

27 March 2007

Tax Reform
Financial Services and the Treasury Bureau
4th Floor
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Central

Dear Sir

The Hong Kong-Government want to introduce VAT-called GST in Australia and Canada-because the tax base is narrow and most of its revenue unstable. But a narrow tax base and unstable revenue don't matter provided Hong Kong has hefty fiscal reserves, a market economy and low tax regime.

When considering the issue of VAT, we must remember seven things.

First, Chris Patten's Government left C H Tung's Government the fiscal reserves of a whopping \$400 000 million. (C H Tung's Government, who were in office for about eight years, used a third of them.) They now stand at \$360 000 million. The Government believe fiscal reserves perform two functions-they cushion the effects of a possible recession and help the exchange fund maintain the stability of the monetary and financial systems. They won't be used up unless the Hong Kong Government follow radical socialist policies or there is an unimaginable catastrophe that claims half a million lives, for example. As the late Professor Milton Friedman points out in his last article entitled 'Hong Kong Wrong' and published in *The Wall Street Journal* of 6 October 2006, 'Despite the policy change [ie Despite the adoption of mild socialist policy], Hong Kong is likely to remain wealthy and prosperous for many years to come' because of '[a] half-century of "positive noninterventionism"' under British rule.

Second, VAT is a tax. If the Government insist on introducing it, they should abolish, say, income tax. It is just not on imposing an additional tax. (The Government have only promised that all the revenue from the first five years of the introduction of VAT minus administrative costs would be returned as tax relief -'five' being the operative word.)

Third, the Hong Kong Government have land as a main source of revenue that most other Governments (for example the UK and US Governments) don't have-they own all land in Hong Kong apart from the small plot of land where St John's Cathedral stands. The British-Hong Kong Government understood that a bullish property market was an engine of prosperity and acted accordingly. By contrast, the Chinese-Hong Kong Government under C H Tung regarded a bullish property market as their main bugbear and made sure property prices would go through the floor. As a result of this and other socialist policies, Hong Kong was in recession for seven years. Given a

choice, most people would go for an inflationary boom when Hong Kong was under British rule instead of a deflationary bust when it was under Chinese rule.

Fourth, the Chinese-Hong Kong Government are addicted to wasting taxpayers' money. The late Sir John Cowperthwaite—the best Chancellor Hong Kong has had since the Second World War—strongly opposed pumping taxpayers' money into any business. It is time the Chinese-Hong Kong Government stopped giving money to those businesses they favour instead of thinking about robbing the poor through VAT. One of the most ridiculous things the Chinese-Hong Kong Government have ever done was to invest a tidy US\$1 800 million for a 57% equity stake in the Hong Kong Disneyland project while Disney invested a mere US\$316 million for a 43% equity stake. The Government could also save lots of money if they got rid of all the useless departments. Among them is the education department.* The more money this Government have, the more money they waste. And VAT will give the Government more money.

Fifth, Sir John Cowperthwaite—a Chancellor par excellence and the only Chancellor applauded by Professor Milton Friedman—didn't see a need for a broad tax base. So what is the point of introducing this regressive tax?

Sixth, the tax base was always narrow and the Government's revenue always unstable when Hong Kong was under British rule. Yet Hong Kong under British rule performed a spectacular economic success against all odds. (Its dense population had increased rapidly since the end of the Second World War, it had no natural resources (it didn't even have enough water), followed economic policy that C H Tung, Donald Tsang and Henry Tang regard as disastrous, etc.) Hong Kong under British rule rode out several economic crises simply because the Government kept building up fiscal reserves and didn't interfere in the economy.

Seventh, the Government can cut the corporation tax rate or income tax rate if they want to, VAT or no. The Hong Kong Government talk rubbish when they say they can't simply because there is no VAT in Hong Kong. They argue that Singapore has cut its corporation tax rate from 20 to 18% and income tax rate from 22 to 20% simply because it has put up VAT from 5 to 7%. Oh, come on—don't give me that! Gordon Brown has recently announced that from next year the main rate of corporation tax will be decreased from 30 to 28% and basic income tax rate from 22 to 20%. And yet VAT won't be increased.

In their book *Free to Choose*, Milton Friedman and his wife Rose hailed Hong Kong under British rule as 'the modern exemplar of free markets and limited government.' And in 'Hong Kong Wrong', Professor Friedman says the economic system used by Hong Kong when it was ruled by the British 'provides a lasting model of good economic policy for others who wish to bring similar prosperity to their people.' Milton Friedman—the Nobel laureate and most influential economist since the 70s—condemned the Chinese-Hong Kong Government's economic policy. Mr Tsang and Mr Tang should repent. Astronomical fiscal reserves, yes. Cowperthwaite's economic policy, yes. VAT, no.

Mr Tsang and Mr Tang should leave well alone and read *Free to Choose* and Professor Peter Bauer's article entitled 'The lesson of Hong Kong' and published in

the 19 April 1980 issue of *Spectator*.

Yours faithfully

(Signed)

Robert Lung

*The Government's role in education should only be to provide money for those who can't afford to study. But under our socialist education system, the Government determine the subjects on the curriculum, the contents of each subject, the books students must buy if a school is publicly funded and prepares its students for the exams organized by the Government. (The Education Department have recently gone so far as to order all primary and secondary students, whether their mother tongue is Chinese or not, to study Chinese.) University tuition fees in Hong Kong are much higher than those in America, Britain, Canada, Australia and elsewhere. When he was Chancellor a few years ago, Mr Tsang suggested sending abroad all Hong Kong students who wanted to go to university because he said that that would save the Government a lot of money and that the quality of university education abroad is higher than that in Hong Kong.