tobacco tax is "not for health reasons," and that the infrastructure plan is "not for confidence building purposes."

Sir, with all due respect, methinks the honourable gentleman doth protest too much. It is not that I necessarily oppose measures to discourage smoking or vehicular traffic, and everyone in this Chamber knows my attitude on smoking, yet these measures ought to be debated on their own merits rather than being dressed up as purely fiscal measures.

Similarly, in our future discussions on the infrastructure plans, we must not hesitate to discuss in full the many different sides of the questions we will face,

be they political or fiscal. For example, the Government is prepared to spend \$127 billion on the new airport and the related programme of infrastructure development. But given the magnitude of such an expenditure, the Government needs to provide a much more detailed analysis of its plans in order to allow the community to appreciate the pros and cons of the scheme. Let it not be thought that I am against this highly ambitious project. But I insist that Members of this Council and the public are entitled to know more.

I now come to a topic about which the people of Hong Kong are increasingly concerned: the environment. As Hong Kong is now at the point in its economic development where the quality of life of our citizens ought to be as central a concern as our gross economic output, we need to take steps to protect our threatened environment.

As to this, I suggest the Government should give serious considerations to adopting the policy of three "P"s: polluters pay the price. Up to this point, industries have been free to produce without regard to the environmental consequences of their actions, and society has been left to pay a cost of cleaning up the environment. In economic terms, the costs of pollution have been externalities with which factories have not had to concern themselves in calculating whether a certain line of production would be profitable.

Making the polluters pay the price in effect will cause these externalities to become internalities. For all manufacturers will then have to take into account the environmental costs before deciding to produce particular types of products.

And finally, I must say a word about the Consumer Council of which I am the chairman, and I shall be extremely brief. If the Government wants us to do our work properly it must be prepared to pay adequately for it. After all, the Consumer Council represents the largest functional constituency in Hong Kong. No, Sir, I am not asking for additional seat to this Council but we do have everybody in Hong Kong as our client from a new born baby who consumes milk powder and diapers to a retired civil servant who reads newspapers about his dwindling pension.

Sir, Hong Kong owes much of its success to its system of free and fair competition, in which all have equal opportunities. While seeking to ensure that Hong Kong will continue to provide the right environment for the accumulation of wealth, we must take care that this will not be at the expense of the less well-to-do in our society.

For all should benefit from Hong Kong's growth and success; and our society must be as fair as it is free.

Sir, with these reservations, I support the Second Reading of the Bill.

MR. LI: Sir, the Budget presented to this Council last month tastes like something we have all been forced to swallow before. It is overly conservative and is flavoured with the myopia which has become the Financial Secretary's trademark.

Once again, we would rather send it back to the kitchen, than be forced to eat such bitter fare.

Hong Kong deserves better.

Hong Kong's three evils

The present state of our economy is of great concern. The territory is plagued by "three evils": inflation, slow growth and a lack of confidence.

These "three evils" form a vicious circle. Each "evil" feeds the next, creating a powerful, self-perpetuating chain reaction.

Because the chain has been forged by more than economic cycles and trends, it will not weaken with time. Its links will not snap or separate of their own accord.

The chain must be broken. Clear, decisive action must be taken to sever the links and to purge Hong Kong of these "three evils".

Sir, seven months ago, you offered Hong Kong a bold vision. Your plans of a new airport and new port facilities have given Hong Kong a unique challenge.

From a medium- to long-term perspective, your development programme is encouraging. It promises Hong Kong a strong future beyond 1997.

Unfortunately, the development programme does nothing to help the territory, here and now, with the "three evils" it is facing.

In your policy address, you said that we must prove to would-be emigrants and to investors that Hong Kong remains one of the best places in the world to live, work and invest.

It is therefore vital that our Government, in co-operation with this Council, develop a near-term, as well as a long-term, "Pro-Hong Kong, Pro-Business" policy.

### Overview of the 1990-91 Budget

The Budget presented the perfect opportunity to deliver the kind of message Hong Kong wants and needs. But does this Budget make any attempt to deal with the "three evils" currently affecting us? Does it point the way to a better, more comfortable, more prosperous future as promised in your policy address, Sir?

To both these questions, we must answer with a resounding "No".

I have called this Budget a "Housekeeping Budget". "For fiscal and not economic health reasons," the Finance Branch claims to have tidied up their own "room". They have tinkered here, fiddled there and produced a budget teetering slightly into the black.

But what about the rest of the "house"?

### Inflation

As far as inflation is concerned, the Financial Secretary has again swept this problem under the rug. We are supposed to be consoled by his prediction that when we look beneath the rug at the end of the year the mess will be less frightening.

This forecast, however, has received widespread criticism. Sceptics include my good friend, the chairman of the territory's largest bank.

A central flaw in the Financial Secretary's forecast is that he has not taken proper account of the inflationary impact of his own tax and spending initiatives. His plans will not cool the territory's inflationary fires. Alas, they will fuel them.

## Economic growth and confidence

This Budget also ignores the territory's economic growth and confidence problems.

Will any of the Financial Secretary's policies promote investment or economic growth in the territory? After the Budget, can anyone say that they feel happier, more content or more optimistic about the prospects of living, working and investing in Hong Kong?

Again, the answer is "No".

## The development programme

Not only does this Budget hit Hong Kong people and business where they are most vulnerable, it casts a dark shadow over what life in Hong Kong will be like before, during and after your development programme.

Apparently, Sir, your grand vision is the Financial Secretary's albatross.

## Government expenditure

The fact that the Budget virtually ignores the territory's "three evils" is -- to use the Financial Secretary's own terminology -- "a matter of concern".

If anything is "abundantly clear", it is that the Finance Branch is more concerned with the tidy balancing of its books, than with tackling Hong Kong's fundamental problems.

To add irony to this injury, the Budget fails to meet even the Finance Branch's own standard of "tidiness".

In his Budget speech, the Financial Secretary preached on the importance of keeping public expenditure growth in line with the territory's GDP growth. However, he then granted himself a special dispensation, absolving his 1990 Budget from the need to follow these guidelines.

This is indeed a dangerous precedent. What excuses will he serve up next year?



The wholesale sales tax

Perhaps the Budget's only saving grace is that our bowl of congee has been spared -- at least for the moment -- from the Financial Secretary's proposed wholesale sales tax.

The 1990-91 Budget and the financial community

As representative of the Financial Constituency, I have received numerous individual and collective submissions regarding the Budget.

The verdict is clear: We in the financial community are most disappointed by this pessimistic, "do nothing, go nowhere" Budget.

In his speech, the Financial Secretary singled out our industry for its continued confidence in Hong Kong. We would like to thank him for his kind acknowledgment. But we would also like to issue a warning to other industries.

If you are singled out for exemplary conduct: Beware. The apparent reward for having confidence in Hong Kong is higher taxes.

Sir, Hong Kong does not appreciate the Financial Secretary's negative attitude, nor his lack of vision.

We in the financial sector do not appreciate the swingeing increases in bank and deposit-taking company licence and registration fees. But we can live with it.

What we cannot live with is a budget which fails to address Hong Kong's needs.

Wanted: A "Pro-Hong Kong, Pro-Business" Budget

What Hong Kong needs is a "Pro-Hong Kong, Pro-Business" Budget -- a Budget which would break the chain restraining Hong Kong's growth; a Budget which would banish the "three evils" and map a clear path towards greater prosperity and stability.

While fretting over a deficit -- which some analysts query -- the Financial Secretary has squandered an ideal opportunity to put in place policies which would

accomplish these goals.

Sir, permit me to outline a series of policy initiatives which deserve Government's careful and immediate consideration -- initiatives which would comprise the foundation of the type of Budget Hong Kong both wants and needs.

These measures would seek to reverse the current trend towards "Big Government", increase Hong Kong's competitiveness and ease the pressure in the local labour market. As such, they comprise a three-pronged attack against the territory's "three evils".

#### Stemming government growth

Historically, Government's policy of "positive non-interventionism" has played a key role in Hong Kong's economic development and success.

Yet, Government appears to be straying from its "hands-off" approach to business: The public sector is growing; "quangos" (quasi non-governmental organizations) are multiplying; and regulation is on the rise.

The steady growth in public-sector recurrent expenditure must be stopped. Government now has more posts than it knows what to do with, and yet it is asking for more ... and more ... and more.

With the fiscal and financial demands of the proposed development programme on the horizon, it is absolutely vital that we introduce "zero-based budgeting" within Government.

Each year, government departments must be forced to justify every dollar they ask for. Under the current system, the very least department heads can expect is what they received the previous year, regardless of performance or productivity.

Such a system encourages waste. It penalizes the departments which spend less than they are allotted and rewards those which drain Government's coffers.

By contrast, "zero-based budgeting" encourages saving and efficiency. It is the most effective way to check government growth.

"For fiscal and economic health reasons," Government should also take steps to reverse the trend towards "quangos".

The Kowloon-Canton Railway Corporation, of which I am a director, and the Mass Transit Railway Corporation should be privatized. Services currently provided by "quangos" and services such as water distribution should likewise be handed over to private-sector operators.

In so doing, Government will realize its investment from one generation of infrastructure development for use in the next -- with the added benefit of encouraging more private-sector involvement.

In addition to spending less and realizing previous investments, Government should put the money it does spend to more productive use.

As far as automation and computerization are concerned, Government should practise what it preaches.

Government must place a far higher priority on computerizing its operation. It must develop a computer policy which is clear and organized in its objectives, strategy and implementation.

Measures must be taken to improve the productivity and compatibility of existing systems, and to expand networking -- and hence communication -- both within and across government departments.

Accelerating the pace of computerization within Government may initially entail some higher costs. But it will save billions of dollars in the medium to long term.

Enhancing Hong Kong's competitiveness as a financial centre

Efforts to cut government spending and increase government productivity must be matched by efforts to enhance the competitiveness of Hong Kong industry.

Labour and productivity-related initiatives, which I will come to later, will go a long way towards achieving this goal. But, in the financial industry in particular, what is needed is less government interference and more market freedom. It is not a case of creating incentives, but rather one of removing disincentives.

In his speech, the Financial Secretary briefly discussed the proposals to grant

tax concessions to venture capital investments and to abolish the stamp duty on share transfers.

But here, he employed classic bureaucratic "double-speak": He condemned the proposals on one hand and then promised to investigate them further on the other.

These proposals merit Government's prompt approval. They would encourage greater local investment and would help stem the flight of corporate capital -- without unduly hindering Government's ability to raise revenue.

Immediate action is also required to remove the tax anomaly which is driving corporate investors away from the local capital market.

Under current tax policy, corporate gains from Hong Kong-dollar capital-market instruments are subject to profits tax. However, gains from foreign-currency capital-market instruments are not. It would almost seem that Hong Kong's policy is to promote capital flight.

Certainly, this tax anomaly severely weakens the attractiveness and competitiveness of Hong Kong-dollar capital-market instruments. It is promoting an exodus of capital and is threatening Hong Kong's position as a global financial centre.

This disincentive must be removed forthwith. It is one of many examples of how Government is betraying its own stated policy of "positive non-interventionism" -- to the detriment of both the business and the people of Hong Kong.

Enhancing Hong Kong's competitiveness as a manufacturing, trade and business centre

Public-sector and financial reform must be complemented by measures to ease the territory's tight labour market.

Hong Kong's regional and global competitiveness is being eroded by cost-push inflation, primarily from spiralling wages.

The current tightness in the labour market is largely the product of the previous economic boom, which saw the growth of labour demand outstrip the growth of supply.

As a potential long-term solution, increasing the number of places in Hong Kong's

tertiary institutions is fine. But Government must place an equally high priority on vocational and professional training, as well as worker re-training.

Such measures would provide the quickest and most effective remedy to the territory's shortage of skilled technicians and middle managers.

The importation of labour on a closely-monitored, project-by-project, non-competitive basis would also ease local pressures. Such a policy would primarily aid the construction and manufacturing sectors, which have seen much of their workforce migrate to the service sector.

Now is the time to put in place and test the framework of the "exceptional arrangements" both you, Sir, and the Financial Secretary have mentioned. Yes, this is a politically-charged issue. But the longer we wait, the more dangerous and more de-stabilizing such action could prove to be.

Efforts to expand the supply of labour must be complemented by efforts to promote the more efficient use of labour.

Tax incentives should be provided for companies to invest in automation, CAD/CAM and other labour-saving machinery. Higher depreciation allowances would enable Hong Kong companies to keep pace with rapidly changing technology and so keep their competitive edge.

We must also do more to help stem the "brain drain". Lower inflation and a more vibrant economy might convince more people to stay. But the people of Hong Kong, particularly the middle class, need something more tangible.

As a means of enhancing Hong Kong's attractiveness as a place to live and as a means of creating a greater sense of belonging and commitment among the people of Hong Kong, Government should provide mortgage-interest tax relief for owner-occupied residences.

Government must also work with the private sector and with industry associations to improve Hong Kong's retirement schemes. It should encourage more companies to establish such programmes.

Where necessary, regulations governing these schemes should be restructured to

enable companies to be more generous in helping their employees plan for the future.

## Conclusion

To ignore the fact that fiscal policy has very real economic and social implications is to ignore reality.

"For fiscal and economic and social health reasons," I would strongly urge the Government to add these initiatives to its fiscal "menu".

These measures would comprise the kind of "Pro-Hong Kong, Pro-Business" blueprint the territory needs. They would combat the "three evils" which would give the economy a sense of direction and would promise continued growth and prosperity -- two things which are known to please the Hong Kong palate.

And -- to put icing on the cake -- all these measures could be implemented and these goals achieved without pushing the Government's Budget into the red.

Hong Kong is starving for a Budget of substance -- a budget with some meat to it. Instead, we have been served another miserly helping of budgetary gruel.

All the ingredients for a five-star Budget are at Government's disposal. All that is lacking is the foresight and the will to use them.

With these remarks, Sir, I will abstain from voting.

MR. NGAI (in Cantonese): Sir, it has been made very clear at the outset of the Budget this year that the Government remains determined to go ahead with the programmes of long-term development for Hong Kong, and it is heartening that the Government is able to react in time and indicate to us a clear direction of our development when the economy is on a temporary slowdown.

In response to the ambitious long-term objectives laid down by you in your policy speech last year, the Financial Secretary has now come up with a number of appropriate fiscal measures in the Budget. I welcome some of the specific measures such as control over public sector expenditure and review of the taxation system which are indeed crucial to the management and rectification of our public finances. Apart

from this, it is imperative that our major infrastructural projects into the next century should be carried out in an orderly and gradual manner in accordance with the priorities which have been set in meeting the needs of our society, so that our public finances may not be over-saddled should there be any difficulties in financing the projects. I think the Government should take note of this point.

According to the Medium Range Forecast on Consolidated Cash Flow shown at Appendix A of the Budget, we have to face a growing deficit from the beginning of the next financial year. As a matter of fact, there will be a deficit of \$2.37 billion for the Budget this financial year before the revenue measures are taken into account. Such a trend is a clear revelation of some important changes in the strategy for public finances in the future. It has even clearly highlighted a worrisome departure from our traditional financial policy in that we no longer plan our expenditure on the basis of our income. As the Financial Secretary put it in para. 57 of his Budget speech last year, "there is a need for essential infrastructural development, and this may require us to accept levels of expenditure which from time to time take us outside our guidelines". The revised estimates on expenditure for the last financial year have indeed confirmed the predictions of the Financial Secretary. Now we are in the same position again. It appears that a deficit budget will inevitably become a trend in our pattern of public expenditure in the future. The negative and undesirable consequences brought about by the above changes in our financial strategy will pass onto the general public, leaving them with heavier financial burdens and lower standard of living. Government expenditure is always in excess of the budgeted amount. It may be the result of inaccurate estimation or ineffective control over expenditure or both of the case. Whatever may the reason be, it is unacceptable to the public. The Government should look for positive improvements.

Sir, in this year's Budget, expenditure for the various services under the General Revenue Account is estimated to be more than \$9.11 billion, which is about \$7.36 billion above the revised estimates of last year. It includes \$8.3 billion for additional commitments to cover items of expenditure which cannot be foreseen or for which we do not have firm estimates. As a matter of fact, additional commitments have already taken up 12.7% of the expenditure of the General Revenue Account, a proportion which is quite substantial. Should the Financial Secretary's forecast in para. 60 of his Budget speech come true, that is, supplementary appropriation will have to be made for additional commitments, we shall have to accept a level of expenditure which is again above the present estimates. And this is really a cause of concern.

Sir, the Financial Secretary has frankly pointed out in para. 49 of his Budget speech that the level of recurrent expenditure in the Government and the expansion of the public sector have reached a state that causes our concern. The situation fails to improve notably even though the establishment achieved nil growth last year. According to the report of the Establishment Sub-committee of the Financial Committee, the revised estimates on expenditure on personal emoluments of the public sector excluding the financially autonomous departments such as the Housing Department, the Urban Services Department and the Regional Services Department, amounted to more than \$18.9 billion last year, exceeding the original estimates by 12.1% and the same for 1988-89 by 18.8%. Looking ahead, the Financial Secretary told us in para. 50 of his speech that "..... new commitments will require more posts". Estimates on expenditures in respect of emoluments of the Civil Service will therefore be increased to a substantial sum of over \$20.2 billion.

Sir, stringent control over growth of the public sector has already become a foremost task for us. From 1992 onwards, we shall have to finance the huge capital expenditure of various infrastructural programmes and the deployment of our resources will definitely be affected. We therefore have to plan ahead and slow down the drastic growth of recurrent expenditure in the public sector, so that expenditure incurred by the Civil Service may not take up an increasing share of our resources. In this respect, it is the right course of action for the Government to decide on cutting down expenditure of the Civil Service, containing the growth of staff establishment and promoting the productivity and efficiency of the Civil Service, and so on.

Sir, it is understandable that the Financial Secretary has decided to raise revenue by way of higher indirect taxes in order to maintain fiscal reserves at a certain level and to achieve a small amount of overall surplus in the Budget. However, at a time when the prospect of our economy is uncertain and under the restraint of a narrow tax base, continual increases in indirect taxation seems to be just an expedient measure to meet the high level of expenditure.

It is budgeted to raise additional revenue from indirect taxation by \$2.9 billion for this fiscal year. Of the above amount about \$1.3 billion will come from rates on property which is a more stable source of revenue. The Financial Secretary attaches great importance to the stability of the revenue sources and is concerned about the likely development that the revenue from direct taxation may only amount



to a small percentage of the total tax revenue. This worry is understandable. However, rates on property and petrol duty are two important items closely related to the livelihood of the general public. To make them major targets of the revenue proposals, each getting a hefty rise of 25% and 30% respectively, will lay a heavier burden onto the general public all of a sudden. The additional revenue derived from increases on these two revenue items only amounts to about \$1.88 billion, representing a minimal proportion of about 9% of the estimated expenditure on personal emoluments for the Civil Service this year as contained in the report of the Establishment Sub-committee of the Finance Committee. As for the various tax concessions proposed by the Financial Secretary, those who belong to the lower income group and are outside the tax net are not benefitted in the least. Instead, tax increases on various revenue items will readily lead to soaring prices and high pressure of inflation on the public at large. The spiral increase in the operational cost for various trades will generate a spate of increases which will in turn be passed onto the consumers. As a result, people from the grassroots level, especially the lower income group will be hardest hit and they will feel aggrieved.

Sir, it is wise of the Financial Secretary not to impose the sales tax. After all, our taxation system and its operation require a thorough review. Although there is a need to extend the tax net, a comprehensive study has to be conducted to establish fair and effective taxation guidelines and to secure a creative environment in favour of our future economic prosperity.

I shall now turn to industrial investment. Sir, in para. 13 of the Budget speech, the Financial Secretary has pointed out that investment in our manufacturing sector declined by nearly 10% last year. However, it is disappointing that no specific measure has been drawn up to provide incentives towards investment in the manufacturing sector. As a matter of fact, the initial allowance for capital expenditure on machinery and plant was increased from 55% to 60% in the last Budget. Yet this measure has not been effective in promoting investment, and such development warrants our concern. Undoubtedly, such meagre concession will not suffice to attract domestic and foreign investments.

Sir, most of the industrial investors in Hong Kong are working arduously and quietly to make contribution to the community. Though confronted with problems of environmental protection and labour shortage, the industrial sector has exercised self-restraint in the overall interests of society. The drastic increase on rates and petrol duty in this financial year will bring about soaring increase in operation

costs and transport expenses. This will mean a great distress to our industrial sector, particularly the textile, dyeing and finishing trades which will have to face a spiral of increasing costs. It may even drive some small factories out of business. Despite all these difficulties, the industrial sector has kept up with their tolerance, giving due regard to the overall interest of society. Members of the industrial sector have made every effort to accommodate themselves to the changing circumstances. Actually, they have always been keen to commit themselves to the future of Hong Kong as a member of the community and to contribute towards the well-being of society.

It is, however, regrettable that the Government gives little encouragement towards industrial investment. Nor is it enthusiastic in promoting entrepreneurship. It is unjustifiable for the Financial Secretary to reject the proposal of granting tax concession to venture capital investments simply on the ground that the legislation concerned would be too complicated. For investment in new industrial technology, there has not been any consideration on providing some sort of incentives such as certain tax concessions to start-up programmes. Moreover, I cannot agree to what the Financial Secretary mentioned in para. 83 of his speech that in examining tax concessions to venture capital investments, he has to take into account the likely significant benefits accruing to the economy. Sir, entrepreneurship is the intangible assets contributing to the success of Hong Kong. We should not assess the long-term potential of such intangible assets in terms of some transient material benefits. Indeed, if the enterprising spirit and the zeal to make venture capital investments are to be dwarfed for some reason or other, what economic benefits can we reap from our huge infrastructural programmes and manpower investments? Sir, the success in the transformation of our industries hinges upon the soundness of an overall economic policy and an industrial development strategy. The Government should address this problem seriously.

Sir, all in all, I appreciate that it would be impossible to draw up an all perfect Budget to please everyone. As indicated by the colour of the cover of this printed version of the Budget, the Government will give green light to the proposed public sector expenditure though at the same time putting it under control. As a member of the industrial sector, I am disappointed that the Financial Secretary fails to offer any specific proposals to induce further industrial investments. Nevertheless, it is commendable that the Financial Secretary has presented to us a Budget with clear and definite development guidelines. After all, it has demonstrated the Government's commitment to forge ahead for the future development of Hong Kong to which I should be happy to render my support.

Sir, with these remarks, I support the motion.

MR. LAU WONG-FAT (in Cantonese): Sir, in the press interview on the day before the publication of his Budget, the Financial Secretary promoted his Budget for 1990-91 and described it as a good Budget. Public reactions to the Budget after its presentation, however, suggested that the Financial Secretary has, to a certain extent, indulged himself in "self-admiration".

The Budget for this fiscal year is characterized by a substantial increase in government spending. As it is expected that the Government will sustain its rolling investment in the massive infrastructural projects for the future in many years to come, it is believed that the growth rate of public spending will remain high throughout the 1990s. Under such circumstances, it is absolutely necessary to look for additional sources of revenue. In deciding on what revenue measures to take, the Government should, however, consider carefully their compliance with the principle of fairness and the affordability of the general public.

The approach taken by the Financial Secretary to raise public revenue has been described by some as unimaginative. It seems that such remarks are not at all groundless. The most criticized area of the Budget lies in its proposal to increase indirect taxes by a wide margin. It is, undoubtedly, an understandable fact that the Financial Secretary finds it hard to forget his objective of raising the proportion of indirect taxation and broadening the tax base. Yet, the level of increase and the items he has chosen for higher taxes leave much to be desired. For example, the sharp increase of fuel tax and rates by 30% and 25% respectively is bound to trigger off a series of chain reactions when the burden of tax increase is passed onto the general public. The vicious spiral of consumer prices thus resulting will have a catalytic effect on inflation.

In my daily contacts, I have come across no few residents who have poured out their grievances to me, accusing in particular the Government of paying no regard to the hardship of the people and adopting an almost ruthless tax policy in revising water charges substantially and raising rates soon after proposing a sizable increase in indirect taxation. While their views may be somewhat bitter, they plainly reflect the widespread dissatisfaction of the general public.

In his Budget speech, the Financial Secretary explicitly pointed out his intention to bring about a relative shift of revenue yield from direct to indirect taxation. He also claimed in the same speech that his Budget was purposely shaped to set the scene for the achievement of the long-term objective of Hong Kong's major infrastructural programmes. By these remarks, he meant to deliver an underlying message that the Government would be inclined to place more reliance on the yield of indirect taxation to fund its massive infrastructural projects in the years ahead. If that is the case, in view of the heavy capital involvement in the new airport and port projects, drastic revision of Hong Kong's indirect taxation will inevitably become an on-going exercise for some years in the future.

Sir, such a development is extremely worrying. Increasing indirect taxation excessively will have the effect of pushing up consumer prices and inflationary rate. This effect is particularly obvious when the tax increase is not restricted to luxury items alone. It will turn Hong Kong into a city of high living cost, which can never hope to restore its good reputation of a shopping paradise. This, coupled with a slow-down in the growth rate of the economy, will have much bearing on lowering the average living standard of the whole population. It is apparently the hope of the Financial Secretary to use this strategy as a substitute for the temporarily shelved sales tax. Nevertheless, such a strategy is no less damaging than the other in widening the gap between the haves and the have-nots. With the imminent transfer of sovereignty, the community in Hong Kong will be exposed to great challenges and be deeply beset with various problems such as confidence crisis, brain drain and outflow of capital. The prevailing sense of insecurity may very easily give rise to social conflicts. This is a destabilizing factor which calls for serious consideration. All enlightened emperors in ancient China would ease the tax burden of his subjects by adopting a low taxation policy at time of national difficulties to make way for resilience. Under the present situation in Hong Kong, the Administration should refrain from raising charges and taxes so as to avoid deepening the uneasy feeling of the general public. We should learn a lesson from the disturbance caused by the newly imposed poll tax in Britain and should not take the issue lightly.

I strongly support the proposed new airport and port development projects and the implementation of other large-scale infrastructural programmes. These facilities are of paramount importance to the long-term development in Hong Kong. With regard to the funding, our eyes should be set on various possible means and efforts should be made to open up new revenue sources. While the private sector can

be relied on to implement and operate some of these projects, there are suggestions that the Government should seek to obtain the necessary capital by way of securing loans and issuing bonds in order to avoid over-reliance on tax revenue as a means to finance the infrastructural projects. It is also my view that the Government should take full advantage of the available land resources arising from the new airport project in Lantau Island by developing that part of the territory into a major activity ground for our tourist industry. This includes opening up scenic spots and setting up entertainment business. It will not only bring in an attractive amount of annual returns for the Government but also help stimulate further development of Hong Kong's tourist industry. I think all these are feasible and practical measures and hope that the Administration will agree to give them careful consideration.

The Budget indicates that the proportion of Consolidated Public Sector expenditure to the GDP will continue to increase in the next few years. This is an alarming phenomenon. In the period of the Medium Range Forecast up to 1993-94, real growth in Consolidated Public Sector expenditure will average about 6.6% a year, which is higher than the growth rate assumption for the GDP of 5.5% a year. This is a worrying trend. I hope that such unhealthy development will turn out to be only a temporary trend. The Financial Secretary should review the situation and undertake to revert to the strategy of keeping the growth rate of public sector expenditure at a level not exceeding the growth of the economy as soon as possible.

After experiencing rapid growth for several years, the economy in Hong Kong is now slowing down. Given such economic prospects and our future commitment to an ambitious programme of infrastructural developments, we will have to make extra efforts to ensure better use of our limited resources. At present, the Civil Service accounts for some 60% of recurrent expenditure. If the recently proposed substantial increases in civil service pay are taken into account, its proportion will be even higher. Hence, the control of public sector expenditure and the control of the size of the Civil Service are inseparable issues. The control of civil service growth should be regarded as a long-term objective, otherwise, the hefty spending on an overstaffed Civil Service will turn out to be a heavy millstone around the neck of the future government.

While recognizing that the growth rate of the Civil Service is far too high, the Financial Secretary, on the other hand, allows a 2.5% growth of the civil service establishment in 1990-91. This is indeed an issue worthy of special concern. Is it absolutely necessary to allow this growth? The Government has conducted a special

exercise to review staff establishments and to control growth in the size of the service. It should be congratulated for its success in achieving zero growth last year. However, such actions should not be taken as a short-term expedient measure. I believe there is a need to conduct an indepth and comprehensive review of the structure and establishment of the Civil Service, which should, apart from examining the relationship between manpower and service, aim at improving administrative efficiency by way of streamlining the administrative procedures or through internal reorganization. The recent spate of industrial actions on the part of civil servants for better pay and conditions have not only lowered the quality of service, but also caused widespread instability in the community. How to placate the civil servants and keep their minds on their work during the transitional period is indeed a prickling problem which needs to be looked at squarely. Pay increase is not a panacea and should not be abused. Regarding this, there is really a need for government officials to make a thorough study with a view to working out a comprehensive strategy. The performance of the Civil Service has a great bearing on Hong Kong's stability and prosperity. It is the hope of the general public at this critical time that the civil servants will display a greater sense of mission in tiding over the prevailing difficulties with the rest of the population in this period. They must realize that no one can escape unscathed in a great disaster.

Sir, Hong Kong is still beset with the Vietnamese boat people problem. We are all disappointed at learning that the mandatory repatriation scheme has to be shelved. The Secretary for Security recently disclosed that the Government has spent over \$1 billion on the boat people last year. The UNHCR is still in arrears with its payment of over \$100 million. Further spending on the boat people this year is expected to amount to another \$1 billion, of which \$130 million will be borne by Britain. The UNHCR has agreed to pay \$300 million but its affordability is very much in doubt. Hong Kong has already spent a large amount of money on the boat people. It is unreasonable that this small territory should continue to bear such a heavy financial burden. In all fairness, the UNHCR should not be blamed. No matter how the case is judged, it is evident that those affluent countries in the west are obliged to share the costs of keeping the boat people in Hong Kong. In particular, Britain, being the sovereign state of Hong Kong, should have no excuse to shirk its responsibility. To protect the interests of Hong Kong people, I think the Government should allocate funds only after the international community has undertaken to reimburse the costs.

All in all, I think the overall spirit of this year's Budget is centred around

the term "increase". There will be increases in tax, in the size of the Civil Service and in public expenditure. These will lead to a series of price increases in various sectors which in the end will add weight to the financial burden of the middle and lower income groups. It is proposed in the Budget to increase bets tax which should be absorbed entirely by the Jockey Club without causing any reduction in the size of the prize money pool. In other words, the Government intends to draw some \$340 million from the funds originally intended for social welfare purpose as additional revenue which may not necessarily be used on social welfare. If this is the case, this will be an indirect way of reducing spending on social welfare facilities for the people. This vicious spiral of prices will make life even more difficult for the middle and lower income groups. The gap between the rich and the poor will become even wider. I hope that the Government will take into account the overall situation of people's livelihood and exercise more caution when making decisions in future.

Sir, with these remarks, I support the motion.

MR. EDWARD HO: The 12 months since the last annual Budget was debated in the Council have been particularly eventful, even for Hong Kong. A few weeks after that debate, there was the demonstration of the Chinese students at Tiananmen Square and what happened on June 4 is history.

That event meant that China would suffer a major setback in its economic reform and indeed in its economy. Because of Hong Kong's reactions, China also unfortunately hardened its attitudes towards Hong Kong, producing a repercussion in Hong Kong whose effect is yet to be calculated. Then there was the historical dismantling of most of the authoritarian states in Eastern Europe, culminating in the tearing down of the Berlin Wall.

The year also saw the promulgation of the Basic Law of the Hong Kong Special Administrative Region, after a final period of consultation when China viewed Hong Kong and Britain with the greatest mistrust, and that feeling was probably mutual. And although the Basic Law contained a good number of improvements over the previous draft, and a substantial number of provisions which only can be interpreted favourably, as many clauses reflected the spirit of the Sino-British Joint Declaration, it is probably an understatement to say that it was not greeted with any degree of warmth in Hong Kong. Indeed, many now doubt whether the provisions of the finely-worded Joint Declaration will be honoured. Only history can verify whether the doubters

were misguided or wrong. Unfortunately for Hong Kong, many do not wish to stay and find out. Many others only wished to stay if there was for them an insurance policy: a second passport.

Thus, although Hong Kong's economy is, as always, influenced to a large extent by the world economy and its major markets, our domestic problem, that of a lack of confidence in the future, will be the major challenge for Hong Kong's economy in the next few years.

This insecurity of mind is manifested in many ways. It is slowly draining away our only and major asset: our people and our talents. It is also the cause of the many agitations from our workforce. Many people are now concerned also that the traditional industriousness and work ethics of our people will give way to a demand for the quickest personal gain. On another front, the development of increased democratization in Hong Kong, recognized as essential and inevitable by the people of Hong Kong, will also bring about a period of fermentation when economic and social issues will be increasingly politicized.

These are the facts and the reality, and it is important that they are fairly and squarely recognized.

As we step into the 1990s, approaching in time the mid-way point between the signing of the Sino-British Joint Declaration and the fateful date when the sovereignty over Hong Kong will be reverted back to China, the testing stone will be our economical development in the next few years, and how our economy will be planned in the face of the on-going challenges, both externally and domestically.

In reading the Financial Secretary's speech on the 1990-91 Budget, the right sentiments are all there: a firmer control of public sector expenditure and the need to maintain the discipline that, over the years, the growth rate of public sector expenditure should not exceed the growth of the economy. The Financial Secretary also stressed the importance of value for money and increasing productivity in the public sector.

He expressed the similar sentiments in the last Annual Budget, and that was when there was a very sizeable surplus in the Budget. Now that the economy has begun to slow down, and in the face of the magnitude of expenditure on major infrastructural projects in the years to come, and of increased provision of public services to satisfy



the growing demand of the community, it is urgent and imperative that these sentiments: tighter control of public expenditure and the budget, and so on should be turned into action.

This year's total Consolidated Public Sector Expenditure is estimated to be 24% higher than last year, which indicates, in effect, a growth in real terms of 9.4%, and exceeds the expected growth of only 3% in the economy in 1990. Moreover, in the Medium Range Forecast, the annual real growth in Consolidated Public Sector Expenditure, estimated at 6.6%, will continue to be above the assumed trend GDP growth rate of 5.5%. This already runs contrary to the Financial Secretary's professed dictum that the growth rate of public expenditure should not exceed the growth of the economy.

Protests and industrial actions over pay and benefits from some sectors of the Civil Service have caught a lot of attention from members of the public. I shall not comment on the justification of these actions but they highlighted the urgency of the need to have some very fundamental overhaul of the government machineries.

I have also commented on the Civil Service in last year's Budget debate, and I shall not repeat them, but I do want to renew my call for further privatization of public services. In saying this, I know I have totally opposite view to my colleague, Miss Maria TAM, but I am glad that my other colleague, Mr. David LI, shares my views. When we talk of the trimming of the Civil Service, there is no better incentive to improve productivities than to perform to competition and market forces. At a time when the Government and the public, because of politicization, find themselves increasingly at two polarities, the public should be given the role to provide for some of the public services. It is highly unsatisfactory if we were to have democracy without responsibilities.

There should be a progressive move to transfer Government-run service departments to public corporations; and when the moment is ripe, shares of these corporations should be sold to the public, and preference can be given to the management and the workforce of the corporations. There is no reason why, for instance, that a profitable corporation such as the Kowloon-Canton Railway Corporation cannot be sold to the public.

With privatization of important public services, one must of course be conscious of the welfare of the consumers. It is therefore important as far as possible to avoid the creation of monopolies. Where a monopoly or a substantial monopoly occurs,

its activities will have to be regulated. We note that members of the public are demanding more and more regulations over the public utilities companies. The problem is that, on the one hand, the public will never be entirely satisfied and, on the other hand, over-regulation will stifle the commercial instinctiveness and efficiency of the industry.

The ultimate solution should be to provide a maximum freedom of choice and competition, together with judicious controls. In the matter of control, the objective is certainly to avoid high prices and high profits at the expense of the consumers; but where efficient running of such services is vital to the community, a fair return has to be guaranteed to the investors to encourage the firm to increase output, maintain quality leads and continue to undertake desirable investment. Current schemes of controls adopted by Government over the public utilities companies are based upon a form of profit control sometimes known as rate of return regulation (ROR). The schemes are working fairly well but the disadvantages of this type of control are that it reduces the incentive to cut costs, and may encourage over-capitalization. And since pricing takes into account costs, and many costs are difficult to be attributed, this type of control is also open to politicization.

Another method of control which has been adopted elsewhere and may merit study is, instead of profit control, a form of price control: increase in prices is tied to the retail price index (RPI) minus a figure X designed to reflect changes in the technology of the industry. This formula, the RPI -- X formula, is simple and avoids the cost-plus effect. Indeed, it encourages efficiencies as profits are directly controlled. This method is however not without its disadvantages either, the danger being that the formula may lead either to high profits or to deteriorating services.

Thus there is not a single perfect formula and the best safeguard to the consumers would still be free choice and competition.

Within the megalith that is the Civil Service, I am still looking for Government's implementation of some of the proposals put forward in the pamphlet on Public Sector Reforms, in particular the establishment of the "trading fund accounting system".

In addition to private ownership of public corporations, private home ownership should be the main thrust of our housing policy. I am keenly aware of the unfulfilled need of adequate public rental housing for the lower income group. This need will indeed persist for some years to come if we take into consideration the continuous influx of legal immigrants from China of 25 000 a year. But it is because of this

unfulfilled need that I feel it is important that public rental housing should be reserved for those who are really in need, and that sitting tenants and those on the waiting list who can afford to own their own homes should be encouraged to do so. This can only be achieved if housing at affordable prices can be provided. Thus, I look forward to the outcome of the study currently undertaken by the Housing Authority into the feasibility of selling rental flats to tenants.

Lastly, to come to the thorny question of the problem of inflation, I would say that it is disliked by all sectors of the community. But, the same people who are urging for more stringent control on inflation, objecting to the increased generation of public revenues in the form of duties and rates, and to all sorts of price increases, are most likely the same ones who are asking for higher wages, and increased public services. Those who are in business appreciate where the problem lies: it is above all the upward spiralling wages and salaries caused by shortage of manpower at all grades. And for those who work in the private sector, they certainly do not consider that they are enjoying a better deal than their counterparts in the public sector, in terms of compensations, benefits and security.

I have said in the beginning that many of the problems that we are facing were due to a lack of confidence in the future. It is therefore of paramount importance for the continuing stability and prosperity of Hong Kong that all those who have the means to influence the fate of Hong Kong, the Chinese Government, the British Government and the Hong Kong Government, should find ways to inject more confidence into the minds of the Hong Kong people. The British nationality package is one such injection. The successful implementation of the airport and port infrastructural projects is another even bigger injection, and I certainly hope that China endorses these worthwhile projects which will benefit Hong Kong when it has become a Special Administrative Region of China.

With these remarks, Sir, I support the motion.

4.40 pm

HIS EXCELLENCY THE PRESIDENT: Members might like to have a short break at this point.

5.08 pm

HIS EXCELLENCY THE PRESIDENT: Council will now resume. I think we have enough

Members.

MR. ARCULLI: Sir, before I start, I did not realize what I am about to say had this effect on Members.

This year's Budget speech from the Honourable Financial Secretary did not contain the normal upbeat message that Hong Kong is going full steam ahead. For myself there were signals sprinkled here and there that Hong Kong may well have to face some difficulties. It would seem that the days of double-digit economic growth, tax cuts and budget surpluses may well be a thing of the past at least in the foreseeable future.

Last April I remarked that our Financial Secretary must be the envy of many. To a limited extent this may still be true to-day however with some of the remarks he made and I quote:

(i) "...we should assess our prospects realistically and tailor our thinking to what is possible";

(ii) when talking about major infrastructural projects he said: "...it seems unlikely that we will be able to fund from the existing revenue resources all of the expenditure without drawing on our reserves to a dangerous extent";

(iii) "...the next few years are unlikely to be as fiscally comfortable" and

(iv) "...But we can no longer take surpluses for granted".

I wonder whether the Honourable Financial Secretary has joined the ranks of us mere mortals.

Sir, against these remarks the draft estimates show that the ratios between expenditure and growth are clearly unhealthy. The Honourable Financial Secretary sets out four reasons why we can deviate from our budgetary guidelines. Whilst these reasons may be persuasive I confess I do not find them wholly convincing.

Sir, I would like now to turn to the new port and airport development and articulate some of the concerns that I have. Firstly, the Financial Secretary has warned us that some of the costs may be higher than originally estimated. Whilst there is little room for ambiguity here I cannot say the same for his remarks and I quote

"our strategy will have to be sufficiently flexible to take into account the particular economic and financial climate at the time the different projects commence." Perhaps the Honourable Financial Secretary would be good enough to tell us what he means. Secondly, in a project of this size and complexity, time is indeed money. In this respect I agree with the Honourable Financial Secretary's remarks that we can look to past examples. What we must not assume though is that the private sector would necessarily share this view. It may be that the risks perceived by the business community on a project of this type and within the contemplated timeframe are somewhat higher due to a variety of reasons, not the least of which is the cost factor, and for higher risk they would, quite understandably, want a higher return. The Senior Member the Honourable Allen LEE has asked questions which deserve answers.

Sir, according to the airport railway strategic network which is being used for evaluation of patronage on railways associated with the new airport, there is a potential KCRC railway from Tai Wai to Kwai Chung which could serve the container port thus providing a freight service directly from the container port waterfront to and from China. A passenger service between Sha Tin and Kwai Fong could easily operate on the same tracks between freight trains. I understand that a similar proposal has been evaluated several times over the last decade but on each occasion it was turned down as "not viable" because the container traffic to and from China does not justify this rail link. I would suggest that many hold the contrary view and if such facility to transport containers to and from China were provided today, Hong Kong and Chinese business would make use of it tomorrow. Indeed, a not insubstantial benefit may be to release valuable land now being used for container storage and packing and so on as well as getting rid of a pollution problem.

Sir, to ensure that Hong Kong remains successful in future, the infrastructural projects you outlined in your policy address are clearly important. In order to achieve these objectives I believe members of the public would not mind tightening up their belts when necessary, provided they know that this burden is shared by the entire community equitably. Any unpopular and unfair revenue proposals and unreasonable increase in government expenditure would not be welcomed and may affect social stability, thus possibly jeopardizing our economic prospects.

Sir, I now turn to the item concerning \$8.21 billion for additional commitments. This represents about 12.7% of this fiscal year's estimated expenditure on the General Revenue Account, compared to \$3.8 billion in 1988-89 and \$3.95 billion in 1989-90.

The Honourable Financial Secretary's speech provides us with no details of this provision apart from saying that it, inter alia, includes taking a view of the cost of setting up the Hospital Authority. The Secretary for the Treasury told members of the Finance Committee on March 29 that this item did not include an amount for this establishment. Perhaps the Honourable Financial Secretary could let us know and put us out of our misery.

Although the Treasury Secretary did mention pay and pension increases as possible items, he stressed repeatedly that this amount was a contingency figure which the Government did not regard as specifically for anything. He went further by saying that he would have to guess what items of expenditure might come up. He even used the word "guesstimate" which means "an estimate based on intuition". What makes our position more difficult is that the Standing Orders do not empower Members to require the responsible controlling officer to produce detailed breakdowns of specific items of the Budget. Are we therefore to do an overkill by blocking the passage of the entire Appropriation Bill because of the lack of clarity around this item of \$8.21 billion?

Sir, I believe the \$3.9 billion additional recurrent expenditure on personal emolument approved by the Finance Committee last June was drawn from this subhead for which \$3.95 billion was already budgeted. This year unbudgeted items include civil service pay rises which are estimated to cost taxpayers \$5 billion for a 15% across-the-board increment; the \$1 billion initial cost for setting up the Hospital Authority; the yet-to-be worked out financial implications of separating the Radio Television Hong Kong from the Administration and the implementation of further recommendations of the Salary Structure Review Committee of the Standing Commission on Civil Service Salaries and Conditions of Service. Sir, I believe the Government should inform us of its plan for this money and whether it will be enough to cover all the unexpected items otherwise the Treasury Secretary may have to resort to his intuition on how he should spend it.

Sir, I would like to say a few words on the revenue side. A casual study of past Budgets will show that the mix of revenue proposals differs each year, suggesting that the Government does not always have a consistent policy on how to raise revenue. Some government charges are revised almost on a yearly basis whereas many have not been adjusted for years. A good example is the exemption levels of the business registration fee. Today a business, upon application, is exempt from the \$900 fee if its average monthly sales do not exceed \$5,000 or if its average monthly receipts

for rendering services is less than \$1,500. Since 1974 these ceilings were \$1,500 and \$450 respectively and remained effective until last month. To revise all government fees and charges regularly, say, once every two years, according to inflation levels will not only provide the Treasury with a stable and steady income flow but also save payers from unexpected and unpredictable high levels of increases.

The Honourable Financial Secretary is right that rates are one of the more stable sources of revenue because they are levied according to the rateable value of properties and all families, be they owners or tenants, are subject to this charge. This very feature of stability, however, means that any substantial increase in rates would bring about an additional burden on all but particularly those in the middle and lower income brackets. The Government might argue that increasing rates level from 6 to 7.5% is by no means unreasonable, but the revision of all rateable values with effect from 1991-92 means further increases next year. The Financial Secretary has already stressed in the Budget speech that next year's revision is a completely separate exercise and is not of itself designed to increase rates revenue. I wonder how many ratepayers would unhesitatingly accept this proposition? My bet is that rates will only go up as a result of the exercise simply because reducing rates after updating the rateable values of properties, which have been on the rise for years, is unheard of in Hong Kong. In fact the Honourable Financial Secretary clearly says that any substantial rise in rates consequent upon the revision will be looked at in the light of the revenue needs of the Government and the two municipal councils which, in my opinion, is in itself an advance warning of considerable upward adjustments. This is especially so when the Government is trying to adjust the direct-indirect taxes balances, and to explore resources to finance the infrastructural projects.

May I take this opportunity, Sir, to suggest to the Honourable Financial Secretary that when he looks at the percentage charges next year he might consider a sliding scale so as, in his words and I quote: "to ensure that the burden of the charge is equitably spread between different classes of ratepayers."

In case there is doubt, I mean a higher percentage for properties with a higher rateable value and I trust that, whatever the system, we should look at whether there are and, if so, what lessons to be learnt from the community charge or poll tax in the United Kingdom.

Sir, in Hong Kong car lovers, property buyers and owners, smokers, racegoers and

wine gourmets pump hundreds of millions of dollars into public coffers each year. Unfortunately, Sir, despite all my other virtues I find myself caught in more than one of these activities within this group of additional revenue contributors. I also hasten to add that as it was arranged by the Council's Division for me to be away just before the Budget I did not indulge in insider dealing on pre-Budget rumours. To ensure that the tax burden is equitably spread and to help the Honourable Financial Secretary towards a wider and more stable tax base I would suggest we look at our pleasure boat owners, who for decades have been using and perhaps polluting our waters at a meagre cost and to ask them to make a meaningful contribution. The existing licence fee is \$200 for the smaller vessels or up to \$4,800 for 26-metre-long ones, plus a \$100 per head levy for an additional passenger from the fifteenth onwards. Although they are also required to pay \$200 for every change of ownership, another \$200 for a duplicate boat licence and \$97 for leaving and entering Hong Kong waters, all these fees taken together amount to very little money in return for the pleasure and prestige of owning a yacht. I cannot imagine what the Honourable Secretary for Transport would say if I were to suggest that the annual licence fee for a 26-metre-long car be \$4,800. Therefore, Sir, from next year on I would like to see my yacht-owning friends worry as I do annually about the additional damages caused by the Financial Secretary.

Sir, with these remarks, I support the motion.

MR. MICHAEL CHENG (in Cantonese): Sir, in his Budget speech this year, the Financial Secretary has proposed to broaden the tax base to reduce the adverse effects on our revenue and expenditure as a result of economic fluctuation, as well as to stabilize the Government's revenue. He has also stressed the "proper use of resources" and to cut the government expenditure in order to pave way for the implementation of "major infrastructural projects and other development programmes".

However, the sharp increase in indirect taxes such as rates and fuel tax is hard hitting the low and middle income groups. As for the use and allocation of resources, there is still room for improvement. Re-export trade which has contributed significantly to our economic development in recent years will also suffer a decline in growth this year. None the less the Budget has not made any specific remedial proposals in this respect.

Hence, I would like to take this opportunity to analyse these issues and make my comments and proposals.



## Taxation

Direct taxes which include salaries tax and profits tax are vulnerable to economic fluctuations. It is therefore difficult to generate a stable revenue if we rely too much on direct taxes. This year, the Financial Secretary proposes concessions to certain direct taxes, thus reducing the percentage of total tax revenue derived from direct taxes from 65% to 62%.

The Budget does not propose any increase to direct taxes. I support this for two obvious advantages. Firstly, in view that there will not be any increase in profits tax, we shall be in a better position to compete with our foreign counterparts and attract more foreign investment. Hong Kong's leading position among the "four small dragons in Asia" is now being challenged. Singapore has surpassed Hong Kong to emerge as the second largest foreign exchange centre in the Asia-Pacific region. The decision not to increase profits tax has enabled Hong Kong to maintain her outstanding position in this keen competition, and merge in line with the world trend of lowering the rate of direct taxes. Secondly, as our salaries tax and profits tax are relatively low as compared with countries like the United States, Canada and Australia, people who are considering emigration to these countries, after assessing the pros and cons, will probably choose to remain in Hong Kong in view of the high tax rate of these countries. A considerable number of talents therefore can be retained if salaries tax and profits tax remain low. It is a judicious decision for the Financial Secretary not to increase direct taxes this year. However, in order to raise additional revenue, the Financial Secretary has decided to propose sharp increases on indirect taxes, viz, fuel tax and rates on property. This is indeed unwise. Such increases will inevitably exacerbate the financial burden of the general public and intensify inflationary pressure. Its impact on the middle and low income groups will be particularly great. A slow-down in our economic growth is expected in the light of a slackening world economy this year. Under such circumstances, we should exercise more prudence in the formulation of our Budget and revenue measures, lest we should jeopardize the livelihood of people and bring about social crises.

The Financial Secretary once remarked that in drawing up taxation measures, he would adhere to the principle of gradual development so as not to put too much strain on the community. However, the levy on rates is raised from 6% to 7.5% this year, representing an increase of 25% in real terms, and fuel tax is also raised by 30%.

Such drastic increases can never be described as gradual. It appears that these two indirect taxes will only bring about a direct effect by escalating our housing cost and transport expenses, but in fact, as a result of chain reactions, expenses on food and clothing will also be affected to a large extent.

Increase in rates will inevitably send up rental charges. Take for instance the public housing estates. The monthly rent for each unit will be increased by \$20 after the level of rates is adjusted. In the private sector, monthly rentals for a small housing unit will also be raised by about \$40. The livelihood of the general public will be directly affected. Moreover, as rateable values will be reassessed next year, which may again lead to a higher level of adjustment in rates, tenants and owners are bound to suffer in the face of the immense pressure. The sandwiched class and the low income group, in particular, will be put under extra strain. I, therefore, suggest that in drawing up the next Budget, the levy on rates should be lowered; and after the reassessment of rateable values, the overall increase should not exceed 10%. In order to help more people of the middle income group to have access to home ownership, I reiterate hereby my suggestion made in the last Budget debate that people who acquire their first flats for self occupation by mortgage should be given partial or full tax concessions for their mortgage repayments. As for the sale of public housing flats to sitting tenants, prices should be fixed with regard to the affordability of the tenants and low interest loans should also be provided. It is hoped that the authorities concerned will come up with definite decisions as soon as possible to enable the lower and middle income groups to live and work in content.

With a 30% increase on fuel tax, the costs of transportation will naturally rise. This tax burden will eventually be shifted to the general public.

As our labour market is still under heavy strain, wages and in turn production costs are bound to spiral, and our competitiveness will consequently be further weakened. To alleviate the inflationary pressure and to avoid a spate of undesirable chain effects which will create pressure on people's livelihood, I think it is advisable not to increase the fuel tax by more than 10%; otherwise the middle and low income groups will suffer.

The Government proposes that the proportion of revenue yield from direct taxation be gradually adjusted from 65% to a lower level on a yearly basis, and that the shift be eventually balanced by revenue from indirect tax, which is by nature less vulnerable to economic changes. Though it is a reasonable and healthy trend of

development, the Government ought to formulate a more comprehensive and long-term strategy for this proposal so that it will not have to introduce drastic increases on indirect taxes or make essential commodity items targets of taxation.

#### Infrastructural projects

The ambitious infrastructural programme estimated to cost \$127 billion is initiated by the Government on the one hand to cope with the demand of our future development and on the other hand to provide considerable business and employment opportunities in Hong Kong during this decade. The entire package, though important as it may be, has to be reinforced by sound financial management in order to succeed. In the light of the prevalent slow-down in economic growth, the infrastructural programme should not be implemented in too great a hurry. Consideration should be given to our affordability, that is, the projects should be launched within our limits.

The Government intends to bear 40% to 60% of the costs of the infrastructural projects while the private sectors will be invited to shoulder the rest. Should there be funding difficulties in future and should there be the need for the Government to absorb extra shares in addition to the 40% to 60% of budgeted costs, will the Government shift the financial burden to the taxpayers and let the public pay for the infrastructural projects? Or alternatively, will the Government drain its tens of billions of reserves which are in fact savings of a number of years? I urge the Government to address these problems squarely and adhere closely to the principle of "cutting one's coat according to one's cloth" in financial management. Matters in relation to public expenditure should be handled with prudence, especially in the hard times of slackening economy during which our resources must be used with restraint. I suggest that the whole package should be implemented in phases in line with our development. The container terminal project may be deferred. As for the airport, a runway may be open before 1997 while other development projects may be carried out later on as the need arises.

#### Public expenditure

The estimates for the total government expenditure and the Consolidated Public Sector expenditure this year exceed those of the previous year by 29%; at the same time, the Consolidated Public Sector expenditure for the current year is estimated to grow at a rate exceeding the growth of our economy and account for about 19% of the gross domestic product. We are concerned about this unhealthy development. To

control public expenditure, it is really necessary to reverse the climbing rate of growth in the Civil Service. Recently, there have been a review on the civil service establishment and an exercise to control its expansion, but the posts subsequently deleted are those that have not been filled for quite some time. It simply shows that an overall and in-depth review of the civil service structure has all along been lacking. The Government, therefore, is in dire need of strengthening control over the expansion of the civil service establishment and identifying the obsolete and redundant areas of the existing services in a bid to reduce expenditure. The Financial Secretary has stressed the importance of value for money when he talks about higher efficiency and productivity at each level of the Civil Service. I cannot agree more. To achieve this objective, it is imperative for the Government to streamline its procedures in work, reduce tedious clerical routines of its staff and abandon bureaucratic practices. Resources will be better utilized if these long-standing undesirable practices can be removed at an early date.

#### Re-export trade

In the recent years, re-export trade in Hong Kong has grown tremendously. As a proportion of total exports, it has surpassed domestic exports for two consecutive years to take up its share of 61% in the export trade. China provides the main incentive for the re-export trade of Hong Kong. The value of Chinese products re-exported from Hong Kong to the United States amounted to US\$8 billion last year. The Sino-American trade has not only benefitted the two countries concerned, but also Hong Kong as well. The recent proposal of the US Congress to revoke the most favoured nation status granted to China, if passed, will definitely be a severe blow to the re-export trade of Hong Kong. It is estimated that Hong Kong will lose \$39 billion to \$70 billion in its import and re-export contracts, and the loss will have grave impacts on our economy. A catastrophic chain effect will also be brought upon our monetary, shipping, insurance, legal services, and so on. I hope that the Government will try its best to lobby the United States under the foremost consideration of protecting our economic development and guard against any serious impairment to our social and economic stability.

Our trade with China has undergone a remarkable expansion ever since 1979. The total value of the transactions now reaches \$200 billion as compared with less than \$17 billion at that time. It has stimulated the growth of our economy and brought about much opportunity for development. For the past 10 years, our economic link with the south China coast has developed considerably. It seems appropriate that the Government should encourage the commercial and industrial sectors to foster a

closer economic connection with China on the basis of such developments. Should such economic connections be extended to other parts of China, it will promote our mutual benefits and enhance the outstanding position of Hong Kong in world economy.

## Education

Though there is a 14% increase for the estimated expenditure on pre-primary education this year, the allocation is only \$920 million in real terms, representing a meagre 1% of the total estimated expenditure on education. It vividly reveals that the Government has not attached much importance to pre-primary education. As an educationist, I insist on balanced developments in the provision of education services. We should not lay undue emphasis on tertiary education and be anxious about its expansion while taking the foundation level of our education system lightly. About 97% of the children in the appropriate age group are attending kindergarten. The Government should no longer entertain the thought that "pre-primary education is not essential", but commit itself to making provision for pre-primary education. I hereby urge the Government to provide extensive subsidy for kindergarten education as soon as possible.

The second report of the Education Commission proposed that additional subsidy for kindergartens should be in the region of \$60 million in 1990. But the Government only allocated \$11 million as a subsidy to assist the parents in paying the school fees. This slippage is very disappointing. The recently announced Kindergarten Fee Remission Scheme rules out assistance to those whose family income exceeds \$4,300 a month. The eligibility criterion is out of line with the general household income. The majority of the parents will not be able to benefit from the assistance scheme, making it an empty promise. I think that the eligibility criterion should be relaxed and the provision increased so as to extend the scheme to more families. The allocation for the Kindergarten Fee Remission Scheme which is meant to provide assistance to the parents should be increased from the proposed \$11 million to \$0.1 billion.

As to how we can secure additional allocation for this head, I would like to point out that our resources have not been suitably deployed in some areas. For example, the adult education programmes are similar to the programmes organized by the Urban Council or some voluntary agencies in providing cultural and recreational activities. Such over-lapping of services wastes public money. The Government needs only to make an internal adjustment to cut back unnecessary expenditures and divert expenditures

on over-lapping and unnecessary programmes to the scheme. More people who are in need will be benefitted as a result.

Sir, with these remarks, I support the motion.

MRS. FONG: Sir, I was disappointed by the Budget which the Honourable Financial Secretary presented for 1990-91. The inability to contain public expenditures and the lack of a clear perspective for Hong Kong's fiscal policies caused me concern. The clutching for bits of money here and there to cover increased costs can work for one year but it is not a long-term option.

Hong Kong needs a clear fiscal policy. We must have long-term plans and we must have a plan to finance those ever increasing public expenditures that are essential for the well-being of Hong Kong. In this regard, I am not even considering the financing of the new airport which I believe should be considered separately. The new airport requirements cannot come from the General Revenue Account. They must be covered by a completely separate package. The new airport will be built over a period of a few years, and the benefit from its use will extend 20, 30, or even 40 years into the future. There is no way that such a long-term asset can, or should, be financed from current earnings. As with a business, the cost must be spread over the period of its estimated economic use, say, over a 20, or even 30 year period.

Hong Kong has been suffering from significant inflation. While reports are that the rate is declining, many of the underlying causes still exist. An increase in indirect taxation would inevitably add to inflation. On the other hand, an increase in direct taxation could scare off investors. The difficulty then lies in determining the overall tax policy for Hong Kong. A low taxation system would be ideal. But how low? A wider tax net would be preferred. And how wide? In the coming years, the Government must establish a long-term fiscal policy to avoid the unsettling prospect of impending change.

It would be imprudent of me to make any far-reaching proposals as to what can be done. However, it is my belief that the vital and foremost responsibility of this Government must be to conduct a comprehensive review of the fiscal policies and to develop a long lasting financial and tax structure, while at the same time taking steps to contain public expenditures. It is in the area of containment of expenditure that I am focusing my proposals today. They are:

First, a move to contain or reduce the size of the Civil Service would certainly be a move in the right direction. Civil servants should be paid well, but the establishment must be kept slim. There is no point in comparing civil servants' salaries with those of the private sector unless we also compare other aspects of the employment, such as the required degrees of commitment, dedication, drive, initiative, efficiency and diligence, risks and insecurity.

Secondly, a serious examination should be undertaken of the various areas of government operations, to see which could be privatized. I suggest, for example, the overall efficiency of certain sections in the Registrar General's Department could be improved. I could see a major potential for improvement if that area could be totally privatized.

Thirdly, a critical review should be made of administrative procedures to cut down the number of files and the steps involved in processing applications of any nature. A major portion of civil service workload involves the movement of files. If you listen to a conversation among civil servants, you will hear remarks like "I handled so many files today", or "in a day", or "I have finally cleared my in-tray of all the outstanding files." I think there should be a serious in-depth administrative review of what is in these files, what needs to be in them, what needs to be done with them, or even if there is a need for them. With the vast increase in the function and memory of computers one could even ask if some of the functions that are still necessary could not be taken over by computers.

Fourthly, a continuous series of value for money studies should be undertaken to cover, over a period, all areas of the Government. Results of the studies in certain pilot areas should be made known to those responsible for other segments, so that they could consider the applicability of the recommendations to their own areas of influence.

Fifthly, the standard of living of the people of Hong Kong has improved immensely over the last 20 years. It thus must now be appropriate to review the need for Government to subsidize public entertainment and cultural events. I am not saying that the subsidies should be eliminated. I do however believe it is healthy to re-evaluate the need for them periodically and that now -- when we are facing major needs for other activities -- would be a good time to do this.

In conclusion, I believe that the Financial Secretary must take some major decisions to get our fiscal policies in line with the current and future financing needs of Hong Kong. Furthermore, he must take serious steps to contain public expenditures. Neither of these areas are likely to gain him popular support if they are taken in isolation. However, they are essential for the well-being of Hong Kong. If the measures taken assist in reducing our level of inflation, while bringing about consistency in the taxation of individuals and businesses, he will have rendered us an invaluable service and will gain the respect of the entire population.

Sir, with these remarks, I support the motion.

MR. LAU WAH SUM (in Cantonese): Sir, with the promulgation of the Basic Law, Hong Kong now enters the transitional period to 1997, and we must therefore exert our utmost efforts in maintaining the stability and prosperity of Hong Kong. The multi-billion dollar investment in our physical infrastructure which we will soon embark on is the most direct and effective way to restore the confidence for our people to stay in Hong Kong, solve the problem of brain drain and will also create the favourable environment to attract international investments in the territory.

Given the importance of the port and airport development and the Metroplan for the continued prosperity of Hong Kong, we must be prepared to make some sacrifices now to overcome many obstacles in the coming years in order to ensure that these projects can be completed on time and within budget. Since these projects will bring benefits to the future generation, they too should make some commitments. The financing of these huge projects will inevitably resort to borrowings from both the international and local markets. While our present financial position is healthy, may I suggest that we enter the financial markets now in order to establish our credit-worthiness in the market and thus pave the way for substantial future borrowings. Funds raised from borrowings can be kept in the Capital Investment Fund earmarked for these infrastructural projects.

Among the many obstacles to overcome in this infrastructural programme, we must focus our attention on production capacity and inflation. Sir, though slightly mitigated by the slowdown of our economy, the continuing shortage of labour supply is still a genuine cause of our concern. The local education system has improved continually and the general education standard has gone up. In consequence, the present shortage of semi- and unskilled labour will, I believe, persist and this



will continue to affect our economic development.

In late 1988, I urged the Administration at this Council to study the possibility of devising a controlled scheme for importing short-term labour from across the border. With the improvement of the transportation links at the border, I believe that this can be done by entering into contracts with labour supply companies in the People's Republic of China (PRC) to provide workers for daily commuting to Hong Kong to take up jobs in pre-specified places. This measure will also help to solve the problem of illegal immigrant workers. We have effectively introduced the Filipino maids scheme to overcome the shortage of domestic servants. I am sure our efficient Civil Service will also be able to work out a feasible controlled scheme to accommodate the daily importation of labour from the PRC. I therefore urge again that a task force involving some non-government Members of this Council be appointed as soon as possible to look into the feasibility of this proposal. When this controlled scheme is worked out, Government should also consider using it to tap the source of idle labour in our Vietnamese refugee camps. I must stress that here I refer to refugees who will eventually be accepted by foreign countries but not boat people to whom the mandatory repatriation scheme should continue to apply.

I fully support the policy of increasing tertiary education and vocational training places as a long-term answer for the supply of technical and managerial manpower. Over the next few years, our fresh graduates should be able to gain the managerial skill and fill the vacuum resulting from the emigration of professionals and technicians. In the short run, I urge the Administration to simplify our immigration rules and procedures to facilitate expatriates to fill posts required by the private sector. Sir, I believe these measures will help to ensure a sufficient supply of manpower for our future infrastructural projects. This will also lessen the pressure of uninterrupted demand for wage increases. My proposals will likely be objected to by some sectors of the labour community. However, I hope they will realize that persistent labour shortage can trigger off uninterrupted demands for wage increases which will cause production costs to rise and inflation to worsen. This will affect the investment climate, reduce job openings and lower purchasing power. In the end, it is the labour groups that suffer. I therefore appeal here to the labour community to make sacrifice for both their own interests and the future prosperity of Hong Kong.

Sir, I am also concerned about the drop in the overall growth of capital formation from 6% in 1988 to only 1% last year. This decline in the volume of real investment

in the territory could have been attributed to the outflow of capital to our competitors in the Pacific rim. I therefore applaud the proposed revision of annual rebuilding allowance from 0.75% to 2%. This will certainly encourage expansion in the production capacity in our industry. This alone is not sufficient. The favourable gap of Hong Kong's profits tax rate as compared with other Southeast Asian countries is now getting smaller, and has even disappeared in some cases. More should therefore be done to retain Hong Kong as an attractive place for capital investments. Following the example of other developing countries, I propose Hong Kong should also introduce tax holidays to exempt innovative industries, which would otherwise be established in our competing countries, from the payment of profits tax for the first one or two years of operation.

Sir, I now turn to comment on the obstacle of inflation against this infrastructural programme. Lately, the high inflation rate in Hong Kong has been largely domestically generated. Uncontrolled rise in the rate of inflation might result in considerable cost overrun on projects and might even make them unfinanciable. The Financial Secretary has unfortunately failed to address this issue properly in the proposed Budget. Public spending now represents 18.8% of gross domestic product (GDP) against Government's stipulated guideline of only 16%.

Of the recurrent public expenditure, civil service salaries account for 60%. Appropriate control is essential. In my opinion, to retain experienced people in Government by recourse to only pay rise is an imperfect approach. There must be a limit to it or else an uninterrupted demand for salary increases will ensue. I must point out that, in a full employment situation like Hong Kong, salary increase is justified only if it can be matched by productivity enhancement. Otherwise it will become an element of cost-push inflation. If it is comparable with the trend in the private sector, I have no objection to a two-digit pay rise for the civil servants for this year. However, one must not forget that there are many job-related allowances, for example acting allowances, and other generous conditions of service such as annual leave entitlement and accumulation in the Civil Service which are far better than in the private sector. To achieve higher productivity in the existing Civil Service, I urge Government to consider reducing annual leave entitlements and accumulations such that any total salary increase (which includes the general salary revision and the restructuring of salary scales) in excess of the rate of anticipated inflation and economic growth can be fully offset. I believe these are the most effective and relatively acceptable measures to increase the total working hours and therefore enhance productivity. This is so because many faithful and hard-working

civil servants cannot fully enjoy their entitled leave because of high workload. Furthermore, this will reduce the number of leave relief posts.

One other wasteful feature of the civil service structure is the existence of numerous ranks within grades and the overcomplicated structural hierarchy. For example, ranks like Deputy, Senior Assistant, Assistant, Principal, Chief, Senior and so on, giving unnecessary layers of authority. This inflates the salaries and job-related allowances, and reduces efficiency, thereby causing delays in making decisions. Sir, I believe it is time for us to have a serious and careful review of the civil service conditions of service and the undesirable structural hierarchy of government departments. An elimination of unnecessary layers of authority, together with the reduction in leave relief posts mentioned earlier, should reduce the head counts of the whole service. Only by taking this action can we expect to restore public spending to the 16% GDP guideline. Earlier on I have already appealed to the labour community to make their sacrifices. I now make the same appeal to our civil servants, while preserving the fine tradition of being an efficient team, to give up a little bit of their long enjoyed welfare and contribute together towards the future of Hong Kong.

Sir, I am concerned about the impact of inflationary pressure which has been brought by the proposed revenue measures in the Budget. The proposed increase in property rates affects rental levels in commercial premises and thus costs and prices of products. The rise in petrol duty pushes up costs in public transport and generates immediate cry for fare increases. Instead of proposing large increases on property rates and fuel tax, I would suggest for consideration by the Honourable Financial Secretary increasing bets tax by 2%, to be shared equally between punters and the Royal Hong Kong Jockey Club, and cigarette duty from the proposed 25% to 100%. An increase in cigarette duty is in line with Government's anti-smoking drive. These measures should avoid substantial increases in fuel tax and property rates, and consequently cut down on the rate of inflation while enabling Government to balance the books.

Sir, our stability, economic growth and prosperity can be maintained only if we can complete our infrastructural programme on time and within budget. To achieve this objective, it is the responsibility of everybody to make their sacrifices now in order to overcome the threat from inflation and help materialize our ideal, thereby making Hong Kong a still better place to live in.

Sir, with these remarks, I support the motion.

6.00 pm

HIS EXCELLENCY THE PRESIDENT: It is now almost six o'clock and under Standing Order 8(2) Council should now adjourn.

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

Question proposed, put and agreed to.

MISS LEUNG (in Cantonese): Sir, as described by the Financial Secretary at the very beginning of his 1990-91 Budget speech on 7 March, over the past 12 months rapid and dramatic changes on the international scene far beyond our anticipation presented themselves before our bewildered eyes. As an open economic system, Hong Kong could not be immune from the wide-ranging effects of these changes and the impact has turned out to be worse than we expected. In the next few years, Hong Kong's economy will still be largely affected by economic and political developments in the world and in the region. Moreover, many uncertainties are looming ahead.

Nevertheless, the Financial Secretary explicitly and categorically stated in his speech that: "The Administration remains determined to undertake the vital programmes of infrastructural and other projects which the Governor described in his policy address to this Council last October." He further stressed that: "We have set ourselves ambitious long-term objectives and this Budget sets the scene for their ultimate achievement."

Basically, I commend the various infrastructural projects outlined in the policy address 1989-90. The Governor stated in the conclusion of his address, "They are a major investment for our future prosperity." Viewed in this light, our future public finance strategies and arrangements should aim to give full effect to these projects. I am pleased to give my support to the Financial Secretary's Budget which takes the lead in helping to accomplish the ambitious plan.

Sir, after the release of the Budget, many members of the public have expressed their strong resentment against the hefty increase of indirect taxation proposed by

the Financial Secretary, and some of them even suggested to Members of this Council to vote down the Budget.

Several of my colleagues and I have received some petitioners and reflected their views to the authorities concerned. I believe the Government will study and consider their views and those of other sectors.

Sir, in addition to the proposed large increase of indirect taxation, another eye-catching and, indeed, expected feature of the Budget is the huge increase of public sector expenditure. The Financial Secretary reiterated that he would not change his public sector expenditure strategy, stressing that public sector expenditure should not exceed economic growth. As I mentioned in the 1989-90 Budget debate on 26 April last year, the stability and continuity of public expenditure growth would enable general public services to be expanded and developed under a strict monitoring system. However, the significant massive infrastructural projects which involve large public expenditure are all urgent investments either at present or in the future. Given that, the Financial Secretary, as was also the case last year, maintains that the adoption of unconventional standards in assessing public expenditure is at times acceptable. I pointed out last year in my speech that this was understandable.

Sir, I have commented on the development of infrastructural projects for the territory in this Council as well as in other forums. To quote what I said in last year's Budget debate: "..... for the sake of sustaining our economic growth in the 1990s so as to place Hong Kong in a better position to face the challenges of the next century, I think substantial improvements to the existing infrastructural facilities and implementation of adequate new infrastructural projects of large scale are the correct approach that should be adopted without delay. I believe if we embark upon the various essential infrastructural programmes, it will not only provide a better foundation for our future economic growth, but also be of great political value."

It is obvious that infrastructural projects like the construction of a new airport and new generation port facilities play an important role in fostering future economic development between Hong Kong and China. In case these projects were not implemented, the economic cost would be too high. During a luncheon on 17 April, the Governor pointed out that should the new airport be abandoned, Hong Kong would lose about \$100 billion in the next two decades.

Regarding the funding of the new airport and other infrastructural development projects, the Financial Secretary in presenting his Budget said he still could not provide all the details. He only reiterated the necessity of private sector participation. All along, I am of the view that we should maximize the use of private funds in carrying out large-scale infrastructural projects. During the past six months, the Governor, the Chief Secretary, the Financial Secretary and other senior officials had been abroad many times, actively promoting the new airport and related development projects in the hope that international consortia will be attracted to participate in this grand venture.

We earnestly hope the Chinese Government will really understand the importance of these large-scale infrastructural development projects, which are going to stretch well into the next century, to the future economic development of both China and Hong Kong. We also hope China will realize that its attitude can affect the success or otherwise of these projects. Therefore, if only the Chinese Government gives active support to these development projects, be it in substance, spirit or both, we believe they will certainly gain ready and extensive support from private enterprises overseas, thereby reducing the pressure on our public finance. If so, the success of these projects will surely be within sight.

Sir, the high rate of increase in our future public expenditure, particularly the recurrent expenditure, indicated in the Medium Range Forecast 1989-90 to 1993-94 is indeed worrying. It is little wonder that the Financial Secretary also considers that stricter control over public expenses, recurrent expenses in particular, is absolutely necessary. Consequently, a reasonable reduction in expenditure which is in line with the principle of greater value for money should be a significant public finance strategy of the Administration nowadays.

Sir, recurrent expenditure is usually much greater in amount than non-recurrent expenditure. The former is estimated to be nearly twice the latter, to take the expenditure forecast for the financial year 1990-91 as an example. The percentage share of civil service emoluments in the recurrent account is also great, even reaching the level of 60%. It is therefore logical that the Financial Secretary, when controlling public expenditure, should have in mind this item to zero in on. The Financial Secretary has stressed that the lowering of staff establishment level and control of civil service growth will continue to be the measures to keep down expenditure. Obviously, this approach is necessary.

Instead of indefinitely increasing the number and pay of civil servants, what really needs to be done is to effectively enhance the performance and efficiency of the Civil Service. On civil service emoluments, the criteria for formulating benchmark levels are rather unconvincing. Civil service pay adjustment is based mainly on the pay trend of the private sector which serves as an indicator. Basically, the pay in question generally refers to the salaries some major and reputable private firms offer to their employees; the level of which is much higher than that other ordinary private firms are going to give. The annual pay rise is therefore steeper in the public sector than the private sector in general. Moreover, civil servants enjoy far better salaries, fringe benefits and greater job security than their counterparts in the private sector. In times of an economic downturn, only employees of private companies will suffer pay-cuts or even lay-offs; civil servants will have nothing to worry about. For this reason, I am of the view that the difference in perks and salaries between employees of the two sectors which I mentioned earlier should be given serious consideration in determining civil service pay adjustments.

Sir, regarding public finance strategy, the Financial Secretary has stressed that we should widen our revenue base and lessen the impact of economic fluctuations on the base. He did not, however, propose the introduction of sales tax which he advocated last year. In presenting his Budget, the Financial Secretary maintained that the rate of direct taxation would, as far as possible, be kept at a relatively low level while indirect tax would be raised substantially to increase revenue.

Sir, the Financial Secretary has proposed in this year's Budget substantial rise in indirect tax. Of the tax items, two had been rather unexpected. The effect of these will be far-reaching. One is the duty on petrol and diesel oil. The rate of increase is going to be 30%. The other concerns rates on property; the rate will rise from 6% to 7.5%. As we all know, the steep rise in petrol and diesel oil duty will affect commodity price which may trigger inflationary pressure on our economy. The increase is indeed too much on the high side.

The substantial increase in rates is even more unexpected. The proposal can be said to be all too sudden. As the Government has announced that all rateable values will only be revised in the financial year of 1991-92, the public will be caught unprepared. They expected a rates increase only in the next financial year. In addition, the rate of increase is indeed rather high. The Financial Secretary has pointed out that rates vis-a-vis rents have fallen considerably in recent years. But

rentals and flats prices have, within these years, risen drastically. Residents of private housing therefore have already experienced sharp rise in expenses on accommodation. The present increase in rates will, without doubt, further aggravate the already heavy burden of the ordinary people who have been smarting from exorbitant rents and high mortgage payments. May I therefore urge the Government to look squarely at this problem.

Rents have increased considerably since the last revaluation exercise. The same will certainly recur after the revision of rateable values of domestic properties. We hope the Government will, in devising the structure of the rates levy for the financial year 1990-91, take the possible impact on the public as a foremost factor for consideration. The criterion the Financial Secretary mentioned in his Budget that rates would be looked at in the light of the revenue needs of the Government and the Urban and Regional Councils should not be adopted. Speaking of the two councils, may I urge the Government to take the initiative to ensure that they serve the public well and their operation will not incur a waste of public money.

Sir, with these remarks, I support the motion.

MR. MCGREGOR: Sir, as a disowned but unrepentant politician, I must say that any political views expressed in this speech whether left or right, dead or alive, may not represent the views of my constituency. On the other hand, Sir, they may.

I never met a businessman, drunk or sober, and I have known many of each, who had anything good to say about taxation. I hope, therefore, that the Financial Secretary will be pleased to hear that my constituency, possibly representing the largest corporate slice of his tax revenue in this or any other year has almost nothing to say about his budget proposals. Whether the reticence is due to a sense of shock, most businessmen being drinkers, smokers or drivers or whether the Chamber thinks it should leave well alone, is not clear to me. I rather think the latter mood prevails. In any event I must thank the Financial Secretary for dealing constructively with the many points and proposals forwarded to him from time to time by the highly experienced Taxation Committee of the General Chamber. Even when he says no, he tries to do it constructively, which is not very easy.

Without giving away any secrets free of charge, I can say that the Financial Secretary's decision not to take the idea of a wholesale tax much further for the



time being has averted what would have been an interesting division of opinion in business thinking. Tax experts seem almost unanimous that the wholesale tax is equitable, workable and inevitable whilst those who would face payment of the tax seem equally determined that it is unwieldy, inefficient and unnecessary. The Financial Secretary has at least postponed further debate on this rather contentious issue. In doing so, he is clearly following the traditional policy of not interfering with successful systems and not making changes unless they are really necessary. I think most people in Hong Kong, however, realize very well that in the years ahead the enormous cost of new infrastructure will need new means of paying for the public sector costs involved, no matter how successfully the private sector can be encouraged to participate. It is a daunting task and will need imaginative and innovative thinking and a great deal of co-operation between the Government and the private sector in finding the answers.

I make the point in passing that much will depend on China and the Chinese Government's willingness to recognize that the huge private sector investment involved in our infrastructural development during the decade of the 1990s will need an appropriately high level of business confidence. This can only be secured in a friendly and co-operative environment. This in turn will need detailed exchange of information and views between Hong Kong and China to see how best infrastructural development should proceed especially given the fact that much of it is directly related to trading and tourism activities between Hong Kong and China.

It is not clear for example to what extent China was consulted, rather than advised, about the decision to go ahead with the airport at Chek Lap Kok with its major connecting infrastructure and huge cost implications for future developments in Hong Kong. Many people wonder whether consideration was seriously given to the possibility of moving the airport to Shenzhen and whether this might have produced a less costly and more efficiently located airport for Hong Kong. Now that the decision has been made, is there any conflict with the airport now to be constructed by the Chinese authorities at Shenzhen? I hope the two facilities will be operationally compatible and that Hong Kong and China will take all the steps necessary to ensure that this is so.

The same consideration applies to the development of our new port facilities. I trust that we are co-ordinating this to the extent possible with the Chinese authorities responsible for port developments in nearby areas.

This brings me to another matter which will surely require co-ordination with China. The development of the massive new port and airport facilities at enormous cost and subject to possibly high inflation levels in the years ahead, will need very large numbers of workers at all levels of skill. The Financial Secretary realizes this and puts his faith in higher productivity in the construction industry and also in a slowing down of the economy which may reduce the very serious labour shortage which has already contributed substantially to inflation in Hong Kong. One has only to look at the Public Works Tender Price Index, at the wage and cost movements in the construction and retail sectors to have clear evidence of inflationary pressures caused by labour shortages. The indexes of unemployed and underemployed workers provide further unchallengeable evidence of the continuing labour shortage. This is not a problem which will go away at least as far as the construction industry is concerned. No matter how efficient the construction industry becomes, it must have labourers if the physical work is to be done. It does not have nearly enough labourers at present. That is obvious from the number of illegal immigrant labourers picked up on construction sites and sent to jail for seeking honest work.

The rising standards of education and living in Hong Kong will ensure that young people will not become labourers in the construction industry. The restriction on immigration ensures that they cannot come from anywhere else. The result is serious delay in construction and inflation caused by rapid wage movements in a situation of almost permanent frustrated demand.

The very large numbers of labourers required for the airport, port and connected infrastructural developments will never be met from local resources. They will have to come from China. I suggest therefore that the Government begins to sort out this problem now with the idea in mind that contractors on major projects be allowed to bring in contract labour from China just as they will bring in technicians and other skilled staff from elsewhere.

Whilst the Financial Secretary is thinking of the ways and means of introducing this essential element into government contracts for construction, I would ask that he also examines the labour situation in the retail and tourist sectors. Again there is a sustained demand which cannot be met from existing and projected labour supply. The use of students in the retail sector is already widespread and is growing, with difficulties in the application of labour legislation now occupying the attention of this Council.

In the wider economic interests of Hong Kong, there may be a good case for a larger flow of legal immigrants from China and this too should be considered in the light of our changing economic structure and labour alignment. I simply make the point that whereas manufacturing industry can, and does, go offshore in response to the challenge of labour availability and cost, the service industries cannot do so and are at the mercy of the very tight labour market with its inflationary pressures.

The Financial Secretary has once again described in his Budget address an economy of great strength and vitality with substantial potential for further growth. He has provided a mass of facts and figures to confirm that our planning is both enlightened and effective, producing high quality infrastructure and essential institutional systems supporting trade and industry. Hong Kong has become a Mecca for those who are willing to work hard for material benefit. In this hard driving place therefore it is perhaps understandable that we have tended to pay little attention to the very real problems facing our aged, our infirm and our handicapped people. Today I wish to speak a little about the aged who have contributed their labour during the past half century to Hong Kong's economic success and many of whom now find themselves in need, isolated, lonely, and largely ignored.

I have spoken in this Council on a number of occasions, as did my predecessor Tom CLYDESDALE proposing the establishment of an old age pension at age 65 for both men and women. This should not be means tested and should be sufficient to allow a retired person with no other income to at least keep body and soul together. Like other Councillors, I have had little success in my efforts to draw attention to this great need. It is in fact an increasing need as more of our population reach retirement age and as the family structure of Hong Kong Chinese people slowly changes. People must be allowed to reach old age in dignity and without having to seek charity in order to live.

What is the old age allowance at present? As far as I am aware, it is \$340 per month for a person of 66 years of age and it is subject to a means test for all those under 70. Other allowances, most of them requiring specific application, can be made available but, all in all, to reach the age of 65 in Hong Kong without savings or other resources can be a miserable business. How far will \$340 take you? Not very far.

Frankly, we should be ashamed of ourselves that the majority of us live as well as we do whilst hundreds of old men live in cages and thousands of old people live

a precarious existence not knowing their ultimate fate and sometimes where their next meal will come from.

My plea to the Financial Secretary today is to open his heart to Hong Kong's senior citizens and to help provide a more secure and honourable old age for them. May I also appeal to our highly successful transport systems to provide senior citizens with preferential travel. Some countries cut fares by as much as 90% and stipulate travel in off peak hours for senior citizens. Could Hong Kong's franchised companies not do the same? Could not cinemas also provide low cost access to senior citizens during off peak hours.

We claim we are a caring society and so we are in terms of charity. However the aged should not depend on charity but should be able to rely on a decent pension as of right. I ask the Financial Secretary to consider this proposal carefully -- and please soon.

Sir, with these remarks, I support the motion.

MR. SIT: Sir, I would like to begin by commenting broadly on observations made by the Financial Secretary in relation to the present state of our economy, how it will change in the years ahead and possible ways to cope with these changes, followed by my own suggestions on some specific revenue proposals put forward by the Financial Secretary.

With these preliminary remarks, I would now therefore explore the general state of the economy.

Various general indicators have all pointed towards a gradual slowdown of our economy. The Financial Secretary has not lost sight of this and indeed expressed serious concern on inflation. However, balanced against this background is our ambitious series of infrastructure projects and rising public sector expenditure. Whilst I share the Financial Secretary's concern, I do not understand the rationale for pushing ahead at a fast pace with major development projects such as the new airport which will put severe strains on the public purse. Although the Financial Secretary claimed that the exact mix of private sector participation and public finance has yet to be worked out, I am not satisfied that there is a need to stick to the present time schedule for the completion of these projects without any idea

as to the detailed financial implications.

The enthusiasm of private sector entrepreneurs will depend largely on their expectation on future profitability of our infrastructure projects; the ability of the Government to raise funds is hinged upon its ability to repay. Both of these factors are obscured by uncertainties over the future. Besides, there is a time factor. The completion of the first runway will take a matter of seven to eight years. How are we to pay the private entrepreneurs before the operation of the new airport as we all know our private developers are used to short-term returns, not to mention long range projects that go beyond the sensitive year of 1997. Whilst I am sure the community appreciates the fact that a new airport will be inevitable given the stable growth of our external trading links, many of us would prefer the Government to adopt a cautious approach, and an approach which has been agreed by China, because without her consent, I believe the Hong Kong Government cannot itself alone raise sizeable loans for any long- term project from the market.

As regards public sector expenditure, whilst I agree that civil service growth is necessary in response to changing demands on public services, a conscious attempt must be made by the Government to review its establishment, improve productivity and tighten efficiency. Given the present labour shortage it is even more important to ensure that any real increase in pay is matched by increased productivity, hence a reduced need for larger number of employees. The need to maintain staff morale and retain experienced civil servants should also be given proper attention by the Government.

May I now, Sir, turn to environmental protection.

Expenditure on environmental protection has seen considerable growth over the last few years, so has the staff establishment of related government departments. Although admittedly there has been a corresponding improvement on public awareness over environmental issues, I think we might soon have to take stock of tangible progress, match it against the amount of resources devoted towards making such progress, and conduct value for money studies to ascertain future strategies in the light of many competing priorities we face.

Sir, may I now turn to the subject of Vietnamese boat people.

Public anxiety and frustration on the Vietnamese boat people issue have gradually

decreased due to a dwindling arrival rate in recent months. However, I wish to reiterate my position that our taxpayers should not bear the costs of receiving, detaining and repatriating those people whose primary motive is to obtain prospects of emigration rather than to escape from political persecution. As an international problem a solution is not easy to come by but I would like to sound a note of caution here and that is: any further attempt to obtain funds for the purpose of accommodating Vietnamese boat people in Hong Kong will face strong resistance from the Finance Committee.

On the various revenue proposals, I would like to comment specifically on two controversial issues: the 1.5% increase in rates, and the 30% increase in fuel tax.

The 1.5% increase in rates will no doubt bring in a stable source of additional revenue to the Government but its desirability should be examined in the context of its effects on inflation and the middle income group. It has always been the Government's intention to encourage home ownership among the middle and lower income groups so that they can enjoy better living conditions. However, the imposition of higher rates will nullify the many incentives laid down for this purpose.

The Financial Secretary pointed out tactfully that the absolute increase will be small. But the 1.5% actually represents a 25% increase in proportional terms over the old rate. The Government's intention to carry out a large-scale survey to update the rateable values of all properties in Hong Kong casts further doubts on the need to impose such increase at this stage. In order to lessen the burden on the middle income group, I would propose to limit the increase to flats with a gross floor area exceeding, say, 700 sq ft. Further steps to categorize flats with various sizes for the purpose of levying rates would result in a more equitable spread of the burden but the administrative costs involved would probably be prohibitive.

The proposed increase in the fuel tax has already generated a ripple of protests and controversies among the major transport operators and I do not intend to repeat it here. Suffice it to say that the proposed increase will eventually be passed on to consumers in terms of general fare revision and aggravate the burden of our middle income group.

To conclude, Sir, I might be stating the obvious but the art of public budgeting is not easy to master. The equation always has to be balanced. The tricky part is how to ensure that the tax burden is distributed on an equitable basis and that every

cent is spent not without a justifiable cause. Given the various factions in the community no single package will be acceptable to everyone. It is nevertheless our job, as a legislator, to reflect public opinion and point out certain areas that adjustments could be made.

Sir, with these remarks, I support the motion.

MRS. SO (in Cantonese): Sir, in today's Budget debate, I shall speak on matters concerning public finances, Civil Service and taxation.

### Public finances

After rapid growth throughout the 1970s and the 1980s, Hong Kong's economy seems to have taken a downturn upon entering the 1990s and is expected to remain growing at a low rate for a long time to come before it can restore the robust vitality it has demonstrated in the past days. The previous fiscal years of huge surpluses have now become a bygone scene which is not likely to come into view again in the foreseeable future. Given the prospect that Hong Kong may need to live with sustained budgetary deficits in the future, it is natural for the Financial Secretary to get the feeling of being faced with "a dilemma" as described in the Budget speech.

Nevertheless, this first Budget of the 1990s surely bears a special connotation. At least, the Financial Secretary has plainly pointed out that budgetary surpluses could no longer be taken for granted. Before the proposed tax raising measures are taken into account, the budgetary deficits are expected to grow in the four consecutive fiscal years from 1990 to 1994. Even after the introduction of the new revenue measures, the Budgets for the following three fiscal years from 1991 to 1994 will still be in red if no further increase in taxation is introduced in the next few years. Such forecast of persistent budgetary deficits in the years ahead is something we have not experienced in recent years.

Faced with this new situation, the Government must adopt a new philosophy in financial management if steady development is to be maintained in Hong Kong. Apart from a brief reference to the strategy for public finances, the Financial Secretary has made no mention of any practical measures for putting this strategy into effect. On the one hand, the Financial Secretary pointed out, "Over the years, the growth

rate of public sector expenditure should not exceed the growth of the economy." On the other hand, he stated, "In the period of the Medium Range Forecast up to 1993-94, real growth in Consolidated Public Sector Expenditure is forecast to average about 6.6% a year. This is higher than the trend growth rate assumption for the GDP of 5.5% a year." In the past few fiscal years, the final actual rate of real growth in public sector expenditure has continued to exceed its estimated real growth rate. Though the growth rate of expenditure in real terms for this fiscal year is estimated at 9.4%, it gives no cause for optimistic views of the final outcome of its actual growth rate. What "magic plan" the Financial Secretary has in hand to solve the problem of intractable growth and over-spending in public sector expenditure year after year is an issue which we hope the Financial Secretary will address in his concluding speech.

## Civil Service

The spate of actions recently taken by the civil servants as a result of disputes over pay and service conditions have caused grave concern in various sectors of the community. In order to control spending on the public sector, strict restraint on the growth of the civil service establishment is required. However, reasonable pay adjustment is a necessary measure to pacify the Civil Service. The Government is thus caught in a difficult situation and its "dilemma" would certainly be appreciated by the general public.

The spending on the Civil Service accounts for about 60% of the recurrent expenditure. A 1% increase in their salary will mean an additional expenditure of three to four hundred million dollars. The Executive Council has already endorsed a 15% increase in the pay of the civil servants for this year, which will result in an extra government spending of \$5.1 billion. A number of civil servants unions have, however, expressed their dissatisfaction at the approved revision rate. If the development of this case is allowed to run its natural course, it may be possible that the civil servants unions concerned may attempt to press for their demands by resorting to drastic actions. Judging from the average rate of pay increase in the private sector, a 15% pay rise is definitely not on the low side. We must understand that a highly efficient government is one of the key factors of Hong Kong's success which has won the envy of the world. If the civil servants develop a habit of taking industrial actions to fight for their rights and interest at any time they wish, it will not only hamper the administrative efficiency of the Government but also affect social stability. We hope that the large force of civil servants will regard the



overall interest of the community as a matter of their foremost concern, try to resort to negotiation rather than confrontation as their tactics to sort out problems with the Government and work harmoniously and co-operatively with the rest of the population for the building of a better Hong Kong.

The problems within the Civil Service should under no circumstances be allowed to develop into a destabilizing element in the community. To guard against such development is certainly an unshunnable responsibility of the Government. The Government should foster its communication with the civil servants unions, explain its difficulties and seek full consultation before making decisions. Above all, the Government should avoid causing undue sense of insecurity within the Civil Service. In recent years, the Government has been implementing privatization or corporatization schemes for some of its services. The bridging-over arrangements have frequently caused dissatisfaction among the affected civil servants. Besides, the required restructuring of the establishment often incurs heavy cost. Presently, there is an imperative need to stabilize the Civil Service and exercise strict control over public spending. Under this situation, it is only right for the Government to consider carefully before proposing any more similar schemes.

## Taxation

In the transitional period, the first and foremost task is to reassure the public. Under the acute situation of brain drain, it is all the more important to make Hong Kong a favourable place to live in for the general public. The new philosophy of financial management has to be in keeping with the political, economic and social situation in Hong Kong.

The Financial Secretary has time and again reiterated the need of a wider and more stable tax base in order to maintain a stable revenue for the Government. He has not for one moment put his mind off the idea of introducing a sales tax or wholesale tax. This is a kind of retrogressive tax which imposes heavier burden on the lower income group. There are precedents to go by in some overseas countries where the introduction of this kind of tax has caused discontent among the lower income group and led to social instability. Objections to the introduction of this disturbing measure in Hong Kong are uniform and have been clearly expressed to the Government in recent years. Yet, instead of dropping the idea all together, the Financial Secretary still indicates that the introduction of a wholesale tax will be given further consideration. This is indeed regrettable.

The Budget proposes to increase indirect taxation substantially and only reduce direct taxation slightly. The idea of such a strategy and that of the sales tax are, to a certain extent, two of one kind. We should not underestimate its adverse effect on the people. Among the four basic necessities of life, two of them, that is, housing and transportation, will be affected by the proposed tax raising measures in the Budget. The increase in rates on property, together with the potential drastic increase in rateable values after reassessment, will affect all people, be they property owners or not. Substantial increase in the duty on petrol and diesel oil has already caused immediate and strong reaction among the transportation industries. They will sooner or later shift the tax burden on to the general public.

The increase in the above-mentioned indirect taxes will undoubtedly yield additional revenue, but it will mean increasing hardship to the lower income group. With the Government's accumulated surplus of about \$71 billion and, on top of it the accumulated land sales revenue to be transferred to the SAR Government after 1997, there is no need for deliberate efforts to reduce the proportion of direct taxation in raising revenue just to cope with an occasional drop in revenue, as long as no prolonged economic recession is in sight. One of the edges of Hong Kong is that it provides a favourable environment for capable people to make profits. The current rate of direct taxation can still be said to be low when compared with other places in the world. I believed that as long as Hong Kong remains a paradise for making money, an increase of 1% or 2% in profits tax is acceptable. It is more advisable to maintain or even increase the proportion of direct taxation to general revenue than to raise the unpleasant indirect taxes by a wide margin.

One point that has to be mentioned is that the sandwich class will be hardest hit by tax increases proposed in the Budget. They are the pillars of our economy in every sector but have been emigrating in large numbers in recent years. This group of people bear a heavy tax burden but is provided with very little social benefits by the Government. To drain them of their wealth will only erode their sense of belonging. It will not help to retain talents. In last year's Budget debate my colleagues in this Council made valuable recommendations on this issue but, to our deep regret, the Government has so far failed to take any concrete action in response. I would like to suggest once again that the interest on mortgage for first time owner-occupiers should be exempt from tax. Besides, concessions in rates should also be given to genuine property owner-occupiers after the increase in rates and substantial increases in rateable values. To show some concern for our sandwich

class will be helpful in encouraging them to stay in Hong Kong.

To forge ahead in adverse conditions and to persevere in times of difficulties are the main factors for Hong Kong's spectacular growth in the past few decades. As our economy will not be as prosperous as before, for the time being, the Government, the Civil Service and the general public should unite together and co-operate with one other. Without the support of any one party, Hong Kong will become a lame duck and will not be able to scale new heights.

Sir, with these remarks, I support the motion.

MRS. TU: Sir, if I were to thank heaven for anything in this Budget, it would be the fact that the wholesale tax was not introduced because the wholesale tax would immediately become a retail tax. I was happy that heavier taxes were placed on items that damage health: tobacco and intoxicating liquor -- though I am aware that the Financial Secretary insisted that it was for fiscal and not health reasons. I am also pleased that some measure of relief will be provided to lower-middle income families by granting the full personal allowance, without that ridiculous clawback. I welcome the slight reduction in tax in the lower tax bands, and increases in child and parent allowances, meagre though they are.

However, the Financial Secretary is still breathing down our necks about broadening the base of taxation, by which I presume he still means the wholesale tax, a move that might affect lower income families most. A sales tax would be about as unwelcome and as destabilizing as Mrs. THATCHER's poll tax; I hope the Financial Secretary will not emulate Mrs. THATCHER's method of making herself unpopular. Nothing, in my estimation, would inflate the economy and increase demands for higher wages more than a broad-based tax that would squeeze the poor to relieve the taxes of the rich. If the tax base is to be broadened by indirect taxation, I suggest that there are plenty of luxury goods on the market which people insist on buying no matter what the price, people whose contribution to revenue would not cause undue suffering to themselves, but which would be welcome to boost the government coffers and benefit the whole community. It would be totally fair that those who can afford the luxuries of life should be called upon to pay more into the economy than those who can barely manage to buy the necessities of life. Reimbursement of tax could easily be arranged to protect the tourist trade, as is done in other countries.

In this connection, I must say that I felt pretty sore that immediately after announcing the Budget, the Government raised the cost of water. Whatever may have been the reason for this, it certainly appeared to the public to be an adjunct to the Budget which will affect the vast majority of the population.

Of the other taxes proposed, I think the one which will hit the whole population hardest, not least the lower-paid workers, is the increased tax on hydrocarbon oils, which I am sure will soon appear in the form of increased transport fares. When taxes are put on tobacco and alcohol, they affect only smokers and drinkers, and hopefully encourage them to adopt better health habits. These taxes are passed on immediately the same day to the customer. Suppliers of tobacco, alcohol and petrol suffer nothing from the extra taxation, because they raise their prices at once and may even make a higher profit in so doing. But I wonder if the Financial Secretary has considered that while oil suppliers and retailers can immediately adjust their prices, the public transport operators cannot. This indirect tax will eventually fall upon those commuters who can least afford it, but in the meantime taxi operators and other small transport operators have to pay the extra tax themselves. A taxi driver (who gets very little sympathy from the public at any time) is now paying an estimated \$300 a month extra tax from his own income to the Treasury for as long as it takes the Government to allow him to recover the money from his passengers. This statement should by no means be interpreted as an encouragement to public transport operators to seek fare rises; I am merely pointing out the fact that every taxi driver and operator is personally paying the extra tax on oil, while the supplier of oil suffers no loss at all. The Financial Secretary might like to consider this unfair burden on operators before raising taxes which affect public transport, taxes that will sooner or later filter down to the lowest paid workers.

In recent Budgets, the Financial Secretary has repeatedly mentioned stemming the growth of the public services, and in his speech this year he mentioned that pay and conditions in the Civil Service are a major factor in the growth of public expenditure. Perhaps the Financial Secretary would like to hear the views of those at the bottom of the civil service ladder on that subject. Looked at from the bottom, it appears that there is no end to the high increases in pay, in promotions, and in better conditions of service for those at the top of the ladder. Not only so, but the complaint goes on to say that work previously carried out by those newly promoted is passed down the ladder to those at the bottom, who consequently find their workload greatly increased, but with disproportionate increases in pay, and fewer personnel to do the work. I see an ever-widening gap in pay not only dollar-wise but now also

percentage-wise. I also see an ever-widening gap in the workload as work is passed down the ladder. I am afraid that if this trend continues, labour unrest which has already begun will increase, adding to the political anxieties we have all experienced in the past year.

May I conclude by emphasizing the importance of addressing this point about the widening inequalities in our community, and the need for those who make the decisions on pay and conditions of service to consider the consequences when they look after the interests of their own kind but neglect the interests of those who have no say in making the decisions. I agree with Mr. Martin LEE that we are not asking for free lunches -- free lunches or perhaps cocktail parties belong to the privileged of this community. All I ask is a fair system of reward for labour, fair distribution of workload, and a fair tax policy, from each according to his means.

The Financial Secretary has repeatedly talked about spreading the burden of taxation equitably. May I respectfully suggest that burdens can be equitably spread only when benefits are also equitably shared. Sir, there is much that I agree with in this Budget but to indicate my concern that we are going in the same direction as Britain and the United States in shifting the burden of taxation from those who can afford to bear it to those who cannot, I will abstain from voting on the Bill.

MR. CHEUNG YAN-LUNG (in Cantonese): Sir, once again I congratulate my honourable colleague, the Financial Secretary, for presenting to us a cautious and balanced Budget. He has kept pace in providing for funds to finance the ever-growing demands of the public given the increasingly difficult situations that result from our current economic and political scene. This is a most difficult task indeed.

Into the 1990s, we witness the beginning of a new era. Sir, you have pronounced the Administration's determination to lay the foundation stones of a prosperous future and a hospitable environment to live in. These are far-sighted strategies that will benefit every Hong Kong citizen.

These strategies, however, are not costless. The Financial Secretary's Budget has outlined how he attempts to balance the books in view of these mammoth projects. While I agree with most of his broad policies, I feel obliged to voice my misgivings.

A wider tax base

The Financial Secretary has repeatedly said that there is a need to widen the tax base. He has quoted the ratio of direct to indirect taxes over the years and highlighted the instability that results from over-reliance on direct tax. These are, I believe, compelling arguments, since it is prudent and reasonable to plan for our future outlays, which are in great sums. There is a real need to be fairly sure that the future revenue and expenditures should by and large be matched.

But I have a word of caution: indirect tax, which often involves taxing on a large scale of consumption expenditure, is inevitably regressive in nature. To be effective in terms of revenue collection, indirect tax has to be levied on commodities with a low price elasticity but consumed in large quantities. Obviously, necessities such as energy, food, transport, and so on are the best candidates. The likelihood of inflation caused by taxes on such commodities is clear enough. It has also been commented that indirect tax is not levied on the basis of one's ability to pay or the ability to earn, but is an administrative means to collect revenue. So far, I have not heard of any commitment of relieving the public from direct tax should indirect tax be implemented either.

#### Fuel tax

I would like to comment on the tax on fuel in particular. Fuel is a necessity that affects virtually every citizen. A tax on fuel will result in the general price increase of almost every commodity in society, since all modes of transportation will be affected. The impact is particularly hard felt by the industrialists and transport operators such as lorry drivers and transportation companies.

In fact, we have already witnessed the demands by taxi drivers and operators for a fare increase. It is inevitable that every citizen will eventually have to shoulder the tax burden because of the general price increase it induces. No doubt this is a very effective way of tax collection, but I wonder if the inflationary effect of this measure is at odds with the Financial Secretary's strategy to combat inflation.

I also feel that the tax is particularly unfair to the citizens living in the New Territories. Many places in the New Territories are inaccessible by public transport and the inhabitants have to rely on private transport. A heavy fuel tax will certainly be a heavy burden on their daily life. For the new residents who have moved from the urban areas to live in the New Territories, most of them still need

to travel long distances to the urban areas for work. They will therefore also need to pay much more of transportation than before. Some of these new residents did not move into the New Territories out of their volition but because of insufficient or very expensive accommodation in the urban areas.

## Rates

The other fiscal measure I wish to comment on is rates. The Financial Secretary has increased the rates of the whole territory by 1.5%. However, in percentage terms, it is an increase from 6% to 7.5%, representing an increase in real terms of over 25%.

Like the fuel tax, I can think of no one who can get away from the rates increase. No matter whether a person is owning or renting premises, he will be taxed accordingly. The rates payable will further increase when the rateable value is to be reassessed in the future. This is an extremely heavy burden to most of the lower and middle income families, who usually mortgage for over 80% of their flat value, and have to pay over half of their monthly income for the interests and principal.

I note that in the past, when the rates were to be increased by way of increasing the rate of levy, the Financial Secretary would usually indicate whether this was merely to make up for the shortfall in revenue that resulted from the time-lag in revaluing premises, or whether the rate of levy would be reduced once the rateable values had been reassessed. However, I do not find such indications in the Financial Secretary's speech this year.

Moreover, the additional rates raised because of the 1.5% increase are to become the Administration's general revenue. This is quite a departure from the existing practice, at least insofar as the Regional Council area is concerned, whereby all rates levied from the Regional Council area are now allocated to the council.

Does this represent a new taxation policy that the Administration is introducing a property holding tax? Is it the Administration's intention to justify that the rates, being the contribution of the local residents to the municipal services they enjoy in their local communities, shall become a source of central government's tax revenue? If so, I wish to draw the Financial Secretary's attention to the fact that whereas the urban areas are well developed and enjoy full infrastructural facilities such as electricity and water supplies, as well as highways, some areas in the New

Territories are still accessible by footpaths only, and some villages do not even have the minimal street lighting yet.

For the residents in the new towns and housing estates in the New Territories, a lot of them moved from the urban areas because of the Administration's deliberate housing and urban renewal programmes. Very often their daily cost of living is even higher than the residents in urban Hong Kong or Kowloon because of the long distance they have to travel to and from work. The additional rates will no doubt add on to their already heavy living costs.

### Tax burden relief

In contrast to the tax-raising measures, I regret to say that the Financial Secretary has introduced only marginal tax concessions to the middle and lower income groups by increasing the personal tax allowances, and so on.

I doubt if we have done enough to mitigate the effects of the "fiscal drag" brought about by inflation. I also wonder if the Financial Secretary has done any study to see how good the current allowances are, as compared with those in, say, 1970s and 1980s, in relieving the public from tax, and to see how many people have fallen into the tax net simply because of inflation but not because of real wage increase.

Sir, I do appeal to the Financial Secretary to devise further means to alleviate the lower and middle income groups from tax burdens. A lot of them are not eligible for social benefits, notably housing, but are shouldering a bulk of society's overall tax burden. They also comprise the young and upcoming professionals much sought after by emigrant-receiving countries. These people are now seeing the tax burden overseas, though heavier if compared with the one in Hong Kong, increasingly worth paying, since in return for the high tax rate they enjoy a social security system much more elaborate than that in Hong Kong. I am not suggesting that we should follow the social security policies overseas blindly. But the point I am making is that quite a few people are already asking the question: what do I get in return for the tax I pay year after year in Hong Kong? Our children are not guaranteed university degrees, and there is minimal social security available.

Some have suggested allowances should be granted for mortgage interests for home ownership. I believe these are good suggestions that are worthy of serious consideration. In any case, it is an open secret that tax avoidance is commonly



practised by companies that plan tax with their staff to relieve them from salaries tax liability if they purchase houses. I do not see that this exploitation of the law need to exist at all. Could we make the benefit enjoyable by all since, after all, every one needs to have a home?

## The Civil Service and the public sector

Sir, let me now turn to the Civil Service and the public sector as a whole. As you recently pointed out at a public occasion, the public have a legitimate right to expect the Civil Service to be efficient and productive. I cannot agree more. But it seems that the reality is, despite salary increases, civil servants' dedication, diligence and commitment are deteriorating.

I believe that civil servants should be paid reasonably well in order to maintain their high standard. But at the same time, we are entitled to expect a highly efficient and productive administration. We have over the years been very proud of an efficient and effective administration. But this image is gradually tarnished by the frequent strikes and demands for pay increases. I hope all parties can settle differences by negotiation.

Another major issue that needs to be addressed is the overall efficiency, effectiveness and economy of government policies and their implementation. We have seen civil servants demanding for more pay and better benefits and occasionally, empire building; but there seems to be no correlation between higher pay and improvements in administrative efficiency.

The efficiency of the whole public sector, including hived-off bodies, need to be critically assessed. The Financial Secretary has rightly pointed out that the public sector is spending too much of the community's resources. But I see the problem as one not only of magnitude but also one of value for money. I hope the Financial Secretary can elaborate in greater detail what has been done to ensure the efficiency of government.

Uncontrollable public spending, I think we all believe, is the last thing we wish to see. Indeed, we should not only contain the spending, but to cut it as far as we can. I hope next year we will be able to see in the draft estimates the number of posts to be deleted, but not added, for the different departments.

In this connection, I urge the Financial Secretary to look into the question of privatization or hiving-off of public services. I realize that, in theory at least, it may be more efficient in deploying resources if public services can be freed from unnecessary bureaucratic red tapes.

However, we have seen to date incessant staff problems arising from the Administration's hiving off schemes. Given the existing social and economic outlook, I believe that it is in the public's interest for the Administration to continue with the basic services it has been providing. Major reshuffles of the public sector often result in large payouts to the existing staff while recruitment of replacements is difficult. The public, in turn, will be required to pay substantially higher fees while the quality of the new services is still everybody's guess. I hope the Administration to review critically its policy of privatization, and to re-evaluate each of its plans of privatization carefully. I do not think the public will feel comfortable to see that the tax they pay is spent lavishly on golden handshakes and redundancy payments.

## Conclusion

Sir, I recognize the difficulties the Financial Secretary is facing; and I agree with most of the policies he has outlined in his Budget speech. The question, however, remains to be whether the Administration is determined and able to implement what he has said. I sincerely look forward to hearing from the Financial Secretary soon about his successes in containing and reducing public spending.

Sir, with these remarks, I support the motion.

MR. HO SAI-CHU (in Cantonese): Sir, in your policy address last October you put forward the ambitious infrastructural projects which have been referred to as the "rose garden" blueprint of the nineties. The people of Hong Kong are heartened and they have high opinion of these projects which will have a positive effect on the continued development of Hong Kong. The determination of the Government in carrying out these infrastructural programmes has been further confirmed by this Budget. No doubt a great deal of effort has to be made to realize such an ambitious plan.

There is a paradox in the 1990-91 Budget, that is, while public spending will have to increase for funding the major infrastructural projects, the estimated revenue will decrease in the next few years as a result of the slowdown of our economy.

The paradoxical situation has dealt a blow to the existing financial strategy of "planning expenditure according to revenue" which has been adopted consistently by the Government. As a matter of fact the Government has been obliged to "raise revenue according to expenditure" so as to put the grandiose blueprint of infrastructural projects into effect. The Financial Secretary has therefore highlighted the need to widen the tax base and the shift of emphasis from direct tax to indirect tax in revenue collection. However, as such change involves far-reaching implications, I submit that we must conduct careful study into the issue. We should not rush into conclusions and should give more consideration to other alternatives.

"To broaden sources of revenue and trim expenditures" is a principle in the management of finance. In carrying out the major infrastructural programmes, we must ensure that there is sufficient revenue for funding the projects and we should also make full use of our manpower and resources. On the question of infrastructural development, there are two points which I think, are worthy of note: (1) A large number of workers, both skilled and unskilled, will be required for the port development and airport projects. As Hong Kong is still affected by the problem of labour shortage, I think we can import a suitable number of temporary workers in accordance with actual needs so as to reduce the building costs provided that the chances of full employment and various other benefits of local workers will be well-protected. (2) The pace of our infrastructural development should be properly programmed. Exceedingly large scale of development and too hasty a schedule should be avoided in order not to overstretch our resources. The Government should encourage private investment on some of the projects and focus its efforts on key projects. In terms of spending, our Civil Service accounts for a major percentage of public expenditures. The Civil Service has played a positive role in the operation of our highly efficient Administration. It is necessary to maintain a reasonable civil service establishment and to make regular adjustments to the pay of civil servants. Nevertheless the Government should try its best to contain the unceasing growth of the civil service establishment. It is important that the quality required of civil servants should be raised and there should be a reasonable division of work with the scrapping and amalgamation of departments with overlapping duties. In addition, equipment and technical facilities should be improved to further enhance efficiency and to cope with the increasingly heavy demand on services.

Sir, Hong Kong has built up a worldwide image of a vibrant and progressive city. The development of Hong Kong requires active participation and contribution of every member of the community. Tax is the main source of income for the Government. To

the taxpayers, it is important that the tax burden is equitably and reasonably saddled on them.

In order to implement the major infrastructural projects and avoid deficit, tax increases are inevitable. The Budget proposes to raise levies on certain items. Some of these increases are quite high. For example, rates on property are raised by 25% in real terms. The duty on petrol and diesel oil has increased by 30%. Duties on other items such as liquors and tobacco are also raised. All these will add to the burden of the general public. Meanwhile, we note from the Budget that there is an intention to widen the scope of indirect tax. Although Hong Kong is not ready for such a move at this moment, apparently the idea has not been given up.

I agree that by widening the scope of indirect tax and introducing sales tax on a number of commodities, a stable tax base will no doubt be ensured. It will not be a cause of concern if tax is levied on luxurious commodities. However, if the tax net is further extended to include all people, rich and poor, it will become flimsy in its claim of equity, but solidly unfair by its measures. Personally, I consider that if the Government has to raise additional revenue in the next few years, it should do so by raising the profit tax slightly instead of widening the scope of indirect tax, so that the interests of various sectors of the community may be balanced. I believe as long as Hong Kong remains prosperous and stable and its characteristic as a low tax area remains unchanged, such a move will not dampen the interest of investors but will be more beneficial to the social and economic interests of Hong Kong as a whole. The mammoth infrastructural projects will be accomplished if all of us can work together for a common goal.

Sir, in view of the Budget proposed by the Financial Secretary this year, I think the increase in rates will affect the general public most. I propose that the rate of levy should be reduced after the reassessment of the rateable values next year, so that the burden on the public may be slightly relieved instead of drastically increased. On the whole, I consider the Budget acceptable. With these remarks, I support the motion.

MR. ANDREW WONG (in Cantonese): Sir, I support the motion on the Second Reading of the Appropriation Bill 1990. I say so not out of courtesy, but after thorough consideration. In other words, I think it is inappropriate for some people to ask Members to veto the Budget. The Budget can be divided into two parts, expenditure

and revenue. I do not believe public opinion is seeking to veto all expenditure proposals, because if the motion on the Second Reading of the Appropriation Bill was voted down, Government would not be able to allocate funds, and thus cannot provide for the expenditure items that we endorse. And if it is some of the expenditure items that we particularly oppose, we would do well to let the motion on the Second Reading of the Bill carry and then to propose amendments at the Committee stage to seek cuts in expenditure. But if it is the revenue strategy or individual revenue proposals of the Financial Secretary rather than the expenditure items that we are opposed to, intervention will still be possible when proposals on adjustments to various revenue items and charges in the form of amendment Bills, resolutions and subsidiary legislation are submitted to this Council. Such an approach could be said to be totally unrelated to the present Appropriation Bill which deals with expenditures.

Sir, I have to make it clear at the outset that I am in full agreement with the Financial Secretary's revenue strategy. The tax base of Hong Kong is indeed very narrow. For example, of the 2.5 million income-earning workforce (including myself), only some 980 000 people have to pay salaries tax (including myself), and among them a small group of 75 000 taxpayers (including myself) already contribute over half of the total salaries tax yield. As for the ratio between direct and indirect taxes, direct tax last year was as high as 63% while indirect tax 37%. The ratio is expected to further increase to 65:35 this year, making the already narrow tax base even narrower. In other words, a smaller number of people will bear a larger share of the public expenditure directly. Not only is this inequitable, but it also runs the risk of substantial drop in public revenue in times of steep economic downturn. If that should be the case, it would not be possible to cover the necessary public expenditures. Therefore, it is necessary to adjust the direct to indirect tax ratio, so as to make indirect taxes take up a greater proportion. Sir, I would like to remind Members that, during the term of office of Sir Philip HADDON-CAVE in the 1970s, the ratio between direct and indirect taxes was 55 to 45 (an average only, the ratio actually varied from year to year). Is the ration 62 to 38 for 1990 (which may become 60 to 40 in future) as proposed by the Financial Secretary really that uncommendable?

Sir, as regards the specific proposals of the Financial Secretary to increase taxes and charges, some are designed to catch up with inflation and not to lead inflation. This is to ensure the yield from revenue items and charges will not drop in real value. These revenue items include tobacco and alcohol (that I enjoy), rates, the various charges mentioned by the Financial Secretary when moving the Second Reading of the present Bill, and other items such as water and airport charges. These

revenue proposals have my full support. Now I would like to say why I am in favour of increasing the level of rates from 6% to 7.5%. Rates are levied by applying a certain percentage charge to the rateable value of properties. Although this is indirect tax, its effect is similar to that of direct tax, because generally speaking the higher the income of a person, the higher will be the value of his property in which he resides or uses for other purposes and the rates payable will be substantial. Even though rates are not levied on a progressive scale (some people suggest that they should be progressively scaled), they are not levied on a descending scale either. Since the Government cannot carry out a complete review of rateable values of all the properties every year (the last revaluation was carried out in 1988-89), the rates payable one or two years after revaluation will represent a fall vis-a-vis the actual rental value of the property. So before revaluation, the only way is to increase the percentage charge of rates. Not only can this maintain the real value of rates payable, but, if followed by a reduced percentage charge of rates after the next revaluation, it can also have a mitigating effect against substantial increase in rates. In other words, I suggest that the present rates levy of 7.5% should be reduced as appropriate after the next revaluation in 1991-92.

Sir, among the proposals of the Financial Secretary to increase indirect taxes, only three items, that is, petrol, first registration of motor vehicles and betting, are unrelated to inflation or the actual value of revenue. I can accept the increase in bets tax which will be borne entirely by the Jockey Club. I also find the 10% increase in first registration tax on motor vehicles agreeable. (In fact, it can even be 10% or 20% higher.) As for the 30% increase in petrol tax, I beg to disagree, and I would say that when the Financial Secretary moves a resolution in this Council to increase petrol tax, I will vote against it. Raising petrol tax will produce additional revenue of only about \$580 million for the public coffers, but its effects on people's livelihood, so far from being modest, will be extensive and interlocking. This is really an example of moving one tiny part and upsetting the whole. I cannot but ask, do we really need this additional revenue of \$580 million, which is unrelated to adjustment for inflation to catch up with real value? If the Financial Secretary's specific proposals for increasing and cutting taxes are fully implemented, the estimated \$2.4 billion deficit will be turned into \$700 million in surplus. Why can we not maintain the original level of petrol tax and settle for a surplus of \$120 million?

Sir, I would not comment on the expenditure proposals. What I would only want to say is that, if we endorse these expenditure items, we must have enough revenue

to cover the expenses. The Financial Secretary can be likened to a good housewife in the public sector proficient in laying out the public money, but even a good housewife cannot give full play to her skill without adequate "cooking materials".

Lastly, I would like to seek confirmation from the Financial Secretary as to whether he had forgotten to send the Estimates on Revenue to Members but only sent it to us by way of Sessional Paper on 4 April. I hope that that was not due to an oversight but to a reluctance to disclose the Estimates on Revenue too soon. I propose that after the Appropriation Bill and the various tax proposals are passed, the Estimates on Revenue be printed as the fourth volume to the Budget (at present we have only three volumes). Failing to do so would mean that the Budget, which is formally called the Estimates on Revenue and Expenditure, would be incomplete.

Sir, with tribute to the Financial Secretary, I fully support the motion.

MR. LAM (in Cantonese): Sir, amidst a spate of outcries against various tax and price increases, there will inevitably be a heated debate on the 1990-91 fiscal year Budget in Legislative Council today.

A representative government system has been implemented in Hong Kong for a number of years and Legislative Councillors are duty-bound to examine closely the annual Budget. A comprehensive Budget is a copy of financial report incorporating those items of work done in the past year, the problems facing us at present and a forecast of our needs in the future, as well as the measures to be taken to cope with these needs.

We would doubtlessly appreciate and endorse the objectives of Government's public expenditure programmes which are aimed at expanding and improving various items of public services. However, the Government's current basic task in respect of the economy should be to contain the inflation rate. Inflation is the greatest disruptive power on economic prosperity which, if seriously damaged, would rock the foundation of social stability and bring about a series of chain reactions involving a very extensive area.

People who are concerned about the future of Hong Kong have expressed out of good will their views on the proposed large-scale infrastructure projects and said: "We had better cut our coats according to the of size our cloth!" In other words, they

think that before coming to a decision on an urban construction project, we ought to take account of the territory's financial situation, to tackle the matter with a scientific approach and to conduct a feasibility study on the project. We of course appreciate that in proposing means of increasing Government's revenue, the Financial Secretary aims at achieving a balanced Budget in the next fiscal year. The problems we have to look into presently are the general public's ability to shoulder the burden caused by these increases, the impact on our economy as well as the damage that may be done to the Government's credibility. I have always believed in a basic principle in finance management, which is: "To pluck as many feathers as possible from the geese and yet make them utter the least noise". But now the geese are screaming out in protest and a trend of anti-price increases has been developed. This reflects that the current Budget has left something to be desired.

Amongst the 12 revenue raising items, the 30% increase in petrol duties will cause public transport operators to increase their fares and charges. The increase in general rates on properties from the current 6% to 7.5% represents an increase as high as 25% in real terms. The revision of all rateable values of properties in 1991 will in effect be an act of increasing rates. Although the Financial Secretary has stated that adjustment of the percentage charge of rates will be looked at in the next year's Budget, people with a clear mind will realize that the arrangement is merely a means to raise revenue. A slight reduction of the percentage charge after effecting a substantial increase in the rateable values will increase the rates all the same.

The hefty increase in rates will push up property prices and tenement rents and will indirectly lead to increases of fares and charges in various sectors of the community. A chain reaction will thus be triggered off. Ultimately, the additional cost will be transferred to the consumers and those eventually victimized are still the general public.

The huge estimate of public sector expenditure has already deviated from the principles of regulating expenditure according to revenue, and of maintaining a balance between revenue and expenditure. If statements such as making the best use of our resources, controlling all items of public sector expenditure, containing civil service growth and enhancing the efficiency and productivity of civil servants are just empty slogans, they fail to present a full picture to the public. The recently announced pay rise for civil servants indicates a deviation of the Government's financial policy from the budgetary guideline and this is liable to



develop into a big financial burden in future!

Sir, during the Legislative Council debate held in October 1988 on the proposed hosting of an exposition in Hong Kong in 1997, the government officials spoke against such a proposal on grounds such as cost, the estimated number of visitors and infrastructural developments and so on. The proposal was finally rejected by the Governor in Council. An unusual development has however taken place in this year's Budget, that is the growth rate of recurrent expenditure exceeds that of our Gross Domestic Product (GDP). And so the prudent attitude taken in the past has changed and people will query the inconsistency between previous and present government policies.

It is stated in the Budget that a huge Capital Investment Fund will be set up with an estimated expenditure of \$25.7 billion, out of which there will be 30% increase in public works expenditure items. Furthermore, growth in civil service establishment is estimated to be 2.5% per annum which is not a small figure in terms of the expanding base in the past years. Such growth, coupled with concurrent increases of salaries and pensions in the Civil Service, has set public sector expenditure far beyond the budgetary guideline.

Sir, high level expenditure should be financed by equally high revenue. According to the Financial Secretary, the public sector expenditure in the coming years is expected to take up more than 19% of the GDP. This rising trend is indeed a worrying factor. As regards how in future we should contain the inflation rate, avoid an over-heated economy and maintain our competitiveness in overseas trade, it is very difficult to measure the changes in our economic situation in a normal rational manner.

Just take the construction of a new airport at Chek Lap Kok as an example, the estimated cost is \$127 billion in 1989. However, if the inflation rate is taken into account, the construction cost may be as high as \$200 billion by the time the project is completed. Similarly, the expenditure on the new port development project should also be reckoned likewise.

With general rates increased by 25% and the fuel tax increased by 30%, the additional revenue thus yielded is about \$2 billion. According to my rough estimation, the said increase in revenue is not enough to offset even one-third of the expenditure on civil services salaries after the high pay rise is effected this

year. Therefore, it is true that an effective approach of finance management should be aimed not only at tapping more sources of income, but also at reducing expenditure. In order to cut down the cost of fund raising and credit loans activities for the future infrastructural projects, the Government should invite the private sector to participate in financing these projects. Both the Chinese-funded corporations and overseas consortia are suitable candidates for the purpose. From a long-term strategic point of view, the new airport and port development schemes are both far-reaching and constructive investments giving rise to economic returns which should not be underestimated. The cost on very worthwhile infrastructural projects is a kind of capital expenditure and should be viewed as an investment. I am therefore in favour of the projects in principle. However, I would propose that the projects should not be financed by way of revenue from taxation only. Instead, private sector funding involvements should be sought for this purpose.

With these remarks, Sir, I support the motion.

Suspension of sitting

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

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