

1 HONG KONG LEGISLATIVE COUNCIL -- 28 March 1991

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OFFICIAL REPORT OF PROCEEDINGS

Thursday, 28 March 1991

The Council met at half-past Two o'clock

PRESENT

HIS EXCELLENCY THE GOVERNOR (PRESIDENT)

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

THE CHIEF SECRETARY

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

THE FINANCIAL SECRETARY

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

THE ATTORNEY GENERAL

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

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

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

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

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 CHUNG PUI-LAM, J.P.

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

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

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

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

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

THE HONOURABLE POON CHI-FAI, J.P.

THE HONOURABLE SZETO WAH

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

THE HONOURABLE TAM YIU-CHUNG

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

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

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

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

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

THE HONOURABLE RONALD JOSEPH ARCULLI, J.P.

THE HONOURABLE PAUL CHENG MING-FUN

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

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

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

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

THE HONOURABLE MRS MIRIAM LAU KIN-YEE

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

DR THE HONOURABLE LEONG CHE-HUNG

THE HONOURABLE LEUNG WAI-TUNG, J.P.

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

THE HONOURABLE KINGSLEY SIT HO-YIN

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

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

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

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

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

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

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

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

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

THE HONOURABLE TAI CHIN-WAH, J.P.

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

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

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

THE HONOURABLE RONALD CHOW MEI-TAK

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

IN ATTENDANCE

THE CLERK TO THE LEGISLATIVE COUNCIL  
MR LAW KAM-SANG

## Second Reading of Bill

### APPROPRIATION BILL 1991

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

HIS EXCELLENCY THE PRESIDENT: Council will resume and continue with the debate on the Appropriation Bill 1991. I have the names of 23 Members down to speak. In consideration for their fellow Members, I hope that Members will exercise a degree of self-restraint in the length of their speeches.

MISS TAM: Sir, the Financial Secretary has developed his skill in Budget speech writing into a fine art. In this new Budget speech he moved smoothly from an enunciation of his strategy over the control of public expenditure, to a lucid analysis of the present state of our economy, and ending up with his proposals on revenue and taxation measures. The new Budget speech made easy reading and is clearly a good guide for those who are interested to know how our Budget is structured.

As far as the general service group is concerned my speech will mainly tie in with transport measures and transport policies whereas my colleagues will cover other areas. But before that I would like to say a few words on public sector expenditure.

The outstanding feature of last years' achievement must be the Star Chamber's effective control on the growth of public expenditure and on the establishment: a prudent and effective measure, as it turned out to be in a year of crisis in Europe and the Middle East. Also, there has been a delay in the sale of three major sites in public auction. Considering all these difficulties, we have not fared badly at all with a consolidated surplus of \$150 million and in fact I think we have done well comparing to other economies.

However the recurrent expenditure on staff cost must still be very high. Last year there was one figure that most of our colleagues quoted and that is, the recurrent expenditure on staff cost was in the region of 60% of our recurrent expenditure whereas this year I have been looking through the bundle of documents and that figure is missing. I do not know whether it is because last year it featured so prominently so this year it is tactically omitted or we are supposed to draw the conclusion from the fact that last years' increase has indeed been covered out of monies allocated

to posts that are unfilled. In any case the forecast of our overall public expenditure this year will still be at an average of 6.2% per annum whereas the medium range forecast on growth is still as usual fixed at 5.5% in real terms. So I think the austere measures which were so successfully taken last year in trimming down the establishment must continue.

As I said I would like to try and link the control issues with transport measures and practices as I see it. So talking about public expenditure I would like to come to the point of automation and privatization.

In my speech last year I had mentioned the contents of the Establishment Sub-committee report and supported the use of automation in order to save on staff costs. I am pleased to see (in paragraphs 25-27 of the Financial Secretary's speech) that automation has indeed been a success. However this year in the Establishment Sub-committee report it bears no reference to further automation planned for the coming year. Is there no more scope for it or is it something that we can hope for in this year to come?

Clearly there are areas in which we can use high technology products to save on staff costs and equipment. In this respect I am very pleased to know that the Transport Department is considering the use of stored value tickets and other high technology measures to achieve longer-term savings on "street parking" services.

I believe we can and should go one step further. In a recent trip that I made to Britain I had met with consultants who are knowledgeable in the field of running private operations under a franchise from the local government to manage street parking meters and they have something which is called "clapping device". Similar franchises have been granted to various private companies in San Francisco and other big United States cities and with success.

There are altogether 13 670 parking meters on our roads in Hong Kong and it requires 178 posts to manage them. It is a viable candidate for privatization following the example of the Aberdeen Tunnel. I would strongly advise the Administration to look into its feasibility.

The second subject I wish to touch upon is private sector inflation, again linking it to transport costs. Last year there was a concentration of debate on shortage of labour and indeed it features prominently in the Financial Secretary's speech this year. I would like this year specifically to talk about franchised bus fares.

My special concern is that the cost of labour as a factor attributing to the cost of transportation, and in particular to franchised bus fares, is featuring very prominently again this year.

A careful examination of the transport fees and charges shows a steep rise from the year 1988, whilst in the years between 1985 and 1987 increases were very mild. There are many figures in my speech but I will only quote the more relevant ones and that is the CPI(A) index on transport fee charges.

In 1985 it started with a base figure of 6.79% comparing to medium household income. In 1968 it increased by 4.6% while in the same year the medium household income increased by 9.8%. In 1987 transport cost went up 8.1%, wages went up 12.7%. In 1988 transport cost went up 4.8%, wages went up 13.1%. So there is still a large gap between the two. But in 1989 public transport cost went up by 12.1%, wages went up by 19.7% -- still a gap. But the warning light came in 1990. Transport cost went up by 13.4% and medium household income went up by 14.6%. There is only a 1.2% gap between the two. I am particularly worried because signs are that the franchised bus fares are not likely to get very low or get any lower. There are many factors that have been cited. One of the factors that has been cited is because there is a continued trend that passengers are choosing to use the fixed tracks such as the Mass Transport Railway Corporation and the Kowloon-Canton Railway Corporation. There was an increase of 5% in MTRC patronage, which is a figure of 719 million passenger trips and then there was an 8% increase in KCRC trips. On the light rail, passenger trip numbers also rose by 17%. On the other hand, the passenger journeys on franchised buses fell by 2%. As franchised bus companies, we know, are controlled by the Scheme of Control in terms of permitted return, whether passengers do patronize that service is of paramount importance. In examining the reasons for the rise in bus fares, the first one we look to is the labour costs. Last year I pointed out that the labour cost in transport services (according to last years' Budget documents) had risen by 16% in monetary terms and 6% in real terms and in 1989-90 the rise in labour cost was 13% in monetary terms and 3% in real terms.

That means the rising trend of labour cost slightly abated last year but was still very very high. Later on, I will give a breakdown on the component parts of a dollar's worth of service from the franchised bus companies.

Personally I believe the bus companies must also take full responsibility in

running a cost effective and efficient service. The Scheme of Control is devised to encourage long-term investments and development in their businesses. The "permitted return" is not a guarantee and the Scheme of Control must not be used as a defence against bad management of a franchised company. Let us not forget that inefficient management can cause fare rises and they are not justified and also they can fuel inflation.

The second factor which affects bus fares is diesel fuel costs. We can remember that last year there was a 30% increase in the tax of hydrocarbon oils. At that time I had pleaded that the franchised companies should be given a rebate on that increase. I was not successful and I had abstained from supporting that particular revenue order. At that time it was assessed that the tax increase would put four cents on each passenger trip in terms of costs. This year there is again an increase in the hydrocarbon oil tax but this apparently is part of the routine exercise because the percentage is nowhere near 30%. However the fuel cost of franchised bus companies will still go up by \$12 million. This is not an insignificant figure and again I would plead that there should be tax rebate given to franchised bus companies. I had said before that I would try and give a breakdown as to what are the component parts of a dollars' worth in a public franchise bus service. The calculation I have is that roughly for every dollar that goes into the fare box, 54 cents goes to staff cost; 18 cents goes to fuel, 15 cents goes to depreciation and administration costs and 13 cents goes to profit. Therefore the profit margin is not really so high but as I said the companies' performances are of paramount importance if the general public is going to accept the Scheme of Control operating roughly as it is. In order to rate the performance of each bus company, I understand the Administration has devised a list of performance indicators such as bus turn out rate and whether it meets the time schedule. I would urge that once we get used to this performance assessment measures they should be used as a factor of consideration as to whether a company should be allowed to be granted a new franchise and it should also be taken into consideration when fare application is being made. It must not be taken for granted that either the profit or the franchise is a guaranteed measure.

The final point on transport measures is the passage tax on tunnels. Sir, there is a recommendation from the Transport Advisory Committee (TAC) pending in which it was recommended that passenger tax on the Cross Harbour Tunnel should be increased. I must point out that the terms of reference of the TAC is on transport measures and therefore not really taking into consideration matters of inflation, but I believe that the left hand of the Government must know what the right hand is doing. If we



try to introduce transport measures which may increase fees and which may fuel inflation it is important to time it so that the other transport measures would not at the same time be going up in costs.

Finally, some general observations on the revenue measures. Last year I had mentioned that perhaps an increase of the profits tax by 0.5% would be in order considering the effect of the indirect tax increase that solicited certain public response that was somewhat adverse. I think this year's public sector response is a bit out of proportion in terms of its response because last year I understood that in this Council many Members had already endorsed the principle that there should be a more reasonable proportion or allocation between direct taxation and indirect taxation, and as far as I can see the taxation measure this year does give those who wish to pay tax a lot of options, such as whether they wish to have a new car or wish to smoke or not. So I personally have far less criticism on the taxation measures this year. In fact I think the Financial Secretary has in the last five years steered us through many difficult times, the stock market slump, the aftermath of 4 June and the Gulf crisis in 1990. The success we have now depended much on his prudent management of our finance and I had tried to check on how many pieces of legislation that he had introduced in reforming our security markets and strengthening the three-tier system in our banking practice in Hong Kong. I found that in only two and a half years he had introduced no less than 21 pieces of major legislation that have strengthened the status of Hong Kong as a sound and stable financial centre of the world. And I think that must be one point we shall remember amongst many other things that my colleagues have spoken about his achievements in Hong Kong. Sir Piers, you will always remain a very stable, good friend of Hong Kong. You have been an honest and faithful servant to this community and we all wish you and Lady JACOBS a happy retirement but always with us and work with us. We hope that would be a reality too. Thank you.

MR POON CHI-FAI (in Cantonese): Sir, in the last six years in the run-up to 1997, it is of paramount importance that Hong Kong remains a stable and prosperous society where people can live and work happily. Regrettably, things do not happen as we wish; tax increases as announced in the Budget coupled with price increases of late are having a great impact on the livelihood of the people of Hong Kong. Many citizens have expressed strong dissatisfaction with the Budget through various channels. On the 18th of this month, I organized a consultation seminar on the Budget in Kwun Tong which was attended by about 100 people comprising community leaders, and chairmen

and members of Mutual Aid Committees, Owners' Incorporations and Area Committees. The consensus is that the Budget would deal a heavy blow to the livelihood of the general public. The middle and lower income groups will bear the brunt and are the hardest hit. The Administration has not considered looking after the interests of the middle and lower class and meeting the objectives of paying tax according to one's ability and sharing the wealth of the community. The hefty tax and charge increases exacerbate inflation and lower the quality of life of the people. Take the reassessed rates as an example. Since the rateable value is substantially increased by 85%, the charge to rates is correspondingly reduced from 7.5% to 5.5% and the rate payment for the next fiscal year is set at a level not more than 25% of that payable this year. Notwithstanding the above relief, the actual increase in rates is still not what the grassroot people can afford. The substantial increase in rates pushes up residential rents as well as rents for industrial, commercial and factory premises. These in turn trigger off a spate of price increases which deals a heavy blow to the livelihood of the public as well as the overall economy of the territory. The cumulative increases in the prices of vehicles, petrol and licences likewise lead to escalating rises in transportation fares, production costs and commodity prices. Not only do they have strong impact on the livelihood of the people they also weaken the competitiveness of Hong Kong's export, thus dealing a blow to the economic development of our territory. As to the 200% steep rise in cigarette tax, a non-smoker though I am, I also wish to see people give up or at least reduce smoking. I have great reservation as to the health reasons advanced by the Government for justifying the steep increase in cigarette tax. If it is really for health considerations, then why not simply implement a total ban on smoking or restrict the age of smokers. Has the Administration ever considered what such a big increase would mean to those senior citizens who have been smoking for 40 to 50 years and who cannot or do not want to give up smoking? Their living standard might be lowered as a result of having to reduce other portion of their daily expenses due to a substantial rise in cigarette price. Sir, as the spate of tax and price increases would have a knock-on effect, the 9.5% inflation rate forecast by the Financial Secretary would be an underestimation. In fact, inflation was running at 11.9% this February, the highest in seven years. With the never-ending tax and price rises and high inflation, how can people in the lower and middle class live and work in peace? The benefit of personal allowance which may benefit the lower and middle income groups has only increased by \$2,000. This cannot offset increase in expenditure brought by price spiral and inflation. Furthermore, the personal allowance of \$41,000 is far from realistic when compared with the actual cost of living. Salary adjustment due to inflation drives more and more low income people into the tax net, thus further

widening the gap between the rich and the poor. This, in fact, is a big disappointment to members of the public. In view of this, I hope the Government would consider raising the personal allowance to \$58,000.

Sir, all along, the Administration has stressed that the new airport project is within our means and the building of the new airport will not result in reduction in other public facilities and services for the community. But the fact is that in the past year not a few infrastructural works were forced to be delayed, curtailed or even cancelled because of this airport project. The substantial tax and charge increases and the deficit budget forecast for the next few years really make the Hong Kong people worry about the financial capability of the Government to build the airport. They also cause concern as to whether the airport project would result in the general public's livelihood being in predicament. Sir, past experience shows that the Government always underestimates the costs of its projects. Many of them can only be completed with the appropriation of additional funds. The University of Science and Technology is an example. The building costs, according to the initial estimate, was \$1.6 billion but later an additional sum of \$3.5 billion was allocated, which is equivalent to 2.2 times that of the original estimate. In reply to my question in this Council recently, the Administration pointed out that in the past three years, there were 282 projects that required supplementary provisions from the Finance Committee, representing one-third of the total number of projects and the supplementary provisions amounted to a handsome sum of HK\$10 billion. Whether the new airport project can really be completed within the costs set by the Budget is something that one cannot place high hope on. Should there be cost overrun and that Hong Kong's economy continues to slow down with no prospect of an upturn, the Government would then find itself financially incapable of committing any further to the new airport project it has started. The massive spending of the airport, on the other hand, would have caused wage and price spiral and instability of the livelihood of the general public. In such circumstances, the new airport project not only will fail to restore the confidence of the Hong Kong people, but will lead to social unrest and the economy would then be unable to continue to grow and prosper. Sir, the Financial Secretary mentioned more than once in his Budget speech that in an uncertain world, it is vital that Hong Kong maintains the strength of her financial position -- and it stands to reason. In face of the unprecedented and historic political change of "one country, two systems", Hong Kong will inevitably go through a lot of political and economical upheavals. Construction of the new airport may overheat the economy and fuel inflation. Coupled with the impacts of massive commitments with financial liabilities, pension reserves for civil servants and

reduction of revenue from future land sales, the future SAR Government may end up in difficulties. For these reasons, the SAR Government formed in 1997 should have a sound financial base in order to meet the various needs of unforeseeable circumstances. It can be said that sufficient fiscal reserves is an important factor that determines the success or failure of the future SAR Government as well as a confidence booster for the people of the future Special Administrative Region. As the success or failure of the future SAR Government has far-reaching and decisive implications on the international image and reputation of China, and on whether or not China can achieve unification, can one expect China, being the future sovereign state of Hong Kong, not concern about, question or even comment on the multi-billion-dollar airport construction plan? Sir, allow me to put it bluntly. Unless we blindly believe that Britain will act 100% in Hong Kong's interests, the fact that China comments, assists and monitors the new airport project before the setting up of the SAR Government in 1997 so as to safeguard the interests of the future SAR Government should give no cause for much criticism. Besides, the participation of China may serve to strike a balance between the various forces, and may reduce the costs and difficulties of the Hong Kong Government in raising funds. In view of the above and given the fact that the construction of the airport and the repayment period extend beyond 1997, and that the Hong Kong Government's land sales before 1997 are determined by the Land Commission formed by both the British and the Chinese Governments, Britain's rule over Hong Kong before 1997 should not be made the excuse to exclude China from assisting or monitoring the airport project or the reason to accuse her of interfering in Hong Kong's internal affairs.

Sir, as the new airport will have far-reaching consequences on Hong Kong, it is imperative that due care be exercised when designing it or Hong Kong will suffer great economic loss. The grave consequences of a number of breakdowns of the Mass Transit Railway recently illustrate the problems that may arise from over-reliance on one mode of transport. Should there be aircraft accidents involving container-carriers, fuel trucks and so on on the only road that leads to the airport, airport-bound traffic will be disrupted or come to a standstill. The entire airport service will be paralyzed and it will not be easy to disperse the people stranded in the airport. So when planning the airport traffic, the Administration should consider building more ferry terminals and running ferry services to Tsuen Wan, Tai Kok Tsui, Tsim Sha Tsui or Central. They can serve as back-up routes of access to the airport on the one hand and provide options of cheaper modes of transport for airport passengers on the other.

Sir, with economic slowdown, high inflation and, substantial tax and price rises that people no longer can afford, increases in tax and charges may cause social unrest, batter the growth of our economy, and may have the counter-productive effect of less revenue yield despite tax increases. Exercising restraint and trimming expenditures are most important instead. In fact, it is worth the Government's efforts to review, trim or even scrap the expenditure of the following two items:

(1) Expenditure on Vietnamese boat people: In the past 14 years, Hong Kong people have been paying an enormous sum of money on the Vietnamese boat people. The total expenditure incurred amounts to billions of dollars. This is not what a tiny place like Hong Kong should be made to pay or can afford. In fact, in an open statement made by our Senior Member on 18 August 1989, he pointed out that Hong Kong people have been very perplexed by the Vietnamese boat people issue. In his letters sent to the Government, he pointed out repeatedly that the Legislative Council no longer can appropriate funds for the outlays of the boat people. If any financial need arises in regard to the Vietnamese boat people issue, he noted, the United Nations and Britain should be obliged to undertake the responsibility. Further, in reply to our questions recently, the Secretary for Security admitted that the financial assistance offered by Hong Kong had exceeded her fair share of responsibility and contribution. He also pointed out that the Vietnamese boat people issue was an international problem. In such circumstances, why is the Hong Kong Government still dragging its feet and even today we are still made to pay without an end in sight the outlays of the Vietnamese boat people, like all the expenditure of the Refugee Status Review Board that Hong Kong pays on her own. As for the \$230 million owed to the Hong Kong people by the UNHCR, we were told by the Secretary for Security that the Commission was in financial difficulties. But is he aware that the Hong Kong people are confronted with the problems of tax and price increases and that Hong Kong is in need of money urgently to solve the many problems of the territory? If the Hong Kong Government only acts in the interests of others at the expense of Hong Kong people, how can we set our heart at ease and have confidence in it? Sir, the boat people reaching Hong Kong these days are not the refugees in those days who faced political persecutions and had no way out but to take to the high seas. As the refugee status has changed, the 1979 Geneva Accord on the port of first asylum policy can no longer apply. The lame excuse that the Secretary for Security used to defend "the limited ability of the Hong Kong Government on the boat people issue" in the Finance Committee on the 22 March is not what we can accept. We urge the Government to stop paying all the outlays of the Vietnamese boat people, and let the UNHCR, the British Government or even the United States Government undertake a share of their

responsibility; and to scrap the port of first asylum policy and repatriate the boat people expeditiously so as to reduce the financial burden of the Hong Kong people.

(2) Expenditure on consultancy studies: Sir, in the past few years, the Government's emphasis has been on restraining the growth of the Civil Service to reduce Government's expenditure. At the same time, however, the costs of consultancy studies have spiralled astronomically. Take the consultancy fees for the new airport as an example. The total sum exceeded \$2 billion, which is a much higher figure when compared to the total consultancy costs of \$1.495 billion the Government spent for the five years from 1981-82 to 1985-86. Sir, past experience tells us that at a time when the Civil Service is not at full strength, substantial increase in the spending on consultancy may not necessarily mean that the consultants' findings are getting good value for money. Worse still, it may lead to inadequate monitoring of the work of consultancy, costs of consultancy getting out of hand and deterioration in the quality of consultancy. Further, this may aggravate the staff shortage problems of the Civil Service. This being the case, some of the consultancy reports presented may only be glanced through by the officials concerned and then put aside, due to heavy work commitments. At present, many of the papers presented to the Finance Committee of the Legislative Council seeking appropriations do not provide adequate information. As a result, Members are unable to determine immediately whether there are value for money or justifiable needs. Sir, in the face of economic slowdown, financial difficulties and manpower shortage in the Civil Service, the Government should strengthen the control and exercise restraint of consultancy expenditure and make appropriations only when there is such a need and in accordance with set priorities. It is worth the Government's effort to review again to see if it is prudent for the Government to carry out such mammoth consultancy studies it is undertaking.

Sir, in concluding, I wish there would be amendments made to the Budget. I hope the Government would raise the personal allowance to \$58,000, reduce the rises in taxes such as the rates charge, increase the rates of profits tax and betting tax, cease paying outlays on Vietnamese boat people, exercise stringent control of the consultancy costs and carefully assess the new airport project so as to reduce the hardships of the general public and to forestall any social unrest. I can hardly accept the present substantial increases in tax and charges. Sir, in our present society, if we are to make a success of Hong Kong, we must work with collective wisdom and concerted efforts. Preparation of the Budget is not only the work of the Financial Secretary; many other officials are also involved. So whether the Budget

is a good or bad one should be the responsibility of the whole Administration. But it really is a shock to the people to learn that when the Hong Kong Government decided to self-finance such a mammoth project as the Tsing Ma Bridge, the Financial Secretary, the highest-ranking official responsible for the fiscal plans of our territory, was not notified or consulted beforehand. If he is not informed on important issues, how can we demand the Secretary do the job well and have good achievements. In a well-established Government machinery, if the decision-making power is left in the hands of only one or two officials, it is not a healthy phenomenon.

Sir, with these remarks, I am not prepared to support the whole Budget. Thank you.

MR LAM (in Cantonese): Sir, while the 1991-92 Budget has stressed the importance of maintaining the strength of the Government's financial position, to control public expenditure is in fact a sensible move in the fight against inflation. In order to discipline public sector finances through budgetary guidelines, the Government must first have in hand the effective mechanisms. It is learned that the allocation of resources among government departments for this financial year has been finalized only through keen competition. While some departments have reduced their expenditure to a great extent, others have had only minimal growth in their expenditure. Under the principle of maintaining our financial strength, I agree to the practice of controlling public expenditure.

But on the other hand, given the high level of the Government's recurrent commitments and the planned programmes involving heavy capital expenditure, the question of generating revenue and reducing expenditure must be addressed. Thus it is worth discussing how to draw up a prudent plan in this respect. The Government thinks that the primary strategic objective of increasing indirect tax is to adjust the proportion of tax revenue from direct and indirect taxes. Indirect taxation has the merits of securing a more stable yield and allowing for the consumers' personal choice. But I have a different understanding of the matter. I think an increase of 25% in rates payment will result in additional housing cost for the lower income group and increases in fuel duty, tunnel tolls, vehicle first registration tax and so on will impose a heavier burden on the lower income group in terms of travelling expenses. The 200% increase in the duty rate on tobacco is really shocking. Though tobacco is not a necessity of daily life, some members of the public have already formed the habit of smoking. That is why people say, "Getting full with meals and

cigarettes keeps one's vigour and vitality". Cigarettes, like food, have become a part of the daily lives of many people in the local workforce. Thus a hefty increase in tobacco tax will, in effect, raise the cost of living for some members of the public. Hong Kong is an international business centre practising a free economy. If the Government resorts to a substantial increase in tobacco tax as a means to discourage smoking, it would seem that the social policy to be adopted is on the verge of interfering with the free economy. To consider the issue from another stand-point, in view of the hefty increase in tobacco tax for this financial year, why is the betting tax not increased too? Traditionally, smoking and gambling were taken together as special items for taxation purpose, why then has a discriminatory measure been adopted?

Sir, the average increase in rateable values on properties after revaluation is about 85%. Though the charge to rates is to be reduced by 2%, the increase in rates payment will still be as high as 25%. A "chain reaction" will be triggered off as rates increases will lead to rental increases, which will bring along a price spiral. The overall economy will then be adversely affected.

Sir, in order to carry out major infrastructural projects, the Government intends to raise funds by issuing short-term government bonds and by borrowing. The proceeds from this programme will go to the Capital Investment Fund or the Capital Works Reserve Fund and will be used for capital projects. This kind of fund-raising exercise is practicable. Major infrastructural projects can stimulate social and economic activities and provide more job opportunities for the general public. Though the amount to be raised under the bonds proposal may be adjusted according to the size of the public expenditure, there is a limit imposed by the total income of our society. Thus the Government needs to give consideration to the principle of "cutting the coat according to one's cloth".

In general, borrowing and issuing bonds is practical financial management with emphasis on the acquisition, use regulation and management of government resources. It is like "eating the food intended for the following year" and carries debt servicing obligation. Financing the major infrastructural projects by three-year short-term bonds can only solve the problem of funding before 1994. After 1995, the minimum annual expenditure for the projects will be \$13 billion. The surplus of this financial year is about \$1.3 billion with a reserve of up to \$74 billion. According to the progress of infrastructural projects, the reserves will have to be used in 1992 and the deficit will amount to \$6.4 billion by then. By 1995, the fiscal reserves



may possibly drop to \$40.2 billion. This forecast involves no exaggeration on my part.

Sir, a rise of \$2,000 in personal tax allowance is all the lower income group gets to cope with inflation resulting from rises in taxes, fees and charges. Even a rise in wages cannot help them out. Besides, tax increases will also be adopted to deal with the proposed short-term bonds, the deficit and the loan interest in the coming years and the burden will again be placed on the public.

Under our social relief system, which is underpinned by the Public Assistance Scheme, not many people in the low income bracket are actually benefited. In view of the high inflation rate of 10%, the Government should increase personal tax allowance so as to relieve the pressure caused by inflation.

Indirect taxes will eventually be shouldered by the lower income group. Consumers can choose whether to purchase certain commodities or not, but as the rise in wages lags far behind the rise in prices, it is difficult to save on daily necessities. Financial trend and social phenomenon go hand in hand with each other. As distribution of resources plays a significant role in social policy, the principle of equity should be observed in the levying of taxes. Recently there has been a wave of objections to the unreasonable taxation policy which allegedly amounts to "robbing the poor to benefit the rich". This saying is not entirely groundless and indeed the situation should not be ignored.

At the present stage, the maintenance of stability and prosperity in society is the common wish and responsibility of the Government and the public. The Government's social policy should aim at implementing an equitable taxation system so that the lower income group can share the fruits of prosperity. As stability is the basis of prosperity, the urgent task at present is to curb inflation. This responsibility rests with the Government.

Sir, with these remarks, I support the motion.

MR TIEN: Sir, this Council is part of a tradition which sees the duties of the legislature to be responsible controllers of the public purse. The Administration proposes, the legislature disposes. This year, we stand at the beginning of some changes: firstly, the Council now considers policy implications in spending; secondly,

there is less reliance on direct taxation by increasing indirect taxes.

As for the first change, this Council can be seen as about to change its usual tranquil approach, on such matters as the Budget, to a more assertive role. Secondly, the Budget proposals add up to a new approach, one not favoured by smokers, car users, wine and beer drinkers as well as others such as air travellers. In short, we stand at the threshold of a tax policy which seeks, much more systematically than before, to make people pay for what they actually consume. I welcome this trend.

### Taxation policy

Many people see the Financial Secretary as a fisherman. After putting out his net, and fishing in a sea of 2.7 million fish, he comes up with a 100 000 catch. This is the 100 000 group which pays the top rate of 15% and also accounts for 56% of Hong Kong's total tax yield.

The other 1.5 million or so fish swim away, free of tax, while the rest of the 2.7 million pay only a fraction of the costs. This situation is one which cannot too often be re-stated. Indeed, I feel that the hole in our tax net has been too big, and, I suggest, inequitable. With this Budget the Financial Secretary has found a few more fish -- the ones who smoke, drive cars and like alcohol.

Sir, what we have here is a cleverly disguised sales tax -- disguised, that is, except to those paying it. Let me put it this way. If we introduce, say next year, a few more such taxes on luxurious or semi-luxurious goods, then, surely, we will be half-way towards a general sales tax. A step-by-step tactic over several years is definitely better than a sudden devastating imposition of a sales tax on just about everything. Basic foodstuffs, such as rice, vegetables and other necessities of life, could be the final step.

Here I would like to say a few words about the 200% increase in cigarette tax. I do not smoke. I have never smoked in my life and I do not like people smoking around me. I think it is bad for my health.

However, as a factory owner who frequently comes in contact with low income labourers, I feel that smoking to some of them is one of the few luxuries of life that they can afford and look forward to. Depriving them of that right, on health reasons, by increasing tax by 200% in one step is unreasonable. I would much prefer

that a step-by-step approach of gradually increasing this tax, say, by 20% to 30% a year for a few years would be more acceptable.

Having said that, I strongly believe in the principle that the user should pay. Hence, the tax base should be widened progressively. In due course, current tax proposals regarding cigarettes, gasoline and motoring should be extended to other areas. At first, luxury items, such as motor-yacht, mobile phone as suggested by Mrs Rita FAN, jewellery, imported fashion and expensive watches could be included. Ultimately, over several years, step by step, everything could be included. The end result would be a comprehensive sales tax.

Maybe another way to put this is that, firstly, we tax at the Rolls-Royce level then we tax at the Rolex level, and, finally, we tax at the rice level. I fully support the view that the better-to-do should pay more, the less well-to-do should pay less. But paying more does not mean paying for everything, and paying less does not mean paying for nothing. I look forward, with anticipation, to seeing these ideas further expanded, in due course, by the incoming Financial Secretary.

Sir, the figures for expenditure on the public sector indicate a worrying trend. In 1987, we spent about 14.6% of our GDP on the public sector. At present, we are spending some 18.3% of our GDP on the public sector. In 1992, we will spend 20.3%. Will that figure be 25% in 1995, and 30% by the year 2000?

Numerous countries around the world have shown the dangers of excessive public spending. In particular, excessive spending on welfare from cradle to grave has impoverished a number of countries, from Sweden to New Zealand. New Zealand, for example, with a population of 3.3 million, has a welfare state system which is now crippling their economy. New Zealand has already arrived at spending 30% of their GDP on public welfare expenditure. There are now more than half a million pensioners in New Zealand, and, in addition, the numbers living on welfare increased from 42 000 in 1971 to 345 000 today -- an 800% increase.

Modern economists have shown that no country, no matter how prosperous, can afford the level of benefits which come to be demanded. At bottom, somebody -- that is the taxpayer -- must pay. Schools are not getting cheaper, hospitals are expensive complex institutions, and, so is public housing.

Some of my colleagues complain that expenditure on social services is inadequate,

and that we should do better. I see it differently. We can only afford more when we have earned more. The wealth has to be created before it can be spent. The Financial Secretary in the years ahead will have a hard struggle to contain all of those who complain that double digit increases every year are inadequate.

In the last ten years expenditure on social welfare has increased in money terms from \$1.1 billion to \$5.5 billion; expenditure on education has increased from \$2.8 billion to \$10.7 billion and, on medical services from \$1.8 billion to \$8.4 billion. Nothing is free, not even, given our problems of containing air pollution, the air we breathe.

The relation between the taxpayer and the Council

Sir, I see another difficult issue here. This Council is shortly to be expanded by the addition of 18 Members, who will take up their seats as a result of September's direct elections. These Councillors may well use the brave 100 000 full taxpayers as their targets by asking them to pay more tax in order to realize their vote-getting ambitions.

The 100 000 full taxpayers will in addition pay for most of the indirect taxes. Such as the 5% increase in gasoline tax, the 20% first registration tax, as well as the 15% increase in alcohol, 5% in cosmetics. But at least, in theory, all will have to pay.

My main point here is to argue that there is a serious distortion of our social system, and one which could worsen after September. This distortion may be explained in simple terms. So far, civil service administrators have made decisions about government, and businessmen have made decisions about business. The business sector, the creators of wealth -- always a tiny minority -- have been satisfied to work hard, provide jobs for the lower income group and pay 16.5% tax to our Government while obtaining few benefits in return.

Some Councillors here have suggested that the corporate tax of 16.5% is too low, and should be increased, and a capital gains tax should be considered.

I am afraid they fail to understand that comparatively in this region, our actual corporate tax paid is not low. For example, profit and losses between companies of a same group cannot be off set against each other here as in other countries. Tax

exemption for 10 years is not given here to start up business or factories as in Malaysia and Thailand. Singapore has a tax rate of only 10% for company setting up there as regional headquarters. The trend around this region is to lower tax. Investment, both foreign and local, could be easily diverted elsewhere if we buck the worldwide trend by increasing corporate tax, or introducing capital gains tax, without giving back some other concessions. For example, why use Hong Kong as a regional headquarters paying 16.5% tax to Hong Kong to operate a factory in China? Why not move the regional headquarters to Singapore and pay 10% tax instead.

However, on the other hand, I fully support calls that outstanding loopholes in our legislation on tax avoidance by corporations should be amended as soon as possible.

We are now on the threshold of a new social structure. From this year, the right to the benefits of the creation of wealth will become a political issue, via the ballot box. 1.7 million non-taxpayers will have 1.7 million votes.

These people will have 17 times the power, in voting terms, than the 100 000 top taxpayers. Popular vote-catching promises will be easy to make on such subjects as subsidized housing, free education, social welfare spending. In other places, there is a long tradition of "bribing" the voters with welfare. An easy way to do this is to play down to the worst instincts of the electorate. I am certain that such a practice will develop here.

But consider the future anticipated deficits. In 1992-93 a deficit of \$6.4 billion will be expected, and in 1993-94, this will be \$14.2 billion, with more to come. I fear these figures may be on the low side, as elected politicians seek ways to pander to their constituents.

The Financial Secretary has done his best to avoid the worst excesses, but, in the aftermath of this Budget (and, the September elections), I am concerned at the distortion which can result. Once the public taste the fruits of welfare spending, they quickly become addicted.

The impact on industry

Sir, as regards industry itself, manufacturing accounts for 18.3% of our GDP and of this we exported 69%, which amounts to \$226 billion last year.

I therefore much regret that this Budget has nothing to offer industry. This is a Budget about raising revenue. If manufacturing is the life-blood of our economy, then we should be catered for. In this context, our recently-implemented labour import policy, which proved to be very helpful in providing not cheap labour, but flexible labour to industry, should be further developed.

Industry is beset on all sides by tigers -- the anti-protectionism, the restraints of MFA, the Uruguay Round of GATT negotiations, the anti-dumping allegations, and the anti-pollution legislation. But industrialists are all too often the forgotten men and women of society. Why? Because they have few votes for the scheming politician. Without them the prosperity of Hong Kong would be a very sad picture indeed. They are the goose that lays the golden eggs in the 1970s. I hope they would not become a roasted duck by 1997.

Sir, inflation in Hong Kong is caused by many reasons. I feel the single main reason is our excessive wage increase over the past few years. It seems to be taken for granted that, both in the private and the public sectors, yearly 15% wage increases are expected. Frequently those increases are based, not on productivity, but on comparability. If "A" has an increase, "B" wants it. Civil servants examine what is happening in the private sector and the private sector watches the Civil Service. But, not a word about productivity. If 9.8% is the inflation rate, then everybody wants at least 15% or 20% pay increase. Wage increases are often given unearned. That is the root of our problem and I regret that with direct elections more demands will be made for excessive wage increases of above 15% in the years to come. Such a trend will have extremely detrimental effects upon the fight against inflation.

Bonds

Sir, Hong Kong Government is in the enviable position of not owing anybody any thing. Certainly not externally. We have no debt as yet. The idea of issuing government bonds to raise money is quite new here. I am concerned that once the cash is in the coffers of the Government, the future Financial Secretary might misconstrue the intention of the 1991 Budget, namely that the bond is designed to be used for capital projects, such as the new airport and related projects. I wish to be assured that funds obtained from Government's bonds should be spent on capital expenditure, such as ports, tunnels, bridges and airports, and not on housing estates, hospitals and other welfare projects. Capital expenditure as defined here should be wealth

creating projects and not welfare projects.

## Conclusion

Finally, Sir, I wish to make a plea to the people of Hong Kong for our traditional values of prudent public spending under strict and prudent control, as well as prudent borrowing. Sir Piers has struck the right balance, and, in general terms, I fully support this Budget. Over the past few years, Sir Piers has been a diligent and dedicated guardian of our resources, not to mention the large reserves that he has built up in this period. Hong Kong owes him our gratitude and thanks. I wish to extend my personal good wishes to Sir Piers and Lady JACOBS for the future. Sir, with these words, I support the proposals contained in the Budget speech.

MR CHAN (in Cantonese): Sir, last week I received as many as 120 English letters, something that has never happened to me before. Fortunately, the contents were all the same, that is, appealing to me to support their objection to the proposed tobacco duty.

Subsequently, I consulted members of the Eastern and Wan Chai District Boards, most of whom were dissatisfied with the sharp increase in indirect taxes and the small personal taxation concessions. They think these measures will add to the burden of the lower income groups. Yet, about 10% of the district board members supported the increase in indirect taxes.

Let me talk about the duty on tobacco first. Nevertheless, I must think of something new on the issue for the Financial Secretary. I can recall that the duty on tobacco was increased by 300% in 1983-84 when the price of a packet of cigarettes was raised from \$2.2 to \$6.5. However, the era of Sir John BREMRIDGE was different from that of Sir Piers JACOBS and one should not forget that there were no elected Legislative Councillors at that time. Over the past few years, there has been greater social and democratic consciousness in Hong Kong.

As to the suggestion that higher tobacco duty can help reduce the number of young smokers, I doubt very much the validity of such an argument. Judging by our young people's power of consumption, one really wonders whether a hefty tax increase will be a useful deterrent.

People tend to accept the presence of some unhealthy things. No place in the world has banned cigarette smoking and Hong Kong people have so far reacted mildly to anti-smoking campaigns. Conspicuous advertisements are found everywhere; sponsorships from tobacco companies are accepted; and smoking in non-smoking areas is not reported. Thus, it can be said that Hong Kong people are to a large extent tolerant of the existence of cigarette smoking in Hong Kong. The hefty increase in tobacco duty seems to be not in keeping with prevailing social attitudes. No wonder even non-smokers have considered the increase too hefty.

As things are, I hope that the tax increase can be implemented in phases. Subject to the agreement of fellow Councillors, the Legislative Council can exercise its power to make amendments at a later stage. However, it would be better for the Government to take the initiative in amending the proposal in order to allay public resentment. The additional revenue generated should be used to step up propaganda against young smokers. Meanwhile, tobacco companies should spare no money and effort in checking the prevalence of smoking among young people, just like what they have done in protesting against the rise in tobacco duty.

The personal allowance for income tax is another issue which has caused much dissatisfaction. As many as 100 000 salary earners will fall into the tax net for the first time since the proposed increase in personal allowance can match only half of the inflation rate. To levy tax on 125 000 taxpayers with lower incomes, representing 10% of the total number of taxpayers, can only generate an additional revenue yield of \$20 million (only 1/860 of the total revenue). May I ask which is more important -- to observe principles or to ensure cost-effectiveness? I doubt whether the \$20 million thus generated can cover the additional administrative expenses in respect of staff salaries and fringe benefits. Therefore, I agree to requests by the Hong Kong Democratic Foundation and other organizations that personal allowances for salaries tax should be increased to offset the inflation rate.

Let us now turn to the issue of sales tax. The Government has been impressing upon us the necessity of broadening the tax base. I agree to the democrats' claim that at present, there is no necessity whatsoever. The more sources of revenue we allow the Government to tap, the less willing it will be to cut expenses.

While requesting the Government to "cut expenses", there is no reason for us to "broaden its sources of revenue". This is a matter of strategy. Though the Government has in recent years tightened its expenditure, the scale of economy is



hardly comparable to that attained by the private sector. Our strategy is that if we are to press the Government to cut down on waste and control expenditure, we should not allow it to broaden its sources of revenue and introduce sales tax at will.

This is especially the case when inflation is a serious problem. To address this problem, one of the plausible solutions is to control public expenditure and wages in particular as this can yield the best result at minimal cost. In the short term, it is undesirable to broaden the tax base because public expenditure has to be checked. Nor is there such a need in the long run. Economic ups and downs are natural but in the long run, our taxation system should still be able to generate enough revenue not only to meet the necessary expenses, but also to maintain substantial surpluses.

During his tenure of office, the Financial Secretary has repeatedly impressed upon us the idea of broadening the tax base. Is this a move to prepare us for the rainy days or does it reflect his undue worry and lack of confidence in the taxation system which has been in force for so long?

In my opinion, Hong Kong still has to rely on a simple tax structure and low taxation rates. Unless we have no confidence in the local economy, Hong Kong is still an ideal place for business transactions. Here, investors can make immense profits and enjoy a low taxation rate. In addition, they do not have to worry about unexpected and drastic tax increases and so they can feel at ease to make reinvestments. With more profits for investors, the Government's revenue will also increase. It follows that there is no longer any need to increase taxes on a regular basis or on a large scale. Nor is there any need to introduce a wider range of revenue measures such as broadening the tax base. Ever since early 1980, we have survived three consecutive years of deficit budgets. We should therefore have faith and need not be afraid of short-term economic depression. In view of this, there is not much need to broaden the tax base even in the long run.

The existing taxation system generates revenue which will not only meet our recurrent expenditure, but also cope with major infrastructural programmes such as the new port and airport development projects. Since we can resort to our fiscal reserves and borrowing for financing these projects, there is no need to increase taxes sharply. Now I shall talk about these two aspects.

The fiscal reserves are the savings of Hong Kong people. I shall give my full support to using the reserves in the interest of our society for such purposes as

our infrastructural projects. Hong Kong people should be given a chance to air their opinions before the Administration decides to draw on the reserves, so as to determine which part of the reserves should remain intact, unless there are any unforeseen difficulties. How much should this part of the reserves amount to? It is most inappropriate that the Government has apparently no established policy on this issue and Hong Kong people have never been consulted. Suppose the fiscal reserves now stand at \$72 billion, which part of this amount should remain intact? \$70 billion? \$60 billion? or \$50 billion? Who should make such a decision? Of course, it should be up to Hong Kong people to decide. The Government should therefore put forward its proposals for Hong Kong people's endorsement and support. Since the reserves are the savings of Hong Kong people, the Administration should be answerable to them in this respect. It is unreasonable and unwise for the Government to decide unilaterally.

As to the subject of borrowing, I shall extend my support to this option of financing the new airport. Unless we lack confidence in Hong Kong, we shall be able to repay our debts. The revenue generated after the relocation of the Kai Tak airport should be sufficient not only to cover expenses, but also to yield profits.

Here I would like to urge the Government to implement the construction of the new airport as soon as possible, as this project can help maintain Hong Kong people's confidence in their economic and political future. It is now time to announce details of financing for the project. Yet, it seems that the Government is indecisive as to whether to make reservations for a railroad in respect of the Lantau fixed crossing. I am worried that huge expenses in design will certainly be wasted if changes need to be made.

The costs for the construction of a railway at a later time will be much higher than. The Government should publicize as soon as possible the financial arrangements for the airport project and its economic and financial implications in order to boost the sagging confidence of Hong Kong people.

After the recent spate of tax increases, our cigarette prices and air passenger departure tax will be among the highest in the world.

Since all departing air passengers are required to pay the departure tax and smoking is quite a common habit, they will naturally be led to believe that all things in Hong Kong are expensive. Such misbelief works to the disadvantage of our tourism industry. The Government should compare our charges with those of other countries.

High charges will only spoil Hong Kong's image and should therefore be reviewed immediately.

This having been said, the Government may argue that tourists are allowed to bring with them upon arrival in Hong Kong 200 cigarettes and one litre of intoxicating liquor or wine duty-free and they will not necessarily be hit by the hefty increases. However, Hong Kong residents are only given half of the quota in respect of cigarettes and just one litre of tax-free wine is allowed. This policy shows favouritism to foreigners at the expense of the locals. Yet, for the sake of our tourism industry, there is nothing seriously wrong in such a policy. However, I find that Hong Kong people holding foreign passports can also enjoy this preferential treatment. If more publicity is given to this particular aspect, there will certainly be many more applications during the second phase of the British Nationality Scheme.

This is the Financial Secretary's last Budget. As before, I have confined my speech to proposals which require changes while not praising the commendable proposals. I know that the Financial Secretary has always paid particular attention to criticisms and has never failed to respond. Indeed, he will endeavour to do his best to reduce the chances of getting adverse comments. I therefore think that his performance as Financial Secretary is pretty good. All in all, the Budget is acceptable to me and I therefore support the motion.

MR PETER POON: Sir, the format of the Financial Secretary's Budget speech this year has taken on a new look which is commendable. It gives us an insight into his fiscal policy as well as his budgetary strategy. It explains expressly the budgetary principles that have been adopted by the Financial Secretary. It also states clearly the measures taken to control both recurrent and capital expenditure: the annual resources allocation exercise, the value for money studies, and the steps taken to increase productivity. I believe that more efforts can and should be made to control our large public expenditure.

Sir, I would now like to proceed with my observations on the Financial Secretary's Budget proper.

Inflation

Inflation is our number one enemy. High price for oil, strong domestic

consumption, high rents and big wages adjustments have all contributed to our high level of inflation. Some have suggested that there should be direct intervention by the Government to control inflation, for instance, by price and incomes policies, by abandoning the linked exchange rate and by imposing higher interest rate. I, for one, however, do not support these suggestions. Artificial suppression of price and wages increases does not seem to have worked very well in other countries and would certainly not work in Hong Kong which has all along preached free and open economy. The dangers of abandoning the linked exchange rate system would outweigh whatever benefits we hope to achieve. High interest rates policy will hamper business revival from recession. In fact, under the linked exchange system, our interest rates will have to follow generally that of the United States.

Under normal circumstances, Hong Kong should be able to adjust effectively to economic conditions. However, with increasingly high recurrent public expenditure, large infrastructural plans and increased private consumption, it seems that inflation will be fuelled rather than harnessed. I am afraid that the estimated inflation of 9.5% for 1991-92 is on the low side. The February 1991 inflation rate of 11.9% confirms my view.

Sir, I urge the Government to tackle seriously the problem of inflation as a matter of priority. On the other hand it is also important that the private sector should also do whatever it can in our fight against inflation, for instance, by exercising reasonable restraint in increases in prices and wages by increasing productivity and by curbing private consumption.

#### Indirect taxes

The Financial Secretary has been criticized for not using part of the accumulated reserves which stands at \$72.7 billion at the end of 1990-91 to finance part of the original deficit instead of imposing heavy increases in some direct taxes. My view is that in the light of considerable budgeted public expenditure in the coming years, it would not be appropriate to draw on our reserves this year.

As to the increase in indirect taxes, I understand that some charges have been adjusted to take account of inflation, while others have been adjusted as the existing charge is totally unrealistic or is insufficient to cover costs. The hefty increase in levy on tobacco, however, is obviously a means to raise substantial revenue despite the laudable health reasons as suggested by the Financial Secretary. As a result,

it is not surprising to see that there is an uproar charging that the Financial Secretary is denying the little pleasure some members of the working class enjoy in smoking a leisurely cigarette after a hard day's work. Perhaps a tax on personal mobile phone as introduced in the recent United Kingdom Budget at 200 per annum would cause less resentment.

There is strong opposition to any sales tax as it is being labelled as regressive and unfair to the less well-off. Despite the fact that most countries resort to such tax to raise steady income and to spread the tax base more widely, I do not feel that such tax, probably at the wholesale level as envisaged by the Financial Secretary, should be introduced until after full consideration and consultation. It should not be introduced at the time of high inflation and certainly not before further increases in direct taxes.

#### Direct taxes

There have been strong comments that local businesses are being too protected whereas the middle and lower income groups of taxpayers are hard hit by the new Budget. In considering these comments, let us not forget that Hong Kong's policy of low taxation is the basis of our success in attracting local and foreign investment. Our taxes are less than 10% of our GDP. This compares with 32.6% in the United States, 35.5% in Japan, 38.8% in Britain, 42.4% in Germany and 48.3% in France. I know that direct comparison is not appropriate as we do not offer as many social services as these countries. Nevertheless, our programmes in education, medicare, social welfare and housing continue to grow to meet rising expectations. In addition, capital works programmes also have to be implemented to cater for our needs as a modern international city. In view of such circumstances which are vastly different from, say, a decade ago, I believe that without breaching our low tax policy, our standard rate of taxes may be increased by 1% or 2%. This will not deter investment.

I am however disappointed at the small tax concessions proposed, in particular the small increase in personal allowances which hardly covers inflation. The result is that over 200 000 people will be brought into the tax net. Though it helps to broaden our tax base, it is nevertheless disadvantageous to the lower income group.

The reduction of 0.1% in stamp duty in share transfer is, however, to be welcome as Hong Kong's first step to follow other markets in lowering transaction costs.

Admittedly, our tax base has to be widened. But I would not agree with the suggestion that a minimum tax be imposed so that all income earners contribute something for the various services enjoyed by them or their families in Hong Kong as this would be repugnant to most people.

Nor would I agree with the suggestion of capital gain tax and speculation tax on share and land transactions. The introduction of capital gain tax needs utmost consideration beforehand as it will complicate our tax system and affect investments in Hong Kong. Short-term speculation gains in shares and properties are probably already taxable under our present tax laws depending on the circumstances of each case. Special legislation in this regard would not be desirable for the same reasons that it would affect investments.

#### Tax evasion and avoidance

With regard to the suggestion of field audit by the staff of the Inland Revenue Department, there can be no basic objection to such procedure as it exists in the United States, Australia and Canada. Such audits would be effective to catch tax evaders and also act as a deterrent against tax evasion. What the Administration has to watch carefully is that such action should not harass or cause undue inconvenience to the taxpayers. In other countries when such new procedure is introduced, over-zealous tax officers may cause considerable ill-will. Suitable guidelines with reasonable approaches will reduce a lot of such problems.

As to tax avoidance, I agree entirely that proper legislation should be passed to plug loopholes in our tax law. It is no secret that huge sums of tax are being avoided by using certain complicated and contrived tax schemes and such legal avoidance, which would not be fair to other taxpayers, should be stopped as soon as possible. It would be desirable to have such anti-avoidance legislation within six months to one year after rampant abuse of existing tax loopholes are detected. I do not however favour retroactive legislation. Quick action, as in the case of proposed legislation relating to leverage leasing, is more appropriate.

#### Measures to contain public expenditure

According to the medium range forecast 1991-92 to 1994-95, total public expenditure would amount to 19.7% of GDP. This is too high for comfort as it has grown from around 11% only a few years ago. Admittedly, during the period covered

there are exceptionally important projects to be financed such as the airport and the port facilities. In order to contain such huge public expenditure, the Administration should consider the following. First, certain services provided by the Government should be privatized where feasible and the size and costs of the productivity of the Civil Service should be further scrutinized. The Government can afford to be a good employer or even a generous one when double-digit GDP growth is achieved in Hong Kong. But when our GDP growth is low, our civil service pay package must be carefully considered. Secondly, those who can afford to pay should be charged with reasonable fees for services provided. For those who cannot afford to pay, in particular the disabled and the aged, they should not of course be denied such basic services as health care and so on. Thirdly, the Government should continue to monitor strictly public expenditure to aim at high efficiency, low waste and value for money. Finally, the Government should encourage participation from the private sector in our airport and port projects and issue bonds or obtain international financial support as far as possible.

Sir, before I conclude, may I take this opportunity to pay tribute to the Financial Secretary for what he has done for Hong Kong during his period of service. His job is never easy. His conservative, steadfast and dedicated way of managing our finances has served us well. Let us also not forget the important role he has played in improving the various legislation on financial services and in laying down a solid foundation for Hong Kong by accumulating substantial surplus in our fiscal reserves.

With these remarks, Sir, I support the motion.

MR CHUNG (in Cantonese): Sir, I have mixed feelings about the main proposals of the 1991-92 Budget introduced to this Council by the Financial Secretary Sir Piers JACOBS.

I am delighted to learn that the Government is going to carry out infrastructural projects for the future development of Hong Kong, yet it is also a cause of concern that the proposed mammoth financial commitment in the Budget in respect of the new airport and related projects may lead to serious tax increases.

Equal sharing

I believe the public will not oppose to reasonable increase in taxes insofar as they are in line with the due obligation of the people of Hong Kong and the increases

will not be detrimental to the overall interest of the territory. No publicity aiming particularly at promoting some other principle will undermine this consensus which is proper and desirable.

However, we must take note that among the various revenue proposals in the Budget, the most controversial one is the increase in tobacco duty by 200%!

I myself support any anti-smoking efforts. Neither my family nor I are smokers, but the case in point is totally a different issue. Obviously, control on smoking or health protection reasons should not be given as excuses for the drastic increase in tobacco duty, otherwise we will deviate from the proper function of financial administration and the purpose of budgetting.

The 200% increase in tobacco duty has given rise to a wider issue. It is not just a question of whether the one million people affected are willing or will be able to accept the increase. The most crucial thing is that this inappropriate approach of singling out a taxation item for drastic increase will set a precedent which is contrary to the basic principles of maintaining an equitable society where all public expenditure should be equally borne by taxpayers and business operation as well as consumer interest should be protected.

As a matter of fact, it is not necessary to adopt too radical revenue measures as far as the availability of our resources is concerned, and all along our financial strategy has been on the right track.

Tobacco duty and betting duty should be readjusted

As the need arises, I think it is worthwhile for the Government to reassess the rates of tobacco duty and betting duty in a fair manner favourable to the public.

According to the Budget, the 200% increase in tobacco duty will bring forth an additional revenue yield of \$1.9 billion per annum. However, unless the actual revenue yield from tobacco duty is higher than the estimated figure, otherwise I expect the yield from betting duty will contribute more than that from tobacco duty.

In my opinion, if we reduce the proposed increase in tobacco duty rate by half, that is, an increase of just 100% or below, and slightly increase the betting duty on horse racing to provide for that portion of the revenue yield which may be lost



due to the proposed reduction, I believe the sources of revenue may be more flexibly tapped and a better balance may be maintained. Such revenue measures may be more effective and more acceptable.

According to the estimate of the Government, over \$5.9 billion revenue will be collected from the Royal Hong Kong Jockey Club. This figure is almost two times more than the yield from tobacco duty. As horse racing is very popular in the territory, consideration should be given by the Financial Secretary in this respect.

Drastic increase in rates affects livelihood

The Budget tells us that an increase in rates seems inevitable. Therefore, it is the level of increase that matters.

If actual payment of rates is to be increased by 25%, it would be quite a big increase. This will eventually be reflected in rentals and rents for all kinds of property will rise in a full scale. As a chain reaction, this will give rise to soaring consumer prices and acceleration in inflation rate. The Government should be able to see that if the rates increase is too high, it will not only affect the livelihood of the general public, but will also lead to a depreciation of the estimated yield of \$440 million from rates in real term due to inflation.

The Financial Secretary has said, "My indirect tax measures will have some impact on the cost of living, but largely involving luxury or non-essential items." I doubt whether consideration has been given to the impact of the increase in rents and spiralling prices related to rates increase? Therefore I hope the Government will consider reducing the level of increase in rate payment to 10% so that rents and inflation will not be pushed up drastically and the anxieties and financial burden on the general public will be alleviated in every aspect.

Budget planning in Hong Kong as a financial centre

The Financial Secretary has predicted that "It is quite clear that for a certain period, we have to seek for more revenue sources from other aspect."

Regarding the introduction of a sales tax, I shall discuss it when the opportunity arises.

Today, Hong Kong has become a major international financial centre, yet its business as a financial centre has not been utilized as a major source of revenue in the territory. Notwithstanding that stamp duty on share transactions is set at 0.5%, all foreign exchange dealings are free from taxation. Why is that so?

It is estimated that the daily turnover in the foreign exchange market amounts to some \$40 billion and most of the dealings are in the form of short-term transactions. Even if a 0.01% ad valorem duty or stamp duty is charged for such transactions, the revenue yield will at least be \$1 billion after deducting the administrative cost; and if 0.02% is charged, that will lead to \$2 billion and so on. Many a little makes a mickle. The yield would make the additional \$300 million from the increase in rates most insignificant.

Nevertheless, for those foreign exchange transactions which are really needed in trade, an exemption may be granted in respect of the ad valorem duty or stamp duty.

Some people like to quote foreign examples, but we have here a better environment for investment where we can enjoy a high degree of freedom and a low tax rate. We have to formulate policies suitable for our development according to the actual situation.

Personal allowances should be increased

Now let us turn to the issues on personal taxation and personal allowances.

Under the pressure of increasing taxation and soaring prices, the general public find life more difficult. In the Budget, the Government has made no further concession on the allowances for dependent parents and children. This is most unreasonable and inconsiderate. Should we let our senior citizens and children tightened their belts under a "surplus budget"?

Although the Financial Secretary has proposed to increase the personal allowances from \$39,000 to \$41,000 for a single person, and from \$80,000 to \$82,000 for a married couple and estimated that the cost to the revenue would be \$480 million for a full year, I am afraid for those who are affected, it is just a game of gruelling figures.

The proposed concessions on personal allowances are entirely out of line with the rising Consumer Price Indices and are lagging far behind the salary increases

which are normally based on the inflation rate. Under such circumstances, how can those with income levels close to the taxation zone enjoy the benefits of such concessions? The proposed concessions will not only bring these wage earners no benefit at all, but will also drive them into the tax net whenever they have any salary increase or upgrade their obligations as taxpayers.

At the present moment, the "middle-income" group with a monthly salary between \$10,000 and \$20,000 are paying 30.8% of the total yield of \$17.2 billion from income tax although they only represent 26.4% of the 1.2 million taxpayers in total. Judging from these figures, it can be seen that if the concessions on personal allowances are unreasonable, the impact on the "sandwich class" and the lower-income groups would be most serious.

As a rational approach, the level of pay rise against inflation should be used as the guideline in making concessions in personal allowances.

Issue bonds to assess our financial capabilities

Sir, we need to give equal emphasis to our finance and the livelihood of the people. The revenue measures proposed in the Budget has indicated that the anticipated financial commitment in respect of the infrastructural projects will become a liability in our fiscal development and may lead to a livelihood problem which is difficult to iron out. Should not the Administration therefore resort to some that are more effective remedial measures for the overall interest of our community? For instance, the issue of Government bonds in the capital market is a practical way to strengthen our financial capabilities and finance our infrastructural projects without affecting the livelihood of the people.

I raised a proposal last year which is similar in nature to the present approach. I have identified the issue of Government bonds as one of the feasible financing methods for the financial projects.

Although the Administration has not specified the purpose of the bonds, I believe that the issue of government bonds at this juncture is a touchstone for financing the infrastructural projects and for the issue of various categories of bonds that may be required in the future.

Separate management for infrastructural projects

In my view, in order to improve the present financial situation of Hong Kong at source and to balance the Budget, the best way is to manage the infrastructural projects independently.

The Capital Works Reserve Fund for infrastructural projects has long been put on separate financial account, but I think the most effective way is to create an entirely independent management authority to look after infrastructural projects. Whenever government capital is required for the development and operation of the infrastructural projects, the finance department may provide fiscal support out of prescribed funds by way of investment or loans.

In view of the trend of our development and the Government's planning policy, there are adequate social support and economic ability to set up a separate and independent authority for infrastructural developments.

Financial resources for the infrastructural projects may be secured by various methods, such as issuing shares or bonds, obtaining foreign loans, entering into joint venture with private enterprises or accepting investment from international and Chinese consortia. After all, the financial arrangements for these projects have to be conducted independently by the "authority" in charge of these projects.

Provisions for security services should not be underestimated

Sir, you have given us some wise words: There must be stability before there can be prosperity and I have quoted your saying. In fact, the infrastructural projects serve the dual purpose of maintaining the stability of Hong Kong as well as ensuring the prosperity of the territory. Strangely enough, the proposed Budget has not reflected sufficiently on the need for security measures in respect of the social and economic development at present.

The proposed appropriation for the security forces is 3% lower than that of the previous year. When compared with the considerable increase in the allocation for various services such as environmental protection, social welfare and education, the budgetted provisions for security purpose give the impression that the importance of security measures during the transition period has been underestimated.

Public order in Hong Kong is not poor at the moment, but our security forces have

been challenged by crime syndicates from time to time. It appears that cross-border robberies, large number of car theft cases, smuggling activities between Hong Kong and China, worldwide drug trafficking and the influx of illegal immigrants by sea or land are all organized crimes undermining the security of the territory. This problem should not be taken lightly.

Unless there is a change in the scheduled arrangement, the British Garrison will gradually withdraw from Hong Kong starting from next year and our police force will have to shoulder greater responsibilities. Will the financial resources allocated for the police force which is below 1% of the Gross Domestic Product be adequate in maintaining law and order of the territory?

The Commissioner of Police has recently said in a Finance Committee Meeting that although there was zero growth in the number of police officers, the force would continue to devote their efforts to strengthening effectiveness and efficiency of the service. Nevertheless, how can our police force "make their efforts" if there are no adequate resources? Besides, does the police know that the crime syndicates may upgrade their "efficiency" in organizing criminal activities in response?

At present, Hong Kong needs to upgrade the security facilities at sea, land and air in order to stop the influx of illegal immigrants and smuggling activities by high-powered speedboats and to recruit more police officers to fill the existing vacancies. In these circumstances, the Administration should provide greater financial support for the police.

A Taxation Review Committee should be established

Members of the public have urged the Government to set up a committee with a wide representation to review our taxation policy. In my opinion, it is a positive proposal which may cater for various needs in maintaining a fair and sound taxation system, tapping financial resources for the ever-increasing public expenditure, plugging the loopholes in our taxation system and cutting down wastage of resources.

For instance, the estimated public expenditure amounts to 19.7% or more of the Gross Domestic Product while the present profits tax rate has not resumed to the 17% level. Is the tax burden of our companies too light? It has been projected that the total yield from profits tax for the next year will reach \$27.3 billion. If the rate of profits tax is increased by 0.5%, the Treasury will at least get \$1 billion

more for the revenue.

The establishment of a widely represented Tax Review Committee is worth considering by the Administration. However, the representatives of the Committee must keep strictly to the confidential rule during the consultative and policy-making process. Otherwise, the market prices or the trades concerned will be disturbed before implementation of any new measures.

Improvements to the Budget should be monitored

Sir, as we all know, being a Financial Secretary during the transition period is not an easy job. However, over the past five years, we have a stable currency encouraging economic and financial growth even in difficult times, rapid development in our social infrastructural projects double increase in income per capita and new records of large sum of fiscal reserves. In assessing the achievement of a financial controller on the basis of these facts, Sir Piers JACOBS is an outstanding financial expert. However, the proposed Budget has now reflected that the expert's hands are tied in the face of certain problems.

We must attach importance to the infrastructural projects but such importance should not be so great that our fiscal expenditure should continue to exceed the recurrent revenue or the resultant deficit be passed onto the public by way of further tax increases.

Although the infrastructural projects are welcomed by the public, it would be desirable if there is a separate financial arrangement for these projects which should be self-financing. The finance department should pay attention to the principle of "tapping resources and trimming expenditure" and make reasonable modifications as far as possible to the proposed revenue measures, which may adversely affect the livelihood of the people.

I accept the 1991-1992 Budget in principle, but reserve the right to monitor the improvements that should be made on certain issues.

Sir, with these remarks, I support the motion.

MR HO SAI-CHU (in Cantonese): Sir, this year's Budget is in general a conservative

one with few surprises. I would say that the Financial Secretary has already done his best in formulating a Budget with a surplus of \$1.3 billion in face on our slackening economy and huge expenditure. We should praise him for having done such a good job.

Since the Government made its announcement on the massive infrastructural programme on port and airport development, many people, including myself, have been anticipating that for the next few years, Government's financial strategy will switch from one of "revenue-led" to "expenditure-driven". It is because the infrastructural projects involve an enormous financial commitment. And given the worldwide economic slow-down, the interplay of favourable and unfavourable factors after the Gulf War is still uncertain. In order to avoid embarrassing deficits, it is inevitable that the Government will resort to tax increases in its financial management. This is something expected.

In last year's Budget debate, I urged that as a taxation policy, the tax burden should be "reasonably saddled" on different social strata of our community. This is to say, people who have gained more from the prosperity of our society should shoulder a greater share while those who have gained less should shoulder less. We should understand that the prosperity we enjoy is the result of the concerted efforts of every member of the community. And the stability of our society is built primarily on whether the vast majority can live and work happily. We must not be bogged down by the mere calculation of figures. A right approach to fiscal policy should have regard to political and economic considerations as well. I am therefore of the view that the adjustment of the basic personal allowance from \$32,000 to \$34,000, which represents a mere increase of 6.25% excluding the additional allowance of \$7,000, falls far below the current inflation rate of 9.5%. It will in effect drive more people of the lower income group into the tax net. The issue of broadening the scope of indirect taxation has not been raised in this year's Budget, but there are hints that it may well be brought up next year. I have always insisted that with the exception of luxury items which cater to the need of the affluent, to levy sales tax on consumer items of the general public is unfair in that it is imposing the same amount of tax burden on the rich and the poor. Furthermore, given its very wide implications, the sales tax is likely to arouse public resentment. For these reasons, I am, in principle, opposed to the introduction of a broadly based sales tax.

As a representative of the business sector, I am naturally in favour of a low profits tax, the lower it is the better. However, on the premise of the more important

objective to maintain the overall stability of Hong Kong, I did propose in last year's Budget debate that instead of widening the scope of indirect tax which would add to the burden of the public at large, a slight increase in profits tax was more preferable. On the face of it, the tax increase may seem unfavourable to the industrial and business sectors. However, so long as the tax rates in Hong Kong remain at a much lower level than those of other countries, and a favourable environment for investment is created through the concerted efforts of our community so that Hong Kong continues to be a place with great incentives, the industrial and commercial sectors will be the first to benefit in the long run.

Another revenue proposal that greatly affects people's livelihood concerns rates on property. Although the total charge to rates for the coming financial year is reduced from 7.5% to 5.5%, the substantial increase of the new rateable values will bring about considerable increase in rates in real terms, because there is an overall average increase of 85% in rateable values of properties, with an increase of 65% for domestic properties and 105% for non-domestic properties. Although the Financial Secretary proposed that rate payment for 1991-92 should not be more than 25% above that payable in the previous year, I note that 93% of the small domestic properties will bear an increase of 25% or less. When weighed against the 65% increase in rateable value, and should the rate of increase be allowed to sustain, the concession proposed in the rate relief will be levelled off in two or three years. In other words, the relief is far too brief. I would like to point out that people living in small domestic units are mostly of the middle and lower classes earning only a meagre income. I thus think that consideration should be given to lowering the percentage of rates increase for small domestic units.

Lastly, the question of duty on tobacco. Although I do not smoke and dislike smoking, I would not judge Government policies out of personal likes and dislikes. However, the two-fold increase of duty on tobacco and the 1350% rise in respect of Chinese prepared tobacco, after the abolition of the preferential treatment are indeed too much a shock for traders and people involved in the tobacco industry. These people are law-abiding operators who have their business plans and budgets. The Government justifies such a hefty tax increase by public health reasons. Yet, promoting public health is not a principle for taxation. Furthermore, to suppress legitimate free enterprises by administrative measures is by no means the right policy. I am afraid that this precedent will drive other trades into panic. Thus, I think that further deliberation is required on the issue of tobacco tax, or a grace period be granted so that the industry can make suitable arrangements.



Sir, that is all I have to say on the Budget for the next financial year. With these remarks, I support the motion.

MR LI: Sir, at the outset, on behalf of the financial constituency and myself, I would like to wish Sir Piers every success in the future. No one can deny that he is a man of integrity -- a man who has sought to do his best for Hong Kong. This is a debate about fundamental issues. What I have to say should not be taken as criticism of Sir Piers personally.

Once again, we have been presented with a document which purports to be a "Budget", but is, in fact, merely a licence to tax and spend, spend and tax. It is not a "Budget" because it offers neither clear evidence of financial management nor coherent fiscal policy.

The document uses aggregate figures to create a facade of responsibility and restraint. But under scrutiny, this illusion falls away, revealing a reality of financial obfuscation, of mirrors and smoke-screens.

Members of this Council were shocked by the Government's admission that it had underestimated the cost of one in every three capital projects undertaken since 1988 -- at a cost of more than \$10 billion in additional funding.

Yet, the Government's lax financial management is even more pervasive in its General Revenue Account performance over the same period. For the fiscal year 1988-89, two out of every three Heads of Expenditure exceeded their approved provisions. The following year, the ratio climbed to three in four. And, the Revised Estimates for the current fiscal year show that the proportion has now risen to an alarming six out of every seven.

Why is the Government unable to hold Heads of Expenditure to the approved provisions? Why are there so many apparent cost over-runs?

The reason is that the Draft Estimates -- both for capital projects and recurrent expenditure -- do not provide for inflation nor for increases in personal emoluments. Lacking any dynamic component, the estimates are, in effect, a fiction. They represent the cost of construction or of running a department at historic prices. The more time that passes, the higher the inflation rate, the more inaccurate the

estimates become. This approach is not only imprudent. It is naive.

But if the Draft Estimates allow neither for inflation nor for increases in personal emoluments, how is it that the 1990-91 Revised Estimates show that expenditure on the General Revenue Account before Transfers to Funds is expected to be about 3% below the Approved Estimates?

The answer is that the Government built into last year's "Budget" an \$8.3 billion cushion against inflation, increased civil service pay and other "unavoidable expenditure". This hedge comprised separate Recurrent and Capital Account entries labelled "Additional Commitments" under the Miscellaneous Services Head.

"Squirrelling away" this money out of the reach of civil service unions and department heads might be considered clever. But it means we have no true picture of the probable actual cost of Government -- by department -- at Budget time. The estimates are merely "expenditure yardsticks", which can be uprooted and reset at the Government's convenience.

The Finance Committee is the Legislative Council's only check on government expenditure. All too often, cost problems are brought to the Committee's attention too late to mitigate the damage: either the project or programme is too important to cancel, or matters have progressed too far to turn back.

The lack of transparency in the budgeting process risks not only mismanagement and waste, but also the misallocation of resources. Worse, it means that it is extremely difficult to monitor -- let alone, rein in -- Government expenditure growth.

In last year's "Budget", government consumption and investment expenditure (in "National Account terms") was projected to grow almost twice as fast as GDP in nominal terms. The gap is expected to narrow this year. But the growth in government expenditure will still exceed that of GDP by nearly 50%. In other words, government expenditure as a percentage of GDP will continue to rise.

The Government has indicated that the new airport will contribute significantly to public sector expenditure growth. Yet, the "Budget" speech implies that the airport will account for a relatively small share of increased government expenditure in the coming fiscal year. Thus, the Government appears to be locking itself into a high expenditure plateau even before absorbing the cost of the new airport.

To make matters worse, the Government is prone to underestimating both the rate of inflation to which its expenditure is subject and the extent to which real expenditure will grow.

Taken together, future expenditure on the airport and the excessive optimism of the Government's projections make doubtful the prediction that the public-sector share of GDP will peak in 1992-93.

The higher the ratio rises, the greater the likelihood that Government expenditure will "crowd out" private sector consumption and investment, and hence reduce the vitality and competitiveness of the economy.

The Government says it recognizes the danger. In the coming fiscal year, some 15 out of 77 Heads of Expenditure are targeted for trimming. But the limitations of the Government's budgeting process will make success difficult. According to the Revised Estimates, of the 11-odd Heads slated for cuts in the current fiscal year -- allowing for inflation -- less than half will make the mark.

The cumulative impact of the Government's approach to budgeting is that its finances are expenditure-driven, rather than revenue-led. The Government decides what it wants and then sets about finding the money to pay for it, rather than determining what Hong Kong can afford and then fixing priorities.

While there must be some give and take, the Government's approach to its finances is extremely dangerous. Budget-making ought to be an exacting discipline. It should force decisions, identify priorities, set targets, fix limits and co-ordinate strategy.

The process does not end with the Budget's approval. Success lies in implementation. Financial strength may be gauged by aggregates, but financial management is measured by specifics.

Sir, it is time for the Government to professionalize the budgeting process and introduce genuine financial management and planning. It does not make any difference what the practices are elsewhere. What matters is what is good for Hong Kong.

The process should be transparent. The fixing of the civil service pay increases should be moved forward and included in the Budget. The probable actual cost of each

project and programme should be stated as accurately as possible. Having participated in the drafting of their budgets, Government officers should then be held accountable for keeping within the approved limits.

But even if the document before us demonstrated sound financial management, it still would not qualify as a "Budget". It lacks a comprehensive statement of fiscal policy.

Strict financial management is a means to an end. To limit fiscal goals to balancing the books is to fail to recognize the Government's larger economic role. To fail to recognize this role is to degrade the post of "Financial Secretary" to "Financial Controller".

As a builder of infrastructure, as lawmaker and tax collector, the Government cannot ignore economic imbalances which it has helped to create.

Inflation -- Hong Kong's Public Enemy No. 1 -- is not going to disappear just because the Government asks it to go. In fact, unchecked real increases in government expenditure and socially divisive, higher indirect taxation only make it worse.

The problem is structural. Slower economic growth has not had the effect the Government predicted. The economy has found equilibrium at 9% to 10% inflation. This level is totally unacceptable if the territory's competitiveness and attractiveness as a centre for business, trade and finance are to be maintained.

As Hong Kong's largest employer, the Government must take the lead in tackling the wage-price spiral. It cannot look to the private sector. It cannot defer to market forces. It cannot hide behind "positive non-interventionism". Nor can it blame the rigidity of the present arbitrary linked rate for an inability to find solutions.

The best way to break the wage-price spiral is to boost labour productivity. Just as the Government has finally begun to heed the advice of Members of this Council, pledging to automate and computerize its operations, so, too, must it promote private sector investment in labour-saving technology.

The Government should increase depreciation allowances to companies which invest in automation and computerization. Rising business productivity and competitiveness would benefit the economy.

Regrettably, economic policy matters are given scant attention in this document. How else can one explain why the Government would go one-sixth of the way towards helping one segment of the financial industry with the stamp duty concession, while pulling out all the stops to blast another?

The 40% jump in the licence and registration fees for restricted licence banks and for deposit-taking companies is unreasonable. The argument that such an increase is needed to meet "previously under-recovered costs" is not borne out by the Banking Commissioner's Annual Report, which shows a healthy surplus.

If the Government wants Hong Kong to remain a dynamic international financial centre, prudence dictates that it work to enhance the territory's competitiveness.

Nowhere is the Government's lack of fiscal policy more apparent than on the revenue side. Nowhere is this deficiency more dangerous.

In light of the Government's ambitious infrastructure development programme and the inevitable increase in pension payments and other commitments, the question of the territory's fiscal capability looms over this document.

Blindly raising taxes to pay for the Government's increasing expenditure is not the answer. Indeed, the Government's obsession with broadening the tax base, like its pursuit of a sales tax, underscores its inability to manage its finances.

The first, essential step to a prudent revenue policy is tight financial management. The Government must abandon its expenditure-driven approach to budgeting.

The second step is to adopt a fiscal policy targeted at enhancing the territory's economic competitiveness. Increased productivity generates greater wealth, which in turn generates higher tax revenues.

The third step is to maximize private-sector participation in development programmes -- particularly in terms of equity. Wherever possible, the Government should act as the "traffic controller" for infrastructure development, rather than the primary developer.

The fourth step is to be imaginative in raising funds. Tapping the local capital market through the issuance of Short-Term Government Debt could be highly productive and appropriate -- although this carries the caveat that the Government should not borrow short to finance long.

Another option would be for the Government to cash in capital gains on previous infrastructure projects. In privatizing operations such as the KCRC, MTRC, water distribution and the Post Office, the Government could realize illiquid assets and generate funds which could be used for new infrastructure development.

Last year, Sir, I presented a comprehensive set of proposals for a fiscal policy. This year, we have been offered the usual mixture of drift and neglect. And it is to the credit of the Hong Kong economy that it can thrive despite the lack of a clear-cut policy from the Government.

At issue is not the performance of one Financial Secretary or another, nor the fallibility of one so-called "Budget" or another. At issue is the Government's basic approach to its finances.

What is at risk is not the "bottom line" -- Hong Kong has indeed built up an enviable financial position. Rather, what is at risk is the fiscal and political credibility of Hong Kong and its Government.

Given its undisciplined approach to financial management and fiscal policy, the Government is in danger of acquiring an image as a body which lacks self-restraint and unity.

With the major projects which will have to be paid for in the next decade, we need discipline and direction. We need a Budget which tightens the public sector's belt, not the private sector's. We need a Budget which says "no" to Government and "yes" to Hong Kong.

With these remarks, Sir, I abstain from the motion.

MR NGAI (in Cantonese): Sir, the Financial Secretary has, as before, presented us with a conservative and cautiously balanced Budget. His achievement merits commendation if it is to be assessed only in terms of the surplus accumulated. Yet,

at the heels of the painstakingly accumulated fiscal surplus, there appears to be ever increasing and deteriorating financial problems, for instance, the haunting problem of inflation, the much-needed taxation reform and the swelling expenditure of the public sector, and so on, all of which are key issues familiar to the public, resulting in the heavy burden of the community. What we find most disturbing is that, in anticipation of the heavy expenditure and economic chain reactions of the proposed infrastructural projects, we shall have to meet new challenges on top of the old ones which seem to remain outstanding pending improvement or solution. Sir, what has been swept under the carpet will not disappear by itself. The heap stays there and even stinks if it is not cleared away. These are the major concern of the general public.

### Fiscal strategy

Sir, we need a resolute and forward-looking fiscal strategy formulated after careful thoughts; otherwise, it would be difficult to find a solution to the current financial problems. The Budget for 1991 seeks to create a little surplus through fiscal measures. It is in fact a replica of the 1990 version and will not offer any real assistance to solve the financial problems.

As a matter of fact, surplus is revenue over expenditure. It is putting the cart before the horse to regard surplus as the main objective of a budget. Any budget whose emphasis is not placed on revenue and expenditure as well as on their management and utilization is not necessarily a good budget even if it leads to a surplus. To make it simple, what we need is a budget that can co-ordinate measures to increase revenue and reduce expenditure, or one that is in line with the affordability of the people and at the same time manages to help upgrading their quality of living.

### Public expenditure

In regard to public expenditure, as revealed from the logic underlying paragraph 15 of the Budget speech, while it may be easy to control expenditure, it is relatively difficult to maintain or augment our revenue yield. And may I quote from paragraph 15: "Most of our sources of revenue are directly affected by the performance of the economy . . . . conversely, when economic growth in a particular year is below the trend we do not automatically reduce our expenditure . . . ." To contain the level of expenditure is obviously something more within our control than to maintain the revenue sources. Hence, we should try our utmost to control public expenditure so as to reduce the impact from any economic downturn and to avoid the loss of strength

to recover our financial position.

It is regrettable that the main theme of the Budget still harps heavily upon means to increase the revenue yield, while a laissez-faire attitude has been adopted towards the control of public expenditure. According to the statistics provided by the Government, expenditure of the public sector accounted for about 16% of the Gross Domestic Product (GDP) in 1986-87 and it even rose to 18.3% in the revised estimates of 1990-91. As envisaged by the Financial Secretary, public expenditure may outgrow GDP by 20% during 1992-93. This trend of continual expansion of the public sector is contrary to the fundamental principle of the budgetary strategy mentioned in paragraph 8 of the Budget speech. As a matter of fact, the Financial Secretary pointed out in paragraph 40 of the Budget speech 1987-88 that "..... To stabilize the growth rate of public expenditure has meant containing its share at around 16% to 17% of GDP ....."

Sir, please allow me to make references to the following five budgetary criteria formulated by the Government:

- (1) recurrent revenue should cover at least 77% of the total expenditure;
- (2) recurrent expenditure should not be more than 85% of the recurrent revenue;
- (3) surplus on recurrent account should represent at least 33% of the capital expenditure;
- (4) recurrent expenditure should not be more than 65% of the total expenditure;  
and
- (5) capital revenue should cover at least 20% of the capital expenditure.

Such budgetary criteria were clearly spelt out in Note 7, Appendix A of the Budget speech delivered by the Financial Secretary in moving the Second Reading of the Appropriation Bill for 1985-86. Given their publication, such criteria must have been useful and of great value in serving a definite purpose.

Nonetheless, gauging government expenditure and revenue of the past five years by the aforesaid five budgetary criteria, we can easily notice that budgetary criteria No. (4) has been observed in respect of government expenditure. In other words, the



recurrent expenditure of the Government was always more than 65% of the total expenditure.

Sir, the appropriate remedy in this case is apparent. We shall have to start trimming down our recurrent expenditure if we want effective control over the growth of the overall expenditure of the public sector. Otherwise, the budgetary criteria which have been put forth by the Government as guidelines will mean nothing but a waste of efforts. Let me now turn to revenue measures.

#### Revenue measures

Tapping new resources is akin to raising revenue. The Financial Secretary has once again laid stress on indirect taxation by proposing substantial tax increases on certain consumer items. Such a measure will greatly affect the quality of living of the people. The hefty increase in tobacco tax in particular has been resented as grossly unfair. On the whole, the Financial Secretary lacks cogent reasons and clear policy objectives in raising the rate of tobacco duty drastically. It can be said that in working out his revenue measures, the Financial Secretary has picked on easy targets. I wonder what items will become the scapegoats next year.

Sir, taxes such as the tobacco duty had led to unreasonable market developments resulting in price spirals. It has led to undesirable chain reactions, thus stimulating inflation. These are all worthy of our concern. As a matter of fact, pricing policy may not necessarily succeed in bringing about intended results. For instance, the introduction of surcharges during peak hours by the Mass Transit Railway Corporation is clearly not an effective measure to thin out commuters. Nor can it ensure their safety. The disruption of service during rush hours early this month serves to prove that introduction of surcharges has failed to thin out commuters and the jostling crowd has not resulted in any danger to safety. It is therefore not at all convincing for the MTRC to introduce surcharges for reason of over patronage.

While the MTRC used over patronage as an excuse to levy surcharges, the ferry companies proposed to raise their fares on the pretext that their patronage was on the decline. What kind of reasoning is in such double-talk? In fact, public transport operators have always resort to fare rise as a means to attain their ultimate objectives. The repetition of these fare rise tactics seems to have indicated that unreasonable pricing policies are being encouraged. The OMELCO Standing Panel on Transport is right in its stance to oppose toll increase as a means to alleviate

traffic congestion at tunnel areas. Its observation is welcomed by the community. As a matter of fact, fare increase will not be able to achieve the ultimate goal of alleviating traffic congestion. Our colleagues have recently proposed amendments to the profit control scheme of public utility undertakings and I believe such proposals will prompt these undertakings to adjust their pricing policy and objectives in a more reasonable manner.

Sir, another area of concern is the apparently dampened confidence in the integrity and the principle of equity of our existing taxation system.

It is noticed that while some professionals are urging the Government to widen the tax base and increase indirect taxes and some are even going as far as proposing the introduction of a sales tax, the man in the street maintains that company profits tax should be raised and that tax should be levied on appreciation of assets. In view of these divergent views, it appears that different sectors of the community are inclined to shun or reduce their share in tax contribution. Such mentality has naturally led to general tax evasion and avoidance. We appreciate that the "field audit" system proposed by the Financial Secretary in paragraph 124 of his speech is a good measure to crack down the problem. However, I have to remind the authorities concerned that a more flexible standard has to be adopted when they implement this new measure. Small enterprises generally will not have the necessary resources to deal with these taxation matters. A "field audit" system that overkills with its excessive powers will create great pressure and burden on the small enterprises, thus affecting their desire in business development.

As all of us are aware, inflation is an intangible levy. Wage-earners fall within the tax net readily and this weakens their purchasing power. To take a look at the recent salary adjustment exercises of some major companies, we shall find that the salary adjustments provided can in no way match the increases in indirect taxes and in utility charges. People's purchasing power and the quality of their living are deteriorating. It is wise of the Financial Secretary not to introduce the sales tax. I oppose to its introduction even if the purchasing power of the general public is improving, not only for the reason that sales tax is a kind of retrogressive tax which is unfair to the public, but mainly because of the fact that the Government has not taken heed of the importance of parallel measures to reduce expenditure while it tries to increase revenue. I have already discussed in detail in the first half of my speech this swelling expansion in expenditure of the public sector. It is indeed worrying because it is getting out of control.

## Borrowing for infrastructural projects and fiscal reserves

I should like to turn to another subject: borrowing for infrastructural projects and fiscal reserves. Borrowing for our infrastructural projects will give rise to two disturbing problems:

(1) That the proposal only reveals a timeframe for the borrowing programme and makes no specific reference to the scale of the borrowing and the proportion of private involvement will be a cause of concern.

(2) As borrowing and fiscal reserves are inter-related to a certain extent and there has been controversy over the exact amount of the fiscal reserves, does this mean the cash accounting system adopted all along by the Government cannot reflect the true fiscal picture and has to be improved?

To cite an example, the Government has not disclosed how it will deal with the pension of the Civil Service. This sum which amounts to hundreds of millions of dollars is not covered in the annual account statement made on the basis of "Cash Deposit and Withdrawal". Will the expenditure on pension carry grave effect on the financial situation of Hong Kong in the future? The above problem is closely related to the proposed borrowing programme in every aspect and warrants our prime concern.

## Policy for the manufacturing industry

Let me turn now to the policy on the manufacturing industry. Sir, it is disappointing to find that while the importance of the infrastructural projects is highlighted in the Budget, not a single word is mentioned about incentives to encourage industrial development and investment. It seems that the industrial sector can only look forward to a flourishing economy, as suggested in between the lines of the Budget on completion of the infrastructural projects, a beautiful picture which everyone of us is hoping for. In the meantime, however, the industrial sector has to pay higher rates and transportation expenses. Other operation costs have definitely been on the increase, under the influence of the increase in indirect taxes. Moreover, the industrial sector has to bear additional expenses on environmental protection. All these are weakening the competitiveness of our manufacturing industry. While manufacturing industries of neighbouring countries have started to

bear fruit at the generous assistance of their governments, the Hong Kong Government is still unable to extricate itself from its "positive non-intervention policy" which is basically passive in its approach. It is regrettable that there is reservation even on the initial proposal of setting up an Industrial Development Council vested with the power of co-ordination.

Sir, considering the Budget for this year as a whole, one may say that it is over prudent and not ambitious enough. As it appears, there is still no effective solution to improve or tackle those long-standing financial and economic problems. Nevertheless, in a practical perspective, it is able to pool resources of the community together to embark on major infrastructure projects and to break new ground for another further economic prosperity for Hong Kong. The goal and the theme are clear. Though the Budget this year may not be regarded as excellent, it remains basically a fair and cautious one.

With these remarks, I support the motion. I would also like to take this opportunity to pay my tribute to the Financial Secretary for his contribution over the years. His hard work in times when our economy is baffled with all kinds of troubles is, in particular, worthy of praise.

MR LAU WONG-FAT (in Cantonese): Sir, since the announcement of the Budget for this year, vociferous protest of a magnitude rarely seen in recent years have been echoed throughout the community against the substantial increases in taxes. Though tax increase measures would invariably draw criticisms from various sectors, the Government should be cautious not to simply dismiss them as reflexive actions which are "indiscriminate objection to any increases" and "not worthy of serious consideration". If the Administration holds such complacent attitude in formulating its policies and takes no heed of the public outcry, consequences could be grave.

As the Government plans to embark on massive infrastructural projects within the next few years, many people are worried that they will have to face hefty increases in taxes in future as the Government is opening up the sources of funding. The Financial Secretary has stressed that the need to secure a more stable tax base is not for the purpose of financing the airport project, but for the requirement to provide a more stable source of funding over the longer term for recurrent expenditure. I am not sceptical of the sincerity of the Financial Secretary. However, the problem is that while the Administration makes such clarification, it substantially raises

indirect taxes which are closely related to people's livelihood. No wonder that to the man on the street, the Financial Secretary's speech is far from convincing.

It is indisputable that Hong Kong needs a new airport. Discussion about the airport has been going on for a long period of time and any procrastination will surely have adverse effects on Hong Kong. At this point of time when the relationship between China and Hong Kong has turned for the good, I hope that both sides will take this opportunity to reach mutual understanding on the issue as soon as possible. Given the common goal of maintaining the stability and prosperity of Hong Kong, the problem can be solved so long as both sides are sincere and allow for more flexibility.

I believe that everyone will agree that the construction of the new airport not only requires the blessing of the Chinese Government but also the support of the people of Hong Kong. Without public support, it will be very difficult to see a smooth completion of infrastructural programmes of such magnitude. The purpose for my making this reference is to point out that if the Government introduces substantial increases in taxes or extends the tax net too hastily in the next few years, especially if the revenue policy deviates from the principle of equity, public support for the massive infrastructural projects, the new airport programme in particular, will be undermined. When prices are sky-rocketing and in the face of various tax liabilities, it will be just natural for the public to attribute their extremities to the costly new airport programme, become more worried and doubtful about the ability of Hong Kong to finance its construction and even waver in their original supportive stand. From my recent contacts with the public, I find that more and more people start to have this line of thinking. I hope that the Administration will guard against such development and take care not to treat it lightly.

Sir, this does not mean that I object to all tax increase proposals for the above mentioned considerations. I just hope that in formulating revenue measures, the Administration will take fully into account their possible implications for various sectors. Public attitude towards the construction of a new airport is only one of the considerations. The impacts of taxation on people's livelihood, social harmony and the law and order warrant greater attention of the Government. As Hong Kong is now in the transitional period towards 1997, our first and foremost objective is to maintain the stability and prosperity of Hong Kong. In this connection, it is imperative to secure the support and co-operation of all sectors. A fair and reasonable taxation system which, as far as possible, takes into account the interests of various sectors rather than showing favour for or prejudice against a particular

quarter is evidently useful to achieving the above end; conversely it will turn into a destabilizing factor to the community.

The significant increases in indirect taxes and in a number of fees and charges proposed in the Budget for this year will further fuel inflation, which will in turn lead to the chain effect of a price spiral. Whereas drastic increases are made in taxes, fees and charges, the adjustment to personal allowance is merely nominal. This is very unfair because more low income earners will be caught in the tax net as a result. Though the Budget may not be robbing the poor to benefit the rich, as some people put it, it is crystal clear that the revenue measures will have serious impacts on the grassroots and the middle class and widen the gap between the haves and the have-nots. If this is to become a trend in our development it will not be a blessing to the community.

Though a sales tax, which lingers on the mind of the Financial Secretary, has not been introduced, yet sharp increases in taxes and fees and charges which have an equally shocking impact have been proposed. In summing up his Budget speech, the Financial Secretary said that he believed in "the steady and progressive development of a sound budgetary position" and that "he did not consider that we need shocks". While his pragmatic policy in fiscal management should be welcome, I suggest that similar steady and progressive approach should be adopted in respect of taxation and the levy of fees and charges. Any drastic increases should be avoided to spare people of hard blows.

The Budget raises the duty on tobacco by 200% at one go. Though I am not a smoker, I find it difficult to swallow, as this is not a steady, progressive and right approach in taxation. The health reason given by the Financial Secretary for the hefty increase is evidently more rhetoric than true. As pointed out in quite a number of comments, if the Government really cares about the health of young people, all it has to do is to ban the sale of cigarettes to persons under 18 through legislation. Unless the Government intends to identify smoking with drug taking, the adults' choice of smoking should be respected and the obligation of the Government should be one of giving people adequate warnings. Since smoking may be a great enjoyment in life to those low income workers, we should not deprive them of this relatively modest right by a covert fiscal means. If the argument of the Financial Secretary is to be taken further, heavy duty can be levied on salted fish on the ground that it may cause nasopharyngeal cancer. By the same token, other activities such as pornographic publications and betting are likely to face heavy duties for reasons

of protecting people's mental health and ensuring a happy family life. If such is the case, Hong Kong will then become a haven for levying taxes and there can hardly be peace for anyone.

In the case of the transfer of vehicle ownership fee, the incredible increase from \$50 to \$1,000 can in no way be justified. If the transfer of vehicle ownership fee has been too low for a long period of time, the blame should be on the Government, which has failed to start progressive increase at an early stage due to negligence on its part. Government should be held responsible for such negligence, it should not subject the public to a hefty increase upon realization of its fault.

In comparison, the 25% increase in rates poses greater impacts on the society as a whole. At present, rentals and prices of property are at an exceptionally high levels. Many households paying rents and mortgage installments for their flats are already feeling the strain. This 25% increase in rates will undoubtedly further aggravate the plight of the ordinary people and even the sandwich class. Moreover, the substantial increase in rates will push up the operating costs of a number of business undertakings and indirectly cause prices of commodities to soar. In my opinion, the proposed increase in rates should be adjusted downwards to an increase not exceeding 15% at the most so as to comply with the principle of a steady, progressive, fair and reasonable approach in taxation. Besides, the rate of increase in personal allowance should at least be on a par with the inflation rate and it is necessary to increase the allowances for children and dependent parents accordingly. If the above adjustments can be made, I believe that the economic pressure on the public and their discontent will be allayed to a certain extent.

Sir, I am fully aware that managing public finance is no enviable task and that the Government indeed has to resort to tax increases to cope with the increasing expenditure. Yet in any event, people's livelihood should be the prime concern. As regards opening up more sources of revenue, the Government should give consideration to imposing heavier duties on dispensable and luxury items like expensive motor vehicles and yachts. Though I am a businessman, I think it is necessary to raise the rate of corporation profits tax in order to boost revenue. Since the rate of corporation profits tax in Hong Kong is far lower than that of other major competitors like Singapore, a slight increase in the tax rate will not have much bearing on our investment environment. Moreover, it is not presumptuous to request those profit-making corporations in Hong Kong to pay more taxes. As a matter of fact, the rate of corporation profits tax was raised repeatedly when Hong Kong was in dire

financial stringency in the past. Now the Government needs financial resources for various uses, it has every reason to generate more tax yield from this area.

Lastly, I would like to take this opportunity to pay tribute to Sir Piers for his services over the years. I also wish him and his family all the best and a happy life.

Sir, with these remarks and reservations, I support the motion.

4.58 pm

HIS EXCELLENCY THE PRESIDENT: There are still 12 Members due to speak and Members might like a short break at this point.

5.34 pm

HIS EXCELLENCY THE PRESIDENT: Council will resume.

MR ARCULLI: Sir, firstly I should like to thank my honourable colleague, Mr Edward HO, for allowing me to go first. I know it is only one space, but unfortunately I have to go off to a rather urgent meeting.

Sir, it seems that the hunting season for 1991-92 was officially opened by the Honourable Financial Secretary on 6 March, for here we are taking pot shots at him if not trying to shoot his Budget down in flames. I suspect by now the Financial Secretary is taking all this in his stride and might even be quietly amused by some of the comments made in this Council over the years. In criticizing Budgets or the Administration as we do from time to time, there appears to be a theme that we in the private sector could do a much better job than our bureaucratic friends in the Administration. Irrespective of whether this is so, I doubt very much whether any of us would want to privatize the Administration. For that matter I do not believe that the people of Hong Kong would want such a drastic change.

Sir, the point surely is that the philosophy of public administration and finance is quite different from that in the private sector. Managing a government is subject



to certain limitations whilst the private sector is not. A company would not hesitate to dismiss, say, 10% of its staff if circumstances warranted such action. A similar move by the Secretary for the Civil Service, however, would have much more far-reaching consequences. Another example is that the Government could not reduce its hospital beds just because they are running at a deficit. Nor could the Administration close down public schools and trim basic social services for mere financial reasons.

All these taken together illustrate the difficulties in maintaining a fiscal balance and raising adequate revenue. One way of doing so is to widen our tax base, therefore reducing our dependence on direct taxes. But let me register a note of warning: we must exercise extreme caution before making any basic, structural changes to our present tax system, which is internationally praised for its simplicity. Indeed, all possible options must be ruled out before any structural changes are introduced and even then, only gradually.

Sir, before I deal with some aspects of the specific revenue proposals, I endorse what the Senior Member said on the subject of inflation. In his Budget speech in March 1989 the Financial Secretary acknowledged that an inflation rate of 7.5% on the Consumer Price Index (A) was high. It is only getting worse. Are we that helpless in tackling inflation? Surely, we must look at all our options including the linked exchange rate system to see what can be done! Apart from controlling the level of public expenditure we now have revenue measures in the form of indirect taxes on motorists and smokers which are undoubtedly inflationary. Both the Administration and the private sector must tackle this serious problem with determination and action. I am afraid, Sir, the time for words has long gone.

I would like to make a few comments on the specific revenue proposals. Among other measures, motorists pay an additional amount of \$1.025 billion into public coffers as a result of increases in hydrocarbon oils duty, vehicle first registration tax, transfer of vehicle ownership fee as well as vehicle and driving licence fees. Smokers, for the sake of their health, have to pay \$1.9 billion more. It is amazing that these two groups alone will pay \$2.925 billion more, which represents almost three-quarters of the targetted \$4 billion in new revenue. A glance at the previous Budgets shows that the Government has a predictable habit of calling on smokers and motorists whenever it needs more money. Contributions from these two groups represented 44% of additional revenue in 1987-88, 59% in 1988-89, 63% in 1989-90, down to 34% in 1990-91 but is soaring to a record high of 73% for 1991-92. This comes

to a staggering average of 54.6% per year for these five years.

Sir, my question is simple: Is it fair to repeatedly increase the burden of two groups year in year out? The Government should explore new revenue measures that have a greater per capita nature or basis. However, I must stress that I am not calling for the introduction of a sales tax. I remain to be convinced that a sales tax can be brought in within the parameters set out by the Financial Secretary in his Budget speech two years ago. Something middle of the road would be far more preferable.

In this context I repeat the question which my honourable colleague, Mrs Rita FAN, asked in her speech: Have we exhausted all other areas or aspects of tax? Whilst I disagree with her suggestion of a capital gains tax her example of a telephone tax, which I also do not agree with, is a little closer to the mark. One possibility may be to introduce a passenger departure tax at our border crossing into China. I make the suggestion because passengers going to China by sea have to pay an embarkation fee of \$19, which will go up to \$21, and those going by air a departure tax of \$100, to be increased to \$150, whereas passengers taking the land border route pay nothing.

Figures from the Immigration Department show that Lo Wu handled 27.14 million passenger arrivals and departures in 1990 and this is expected to go up to 28.5 million this year. In addition a similar tax can be charged for vehicular traffic. A departure fee per passenger departing Lo Wu and per vehicle from other border-crossings of \$10 would bring in a sizable revenue a year. Such a border departure tax would have a minimal effect on people's livelihood and many would find paying \$10 far more acceptable than paying \$10 more for a packet of cigarette or thousands of dollars more a year for owning and driving a car.

Sir, I have a second question about the fairness of the proposed revenue measures. If owning and/or driving a car or smoking is a luxury simply because they have the right not to do so, what is the Financial Secretary's views on owning pleasure craft? Should they be taxed? I suggested this during the Budget sitting last year. The idea must have been torpedoed by the Financial Secretary and sunk to the bottom of the sea. There are 4 554 pleasure craft of varying sizes from a few metres to over 44 metres long and I believe that an annual registration tax on top of the licence fee starting from, say, \$5,000 for smaller craft to, say, \$50,000 for larger ones would not matter much to their owners. The varying tariff could be based on the length of each boat.

Revenue measures aside, there are indeed other means that could help the Financial Secretary make ends meet without increasing the tax burden on our citizens. One possibility is privatization and another is government borrowing.

The Financial Secretary and some of my honourable colleagues have suggested that the present generation should not pay for everything and that the future generation should share in this burden. I accept this. If we believe in this, should the present generation not reap some of the benefits that they have paid for? The way to do so is privatization. One candidate is the Mass Transit Railway Corporation. Another may be the Water Supplies Department. I could go on.

Sir, I would like now to turn to the topic of government borrowing on which the Financial Secretary devoted two pages. He has taken some care in explaining the rationale and the purpose of such borrowings. I confess I cannot fault either. Indeed, if there is anything that the Financial Secretary might be accused of in his proposal it may be that some would consider his approach too prudent and cautious. The Financial Secretary has stated quite plainly and I quote ".....we will not under any circumstances be borrowing to fund recurrent expenditure.....". In the present circumstances I endorse this clear unequivocal commitment. I am quite sure that the Financial Secretary and the Office of the Exchange Fund will do whatever is necessary to ensure the successful launch of government bonds, although for myself I would like to see a fairly rapid extension of the two or three year maturities to longer maturities.

Sir, I would now like to say a few words on the reduction of stamp duty on stock transfers from the overall contract note duty of 0.6% to 0.5%. There is no doubt that this is a move in the right direction but I hope that it will not stop there. I believe that the Administration must begin at once to examine the abolition of this duty. There is no doubt that the world-wide trend is towards zero stamp duty. Hong Kong cannot afford to lose its position as one of the world's leading financial centres. The benefits that flow from being one cannot be over-emphasized. I therefore commend the Financial Secretary on his foresight when he says and I quote "Thus in planning future budgetary strategy, we must have regard to how total dealing costs in Hong Kong compared with those in other centres." I take this to mean that he can see abolition of this duty to preserve Hong Kong's position. Let us not forget that it is possible for a financial centre to lose its position of dominance and influence. We must not allow Hong Kong to run such a risk let alone permit it to happen.

As to personal taxation a number of my honourable colleagues have spoken on this but there is one matter that I urge the Financial Secretary to implement. I believe there is a very strong case to allow interest payments on housing loan for one's principal home as a tax deductible expense. Apart from giving some relief to our home-owners it will also instill a strong sense of belonging as well as encourage our people, particularly the young, to buy their own homes. My reasons in support of this are plain.

It is not uncommon for employers to provide low interest housing loans to employees, some even provide interest free housing loans, others provide a housing rental allowance. These benefits are not taxable. On the other hand those who take out a mortgage and make interest payments on a commercial housing loan get no benefit at all. I believe this is a glaring unfairness that ought to be put right as soon as possible.

Sir, we always say that we must not kill the goose that lays golden eggs. I believe that Sir Piers JACOBS will go down in the annals of Hong Kong as having achieved that. His achievements in Hong Kong are all the more noteworthy as his only start in life here was as a lawyer and those of you who know lawyers know the handicap we have. We tend to talk too much and listen too little. That, however, is not one of Sir Piers' shortcomings.

Sir, before I sit down I want to pay a special tribute to Sir Piers' last Budget. It is diabolically clever. He knew that by putting tobacco duty up by 200% that would draw fire from the smoking public. At this rate he will have the smoking public eating out of his hands before long begging for a sales tax so that tobacco tax can be reduced if not abolished. What an unfair way to win support for any form of sales tax!

Sir, with these remarks and suggestions, I support the Bill.

MR EDWARD HO: Sir, may I pay tribute to your stamina and shall try to be considerate to other Members. I cannot promise to be brief but if it helps, I shall try to speak as quickly as Dr C.H. LEONG. (Laughter)

The Financial Secretary described his Budget for 1991-92 as "positive and realistic", and I shall attempt to examine whether that characterization is apt or

not.

## Inflation

The control of inflation has been a major concern expressed by the Financial Secretary in his Budgets for the past two years. It is a problem that he has not suggested a solution for and one that Government has not been able to solve. The double-digit inflation rate in the last two years is set to persist in 1991-92. This is extremely worrying: inflationary pressures have not been eased off by the considerable slowdown in the growth of our economy, as was predicted by the Financial Secretary in 1989. In other words, there will be diminished increase in earnings for our workforce which will be exacerbated by inflation. As a result, if no solution is found, there is a potential threat of recession.

In a time of slower growth of our economy, a persistent high rate of inflation and with major infrastructural projects in the pipeline, it is imperative that public expenditure should be tightly controlled. There is a real and serious need to tighten our housekeeping, and for the Government, what it means is that it should intensify its efforts to control its operating expenditure and to ensure that capital projects are cost-effective and their costs kept under control.

On operating expenditure, it is encouraging to note Government's determination and apparent success in the last two years to adopt a zero-growth policy in the Civil Service. After the rampant growth in the late 1970s and early 1980s, that is really quite an achievement. But, a freeze on number must be coupled with higher productivity, not only to cope with current level of services but to provide for enhanced services in line with rising aspirations of the public.

With the general growth of our economy and the rise in the standard of living, the public will want and demand better standard of public housing, education, social, medical and health services and improvements to the quality of our environment. Thus, the keyword for the Civil Service must be "productivity" and productivity can only be generated by motivation and accountability.

We understand from the Financial Secretary that value for money studies are pursued, and some of the features of the public sector reform are underway, such as the setting up of trading funds. But many of us are disappointed at the slow pace of public sector reform especially in the area of corporatization and privatization.

The cost of Civil Service, even with the establishment at zero growth, must be controlled. The problem encountered in the setting up of the Hospital Authority, an excellent concept in itself, laid bare the discrepancy between the compensation levels of the Civil Service and that of the private sector. In order that further corporatization can be achieved, that discrepancy must be addressed and minimized.

The Government has always maintained that its salary scale follows that of the private sector. This is widely disputed by employers in the private sector and with justifications. At the same time, ironically, though not unnaturally, sectors of the Civil Service have not been content despite hefty increases in the last few years. The fact, as I understand, is that the Civil Service's arithmetic total increase for the past four years was 68.3% (general increase and incremental increase) when the total market's increase was 55.1%. That is, the Civil Service's pay has increased nearly 24% more than the total market for the same period.

It would be instructive to everyone if a monetary value can be placed on a civil servant's compensation package: the salary, the housing allowance, education allowance for the children, medical benefits, working hours, leave and passages, pension and gratuities, and the intangible benefits of security and salary increase. The full picture will help both the Government and the private sector to decide whether a fair and reasonable compensation package is paid to the civil servant. This would help set realistic wage levels to mitigate inflationary problems.

With the major infrastructure being planned, rigorous project control is vital. Recently, the revelation of \$10 billion shortfall in capital estimates in the past three years gave rise to major public concerns. We have now been assured by the Secretary for the Treasury that under-estimation of project costs averaged about 1.5%. As we are short of detailed background information, the shortfall remains unexplained.

Before embarking on a project, a developer in the private sector would want to know how much money he has to spend at the end of the day as the viability of his project depends on that knowledge. Likewise, Government should ensure that cost estimates are based upon accurate project scope and requirements, characteristics of the site, and the particular nature of the project. They should include a realistic estimation of cost escalation up to the scheduled tender date, and should allow for reasonable contingencies for unforeseen problems, normal variations and

claims arising out of delays normally anticipated. That estimate should then become the Budget that the Finance Committee would approve, and the government department responsible for the project should thereafter ensure that change of scope and requirements by user departments are kept under tight control.

In addition, Government should seriously consider adopting fixed price lump sum contracts as commonly used in the private sector. Also, for complex and large-scale projects, negotiated contracts with guaranteed maximum price should not be ruled out provided that proper safeguards for fair play are in place.

## Infrastructure

Government's resource allocation system is a positive measure to ensure that the deployment of resources are determined by priorities. Priorities should flow from major strategic policies. Whether this basic principle is followed is sometimes unclear. Take the Long Term Housing Strategy as an example. The deferment of additional sites for public housing due to resource allocation system may affect the successful completion of the strategy. As of 31 December 1990, there was still a shortfall of 21.6 hectares of land or a deficit of about 19 000 flats, and this shortfall can become greater if Government does not go ahead with some of the sites already delayed but still assumed included in the public housing development programmes: sites such as Aldrich Bay, Shek Pai Wan extension site, and so on.

More crucial than merely the raw land is the infrastructure serving them. Already the lack of major transport link to the urban areas greatly limits the potentials of Tuen Mun and Tin Shui Wai. In the reply to a question by Mr TAI Chin-wah in the Legislative Council on 13 March this month, the Secretary for Transport stated in effect that due to financial constraints, the northern sectors of Route 3 will not be built at the same time as the southern sectors. In other words, if the southern sectors are to be completed by around 1997, the northern sectors will not be completed until the middle of the next decade. Similarly, the Government has not even started on the Long Term Rail Development study which would include a northwest New Territories rail link and the possibility of a dedicated freight rail to the container terminal area.

The effect of not providing such transport links will be:

- firstly, the immense growth potentials of the northwest New Territories,

comprising Tuen Mun, Tin Shui Wai and Yuen Long, will be greatly hampered;

- secondly, the Long Term Housing Strategy will be affected due to a deficit of serviced land as well as the reluctance of people moving into remote areas served inadequately by transport and other amenities;
- thirdly, for the same reason, the objectives of the Metroplan in limiting the population density in the metropolitan area will be difficult to be achieved; and
- fourthly, the opportunities offered by the strategic complementarity of the important Pearl River Delta of China with the future airport and port of Hong Kong will not be fully exploited.

The link is vital that, if Government is restrained by resources, it should consider seriously privatizing the construction and management of Route 3 and the rail link.

#### Hong Kong/China relationship

I have deliberately not touched upon the new airport project in the context of infrastructure and capital spending as it has been thoroughly debated in this Chamber and in the public arena. News on the status of the project in the last few months has taken on an ominous silence. My perception is that, whilst the people of Hong Kong generally wanted the project to go ahead, they are now seeing the delay of a decision as a reflection on the relationship among the British Government, the Hong Kong Government and the Chinese Government and they want to be assured that, whatever the arrangements, Hong Kong will be administered effectively and with a high degree of autonomy before and after 1997 under the "one country, two systems" concept.

That concerns the political relationship. What has received much less publicity but of possibly much more importance for the future is the economic relationship between Hong Kong and China, in particular that of the Pearl River Delta. This economic relationship is not sufficiently recognized at the government level. This is because, whilst southern China and Hong Kong are in the process of being integrated mostly by the private sector into complementary economic zones, Governments' perspective is political. Already 2 million people in southern China work for Hong Kong industrialists. South China supplies vital resources of labour and land to Hong Kong industrialists thereby sustaining the competitiveness of Hong Kong's industries. In turn, Hong Kong offers South China entrepreneurialship, professional management,



technical and capital support and access to international market.

I would put this mutually beneficial relationship as the one single most important element for the future success of Hong Kong as a viable economic entity, more so than all other considerations of a political nature. Thus, strategic planning of land use, transport, infrastructure, industrial and services development should regard the Pearl River Delta as a single economic region despite and because of the political concept of "one country, two systems".

#### Revenue policy and taxation

I spoke earlier on the necessity of tight control of public expenditure. On revenue policy and taxation, there is clearly a strong support for a more stable tax base. Equally, there is very strong resistance to an across-the-board wholesale tax especially at a time of high inflation. My view is that the flat rates of direct tax on profit and salary can be increased by one percentage point when the tax base would gradually be widened in the form of indirect taxes. This would ensure that indirect taxes would be at a modest level. But, it would be totally wrong to think that higher direct taxation would cure all evils. Countries with high direct taxation have found that they have not brought improved prosperity and, instead, are struggling with massive deficits and unemployment problems.

6.00 pm

HIS EXCELLENCY THE PRESIDENT: I am afraid I must interrupt you, Mr HO. It is almost six o'clock, and you have not read quite fast enough, and under Standing Order 8(2) the Council should now adjourn.

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

Question proposed, put and agreed to.

HIS EXCELLENCY THE PRESIDENT: Mr HO, please continue.

MR EDWARD HO: As to the controversy surrounding the proposed imposition of heavy

duties on tobacco, I would say that it is one of the obvious targets, as are alcoholic beverages, alcohols and cosmetics. For the consumer, there is, after all, a choice.

That slight pause just now gives me the opportunity to add one paragraph.

Members will now have had the opportunity to read Dr Judith MacKAY's submission and the overwhelming support for fiscal measures to combat smoking from health authorities around the world including the World Health Organization. These authorities consider that higher taxation on tobacco is definitely an effective deterrent for young people to take up this nasty habit. As for the elderly, surely they can take up other more healthy and less expensive simple pleasures.

It is a moot philosophical point that Government should not levy duty for health reasons. The same logic would mean that Government should not make laws to enforce wearing of safety belts in cars, and various legislations on health and safety. Naturally, the Financial Secretary could have proposed putting up the duty of tobacco, and found support, without mentioning health reasons, but that would not have been right.

## Conclusion

In conclusion, Sir, I have tried to put forward constructive criticisms of the Financial Secretary's Budget for 1991-92. My conclusion is that the Budget is "positive and realistic" but required much determination and effort from Government to carry through.

On the negative side, double-digit inflation rates remain worrisome, and the growth of public expenditure has not been broadly in line with the growth of GDP, as the Financial Secretary hoped. On the positive side, the economy of Hong Kong has indeed fared well in the past five years. It has weathered well many external and internal crises. Hong Kong has virtually full employment whilst unemployment rates in countries like the United States, Canada and United Kingdom stand at 7% to 10%. There is a healthy reserve. With taxation rates remaining low, social services, though deficient in certain specific areas are on the whole adequately provided in most areas, although I am sure that my colleagues from the social welfare sector would not agree with that. Ongoing major infrastructural programmes to improve our quality of life are proceeding.

Given that it is much more than one man's efforts to influence the economy, I believe that Sir Piers, with a right combination of ability, dedication and luck, had done well. I mentioned luck not disparagingly because we Chinese firmly believe that an essential attribute of a senior executive is that he should bring luck to the organization.

Sir, I wish Sir Piers and Lady JACOBS a happy and healthy long life ahead which I am sure it will not be in retirement. May Sir Piers continue to enjoy the luck that follows him although his successor will need it more. With these words, I support the motion.

MR MICHAEL CHENG (in Cantonese): Sir, in the face of an economic downturn coupled with the impact of high inflation and the need to finance an infrastructural project of monumental proportions, the people of Hong Kong will have a period of relatively hard time ahead of them. The Financial Secretary must have come up with certain difficulties in preparing this year's Budget under such circumstances. He deserves credit for the strenuous and unremitting efforts he has made in managing Hong Kong's public finance and ensuring sustained growth of its economy during his five years in office. I hold the Financial Secretary in great respect. As he is due to resign from public service shortly, I would like to take this opportunity to wish him and Lady JACOBS all the best and many happy years to come after his retirement. The remarks I am going to make today are on the Budget itself and they are not meant to be personal.

Today, apart from expressing my own views, I shall speak on behalf of the voters of my electoral constituency, who are mostly people at the grass-roots. They have reacted very strongly to the Budget by way of a mass signature campaign and petitions. Their objection to the Government proposals on tax increases is loud and clear.

Sir, it is pointed out in the concluding part of the Budget speech that the proposals made in the Budget are sufficiently robust to ensure continuous improvement to the quality of life in Hong Kong. I think this should be taken with a pinch of salt. A general examination of the ten-odd revenue measures proposed in the Budget will reveal an apparent lack of consideration for the interest of the people at the grass-roots level. They do not only add extra pressure to the financial burden of the man in the street but also generate a vicious spiral of rising prices. Their inflationary impact is bound to take a heavy toll on the livelihood of the general public. It is perceivable that the average quality of life will be eroded with the

people of the lower and middle income groups bearing the brunt of the impact.

Hong Kong is now suffering from an increasingly high rate of inflation. According to the figures recently released by the Census and Statistics Department, both the Consumer Price Indexes A and B rose by 11.9% in February this year, the highest level ever recorded over the past seven years. Hence, the Financial Secretary appears to be a bit too conservative in predicting an inflationary rate of 9.5% in the next fiscal year. On top of the successive price hikes in public utilities such as bus fares, train fares, telephone charges, postal charges and water charges, the Government is now proposing substantial increases in several indirect taxes, making life even harder for the local population. While the tax concessions recommended in the Budget fall far below the rate of inflation, the proposed tax increases are over and above the current inflationary rate by a large margin. For instance, the overall average increase in rates is 85%, which, after taking into account the rate relief measures, will still be as high as 25%; the duty on tobacco is raised by 200%; and the fee payable on the transfer of vehicle ownership is drastically increased by 20 times from \$50 to \$1,000. All these will surely have immense effect on the general cost of living, add extra burden to the general public and will, worse still, lead to the emergence of numerous social problems.

The increase in rates will have widespread implications on the household expenditure of all families in Hong Kong. The quarterly rates for private residential flats are raised by a margin ranging from more than a hundred dollars to several hundred dollars. Under the pressure of a double-digit rate of inflation, the general public will certainly find it very hard to absorb the 25% increase in rates. In order to relieve the public from part of their burden, I would like to propose that the maximum increase in rates should be reduced to 15%.

People at the grass-roots level, particularly the manual workers and the elderly are worse hit by the 200% increase in tobacco duty. Smoking is already a part of their daily life and has become an ingrained habit which they are not able to drop at will. Cigarettes are, in fact, one of their daily items instead of a luxury. The Government has put up health reasons to justify the introduction of such a steep increase in tobacco duty. However, I think it will be far more effective if the Government tries to deal with the problem positively through public education instead of resorting to punitive and deterrent fiscal means.

With regards to tax concessions, they are not appropriately revised to keep up

with inflation. The Budget merely proposes to raise the personal allowances for a single or married person by \$2,000. Not only does the proposed increase fail to offset the inflationary impact, it also helps extend the tax net further to cover more people from the lower income group. It is therefore doubtful whether the Government is really sincere in upgrading the quality of life of the people of the middle and lower strata.

I have appealed to the Government for a critical examination of the problem of tax evasion and I am delighted to note that the Financial Secretary has touched upon this issue in his Budget speech this year. To recover the losses of revenue arising from tax evasion and tax avoidance is always a better alternative to reaching for the middle and lower income groups' wallets. The authorities concerned are planning to introduce a "field audit" system as a means to check tax evasion. Yet, to my knowledge, there will be only some 20 officers to take care of the enforcement job. I doubt whether the department concerned is capable of implementing this system effectively with such a small operation team. Since the existence of tax evasion is confirmed, the honest tax payers must under no circumstances be made to shoulder an unnecessary share of the tax which should otherwise be borne by the tax dodgers. I would like to urge the Government to ensure that the problem will be effectively dealt with by taking sweeping measures and making available adequate manpower for this purpose. Furthermore, most pre-meditated tax-avoidance activities are planned by professional accountants purposely hired to help individuals and corporations avoid payment of tax through various devices such as leveraged leasing schemes. The Government should not act as an on-looker and do nothing about the situation. Instead, positive actions must be initiated to enable early enactment of relevant legislation that may plug the loopholes and prevent recurrence of such unfair and unreasonable cases of tax evasion and tax avoidance.

The aim of planning and controlling public expenditure in accordance with specific budgetary guidelines is to make sure that the trend growth rate in expenditure does not exceed the trend growth rate in gross domestic product. While I fully support this principle of financial management, I consider it absolutely necessary that the control of public expenditure should take into account the practical needs of various departments and the priorities in the provision of services. Otherwise, the population as a whole will inevitably suffer from a general fall in the quality of service and the Government will definitely find it hard to maintain its authority and creditability. Hence, careful and effective allocation of resources is required if maximum cost effectiveness is to be achieved. I have closely

studied the draft estimates of expenditure of various departments for the coming year and made comparisons with their corresponding figures for the previous year. The estimated recurrent expenditure of all government departments is to rise by 16.8%. Except for the infrastructural projects related to the "Rose Garden" programme which are allowed to enjoy an over 10% growth in expenditure, spending in other service areas is not adequately adjusted against the rate of inflation, with their growth rates respectively set at 3% for basic education at secondary, primary and kindergarten levels, 6.5% for medical services and 8.3% for social welfare services. For certain programme areas such as housing, security and community affairs, their respective shares in the total public expenditure have even been reduced, reflecting that spending on some services essential to the general public has virtually dropped in real terms.

With regard to housing which is a basic necessity of life, the Government has implemented and further expanded its public housing policies and Home Ownership Schemes much to the benefit of the people at the grass-roots level. However, the prices of some HOS flats have recently gone up to as high as \$1 million, which are far beyond the affordability of the qualified applicants and have departed widely from the Government's original objective to provide the families of the middle income group with low cost housing under the Home Ownership Schemes. With prices in the property market being pushed up at rocket speed by a strong demand, particularly of medium and small sized flats, it is unrealistic to peg the price of HOS flats at 70% of the price level of domestic flats in the private property market. They are beyond the reach of those people of the middle income group who need very much to have a home of their own. I do not think it is advisable for the Government to peg the prices of HOS flats with those in the private property market. The more practical approach is to reduce the prices of HOS flats to a basic level affordable to the qualified applicants and, at the same time, increase the supply of newly constructed HOS flats to meet the growing demand of the public.

To the people of the sandwich class who have well passed the income limit for HOS flats, it has become more difficult than ever to buy a flat at this time when property prices are exorbitantly high. I have mentioned more than once in this Council that the sandwich class, though being the pillar of our society, is in great need of help. Nevertheless, government policies are usually unfavorable to the sandwich class. For the immense contribution they are required to make, they receive very little in return. Hence, I always hold that the Government should at least help them solve their housing problem. Unfortunately, the Government has failed to

propose any home purchase plan to help the sandwich class in the past two years. Much to my regret, the Housing Authority has been refused an injection of additional fund and is thus short of resources to put into effect any home purchase scheme for the sandwich class.

As far as public housing tenants are concerned, higher rent is expected to follow the rise in rates, thus resulting in a drift from the original principle of the Government's "low cost housing" policy. I would like to propose that the Government should maintain the rent of public housing flats at a relatively low level. Particularly, for flats in old housing estates where facilities are either inadequate or in a bad shape, the rate of rental increase should be kept to the minimum. There is even a need to freeze the rent in public housing estates which are scheduled for redevelopment in the near future.

Turning to education, while I fully agree with the Government in its policy objective to expand tertiary education, I am greatly disappointed to find that by concentrating the use of resources on developing university and tertiary education, the Budget has failed to allocate sufficient fund for the development of basic education at secondary, primary and kindergarten levels. It can be certain that the local education system will be knocked out of its balance if the importance of basic education is neglected as a result of lop-sided and hasty expansion of tertiary education. Owing to a lack of funds for implementing whole day schooling at primary level, the Government has planned to introduce the mixed-mode system mandatorily in all primary schools. This is bound to cause a decline in the quality of education and will have a lot of adverse effects on basic education. Furthermore, travelling allowance for students, which has all along been offered as a kind of basic welfare for school children, is now cancelled because of a need to cut government expenses on public services, a fact illustrative of the unfairness in the overall distribution of social resources.

On the aspect of law and order, I have repeatedly emphasized that the maintenance of good public order is of paramount importance to Hong Kong in the few years to come during the transitional period. The people of Hong Kong are already shocked and disturbed by the existing state of law and order in which organized crimes have become increasingly rampant, armed robberies and violent crimes are growing at a worrying rate, car thefts are rising sharply, triad activities are showing signs of revival and the rate of juvenile delinquency is climbing steadily. There is an imperative need for a strong, highly motivated and sophisticatedly equipped police force to

maintain public order and safeguard social stability. Yet, the Government only allows an approximate 2.8% growth in the allocation of resources for this use. It falls far below the growth rate of inflation and is tantamount to a proposed cut in expenditure.

Sir, with these remarks, I oppose the motion.

MISS LEUNG (in Cantonese): Sir, I should like to thank you for allowing me to speak before my turn.

Sir, since March when the Financial Secretary presented to this Council the Budget for the fiscal year 1991-92, strong reaction has gradually surfaced within our community. Some criticisms are becoming more strident and more acute, and the petitions and parades against tax and price rises are growing in scale and taking on a variety of forms. Such strong reaction was never before seen and hard to forget. As we all know, not only yesterday, but also today, some groups and individuals were and still are carrying on with their petition activities against tax and price rises with poignancy and panache outside the Legislative Council Building.

Let us not for the moment discuss whether Members of this Council accept the proposed Budget for next year. Let us not for the moment consider whether they will support or vote against the proposed Budget later on when it is put to vote. I think tribute is due to the Financial Secretary who is retiring at the end of July. In presenting his last Budget before retirement -- hence free from worrying about what would come of it -- the Financial Secretary should have no problem putting together a budget that would please and benefit all instead of coming up with the present one which is the most controversial one in years. Such being the case, no matter whether we agree with his fiscal philosophy or support his mode of financial management, I am certain our Financial Secretary is a competent, responsible civil servant ready to face pressure. Let me take this opportunity to wish Sir Piers and Lady Jacobs a happy retirement.

Sir, I now turn to the theme of today's debate. In announcing the Budget for 1990-91 on 7 March last year, the Financial Secretary gave as preamble a statement on the Administration's determination to undertake the vital infrastructural programmes and other projects which the Governor described in his address in 1989. The Financial Secretary went further to emphasize in such terms: "We have set



ourselves ambitious long-term objectives, and this Budget sets the scene for their ultimate achievement."

Although the Financial Secretary did not emphasize this again when presenting the Budget for next year, it is obvious that he is setting the scene for the ultimate achievement of such objectives. Such being the case, it is beyond doubt that the Budget is led by the Port and Airport Development Strategy (PADS) and other major development projects. The PADS and other major projects would, to a considerable extent, be setting the direction for our economic development in the years ahead and determining the pattern of our fiscal arrangements. This is understandable. As stated in the conclusion of the Governor's policy address for 1989-90 delivered on 11 October the year before last, "They (PADS and other projects) are a major investment for our future prosperity."

To be fair, although this year's Budget is the most controversial in recent years which has sparked off unprecedented protest rallies and parades against rises in tax and prices, I have to admit that, being neither mild nor pleasing, the present Budget can nevertheless be described as sound, systematic and hard to be rejected outright. This Budget, as did the four others before it, definitely reflects the Financial Secretary's typical style in the management of public finance. He places emphasis on maintaining the stability and continuity of public finance. As to whether the proposals made in this Budget are good or bad, opinions are divided.

Sir, the most notable and controversial proposals in this year's Budget relate to large increases in certain items of indirect taxation and the big growth in public sector expenditure. Regarding the second area, I am glad that when presenting the Budget, the Financial Secretary started off on a cautious note by saying, "I have repeatedly stressed the importance that we place upon controlling the growth of public expenditure. We must continue to manage our resources with prudence and realism. Not only must we keep our public expenditure under control, we must also obtain value for money. The control of public expenditure is, furthermore, one way in which the Government can play its part in the fight against inflation."

As I understand it, the control of public expenditure stressed by the Financial Secretary could be said to be acceptable; in particular I note that there is at last effective control in respect of the growth in recurrent expenditure. Since there are different levels of growth in expenditure for various public services and the proposed arrangements to meet the growth are reasonable, I am basically in support of the Budget.

Sir, as I have just mentioned, another of the notable and controversial areas in this year's Budget relates to increases in certain items of indirect taxation. In contrast to his approach to the substantial growth in public sector expenditure, the Financial Secretary warned in his Budget speech against the extent of our dependence on direct taxation saying "the yield from our tax system, as presently structured, is vulnerable to fluctuations in the economy." He also stressed "the need to secure a more stable tax base . . . . and the requirement to provide a more stable source of funding over the longer term for recurrent expenditure." Reading between the lines, his proposal is for large increases in certain items of indirect taxation.

Whatever the case, to my way of thinking, I am convinced that the proposal I made the year before last would be fairer to people in the relatively lower income bracket. I pointed out on 26 April the year before last when debating the Budget then before Council that ". . . . direct tax rates in Hong Kong have always been very low . . . . I think, when necessary, we can consider raising the rates of certain direct taxes, the two (profits tax and personal income tax) I have mentioned for instance, so that we can move closer to the ideal of having those who can afford it taxed more and those who cannot less. Basically, I would not welcome any tax policy that is unfavourable to the lower income group."

If Government needs to increase indirect taxes, I hope each increase can be contained. To my disappointment, in the Draft Revenue Estimates, indirect taxes are tipped to jump by \$3 billion and direct taxes to drop by \$0.34 billion.

Sir, the Financial Secretary is of the opinion that his "indirect taxation measures will have some impact on the cost of living, but largely involving luxury or non-essential items where the individual consumer can choose whether to purchase or not. Given this element of personal choice, . . . . the tax increases . . . . selected are justifiable."

As I understand it, the main reason for the gathering strong public reaction against the Budget is, on one hand, the proposed large increases in tax on luxury or non-essential items and, on the other, the different view held by some people who disagree with the Financial Secretary as to what should be luxury or non-essentials or just semi-luxury and semi-non-essentials.

Sir, my views on the tax proposals put forward by the Financial Secretary are mainly as follows:

First, on tobacco. A 200% increase at one go is surely too rash and too much. The appropriate rate of increase should be somewhat lower and the difference between the duty rates on smoking tobacco and Chinese prepared tobacco should not be removed all at once, but by stages instead.

Second, on vehicle first registration tax. Indeed, a 90% increase on the tax on van type light goods vehicles not exceeding 1.9 tonnes in weight is too rash and hefty. A lower rate of increase should be opted for.

Third, on vehicle and driving license fees. The new annual licence fees for goods vehicles up to 5.5 tonnes and van type light goods vehicles not exceeding 1.9 tonnes should be lowered a little.

Fourth, transfer of vehicle ownership fee. Except for motorcycles and tricycles, the fee for transfer of ownership of other types of vehicles should be at a lower rate.

Fifth, personal tax. The proposed allowances should be taken a little bit further up, for example, to take the rate of inflation as a benchmark.

Sixth, other items that could be taxed more heavily. Apart from increasing by a little bit the direct taxation rates I mentioned just now, we can increase betting duties and levy tax on certain special luxury items and high class consumer products.

Lastly, Sir, I cannot help using this opportunity to speak on a matter of the greatest concern to the community recently and which bears on the livelihood of the people. It is the spiralling prices for residential units to a level far beyond the means of the average citizen from the overheat of property speculation. I have been most concerned about this for many years now. I have had opportunities on different occasions to urge Government to adopt suitable measures in time. For example, at meetings of this Council on 6 December 1989, 17 January 1990 and 17 October 1990 I posed questions on this. Also, I extended invitations many times to officials concerned to discuss the matter with the OMELCO Housing Panel.

Experience tells us that property speculation activities push up the prices of flats from one height to another so that genuine home-buyers can no longer buy at

reasonable prices. Bad elements also swarm into waiting lines of prospective buyers and stir up trouble. The current measures started at the end of last year -- measures to deal with the situation as they are called -- can only maintain order of the waiting lines. It is not directed at the much criticized property speculation activities.

Much as I know that this is neither the occasion nor the ideal forum to discuss how to cramp down on property speculation activities, I think this is the right place to ask how the Inland Revenue Department levies tax on property speculators, in particular those selling their places in waiting queues. Whatever the case may be, let me now once again call on Government to take measures as soon as possible to reduce, or preferably solve, the problem of property speculation. I think the authorities concerned should levy tax on property speculation. The amount of tax to be paid by speculators should be close to their gains from such activities. This will reduce drastically the gains for property speculators. Not only will it generate additional income for the Treasury, but it will also, and more importantly too, make property speculation no longer a source of fat gains. Speculation will thus be checked and genuine home-buyers will no longer be exploited unnecessarily by speculators. They will be able to afford homes at reasonable prices. Inflation spurred by the rise of property prices and rent increases will also be controlled.

Sir, with these remarks, I support the motion.

MRS FONG: Sir, governments require tax revenue to pay for their expenditures. In times of high levels of economic activity and budget surpluses, they can reduce taxes and be popular. We are not in such times today. We are faced with economic slowdowns in all major trading partners, other than China. At the same time we are faced with an increased demand for social services. To meet all of the demands for increased expenditure, new sources of tax revenue would have to be found, or the rates of existing taxes would have to be raised. Against this background, it is difficult for the Financial Secretary to be popular.

In recent years Hong Kong has faced an increased demand for public housing, increased social welfare to care for the young, the old, the handicapped, the infirm, the unemployed, the retired, and many other segments of the population that are deserving assistance. There has also been an increased demand for better education, better medical care and other services. The pattern will not change by itself in the next few years. What we need is for those who demand more of these services to

stop and give some thought as to from where the money to pay for them will come?

Some will say that the rich should pay a larger share of tax. This I totally agree. Those who earn more should pay more tax and those who earn less should pay less tax. But everyone must pay his or her share.

If we look at the statistics, it seems that the rich do pay for more:

- Over 56% of the total salaries tax yield is paid for by less than 8% of the salaries tax population;
- Over 17% of the corporation profits tax yield is paid for by 30 corporations out of the 70 000 population of corporation profits tax paying companies.

If we look at the other side of the spectrum, statistics show that about 65% of the salaries tax population pay less than 10% of the salaries tax yield. The conclusion to be drawn from these statistics is that those who earn more do pay more, and it is substantially more.

On the basis that everyone should pay some tax, the net must be cast wide to include a bigger population into the tax-paying category. In this regard one must be realistic and accept the fact that the amount of additional tax yield through this exercise may not be significant. However, I believe it is very important for all people to understand the commitment and obligations they have to society. Furthermore, when people pay tax, they may pay more attention to how the money is spent and may play a bigger role in caring for and participating in the community.

A common criticism of the 1991-92 Budget seems to be the small increase in the personal allowances. Further, there have been suggestions that the tax rates could be increased somewhat, as they are low. To clarify the matter, I took the liberty to check on the amount of personal allowances and the income tax payable by income earners in the various countries that are popular destinations for Hong Kong people who emigrate or who travel to visit relatives, namely Australia, Canada, the United States of America, the United Kingdom and Singapore. The personal allowance deductions in these countries for single individuals are:

For simplicity, I carry them to the nearest thousands:

Countries	Single Personal Allowances
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HK\$

Australia	31,324	(31,000)
Canada	41,168	(41,000)
United States	41,094	(41,000)
United Kingdom	41,349	(41,000)
Singapore	8,741	(9,000)
Hong Kong	41,000	(41,000) as proposed.

It does seem that the personal allowance deduction for Hong Kong is not small, but is right in line.

I then took the Hong Kong's 1990 per capita GDP of HK\$95,000 as being representative of the average income of its people. There is a fallacy in working with averages, I recognize, but I had to use an income figure and I used the same figure for all the above countries in the comparison. My objective was to get indicators and not precise answers. What I did was that I used this income figure and deducted the respective personal allowances and applied the relevant tax rates to arrive at the income tax payable for an individual in the various countries in the comparison. The income taxes payable vary. The numbers are:

Countries	Income Tax Payable	
	HK\$	
Australia	13,054	(13,000)
Canada	10,954	(11,000)
United States	8,086	(8,000)
United Kingdom	13,413	(13,500)
Singapore	5,905	(6,000)
Hong Kong	4,520	(4,500)

My calculations showed that for the same income level, the income tax payable for an individual is the lowest in Hong Kong than in all the countries used in the comparison. The United Kingdom is the highest; maybe that is why it is not very popular. I wish to stress that I have not included any contributions for pension and medical insurance which in some countries are compulsory. If I had included these contributions and levies, the number for Hong Kong would appear even more attractive.

I concluded that, while the 1991 increase in the personal allowances did not keep up with inflation, we must look at the absolute terms and when we do that, the actual allowance is not unreasonable.

Although the tax rate in Hong Kong is low, the amount of direct tax collected is substantial because Hong Kong has relied very heavily on direct taxes. After the 1991-92 Budget proposals, the relationship of direct to indirect taxes will be of 60 to 40. This compares to a 63 and 37 relationship in the previous year.

A heavy dependence on direct taxation is not a good sign in that the yield from our tax system is vulnerable to fluctuations in the economy. When there are economic upturns and downturns there are major swings in the amount of tax revenue. For several years the Hong Kong Government has been emphasizing that we cannot continue to rely so heavily on direct taxation.

In our community, there is a strong belief that our low tax rates have had something to do with attracting and retaining businessmen here. These low tax rates have given Hong Kong an advantage in the aggressive international arena. They have made Hong Kong a desirable place to live in and to do business and that they have contributed to our economic success.

What is difficult to assess is how much the tax burden can be increased before Hong Kong becomes less attractive. This is where the difficulties lie, and this is the difficult balancing act that the Government must face.

The Budget for 1991-92 is actually trying to achieve the goal of casting a wider tax net on direct taxation and to achieve an increased percentage share of indirect taxation. However, what is disappointing is that there has not been an explanation of what the fiscal policy actually is, nor has the final goal been defined. Hong Kong has no other choice but to make a firm decision on its financial affairs and to set out a comprehensive fiscal policy that will be in line with the needs for the future prosperity of the territory. What the Hong Kong Government urgently needs is a dedicated fiscal policy designed specifically for Hong Kong, that will carry Hong Kong into the future.

Firstly, I believe that the desired proportion of tax revenue to be collected through direct and indirect taxation must be defined. The ratio that is decided upon should be defined and made the objective, and steps taken to achieve it, even though

the implementation could be gradual. The readjustment of the tax system in conjunction with a balanced budget programme will put Hong Kong on a firmer financial footing.

Secondly, a budget must be presented as a package. If we need to raise money, it has to come from all sectors. There should be a general recognition in our fiscal policy that the rich and the profitable should pay more, but it must also be emphasized that everyone has his or her obligations.

Thirdly, I am a firm believer in private initiatives. I believe that long-term capital projects must be financed either by private money or by raising money in the capital market rather than from recurrent tax revenue. I commend the Financial Secretary for making this clear in his Budget.

I also believe that at the right moment of time, statutory corporations should be privatized. I also believe that Hong Kong people would be willing and happy to own the infrastructural projects that are within Hong Kong. In this, I am thinking specifically of the Kowloon-Canton Railway Corporation and the Mass Transport Railway Corporation, but there are more of our infrastructural type activities that could equally become part of the private sector. The privatization of these could free up funds for use in new projects that are required to be funded by the public sector.

While we are talking about the Budget, we must not overlook the fact that money is raised for expenditure of the Government. I would therefore want to see more control and more restraint on government expenditure in times of difficulties. The Hong Kong Government and the Hong Kong people must both recognize that there is a need to put restraints on our expenditure, including those relating to social services when there is a need to keep them in line with revenue.

Sir, upon Sir Piers' retirement I would like to recommend to him that he stays in Hong Kong, as my calculation reveals that Hong Kong is a place for the lowest tax payable and the United Kingdom the highest.

Sir, with these remarks, I support the motion.

MRS LAM (in Cantonese): Sir, I am very glad to learn that the Financial Secretary proposed a greater increase to the funds to be set aside for environmental protection. It is indeed encouraging that he still realized the importance of protecting the



environment at a time when expenses were cut in all departments. It also demonstrates the Government's determination in implementing environmental protection measures.

I would also like to express my views on the other proposals put forward by the Financial Secretary in the Budget for the new financial year.

### Inflation

I am disappointed by the fact that there is no proposal in the Budget to solve the inflation problem effectively. The rate of inflation stood at 9.5% last year, and for the first two months of this year, it rose to double digits. If the Government cannot curb inflation effectively at the present stage, there will be greater difficulties in doing so after the commencement of massive infrastructural projects. It may even face runaway inflation. This would deal a heavy blow to the economy of Hong Kong. That is why inflation is one of the most serious problems facing the Government at present. If inflation could be reduced by a sharp margin, it will surely help enhance the competitiveness of our export trade.

### Salaries tax allowance

In the area of taxation, I note that the salaries tax allowance cannot match the inflation rate. Personal allowances and allowances for married couples would only be increased by \$2,000 while children and dependent parents allowances remain unchanged. As this can hardly catch up with the 10% inflation rate, not only will more people be netted in, the living standard of the ordinary low-income earners will also deteriorate. This goes against what the Government previously promised, and that is: the taxation system would improve the livelihood of the general public. Since there is also a hefty increase in rates, the life of the middle and low income earners would prove to be even more difficult. Over the past two years, my honourable colleagues and I have suggested to the Financial Secretary that to alleviate the burden on the sandwich class, mortgage payment on owner-occupied premises should be excluded from income tax assessment, I raise this again today and hope that the Government would reconsider this form of concession which is widely used by many other countries.

### Hefty increases in indirect taxes

On the other hand, many of my colleagues have already mentioned hefty increases

in certain indirect taxes which panicked the public. I agree with the imposition of heavy taxes on luxury items. I also agree that heavy tax should be imposed on tobacco so as to discourage smokers from adhering to the habit. The question is, the 1900% revision in vehicle transfer fee and the 200% increase in the rate of tobacco duties are undesirable because such tax hikes would make the public feel insecure and this will not be in the interest of stability. I prefer gradual increases which would certainly be more acceptable to the public at large. Here I would also like to mention the air passenger departure tax. I find the Financial Secretary's proposal of a 50% increase too high. Tourism is just beginning to pick up after a slow down in the past year. It is unwise of the Government to impose such a hefty increase. Moreover, at the current rate of \$100, Hong Kong's departure tax is already the highest among countries in the region.

#### Services for the public

The Budget does not seem to have laid sufficient emphasis on services for the public. In 1991-92, the recurrent expenditure for government departments will be increased by 16.5%, but the increase for education in general will only be 2.9%. The increases for Hospital Services Department, Department of Health, and social welfare will be 6.5%, 2.5% and 8.4% respectively while there will be a 1% decrease for labour services. Since inflation in Hong Kong exceeds 11% and the cost of government services is rising, expenditures for the above services which are part and partial of the everyday life of the public have actually been significantly reduced.

#### Social welfare

Although the Budget proposes an increase of 8.4% for expenditure on social welfare for the coming year, the extra \$427 million can only offset the expenditure arising from two new social welfare services earmarked for implementation a long time ago. These are the lowering of age limit in the eligibility for old age allowance which requires \$240 million, and subsidy for children whose families receive public assistance which needs \$180 million.

It can be seen from the figures that the financial provision for social welfare has decreased as a whole. In other words, it means that indirectly other social welfare services have to be frozen. Taking inflation into account, there is an actual decrease of almost 1%. In this connection, we should study the negative impact this financial arrangement has on the proposals put forward in the White Paper on Social Welfare. For example, it is mentioned in the White Paper that the Government would

legislate to control the management of homes for the elderly. It is also proposed to formulate a uniform standard and a monitory mechanism for all private, non-profit making or subsidized homes for the elderly. I fully support these measures which would improve the standard of these homes. However, I believe that many substandard homes will have to close down after the implementation of these measures. By that time, if the Government does not have sufficient resources to provide an adequate number of homes, the already serious problem of accommodation for the elderly would be aggravated. I hope that the Government would reconsider the amount of funds allocated for social welfare, so that there is no need for last minute frantic efforts in future.

### Lotteries Fund

On the issue of financial provisions for social welfare, I agree very much with the Honourable HUI Yin-fat's suggestion that the ratio of allocation of the Lotteries Fund should be readjusted.

Many members of the public think that betting on Mark Six equals to engaging in an act of charity. Actually, according to the existing fund allocation formula, only 3.5% of the proceeds goes to the Lotteries Fund for social welfare services. Among the rest, 59% are for dividends, 30% for betting duty and 7.5% administration cost of the Jockey Club. In the year 1990-91, only \$136 million was put into the Lotteries Fund, resulting in a shortfall of \$64 million in meeting the expenditure for the year. And for 1991-92, the estimated deficit would be as high as \$107 million.

The Jockey Club has proposed to reduce the proportion for its administration cost by 1.5% and that for the betting duty by 3% so that the proportion for the Lotteries Fund can be increased to 8% of the proceeds. But I think this is still not enough. A more equitable way would be to reduced the proportion for the Jockey Club's administration cost by 2.5% and the proportions for betting duty and dividends by 2% respectively. By so doing, the proportion for the Lotteries Fund would be increased to 10%. Even so, for every \$10 betted on Mark Six, only \$1 would actually be used for welfare services.

### Education

As for the financial provision for education, the Budget only concentrates resources on the development of university and tertiary education, overlooking the

needs of secondary, primary and kindergarten education. For example, the financial provision for secondary education is increased only by 4.4% and the increase for primary education is even as low as 1%, that is, about 1/10 of the inflation rate. This is really disappointing.

#### Tax evasion and tax avoidance

Sir, opening up revenue sources and cutting down expenditure are the most fundamental approaches of financial management, plugging the loopholes for tax evasion and tax avoidance is the most effective means for attaining both purposes. In particular, the Government should step up measures to prevent the use of leveraged leasing schemes as tax shelters. Many enterprises making handsome profits pay only relatively insignificant amounts of tax because they know the ways to avoid taxes. As a result, the tax burden is passed on to the salary earners.

I am very much in support of the "field audit" measures recently proposed by the Inland Revenue Department. Through this system, taxation officers will be able to audit the financial and accounting records directly and the taxpayers can be called upon to answer queries. I think this measure can greatly reduce tax evasion activities.

#### Broadening the tax base

I agree with the Financial Secretary that there is the need to broaden the tax base and to increase tax sources. But the principle of not causing serious nuisance to the public must be adhered to. For instance, we can consider introducing capital gains tax and increasing estates tax or other taxes on places of entertainment. I also agree that a slight increase in profits tax can be introduced in due course although one of the reasons why so many foreign investors come to Hong Kong is that they have confidence in investing in a place where the tax rate is fixed and stable. This is certainly of vital importance to the prosperity of Hong Kong.

There must be a definite amount of revenue sources to afford the Government's huge expenditure. Being the financial manager of the Hong Kong Government, the Financial Secretary cannot make bricks without straw. In the past few years, he exhausted his wits to keep the finance of Hong Kong in perfect order. This is really commendable.

Since the taxation system is becoming more and more complicated, I agree that a tax review committee should be set up to make a detailed study of the future taxation system.

Finally, I would like to take this opportunity to express my gratitude for and give my best wishes to the Financial Secretary. During his term of office in the past five years, Sir Piers has accumulated surpluses in the order of tens of billions of dollars for the Government and has introduced separate taxation for married couples. I believe that people of Hong Kong will not forget Sir Piers' hard work in the past five years, especially his achievement in maintaining an exchange peg with the US dollar. This linked exchange rate system has given us monetary stability amidst turbulences. I wish Sir Piers and Lady JACOBS the very best in their life after retirement.

Sir, with these remarks, I support the motion.

MRS LAU: Sir, I wish to join my honourable colleagues who spoke before me in paying tribute to the Financial Secretary for his prudent management of Hong Kong's finances over the past five years. I wish him a very happy retirement and all the best in the future.

The Financial Secretary has described his Budget as being positive and realistic, but in the present social, economic and political climate of Hong Kong, we also need a Budget that can effectively serve the immediate as well as long-term needs of Hong Kong. It is clear that we do have an urgent need to address the problem of inflation and, in the longer term, we need to carry through our PADS projects to ensure that we will have the necessary infrastructure upon which to build our continued prosperity.

Last year in the Budget debate, I expressed concern over persistent breaches of budgetary guidelines in recent years. The apparent inability to control the growth of public expenditure, which has gone well beyond the 16% GDP guideline, is the root of our many problems. In order to meet increased expenditures, tax increases are inevitable. In turn tax measures exacerbate inflation which is already running high at double digits.

Sir, I appreciate that Government is trying hard to trim the size of the Civil

Service and exercise strict control over resource allocations. I also note that internally within the establishment, the Star Chamber is vigilantly seeking out areas for achieving savings and increasing productivity. This will ensure that existing resources are maximized. But one can only go on dieting for so long without causing injury to one's health and one can only exert oneself so much before reaching the point of diminishing return. Furthermore there are areas where it is neither possible nor desirable to make reduction such as education, social welfare and internal security for maintenance of law and order. If we are to keep our public expenditure low and at the same time maintain the level of our service to the public, we must be able not only to economize on expenditure but also tap new resources.

This year, the Financial Secretary has chosen to tap resources through indirect taxation targetted at what he called "luxury and non-essential" items. His choice of tax increases has attracted much criticism. Although I do not necessarily agree with all of such criticisms, I must say that some of the proposed tax levies are not really as innocuous as what the Financial Secretary thinks them to be. In imposing taxation on any community, particularly one that is already suffering from an inflationary situation, I believe that a caring government must be extremely mindful of the impact which the revenue-raising measures taken together may have on the livelihood of the average citizen.

Items relating to public transport, alcoholic drinks, tobacco and rates all cut across a wide sector of our community. Petrol prices have escalated stantially over the past eight months and have already produced severe inflationary effect on our society. Although the proposed increase on hydrocarbon oils is only 5%, it is still like rubbing salt into a wound. Would it not be better for Government to have given motorists a break on this occasion. Personally I believe that the goodwill which may be gained by forsaking the additional levy would far outweigh the amount of dollars going into the coffers. The Financial Secretary believes that bus fares would not really be affected. But apart from the fact that we are in for bus fare increases three days from now, we also know that whatever increase Government imposes on this occasion will clearly go down in the books and will be duly accounted for in the next round of fare hikes.

Sir, although I do not feel that a further increase in vehicle first registration taxes this year is really warranted, my greater concern lies in the substantial increase in fees for transfer of vehicle ownership. A thousand dollars may be a small sum when one talks about a second-hand Mercedes or Daimler, but we do have many

vehicles in Hong Kong having resale values of only a few thousand dollars each. Of course, the Financial Secretary would never dream of having to buy a second hand vehicle of that value but there are many people in Hong Kong who can only afford one at that rate. With such a hefty increase in transfer fees, some of these vehicles, which may still be probably roadworthy, will now become virtually unmarketable and may well end up being dumped on the roadside somewhere in the New Territories to the nuisance of our environment. There is no reason why transfer fees cannot be on the sliding scale based perhaps on the consideration for the transfer of the value of the vehicle whichever is the greatest. That would at least be more equitable.

Sir, I am not sure as between smoking and gambling, which one is more of a social evil. The former may cause breakdown of health, the latter frequently causes breakdown of marriages. However, I am sure that if the Financial Secretary had chosen to increase on betting duties instead of tobacco, that would by far be much more acceptable to those in the lower income stratum. Even if betting duties should reduce the amount of prize money, I do not believe that this will in any way deter punters from their wagering activities.

On the question of rates, I expressed my concern in the Budget debate last year concerning the effect which hefty rates increase may have on small property owners. I repeat this concern. Although the Financial Secretary was ostensibly generous by putting a ceiling of 25% on rate increases this year, it must not be forgotten that coupled with the increase last year, a substantial percentage of taxpayers would have to shoulder a total increase in rates in excess of 50% over a matter of two years. As we all know, rates are almost invariably passed on to tenants. Bearing in mind that apart from labour shortage, one of the major causes of inflation is high rentals, the increase in rates is bound to further fuel inflation.

Sir, it is ironic that whilst we spend a great deal of time debating on the justification for relatively minor items of tax, we are at the same time allowing substantial revenue amounts to be lost through artificially contrived tax avoidance schemes. In this regard, I echo the concern of our Senior Member and other honourable colleagues in regard to the problem and the need to plug anti-avoidance loopholes. Our source-based system of taxation has served many companies well. However we are aware that many companies, which have made their fortune in Hong Kong, now seek to avoid Hong Kong taxation by sourcing their profits off-shore. And sourcing of profits off-shore is only one of the many ingenious schemes devised by tax experts to enable their clients to slip out of our taxation system. I am pleased that this

problem, which appears to be growing, has not escaped the attention of the Financial Secretary. I welcome the introduction of specific anti-avoidance legislation to counter known types of artificial avoidance schemes and I urge that this should be done quickly to prevent further revenue losses. Our general anti-avoidance provision under section 61A of the Inland Revenue Ordinance is clearly not good enough to deal with the concoction of complex schemes that come up. From a revenue-raising point of view, plugging of loopholes in this area may produce a yield much greater than any other item of tax or duty.

I am pleased that more stringent measures will be taken against tax evaders. In 1991-92, we will have over 200 000 more taxpayers contributing towards the revenue by way of direct taxes. At a time when we are netting in more taxpayers, many of whom would be from the lower income bracket, we must ensure that our system does not catch small fries only and let go of big fish.

Sir, I support the Financial Secretary's proposal to finance major infrastructural projects through government borrowing. This would address the widespread public concern that public revenue from taxes may be relied on to pay for our airport and related projects. I can understand why the Financial Secretary is proposing to issue short-term bonds with maturity dates of two to three years. However, since the capital projects are not expected to be completed until near to 1997 or even beyond, none of them would be able to generate income before completion to repay the funds borrowed. This being the case, perhaps the Financial Secretary ought to further explain how he proposes that his successor should repay the bonds when they mature in two to three years' time.

Lastly, I wish to say a few words in regard to the areas of social welfare and promotion of the arts. In the area of social welfare, the budget allocation of \$5.5 billion represents a meagre 8.4% increase over the revised estimate for this year. In the White Paper on Social Welfare into the 1990s and beyond, Government is committed to further develop its social welfare services to meet the needs and expectations of the community but how far this can be achieved remains to be seen as provision of service is almost invariably subject to the availability of resources. In this era of austerity, resources are hard to come by. Already we are lagging behind on many services, including services for the elderly, rehabilitation service, child care services, to name but a few. In the past, the Lotteries Fund has served subvented welfare agencies well by providing assistance for repair and refurbishment projects. This Fund is now being rapidly depleted and, it is necessary to urgently find ways



to maintain and if possible further enhance it. In this regard, I support the plea made by the Honourable HUI Yin-fat to increase the allocation to the Fund but I think that initially the increase should only be to bring the allocation up to 8.5% as proposed by the Lotteries Board.

In regard to promotion of the arts, I accept with great reluctance the inevitable reality that the Block Vote for disbursement by the Council for the Performing Arts (of which I am a member) will remain at \$35 million. Taking inflation into account, this actually represents a reduction in real terms. Hong Kong has been called a cultural desert in the past. This is no longer the case today thanks to conscious promotion of the arts over the past few years. But we have only just started to make an impact when we already run short of funds. It is clear that the various budding performing arts companies will now have to find required additional resources elsewhere or else cut back on development. We have started to encourage business sponsorship of the arts but so far the response has not been thrilling. Business sponsorship of the arts is a brand new concept in Hong Kong. Unless and until the concept is understood and accepted by the business sector as a viable proposition from a business point of view, contribution towards this end is not likely to be significant. In this regard, I feel that Government ought to play a more positive role in selling the concept of arts sponsorship to the business community. I am sure that if certain tax incentives may be granted in respect such sponsorship, the business sector would find it that much easier to understand what the concept is all about.

Sir, with these remarks, I support the motion.

MR LAU WAH-SUM: Sir, I have to repeat this year my concern over the persistently high rate of inflation which remains the greatest enemy to our economy. Despite the many urges made by my honourable colleagues and myself in this Chamber over the past two years that Government should adopt serious fiscal measures to dampen inflation, very little has been done. Inflation has been running at around 10% over the past years now leaps up to almost 12%. It is most likely to continue at this rate in the coming year. I therefore have grave doubts on our Honourable Financial Secretary's forecast that the near-term trend for inflation will be at 7.5%, unless Government really takes the lead now to hold down price increases.

We are all aware that our persistently high rate of inflation has been caused

by three main factors, namely, our linked exchange rate with the US dollar, our tight labour market and the excessive growth in public spending. I wish to comment on each of these factors.

I agree with our Honourable Financial Secretary that the linked exchange rate system has given us a high degree of monetary stability since 1983 when the present rate was pegged. However, the disadvantage of linking the Hong Kong dollar to only one currency means that our economy is influenced largely by the economic performance of that country. Having enjoyed currency stability for so many years, I wonder whether the existing exchange peg with the US dollar is really untouchable. I fully support an earlier suggestion from a Member of this Council that the Hong Kong dollar exchange rate should be linked to a basket of currencies based on our proportion of trade, rather than to the US dollar alone. May I urge that a committee be appointed to examine seriously the pros and cons of this proposal, particularly its possible effects on reducing imported inflation.

I am pleased that Government is implementing a limited labour importation scheme to ease our tight labour supply situation. Among other things, the change from labour-intensive production to hi-tech and service-oriented industries has made it necessary to re-train our labour force. But, we all know that our present manpower re-training programme and the means to attract housewives to rejoin the labour force do not appear effective. A good example can be found in the garment and light metal industries. As a result of the fall in business and relocation of production lines to China, the demand for labour in these two industries has dropped. Yet few are willing to be re-trained and change their jobs even though they are taking home a smaller pay packet than they did before. They consider themselves skilled workers, and see working in other service industries as a job with lower esteem for themselves.

I urge Government to take a serious look at this tight labour supply problem as it will have a direct impact on our future development plans. We are almost at the peak of our production capacity, and additional demand for labour from the PADS and other major infrastructural development programmes will only feed into higher costs. The result must be another inflationary spiral. I therefore propose that the Administration re-double their efforts in re-training workers and encouraging housewives to go back to our labour force. Most importantly, the Administration should expand the existing labour importation scheme so as to meet the real demand of individual industries. Furthermore, we should remove the minimum pay requirement imposed under this scheme and let free market forces determine the actual wage. Only

with these means can we reduce the inflationary pressure from our tight labour market.

Let me now turn to the excessive growth of public expenditure. Our Honourable Financial Secretary has stated that public expenditure must not grow faster than GDP over time. The fact remains that over the last few years as well as in the coming year the rate of increase in public expenditure has far exceeded the growth rate of GDP. Public spending has climbed up from 11% of GDP in 1987-88 to 18.3% this year, and it is projected to grow to 20% in the coming year. This trend cannot continue and public expenditure must be properly controlled.

I am glad to see that our Honourable Financial Secretary has determined to maintain a zero growth in head count in the Civil Service. Let me say outright that this must be achieved without any compromise on the quality and quantity of services to be provided. In this respect, I venture to suggest Government to consider converting fringe benefit packages for its employees into cash payment along the line adopted by the Hospital Authority. The real and immediate savings are in terms of manpower for administering these fringe benefits such as housing, education, and so on.

I am sure many will agree with me that the present pay packages in many civil service grades are much higher than their counterparts in the private sector. The private sector has been forced to follow the pay scales offered by Government in order to be competitive in the labour market. I think it is time for Government to take a bold step to freeze the present pay levels in the Civil Service for at least one year. By this I mean not only should there be a zero growth in head count but that there should not be any pay adjustment or regrading and upgrading of posts during the freeze period. I am sure the private sector will be very much happy to see Government take this step to hold labour costs so that they may gain breathing space in improving their competitiveness before the next round of economic recovery. In my opinion, only these drastic measures would check the excessive growth in public expenditure and help to hold down the production cost in the private sector, thereby dampening inflation.

Sir, after several years of fiscal surpluses, I do not understand why our Honourable Financial Secretary has to raise so many inflationary indirect taxes in order to end up with a surplus Budget. Table 5, Appendix A of the Budget speech suggests that additional revenue is raised from various tax measures in order to appropriate \$3.5 billion to the Capital Investment Fund and to end up with a surplus

Budget. But what I cannot understand is the need to appropriate \$3.5 billion to the Capital Investment Fund from revenue in the coming year when the amount so transferred will not be immediately utilized. Except for the increase in tobacco duty which I am supporting for non-financial reasons, all other revenue measures are really not necessary.

I am very pleased to learn that the Administration has finally decided to issue public bonds to raise funds for capital investments including the new airport. This will certainly help develop our bonds market and reinforce Hong Kong's status as a financial centre. The proceeds from bond issues should go direct to the Capital Investment Fund for financing the PADS and other capital projects. If we begin to raise bonds in the coming year, the transfer of \$3.5 billion from the Revenue Account would not be necessary, and some, if not all, of the inflationary revenue measures would not be required.

Sir, of the various revenue measures, I can only fully support the increase of the 200% in rate of duty for tobacco. This is because it will improve the health of our citizens and also reduce the number of young smokers. It will also raise substantial revenue which could be used for other worthy purposes. But I strongly object to the 50% increase of airport departure tax from \$100 to \$150, particularly at a time when the tourist industry has been seriously hit by the Tiananmen Square incident in 1989, followed by world recession and the recent Gulf war. At this revised rate, Hong Kong's departure tax will be the highest among airports in Asia, even more expensive than Japan. Since this increase will not be effective until 1 April 1991, I sincerely urge our Honourable Financial Secretary to consider withdrawing this particular tax increase.

I have also doubts on the desirability of some other revenue proposals, such as the increase in vehicle first registration tax, and the 2 000% revision in vehicle transfer fee. These measures do not yield much extra revenue but are certainly inflationary and cause resentment from the industry and ordinary citizens.

Sir, I would like to conclude by saying a few words on health services. According to the forecast by our Honourable Financial Secretary, the growth trend in the health budget is only relative to the forecast rate of inflation. With the establishment of the Hospital Authority, I think Government should invest in it sufficient resources in the beginning. Among other things, Government should provide sufficient funds to allow hospital staffing in accordance with the standards and ratios set by the Medical

Development Advisory Committee. I am sure our investment will bear fruit when the management philosophy of the Hospital Authority is fully reflected in its overall operation. Furthermore, we should also ensure that the quality of staff in our teaching hospitals are maintained up to the world standard. The long-term aim of the Hospital Authority is to deliver better quality service without increasing excessively public expenditure. An earlier survey has shown that our citizens are willing to pay more for better services. Users should therefore pay more for hospital services, in order to reduce the burden on public expenditure. I must however emphasize that the fee-setting decisions by the Hospital Authority should be implemented only after the establishment of an efficient fee-waiving system to ensure that nobody will be deprived of medical care through lack of financial means.

Finally, I would like to join my honourable colleagues to pay tribute to our Honourable Financial Secretary for his most prudent management of our financial affairs during his term of office and sincerely wish him and Lady JACOBS a very happy retirement.

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

MR MCGREGOR: Sir, the Budget proposals submitted to this Council by the Financial Secretary have been described by some as uninspired, unimaginative, uninteresting and rather unfair. Others have said that they are pragmatic, protective, practical and, indeed, quite praiseworthy. Most Hong Kong people other than smokers, drinkers, drivers and drunken drivers, especially those who drive light vans, seem to have decided that they are generally acceptable, given the Machiavellian intention of paying for the airport in a haze of tobacco smoke. It really is odd how much the new airport has come to dominate all our waking hours with every kind of accusation and a few threats thrown in as well. What in ordinary times would have passed as an unremarkable and indeed, with a few exceptions, quite logical and sensible package of Budget proposals have had to run the gauntlet against an alleged complete lack of firm and accurate information about the financing of the airport at Chek Lap Kok. I doubt if rational consideration can be given to any financial or tax proposals by the Government until Hong Kong people and the Chinese Government are satisfied that the airport is within Hong Kong's means, without having to resort to repressive additional taxation.

My first plea therefore is for the Government to issue more

constructive information than we have at present available on the financing of the airport. I realize of course the problem in doing so. It would be most helpful, I think, if an actual financing plan could be published even although it might be no more than an indicative framework subject to change as circumstances required. I have never personally doubted Hong Kong's ability to construct and to pay for the airport, using a number of sources of funds presently available. The Financial Secretary has referred to the principal sources but what would be better received would be, perhaps, a more detailed assessment of the likely order of annual disbursements, the likely progression of any debt burden, the assessed cost of servicing the debt and the means by which the revenue to meet part or all of the cost of the airport would be obtained. Until information such as this is made available to the public, there will be fear that unreasonable taxes will be applied to help pay for the project.

In this connection, I am glad to note the very significant improvement in Hong Kong's reserves which has occurred during the years of Sir Piers JACOB's management of our fiscal and financial affairs. These reserves provide ample proof of our financial viability at the macro-economic level and our grateful thanks are due to the Financial Secretary for steadfastly building them up so that our international credit rating remains high and, if necessary, our borrowing in international financial markets is made less expensive than would otherwise be the case. Many people in Hong Kong, including me, have often complained that the Financial Secretary has been particularly mean in making funds available for one thing or another but in the final analysis, he has the responsibility for ensuring our financial health and welfare. I believe he has discharged that responsibility very well. That will not stop me however from complaining just a little.

Before I begin my litany of complaints let me remind this Council, if it needs reminding, that we have one of the most remarkable economies in the world today and that this is not an accident. It is the result of decades of adherence to the free market philosophy and to free trade and private enterprise principles and procedures. This system is kept effective by the kind of liaison between the public and private sectors rarely seen anywhere in the world. Our economy has consistently grown and diversified. Our efficiency has consistently increased as has our per capita income and our GDP. Our contribution to Asian/Pacific economic development is significant and our contribution to China is massive, as is China's contribution to Hong Kong. We are an externally oriented economy and our efficiency is therefore relative to that of all the most efficient economies in the world. We are a world player in

economic terms.

It is worthwhile reminding ourselves of these facts when considering whether we need a new airport and how we are to pay for it, also whether we can face competition in future. Our track record tells us unmistakably that we can.

Sir, I want to make a point at this stage -- and I apologize to the interpreters -- about Hong Kong business. I have worked for business and in business for 40 years in Hong Kong. I can say hand on heart that I have never been solely motivated by profit or personal gain. I have always worked on the basis that there is an unwritten contract between employer and employee that each contribute his skill to create wealth and each will derive benefit from the wealth created. The businessman is not the sole creator of wealth, nor does he have a right to decide how the wealth should be apportioned. He is a partner only and he should never forget that. The fact that only 100 000 people may be paying tax simply means that 100 000 people earn a good deal more than those who do not have the privilege of paying tax. As a businessman, therefore, I wish to dissociate myself from any suggestion that business in Hong Kong has some special status above and beyond the rest of the people of Hong Kong. It is this kind of attitude, I am afraid, that helps to separate business from the rest of the community. We are all part of a highly efficient whole and we should care for each other with respect and with some humility.

I would also like to make a further point in regard to the question of comparison between Hong Kong taxes and those applied in other developed countries where there is a huge difference in the distribution of income and of course in the social services provided in those countries. Our tax system creates and maintains a very wide division between the rich and the poor. That is the nature of this economy. And I think that distorts any comparison between our taxation system and that of other developed countries.

Now let me comment on specific points in the Budget proposals.

The Financial Secretary should have raised the personal income tax allowances in line with inflation and therefore by 10%. He has proposed allowances which are less than that and the effect is therefore somewhat regressive and rather unfair to the lower income majority. New taxpayers will be brought into the tax net rather unfairly. This is not the best way to widen the tax base.

I hope we can regard the 50% increase in the airport departure tax as temporary in nature. It will not in my view -- and I realize I am not speaking with any authority from the Tourist Association -- have any serious effect on our tourist traffic but it is certainly an irritant to non-package tourists who have to stump up at the end of their holiday here. Our business travellers and especially those who travel extensively will be none too happy about the increase but no doubt we can live with it until better times.

I was glad to see that the Financial Secretary has left the question of a sales tax to his successor. I hope his successor will leave it to his successor and so on, ad infinitum. In the Hong Kong context, a sales tax is unwelcome, would be inflationary, would fall on the lower income sector disproportionately and would be an open invitation to expansion in the years ahead. The existing tax system and the general adherence to the 60/40 balance between direct and indirect tax revenue have served Hong Kong well for many years and there is no real indication at present that our expanding economy will not continue to provide the necessary tax revenue within these well proven parameters.

However, the fears of the Government and our legion of tax experts in the private sector that our tax base is too narrow should be examined in detail and by an appropriate authority. I do not know what studies have been carried out in this wider context and whether the impact and operation of a sales tax has also been considered as part of such a study or separately. It would be helpful to have comparative and objective information on this matter especially if the Financial Secretary believes that, for one reason or another, the present tax base must inevitably be broadened.

Government efficiency is always a great topic for public criticism and indignation. There is always a tendency for the private sector wage earner to believe that his public sector counterpart is overpaid, underworked and undeserving of either sympathy or further wage increases. We spend a great deal of time in this Council examining government expenditure to see if we can demand improved productivity from government servants and services. Whether or not a case exists for doing so, we demand it anyway. The public and private sector, as employers, accuse each other of increasing wages unreasonably and forcing the other to do so as well. In fact, as far as I can see, wages have generally moved in unison and with reasonable comparability for many years. The system of adjustment works quite well in both sectors.



But when we in the private sector complain that the Government's wage increases are too high and inflationary, let us look at our own record. That kind of assessment will show that salaries and wages in the service industry have at least increased as fast as the Government salaries and in many cases faster. This is of course the result of labour shortages in certain sectors of the economy and that is a different matter altogether.

May I however suggest that, since the Government is clearly keen to promote corporatization and privatization of government services and functions as far as this can reasonably be done, an independent commission should be able to accelerate the process. The operation of car parks, toll tunnels, data processing and even general clerical services seem appropriate for private sector management. The management of government housing estates might be another, police driving training another. Home ownership could also perhaps be extended to some government built housing estates.

I am pleased to note the action taken by the Financial Secretary to seek out tax evasion. In a low tax environment we enjoy in Hong Kong, tax evasion is inexcusable and must be reduced as far as possible. Extra resources should not be denied to the Government for this purpose since they are likely to be very cost effective.

What is one to say about the tobacco tax increase? It is difficult to believe that the Financial Secretary suddenly developed a conscience about the health hazard posed by tobacco, despite the work of the Council on Smoking and Health and the anti-smoking lobby. It is much more likely that these worthy bodies provided a very good reason and excuse for a whacking great increase in tax and a most attractive increase in tax income. I have two objections. I should also say that I am a non smoker and I believe that smoking is somewhat harmful to health. So is codeine, caffeine, and ethyl alcohol but we do not seem to worry too much about these addictive substances.

Firstly, I object to the use, as other Members have said, of fiscal policy in social engineering, especially when the product is freely available on sale and is a major source of government revenue. It could be argued that Government is profiting from public addiction to a product which the Government states is dangerous to health.

Secondly, assuming that the additional tax is not going to stop hundreds of thousands of smokers from buying cigarettes, the effect will be inflationary. For a smoker who uses 30 cigarettes a day, the extra cost will be at least \$15 a day or

\$450 a month, all of this going to tax revenue.

I therefore do not accept that this tax should be increased by anything like the margin of 200% as proposed. A tax increase of 10% is much more appropriate. I recommend that the proposed 200% rate be reduced to 10% and I will vote on any enabling legislation accordingly, without a great deal of hope, I must say.

I have also to say that the increase in tax on Chinese prepared tobacco which is 1350% is really horrific and cannot be supported on any grounds at all. It hits working class people and no others. The existing trade will probably be wiped out altogether.

I was personally involved in the early 1960s in bringing this product under control from a position where it had been almost all smuggled in from Macau. Mr HO Yin in Macau and Mr HO Pak in Hong Kong agreed to assist us with a packaging arrangement which I personally devised and which has worked quite well to this day. We promised, as far as I can remember, to provide an acceptable tax levy given the unusual nature of this product and the limited clientele.

The result is that the Government has had millions of dollars of tax revenue over a period of many years with smuggling hardly a problem. We now have a situation where on the one hand the "suk yin" industry faces a huge tax increase which it cannot absorb and on the other hand where smuggling has again become a strong possibility. Why do we have such an increase and what extra revenue will it bring? The Financial Secretary has said that we must remove preferences given to any import as opposed to any other, presumably under the GATT regulations. That is true but to act so suddenly 30 years after "suk yin" was brought under effective tax supervision is not only unnecessary but also unconscionable. This pungent tobacco is only smoked by old men and even they only smoke the stuff from habit. So I would ask very specially that the Financial Secretary should have some pity on these old gentlemen and remove this enormous tax in response to Members' speeches.

The extra tax revenue from the increase in "suk yin" tax is not separately shown in the Estimates. It must be very small indeed and not worth the bother. So once again I appeal to the Financial Secretary to give detailed consideration to the possibility of removing the tax and bringing it to where it was with a possible increase to 100% which is already very large.

The Financial Secretary made many points in his Budget address about improved social services and the Government's concern for the needy, the sick, the handicapped and the aged. I do not doubt that we have a caring and sensitive Government dedicated to the general concept of improved welfare for the whole of the population of Hong Kong by right and not as a matter of charity.

My constituency, through its elected Legislative Council representative and in separate written submissions from 1985 to 1988, and since 1988 by me personally, has urged the Government to examine in detail the introduction of a non means tested old age pension for all qualified Hong Kong citizens. The Government has ignored all these requests and has never, to my knowledge, attempted to examine the parameters and the likely scale of cost for such a scheme. A study carried out by the Hong Kong Social Security Society has been considered by this Council recently. This suggests that a state run contributory old age pension scheme is not outside the realm of possibility. We have developed into a cohesive society which prides itself on high levels of economic and social progress. Yet we seem fearful of the responsibility for ensuring that our senior citizens are given financial protection and support, as a matter of right, when they reach the age of retirement.

I wish to suggest, once more, that the Government commissions a detailed study to examine this important issue. At the moment, we seem to be working in the dark as to possible system and potential cost. We shall never know if we can afford it until we examine the possibilities officially, report on them and discuss them in this Council. The study by the Hong Kong Social Security Society might provide a good starting point.

I should also say that I am surprised in these political times that very few Councillors have spoken on this issue, which is of course a fundamental element in the social fabric of most societies. Is it possible that Councillors do not have a view or feel that we cannot afford the scheme and that therefore we should not talk about it? I hope not.

Finally, I hope that the Financial Secretary will not obtain the impression from a recent editorial in the Hong Kong Standard that his work on Hong Kong's behalf during a number of difficult years is totally unappreciated. It is not in the nature of the job that the incumbent will be universally popular but, smokers and light van owners aside, most people in Hong Kong would agree that he has served Hong Kong well as the Managing Director of our financial edifice and the protector of the riches

within.

How much nicer if Sir Piers had been able to leave us smoking an inexpensive cigar whilst he paid his inexpensive departure tax at Kai Tak. It is, sadly, not to be.

With the assurance that I intend to vote against any legislation seeking to establish the proposed tobacco taxes, I support the Bill.

MR SIT (in Cantonese): I have heard in these two days many Members pay tribute to the Financial Secretary in their speeches. The Financial Secretary, having accumulated and added to our reserves billions of dollars of surplus during the past few years, indeed deserves our praise. But we must not forget that this is his responsibility too. In any case, I would also like to take this opportunity to wish Sir Piers and Lady JACOBS a happy retirement.

The motion of today's debate is the Appropriation Bill 1991. To put it in another way, we are here discussing the Government's expenditure in the coming financial year -- which is one of the two subjects the Budget is about -- as to whether the appropriation of funds is appropriate and whether the money will be well spent. Regarding the revenue in the Budget, it is not part of today's debate and we will have to wait until the next sitting to examine the matter. For 1991-92, Government's expenditure is estimated to be \$100.3 billion, an increase of \$10.6 billion in comparison with the spending of 1990-91. Could I ask whether such a colossal sum, apart from meeting the expenses needed to maintain the leviathan of our Civil Service, would be well spent in terms of building for the future, catering for the essential needs of our people and attending to priority needs of the community? At this point, perhaps we may have a look at the Government's plans in the Budget. In the following year, the Government proposes to abolish the Student Travel Scheme; expenditure on pre-primary education is going to be small; the Government also plans to raise fees for university or tertiary education and peg charges to costs in the provision of medical services. In other words, the chances of survival would almost be minimal for the poor and the destitute.

We may as well turn to other expenditure items for this transitional period. According to the Budget, internal security will account for 10.5% of the total expenditure. But security is of utmost importance during this period. In spite of this, it is proposed in the Budget that expenditure on security will gradually

decrease from 1992 to 1995. Does this imply that the Government is satisfied with our existing security conditions and is of the view that more money spent in this respect is no longer a necessity? If we would care to take a look at the crime rate and the number of car thefts each day, we would never share this view.

The Government, in its appropriation of funds, has made a financial commitment of \$15,959,000,000 on infrastructural development, 15% of the total \$100.3 billion expenditure. Such a high percentage seems to reveal to us that expenditure on major infrastructural projects will eat up a large portion of the total expenditure this year and in the years leading to the handover of sovereignty. The question is: Are these expenditures in line with the resource allocation which should have been determined according to priority? Turning again to expenditure on infrastructure, the public, including Legislative Councillors I should say, knows little of the details of the project. We are in the dark as to the choice of location and the financing, that is, the actual cost of the airport. The only thing we know is that our Government has informed the Chinese authorities of the cost of the new airport, which is estimated to be around \$103 billion. However we also learnt from Mr MacLEOD, the Secretary for the Treasury, in a press conference that the new airport would cost about \$70 billion or more. How is it that one could arrive at two sets of figures, between which the difference is so great, in estimating the cost of a project with the same items of expenditure? Which figure is correct; which is not? One would suspect that we might have been lying either to the Chinese Government or to the Hong Kong public; or perhaps both figures might not truly reflect the actual cost. With this expenditure proposal before us, we cannot help asking the Government whether our economy is "airport-led" or whether manufacturing and export are its mainstays. Must we have a new airport ready before 1997? Without it, could it be that our economy would collapse? Given the importance of exports and re-exports to our economy, we have to admit that the role of the airport should never be overlooked. But our economy does not depend solely on the airport; in which case, we should also examine the Government's effort in assisting industry and promoting export. Of course, we may say that it has been the Government's policy to adopt positive non-interventionism in the area of industry. But that does not mean that the Government should not take positive steps to encourage or help in industrial development. We cannot see from the expenditure programme any major efforts by the Government to raise the quality of our manufacturing products and actively explore new markets for our goods. To take as an example the much-criticized export quota system, it has stifled the opportunity for those who would like to venture into the field of industry. Originally, the export quota was available free of charge. But, in order to secure

quotas, many industrialists or factory operators would rather pay for them. This, in every way, is undermining the competitiveness of our products and discouraging factory operators from entering the business. I remember Mr BREMRIDGE, former Financial Secretary, told us when he was retiring from office in 1985 that, as Hong Kong entered the period of transition, one thing which was of utmost importance and which worried him most was the growth in industrial investment. This is the lifeblood of Hong Kong. But since then, what is the rate of growth in industrial investment? What we see is the Government's high land price policy and unreasonable labour measures which have made it impossible for many factories of small and medium size to continue production in Hong Kong, thereby forcing the factory operators to relocate their factories to Shenzhen and Dongguan for reprocessing of products. I really wonder if the Government does intend to actively pursue improvement on this front.

Turning back to government priorities, of the \$100.3 billion expenditure, if there were indeed misplaced priorities in the appropriation of funds, I would suggest that the Government should consider revising its expenditure programme. I remember the airport consultancy, in assessing the economic and financial aspects of the airport project in its report, has made it clear that the impact of the project on our economy would be most significant in the transitional period. Expenditure on infrastructural development accounts for 4% of the Gross Domestic Product, which is in fact not a small sum. The consultancy has also sounded the warning that expenditure of this amount would lead to runaway inflation. As the matter of priority which determines the allocation of funds has not been examined in the report, the ball is now back in the Government's court. It is urged in the consultancy report that the Government, in allocating funds to finance the infrastructural projects, should bear in mind the importance of social priorities and avoid putting the cart before the horse. The new airport is important; so is the livelihood of our people and the expenditure related thereto.

If expenditures could not be justified, would it be appropriate for the Government to use the taxpayers' money to finance such spending? I do believe that the public would be willing to take the responsibility, tighten their belts and contribute to the building for the best of their future if the spending was worthwhile. But we have indeed detected flaws in this expenditure programme, no wonder then the public outcries.

I will now turn to the Government's revenue measures. There has been a drastic increase in tobacco tax, for example, a 200% increase in cigarette tax. Some

self-righteous people claim that the hefty increase in tobacco tax will do more good than harm. However, as regards the increases in tobacco and alcohol taxes, we think the Financial Secretary has not done a good job because revenue measures should be justified by fiscal but not health reasons. When I was attending a Commonwealth Parliamentary Association meeting in the United Kingdom, I received a copy of the Financial Secretary's Budget speech. A question then cropped up in my mind: Have the posts of Financial Secretary and Secretary for Health and Welfare been merged? When I looked closer, the Financial Secretary was the Financial Secretary! I think if tax increases are justified for health reasons, they should not be proposed by the Financial Secretary. As we all know, smoking is (1) neither immoral (2) nor illegal. The Government should view the matter from the perspective that cigarette selling is in fact not an illegal activity. Members hold different views on the hefty increase in tobacco tax. Life is precious to everyone. Is it that smokers are not afraid of death? But there are many historical factors and economic reasons behind the question. To many people of the lower income group, smoking is the only enjoyment they can have. But now, they have been forced to give it up. What is the meaning of life to them then? Even if the "rose garden" airport project is completed, how many of them will have the chance to travel by plane? The Government should consider this seriously. It should not only look at the rosy side of the picture but should also take care of the interests of the lower income group.

As regards tunnel tolls, whenever there are congestions in tunnels, the Government's solution -- needless to be explained by the Secretary for Transport, and even primary students will tell -- is toll increase. However, congestions will appear again soon after the toll is increased. Apart from toll increase, are there any other measures to solve the problem?

Thirdly, let me turn to rates. There was a 25% increase in rates last year and this year, there has been a 15% increase on average. If the year before last is taken into account, there will in fact be a 43.75% increase. To the general public, this is a very huge sum. During the transitional period, the general public should be guaranteed that they can afford their way of living, so that they can move safely into 1997. If not, I really do not know what will happen.

In addition, the Financial Secretary really deserves our compliment because he has saved up more than \$50 billion for Hong Kong. I have read a press report dated 7 October 1990 and the headline reads: Sir Piers claims being kept in the dark about the Government's decision on self-financing the Tsing Ma Bridge project. The

Financial Secretary is the holder of the public purse in Hong Kong. How could he claim that he had never played a part in deciding on the project which will involve more than \$7 billion? It was also reported that the Financial Secretary was not in town at that time and had not been informed of the decision even after, and I stress "even after", it was made. Therefore, he was unable to explain and give comments on the issue. If the Financial Secretary really knew nothing about the \$7 billion project, would the general public and taxpayers be in great danger? But I doubt this. I do not think the Government will spend billions of dollars without notifying the Financial Secretary of it. May I ask: Where were you at that time, Mr Financial Secretary? How could we expect you to take good care of our money?

Sir, before I conclude, I would like to quote a story from Chapter 41 of the Book of Genesis in the Old Testament. It is about the dream of the King of Egypt (I do hope it was not a nightmare). In the dream, the King first saw seven fat and sleek cows, and then seven thin cows. Strangely enough, the seven thin cows ate up the seven fat and sleek ones, that is, the small ate up the big and the weak swallowed the strong. The King of Egypt did not understand the dream and therefore sent for Joseph to explain it. Joseph said that the seven fat and sleek cows were seven years of great plenty, and the seven thin cows were seven famine years that would follow. He went on to say, "Your Majesty, although in the coming seven years of great plenty, you will have plenty of money and a large surplus, you have to use them carefully. You should not use them up because the following seven famine years will be bad years. You must collect food for the bad years." The King of Egypt took Joseph's advice and during the seven years of great plenty, he asked his people to collect and store up food, and therefore they survived the seven famine years. As my honourable colleagues have pointed out, Hong Kong has accumulated a reserve of more than \$70 billion. Between now and 1997, Hong Kong will face an abundance of difficulties. As the Financial Secretary has mentioned, Hong Kong will change its revenue philosophy and will be in for deficit budgets. Hong Kong therefore has to tighten its belt. I do hope that the Financial Secretary can learn the lesson from the story of the Old Testament, and should not use up our surplus at one go. If so, Sir Piers, we Hong Kong people will be grateful to you, and our next generation are sure to miss you.

Sir, with these remarks, I oppose the Appropriation Bill 1991.

MRS SO (in Cantonese): Sir, the last Budget presented by the Financial Secretary in



his term of office is not as "positive and realistic" as he has described. From whatever angle you examine the Budget, you will find it disappointing. Whether on the area of taxation policy, public finance strategy or inflation control, there are few merits worthy of mention. And it is on these three aspects that I am going to give my views in the debate today.

## Taxation policy

As we are aware, the Government's principle of fiscal management has been expenditure-led. We have already grown accustomed to the invariable increases in taxes and fees every year. Nevertheless, the tax hikes and fee increases proposed in the Budget this year have been met with mounting waves of vociferous opposition from one sector after another. Such a stormy scene of public outcry is rarely seen in recent years. Any increase in taxes and fees has never been welcome. The fact that people react so strongly to the Budget this year warrants a review by the Administration. In my opinion, the crux of the problem lies in the growing inequity of the taxation policy.

In recent years, the Financial Secretary has stressed time and again the need to contain our dependence on direct taxation which has accounted for over 60% of the total tax yield lest our revenue should fall sharply in times of economic fluctuation. Thus, whenever there is a deficit, the Financial Secretary would raise indirect taxes substantially, steering our taxation policy away from the principle of equity and fairness.

Should it be mandatory to follow the 6:4 ratio for direct and indirect taxation? Why does the Government resort to an increase in indirect taxes only instead of considering possible adjustments to the profits tax? I think the Government owes us a detailed explanation.

During the transitional period, it is important to ensure a stable standard of living for the people. This Budget only boosts various personal allowances by a nominal amount, catching more people into the tax net. On top of this, high inflation has made life more difficult for the middle and lower income groups. Notwithstanding the unanimous opposition from different walks of life, the Government still generates public opinion favourable to the introduction of a sales tax. It appears that the Government is insensitive to public feelings.

The consensus on taxation policy between the Government and the public is being undermined. Under such circumstances, an overall review on our taxation system should admit no delay. Despite that the Government would consult the Joint Liaison Committee on Taxation from time to time, the Committee, which is set up mainly on the initiative of the business sector, has always been keeping a low profile in its operation and cannot be entrusted with such an important task. The Government should consider the setting up of a select committee comprising members from different strata of society to review the tax system.

In fact, apart from the introduction of a sales tax, Hong Kong may draw on the experience of other countries in effective taxation. Capital gains tax is one of the revenue measures to this end. As far as the conveyancing of land and property is concerned, any gains in asset are fruits brought about by our economic development. It is just reasonable to plough back some of the profits into the society through taxation. There are of course many technical details to be worked out, but that may not be a bad idea to put this subject under study as part of an overall review on the tax system.

In the review on the tax system, it is imperative to examine ways to plug the loopholes open to tax evasion and avoidance. I support the Government in taking measures against tax evasion and in containing the activities of tax avoidance through legislation.

In passing, I would also like to express my views on the significant increase in tobacco duty. Being a non-smoker, I have all along no strong feelings about the Government's anti-smoking policy. Yet this time, the Government raises the duty on tobacco substantially on the ground of protecting public health. It is unreasonable to put the middle and lower income groups that make up the bulk of the smoking population under tremendous financial pressure. Smoking is a personal preference. However, in making a choice for the smokers rather than adopting a gradual approach, the Government has now set a dangerous precedent of interfering with personal freedom. I think the Government should give serious consideration to such action.

## Strategy on public finances

The explanation given by the Financial Secretary on public finance strategy in this Budget is more elaborated than it was in the previous one, yet it does not help

people much in getting a clearer picture of the financial commitment and the financing strategy of the colossal infrastructural project as a whole.

In a bid to control recurrent expenditure, the Government has indeed devoted much efforts to this effect, as can be reflected by the proposal of less than 1% growth in the establishment of the Civil Service. We are glad to know that the growth in recurrent expenditure for the current financial year is lower than estimated. However, capital expenditure is higher than expected. In the next financial year, it is forecast that the growth in capital expenditure will even be higher than the actual growth for this year. The fact that proposed capital expenditure has always been insufficient to meet actual expenses and supplementary provision has to be requested has given us cause for grave concern. It is hoped that the Government would seek measures promptly to step up its monitoring and control over capital expenditure.

In the coming years, assuming that no new revenue measures or financial sources such as borrowing by the Government are to be introduced, our fiscal reserves, which will stand at \$72.7 billion at the end of 1990-91, are expected to drop to \$40.2 billion by the end of 1994-95. Such a fall is dramatic. As the saying goes, "Saving up for rainy days ". So it is just natural to draw on fiscal reserves in times of need. But at what level should the fiscal reserves be regarded as appropriate? In order to gain public support in respect of the massive infrastructural project, it is necessary for the Government to give explanation on this issue.

#### Control on inflation

Hong Kong has entered a "low growth and high inflation" phase at the outset of the 1990s. The inflation rate for the past two years is as high as about 10%. The Budget, however, estimates that the average inflation rate over the five-year period starting from 1990-91 will be 7.5%. This shows that the Government is over-optimistic about its control on inflation.

It cannot help solve the problem by merely identifying labour shortage and imported inflation under the linked exchange rate system as factors contributing to inflation. We are not demanding an explanation from the Government on the causes of high inflation. We are asking for the means to control it.

I think that the Government is not incapable of controlling inflation.

Firstly, the Government can exercise control over the growth in public expenditure, in particular the salary increase level of the Civil Service, where rivalries in pay rise with the private sector should no longer be allowed.

Secondly, public corporations like the Mass Transit Railway Corporation, the Kowloon-Canton Railway Corporation and the Housing Authority should not take the lead in raising fares and charges. The Government should step up its control over the annual hefty increases in fares and charges in the public sector.

Thirdly, the level of increase in rates should be lowered to avoid fuelling inflation further.

Fourthly, items which have less inflationary effects should be targetted when indirect taxes have to be increased to boost revenue. Betting tax, for example, can be adjusted upward.

Sir, as a result of the need to control the growth in public expenditure, the increase in social welfare expenditure becomes minimal after taking the inflation factor into account. Take the Lotteries Fund which generates welfare provision as an example. The present arrangement that only 3.5% of the proceeds from the Mark Six Lottery bet goes to the Lotteries Fund is by no means adequate. I think that consideration should be given to increasing the share allocated to the Fund so as to meet the growing demand for welfare provision.

Sir, despite the many criticism on this Budget, I believe that the Financial Secretary has already done his best and his hard work will long be remembered.

With these remarks and with reservations, I support the motion.

MRS TU: Sir, now that the Financial Secretary has let us into the secret of how the Budget is prepared, maybe we should no longer make him our only target, but aim our shots at the Star Chamber. The Star Chamber is historically a notorious British establishment. As a matter of interest, I checked up the background of the British Star Chamber from the Oxford Dictionary, and found this interesting description: "The Star Chamber was a room in the Royal Palace at Westminster, so called because it was said to have gold stars on the ceiling. There the Privy Council tried civil and criminal cases, especially those affecting the Crown's interests. In the year

1640 the court of the Star Chamber was abolished as being too arbitrary in its judgements."

In its Hong Kong setting there are three points in which the Star Chamber may resemble the old British Star Chamber. There may be no gold stars on the ceiling, but gold is certainly one of its objectives. Like the original Star Chamber, I am sure that the interests of the Crown are still relevant. And if the British Star Chamber was considered so arbitrary in its judgements that it was abolished, I am sure that millions of Hong Kong people will agree that the Hong Kong Star Chamber is also arbitrary in its judgements on how to squeeze money from the public.

We are told that the Hong Kong Star Chamber includes the Chief Secretary, the Financial Secretary, the Policy Secretaries and the heads of departments. From information I have gathered from the grapevine, the heads of departments are likely to know best the needs of their departments. However these Heads are frequently transplanted, and their proposals are often in fact placed at the foot in the matter of priority. That leaves Hong Kong at the mercy of the Chief Secretary, the Financial Secretary and the Policy Secretaries, in that order. Whether or not they have expertise in the policies they make appears to be irrelevant, provided they obtain as much money as they can from the public.

As I have said, the method of obtaining money is arbitrary. The Star Chamber has apparently decreed that it must come from the poor and the lower middle class, rather from those who have made huge fortunes out of Hong Kong. A general sales tax squeezes the last mite from the poorest, and that is the threat now hanging over our heads for some future Budget. This present Budget appears to be a pilot project of that ilk. It will have repercussions on transport, small businesses using cars, rates on property, fuel and other everyday needs. As to income tax, personal and family allowances, which assist the lower income groups most, have risen only a fraction of the high increase in the cost of living. I can see no reason why personal and family allowances are not increased every year at the same rate as the rise in the cost of living. To do so would be logical. Yet this Budget will draw in more taxpayers from the lowest incomes, that is, from everyone earning \$3,500 a month upwards.

On the subject of tobacco tax, I would be happy to see any measure that would stop our young people from falling into the trap of becoming habitual smokers, though I cannot predict whether the rise in price will achieve that objective. As to adult

smokers, it seems that the Star Chamber is concerned with the good health only of the low-income workers who will have to reduce, or hopefully give up, their tobacco consumption. I cannot see how the rise in price will hinder the better-off, unless the Star Chamber merely expects them to take the hint that smoking is hazardous to health. I believe we need legislation against selling cigarettes to minors, and to prohibit smoking in public places and certain areas in all restaurants. But high prices alone will cause discrimination, and anger lower wage earners.

My last point is one that I find difficult to trace through the Estimates, that is, the cost to Hong Kong of keeping about 50 000 Vietnamese illegal immigrants here at the dictates of the United States Government. I think the public should be informed in detail the amount of their taxes that are being channelled into keeping these unfortunate people living in a purgatory between hope and despair just because their country is being made to suffer economically for having won a war in 1974. I have been able to trace in the Estimates only a few of the costs of this meaningless but intolerable burden placed on the Hong Kong people. The sum of \$190.6 million has been used on Vietnamese by the Correctional Services, \$1.8 billion by the Immigration Department, \$230 million for the building of a new camp (with Britain's promised share apparently still unpaid) and over \$200 million owing to Hong Kong by the UNHCR. These amounts alone add up to \$2.4 billion, and they do not include what must be phenomenal costs in hospital services, police, legal aid, the Legal Department, the Judiciary, cleansing services, subsidies to camp organizers, food, clothing and numerous other services. And all to what purpose? The illegal immigrants live in quarters like caged men; they are cut off from normal ways of life; the children know nothing but prison life and their education will not fit them for a future anywhere; they are demoralized, sometimes even violent, because they have little or nothing to do, and little to hope for; yet they are being urged to hang on by people pretending to help them. Broadcasting by the Voice of America is still encouraging Vietnamese to escape from the country which is being systematically destroyed by an economic dictatorship attempting to "kick the Vietnam syndrome." Britain is collaborating in this revenge by treating Vietnamese illegals differently from other illegal immigrants from China, Macau and elsewhere. No country in the world, including the United States and the United Kingdom, makes provision to tax residents to support illegal immigrants. I am sure that the majority of Hong Kong people would like to see all illegals safely repatriated, for their own sakes as well as ours.

While wasting billions of public money on this fruitless Vietnamese exercise, we have not yet provided homes for our elderly caged men; we have not yet provided

care and attention homes for the infirm; we have not yet provided child care to meet the needs of many working mothers, widows and single parents; we have by no means reached the bottom of the waiting list of handicapped children in need of care, training or sheltered workshops. Our hospitals and social services are understaffed, improvements in the school curricula and alternative types of education proceed at a snail's pace. To make matters worse, money is also being stacked away for the PADS project by depleting hospital, social, medical, educational and other essential services.

Sir, this Budget is not for the good of the Hong Kong public, but it does aim at squeezing the last dollar from them for projects that are not beneficial to them. I appreciate what our colleague, Mr Andrew WONG, pointed out yesterday that this is Appropriation Bill. However, in the same breath he called it a Budget debate. If we say "aye" to it, that might appear to me that we agree to the Budget proposals. And for that reason I have to declare that I do not support this Budget.

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

Question on the adjournment proposed, put and agreed to.  
Adjournment and next sitting

HIS EXCELLENCY THE PRESIDENT: I congratulate those Members who survive in this Chamber until now and in accordance with Standing Orders I now adjourn the Council until 2.30 pm on Wednesday, 17 April.

Adjourned accordingly at seventeen minutes past Eight o'clock.