



To: budget@fstb.gov.hk
cc:
Subject: Views and suggestions on the Budget

2006/12/06 11:27 AM

- Urgent
- Return Receipt

Dear Sir,

the attached documents with some views on the HK budget was compiled a few weeks ago hence comments regarding the GST may be outdated. However, maybe the comments will be of use to you.

Thank you for discarding the GST ideal.

Yours sincerely,



reform.doc

(Name provided)

(Editor's note: Cannot ascertain whether the sender agrees to disclose his/her identity.)

Dear Henry Tang,

I appreciate your effort and conduct as financial secretary and I am optimistic your efforts will bring about logical and generally beneficial tax reforms of which I have some suggestions that follow below.

Firstly, I would like to express my views on some current high profile proposed reforms, namely the 'labour rights protecting' Minimum Wage, and the GST. Unfortunately for some, these two reforms are contradictory by nature, and for the majority, a burden.

Protecting labour rights is important, I agree, and ideally the poverty gap in Hong Kong should not be similar to that of undeveloped third world countries. GST, however, is simply a supplement for the government to spend more, or continue spending. (I do acknowledge that as a part of government spending the provision of a multitude of services for citizens is included and that you have already achieved a budget surplus, which should be praised)

However, let us assume that the minimum wage is enacted together with the GST and GST related reforms such as increased CSSA payments and reduction of other tax forms. This means those affected employees now have an increased wage on one hand but need to spend more on goods and services on the other. No matter from what perspective Minimum Wage and GST are viewed from; both are inflationary in an already inflationary macro and global environment, hence, a burden for employer and employee alike.

Minimum Wage alone is already capable of perpetuating increasing inflation, as businesses increase prices to offset increased cost of production, but coupled with GST this effect becomes even more pronounced and widespread as the weakened purchasing power requires more people to earn more in order to simply **maintain** their way of living. What may seem affordable to you and a few others will, in the long term, approach the same inflation induced high cost of living experienced in so many other countries with similar forms of direct taxing.

And finally, what would be the total benefit of GST considering reduced taxed income through relief and increased CSSA payments? It merely seems to me that these proposed reforms will only act as a catalyst for the wealth gap to carry on growing – the gap between those who have adequate financial assets and means to protect themselves from inflation and those who do not increases. Here is a link to an enlightening article detailing a similar scenario and also with insight regarding economic growth:

<http://www.paulvaneeden.com/displayArticle.php?articleId=184>

Talking of economic growth, in your last budget speech report you already state economic recovery has lead to higher prices – mild, yes, but very real inflation nevertheless. Also, it was boasted that good economic recovery over the past couple of years has created 240,000 new jobs, although certain industries such as construction failed to share this elation.

Unfortunately for many besides those concerned with construction, those 240,000 new jobs have minuscule meaning. Graduates this year with engineering degrees still exhibit the same handicap when looking for jobs – the engineering jobs they are qualified for now being located **overseas** due to poor local infrastructure and competitiveness. Graduates this year are still in a position of finding only sales and service sector jobs. Is this the collaboration with the Mainland you envisage? It may be too late to save engineering, but please do not build a service dependent economy, a service economy. Have you ever noticed how the word service rhymes with the word servant?

Put money where it's due – schools for education for where certain professionals are in short supply, and viable infrastructure forming ventures. I know one of your principles is "Market leads, government facilitates" but once in a while government intervention/initiative would not go amiss.

Infrastructure projects such as the Central Government Complex & LegCo Building, and Kai Tak Development may be good for the construction industry and those, more or less, monopolistic developers but it is not the first time the government has committed to such inefficient use of finances for projects. Cyber Port, for instance, comes to mind.

You say, regarding the business environment that a level playing field is needed – 98% of all HK business are SMEs. However, the remaining 2% are the monopolistic corporations that form cartels among themselves to prohibit price competition. Port services, petroleum vendors, supermarkets and other chain stores are just a few examples of how a level playing field does not exist. I appreciate it may not be under your authority to change such legislation but I am confident that a person of your honour could make a suggestion that will be heard.

Regarding the government complex, a simple question should be raised, and that is "Why does the government need a new office?" Not only is the rumoured government office space per worker ridiculously high, the sheer mammoth size of government is ludicrous. If one were to analyse the number of civil servants in HK, according to your figure there would be approximately 44 citizens per civil servant in March '07 (projected 160,000 civil servants and approx. 7M population). However, compare this to the UK, with a population of 60M and 530,000 civil servants, their civil servant to citizen ratio is 113.

It should also be mentioned that of the 530,000 of the UK, approximately 100,000 are military/security & intelligence posts that HK **does not** have. In effect the UK above stated ratio is around 139 compared to HK's 50 that has a population of seven times less and tiny land mass. And the UK is perceived as having an oversized government! I understand that for any given population there must be a set baseline minimum number of civil servants to operate a government and services but surely it cannot be that high?

Here is the link to the UK information:

<http://www.civilservice.gov.uk/management/statistics/employment/index.asp>

It is no surprise then when you say costs of running government are high. I do not agree, however, that all avenues of government cost cutting have been exhausted. Your other principle is “Prudent Management of **Public Finances**”. You also advocate the helping of disadvantaged groups (hence the minimum wage, raised CSSA payments etc.). However, the associated **material** benefits of serving for the public are so attractive for high ranked personnel, it defies all that you advocate and quite literally, all logic. Why, for instance, would an employee (of the public) earning circa HK\$100,000 of the public’s money, per month, need an additional housing benefit which is more than what significantly over 70% of the population earn in a month? The list goes on and I am sure you know more about that than I.

It is little wonder then, why the rumoured HK\$4Bn per year cost for civil servants in benefits alone would surprise no one. It is therefore also no surprise why Article 100 would be ‘enshrined’ into the Basic Law. Whereas employees of the private sector are subject to natural market forces of supply and demand with subsequent effects on salary and even possible layoffs, public sector workers are protected – with public wealth. When you mentioned, “Sharing wealth with the people”, that was not quite what I had in mind and I guess it pays well to be a servant after all. As I opined above, cost cutting is nowhere near complete.

Maybe once civil servants decide to sacrifice some of their own things, the public will be more willing to take on their “civic responsibility”.

I do understand tax income must come from somewhere and hence I would like to suggest a stern tax on cigarettes, similar to that of FRT for cars. It is well documented that tax income from smoking is far from sufficient to cover the costs of dealing with smokers from smoke related disease. The extra tax income from, let’s hypothesize, a 100% cigarette sales tax in conjunction with your extra Hospital Authority funding reform would do much good for those who require healthcare. A mainstream current affair is pregnant women’s rights and I think this is something that needs to be addressed immediately as it is adding to the already highly negative emotions towards a mass influx of Mainland immigrants.

Increased tax on smoking might even discourage smokers, resulting in a healthier public overall and one that is less dependent on healthcare. Of course, you could argue that such a tax on smoking would cause more people to buy and sell illegal non-taxed imports, but the government should not be intimidated by such illegal organisations and activities.

The FRT, on the other hand, is a greedy tax that does nothing to deter the public from purchasing vehicles but acts solely as an additional aid to mark an even more obvious divide between the rich and the elite. If the FRT is meant to be used as a deterrent for vehicle purchase, all cars would utilise an unapportioned tax or one whereby lower cost vehicles would also become less affordable and this is clearly not the case. Praise, however, should be given to your environmental protection initiative. Hopefully one day all cars will be sold as equals. But as it stands today, why not charge a similar FRT type rate for properties or other luxury goods? Surely those who can afford billion dollar mansions could afford that, too? I hope you understand my point.

Another moral source of income would be through the increase in taxation of gambling. Increased gambling taxation could also discourage people to gamble excessively. In addition, gambling organisations such as the HK Jockey Club should be taxed extra on capital gains simple because the effort of running a business in which the odds of taking money off a customer in return for nothing compared to the odds of a customer taking money off them is so much higher, is so minimal, risk so low and licensed by the government, their profit should be restricted. Granted, the HKJC are required to run charitable organisations, but that still does not prevent their investors to become rich beyond all comprehension. Why grant the licence to one lucky group of individuals?

The other option regarding gambling would be to allow third party organisations to open casinos around HK. Recent studies indicate that tax revenue from gambling in casinos comparable to Macau would amount to far more than even the proposed GST. Of course, this would be contrary to a discouraging gambling tax.

My last comment is of praise and relates to the Airport Authority Gold Depository proposition. The promotion of gold trade is a worthwhile cause and also promises much potential business in the years to come. Because the HK\$ is so intricately linked to the desperately declining US\$ it is important for us to promote a true store of wealth, namely gold bullion, and this depository will encourage such trade.

As you may know, the US\$ has devalued over 25% against major currencies over the last couple of years. Gold bullion and related gold investment instruments will serve to protect the wealth of HK citizens from the accelerating decline of the US\$ until something can be done about it, and without this protection trade with foreign partners will become increasingly difficult which is also ultimately inflationary. (In fact, I would like to see the government diversify or hedge against this decline.)

I am but a simple man from the general population and my views are but a simple way of seeing things. Maybe over simplified at times, my simple wish is to see a fairer world and much of that should start with the government. I would thus like to thank you for your time for reading my comments and suggestions, especially if you read through all of it, and I appreciate your effort in promoting citizens to share their views.

Yours sincerely,

(Name provided)