

OFFICIAL REPORT OF PROCEEDINGS**Wednesday, 19th March 1975****The Council met at half past two o'clock****PRESENT**

HIS EXCELLENCY THE GOVERNOR (*PRESIDENT*)
SIR CRAWFORD MURRAY MACLEHOSE, KCMG, MBE
THE HONOURABLE THE COLONIAL SECRETARY
MR DENYS TUDOR EMIL ROBERTS, CBE, QC, JP
THE HONOURABLE THE FINANCIAL SECRETARY
MR CHARLES PHILIP HADDON-CAVE, CMG, JP
THE HONOURABLE THE ATTORNEY GENERAL
MR JOHN WILLIAM DIXON HOBLEY, QC, JP
THE HONOURABLE THE SECRETARY FOR HOME AFFAIRS
MR DENIS CAMPBELL BRAY, JP
THE HONOURABLE JAMES JEAVONS ROBSON, CBE, JP
SECRETARY FOR THE ENVIRONMENT
DR THE HONOURABLE GERALD HUGH CHOA, CBE, JP
DIRECTOR OF MEDICAL AND HEALTH SERVICES
THE HONOURABLE DAVID HAROLD JORDAN, MBE, JP
DIRECTOR OF COMMERCE AND INDUSTRY
THE HONOURABLE LI FOOK-KOW, CMG, JP
SECRETARY FOR SOCIAL SERVICES
THE HONOURABLE DAVID AKERS-JONES, JP
SECRETARY FOR THE NEW TERRITORIES
THE HONOURABLE LEWIS MERVYN DAVIES, CMG, OBE, JP
SECRETARY FOR SECURITY
THE HONOURABLE DAVID WYLIE MCDONALD, JP
DIRECTOR OF PUBLIC WORKS
THE HONOURABLE KENNETH WALLIS JOSEPH TOPLEY, JP
DIRECTOR OF EDUCATION
THE HONOURABLE IAN ROBERT PRICE, TD, JP
COMMISSIONER FOR LABOUR
DR THE HONOURABLE CHUNG SZE-YUEN, CBE, JP
THE HONOURABLE WILSON WANG TZE-SAM, OBE, JP
THE HONOURABLE LEE QUO-WEI, OBE, JP
THE HONOURABLE OSWALD VICTOR CHEUNG, OBE, QC, JP
THE HONOURABLE ROGERIO HYNDMAN LOBO, OBE, JP
THE HONOURABLE MRS CATHERINE JOYCE SYMONS, OBE, JP
THE HONOURABLE PETER GORDON WILLIAMS, OBE, JP
THE HONOURABLE JAMES WU MAN-HON, OBE, JP
THE HONOURABLE HILTON CHEONG-LEEN, OBE, JP
THE HONOURABLE LI FOOK-WO, OBE, JP
THE HONOURABLE JOHN HENRY BREMRIDGE, JP
DR THE HONOURABLE HARRY FANG SIN-YANG, OBE, JP
THE HONOURABLE MRS KWAN KO SIU-WAH, MBE, JP
THE HONOURABLE LO TAK-SHING, JP
THE HONOURABLE FRANCIS YUAN-HAO TIEN, OBE, JP

ABSENT

THE HONOURABLE IAN MACDONALD LIGHTBODY, CMG, JP
SECRETARY FOR HOUSING

IN ATTENDANCE

THE CLERK TO THE LEGISLATIVE COUNCIL
MR KENNETH HARRY WHEELER

Papers

The following papers were laid pursuant to Standing Order 14(2):

<i>Subject</i>	<i>LN No</i>
Subsidiary Legislation: —	
New Territories Ordinance.	
New Territories (Land Offices Approval) (Amendment) Order 1975	51
Summary Offences Ordinance.	
Summary Offences Ordinance (Exemption from section 13) (No 4) Order 1975	52
Clean Air Ordinance.	
Appointment of Competent Authority	54
Prisons Ordinance.	
Delegation of Powers	55
Road Traffic (Registration and Licensing of Vehicles) Regulations.	
Vehicle Inspection Centres at Lantao	56
Telephone Ordinance.	
Resolution of the Legislative Council-Corrigendum	57
Public Revenue Protection Ordinance.	
Public Revenue Protection (Companies) Order 1975	58

<i>Subject</i>	<i>LN No</i>
Public Revenue Protection Ordinance.	
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Order 1975	59
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Public Revenue Protection Ordinance.	
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Libraries) Order 1975	62
Revised Edition of the Laws Ordinance 1965.	
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Order 1975	63
Tung Wah Group of Hospitals Ordinance.	
Resolution	64
Public Revenue Protection Ordinance.	
Public Revenue Protection (Interest Tax) (No 2)	
Order 1975	66
Public Health and Urban Services Ordinance.	
Public Health and Urban Services (Amendment of	
Fourth Schedule) (No 2) Order 1975	67
Interpretation and General Clauses Ordinance.	
Specification of Public Office	68
Public Health and Urban Services Ordinance.	
Hawker (Permitted Area) Declaration 1975	69
Public Health and Urban Services Ordinance.	
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Public Health and Urban Services Ordinance.	
Hawker (Amendment) By-laws 1975	71

Government business

Motions

Establishment of a suspense account

THE FINANCIAL SECRETARY moved the following motion: —

That this Council approves the establishment of a suspense account, to be known as "The Special Coin Suspense Account", which shall be employed to enable the Financial Secretary to issue and deal with special and commemorative coins and such account shall not at any time be in debt to an amount exceeding \$20,000,000.

He said: —Sir, I rise to move the first resolution standing in my name on the Order Paper. The purpose of this resolution is to seek approval for the establishment of a suspense account for special coin-transactions. This account will be known as the "Special Coin Suspense Account" and will not at any time be in debit to an amount exceeding \$20 million without the further authority of this Council being obtained.

Sir, by special coins I mean coins which, although they are legal tender, are made primarily for sale to coin collectors. Strictly limited numbers of such coins are produced and, therefore, besides serving as souvenirs of special events they can, in due time, prove to be a good investment. For these reasons it is unusual for such coins to be returned to the issuing authority. It is not, therefore, necessary for the issue proceeds to be retained in a special security fund as is the normal practice for coins which are issued primarily as a medium of exchange. Instead, it is proposed that all receipts and payments arising from the manufacture and sale of special coins shall be credited or debited to a suspense account. When the profit is determined it will be transferred to general revenue. Although, as I have said, it is unlikely that these coins will be returned a liability—a contingent liability—will exist. This will be recorded in a note to the Colony's Statement of Assets and Liabilities.

The same end result could be achieved through the creation of an expenditure subhead for payments and a revenue subhead for receipts. However, besides having the effect of inflating both revenue and expenditure, the figures could be misleading. This is because of the make up of special coin receipts and payments. When coins are issued for general circulation, expenditure is charged to general revenue and the bank balances received in exchange are credited to the Coinage

Security Fund. With special coins, costs are met both by the issuing authority and by the organizations charged with marketing the coins outside the territory of the issuing authority. These organizations usually deduct their approved outgoings and commission from the receipts from the sale of the coins and pay a net sum to the issuing authority. Consequently, if the transactions were accounted for through appropriate expenditure and revenue subheads both would be understated.

Although special coins are normally issued to commemorate particular events, there is also a profit motive and under Colonial Regulation 228, when any commercial or industrial enterprise is administered by or on behalf of the Government, receipts and payments may, with the approval of this Council, be accounted for through a suspense account. My honourable Friend the Attorney General has kindly agreed that transactions connected with the manufacture and sale of special coins may be properly called commercial.

The Government plans to issue a special \$1,000 gold coin to commemorate the visit to Hong Kong of Her Majesty the Queen and the Duke of Edinburgh and, if this resolution is passed, the Special Coin Suspense Account will be employed for this issue.

This will, I believe, be the first time that Hong Kong has issued a special legal tender gold coin designed to have collector appeal. It is hoped that this fine quality coin, which will be issued in proof and in uncirculated condition, will not only serve to commemorate a unique event but also, through the overseas marketing arrangements which are now being made, further enhance Hong Kong's image abroad. Full details of the coin and the sales arrangements will be released in a short while.

For the record, Sir, I should mention that, at their meeting on 8th January 1975, Members of the Finance Committee of this Council approved the opening of a Suspense Account for the issue of a gold coin to commemorate the visit to Hong Kong of Her Majesty the Queen; and on the 12th February the Queen by and with the advice of the Privy Council made an order amending the Hong Kong Coinage Order (1936) which will enable the Governor to make the coins legal tender by proclamation.

I should like to take this opportunity, Sir, to mention that the coin which will be issued to commemorate the Royal Visit may well be the first of a series of 14 gold coins. What we have tentatively in mind is this: beginning in 1976, each lunar year would be marked by

[THE FINANCIAL SECRETARY] **Motions**

the issue of a gold coin. The obverse side of the coin would bear a portrait of Her Majesty the Queen and the reverse side would depict the animal associated with the lunar year of issue. The first of these lunar new year coins would, therefore, show a dragon on the reverse side. Lunar years repeat themselves as is well-known in a twelve year cycle, but so as not to discourage those collectors who find the number 13 unlucky, a set of 14 coins would be made. The 14th coin would be issued to mark a future noteworthy and important event, as yet undetermined.

All the coins in this set would, like the coin to be issued in May, be aimed at collectors and they would be minted in strictly limited numbers. To assist those who decide to collect the full set a special high quality case containing 14 coin wells would be designed and sold. As we are, Sir, in the middle of the annual forecasting season I am prepared to say that, in my view, a complete set would prove to be a very valuable investment indeed to hand down to our grandchildren (*laughter*).

Question put and agreed to.

Vote on account

THE FINANCIAL SECRETARY moved the following motion: —

That a sum not exceeding \$2,850,168,000 shall be and is hereby charged upon the general revenues and other funds of the Colony on account for or towards defraying the service for the year ending on the 31st March 1976 and the sum so charged may be expended in the manner expressed in the Schedule.

SCHEDULE

<i>Head of Expenditure</i>	<i>Amount upon which Provision on Account is based</i>	<i>Amount of Vote on Account</i>
	\$	\$
21. His Excellency the Governor's Establishment	1,769,000	434,000
22. Agriculture and Fisheries Department	31,336,000	9,113,000

<i>Head of Expenditure</i>	<i>Amount upon which Provision on Account is based</i>	<i>Amount of Vote on Account</i>
	\$	\$
23. Audit Department	4,252,000	850,000
24. Census and Statistics Department	8,736,000	1,747,000
25. Civil Aviation Department	34,345,000	13,524,000
26. Colonial Secretariat	52,844,000	12,564,000
27. Colonial Secretariat: London Office.....	6,399,000	1,393,000
28. Commerce and Industry Department.....	46,801,000	9,434,000
29. Defence: Auxiliary Fire Service	4,000	1,000
30. Defence: Auxiliary Medical Service.....	1,959,000	392,000
31. Defence: Civil Aid Services	3,869,000	1,243,000
32. Defence: Essential Services Corps and Directorate of Manpower	295,000	59,000
33. Defence: Miscellaneous Measures.....	113,214,000	70,341,000
34. Defence: Royal Hong Kong Auxiliary Air Force	4,077,000	
1,054,000		
35. Defence: Royal Hong Kong Regiment (The Volunteers)	3,205,000	770,000
36. Education Department	194,211,000	41,445,000
37. Fire Services Department	89,740,000	23,390,000
38. Government Supplies Department	18,843,000	3,884,000
39. Home Affairs Department	16,692,000	3,349,000
40. Housing Department	122,165,000	41,730,000
41. Immigration Department	28,471,000	5,713,000
42. Information Services Department	10,636,000	2,186,000
43. Inland Revenue Department	33,634,000	6,901,000
44. Judiciary	25,939,000	5,221,000
45. Kowloon-Canton Railway	23,893,000	7,337,000
46. Labour Department: Labour Division	16,558,000	3,312,000
47. Labour Department: Mines Division	4,655,000	1,109,000
48. Legal Department	8,903,000	1,781,000
49. Legal Aid Department	8,434,000	1,700,000
50. Marine Department	55,985,000	15,210,000
51. Medical and Health Department.....	379,706,000	77,105,000
52. Miscellaneous Services	370,988,000	103,489,000
53. New Territories Administration	37,715,000	9,095,000
54. Office of Unofficial Members of Executive and Legislative Councils	1,528,000	306,000
55. Pensions	174,272,000	34,857,000
56. Police: Royal Hong Kong Police Force	422,550,000	102,355,000
57. Police: Royal Hong Kong Auxiliary Police Force	34,418,000	6,884,000
58. Post Office	123,209,000	31,042,000
59. Printing Department	23,647,000	4,960,000

Motions

<i>Head of Expenditure</i>	<i>Amount upon which Provision on Account is based</i>	<i>Amount of Vote on Account</i>
	\$	\$
60. Prisons Department	80,402,000	16,292,000
61. Public Debt	17,002,000	1,919,000
62. Public Services Commission	449,000	90,000
63. Public Works Department:		
Headquarters	7,456,000	1,971,000
64. Public Works Department:		
Building Development	56,711,000	11,365,000
65. Public Works Department:		
Engineering Development	132,201,000	28,147,000
66. Public Works Department: Lands and Survey	27,176,000	7,067,000
67. Public Works Department: New Territories Development	3,853,000	771,000
68. Public Works Department: Water Supplies	57,782,000	12,116,000
69. Public Works Recurrent	323,700,000	64,740,000
70. Public Works Non-recurrent:		
Headquarters	85,066,000	85,066,000
71. Public Works Non-recurrent:		
Buildings	218,086,000	205,541,000
72. Public Works Non-recurrent:		
Engineering	412,906,000	412,362,000
73. Public Works Non-recurrent: New Towns and Public Housing (other than Housing Authority)	530,716,000	522,944,000
74. Public Works Non-recurrent:		
Waterworks	354,140,000	353,817,000
75. Radio Hong Kong	11,505,000	2,296,000
76. Rating and Valuation Department	11,429,000	2,286,000
77. Registrar General's Department	10,894,000	2,194,000
78. Registration of Persons Department	5,070,000	1,054,000
79. Registry of Trade Unions	597,000	119,000
80. Royal Observatory	8,460,000	2,070,000
81. Social Welfare Department	264,886,000	53,079,000
82. Subventions: Education	797,010,000	195,491,000
83. Subventions: Medical	198,435,000	51,261,000
84. Subventions: Miscellaneous	59,155,000	11,794,000
85. Subventions: Social Welfare	47,650,000	9,530,000
86. Transport Department	14,082,000	2,443,000
87. Treasury	11,657,000	2,379,000
88. Universities and Polytechnic	290,807,000	123,445,000
89. Urban Services Department	46,214,000	9,239,000
	<u>6,615,394,000</u>	<u>2,850,168,000</u>

He said: —Sir, I move the second resolution standing in my name on the Order Paper.

Normally, Sir, the enactment of the Appropriation Ordinance takes place in March but this year, to allow honourable Members more time to examine the draft Estimates for 1975-76, the debate on the second reading of the Appropriation Bill is to be extended into April. This resolution, therefore, seeks funds on account to enable the Government to carry on existing services between the start of the financial year on 1st April next and the issue of the General Warrant following the enactment of the Appropriation Ordinance. The funds on account sought under each head have been determined in accordance with rules which have already been agreed by the Finance Committee of this Council.

Expenditure will be regulated in accordance with the heads and subheads shown in the draft Estimates for 1975-76. A Vote on Account Warrant will be issued to the Accountant General authorizing him to make payments up to the amount specified in this resolution, and will limit the expenditure in accordance with the agreed rules. The provision under the Vote on Account will be subsumed upon the enactment of the Appropriation Ordinance, and the General Warrant issued after the enactment of the Appropriation Ordinance will replace the Vote on Account Warrant and be effective from 1st April.

Question put and agreed to.

First reading of bills

PUBLIC ORDER (AMENDMENT) BILL 1975

SUMMARY OFFENCES (AMENDMENT) BILL 1975

CORONERS (AMENDMENT) BILL 1975

TRUSTEE (AMENDMENT) BILL 1975

CHINA FLEET CLUB INCORPORATION (AMENDMENT) BILL 1975

FIRE SERVICES (AMENDMENT) BILL 1975

Bills read the first time and ordered to be set down for second reading pursuant to Standing Order 41(3).

Second reading of bills**APPROPRIATION BILL 1975****Resumption of debate on second reading (26th February 1975)***Question proposed.*

DR CHUNG: —Your Excellency, as the first Member to rise to respond to the motion before Council, I would like to congratulate my honourable Friend, the Financial Secretary, for the clear and comprehensive manner in which he introduced the Appropriation Bill 1975. He showed us step by step how he had tackled his problem of budgeting and how he proposed to make both ends meet. The original departmental estimates of expenditure amounted to \$7,987 million whereas the original departmental estimates of revenue came to only \$5,719 million, giving a shortfall or deficit of \$2,268 million.

My honourable Friend could not and would not budget for a deficit of this magnitude which was as large as our estimated total fiscal reserves of \$2,371 million at 1st April 1975. So he first cut down the expenditure by 12.6% or \$1,009 million to \$6,978 million, thus reducing the deficit almost by half to \$1,259 million. This gap, the honourable Financial Secretary felt, was still too large. He then made further cut backs in both recurrent and capital expenditure by \$433 million or 5.4 %, making a total cut back of about 18 %.

Allowing \$70 million for supplementary votes during the year, the total deficit finally came to \$896 million, of which \$467 million would be from revenue proposals and the rest, \$429 million, from loan financing. This is the 1975-76 budget in a nut-shell but it is a voluminous document and it took the honourable Financial Secretary and his team approximately four months of hard work to produce it.

Normally, the interval between the Financial Secretary's budget speech and the speeches of the Unofficial Members is a fortnight. During this 14-day period, the Unofficial Members, apart from their normal private and public duties, have to study the budget, consider the various revenue proposals, interview the press editors and the interested public, discuss among themselves and finally prepare their own speeches at least three days before the resumed debate so that the Department of Home Affairs and the Department of Information Services can translate them into Chinese and make summaries for press release. It has not been easy to meet this very tight schedule, let alone to conduct research, and consultation.

The Unofficial Members therefore made two requests last year for improving the situation. First, the adjournment should be longer than two weeks. This is why this year there is a three-week gap between this and the last sitting of this Council. Secondly, there should be an economic advisory committee with unofficial representation to keep constantly under review the economic problems of the day and to involve the Unofficials in a more intimate way and at an earlier stage with the evolution of Government economic policies. At the compromised suggestion of the Financial Secretary, you, Sir, appointed four Unofficial Members of this Council to this newly established Economic Review Committee in May 1974. The Committee has met four times during the year but, in our humble view, I regret to say the work and scope of this committee fell far short of our expectations.

Sir, when we debated the Appropriation Bill 1974 last year this time, we were in the midst of price inflation and material shortage. Exports were booming and manufacturers order books were reasonably full. Money was tight and interest rates were rising and rising fast. Twelve months later, today, we are debating the Appropriation Bill 1975 in a very much different atmosphere. Inflation has abated; in fact, many prices are falling. Most materials are once again in abundant supply. Domestic exports, for the first time since such statistics were compiled, were declining as compared to the same period a year ago. At present, interest rates are the lowest in many years.

These are cyclic fluctuations which we all have to face. The important thing is that we should not become panicky and over-react with the short-term ups and downs. We should not be overjoyed with a large surplus of revenue over expenditure in a good year nor should we be too pessimistic about a deficit in a bad year. If we do and try to tailor our expenditure in strict consonance with the short-term ups and downs of our economy, then it will cause many frequent changes in taxation and policies of government. This is what is known as "朝令夕改" which means "the orders made by Government in the morning are changed in the evening". According to Chinese philosophy in public administration, this is bad and should be avoided by a good government.

With respect, I regret to say that there is a tendency for my honourable Friend, the Financial Secretary, to react too sensitively to the short-term ups and downs in our economic progress. In 1973 when our revenue was in a buoyant situation, he abolished all the entertainment tax for no other good reasons and against public opinion. Now, in less than two years, my honourable Friend proposes the reintroduction

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of entertainment tax for cinemas. This rapid change of policy is not a good practice for Government to follow and if Government does it too often, it could impair its credibility.

Other examples are, first, our 10-year housing programme started from April 1973 to provide 1.8 million public housing units; secondly, our White Paper on Secondary Education over the Next Decade introduced only six months ago; and, thirdly, our White Paper on Medical Services which had the full support of this Council last year. Government has publicly committed itself to these social services programmes and the Hong Kong people are looking forward to their successful implementation in quantity and quality as well as in time to meet their needs and aspirations. A good government cannot ignore these commitments and "stop-go" as it wishes.

The Financial Secretary has told us the average cut back of 18% but he did not tell us which items have not been cut and which ones have been cut and by how much. Nor has he informed us the implications of these cut backs on the major social services programmes and others. However, my honourable Friend, the Director of Education, was reported to have said that with the cut back imposed by the honourable Financial Secretary, the implementation of the White Paper on Secondary Education would be put back by at least two years. This kind of delay by Government gives the people of Hong Kong, rightly or wrongly, an impression that Government does not really take these major social service programmes seriously. Again, if Government does it too often, it could and would lose its credibility.

The 1-3-10 budgeting concept developed by the honourable Financial Secretary is a good technique to avoid over-reaction on short-term fluctuations. This concept, I believe, is an attempt to determine the revenue and expenditure of the budget year 1975-76 against the background of the medium-term period of the following three forecast years 1976-79 as well as the longer-term period of a decade from 1975-85.

Taking the three forecast years from 1976-77 to 1978-79, the honourable Financial Secretary, on the basis of original departmental submissions for both revenue and expenditure, estimated overall deficits of \$2,300 million for 1976-77, \$2,100 million for 1977-78 and \$1,800 million for 1978-79 all at April 1975 prices. If the element of inflation is included, I presume these huge deficits would have been even greater.

How will Government handle these huge deficits in the immediate three years after the budget year? Will Government again make similar and significant cut backs in expenditure in the following three years as in the budget year 1975-76? Or, will Government find some other means to increase revenue and loan financing for the three forecast years? These are important questions and, in my own view, more important questions than those related to the current 1975-76 budget. This is because it is always too late to influence Government to make any major change in the budget once it is presented but there is time for us to do some important adjustments for the forecast period.

My honourable Friend, the Financial Secretary, has devoted a good portion of his budget speech in juggling with the revenue and expenditure figures for the forecast period and eventually said that his present view of acceptable levels of total expenditure at April 1975 prices in the forecast years is \$7,100 million in 1976-77, \$7,900 million in 1977-78 and \$8,700 million in 1978-79, thus involving very significant reductions of \$1,700 million in the first year, \$1,300 million in the second year and \$900 million in the third and final year. Again, if inflation is taken into account, the amount of cut backs would be even larger than these figures.

Naturally, the Unofficial Members are concerned with the adverse effect of these expenditure reductions on the implementation of our major social and economic development programmes on the one hand and with the ways and means of raising additional revenue on the other. The Unofficial Members are equally concerned with the lack of provisions for new proposals to meet rising expectations of the people of Hong Kong and for the probable increase of defence costs as from April 1976.

Sir, these major social and economic development programmes are necessities, not luxuries. Their delay will jeopardize our long-term social and economic development. Hong Kong, by world standards, is still a territory of very low taxation and I think we can use a larger taxation net with smaller openings. We therefore ought to explore the various possibilities to increase our revenue for the forecast period so that cut backs on essential expenditures can be kept to the minimum.

Some people, I am sure, will not agree with me. They will say that by increasing taxation, we will drive away our investors, particularly those in export-oriented manufacturing industry. I accept that low taxation in Hong Kong is an attraction to foreign investors but I want to point out also that there are in Hong Kong also many other

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(26.2.75)**

advantages, equally important as low taxation. These are a highly productive labour force, industrial peace, good supporting industries, efficient infrastructure, minimal Government interference, maximum micro-economic freedom, just to name a few.

The American Chamber of Commerce in Hong Kong recently conducted a survey of the American involvement in local manufacturing industry. Preliminary results published last week show that no less than 88 *per cent* of these foreign investors are convinced they had made the correct decision in locating their operations here over other Asian-Pacific territories. Therefore we should not under-estimate our strength in attracting and retaining investors.

On the other hand, honourable Members may be interested to know about 75% of the 200,000 businesses registered in Hong Kong make extensive use of our commercial and industrial infrastructure but pay no direct taxation of all and only minimal indirect taxation. I think that it is time for these firms to contribute a fair share of our public expenditure. Despite the unfavourable remarks made by the honourable Financial Secretary, I suggest that Government should examine more closely the possibility of a turnover tax. In 1974, external trade alone amounted to over \$64,000 million and my guesstimate of the total sales turnover for both external and domestic trade in Hong Kong could come to \$200,000 million. With only one *per cent* turnover tax, Government could receive an annual revenue of as much as \$2,000 million which would solve our deficit problem in the forecast period.

Both corporate and unincorporated businesses have to furnish to the Inland Revenue Department annually their profit and loss account, in which the first line is sales turnover and the last line net profit before tax. At present, the assessors, after checking and agreeing with the statements, take 15%—or from the next fiscal year 16.5%—out from the last line as profits tax. What I am suggesting, Sir, is to ask the assessors to take, additionally, 1% from the first line of the profit and loss statements as turnover tax. The extra work and collection cost involved are minimal.

Revenue income from profits tax could be adversely affected substantially in a bad year. On the other hand, turnover tax is less sensitive to these cyclic fluctuations and should provide Government with a steady

and rising revenue income which, I believe, is desirable if our long-term social services and economic development programmes are not to be frequently disrupted.

Another possible method of financing social and economic development programmes is the establishment of a compulsory central provident fund by Government as suggested in the policy debate last October. If employers are required to contribute 5 *per cent* of the payroll and with an average annual income of \$10,000 *per capita* for a working population of one million persons, the annual income available for investment into revenue-generating infrastructures could amount to \$500 million.

Sir, I only mention two revenue possibilities as example but there are many other ways and means of raising additional revenue. It is therefore hoped that the terms of reference for the proposed Inland Revenue Ordinance Review Committee will be sufficiently wide and comprehensive for this purpose.

During the past few years, the honourable Financial Secretary in his budget speeches had repeatedly and rigidly laid down two guideline ratios relating to direct and indirect taxation and to tax and non-tax revenue. He advocated that the ratio of direct to indirect taxation should be 45:55 and the ratio of direct and indirect taxation together to all other recurrent revenue should be 65:35. Now, what is the magic of these ratios? For example, why should the ratio of direct to indirect taxation be 45:55? Why not 40:60 or 50:50 or even 60:40 in the other direction? Sir, I did ask my honourable Friend this question two years ago in this Council. Although he did outline the philosophy of direct and indirect taxation, he never explained the reasons for choosing this particular ratio of 45:55. I hope this time he will be more responsive in answering my question to the point (*laughter*).

Sir, with regard to the revenue proposals presented by the honourable Financial Secretary, I have two points to make. The first one is about "benefits in kind" and in particular living quarters provided by an employer for his employees. In the present circumstance of Hong Kong, it is not uncommon for an employee, especially an expatriate or a Government officer, receiving, say, a monthly salary of about \$6,000 but living in a free or subsidized quarter with a market rental of \$4,000 a month. At present, as the honourable Financial Secretary has rightly pointed out, the value of the quarter is assessed at 7 $\frac{1}{2}$ % of the salary of the taxpayer. In other words, the taxable income for the employee

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quoted above is \$6,450 a month as compared with the actual cost of \$10,000 paid out by his employer. The employee is therefore very much under-taxed.

This status in the salary tax law has two undesirable aspects. In the first instance, it is unfair to those salary earners who receive their total remuneration in monetary form without such benefits in kind. Secondly, it gives the employees who live in free or subsidized housing the inducement to press their employers to provide over-generous and over-sized quarters because the employee themselves do not have to pay more rent or tax. In the case of Government as an employer, this will mean extravagant use of public funds. I therefore fully support the proposal of the honourable Financial Secretary to increase the 7½% figure to 10% or even to 15% in 1975-76. I would strongly urge him to plug this hole in the salaries tax by further increasing this percentage year by year to bring it up to the full market value in three years' time. I also propose that further consideration be given to including other benefits in kind into the taxable income of an employee.

The second revenue proposal on which I would like to comment is water charges. Due to the dramatic increase in the price of fuel oil and hence in the cost of water from the desalting plant, I do appreciate the need to revise water charges if no or a minimum deficit is to occur in the water supply account.

The Unofficial Members consider the proposed differential pricing system for domestic consumers is a sound one and will support it. However, we wish Government to clarify two points in this differential pricing system.

The first point concerns those multi-storey residential buildings which do not have separate water meters for individual flats. Will Government confirm that the 2,700 gallons of free supply and the 14,000-gallon limit for the lower charge of \$3 per thousand gallons will be multiplied by the number of individual flats for the purpose of computing water charges in a multi-storey building using one common water meter for all the flats?

Secondly, in many tenement buildings, each flat is occupied by more than one family and not uncommonly by four or five families. Because of the very large number of persons living in a flat with one water meter, the level of total consumption per flat is high and could

reach the third level. These people could then have to pay the highest rate of \$6 a thousand gallons but they are generally less well off than the average. Therefore, there will be some hardship cases of this nature. The Unofficial Members would like Government to look more closely into this matter and to see what practical means could be devised to alleviate this unfair situation which is contrary to the spirit of the proposed differential pricing system.

Coming to the case of non-domestic consumers and particularly those industrial consumers who are providing the bulk of Hong Kong's employment opportunities, I don't think my honourable Friend, the Financial Secretary, has given a fair comparison between an industrial consumer and a domestic consumer. The latter uses water for cooking and cleaning and that is it. However, an industrial consumer uses water for productive purposes and generates a chain of economic benefits not only to himself but also to Government in the form of taxes and to the community in the form of employment opportunities.

We are at present obtaining fresh water from three different sources. One is the traditional method of building reservoirs to hold rain water in the wet summer for use in the dry winter. The second source is to convert sea water into fresh water by multi-evaporation process using oil as the input energy. The third source is fresh water from the East River in China through overland pipelines. The cheapest and most reliable supply (in the sense that the East River never dries up) is the third source and the price we pay is, I believe, still one Hong Kong dollar per thousand gallons. Many people question why doesn't the Government approach the Chinese Authority for more water supplied from the East River, particularly when the price of oil has now reached such a high level that the cost of water from desalting will be higher than HK\$10 per thousand gallons. I hope that Government will clarify this situation and try to obtain more water from the cheapest source. By this way, the average cost of our fresh water would be significantly lowered and the threat of jeopardizing the competitive position of some of our export-oriented manufacturing industries could be removed.

With these remarks, Sir, I support the motion before Council.

MR WANG: —Your Excellency, I would like to join my Senior colleague in offering hearty congratulations to my honourable Friend the Financial Secretary in his role as the architect of this budget and in this I am sure I'm joined by the big majority of the community. Sure enough, the preparation of this year's budget has been a particularly difficult exercise for all concerned.

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However, in spite of the depressing situation, we can take consolation in the fact that despite the hard year ahead, the effect of the budget will be to raise neither the Consumer Price Index nor the Export Cost by more than 1/2% during the coming year.

Having said this, I must also say that I am very much worried about the socio-political and economical effects that may well follow the cut-back of recurrent and capital expenditure by no less than \$1,400 million, even taking into account that part of this amount may well be remedied by an increase in productivity within the Government service. Needless to say its actual effect may not be so readily revealing, and only time will show, as some may not even be very easily quantifiable in direct financial terms. An example of this is the deferment of the expansion of secondary education programmes. But then as we have been told, some \$4,000 million more of public expenditure will need to be cut if the estimates over the three years under forecast "be brought into acceptable levels" as envisaged by my honourable Friend. Further increases in taxation and on fees and charges will be inevitably the order of the day if our plans and visions for improved social and economic services are not to be jeopardized.

Faced with this problem ahead of us, I share Dr CHUNG's view that it would be more useful now to direct our attention to the kind of strategy that should be applied to those of the succeeding year. I believe that we should take a more critical look at some of the philosophies and principles outlined by my honourable Friend in his speech which may have some significant bearing on our future budgets.

On the expenditure side, I propose to pose some questions when we meet the department heads in the meeting of the Budget Subcommittee and reserve my comments when the bill is presented in the committee stage.

I venture today to limit myself to comment on two of his statements in connection with his outlook on revenue proposals for the future. First with "fees and charges" and—here again I am in agreement with Dr CHUNG—secondly on his guideline on "ratio of direct to indirect taxation". Also I would like to raise with him questions on "the standard rate of profits tax", which he has not yet attempted to deliberate upon to the degree that this subject warrants.

Fees and charges

On fees and charges as my honourable Friend has said, over the years, "Successive financial secretaries have stressed the importance of the system of fees and charges in our overall revenue situation" and I fully agree that we have yet to develop clear cut ideas as to the various roles of the different fees and charges, which he would classify into six groups.

Those designed to: first, cover the full cost, second, cover part of the cost, third to show even reasonable returns on the capital employed. Then there are: fourth, those pitched high enough to deter usage, and fifth, those designed to offset the factor of diminishing returns, and lastly those pitched at a level which represents a payment for the enjoyment of monopoly privileges.

The question to ask is, how the different services are to be categorized and secondly, as most of these fees and charges have to be designed with reference to the cost, do we have the machinery to determine and to show in a comprehensive manner, the individual cost of each service for which a fee is to be charged?

It appears obvious that if we are to avoid mis-informed public reactions, and immature judgments at any time when fees and charges have to be raised, a major reform in the Government accounting system is necessary to enable such figures to be readily available at any time.

As emoluments for the public service form the major part of all Government spending, the determination of their cost in connection with the various services provided should take the first priority. On these issues, understandably, the public has the right to ask "What do we get for the amount spent?" Does our society receive value for the money spent on salaries, pensions and all fringe benefits for Government servants—housing, leave and passages, education allowances, medical expenses *etc.*? How much do all these cost? For instance as Dr CHUNG has just pointed out many people in senior posts are provided with flats valued at between 70% to 80% of their salaries. Are these costs justified? Are they excessive? In short, we would all want to make an assessment of the cost effectiveness and the productivity of Government services. If Government is to prevent public speculation on these matters, the time for their costing would be better sooner than later.

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Direct versus indirect taxation

On direct versus indirect taxation, like Dr CHUNG, I too would query the logic in the adoption of the ratio of 45 to 55 as a guideline ratio between these two forms of tax, by my honourable Friend the Financial Secretary.

In pointing out that this ratio will in 1974-75 become 61:39, for instance, my honourable Friend simply stated that this is inconsistent with his guideline and that it represents a dramatic switch-round from the average ratio for the three years ending 1973-74, when it was 47:53. He appears to have missed two major factors accounting for this switch-round.

Firstly, since the year 1973-74 rates payable to the Urban Council have been excluded. If this had not occurred the ratio I reckon would have been 57:43 in 1974-75, and that for the revised estimate for 1975-76 would be 54:46.

Secondly, achievements made in the department of Inland Revenue during these recent years in its efforts to stem the incidence of tax-avoidance, for which efficiency, the department should deserve our congratulations and encouragement to greater endeavour.

What I really fail to understand is his statement that because this ratio exceeds his guideline, he foresaw the need to find new sources of indirect taxation so as to avoid becoming over-dependent upon direct taxation. I would think that direct taxation of actual profits would be a fairer basis—and represent a more logical system of taxation. Over-dependence on indirect taxation might result in an unfair proportion of the economic burden being shouldered by local businessmen and local consumers.

If an empirical formula has to be adopted as a guideline, and in the light of experience in recent years, it would appear that a more realistic ratio would be 55:45 rather than the reverse—and I can see that Dr CHUNG is feeling satisfied about this answer.

At first sight increases on general rates would appear an easy form of taxation to implement and would widen the tax base to a useful extent; but here we must not disregard the fact that rent levels in Hong Kong are the second highest in the world and constitute a high proportion of costs in any commercial undertaking and a constant

burden upon every domestic budget. If there exists one single factor liable to deter the foreign investor, it is possibly this rent factor. It would be surely unwise to increase the burden in this area, and I believe that existing and potential foreign investors would consider this a greater factor for their consideration than low direct taxation.

Recent rent control policies together with a postponement of reassessment of rateable values are just beginning to demonstrate a general stability in this field. I hope that no retrograde steps will be implemented to upset this favourable trend; even though some may wish to believe that this is the cause of the present building recession.

Standard rate of profits tax

The time is indeed opportune for the best brains available to be recruited in an endeavour to give profound and realistic thought to the question of a really optimum percentage of standard rate of profits tax. It is opportune because we can no longer overlook, or deny the fact that we are facing a situation, where a choice must be made between increasing our revenue by taxation or cutting down on public expenditure on social services, and the development of the infrastructure of our economy.

No one can deny that our prosperity is dependent upon our ability to attract foreign investors. The cry for years immemorial has been "low taxation is imperative". The caution is given that we should not bite the hand that feeds us. But is this an unchallengeable axiom? A low rate of taxation is always helpful. But "low" is a comparative term. The questions are: How low should the rate be set? Are there not other factors that exist in favour of Hong Kong as an attractive venue for business operations?

Without claiming economic expertise, I would point to at least a few areas of advantage which exist over and above the low taxation factors; to name those that occur to me: the whole infrastructure which makes a business tick, the availability of a productive labour force, the efficiency and stability of administration, the general peace and order of society, guaranteeing minimum possibility of disruption, the existence of an effective international communication system. This list of formidable advantages must be included in any assessment of a location—by a discerning business mind. And here I am very grateful to have just heard similar views expressed by an industrialist, my Senior colleague, the honourable Dr CHUNG.

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In the past, it would be sufficient to boast that we had one of the most beautiful harbours in the world. This God-sent gift was our only asset. Today we have to possess more than this, but all other facilities have to be built by the sweat of Hong Kong brows, by the use of our own hard earned money, and continue to be built and improved in order to maintain the entire infrastructure even more attractive than any other city in our neighbourhood. To achieve this we must depend on our revenue—whatever that may be, it is our only resource—short of striking oil on the Victoria Peak. One thing of which I am certain, is that during the three years under forecast—if some \$4,000 million of expenditure were not to be cut, the same standard rate of direct tax could not be maintained.

Any cut-back in expenditure would mean cutting down the standard of living, the quality of our environment, the provision of our educational opportunity, vocational training, social welfare programmes, to name but a few areas, this must have an adverse effect upon the quality of our labour force. The further deferment of our projects will result in the slowing down of the development which is essential to the maintenance of the infrastructure upon which our economy depends. Would not such a course deter foreign investors even more than would a few *per cent* increase in the standard rate? I would recommend serious consideration of the latter course.

With these remarks I support the motion.

MR LEE: —Your Excellency, one of the duties of the Unofficial Members of this Council is to scrutinize the appropriation of public expenditure to ensure that they are used suitably in our infrastructure. This year's budget prepared under so many conflicting considerations has received wide acclaim, mostly from the public and also from the majority of the Unofficials. This is partly because it is so well prepared and explained, and partly tinged with relief, for most of the pre-budget publicity both official and unofficial had conditioned us to expect a much tougher line. Therefore I have pleasure in seconding the motion and in doing so, I shall however have something to say on our taxation, the structure of which has been traditionally simple and its level attractively low.

Very clearly, the total expenditure now proposed is more than the maximum that our financial resources can reasonably produce and yet

it is less than the minimum our social progress actually requires. In spite of the unusually difficult budgetary problems, the Financial Secretary had certainly at heart and in mind every consideration of our social needs: for initially he worked on an unprecedented deficit of \$896 million. Even after the increased revenue of \$467 million from new proposals, he has yet to meet the final budgeted deficit of \$429 million. Similarly, heads of departments have been realistic and have appreciated the limitations of our present financial resources. Although many must have viewed the situation with mixed feelings, they worked with the Finance Branch in trimming down their original submissions by as much as 18% or \$1,442 million. It cannot be easy for these dedicated men to see such reductions in their programmes and they have a very special duty now to ensure that the enthusiasm of their staff and the efficiency of their services to the community are in no way impaired.

Budgetary Concept

Last year, the Financial Secretary introduced the 1-3-10 budget concept. It is designed to deal firstly with the estimates of recurrent and capital expenditure in the budget year; secondly it attempts a forecast of such expenditures for each of the three immediate following years; and then thirdly it gives a projection of just the capital expenditure up to the tenth year. For the first time in the history of budget presentation, Government explained its budgetary strategy in full. In view of the much larger excess of budgeted expenditure over estimated revenue this year, the explanation of budgetary strategy is given even in greater detail. The Financial Secretary proposes to solve the deficit problem by a package of, first, substantial curbs in expenditure; second by borrowing; and third, by increases in certain taxation, fees and charges. Obviously, this can only be a temporary solution even if one were to accept that there might be a resumption of our economic growth, because in the three forecast years there would, after taking into account the new revenue proposals, still be very large overall shortfalls of \$2,200 million in the year 1976-77, \$1,800 million in 1977-78 and \$1,400 million in 1978-79. Although the Financial Secretary has given some indications of how to find the fiscal revenue to meet these shortfalls, I think everyone should now begin to give the problem some thinking.

Employment and other Problems

Like any other industrially developing country, Hong Kong must have a stable infrastructure if it is to prosper. And yet the financial needs to maintain it are always on the rise, due partly to inflation and partly to increasing demand for a better standard of living and more

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advanced social services. Undoubtedly, the restraint now imposed for the budget year will have direct and indirect repercussions on our infrastructure: for example, in employment, to name just one. In 1974, the Government, being the biggest employer in Hong Kong, increased the strength of the Civil Service by approximately 8,500 people. If the net increase in the Civil Service is to be limited to only 1,600 in 1975-76, clearly a much larger number of local people than usual will have to turn to the private sector for jobs and we all know that in the private sector the employment situation is already tight. Additionally in 1976, there will be about 2,500 to 3,000 university, Polytechnic and other Post secondary graduates plus about 74 to 75 thousand secondary school leavers all looking for work. Curbs in Government expenditure will certainly mean less job opportunities for the community as a whole. I do not have to emphasize the problems that could arise if youngsters are unemployed and nor do I wish to be alarmist, but it is a matter which I am sure demands consideration at the highest levels.

Besides employment, other areas like housing, education, medicine, transport and social welfare will also be affected in one way or another. These problems, I am sure, are also very much in the forefront of the Government's mind.

Cuts in Expenditure

Now I would like to revert to the first part of the Financial Secretary's package: that is, cuts in expenditure. As I have already said, this can only be a temporary measure and obviously cannot be applied indefinitely: there must be a limit—the rightful hopes and aspirations of the community must be recognized and met. But just where that limit is will have to be assessed in the light of experience in the course of the budget year. Fears have already been generally expressed that most services will be unavoidably affected both in quantity and in quality; so the position must be carefully watched and monitored. It is comforting to note, however, that a sum of \$70 million has been set aside for unavoidable additional use.

Borrowing

I now come to the second part of the package, which is to finance our deficit by borrowing. Admittedly, there is something to be said for this course of action particularly in bridging seasonal deficits and the creation of a secondary money market and so on. The Financial Secretary has already dwelt on this subject at some length. His view

is that we should not have more debts than we are able to service. According to his illustration I figure we can probably have loans outstanding at any time of between \$1,000 and \$1,500 million. But this will be insufficient even to cover the forecast deficit of \$2,200 million in the year 1976-77. In any case, nobody would disagree with him that there is a limit to which we should be in debt.

Direct and Indirect Tax

The third part of the package is an increase in taxation, both direct and indirect, as well as in fees and charges. Two colleagues just raised a point on the ratio between indirect and direct tax. One queried its magic, the other queried its logic. I can certainly see some weaknesses in having too high indirect tax, fees and charges in that they will result in added costs to our production and to a small degree, our cost of living. If they are to go too much further, our commercial and industrial competitiveness will be affected. Additionally, they are always open to the argument of equity which is one of the most important principles of taxation. This is especially so in respect of those items that are levied for no other reason than the fact they just happen to be the convenient medium through which indirect tax, fees or charges can be effectively collected. Personally, I think we should keep our tax structure as simple as possible and should not have too many items or too high an increase in indirect taxation, fees and charges. However, I am very much in favour of additions and increases in those items on a cost or franchise basis.

Increase in Standard Rate

So let me now consider direct taxation. At the low standard rate of 15% it is one of Hong Kong's most important investment attractions. Views have been expressed that any increase in that rate will affect investments in Hong Kong. However, if we compare it with those of 45% in Indonesia, 40% in Malaysia, 40% in Singapore, 35% in the Philippines, 30% in Thailand, 27% in Korea and 25% in Taiwan, there seems to be some margin to permit our tax rate to go up, if there is such a need. Views have also been expressed that some of these other countries now offer more attractive incentives for investment. But again, if we consider the many basic facilities that are uniquely available in Hong Kong, they should more than offset the lack of such incentives as exist elsewhere. I am sure Government as well as members of the public must have given constant thoughts on whether our low standard rate should be raised. If it is forced upon us to choose between a deteriorating social infrastructure with low tax

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rate and an improving one with a slightly higher tax rate, I am sure the majority would prefer the latter. The amount of increase is of course a matter that must be given very careful and serious consideration taking all relative factors into account. People in Hong Kong are realistic. They know the value for the tax they pay. If the increase is moderate, the quantum should not be so much a concern as the uncertainty thus created of possible further increases in the future. Therefore, I believe it is important that, once an increase is decided, Government should give an indication that such a rate would remain unchanged for a period of years so as to remove that uncertainty. I am well aware that such a suggestion might not commend itself to the Financial Secretary who no doubt would wish to retain flexibility and not be put in a tax strait-jacket. Personally, I consider such an indication essential if we are to have the same attraction for and confidence of the would-be investors. Also, Sir, to avoid hardship being inflicted on the taxpayers of low income group, personal allowances should be appropriately increased.

Economic Prospects

Sir, whether we shall have to continue to restrain our spending, to resort to further borrowing, or to raise more fiscal revenue must depend entirely on the future prospects of our economic growth. For the purpose of future expenditure planning, the Financial Secretary has forecast zero growth in the budget year, and growth rates of 5% in 1976-77 and 7% in each of the two years 1977-78 and 1978-79. I share his confidence that our economy will be in a position to quickly take advantage of whatever expansion in world trade as and when it occurs. Our businessmen and manufacturers have demonstrated on many occasions in the past their ability to compete successfully. The Department of Commerce and Industry and the Trade Development Council have been actively engaged in industrial investment promotion. Led by the honourable Sir Yuet-keung KAN the Trade Development Council has also expanded old markets and developed many new ones as well as successfully making the presence of Hong Kong products felt in the eastern European countries. The formation of Fintracon by four leading banks has enabled substantial credits to be extended to Comecon countries for the purchase of Hong Kong products. All these are important factors in our favour.

External Value of Hong Kong Dollar

However, Hong Kong has been experiencing yet a new problem of its currency having to float since the end of last November. This has created some difficulty and to say the least, much inconvenience to our economy. Questions have therefore been raised as to: when can the Hong Kong dollar be re-fixed and, if not in the immediate future, can the rate of exchange be maintained within specified limits?

One of the main functions of money is to serve as a medium of exchange, it actually reflects the value of goods and services it can obtain in the country of that currency. Therefore, just like any commodity, its value (that is the exchange rate) is determined by the interaction of supply and demand. But very often the rate of exchange is also affected or influenced by the strength or weakness of another currency and the inflow or outflow of funds for investment or speculation purposes.

What has happened to the Hong Kong dollar since the beginning of last November was initially due to the weakness of the US dollar to which our currency was linked. The subsequent inflow of funds to Hong Kong and the great speculative forces have led to a greater demand for the Hong Kong dollar. This naturally resulted in the rise in its external value. To attempt to maintain the value of the Hong Kong dollar at the previous fixed rate would mean selling something which has a limited supply against a very big demand. The only course open to us in the circumstance was, therefore, to float our currency and let it find its own level.

Historically, the value of our currency has always been "passively and defensively determined" due to changes in the value of other currencies, principally the pound and the US dollar. The Hong Kong dollar had to change its value upwards many times in the past several years from HK\$16 to HK\$11.55 against £ 1 and from HK\$6.06 to as high as \$4.50 at one time against US\$1. On each occasion any such change was forced upon us and for no reasons of our own. But each time Hong Kong managed to adjust its economy and was still able to maintain growth. The reasons are quite simple because Hong Kong has no natural resources of any substance and it has to import goods and materials for processing before export. A rise in the external value of our currency means Hong Kong would receive lesser export value of goods—in Hong Kong dollar terms. On the other hand, we would only pay less, also in Hong Kong dollar terms, for all our imports of raw materials as well as daily necessities. Hence, what really matters would be that part of our export proceeds retained in Hong

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Kong. This in the main is the cost of our services. If the price of our service is too high, it would naturally adjust itself as in the past occasions to suit our competitiveness.

Without doubt, the question now uppermost in the minds of our businessmen is when can we re-fix the rates of the Hong Kong dollar to enable them to quote realistic and competitive prices for our exports. The answer to this is that there are still uncertainties in the value of the world's principal currencies, mainly the US dollar. Until they are more stable, I agree with the Financial Secretary that it would serve no useful purpose to have it re-fixed as already explained by him in great detail.

As to what can be done to bring about a more stable exchange rate, the Financial Secretary has also said that Government will not hesitate to intervene in the market to smooth out obviously erratic or wayward movements. In fact, in the past few months, Government has continuously intervened in the market and the banks too have also played their part in an attempt to establish an acceptable level of the exchange value of the Hong Kong dollar. The recent drastic reduction of interest rates together with Government intervention seemed to work effectively to bring the value of the Hong Kong dollar down to \$4.80 against US\$1.00. But because the supply of the Hong Kong dollar is limited, particularly against the sale of a colossal currency like the US dollar, any action to intervene can only aim at moderating erratic and violent fluctuations. In other words, it is just not practicable to manipulate the exchange rate at a certain artificially set level simply to suit our domestic exports. To do so could be very costly and would be tantamount to subsidizing our overseas buyers. Therefore, Hong Kong does not have much choice except to face up to the new situation and adapt to it, as other countries for instance Germany and Japan. They all have floating rates of their currencies and they are doing satisfactorily. I am sure Hong Kong has this extra quality of adaptability and therefore it will not fail to remain competitive in the world markets.

Sir, I second the motion.

MR CHEUNG: —Sir, my honourable Friend's proposal to impose a tax on travellers to and from Macao has been subjected to careful scrutiny by my Unofficial colleagues, who have also considered alternative

methods of raising this extra revenue. They have come to the conclusion and they have asked me to say that, subject to two modifications, my Friend's proposal should be supported. Those two modifications are that children under 12 and steerage class passengers should be required to pay only \$2 instead of \$5 per trip. This will cost something like \$2,400,000 to the revenue. But as the number of passengers to and from Macao of recent years has been steadily rising, the loss may not be as large as that, if at all. We would ask Government to accept those modifications as being equitable to children and to passengers who travel steerage.

More people, Sir, pass through the Macao ferry terminal than through Kai Tak Airport, but the terminal is a blight and its facilities hopelessly out of date and totally inadequate. I have not been successful in persuading the majority of my colleagues, past or present, on the Public Works Sub-committee to give any priority to reconstructing that terminal out of public funds, as part of the Public Works Programme.

But a proposal was submitted to Government last year by a group with large interests in Macao that they be permitted to develop a new and modern multi-storeyed terminal, with facilities for passengers below, on terms that they should have the use and profits which would be derived from the floors above. I understand that Government has not indicated whether it would accept these proposals even in principle.

I would ask Government to give early and sympathetic consideration to it. It seems to me, Sir, the only question can be the terms on which the grant is made.

For Government has already accepted this concept of multi-storeyed development for joint public and private use in three fields.

First, I may mention that when rebuilding Sha Tin Railway Station came to be considered by the Public Works Sub-committee in 1973 and 1974, the Sub-committee suggested that the station would be developed into a multi-storey building and private developers might be interested in a joint venture. We requested that my honourable Friend the Secretary for the Environment might pursue that. I am informed that plans for the new Sha Tin Station have been drawn up on that basis, and that the concept is there being actively pursued.

Secondly, Sir, the concept is embodied in the bill for the Mass Transit Corporation, which proposes that the corporation may seek

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out developers who wish to erect commercial buildings on top of the underground railway stations.

Thirdly, in a major reform in town planning in the past year, proposed by UMELCO and accepted by Government, the Town Planning Board may now permit owners of private land, zoned for Government, institutional and community use, or for open spaces, to put up buildings, which on the one hand would provide public facilities and on the other would allow the owner the benefit of using for himself large portions of the building to be erected.

With that respectability behind it, I ask that this concept should be accepted for the Macao ferry terminal.

I turn now, Sir, to other aspects of the budget. I welcome the Financial Secretary's proposal to borrow funds for capital projects and agree that our first ventures should be modest. I can leave for another occasion debate on whether his limitations and guidelines are quite correct.

At page 777 of his estimates, my Friend reckons that the total expenditure for the five years 1974-79 will be \$38.9 billion at April 1975 prices. The addition is my own: the figures are derived from his work.

The rate of growth of public expenditure over the period of 25 years 1949-74 works out at just under 15% *per annum* compound, but this rate is higher than it might otherwise have been as a result of the sharp increases in prices and salaries over the past two years.

Last year, I drew the attention of honourable Members to the fact that the rate of growth of public revenue has been approximately 14% *per annum* compound. In fact between 1949 and 1974 it was just over 14% *per annum* with a fairly steady growth. Over this period we have had many vicissitudes of fortune and this rate of growth has been accomplished with only small increases in the rate of direct and indirect taxation. I do not wish to set myself up as a competing prophet against my honourable Friend. I find it difficult enough to forecast or to foresee what might happen in the next year, leave alone the next four or the next ten, but if I were to assume more optimistically than he that, with some slight adjustments in our taxes, the revenue would continue to grow at 14% *per annum* compound over

the five years from the 1st March 1974, our total revenues for those five years from 1974-79 will be \$39.5 billion.

On the face of it there might be therefore a small surplus over the projected expenditure of \$38.9 billion. But of course, Sir, there are three snags to this forecast: one, is the assumption that our economy and our revenue will grow at the same rates as they have done in the past; two, the Financial Secretary's estimates provide for somewhat slower growth of our social services than the rate that policy decisions alone may suggest desirable; and thirdly there is a badly mutilated public works programme. Also, of course, his estimates, as I have said before, are based on April 1975 prices.

But it would therefore appear to me even on an assumption more optimistic than my Friend's that if our social services are to be expended to proper levels, and public works projects greatly needed are put in hand, additional revenue beyond the \$39.5 billion I have mentioned will have to be raised.

I am very glad the Financial Secretary and the Chairman of the Jockey Club are devising means of raising more revenue from betting by drawing gambling away from illegal outlets. Speaking for myself, and judging from the levels of pay-off that have been revealed in certain profane memoirs, I am convinced that very substantial revenue can be raised from gambling, of the order of \$400 or \$500 million a year, which contrast with the \$92 million that my Friend has estimated for this year. The public at large, and indeed a clergyman, supports raising more money from this source, and I would wish that quicker progress can be made in this direction.

Honourable Members are aware of the provision of \$215 million in the Estimates for public assistance and disability and infirmity allowances; indeed, honourable Members raised the level of payments on 1st July last year, and raised it in the knowledge that this case load would increase. There are now 40,000 cases where public assistance and over 50,000 cases where disability and infirmity allowances are given. I compare the provision this year of \$215 million with the approved estimate of \$35½ million only two years ago. The money is deservedly paid out. My only concern is that we do not make the same mistake in these fields as we have made over resettlement and low-cost housing, namely I am anxious that assistance should not continue to be given once the recipient ceases to fall within the defined criteria. It requires constant vigilance on the part of the Social Welfare Department, and perhaps other departments of Government as well, to ensure that does not happen. I will not elaborate further as the views

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of my Unofficial colleagues and myself have been expressed more than once in Finance Committee, and assurances have been given by Government that constant vigilance is exercised.

My last observation on the budget I make on behalf of all my Unofficial colleagues. We think that the Committee to be appointed to review the inland revenue should be appointed and should commence to meet and deliberate this year, not next. With the deficits that face us in the next four years, we can brook no delay in raising new revenue, and raising it as equitably as possible.

I share the honourable Dr CHUNG's misgivings that many businesses making use of Hong Kong's infrastructure are not paying their fair share of tax, nor taxpayers who receive compensation from their employers in terms of substantial non-cash benefits. These are fields which require, in my submission, early reform. The reason advanced by the Financial Secretary for not embarking on this project—on not appointing the Inland Revenue Review Committee this year—is that the Commissioner of Inland Revenue may be too pre-occupied with his other duties to be able to give his attention to it. In our view, however, this task is of the highest priority.

With those observations, Sir, I have much pleasure in supporting the motion.

MR LOBO: —Your Excellency, when he introduced the budget, my Friend the honourable Financial Secretary said in his opening remarks that this year's budget speech departed somewhat radically from that of previous years. He then went on to say that he hoped to be able to convince honourable Members that the Draft Estimates of Expenditure and his revenue proposals are appropriate to our present circumstances.

Sir, I join the chorus of taxpayers, the news media and other interested parties who have congratulated the honourable Financial Secretary on what has been called a fair and reasonable budget. If we have been living beyond our means, what has been proposed cannot be greatly opposed.

Nevertheless, there are some areas of doubt in my mind as to how certain departments will be able to carry on without jeopardizing essential services and other important facilities.

As a member of the Medical Development Advisory Committee, I can appreciate how the cuts will affect plans which have been very carefully drawn up to meet the demands based on the programme. Unless my Friend on my left, the honourable Director of Medical and Health Services, is able to pull out from his hat a few rabbits, and I hope he will be able to do so, this being the Year of the Hare, his vital department will not be able to carry out all its functions properly with the proposed freeze on funds and personnel. I fear some medical institutions may become beautiful showpieces with expensive exteriors but with empty or partly empty interiors. I shall not go into details at this time but will leave it to my Friend Dr FANG who will have more to say on this subject when he speaks during the debate.

This year the Financial Secretary used some big guns to try to brainwash and explain the general financial position to as many people as possible by a series of well planned pre-budget discussions over radio, television and in the newspapers. All this made citizens anticipate that he would be using a large calibre weapon to hit a few chosen targets. His strategy paid off. Instead, he used a shotgun and sprayed pellets over a flock of geese, all of which felt the hit and were stung but not killed. Members of the public therefore find they can look forward to some golden eggs in the future.

There seems to be no doubt, from the pre-budget exercise we have witnessed, that my honourable Friend the Financial Secretary knows and appreciates the value of the news media. I suggest, therefore, that the proposed cuts in radio and Government television services be reconsidered since relatively small sums are involved though the amounts are significant to the departments concerned and to the public at large. I believe that it is when the "chips" are down that these services become vital to Government and the public alike. Hence I seek an assurance that pruning will be adjusted so as to enable radio and television services to be maintained at their current levels of operation.

Like the medical services where technical personnel have to be specially trained, the radio and television services also cannot be run on a switch-on and switch-off basis of operation. I have noted with interest the Financial Secretary's statement that it is his strategy to avoid the "stop-go" in building programme procedures. It is equally necessary to do so in the case of hard-to-find specialists and this therefore should be evaluated afresh, even if this means greater sacrifices to others, to ensure that when the green light is turned on again, the result of this freeze will not put us back a decade in progress.

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The auxiliary services have suffered severely in this budget. I am particularly distressed at its effect on the Civil Aid Services, which have been serving the community in a wide variety of useful activities since 1952 when the organization was reconstituted. The Civil Aid Services have given particularly good service in times of need, distress and emergency as well as in normal times. The community can now expect to be deprived of a large part of the services of this loyal body of volunteers on occasions of large scale emergency caused, for example, by typhoons, rainstorms, *etc.* So severe is the cut that the Civil Aid Services are forced to reduce their strength by discharging 1,500 members. Sir, so keen are these members that many of them have asked to continue to give their services on a purely voluntary basis without the payments made to them. I am glad to learn that this has just been made possible. This is a people's service in which the people of Hong Kong can take an active part in looking after their own affairs and assist the regular services whenever there is the need. No one can deny the usefulness of this body of volunteers—both adults and cadets—in their endeavours to serve the community. Their role in supplementing many of the tasks of the regular services is well known. I need not elaborate further on this point. Sir, would Government agree that the whole question of running down the Civil Aid Services and of the auxiliaries be looked into again as soon as possible?

I am wondering if cuts could have been avoided by a change of policy in air passages of certain civil servants from first class to economy class, whenever possible. This large difference in fare structure could produce the finances needed to maintain some services now pruned. Sending someone on leave by economy class means only eighteen hours of little or no hardship at all once a year as against the closure of part of an important service.

Sir, I suggest the time has come for us to take a look at whether it would be appropriate to establish a "housing lottery" to assist the task of providing adequate housing for Hong Kong's population. The concept of running a lottery for a flat is not new. Sometime ago, the proposal of ownership was turned down; one of the reasons given was because only those who could afford it would be able to buy and own a flat. But a lottery based on \$2 tickets to be drawn at regular intervals would give the opportunity to every person now living in the A and B estates and the resite areas, and indeed to those on the waiting list as well, to own a flat of their own; and this would also generate considerable

funds. The mechanics of this proposal would, of course, have to be carefully considered and worked out.

My honourable Friend the Financial Secretary is well known for his marathon qualities—I am not. He has now presented his plans to cover the distance in a difficult race with greater than ever hazards. He has adjusted his pace to preserve energy and resources to go the full distance in good time to win the race and I support him and second the motion.

MRS SYMONS: —Sir, two years ago I complimented the honourable Financial Secretary on his "happy budget". In these days of captions may I do so again, and thank him for his "admirably well-proportioned" budget which has won for him personally and the Government in general so much public acclaim. This year the Financial Secretary has definitely pulled it off.

This said, what else can one say? Today I feel bound to comment briefly on three aspects of life in Hong Kong, two of which are reflected directly in the budget and the third of which is there both by implication and by the Financial Secretary's own words.

As is probably known, Sir, when the Minister of State for Foreign and Commonwealth Affairs, Mr Roy HATTERSLEY replied to questions on Hong Kong in the House of Commons on 19th February 1975, he said "The Independent Commission Against Corruption set up by the Governor has been in operation for just over a year, and has achieved distinct success. It has received a large measure of support from the Hong Kong public and must be given a proper opportunity to fulfil its task."

There are some who want a totally different commission; there are others who fear that a veritable monster has been created, and there are still others who begrudge the money spent on and by the ICAC. Fortunately, many sensible people in our city are persuaded that the money set aside in the coming fiscal year is in proportion to both the intrinsic value of the Commission and the total expenditure of the Colony. The thirty and a half million dollars will bring in dividends both tangible in the form of fines and confiscated sums of proven corrupt money, amounting even now to over four million dollars, and immeasurably more so in the cleaning up of the nasty problem of corruption in both high and low places.

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I much hope that many mysteries of staffing costs and planned expansion will be revealed in the annual report of the ICAC about to be published. My experience of committee work with the ICAC has convinced me personally that this body of dedicated and well-trained officers will serve us well as they begin a second year in the vital probing of corruption; in connection with which it is refreshing to realize that our young people are beginning to question and reject corruption as a necessary way of life; and it is hoped that when they take their full place in the community, honesty may prevail.

Speaking of the young, I must reiterate what I have said before about economies in education. In the last few days, former critics of the White Paper on Secondary Education have criticized Government for not implementing it this coming school year. I, too, regret the delay, but I do believe however that 1975 can be well spent in preparation, in serious committee work, in assessment of fresh goals and past achievements. Many hundreds of teachers have served voluntarily on Education Department committees dealing with curriculum development, and no doubt they will continue to do so, using this intervening year to advantage.

But, let Government dare to delay initial implementation of the White Paper in 1976, and it will find that the majority of cooperative and highly motivated teachers and parents will be most critical, and rightly so. It has been suggested that should there be any doubt on financial grounds that the White Paper will not be implemented in 1976, that a serious dialogue be begun forthwith to stretch the dollar further in the education vote by reviewing the policy of the remission of fees at the primary, secondary and tertiary levels.

Primary education which is free is provided for about 700,000 children in Government and aided schools. The cost per place is about \$810 *per annum* in aided schools. The recurrent cost of aided primary education is about \$491,940,000 and of Government primary education about \$80 million. What is the justification for all this massive expenditure to be free, when many of these children come from homes where there is no financial difficulty? Naturally those children from needy homes must not be deprived of an education, but it would appear that the situation needs to be re-assessed.

The secondary level is less easy to define in terms of fees, since the differential is considerable. Costs range from \$1,520 *per annum* to

\$2,610 *per annum* at the lower secondary level in the different categories of Government and aided secondary modern, grammar, technical and prevocational schools. At the certificate level the costs range from \$2,255 to \$3,235 *per annum* and at the Matriculation level from \$3,270 to \$5,060 *per annum*, including both recurrent and sometimes on-costs.

The remission of fees now stands at 45% in Forms I-V and 50% in Form VI. How was this quantified? Should we really accept that so high a proportion of the parents of students at the secondary level cannot afford the highly subsidized fee of \$400 *per annum* in Forms I-V and \$610 in Form VI: itself so small a proportion of the cost of the place to the tax-payer?

The cost of secondary education in Government schools is about \$50,000,000 in recurrent costs, while in the aided sector it is about \$222,922,000. Can we afford to be complacent about meeting costs such as these? The provision of special education must continue to be expanded, and yet such expansion is being controlled in a niggardly fashion.

Progressing up the scale to the tertiary level, can one accept that, despite the valiant and learned efforts of the Universities and Polytechnic Grants Committee, economies cannot be effected?

On an average the fees in the universities constitute about one tenth of the cost: in the Polytechnic it is very much less. The total cost is staggering. The combined grant for the three institutions is about \$290,807,000 for 7,300 undergraduates at the universities and 3,410 fulltime students at the Polytechnic. There is no attempt to draw conclusions about costs per head at each level of education, since these would be misleading in the main. Suffice it to say, that all who work in education are practical enough to realize that there must be a pragmatic approach to the financial implications when education is being planned. In the estimated expenditure of the coming fiscal year, education is allotted about 19% of the whole provision. Has the Financial Secretary any fixed idea of the upper limit to which he is prepared to allocate a proportion of funds for education or will such provision be open-ended? If the former is likely, the possibility of early discussion with those in the field of education must be commended. If expenditure on education will be limitless, I would be delighted as a teacher but worried as a tax-payer.

Our young folk certainly deserve the best, but it must be the best we can afford in years of doubtful economic growth; and it is in the highest interests of the young that I urge caution in the wisest use of

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our money, to ensure a meaningful education to the many more, both normal and handicapped, we want to prepare for a rightful place in society. When the Financial Secretary spoke about achieving maximum cost-effectiveness of services I was reminded of the need to move ahead as a community in the whole area of hard work, discipline and viability. Just the other day in a small town in Australia a scheme was inaugurated for extra work to be done voluntarily to beat inflation; perhaps a Lilliputian effort; but what a germ of an idea it would be for us to cultivate in our city. Let those in our Brobdingnag civil service who will, work with renewed vigour for budgetary reasons.

Many officers are exemplary in this, but there are not a few who enjoy the contents of the "iron rice-bowl" of Government forgetting that many in the world, and especially in our area, have no work and empty rice-bowls. So let us all work harder if for no other reason than that given all the advantages we enjoy here, it would be in our own interests to do so in the uncertain economic climate ahead. Hong Kong folk can show the world once again that Hong Kong will survive.

Sir, I have pleasure in supporting the motion before Council.

MR WILLIAMS: —This budget has been well received and despite reflecting some worrying symptoms of economic ills it has been greeted almost with pleasure. As my Friend Mr Q. W. LEE said there is no doubt that this arises from a relief that we did not have to dig down so deep in our own pockets as many feared, thanks to the skill and consideration with which the Financial Secretary assembled his revenue proposals. In particular, our immediate burdens have been lightened by the bold departure to revert to borrowing. This has my full support for the right kind of projects within restrained limits and from my honourable Friend's remarks, I am confident this will be done prudently.

Betting Duty

I am grateful to him for his willingness to consult with the Royal Hong Kong Jockey Club as to how the additional revenue from betting duty should be obtained and, as Chairman of the Club, I have his permission to say that we are reaching agreement on a satisfactory solution which should give him what he needs on the one hand, and

will minimize the risk of diverting more betting into the hands of the illegal bookmakers on the other.

I would comment on one remark he made in this connection and I quote "totalizator betting overall seems to be insensitive to current economic conditions, almost the opposite for the base seems to be expanding this season quite rapidly thanks to the introduction and extension of off-course betting facilities and the attraction of more varied forms of betting" unquote. To my mind there is an implication here that off-course facilities and varied betting forms have encouraged people to bet more. I doubt whether this is true to any great extent. It has, however, encouraged the person who bets to do so legally, rather than illegally. The increase in betting this year has come from betting on exotic pools where there is usually a large return for a small unit stake. Here it is most difficult for the illegal operator to compete. I doubt whether the total amount spent on gambling by the community is all that elastic a sum. We do know that a large share of it goes into illegal hands. We are now beginning to see a diversion to legal gambling on horse races with resultant benefit to the Government in increased betting duty and to the community directly in social projects paid from the surpluses of the Jockey Club. As we build and refine our legal betting facilities this swing will undoubtedly continue.

An uninformed observer of the reaction to the budget might consider the Government could have creamed off more from the tax paying public. The economic success of Hong Kong lies to a great extent in its commercial and financial sensitivity. Great damage to our well being could occur from clumsy and misjudged changes in our tax structure and levels.

A plain local example is the sharp drop in total revenue following sharp higher Government charges for running a car. I am rather surprised that this has not been reviewed in this year's revenue proposals although other policy considerations may be concerned.

Hong Kong does business worldwide. Locally the market is small. Whether outsiders set up in business here or indeed whether the world does business with Hong Kong depends greatly on our tax and fiscal policies. The Government hears enough about this from the local business community, nevertheless the sensitivity of the importance of this by the concerned branches deserves commendation and tax changes are approached with caution.

If we are not that disheartened at the revenue proposals we cannot escape some disappointment that all round expenditure must be cut

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and our plans for the future changed. We all realize this is inevitable in the present conditions.

We all may have different ideas on priorities and in particular I would strongly support my honourable Friend Mr LOBO that there should be no cut back in the TV and Radio Services by the Government. These provide a service politically and socially vital in difficult times and as he says the amounts are not large.

My main concern over the cut back in the estimates is a general one. Rarely can a project be considered in isolation for it is dependent on many other projects for its essential infrastructure. The dependence of a housing development on roads is a simple and obvious example. The dependence of a mass transit scheme on sufficient places being available in English schools for its essential overseas specialists is perhaps less obvious, but one I have mentioned in this Chamber before and one that worries me.

This requires overall planning and general co-ordination of a most complex order. More important it requires flexibility and willingness to make changes to settled plans to correct misjudgments and to accommodate changes arising from delays that will inevitably occur in different places. Without this flexibility and constant review of our overall growth I can see enormous wastes occurring which we can ill afford over the next few critical years.

Before concluding these brief and rather general remarks I would make a short reference to my honourable Friend's proposal to introduce a dividend withholding tax next year. Despite the promise that this will be of a modest and reasonable nature I fear this will be a contentious measure because of the underlying principles involved and potential inequities and, as my Friend Mr Q. W. LEE pointed out, I think there is a liking in Hong Kong for a very simple tax structure. Besides rather complex legislation it would most desirably require tax treaties with other countries which will take time, and in this measure in particular, it is most disappointing that it will be more than a year before the third Inland Revenue Ordinance Review Committee can be appointed and the views of the public on this significant change in our tax structure, considered.

Sir, I support the motion.

Suspension of sitting

HIS EXCELLENCY THE PRESIDENT: —In accordance with Standing Orders I now suspend the Council until 2.30 p.m. tomorrow afternoon when the debate on the second reading of the Appropriation Bill will be resumed.

Suspended accordingly at half past four o'clock.