

## **Viewpoints on Public Finance in Hong Kong**

Those with an interest, from whichever perspective, in the public finance of Hong Kong post-1997 may be familiar with Article 107 of the Basic Law, which requires that:

“The Hong Kong Special Administrative Region shall follow the principle of keeping expenditure within the limits of revenue in drawing up its budget, and strive to achieve a fiscal balance, avoid deficits and keep the budget commensurate with the growth rate of its gross domestic product.”

Reading through Article 107 quickly, the overall message on the need to be prudent in the management of public finance in Hong Kong, which everybody supports, seems to be very clear. The specific requirements therein, such as “follow the principle of keeping expenditure within the limits of revenue”, or the need to “avoid deficits”, have also not been subject matters of controversy or even of significant interest in the community or in academia, important though they may be. The general sentiment seems to be that, as long as Hong Kong is not running fiscal deficits, then the HKSARG, in the management of public finance in Hong Kong, is dutifully observing Article 107. The fact that in the past decade Hong Kong has been continuously running substantial fiscal surpluses, notwithstanding the requirement in Article 107 to “strive to achieve a fiscal balance”, has not been a matter of public concern, other than the mild criticism directed at the Financial Secretary in being a miser.

But Article 107 justifies much more attention in the community. There is the obvious question of compliance by the HKSARG. Another question is whether the HKSARG is prudently making full use of the framework defined in Article 107 to promote the public interest. Indeed, with Hong Kong experiencing historically slow economic growth rates in the past decade and a strong desire of everybody in Hong Kong to invest in the future of Hong Kong and build a more dynamic economy, the

contractionary fiscal stance on the economy of a decade of fiscal surpluses seems inappropriate, if not irresponsible. The problem of fiscal drag on the economy is, of course, a complex one that is not totally within the control of the fiscal authorities. But at least budgeting should appropriately allow for, on the revenue side, progressivity in the tax structure interacting with expected inflation to boost receipts, and on the expenditure side, the restraining effect of budget allocations being in cash terms and, regrettably, worsening Hong Kong style filibustering. A deeper and wider understanding by all concerned of Article 107 will help to take Hong Kong confidently forward.

Let me first deal with the easier and non-controversial aspect concerning the time dimension. It was never the intention that there should be balanced budgets with no deficits year after year. Sensibly, we should be talking about achieving a balance over an economic cycle. But, given the externally-oriented nature of the Hong Kong economy and the frequent external economic and financial shocks that we are exposed to, it will be difficult to be definite about the duration of an economic cycle. And so there is a need to be pragmatic and flexible in terms of the time frame for striving to achieve fiscal balance, and to exercise best judgement in the preparation of the budgets for individual years, while being transparent about the theoretical foundation for arriving at that judgement.

The second point concerns the distinction between the budget (*ex ante*) and the outcome (*ex post*). With all the good intentions in the world, things never quite turn out exactly the way they were planned. Article 107 refers to the budget and not the outcome, understandably allowing for the many unexpected developments that affect the public finance during a financial year. Thus, judging compliance should be in respect of the former and not the latter, but obviously the difference between the two, inevitable as it may be, is a reflection of the robustness of the budgetary process that the authorities need to reflect on and improvements, if identified, introduced.

The third point is that Article 107 is conceptual in nature and not prescriptive.

It uses, for example, words such as “follow the principle” (of keeping expenditure within the limits of revenue), “strive” (to achieve a fiscal balance) and “avoid” (deficits). Yes we simply should not live beyond our means. But Article 107 does not prohibit counter-cyclical budget deficits that mirror budget surpluses over an economic cycle. It also does not prohibit budget deficits arising from, for example, the HKSARG making productivity-enhancing investments in the future of Hong Kong, which will boost future economic growth and government revenue, and can be seen as a necessary effort now to strive to achieve fiscal balance in the future in the light of the enlarging fiscal burden arising from an aging population.

The fourth point is most important and, regrettably, much neglected as well as misunderstood. This concerns the requirement for the HKSAR to “keep the budget commensurate with the growth rate of its gross domestic product”. This has been interpreted as either a requirement for government expenditure (and revenue) to grow at the same rate as GDP or a requirement for government expenditure to be limited at a fixed percentage of GDP, for example, 20%. I do not think that these interpretations are correct. If there were such requirements intended, Article 107 could have simply said so.

It is important to appreciate that in this part of Article 107, we are talking about the budget as a quantitative measurement in terms of dollars and cents on the one hand and the growth rate of GDP as a measurement of speed on the other hand. A requirement for the quantity of something to be commensurate with the speed of something else is, of course, predicated on there being an interactive relationship between the two. The use of the words “commensurate with” (instead of, for example, “at the same pace”), is most interesting in that it recognizes the need for the use of fiscal policy in macroeconomic management. Readers will more readily appreciate the wisdom behind all this by considering the example of driving a car: you inject a greater quantity of gasoline when the speed of the car is too slow and less when the speed of the car is too fast! In other words, the budgets should be characterized by more spending and less tax to the extent of running deficits when the

growth rate of the economy is too slow and the opposite when the growth rate of the economy is too fast.

Let me hasten to add, as I am sure some will want to point out, that with a highly externally-oriented economy, the scope for active macroeconomic management in Hong Kong is perhaps more limited than in other less externally-oriented economies. Indeed, large leakages into imports means a low multiplier effect for public expenditure. But let me quote from *The New Palgrave Dictionary of Economics*. In the entry on “fiscal stance”, it says: “there is usually a general tendency for public expenditure to involve a lower import content than private spending, at least at the first round, and a measure of fiscal stance not adjusted for this might therefore misrepresent the scale of long-term demand effects if policy is heavily concentrated on, say, expanding public expenditure or reducing taxes”. Furthermore, in crafting an expansionary budget to speed up the economy, whether as a counter-cyclical measure or as a measure to address the structural problem of a sub-par growth trend, priority can be given to those items with higher multiplier and productivity-enhancing effects. And if the danger of growth in recurrent expenditure becoming excessive is a concern, then priority can also be given to those with relatively low recurrent implications.

I have been encouraged by the honourable desire of the new term government of HKSAR to “Seize the Opportunity to Invest for the Future” in its “New Fiscal Philosophy”. I thus offer these viewpoints on Article 107 for consideration. But I am acutely aware of the fact that I am not a lawyer. I was, however, involved as a member of the inner team assisting successive financial secretaries in preparing the annual budget and in helping to draft their budget speeches for about 20 years from the mid-70s. And I did have an opportunity to express my views when Article 107 itself was being drafted.

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## 任總觀點文章

### 香港公共財政管理

對 1997 年後，香港的公共財政管理有興趣的讀者，都可能知道《基本法》第 107 條有以下規定：

「香港特別行政區的財政預算以量入為出為原則，力求收支平衡，避免赤字，並與本地生產總值的增長率相適應。」

驟眼看來，《基本法》第 107 條的信息就是要審慎管理香港的公共財政，意思十分清晰，大家亦會贊成。當中更列明了，例如「以量入為出為原則」或「避免赤字」等非常重要的要求，但並沒有引起社會及學界的廣泛爭議。原因可能是大家覺得只要香港沒有出現財赤，特區政府在香港公共財政的管理上便算是恪守了《基本法》第 107 條。雖然有關條文列明要「力求收支平衡」，但事實上，過去 10 年香港一直錄得龐大財政盈餘，卻並未惹起市民大眾關注，只有一些批評財政司司長「估錯數」或是「守財奴」的微言。

然而，《基本法》第 107 條的內容其實是非常值得社會各界關注，需要提出的問題包括：特區政府有否符合有關規定和有否好好利用《基本法》第 107 條的框架內容，推動大眾利益？事實上，香港在過去 10 年經歷有史以來偏低的經濟增長，相信香港人都強烈希望政府能投資未來，為香港的經濟注入新動力。但過去 10 年，政府一直採取「守財奴」政策，導致大量盈餘出現，拖著經濟後腿，可說是穩健有餘，進取不足，亦不合時宜。

當然，政府財政拖經濟後腿效應（fiscal drag）是一個複雜的問題，不是每個政府的財政部門可以完全掌控。但在編製財政預算案時，理應理解、預測及處理以下兩方面的影響：(1)在收入方面，因稅制的累進與通脹的互動而帶來的額外收入；和(2)在開支方面，因現金定額撥款制度和日益嚴重的港式拉布，而為開支帶來的額外約束。所以，社會各界對《基本法》第 107 條擁有更深入和更廣

泛的了解，將會對香港邁步發展非常重要，而了解的角度可以從**四方面**着手。

**第一，從比較容易及沒有爭議的「時間」角度：**基本上，從來沒有規定要特區政府每年都達至沒有赤字的平衡預算。合理的做法，應該是在一個經濟周期中達至收支平衡。不過，鑑於香港是一個外向型經濟，經常面對外來的經濟及金融衝擊，要界定一個經濟周期的時間長短相當困難。故此，在編製每一個年度的財政預算案時，便需要以務實的態度和適當的彈性，審時度勢，作出最佳的經濟周期性判斷，而判斷中所涉及的理論基礎更要透明公開，讓市民大眾明白。

**第二，從財政「預算與實況」的角度：**預算是事前的安排，實況則是年度完結後的結果。即使有任何良好的意願，世事從來都可能出人意表，甚或事與願違。《基本法》第 107 條所指的是財政預算而非實況，原因就是財政年度內可能出現許多意想不到的事情，影響公共財政。因此，判斷是否符合《基本法》第 107 條，應該從預算的角度出發，而不是從實況去評論。然而，兩者無可避免最終會有差異，但程度的大小就反映出準備財政預算工作過程中的嚴謹程度，有關當局要着力研究，有需要便作出改善，增強預算的準確度。

**第三，從《基本法》第 107 條的「概念與具體」性質的角度：**《基本法》第 107 條屬概念性質而不是具體規定，例如以量入為出為「原則」、「力求」收支平衡和「避免」赤字。當然，審慎管理香港的公共財政是必要的。但遵守「原則」不等於墨守成規；「力求」不排除力有不逮；「避免」亦不代表不能發生。《基本法》第 107 條並沒有禁止逆周期的財政赤字，特別是能與同周期內的財政盈餘相抵消；此外亦沒有禁止特區政府適時處理香港經濟結構問題，例如要暫用赤字預算去積極投資香港未來，提高生產力，將經濟增長和政府收入帶上新台階，以便在人口老化增加財政負擔時，仍能達至未來財政收支平衡。

**第四，從《基本法》第 107 條的「財政預算……與本地生產總值的增長率相適應」的角度：**這一點最重要，但遺憾地，經常被人忽略及誤解。這一個描述經常被理解為政府的支出與收入要與本地生產總值同步增長，或政府的支出應限制於本地生產總值的一個固定比例，例如 20%。這些解釋都不正確。否則，《基本法》第 107 條早就如此直接表述了。

我們理解《基本法》第 107 條的這一個表述時，最重要是要知道財政預算是以金額計算來表達，是一個「量」的概念；而本地生產總值增長率則是以速度計算作陳述，是一個「速」的概念。當一個用「量」計算的指標要與另一個用「速」計算的指標「相適應」時，明顯地是基於兩者之間有互動關係。條文使用「相適應」而非「同步」，當中充滿智慧，反映出在這些文字思考時已兼顧到要運用財政政策作出宏觀經濟管理。說個簡單的比喻，以駕駛汽車為例子：當汽車行得太慢，便需要「踩油」；當汽車行得太快，便需要「收油」。換句話說，當經濟增長速度太慢，便需要增加政府開支、減稅和作出赤字預算；而當經濟增長速度太快，便可以用相反的財政政策。

讓我再補充一點。有些人可能會指出，香港作為一個高度外向型的經濟，運用積極的財政政策宏調經濟的效用，會低於其他相對不如香港般外向的經濟體。無疑，高度依賴進口只會為公共開支帶來低乘數效應。但讓我引用《新帕爾格雷夫經濟學大辭典》有關「財政姿態」(fiscal stance)的闡述：「至少在第一階段而言，通常有一個普遍趨勢，就是公共開支會較私營開支涉及較少進口項目。假如在評估財政政策對經濟影響時不考慮這個因素，而相關政策又非常集中於擴張公共支出或減少稅收，那麼便可能出現政策扭曲長期需求效用的情況。」此外，透過擴張性的財政預算以加快經濟增長，不論是作為逆周期的措施，或是應對低於正常增長的結構性問題的安排，都可以優先考慮那些具有較高乘數效應及提升生產力作用的項目。倘若憂慮經常性開支增長過大，亦可以優先考慮那些對經常性開支影響較低的項目。

特區新任政府的「財政新哲學」中，有關「把握機遇，投資未來」的願景，令我非常鼓舞。我並非律師，不敢輕率演繹法律條文。但我曾經從 70 年代中開始，協助歷任財政司預備年度財政預算案及協助起草撰寫預算案演辭的工作，有接近 20 年的時間，是內部團隊的成員，更有機會在《基本法》第 107 條條文起草時，表達我的意見。因此，我就《基本法》第 107 條提出以上觀點，供各界參考。

任志剛

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