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'$10 billion monster' would ruin HK

OPPONENTS of a central provident fund yesterday painted a picture of a $10-billion-a-year monster wreaking havoc with money markets, ruining business and upsetting the Hongkong dollar.

Legislative Councillor Mr Thomas Clydesdale said investment would be discouraged because business, which would be paying into the scheme and yet had no control over its dimensions, would see no end to potential gradual increases in cost.

Apart from the increasing burden, there would be immense problems in dealing with huge capital sums from day one.

Assuming a contribution of five per cent of salaries from employees and five per cent from employers, the fund would amass more than $10 billion a year initially if all the workforce were covered.

"Investment of funds on this scale by the Government would require a substantial financial management system, likely to be expensive in its own right," he said.

Winding up the adjournment debate, the acting Financial Secretary Mr John Yaxley said such a fund was essentially a mandatory saving scheme, paid for by contributions from employers and employees.

Mr Yaxley said employees would have less take home pay; employers would suffer from a sum similar to an increase of 40 per cent in the rate of profits tax.

He said manufacturers were unlikely to be indifferent to the equivalent of a five per cent wage claim – or even more if employees tried to recover their contribution from their employers.

Employers would reduce the size of subsequent wage increases or reduce the number of employees.

"Eventually, market forces would tend to reduce real wages sufficiently to restore full employment, but with much of the financial burden of the CPF having been transferred to employees," said Mr Yaxley.

"In the interim, some economic growth would be sacrificed, business would suffer and jobs might be lost.

"It is possible that the lost economic growth might never be fully recovered."

Mr Yaxley said as there was only a limited number of viable investment opportunities available locally, there was a danger that if the fund was constrained to invest locally, it would be obliged to invest in lower quality or lower yielding assets to the possible detriment of the participants.

If, however, a substantial proportion of the available funds was invested overseas in foreign currency assets, this could have an adverse effect on the foreign exchange and money markets and, under the linked exchange rate system, could result in unsettling fluctuations in the levels of the Hongkong dollar interest rates.