

Development of a policy platform for the 2017 Chief Executive

Introduction

This document seeks to build, from first principles, a coherent policy platform for the next Chief Executive, with the Sustainability of HK as the prime goal.

Definition of sustainability of HK

"Maximising the long-term quality of life of Hong Kong's current and future citizens by establishing and implementing policies which optimise the fair and efficient allocation and preservation of finite resources, while maximising civic freedoms and minimising intervention."

Axioms

1. Competition and evolution produces better results than central planning and control (the **Competition Axiom**).
2. If an activity does no harm to others then it should not be prohibited, constrained or penalised (the **Freedom Axiom**).
3. An activity should be taxed only in proportion to its GDP contribution, or to the extent necessary to recover an external cost (the **Taxation Axiom**).
4. Government policies and laws should not distort economic choices via taxation, subsidy or otherwise (the **No Distortion Axiom**).
5. Government intervention in private contracts, including labour contracts, should be minimised. The Government should not seek to privatise social obligations (the **Non-intervention Axiom**).
6. Public services should be priced to recover costs (the **User Pays Axiom**).
7. Government should not carry on commercial activities (the **No Business Axiom**).
8. All HK residents are equal under the Basic Law. Discrimination in itself cannot be a "legitimate purpose" of laws or policies that discriminate between residents (the **Equality Axiom**).
9. Welfare should be for people who need it, not for those who don't, and should be sufficient to sustain a basic standard of living (the **Welfare Axiom**).
10. Public healthcare should be priced to incentivise a healthy lifestyle and prudent usage while ensuring universal coverage (the **Healthcare Axiom**).
11. An equal opportunity for education is a human right and is the pathway to upward social mobility. Education shall be free for 15 years from ages 3 to 18 (the **Education Axiom**).
12. Public infrastructure projects should be subject to independent economic impact assessment and any land use must be included at opportunity cost (the **Justification Axiom**).
13. The Government shall not hoard public wealth, shall seek to match future revenues with future expenditure, and shall keep the budget commensurate with the growth rate of GDP, both in accordance with Basic Law Article 107 (the **Budget Axiom**).
14. The Rule of Law is essential to the well-being of HK (the **Law Axiom**).
15. The Government shall be transparent (the **Transparency Axiom**).
16. HK shall abide by all its treaty obligations and it shall engage in, and seek to promote, international agreement on policies and actions to support global sustainability, recognising

that HK alone cannot secure this and HK is not sustainable without it (the **Sustainability Axiom**).

Consequential proposals

(These are just some examples and the policy areas are in no particular order).

Taxation and budget

1. Due to the Budget Axiom and Basic Law Article 107, we shall seek to return the budgeted expenditure to 20% of GDP as it was in 1997 and to match that with revenue. Budgeting will be done on an accrual accounting basis, not cash accounting; for example, expenditure on fixed assets such as roads, tunnels and bridges will be capitalised and amortised, and revenue from land premiums will be deferred and amortised over the life of the lease.
2. The Capital Works Reserve Fund will be abolished. We will stop stuffing parts of our reserves into other silos, such as the \$15bn just placed into the Employees' Retraining Board or the \$5bn in the MPF Authority, as this tends to restrict future flexibility and puts expenditure beyond Legislative Council scrutiny. Our reserves will be centrally managed, and our accounts will fully consolidate all statutory bodies. We will include in our balance sheet the accumulated surplus of the Exchange Fund.
3. We will take the rolling 5-year average of actual surpluses and deficits into the budget for the following year, always aiming to break even. This will prevent further hoarding of reserves that administrations since 1997 have done.
4. Due to the No Distortion Axiom, we will abolish the mortgage interest deduction for salaries tax. This incentivises buying versus renting, and it incentivises borrowing to buy versus saving to buy.
5. Due to the Taxation Axiom, we will amend the Inland Revenue Ordinance to abolish the inconsistent tax treatment of housing benefits, which are deemed to be worth only 10% of cash compensation for tax purposes. They will be taxed at full value. This will allow us to bring down the overall rate of taxation.
6. Due to the Taxation Axiom, the lower-band salaries tax rates of 2%, 7% and 12% of tax will be abolished, and the current regressive system in which the marginal rate of tax drops from 17% to 15% above a certain level will also end. We will increase personal allowances to ensure that nobody pays more salaries tax than before, and that after allowances, there is a flat rate of tax which is lower than the current 15%.
7. Due to the No Distortion Axiom, the rate of profits tax will be the same as the rate of salaries tax, to ensure that there is no distortion of choices. If the two rates diverge significantly, then those who own businesses will either take their income as dividends (taxed profits) through the company or as a larger salary, depending on which results in lower tax.
8. Due to the Equality and Freedom Axioms, we will make the tax system marriage-neutral, by converting married person's allowance into couple's allowance, thereby allowing unmarried cohabiting couples (whether of opposite genders or not) to elect for joint taxation.
9. Due to the Taxation, Freedom and No Distortion Axioms, stamp duty in all forms will be abolished. No GDP is generated by the transfer of capital assets. No harm is done by the resale of property. Stamp duty distorts the choice between buying and renting. If people buy and sell properties as a business, whether in renovated or redeveloped form or merely as a speculative activity, then they will continue to pay profits tax if they make a profit. On stocks, stamp duty distorts the choice between stocks (which bear it) and derivatives and ETFs (which don't).

10. Due to the Equality Axiom, Buyer's Stamp Duty, which discriminates against residents who are not Permanent Residents, shall be abolished.
11. Due to the Law Axiom and the Basic Law, Special Stamp Duty, which penalises the exercise of the Basic Law right to dispose of property (including real estate), shall be abolished.
12. The Basic Law protects our right to tax to raise revenue or to recover costs (such as healthcare from smoking), but this protection does not extend to behavioural penalties dressed up as taxation. If a form of behaviour is sufficiently against the public interest then it can be made illegal and offenders can be fined or jailed for it. Otherwise, we cannot tax them for it.

The economy

13. Due to the No Distortion Axiom, we shall eliminate subsidies to businesses. Welfare is for people, not businesses. SME grants and loan guarantee schemes and co-funding for businesses' research and development will be abolished.
14. Due to the User Pays Axiom, we will raise water tariffs to cover the full cost, on a flat rate per cubic metre basis. The water system is neither a welfare system nor a tax system. We will charge the same amount per cubic metre used by a large household as by a small one.
15. Due to No Distortion and Non-intervention Axioms, we will stop using electricity tariffs to cross-subsidise smaller users with larger ones. The electricity system is neither a welfare system nor a tax system. The domestic tariff under the scheme of control will be set at a flat rate per unit.
16. Due to the Competition Axiom, we will amend the competition ordinance to extend the existing merger control regime from telecommunications to all economic activities, to prevent excessive market power being under a single owner.
17. Due to the Competition and Freedom Axioms, the Jockey Club's monopoly on gambling will be abolished. A statutory licensing scheme for bookmakers and betting exchanges will be established to ensure capital adequacy and that bets are honoured. The Jockey Club will remain entitled to charge for its services as a racing operator, such as televised coverage or data feeds. Due to the Taxation Axiom, bookmakers, including the Jockey Club, will pay profits tax, not a tax on turnover. The Jockey Club will remain free to contribute to charities if it chooses, but the Government will retain the primary responsibility for building hospitals, schools and other public infrastructure.
18. Due to the Competition and Freedom Axioms, the statutory monopoly of The Stock Exchange of Hong Kong Ltd on the operation of a "stock market" will be removed. The regulatory Listing Function will be returned to the SFC and merged with the SFC's Corporate Finance Division which already oversees takeovers and administers the law on disclosure of price-sensitive information. Anyone will be able to apply to operate a stock exchange if licensing conditions are met, including the contribution of quotes and trade reports to a consolidated tape to be run by the SFC.
19. Due to the No Business Axiom, we will privatise the Cyberport hotel/offices/shopping centre, the Hong Kong Mortgage Corporation, the Hong Kong Export Credit Insurance Corporation, the trade show and trade publication arm of the Trade Development Council, and the local courier service of Hongkong Post.
20. Due to the Competition and User Pays Axioms, we will liberalise, to the extent technically feasible, the use, allocation and sale of radio spectrum, so that it is leased for fixed periods to the highest bidder, who may then use it for such purposes as it sees fit, whether for TV broadcasting, telecommunications or some other purpose. There will be no right or expectation of renewal, and TV and radio stations will no longer get free usage of spectrum.

We will not determine what is the “right” number of free-to-air or pay-TV licensees or whom they should be – that is a matter for the market to determine through competition.

21. Due to the Freedom Axiom, we will abolish the statutory prohibition on the resale of entertainment tickets at a premium to their issue price, currently contained in the Places Of Public Entertainment (POPE) Ordinance (from which events at LCSD venues are exempt anyway). This will facilitate the establishment of ticket exchanges and traders, whose profits will be taxable at the normal rate.

Labour

22. Due to Non-intervention Axiom, the employment ordinance will be overhauled to increase labour market flexibility. For example, maternity pay will be paid by the Government, so that employers are not incentivised to hire people who are unlikely or impossible to get pregnant. Long Service Payments will be abolished, with existing accruals protected. Holiday quotas in new contracts will be set at a minimum of 7 days rather than linked to years of service. Anything more than that will be a matter of negotiation in all new contracts.
23. The original intent of the MPF was to reduce reliance on social security by forcing those who can save, but would not otherwise, to save for retirement. It fails on multiple levels, including the lump-sum pay-out (which can be used to settle debts, or just squandered) and the Long Service Payment offset, which reduces or eliminates the amount carried forward to retirement. The exorbitant costs of MPF administration are reflected in the annual fund expenses which are far higher than funds and other forms of savings outside the MPF system and also eat into the lifetime savings that many would otherwise have made on their own. The compulsory savings scheme also results in people borrowing (for home purchase or other reasons) from the same banks that they pay to manage their MPF money, benefitting only the banks. Due to the Non-Intervention Axiom, we will abolish the MPF system, and leave people to make their own choices on how they spend or save their income, knowing that the social security system can only provide a very basic standard of living for those who can't or don't save. We will table transition legislation to ensure that the 5% contributions formerly made by employers are passed on in the form of a one-time 5% salary increase.

Financial markets

24. Apart from introducing competition for exchange services and abolishing stamp duty as noted, we will also ensure that the HKMA imposes a “best execution” obligation on the bond market, and fully connects the Central Moneymarkets Unit with the clearing system of Hong Kong Securities Clearing Co Ltd, so that bank retail clients who wish to buy or sell bonds benefit from competitive pricing on exchanges rather than a captive quote from a bank. This will give retail investors a liquid market in which they can save and invest, as an alternative to equities, which rank behind bonds on liquidation and are higher risk. It will also generate a large new market for brokers.

Transport

25. Due to the Taxation and User Pays Axioms, fuel duty on diesel will be reinstated (with no exemptions) and will be at least equalised with petrol duty pending an assessment of their relative costs to air pollution. Duty on LPG will also be introduced when this assessment is complete. Our aim is to recover the public costs of air pollution (including healthcare costs, damage to lifetime productivity by shortened lives, and economic damage). For the same reason, duties on the burning of fossil fuels at power stations will be introduced. The duty on coal is likely to be higher than that of natural gas.
26. Due to the User Pays Axiom, electronic road and congestion pricing will be introduced, to incentivise efficient use of our roads at peak times, to compensate for the land they use, and reduce the need for future road expansion.

27. Due to the Freedom and Taxation Axioms, First Registration Tax and annual vehicle license fees will be reduced to a flat charge to cover the administrative costs. Owning a car, truck or bus does no harm to the public. Driving it does.
28. Due to the Welfare Axiom, the \$2 transport fare scheme will be abolished. Rich retirees in Discovery Bay do not need taxpayers to subsidise their ferry journeys. Poor people who cannot afford public transport need help, regardless of age.
29. The public transport system is highly rigid, politicised and suffers from central planning. It is in need of a root-and-branch review which allows market forces to increase efficiency.
30. Due to the Competition and Freedom Axioms, we will remove the current cap on the number of non-franchised buses. This constraint on supply has driven up rentals and capital values due to increasing demand, and NFB licences are now changing hands at substantially more than the value of the bus. School bus fees have risen, and more children are being driven or taking taxis to school, increasing road congestion relative to buses.
31. The franchised bus system is archaic, with the Chief Executive-in-council setting bus fares and approving routes. In a competitive transport system, this should not happen. We will review this with a view to fostering competition and allocating resources fairly. In particular, there is limited capacity for “landing slots” at urban bus stops and these should be allocated through market forces in accordance with the User Pays Axiom. Due to the Competition Axiom, bus companies should then be free to compete on any route they choose, and to set their published tariffs. The current system results in artificial cross-subsidies between profitable routes and unprofitable ones. In short, bus franchises will be abolished.
32. Having liberalised buses, in accordance with the Competition Axiom, the fare autonomy promised to shareholders of MTRC when it listed in 2000 shall be restored. In the prospectus, the Government committed to holding at least 50% of MTRC until 2020, but stated its intention to reduce its holding to 50% in 2001/2. It never did. We will complete that sale from 77% down to 50% between 2017-2020, and sell the remainder as soon as reasonably practical after 2020.
33. Due to the Competition and Freedom Axioms, after reintroducing fuel duty and introducing road and congestion pricing, we will remove the current moratorium on new taxi licenses. Anyone who wants to drive a cab for a living should not have to pay someone else not to. Subject to adequate insurance and a roadworthy vehicle, anyone should be able to obtain a taxi license. The same applies to private hire cars and public light buses, and we will abolish statutory quantity restrictions on those.
34. Parking is a commercial service, and public parking meters are artificially cheap. In accordance with the No Business Axiom, we will privatise groups of metred spaces by tender on 5-year contracts and allow the operators to set and collect parking fees. Tariffs must be published in advance.
35. Fixed penalties for illegal parking will be raised from \$320 to the same rate as littering (currently \$1500) and a tow-and-reclaim system will be introduced, because the more affluent the offender, the more affordable the fixed penalty is, but the greater the value of their time in reclaiming their vehicle.
36. In accordance with the Competition Axiom, airport landing and take-off fees will be determined by auction based on the time value of the slot rather than the weight of the aircraft. Currently we have the same Landing Charge at all times of day, based on weight and subject to a minimum, and no take-off charge. As the airport nears capacity, the result is sub-optimal utilisation of runway capacity. If we are going to build a third runway then we should rationalise this system first.

Education

37. Due to the Education and Competition Axioms, education should be improved through competition, by introducing vouchers for kindergarten, primary and secondary schooling so that the money follows the student. This will incentivise schools to offer a better product and to replace weak educators. Schools should be free to choose what medium(s) of instruction they offer based on supply and demand.
38. The Direct Subsidy Scheme will be abolished, as the voucher scheme will replace it. All schools, including “international” schools will be eligible for the voucher. Originally DSS was aimed at schools which offered a “local curriculum” targeted at HK examinations, but some DSS schools are already offering the International Baccalaureate. This distinction is obsolete. HK is Asia’s World City and we should allow schools to offer internationally-recognised curricula according to market demand while still receiving the same subsidy.

Land and housing

39. Due to the Competition Axiom, the free market should determine the optimal use of land for development, not the Government via lease restrictions (other than a consistent plot ratio). Controls imposed by planning laws shall be no more than is necessary to protect the public interest, such as providing land for government, institutional and community (GIC) uses, and ensuring a fair allocation of plot ratio. Land leases will still contain a prohibition on industrial use where the area is not zoned for industrial use. Zoning will not designate residential, hotel, or commercial use. The highest bidder in the market will win and decide the use. The market will reuse land when its original purpose is no longer optimal without needing to negotiate premiums for conversion. Plot ratios will be the same for all 3 purposes.
40. Due to the Equality Axiom, new land leases will not contain restrictions on the type of residents to whom they can be sold, leased, licensed or sub-let. We will abolish the “HK land for HK Permanent Residents” policy.
41. Due to the Budget Axiom, land lease terms for new leases, lease conversions and lease renewals should be shifted to higher ground rents as % of rateable value, lowering premiums and capital requirements. Due to the Law Axiom, certainty should be offered in the form of 999 year lease extensions (at higher ground rents) rather than the 31 years remaining that many now have.
42. Due to the Equality Axiom, we cannot discriminate in favour of those with a Y-Chromosome from an 1898 indigenous male. The small house policy must end. We will phase it out initially by inviting 20,000 descendants per year to tender for the lowest price at which they will surrender all claims, both for them and their unborn or minor male descendants, subject to a cap. Every successful applicant will get the highest marginal price at which the quota is filled, or the cap, whichever is lower. All future land leases granted under this policy will be for the original purpose of housing the male and his family. The land lease will contain a prohibition on letting and will be transferable only to a male descendant of the leaseholder who has not yet used his claim. Where a recipient dies without male heirs, then his land shall revert to the Government.
43. Due to the Welfare and No Distortion Axioms, the Government’s role in housing is to ensure that you have a home, not that you own one. We will discontinue the Home Ownership Scheme, which subsidizes home ownership. We will also review the Public Rental Housing scheme, which creates ghettos of communities separating the “haves” from the “have-nots”. The debate over land allocation between PRH and private housing is clouded by the fact that the opportunity cost of land allocated to PRH is not reflected in public accounts. It would be more efficient, and in the interests of social harmony, to instead provide Public Rental Subsidies (PRS) to those who qualify for public housing, allowing them to rent space in the

private sector and live in mixed communities. This would then reflect the true cost of providing public housing, consistent with the Justification Axiom.

44. Accordingly, we will reinstate a right-to-buy system for existing PRH, at fair market value (including land premium). We will privatise the housing estates in the form of REITs and providing rental subsidies to the qualifying former PRH tenants so that they pay the same net rent as they do now. This will also increase flexibility, because the portability of this benefit will allow people to move nearer to their jobs if they can find suitable space. We recognise that there is a trade-off between working hours (and resultant income), travel time and travel costs.
45. PRS means-testing will be annual, and we will not wait 10 years after occupation to begin testing. Tenants who do not disclose their income and assets will no longer receive subsidies and will therefore pay full market rent. Currently, they only have to pay 2x the normal rent which is still well below market, giving them an incentive to stay even if they have moved up the income spectrum.
46. Due to the No Business and No Distortion Axioms, we will abolish the Urban Renewal Authority. We now have the Land (Compulsory Sale for Redevelopment) Ordinance, which allows the private sector to overcome the “last man standing” problem with compulsory purchase upon certain criteria. The URA has therefore outlived its utility. It is also increasingly obvious that the terms it has been offering to buy properties, based on valuations of similar properties which are only 7 years old, are artificially high, as a trade-off for its statutory compulsory purchase powers. This distorts the market and is unsustainable.
47. Due to the No Distortion Axiom, we will stop subsidising private property owners to renovate their buildings. If they can't justify the cost of renovation then they should consider putting the building up for sale for redevelopment.

Healthcare

48. Due to the Healthcare Axiom, those who can afford to contribute to public healthcare costs (not being on CSSA) should make higher co-payments up to a cap on annual contribution. E.g. 50% of first \$10k, 25% of next \$20k, maximum \$10k per year. This would incentivise healthy behaviour and deter abuse of the A&E wards, while still providing cover for major diseases and illness. We will also consider bringing General Practitioners into the public system on a voluntary basis by using the same financing and charging structure.
49. To facilitate retirement to our hinterland of Guangdong, we shall consider the viability of building hospitals and clinics in Guangdong at which HK Permanent Residents shall be entitled to healthcare on the same terms that they would receive in HK.
50. Due to the Competition Axiom, we will legislate to reform the Medical Council and remove anti-competitive practices, including the requirement that specialists moving to HK requalify as general doctors. Specialists wishing to move to HK will only need to retake examinations in their specialist field and will be restricted to those fields. This activity-based licensing will expand the supply of specialists to meet ever-increasing demand from medical tourism, particularly from the mainland, which is driving up prices.

Welfare

51. We will review the numerous welfare schemes for overlap and gaps, and try to consolidate them. These systems have proliferated in recent years partly due to an ad hoc approach to welfare and a lack of an electoral mandate.
52. For efficiency, there will be a single measurement system of income and assets for means-testing, which can then be used by multiple agencies including the Housing Authority (for

Public Rental Subsidies) and the Social Welfare Department for welfare benefits. Measurement will be annual, unlike the current 10-year gap after PRH is allocated.

53. Due to the Welfare and No Distortion Axioms, there will be no more universal electricity subsidies.
54. Due to the Welfare Axiom, we will abolish the non-means-tested Old Age Allowance (popularly known as “fruit money”) currently paid to over-70s. Those in need will qualify for the Old Age Living Allowance or CSSA, which is higher than OAA anyway. They will have 6 months to apply before OAA is removed.
55. Assets are means, so means-testing will include assets. If you own a property, you are better-off than someone who doesn’t, and your first option for liquidity is to sell it or obtain a reverse mortgage, which would allow you to live in it until you die. The public should not have to subsidize the property inheritance of your children by paying for your living costs.
56. We will abolish the “bad child” letter. Means-testing will be conducted based on your own declarations of income and assets. If you are receiving support from your children, then failure to disclose that will remain a criminal offence.
57. Due to the Welfare Axiom, we will stop treating the welfare system as some kind of profit-sharing system where bonuses and public housing rental subsidies are handed out in years of higher revenue as a redistribution of taxation. If welfare is justified then it should be consistently given and not dependent on revenue fluctuations. We will review welfare levels accordingly.

Transparency and accountability

58. Due to the Transparency Axiom, we shall table legislation for a Freedom of Information Ordinance and a Public Records Ordinance, applicable to the Government and all its statutory and advisory bodies, to ensure that our actions and archives are subject to public scrutiny. There will be the usual exceptions for matters of national security and policy, but with automatic expiry deadlines so that archives become available after a set period unless extended, in common with other jurisdictions.
59. Due to the Transparency Axiom, meetings and minutes of all statutory and advisory bodies shall be open to public observation, and audio recordings shall be made available online indefinitely, except where commercial confidentiality, national security or personal privacy interests outweigh the public interest.
60. Due to the Transparency Axiom, we shall drop the pay-wall on the Companies Registry, the Land Registry, the Rating and Rent Roll and any other online registry in which data are available to the public. Any offline registries shall be brought online as soon as feasible. Once records are digitised, the incremental cost of making them available on the internet is minimal.
61. Due to the Transparency Axiom we shall commit to “Open Data” and make all public data sets freely available in machine-readable form to encourage innovation in its presentation and reuse, whether commercial or not.
62. Due to the Transparency Axiom, we shall amend the Personal Data (Privacy) Ordinance to include a “public domain” exemption that clarifies that information which has been legally disclosed to the public domain, including but not limited to information in public registries, shall be beyond the scope of the ordinance.
63. Due to the User Pays Axiom, the registries shall reset their filing fees, with the aim of breaking even on an accrual accounting basis, not to make profits as a so-called “Trading Fund”.

The future of HKSAR

64. Due to the Law Axiom, we need, by 2027, to complete negotiations for an extension of the Basic Law, to avoid legal uncertainty in long-term contracts. Talks should begin no later than 2022, when we should have had a universal suffrage LegCo election as well as a CE elected by universal suffrage.