

OFFICIAL REPORT OF PROCEEDINGS

Wednesday, 24th March 1976

The Council met at half past two o'clock

PRESENT

HIS EXCELLENCY THE GOVERNOR (*PRESIDENT*)
SIR CRAWFORD MURRAY MacLEHOSE, KCMG, KCVO, MBE
THE HONOURABLE THE COLONIAL SECRETARY
SIR DENYS TUDOR EMIL ROBERTS, KBE, QC, JP
THE HONOURABLE THE FINANCIAL SECRETARY
MR CHARLES PHILIP HADDON-CAVE, CMG, JP
THE HONOURABLE THE ATTORNEY GENERAL (*Acting*)
MR GARTH CECIL THORNTON, QC
THE HONOURABLE THE SECRETARY FOR HOME AFFAIRS
MR DENIS CAMPBELL BRAY, CVO, 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 IAN MacDONALD LIGHTBODY, CMG, JP
SECRETARY FOR HOUSING
THE HONOURABLE DAVID HAROLD JORDAN, CMG, 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 MacDONALD, JP
DIRECTOR OF PUBLIC WORKS
THE HONOURABLE KENNETH WALLIS JOSEPH TOPLEY, CMG, JP
DIRECTOR OF EDUCATION
THE HONOURABLE IAN ROBERT PRICE, TD, JP
COMMISSIONER FOR LABOUR
DR THE HONOURABLE CHUNG SZE-YUEN, CBE, 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, OBE, JP
DR THE HONOURABLE HARRY FANG SIN-YANG, OBE, JP
THE HONOURABLE MRS KWAN KO SIU-WAH, MBE, JP
THE HONOURABLE LO TAK-SHING, OBE, JP
THE HONOURABLE FRANCIS YUAN-HAO TIEN, OBE, JP
THE HONOURABLE ALEX WU SHU-CHIH, OBE, JP

ABSENT

THE HONOURABLE LEE QUO-WEI, OBE, JP

IN ATTENDANCETHE 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:	
Immigration Ordinance.	
Immigration (Amendment) Regulations 1976	60
British Nationality (Miscellaneous Provisions) Ordinance.	
British Nationality (Miscellaneous Provisions) Ordinance (Amendment of Schedule) Order 1976	61
Births and Deaths Registration Ordinance.	
Births and Deaths Registration (Amendment of First Schedule) Order 1976	70
University of Hong Kong Ordinance.	
Statutes of the University of Hong Kong (Amendment) Statutes 1974 (Commencement) Notice 1976.....	71
Evidence Ordinance.	
Evidence (Authorized Persons) Order 1976	72
Factories and Industrial Undertakings Ordinance.	
Factories and Industrial Undertakings (Work in Compressed Air) Regulations 1975 (Commencement) Notice 1976.....	73
Public Health and Urban Services (Amendment) Ordinance 1974.	
Public Health and Urban Services (Amendment) Ordinance 1974 (Commencement) Notice 1976.....	74

<i>Subject</i>	<i>LN No</i>
Merchant Shipping Act 1964.	
Merchant Shipping (Safety Convention) Act 1949.	
Merchant Shipping (Radio) Rules 1965.....	75
Small Claims Tribunal Ordinance 1975.	
Small Claims Tribunal (Fees) Rules 1976	76
Small Claims Tribunal Ordinance 1975.	
Small Claims Tribunal (Forms) Rules 1976	77
Small Claims Tribunal Ordinance 1975.	
Small Claims Tribunal (General) Rules 1976.....	78
Public Health and Urban Services Ordinance.	
Pleasure Grounds (Amendment) By-laws 1976.....	79
Public Health and Urban Services Ordinance.	
Private Cemeteries (Amendment) By-laws 1976.....	80
Public Health and Urban Services Ordinance.	
Public Swimming Pools (Amendment) By-laws 1976.....	81
Road Traffic (Temporary Car Parks) Regulations.	
Revocation of Designation of Car Park	82
 Agreement:	
Loan Agreement (Ordinary Operations) (Sha Tin Sewage Treatment Project) between the Government and the Asian Development Bank dated 8th March 1976 with Letter of Assurances and Side Letters.	

Government business

Motions

DUTIABLE COMMODITIES ORDINANCE

THE FINANCIAL SECRETARY moved the following motion:—

That—

- (1) the resolution made and passed by the Legislative Council on the 21st May 1975 and published in the

Motions

Gazette of the 23rd May 1975 as Legal Notice No 131 of 1975 which imposed duties on liquors and tobaccos be revoked;

- (2) that part of the resolution made and passed by the Legislative Council on the 12th April 1972 and published in the *Gazette* of the 14th April 1972 as Legal Notice No 81 of 1972 which imposed duties on hydrocarbon oils be revoked;
- (3) duty shall be payable on liquors at the following rates per gallon—

PART I—(EUROPEAN-TYPE LIQUORS)

<i>Type of liquor</i>	\$
Brandy	123.00
Liqueurs, Whisky, Gin, Rum, Vodka and other spirituous liquors	95.50
Champagne and other sparkling wines	71.00
Still wines above 15% alcohol by volume	39.00
Still wines not more than 15% alcohol by volume	32.50
Still wines above 15% alcohol by volume imported in casks	22.50
Still wines not more than 15% alcohol by volume imported in casks	19.50
Cider and Perry and other similar beverages	4.00
Intoxicating liquors in this Part above the strength of 22° under proof, for every degree above such strength in addition to the duties specified above	1.45

<i>Type of liquor</i>	<i>Hong Kong Origin</i> \$	<i>Other Origin</i> \$
Beer, except Cider and Perry, not exceeding 1055° original gravity	2.70	3.40
and in addition for every degree by which the original gravity exceeds 1055°	0.07	0.08

PART II—(NON-EUROPEAN-TYPE LIQUORS)

<i>Type of liquor</i>	<i>Hong Kong Origin \$</i>	<i>Other Origin \$</i>
Non-European-type wines	17.50	19.50
Non-European-type spirits including Chinese-type spirits, Sake, Arrack.....	8.75	9.90
and in addition for every one <i>per cent</i> by which the alcoholic strength by volume exceeds 30%	0.36	0.40

PART III—(INDUSTRIAL-TYPE LIQUORS)

<i>Type of liquor</i>	<i>Hong Kong Origin \$</i>	<i>Other Origin \$</i>
Ethyl alcohol, and admixtures containing ethyl alcohol.....	8.75	9.90
and in addition for every one <i>per cent</i> by which the alcoholic strength by volume exceeds 30%	0.36	0.40

Provided that the Director may assess the duty on—

- (a) intoxicating liquors not specified in Part I or II at the rate prescribed for liquor which in his opinion most nearly approximates to the liquor on which duty is to be assessed; and
- (b) any quantity of liquor of less than two gallons imported at any time in one consignment at \$123 per gallon;

(4) duty shall be payable on tobacco at the following rates per pound—

A—on UNMANUFACTURED TOBACCO—

	\$
(1) Tobacco of Malawi origin.....	14.60
(2) Other Tobacco	14.90

Motions**B—on MANUFACTURED TOBACCO—**

	\$
(1) Cigars	19.80
(2) Cigarettes	18.50
(3) Other manufactured tobacco including snuff and cigar cuttings—	
(a) Chinese prepared tobacco	3.70
(b) other varieties	15.90
(5) duty shall be payable on hydrocarbon oils at the following rates per gallon—	
(a) Light oils—	
Motor spirit and aircraft spirit	\$2.20
(b) Heavy oils—	
Diesel oil for road vehicles	\$1.60

He said:—Sir, on 3rd December 1975, I informed honourable Members that the Government proposed to increase the rates of duty on intoxicating liquors and tobacco, partly to eliminate Commonwealth preference margins in order to honour an undertaking given to the United States Government should Hong Kong be included in the US General Scheme of Preferences, and partly to raise additional revenue which was likely to be needed in 1976-77. The yield was expected to be \$20 million in 1975-76 and \$55 million in 1976-77. As a result of an Order made by Your Excellency under the Public Revenue Protection Ordinance, the increased duties on intoxicating liquors and tobacco have been effective since the date of my statement.

In paragraphs 191-197 of my budget speech, I proposed that the rates of duty on petrol and automotive diesel fuel should be increased to raise additional revenue of \$37 million in 1976-77. As a result of an Order made by Your Excellency under the Public Revenue Protection Ordinance, the increased duties have been effective since budget day.

The purpose of this motion, Sir, is simply to give legislative effect to these two proposals in the manner provided for under section 4 of the Dutiable Commodities Ordinance.

Question put and agreed to.

First reading of bill**MOTOR VEHICLES (FIRST REGISTRATION TAX) (AMENDMENT) BILL 1976**

Bill 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 1976****Resumption of debate on second reading (25th February 1976)**

Question proposed.

DR CHUNG:—Your Excellency, in rising to open the debate on the 1976-77 budget I wish to say at the outset that we the Unofficial Members are, generally speaking, in support of the proposed budget, although some of us will have critical remarks to make on certain issues. As the first Unofficial Member to speak, I shall confine myself to general observations with regard to the economy, budgetary strategy and taxation and leave the comments on specific topics to my Unofficial colleagues. Tomorrow afternoon my honourable Friend, Mr Oswald CHEUNG, will attempt to sum up the views of the Unofficial Members.

During the past few years we in Hong Kong have experienced some significant cyclic variations in our economy. At the time when we debated the 1974 budget, we were still in the midst of rising exports and rapid inflation. Money was tight and interest rates were high. In the 1975 budget debate, the situation was almost reversed. For the first time in our industrial history, exports of domestic manufacture, employment opportunities in industry, industrial wages, and prices were all falling. Local interest rates were the lowest in many years.

Today, we are debating the 1976 budget in yet again a very much different atmosphere. Our industrial exports are growing, employment opportunities increasing, wages rising, and prices beginning to move upwards. Trading activities in the stock exchanges have much improved and the stock price level of today is almost double that of fourteen months ago.

[DR CHUNG] **Appropriation Bill—resumption of debate on second reading
(25.2.76)**

Whilst I, like many people, am glad to see the upturn in our economy, I wish to sound a note of caution. The forecast by my honourable Friend, the Financial Secretary, on the economic progress in 1976 (that is, a 9% growth rate of the Gross Domestic Product in real terms) is, in my humble view, somewhat optimistic. During the period from 1965 to 1975 inclusive, there were only three years in which we in Hong Kong were able to achieve annual growth rates of the GDP at constant market prices higher than 9%. The very high growth rates of domestic exports early in the current year were rather distorted by the "denim boom" on the one hand and by the rush shipments to some markets on the other. It is doubtful that the momentum of our growth could be maintained towards the second half and in particular the last quarter of 1976.

Sir, in a world of free enterprise though superimposed with some regulatory measures, these cyclic fluctuations are bound to occur. No government in the free world has so far been able to control these changes, although some governments can, to a certain extent, reduce both the amplitude and frequency of these undesirable ups and downs.

As long as the trend of real economic growth is rising, we should be prepared to accept, at least for the time being, the fact that there will be surplus in a prosperous year and deficit in a lean year. It is of course necessary that over a period of time, the surpluses in the good years should balance out the deficits in the bad ones. The rather small surplus or deficit each year is not really important. This is particularly so when, as honourable Members are aware, a cash accounting system is used as in Government. This means that, unlike the normal accounting practice in the private sector, there are no accounts payable nor accounts receivable in the Government accounting process. As a result, any surplus or deficit at year end does not necessarily reflect the true differential position of revenue and expenditure during that particular year.

Sir, to take the 1975-76 account as a case in point, my honourable Friend, the Financial Secretary, estimated a month ago that there would be a deficit of \$50 million which is less than one *per cent* of the total expenditure. If a proper accounting system showing both accounts payable and receivable were used by the Government, this \$50 million deficit could quite possibly become \$50 million surplus. Therefore, we should not put too much emphasis on the swing of a small surplus or deficit from year to year. On the other hand, if there were consistently

to be a large surplus or deficit consecutively for a number of years, the trend cannot be ignored.

Sir, as I said earlier, one of the issues I raise today is budgetary strategy which, in my view, is of paramount importance in a budget debate and is the direction-setting for many of our major policies. In the past, and with the greatest respect to my Unofficial colleagues, both past and present, we tended to place too much attention on topical items and, as one time the honourable Financial Secretary told me emotional issues and overlook the more important subject of budgetary strategy.

To talk about budgetary strategy, Sir, I would like first to examine Government expenditure, both recurrent and capital, over the past ten or twelve years. Honourable Members will find before them a table showing, among other things, actual Government expenditure for the financial years from 1965-66 to 1975-76. These figures were taken from the "Hong Kong Annual Report" published by the Government. In order to facilitate the presentation of my analysis, I would like, with your permission, Sir, to refer to a graph which is also before honourable Members. I earnestly hope that honourable Members one day will agree to amend the Standing Orders of this Council to permit the use of modern audio visual aids such as closed circuit television. Until that day comes, I sincerely ask the indulgence of honourable Members to bear with my rather crude and unattractive method of presentation.

This graph shows, *inter alia*, total expenditure and recurrent expenditure as well as capital expenditure which is the difference between total and recurrent expenditures. Honourable Members will also observe two trend lines—one for total expenditure and the other for recurrent expenditure. These two trend lines were derived from actual expenditure covering the eleven-year period (from 1965-66 to 1975-76) by the method of least squares.

Sir, these statistical analysis reveal a number of interesting features. First, the annual growth rates for both total expenditure and recurrent expenditure are practically equal (one is 16.4% and the other 16.9%) and therefore the two trend lines are almost parallel. As this graph is plotted on semi-logarithmic paper, this feature of parallel trend lines means that, on the average, the ratio of capital to recurrent expenditures has been constant throughout the past eleven years at about 42%. Or, in other words recurrent expenditure during the past ten to twelve years was about 70% of total expenditure. The proposed 1976-77 budget gives a recurrent expenditure of \$5,289 million and a total expenditure of \$7,212 million—a ratio of 73% which is very close to

[DR CHUNG] **Appropriation Bill—resumption of debate on second reading (25.2.76)**

70% as revealed by the two trend lines. In fact, my honourable Friend, the Financial Secretary, has said in paragraph 101 of his budget speech that one of his financial guidelines for the internal structure of the budget was to make recurrent expenditure accountable for about 70% of total expenditure. Sir, I don't know how my honourable Friend decided on this particular guideline because he didn't tell us, but certainly his thinking is not inconsistent with the trend of our past budgetary structure.

Secondly, there are three cross-points on the total expenditure trend line—the first in 1967, the second in 1972 and the third in 1975. At the first cross-point in 1967, the total expenditure changed from above to below trend line, which represented a shift from aggressive to conservative spending. This is understandable in the light of the events in the stormy year of 1967. The second cross-point at 1972 coincided with the change of our Governor and the Financial Secretary when, as a natural result, there was a change of budgeting attitude, this time from conservative to aggressive spending. As honourable Members know, the year 1975 where the third cross-point occurs was a year of economic recession and it was not surprising to see the exercise of stringency in our budgetary expenditure.

Sir, I now come to the 1976-77 budget and the forecast of expenditure for the following three years, 1977-78 to 1979-80. The departmental submissions or forecasts on recurrent expenditure for each of these four years, as disclosed by the Financial Secretary in paragraphs 96 and 97 of his budget speech, as well as the corresponding capital and total expenditures are shown in the table before honourable Members. These expenditures were then trimmed by my honourable Friend to somewhat lower levels as shown in the same table before honourable Members under the sub-title of the Financial Secretary's forecasts.

These higher and lower levels of forecasts for each of the four years, from 1976-77 to 1979-80, are also plotted on the graph placed before honourable Members. Sir, it will be seen that the figures for the 1976 budget as proposed by my honourable Friend (that is, \$7,212 million for total expenditure and \$5,289 million for recurrent expenditure) are almost right on both trend lines, I hope he did plot that two trend lines like myself, Sir, and also consistent with the historical growth rate of about $16\frac{1}{2}\%$. Therefore, as far as the 1976 budget is concerned, the general budgetary strategy does not appear to depart from our historical trend and I see no reason not to give him my support, Sir.

However, it seems that this cannot be said for estimated expenditure during the forecast period, 1977-78 to 1979-80, as the range of both high and low levels of total and recurrent expenditures tend to deviate from both the trend lines. In other words, there is indication that the growth in expenditure during the forecast period would be slower than the historical average. Nevertheless, on further examination, this is not necessarily true, as all figures for the forecast period are net present values (that is, at April 1976 prices) and it is necessary to correct them for price inflation. If an annual inflation rate of 7% is assumed, the mid-range of total expenditure for the forecast period would be \$8,750 million for 1977-78, \$9,950 million for 1978-79 and \$11,330 million for 1979-80. Similarly, the mid-range of recurrent expenditure would be \$6,560 million for 1977-78, \$7,480 million for 1978-79 and \$8,590 million for 1979-80. Honourable Members will see that these figures, now on market price basis, will be very close to the two respective trend lines and are therefore consistent with our historical growth rates. In this respect, I again see no reason to try to pick holes in my honourable Friend's forecast of expenditure for the three years following the budget year and wish to express my general agreement with him.

Sir, may I turn now from the expenditure side of the budget to the equally important aspects of revenue. By applying the same statistical analysis to revenue over the period from 1965-66 to 1975-76 one will find that the trend lines for total revenue and recurrent revenue are also nearly parallel with average growth rates amounting to 16.4% and 15.8% per annum respectively. It will also be observed that recurrent revenue accounts for about 92% of total revenue.

If honourable Members superimpose the two trend lines for revenue over the two for expenditure and I wish I could use some audio visual aids to demonstrate them, they can derive a number of financial guidelines for comparison with those specified by the honourable Financial Secretary in paragraphs 101 and 102 of his budget speech. For example, the ratio of recurrent expenditure to recurrent revenue varies from 68% in the mid-1960s to 75% in the mid-1970s as compared to the Financial Secretary's guideline of 83%. As recurrent expenditure was in line with the historical trend, this could only show the conservative attitude taken by him in estimating his recurrent revenue.

As another example, during the past ten to twelve years recurrent revenue was running at about 98% to 101% of total expenditure. However, according to the guideline laid down by my honourable Friend recurrent revenue will only finance 88% of total expenditure—

[DR CHUNG] **Appropriation Bill—resumption of debate on second reading (25.2.76)**

again a conservative approach in estimating revenue. From historical projections, recurrent revenue for the 1976-77 budget should be around \$7,000 million which is about 10% higher than the \$6,369 million estimated by the Financial Secretary. Nevertheless, in a world where the only certainty is uncertainty, it is understandable for the Financial Secretary to take a prudent attitude in revenue forecasting and I, for one, would not wish to be too critical in this respect.

One important and interesting feature which this analysis reveals is that total revenue during the past ten to twelve years was growing at the same rate (that is 16.4% *per annum*) as total expenditure and, that total revenue was, on the average, about 8% higher than total expenditure.

Another aspect of budgetary strategy on which I would like to comment is financing of capital expenditure. It is inevitable that we in Hong Kong must continue to develop our infra-structure such as transport, communication, water, power, *etc.* so as to improve both our commercial/industrial efficiency and our standards of living. Until recent years, all capital expenditure came from revenue, be it recurrent or capital. Apart from the fact that it is usually difficult to finance major capital projects from revenue without sacrificing some development in social services, I have always felt that there is some social injustice in this approach. It is really not easy to defend the philosophy that the present generation should be asked to pay for all the cost of a capital project which is to be enjoyed also by the next generation. I therefore subscribe to the budgetary strategy that for those capital projects which are, generally speaking, revenue generating (such as airport, reservoirs, railways, *etc.*), loan financing, to a certain extent, is desirable.

Sir, I have frequently said both inside and outside this Council that in order to maintain internal stability in Hong Kong, Government must ensure that social advancement should be in line with economic development. During the past year's budget debate, I strongly opposed the "stop-go" policy and consequential delay in our major social and economic development programmes which were necessities rather than luxuries. In fact, I went even further to suggest certain revenue proposals which, however, did not find favour with either the Financial Secretary or some of my Unofficial colleagues.

One cannot deny that during the past decade the Government has made significant progress in education, housing and social welfare. However, much remains to be done. One cannot help but notice glaring examples of extreme wealth and poverty as reflected by the enormous difference in living conditions in this city.

Those who have the good of Hong Kong at heart fully recognize the urgent need for us to continue to improve social services and raise the living standards of the less-privileged residents of Hong Kong. I know all the Unofficials are in support of the interim increase of corporation profits tax to 17%. In fact, some of my Unofficial colleagues feel that the Financial Secretary should have taken the opportunity to raise the standard rate of tax to the same level.

My honourable Friend in his budget speech revealed that the Unofficial Members had expressed dissatisfaction with both the underlying principles and the details of the proposed dividends withholding tax and the undistributed profits tax. It is true, Sir, that the majority of Unofficial Members do object to the principles of these particular types of taxation, but to be fair to them, I, and to the best of my knowledge, they, are not opposed to the principle of raising more taxes if such a course is necessary and desirable. The Unofficial Members, however, are of the view that the tax system in Hong Kong should continue to be inducive to foreign investment, be simple and effective, inexpensive to operate, not unreasonably unfair and easy to administer. I know some of my Unofficial colleagues will have more to say about taxation later in the debate.

Sir, I welcome the appointment of the Third Inland Revenue Ordinance Review Committee and in particular the composition of its membership. However, I have some doubts on the adequacy of the Committee's terms of reference. In my opinion, the amount of tax required to be raised each year for the next five or ten years is of utmost importance in considering and reviewing the present Hong Kong system of taxation of profits and other forms of income and should be included in the Committee's terms of reference. At present, earnings and profits tax is expected to yield \$2,400 million. Six years ago, in 1970-71, we collected only \$778 million from this head of revenue. The average growth rate worked out during these six years to be about 20% *per annum* and, if the same growth rate could be maintained, we should be collecting nearly \$5,000 million by 1980. As honourable Members will recall earlier, the average growth rates for both recurrent and total expenditure were lower at around 16% to 17%.

[DR CHUNG] **Appropriation Bill—resumption of debate on second reading
(25.2.76)**

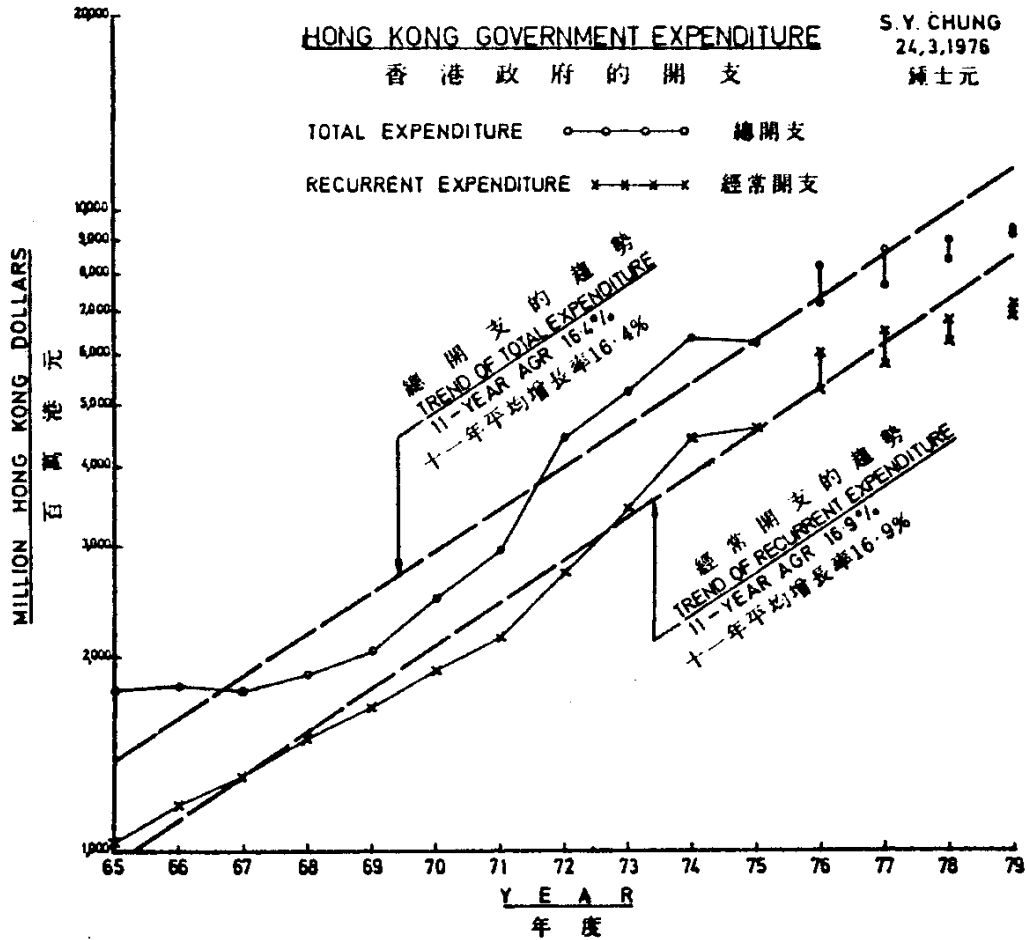
Unless the Government will specify the range of the projected amounts of earnings and profits tax required in each of the next five to ten years, I would find it difficult if I were a member of the Committee to assess the need and priority for other forms of earnings and profits tax to be introduced in Hong Kong.

As the Committee is also to examine the equity and fairness of the present system of taxation, I would like to take this opportunity to draw the attention of the Committee to the fact that about 75% of the 200,000 business establishments registered in Hong Kong make extensive use of our infrastructure but practically pay no taxes. Some of these business firms make no profit not because they are unable to make money but simply because they don't want to make any profit. Since our indirect taxation is minimal, these firms are taking advantage of the tax-payers in Hong Kong.

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

GOVERNMENT EXPENDITURE, HK\$ MILLION

<i>Year</i>	<i>Recurrent</i>	<i>Capital</i>	<i>Total</i>
1965-66 (Actual).....	1,034.4	734.7	1,769.1
1966-67 (Actual).....	1,181.2	624.8	1,806.0
1967-68 (Actual).....	1,305.1	460.9	1,766.0
1968-69 (Actual).....	1,496.0	377.0	1,873.0
1969-70 (Actual).....	1,660.0	372.2	2,032.2
1970-71 (Actual).....	1,900.3	577.9	2,478.2
1971-72 (Actual).....	2,147.2	791.9	2,939.1
1972-73 (Actual).....	2,718.7	1,706.6	4,425.3
1973-74 (Actual).....	3,456.3	1,774.0	5,230.3
1974-75 (Actual).....	4,456.9	1,908.9	6,365.8
1975-76 (Estimate).....	4,596.1	1,626.1	6,222.2
1976-77 (Department Forecast)	6,010.0	2,200.0	8,210.0
(F.S. Budget).....	5,289.0	1,923.0	7,212.0
1977-78 (Department Forecast)	6,510.0	2,200.0	8,710.0
(F.S. Forecast).....	5,760.0	1,880.0	7,640.0
1978-79 (Department Forecast)	6,790.0	2,200.0	8,990.0
(F.S. Forecast).....	6,280.0	2,110.0	8,390.0
1979-80 (Department Forecast)	7,160.0	2,200.0	9,360.0
(F.S. Forecast).....	6,860.0	2,270.0	9,130.0



MR LOBO:—Your Excellency, in rising to support the motion before Council, I should like first of all to associate myself with the remarks made earlier this afternoon by my senior colleague, Dr the honourable S. Y. CHUNG, in regard to some of the budgetary principles and strategy.

When I spoke on this occasion last year, I referred to the marathon qualities of my honourable Friend, the Financial Secretary. As I predicted, he adjusted his pace to go the full distance and would seem to have won the race, although I must confess that when listening to his speech in this Council four weeks ago, I had some doubts that he would ever reach the finishing line. That aside, he has produced a relatively painless budget which ought to be welcomed by all.

In keeping with the current trend, he has proposed an innovation to a popular fund-raising scheme for those less energetic by encouraging them to “ride for \$37 million”. Here I must express disappointment since I had hoped that some additional measure of fiscal control would have introduced in order to contain the number of motor-cycles on our

[MR LOBO]

**Appropriation Bill — resumption of debate on second reading
(25.2.76)**

roads. At the end of last year the number of registered vehicles in this category was over 22,000, of which a fairly large proportion appears to be in the hands of suicidal maniacs, who not only endanger their own lives but, what is more, the lives and property of others.

During 1975, motor-cycles were involved in 2,271 reported accidents, that is to say, nearly 20% of the total number of accidents involving death or injury (these being the only types that need to be reported and there is, of course, nothing to say that every such accident is in fact reported). I suspect, too, that accident figures will rise this summer with our improved economy.

However, based on the premise that public services should be self-financing wherever possible, I would imagine that, in relation to revenue from registration and licence fees, a considerable loss was incurred by Government in providing the numerous services required to deal with these 2,271 accidents.

This therefore leads me to question whether there is not a case for increasing the annual registration fee for a motor-cycle from \$175 to a more realistic figure. Let us remember that motor-cyclists enjoy free on-street parking throughout the Colony.

I am told that there are no factual records of the number of motor-cycles for hire since it is apparently illegal to hire out a motor-cycle. However, if one takes into account that approximately 3,500 provisional licences were issued in respect of motor-cycles last year and to this figure must be added the number of provisional licences carried forward from 1974, it would not be unreasonable to assume that there is a thriving illegal business in this field which, for a number of very obvious reasons, could and should be legalised and its operators brought into the tax net as soon as possible.

I welcome my honourable Friend's statement in regard to public funds disbursed to subvented organizations and I am glad to note that attention is now being paid by the Director of Audit to the manner in which these organizations spend the very considerable sums of public money placed at their disposal. Indeed, I agree that there is no reason why a subvented organization should not be subject to the same degree of public accountability as a Government department.

This brings me to social welfare. However, before I elaborate on this topic, may I reiterate a suggestion which I made in this Council

last year that where possible, welfare organizations should merge with a view to raising standards and, at the same time, reducing costs. There is no doubt that there is much overlapping and duplication of effort by agencies and evaluation work is therefore imperative.

I should like now to turn to a proposal which touches upon the relationship between the social security schemes and general welfare provision. The severely disabled can of course obtain special help under the disability allowance scheme on top of any entitlement they may have to public assistance. But there are those who are less disabled who fall outside the disability scheme but who with some encouragement and the opportunity could well undertake useful work both to help support themselves and to bring more meaning into their lives. For these people, I should like to see some programme devised whereby larger employers would include in their workforce a small quota from those with moderate disabilities. Clearly, this would involve some extra cost to employers in adapting their facilities to the needs of the disabled. Accordingly, in return for a quota, it might not be inappropriate for some tax concession to be linked to the number of disabled persons employed.

There would, of course, be a saving to Government to the extent that newly employed disabled people would float off the public assistance caseload because of their earnings and this could help to compensate for the loss of tax revenue.

Sir, I should like now to say a few words on medical and health services.

In his speech, the honourable Financial Secretary mentioned that the provision for medical and health services represented 8.7% of the total expenditure in 1976-77 compared with 9.5% of the revised estimates for 1975-76.

I know that the medical White Paper has been shelved for a year. Does this lowering of the priority accorded to the provision of funds for medical and health services mean further delay in the implementation of the various recommendations in the White Paper?

Will my honourable Friend, the Director of Medical and Health Services, review the development in the services provided by his department during the last six years and the progress he is expected to make in the next four years when, according to the Financial Secretary, \$430 million will be required for capital development in the field of medical and health services? I look forward to my honourable Friend's answers to these very pertinent questions.

[MR LOBO] **Appropriation Bill—resumption of debate on second reading
(25.2.76)**

And now, Sir, with the indulgence of my honourable Friend and Chairman of the Hong Kong Tourist Association, Mr John BREMIDGE, I should like to touch briefly on some aspects of tourism. First of all, while I sincerely hope I am proven wrong (and indeed the January and February figures are encouraging), I regret that I am unable at this point in time to share the optimism of the Financial Secretary who anticipates an increase this financial year of 10% in the number of tourists coming to Hong Kong along with an increase of 3% in *per capita* expenditure at constant prices.

The tourist industry is our second largest industry in terms of foreign exchange earnings, total revenue from this source in 1975 amounting to nearly \$3,000 million. The Hong Kong Tourist Association has done an excellent job in the past in promoting tourism, and I am certain it will continue to do so in the years ahead. However, my misgivings in regard to the anticipated growth of this important industry are based on a number of factors.

Firstly, the very realistic efforts which are currently being made by neighbouring territories to encourage tourists to visit their countries and to remain longer are paying handsome returns. These countries have of course ready access to far greater areas of unspoiled countryside, and they are making every effort to develop resorts and other facilities to attract visitors from overseas. A further point in their favour is that their people are generally more friendly and courteous in their dealings with tourists.

Where space is of essence in Hong Kong, we cannot hope to compete in offering similar facilities where development of such amenities requires, among other things, a great deal of land. A considerable number of schemes for the construction of resorts in various parts of Hong Kong have been mooted, but I understand that only one is likely to make substantial progress in the immediate future.

What then have we left to offer our tourists? Our prices are becoming less competitive, and shopping is no longer as attractive as before. Many of our shopkeepers and their employees are not fully aware of the influence which a degree of common courtesy can have on their turnover; indeed, the attention that many give to customers is casual even to the point of indifference. Many of our taxi drivers have unfortunately contributed to the reputation that they are arrogant, and prefer to pick and choose passengers at will. It is not uncommon

for some of the more unscrupulous ones to bargain over fares with both tourists and residents alike. This trend is likely to be compounded by the confusion which the construction of the Metro will cause in the next few years.

The air traveller's first contact with officialdom in Hong Kong takes place almost immediately upon arrival at the airport, when he is processed at the port health counter. First impressions are important, to a visitor, and a cheerful word of welcome or greeting and, dare I say it, the occasional smile from the ladies in white manning those counters could make the visitor's stay just that little bit more pleasant from the very start. The men behind the immigration desks also should remember that the vast majority of incoming passengers are ordinary tourists or local people returning home to Hong Kong. A cordial word when processing their travel document is infinitely better than silent suspicion or a display of authority! I appreciate that great efforts have been made and are being made by the departments concerned to improve attitudes, but much remains to be done in this area if we are to continue to attract visitors to our shores.

A substantial subvention to the Tourist Association is not enough in itself to promote tourism. I repeat that this industry, which is of such importance to the economy of Hong Kong, is a highly competitive business. If we wish to attract visitors to Hong Kong and encourage them to stay longer, both Government and the private sector must play their complementary roles more effectively. I have made a few suggestions as to how Government could contribute more significantly without necessarily spending a cent more. I should like now to propose that our local trade associations and taxi companies and, indeed, the trade unions concerned, should endeavour to brief their members on the part which common courtesy can play in contributing to the further growth of our tourist industry and, in the process, their own standard of living.

While there are major and controversial issues involved, it must also remain a major source of concern that the present airport may prove insufficient to cope with possible demands by 1987-1990.

Finally, Sir, may I congratulate my honourable Friend, the Financial Secretary, on the excellence of his budget for the Year of the Dragon. Given our present stability and continued access to overseas markets for our products, I am sure that his predictions for our future economic well-being will not prove unfounded.

With these words, Sir, I have much pleasure in supporting the motion.

**Appropriation Bill—resumption of debate on second reading
(25.2.76)**

MRS SYMONS:—Sir, I am confident that most thinking people in Hong Kong feel relieved and indeed grateful that our economy has taken such a welcome upturn, and it is perhaps almost ungracious to comment unfavourably on the skilful way in which my honourable Friend the Financial Secretary and his staff have negotiated the difficult passage just behind us.

We in this city, Government and people, are not foolhardy but simply pragmatic. We are not foolhardy enough to ignore the many problems ahead which stem from an uncertain world economy, and always will; but we are pragmatic enough to be cautious in our spending, when prudence so dictates as it did last year, and with the promise of easier conditions ahead, we are not slow to move forward, perhaps inch forward in the development of many of our social services. Seemingly alone in the world, we merely persevere in our daily work to make our way of life viable, once we have thrashed out the basic problems. Today we feel confident enough to face a dragon when last year even a rabbit seemed terrifying.

It is proposed to spend \$1,376 million or 19.1% of estimated expenditure on education in the coming year. A tremendous sum of money for a tremendous purpose. Implicit in the provision of this substantial slice of the budget cake, is the equally welcome news of secondary expansion. As one who practically dared Government not to delay the implementation of the 1974 White Paper beyond 1975-76, I must loudly and clearly compliment Government on its intention to provide 18,741 more secondary places this coming academic year, through the Secondary School Entrance Examination.

Perhaps it may be of general interest that in round figures in 1975 through the SSEE just over 3,000 children entered secondary Government schools, about 22,500 entered aided schools and slightly over 30,000 took up bought places in private schools. I suspect the main thrust of expansion will be in the private sector in the next two to three years, and perhaps more so I would like to discuss this possibility. I heartily agree with the Financial Secretary that Government departments are subjected to public accountability, in which area of special responsibility the Director of Audit comes into his own. Public money, the tax-payers' money must and should always be carefully and wisely spent, and with minor exceptions this Government conducts its spending with circumspection.

The hint thrown out by the Financial Secretary that the Director of Audit will pay greater attention to the vast sums of money spent by subvented organizations is most welcome, and only fair to both Government and the tax-payer. Accountability cannot be equated with the mere submission of audited accounts, necessary as these are—subvented bodies must, and in the main, do use Government money as carefully as their own; if anything twice as carefully. No one should take umbrage at this.

It follows therefore that those receiving a new form of subsidy as in the private schools through the buying of places or *per capita* grants must be in the audit net, too; and here again undoubtedly responsibility will not be shelved.

Just as there is accountability of money, so there is in my view the more important accountability of mutual trust and respect.

In the aided or subvented social services like medical, educational and social welfare there is in our city in each case a long and happy history of co-operation between Government and a particular hospital, school or institution. If I confine subsequent remarks to the educational field I hope I may be allowed the understanding and courtesy of my colleagues that while by design and convention I hold a brief for no one, I am moved to expand on a theme dear to my heart.

For a very long time the co-operation between Government and the aided schools has enabled both, in harness, to serve the community and serve it well within the limitations of finance. Now in co-operation there will be a troika—the private secondary schools in receipt of Government aid through the buying of places or special grants. I very much hope that my honourable Friend the Director of Education will have brave and new ideas for an extension of the strong links between Government and aided schools to extend to such private schools as may be pleased to co-operate. The song "Getting to know you" springs to mind. Such sharing of expertise at administration, staff and student level should do no harm and could do some good.

While on the subject of bought places, I must say I share the concern of those who are worried about quality, but I do not agree with some critics who would rather children be unschooled than that they should be in private schools. Within the constraints of providing finance, the practical problems connected with the building of new schools, and the training of more teachers, my own estimate is that it would take about ten years before there are enough Government and fully aided places in what I would call for want of a better word

[MRS SYMONS]

**Appropriation Bill—resumption of debate on second reading
(25.2.76)**

"normal" schools, not extended day, flotation and bought place improvizations. Whatever the time needed for full implementation—and I do hope that it will be much shorter than my own forecast—another generation will have grown up, and one can only say that the co-operation of all types of schools helped such children through the interregnum. Aided schools will make valiant attempts to help Government in the expansion, and it is to be fervently hoped that by 1977 Government will find the money for extra lockers *etc.* for floating classes.

There are many problems in the coming years; and as many opinions as people about the best solution to adopt. Before we get discouraged about the apparent insoluble difficulties, let us pause for a while and look back. The record of expansion of primary education to fruition in 1961, and to universal free primary education in 1971, the record of expansion in the decade after the White Paper of 1965, the promise of expansion by 1978 in the provision of aided education in Forms I, II and III for all who seek it, is no mean feat for any city or even country.

If strenuous efforts are made to improve quality despite the maximization of quantity, there is some hope that after a period of consolidation we will see evolve education for our young people which will be suitable for the youth of tomorrow, wherever they may go, and whatever they may do. In the proposed expansion of tertiary education we must endeavour to maintain the quality of matriculants ready for the many improving and improved courses at the two universities and the Polytechnic. From our Certificate courses young people entering training courses at the Polytechnic, colleges of education, nursing, dental nursing, social welfare and our other institutions; or the many openings in commercial, industrial and transport fields must continue to be alert, fair-minded, conversant with two languages, mathematics, natural and social science, practical and agricultural subjects and able to play their part as their predecessors have done to build up this vibrant city of ours. Others will leave after Form III ready to plunge straight into work or the Technical Institutes and other training courses to take their place in the scheme of things.

It has to be admitted that hitherto the emphasis has been on academic education. Often the idea that "clever" teachers teach the sixth form and not elsewhere is a deterrent to a healthy attitude to work in a school. Unwittingly perhaps we have engendered this. To say however sincerely to a young person "You do not have to be a

university graduate to be a human being" borders on the verge of lunacy to the incredulous listener. Perhaps our young are too practical to be like their Western counterparts: ours want to graduate quickly and work straight away; theirs tend to be uncertain, to drift, to search for the golden fleece not of security but of compatibility. But some day soon, our young may tend to search more widely before opting for a life-long career. But at secondary level, the days of unquestioning are mercifully over—our young will want to discover dreams and realities for themselves, they will not be content to study facts and regurgitate them in examinations, they will want to assess and evaluate, and all concerned with education will have to re-equip themselves to continue as guides, philosophers and friends.

The Financial Secretary has set aside the money—it now rests with the Director of Education to use it very judiciously to mark a new era in our educational system. Whether this proves to be meaningful or not will depend on all involved in this field. However it must remain the supreme duty of Government to foster the flexibility of schools, to encourage the older schools to help the new, respecting the individuality and integrity of each school.

That Sir, is what accountability means to me in the long run, and I am convinced that given goodwill we will develop a system of education useful to all students who in our city will be enabled through its provision to serve Hong Kong in the future. If we are all accountable we will not fail the young; if we do, we will fail ourselves too, and the whole structure of accountability will fall to ashes—can we be sure then a phoenix will arise? Let us be on solid rock and build wisely—with accountability to all.

In all the coming earnest discussions about school places and allocation processes, the latter a very different cup of tea, when vastly dissimilar groups and individuals debate fundamental issues let us be calm, courteous and co-operative; above all let us not worry our children unduly, for in the last resort they must come first, and if we forget that, all else is lost.

Sir, with these observations I support the motion before Council.

MR WILLIAMS:—Sir, this budget is a testament to good management of our public affairs in Hong Kong over a difficult period. It matches the commonsense and realism with which the private sector coped with their problems and amongst our rewards has been admiration from other places which have not done so well.

[MR WILLIAMS] **Appropriation Bill—resumption of debate on second reading
(25.2.76)**

There has been a turn for the better and we have taken immediate advantage of it. Our factories have full order books and we look forward to a good year. But despite an optimistic temperament I cannot escape from a feeling of unease about our prospects for the coming two years, we are dependent on our trade with so many places where the economic and political outlets remain uncertain. In general I believe it is prudent to continue to contain our ambitions.

This mixture of congratulation and doubt persists into an area which is a concern of mine as Chairman of the Establishment Sub-committee—the cost of the Civil Service. Emoluments of the Civil Service account for about one third of our total Government expenditure.

On 1st April 1975 the approved establishment of the public service was 107,212 permanent posts and 7,094 supernumerary posts, an increase of 1.32% on the approved establishment on 1st April 1974. If the draft estimates for 1976-77 are approved the increase on the total net establishment will be only 0.34% for this year.

Our society is becoming more complex and with it the role of Government is naturally becoming more significant and wide reaching. To play this more demanding part with these minimal increases in establishment is a considerable achievement and deserves commendation. And the question is equivocal to ask whether this has not been done too easily. Was there too much fat? Glib jibes at productivity in the public service are, I suppose, fair game in public debate. And with the hardworking efficient service we have they can also be unfair. But it is so important that the question must be raised.

Sometime ago, in this Council, I suggested that the length of meetings should be recorded so that business done this way should be expedited. This suggestion was parried with urbane charm at that time but I would like to return to this line of attack at closer distance and suggest that more senior civil servants should be required to account for their time as solicitors, accountants and other professional men do. Productivity is the parry to increasing costs, and if senior public servants had an increased awareness of their own costs and how these are deployed in time, this would penetrate down through the lower levels and productivity would increase throughout.

Prison Industries

I was pleased to see in the Financial Secretary's address in paragraph 117 the reference to increased expenditure in the development

of prison industries. A budget debate is no place to philosophize on penal practices, but with the public scream for longer sentences we are going to have a bigger prison population and it is expensive. Here is an area where with imagination and innovation I believe we can achieve considerable returns.

My own views on punishment are that the protection of society is more important than the saviour of individuals. Indeed, it is sad to say that with so many prisoners we are trying to mend broken toys. But they are human beings and even if they are against society many must worry about the damage they have caused to their families. Here is an opportunity for motivation. If, in some way, a part of the result of their industry can benefit their families, you will find a big response.

The marketing of their efforts is a problem. The Prisons Department cannot be expected to have any business expertise. Indeed they must be complimented on what they have achieved. Screen printing of traffic signs; panel beating and laundries are examples of most sensible approaches to take advantage of this pool of labour. I have heard that an enlightened working party report on prison industries has remained buried in Government for over a year. I would like to see it published.

Further, I propose that a Board be established consisting largely of active businessmen who can advise and give to the Prisons Department the business acumen they lack to take best advantage of this labour, both to the benefit of society and of the prisoners themselves. I am sure there are many of our citizens who would welcome this challenge and could procure private investment if it was needed.

If this idea is accepted it may require some change in Government accounting procedures and a more flexible approach. For example, if prison labour is sold outside it would be unrealistic to charge the full cost of supervisory staff who would be needed whether the prisoners were employed or not.

These ideas are not altogether new. Singapore has recently established a statutory board to manage and operate the entire prisons industrial training and production programme on a commercial basis. An internationally renowned Swiss company sells its product abroad which is assembled by prison labour. This is an entirely practical line of thought which I hope will be carefully considered.

I conclude by referring to the remarks of my honourable Friend Mr Roger LOBO. Early on a Sunday morning, a few weeks ago, on a

[MR WILLIAMS] **Appropriation Bill—resumption of debate on second reading
(25.2.76)**

glorious winter day, I saw the wasteful horror of a young unlicensed speeding motorcyclist kill himself in front of me on Princess Margaret Road. There are too many irresponsible, crazy motorcyclists who must be controlled and the sensible measures he has put forward have my full support.

I am pleased, Sir, to support the motion.

MR JAMES WU:—Your Excellency, I wish to start by first congratulating my honourable Friend the Financial Secretary for his generally palatable and indeed laudable budget proposals, none of which, as he mentioned, would have damaging effect on investment decisions or inflate industrial costs or have more than a very slight effect on disposable personal incomes. No particular income class was aggrieved, and his willingness to listen and to defer an earlier intention to impose dividend with-holding tax avoided a great deal of contention and conflict so that the matter could now be calmly studied in detail by both the Third Inland Revenue Ordinance Review Committee, and the public in general.

In the circumstances, I choose to discuss some of our more pressing problems and issues in some detail with my honourable Friends in this Council:

Public Housing

The problems of housing and secondary education are indeed the most serious problems confronting us. Suffice it to say that if we could provide a viable solution to these two urgent problems, we would have been on our way towards providing for a really acceptable standard of living for all. With the priority to provide subsidized secondary education now restored and indeed advanced, Government has won support and praise from the education critics. Yet in my humble opinion the solution to the housing problem is a matter of financial arrangement involving the activation of dormant assets—that is, unutilized Crown land—and utilization of resources in the private sector to create inward cash-flow, and is well within Hong Kong's capability if the private developers can be involved.

I have been informed that in the present public housing system, Government provides land at one third the market price on credit to

the Housing Authority and finances the construction cost, expecting a total annual expenditure of about \$1,000 million for the years to come. As far as the Government is concerned there will be years of outgoings only until the housing estates are completed, and yet, the full cost would not be recoverable for at least 10 years, if ever, with land and building costs to be amortized at $3\frac{1}{2}\%$ over 40 years, plus the sure inflation of costs in maintenance and management and every proposed rent increase creating a crisis.

This picture can be reversed if private developers could be involved, as had been urged, and new public housing could be sold to residents eligible under the present qualifications as are now required of tenants by the Housing Department. To put it simply as a general principle, if Government was to speed up on the building programme, it could sell land at one third price to the private developers who would build to completion and offer the flats for sale to the eligible at a restricted profit margin subject to audit.

As an example, it is estimated that the land cost for a public housing flat (at one third market value) would be about \$20-\$30 per sq. ft. of gross floor area. In the case of a joint venture, this money would be paid to Government at the outset and the developer would proceed to build the flats which is estimated to cost him about \$55-\$60 per sq. ft. of gross floor area. This is only the building cost. Allowing for financing and reasonable profit, the flats could be sold at about \$100 per sq. ft. of floor area or at worse \$120 per sq. ft. allowing for inflation so that a flat of 400-500 sq. ft. would come to about \$40,000-\$50,000, a figure that would be within the reach of many existing tenants or eligible applicants, particularly with the assistance of home mortgages as are now readily available.

If new public housing could be sold to those not eligible under the present Housing Department requirements, they could be asked to pay to Government the balance of the full land value, that is to say $(\$90-30) \times 400$ sq. ft. or \$24,000 extra. This again also helps to bring better housing to within the means of the deserving middle class, who most likely have been paying direct taxation but, up to this moment, denied any assistance for housing, and have to go for full market price in the private sector which again have been buying land at inflated prices in land auction. Sir, there are also other compelling reasons for us to take a new look at our public housing policy. The latest Housing Authority Annual Report showed a wide gap of public housing flat rentals and floor areas, ranging from the lowest Group B Mark I flat of 86 sq. ft. at a monthly rental of \$18 to the latest and largest flats

[MR JAMES WU] **Appropriation Bill—resumption of debate on second reading
(25.2.76)**

of 591 sq. ft. at \$550 per month in the Oi Man Estate. Yet the entering eligibility is a family with an income not exceeding HK\$1,500 per month for a family up to 6 persons, or \$2,200 for a family of 10 persons or more. This means that the burden of rental for new flats on new tenants is unduly high (25% or more), considering the now much inflated costs of transportation, school fees, food and consumer goods *etc.* It is therefore easily seen why some are actually declining the allocation for which they have been waiting for years, although at 93 cents per sq. ft. per month, the rent for the new flats is still considerably cheaper than comparable flats in the private sector. A public housing-for-sale scheme as outlined earlier would also provide a solution to this difficulty. Tenants in earlier estates who have become more affluent through years of diligence, thrift and savings in rents, and who would now aspire and can afford better housing, will want to purchase a new flat and vacate their existing flats for a new-comer who might not be able to afford renting in a new estate. All these are to the benefit and wishes of those concerned, and I believe that our rate of providing public housing can be greatly accelerated and a lot of public funds saved for other social services. Sir, I do not claim to be an expert in housing matters, but if the basic figures and facts quoted here are not to be disputed, then the plan for participation by private developers would appear to be a common-sense approach worthy of study by the Secretary for Housing and the Housing Authority.

It is not expected that private developers who do not participate in this scheme would be much affected, as they would be catering to a different and perhaps a more affluent clientele.

Industrial Development and Promotion

Sir, in October 1975, you had rightly pointed out that Hong Kong industry must move up the technological scale, and my opinion was that this must be done with increased and accelerated vigour. Many industrialists know that because of our past lack of industrial land policy, we have lagged behind our competitors in light and heavy engineering industries which must obviously be promoted and nurtured in that besides having tremendous potential by itself in its many branches, it will also give strong back-up services to our established and growing industries in plastics, toys and electronics. It is interesting to note the striking similarity between Switzerland and Hong Kong in the lack of natural resources and size of population but given the intelligence

and dexterity of our people, and with proper encouragement and facilitation, there is no reason why we cannot create, within a decade or so, a "Switzerland of the Orient" in Hong Kong for quality products ranging from textiles to precision machines. Also our many young people that are now under training or will be trained in our technical institutes, the Polytechnic and the universities would aspire to participate in such industries, and if the job opportunities are not there, the disappointment and frustrations of the educated unemployed would be painful, and even dangerous. There is therefore a very real and urgent need to set up more technological or engineering oriented industries to provide more employment for trained workers and in particular, for obvious reasons, for our male work force, which at the moment is out-numbered by the female, due to the development of mainly light industries. I am so glad that the industrial estate scheme, for which I have been pressing for so many years, is finally put to work and becoming a reality. It is to be hoped that the scheme will be effectively and efficiently administered for the purpose it is designed, and that local industrialists planning to set up support industries will also receive the fullest consideration.

There is much to be said for wooing foreign industrial investment, particularly from large established corporations from the developed countries, for it quickly provides an assured market, possibly new technology, entrepreneurship and management methods for us to learn. However, it might not be as easy to get this type of investment now as it was 3 or 4 years earlier, and those working on it would have to be more patient as well as convincing. At a time when demand for products is still slow and future growth difficult to ascertain, corporate executive and board rooms would naturally think initially of fully utilizing their surplus productive capacity at home before seriously considering overseas investment. It is a very different matter however for them to look for sources of buy-in components, sub-assemblies or even complete products in Hong Kong, as we so often encounter, and I believe that with the good progress we have made in manufacturing capabilities and capacities in recent years, we do have a lot more to offer and promote.

It is also significant to note that, as reported in an editorial of a leading metal-working journal, the latest thinking in American industries is to leave manufacturing to others. Management feel that owning the means of production is not a means to power but an anchor that restricts the freedom and flexibility of a firm, and they now boast about the volume of their contracting rather than the number of their employees. Many foreign industrialists who have visited Hong Kong

[MR JAMES WU] **Appropriation Bill—resumption of debate on second reading**
(25.2.76)

are finding out that our factories are well suited to meet their demand, because of our flexibility, innovative spirit and pleasant labour-management relations due to the involvement and short reaction time of management. All these contribute to making it possible to change to market conditions and designs and tooling at low costs in a matter of weeks rather than months or even years in their own countries. Sir, I submit that these, too, are contributing factors to our rapid recovery from the recession of the past two years, and would now like to lead on to the very important subject of:

Taxation and economic development

Sir, taxation policy and strategy could have emphasis on one or both of the following aims, that is

firstly to generate revenue for the Government to provide basic public services and goods such as administration, social services, public works, defence, *etc.* as is the case in Hong Kong, and/or

in addition to redistribute wealth as more recognizable in some welfare states with a socialist government, such as the United Kingdom, India, *etc.*

As my honourable Friend the Financial Secretary had reminded us, the direct taxation system in Hong Kong originated in 1940 as the War Tax and had seen little change in basic structure, although the change of its purpose had been obvious. That it is simple and working well (in fact working wonders) is beyond question. The Financial Secretary wanted to introduce a dividend withholding tax of $3\frac{1}{2}\%$ on all dividends paid, and to further tax undistributed profits in excess of 50% at a rate of 7%. Unofficial Members of this Council as well as the major trade and industrial organizations objected strongly to the proposed tax for the following reasons:

- (a) that it involved double taxation which was unfair to small share-holders,
- (b) that it constituted a radical change in the simple Hong Kong tax structure and would discourage new local and overseas investment,
- (c) that a dividend withholding tax together with a penalizing undistributed profits tax would interfere with proper financial

management in deterring re-investment which is normally of very large proportion and in some cases even all of the profits as are so common to the Chinese entrepreneurs who through industry and thrift had ploughed back profits for growth from very small shops to large enterprises. The proposed taxes prompted the payment of dividends, and would negate the time-honoured and proven virtues, and deprived management of the money to re-invest for higher productivity and job opportunities,

- (d) that Hong Kong has been most successful in fighting inflation in the last two years is due in no small measure to the virtues of industry, perseverance and thrift of the people, which are in line with the well-known strategy of limiting dividend payments and wage increases as is so often resorted to by economic planners to fight inflation.

That my honourable Friend the Financial Secretary should have assumed a normal dividend payment as high as 50% of profits was also surprising in that any business in Hong Kong expecting growth would seldom have done so. In contrast the Chinese entrepreneur building up his enterprise would tend to plough back most if not all the profit.

Sir, I must mention in fairness that the Financial Secretary did remember, that as he said, "our direct tax system must be low so as to ensure *inter alia* a high rate of capital investment and a high growth rate of the economy, and it must also be simple and inexpensive to administer."

Sir, whilst economic growth might involve an intricate complex of considerations, it clearly depends on savings and investment, of entrepreneurship, on hard work by the labour force and on education for improved productivity. If taxation is not to deter growth, it must not unduly deter one of these factors. It is not usual that taxes can stimulate economic growth, in comparison to no such tax at all, for taxes are at best a drain on someone's income. On the other hand, where taxes are unavoidable, one tax structure may be more conducive to rapid growth than another. In general, taxes that bear on savings and returns on investment will discourage growth compared to taxes that fall on consumption. Also, low taxes that do not deter or reduce the incentive to longer and harder work, venture investment and formation of risk capital, do stimulate rapid economic growth, as is the case in Hong Kong where we place these considerations uppermost. Unfortunately, some of such considerations conflict with commonly held

[MR JAMES WU] **Appropriation Bill—resumption of debate on second reading
(25.2.76)**

ideas of what is an equitable tax structure. Many well-meaning and idealistic people then go for tax systems that tend to emphasize on distribution rather than on the production of wealth. In the process once great nations begin to go down hill and strong industrial economies become ruins. Poor nations become poorer. All because of the lack of direction and motivation for productive labour and capital investment, plus the costly provision of easy-going social benefits that are open to abuse. In the end, people discover the blessings are false, and in the months past many a socialistic government has been voted out of office. One of the world's largest cities where people control a large share of international finance is being forced close to bankruptcy.

Sir, Hong Kong with no endowment of natural resources but only with industrious labour and risk capital, can least afford to tread on such a treacherous road. For I submit that short of any serious downturn in the economy of the developed nations, we will continue to be able to finance the social services intended with revenue enhanced by our continuing economic growth under the present tax system and with mobilization of resources in the private sector from within and without, given the confidence in our viability and stability. I do agree however that ways and means should be devised to tax non-resident corporations which benefit from Hong Kong's infrastructure and public services, and to counter accusation of being a tax haven, but not at the expense of a well-tried and miraculously successful tax system, which, however outdated, is still the envy of many people and governments.

Sir, I must also hasten to add that what I have just said bears no sense of despondency on the appointment of the Third Inland Revenue Ordinance Review Committee, and that I too still have an open mind for any proposal to increase taxes where justified. I have the highest regard for the local knowledge and understanding of some of the constituents of the Committee and the technical qualifications of the others in the field of taxation. I feel however that if my honourable Friend the Financial Secretary could give an assurance that the Committee would be encouraged to have consultation with and receive representations from the trade and industrial bodies and the general public, it will go further to promote public involvement in the formulation of such an important policy.

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

MR CHEONG-LEEN:—Sir, may I commence by extending my congratulations to the honourable Financial Secretary for a well-prepared and exhaustively presented budget for the 1976-77 fiscal year.

It has been an unsurpassable performance not only from the point of view of length of presentation but also because the estimated amount to be spent for the next year will be the highest in Hong Kong's history, \$7,212 million, which is 15.9% more than the revised estimated expenditure for the outgoing year, and shows clearly the honourable Financial Secretary's confidence in Hong Kong's capacity for economic growth.

In this year of the Dragon, world economic conditions appear propitious for Hong Kong to recover quickly from the downslide of the past two years, and for the charting of a bolder and more dynamic course for its economic future in the second half of this decade. Under Your Excellency's far-sighted leadership, this course is well-set and realistic.

First of all, Hong Kong continues to preserve a politically stable climate, and there is every prospect that it will go on like that for a long time to come. Hong Kong is internationally known for its free port status where the Government's policy is to keep taxation low and to avoid unnecessary interference in the free enterprise system in Hong Kong. This policy, which is being consistently adhered to, brings out a high level of productivity on the part of our people and gives every encouragement to others to participate in our economic and industrial growth.

Secondly, we are making steady social progress to raise up the living standards of our people. The implementation of the White Paper on secondary education and the recently announced proposal to set up a \$300 million revolving fund for a home ownership scheme by the Housing Authority are but two aspects of Government's plan for social advancement. All such social change must of course be dependent upon a climate of economic growth as well as political stability, both internal as well as external.

On the basis of the two fundamental points I have just mentioned, it would be difficult to find any major weaknesses in the honourable Financial Secretary's budgetary strategy. It allows generally for optimum economic growth and human resources productivity, and provides for the progressive planning of a wide range of social services.

However, there are certain aspects of the budget relating to the programmes of several Government departments which call for comment.

[MR CHEONG-LEEN] **Appropriation Bill—resumption of debate on second reading**
(25.2.76)

Services for youth

One aspect of major importance is Government's overall services for the young people of Hong Kong, who comprise about one million persons, aged between 10 and 25 years.

A plethora of Government departments are providing services for these young people: the Education Department for education; the Urban Council and Urban Services Department for recreation, sports and culture; the Home Affairs Department for community activities; the Social Welfare Department for child care, youth community work, and probation and correction services; the Police; the Prisons Department; the Essential Services; and last but not the least the large number of voluntary agencies engaged in youth work, plus of course the adult education programmes of the universities and the Polytechnic.

It will be recognized that vast sums of money are being spent by Government on its services for young people. Yet I find it to be a matter of surprise and concern that no one—not even the Finance Branch—in Government has thought it fit to call for a comprehensive evaluation of existing youth services with a view to seeking a more long-term perspective, better co-ordination and co-operation of such services, and to obtain maximum economy and maximum value for money spent.

Sir, I quote the following recommendation on youth work taken from the report on "Social Causes of Violent Crimes Among Young Offenders in Hong Kong" prepared by the Social Research Centre of the Chinese University:

"Youth work has been emphasized as one important measure in the prevention of crime. However, noting that both offenders and non-offenders had not made much use of the existing youth services, we would like to recommend a thorough evaluation and re-orientation of the existing youth services. We would also like to recommend that an overall youth policy be formed by the Government so that Governmental departments and voluntary agencies concerned could be guided towards better co-ordination and co-operation in providing services for youth in Hong Kong. In connection with this recommendation, an advisory committee on youth services is suggested to be appointed by the Government. This advisory committee is responsible for recommending the youth policy and

assessing youth service programmes offered by both the government and voluntary sectors".

It occurs to me that the only thing that has a faint resemblance to such an advisory committee is the Inter-Departmental Committee on Services for Youth, which has met about a dozen times in the two-and-a-half years since it was formed and which could be suffering from an incestuous inter-departmental relationship, purely in an administrative sense I hasten to add (*laughter*).

I find it a matter of even greater surprise that in this tremendous area of human concern, that is the future well-being of our young people, Government has not thought it advisable to allow non-Governmental participation in the deliberations of this committee.

What is the objective and purpose of the Inter-Departmental Committee on Services for Youth? Does it have any short-term and longterm objectives; if so; what are these objectives? Why is it that it is not thought fit to establish an advisory committee on youth services? Why does not Government wish to call upon the services of experienced and capable community leaders who have accumulated a wealth of knowledge in this particular field to provide a more long-term perspective on youth work in Hong Kong?

Sir, from the reply given by my honourable Friend, the Secretary for Home Affairs, to my question on youth activities at Council's sitting on 3rd December 1975, it appears from paragraph 3 of his reply that the Inter-Departmental Committee on Services for Youth is primarily concerned with making sure "that no reasonable support for youth is missed out, that there is no problem which seems to be nobody's responsibility". In other words, one would infer from this reply that the committee is more concerned with filling in the gaps as it were, and to be much less concerned about the long-term approach in establishing the various priorities, whether fiscal, manpower or programming so that Hong Kong can have a comprehensive youth services policy to anticipate and meet changing circumstances and future requirements.

It is my view that the objectives of this committee need to be reviewed and expanded to give it a more long-term approach, and its membership enlarged to include knowledgeable members of the community who have had rich experience in this area of social work.

The deliberations of this committee take on added significance in view of the increasing number of young people who are involved in violent crime from year to year. For example, there is the probability

[MR CHEONG-LEEN] **Appropriation Bill—resumption of debate on second reading**
(25.2.76)

that the mass media, particularly television, exercise much impact on the minds, habits and values of young people. Could not the Inter-Departmental Committee on Services for Youth commission the carrying out of a survey on the impact of the mass media on young people, and to make recommendations on making wider and more effective use of the mass media to instil a higher standard of public morality and civic responsibility on the part of young people?

Sir, I have intentionally spoken first on the imperative need to keep on strengthening co-ordination of our services for youth and for a more long-range look at our approach in providing these services. I think this suggestion would be supported by some voluntary agencies engaged in youth services and which would welcome the chance to share with Government the responsibility of anticipating and planning for up-to-date youth services.

It can be argued that there are already too many committees in Hong Kong. However since a case has been made out that the Hong Kong Government by its very nature has to rule by consultation, by consent and by consensus, there has been set up by the Government itself a large number of committees of all sorts and description. The problem as I see it is that some committees which have already more than fulfilled their purpose are still unproductively lingering on, thus taking up valuable time of civil servants and members of the public.

I suggest that Government review all the existing committees and boards for the purpose of eliminating those which are no longer needed, so as to make room for other new committees which can relate to the changing times.

Law and order

A wise and timely decision which was made by Your Excellency recently was in the expansion of the membership of the Fight Violent Crime Committee to include an unofficial element. There is reason to hope that the committee will do all that is possible to strengthen the relations between the Police and the public, and to arouse more active community support in reducing violent crime and to make Hong Kong a safer place for its residents, both during the day as well as at night.

Law and order is still the most serious problem in our community, with housing running a close second. Over the past months, however, there have emerged some positive signs of improvement in the situation.

First of all, police statistics indicate a slight levelling off in recent months in the incidence of most types of key crimes. Secondly, with the upturn in Hong Kong's economy still proceeding apace, there is a demand for more workers and the unemployment situation has become stabilized. Thirdly, the Police Force expects to come up to full establishment during the coming fiscal year, and together with new equipment which will put beat policemen in radio contact with their station, Hong Kong will have one of the most up-to-date police forces in the world.

This is not to say that there are not a number of defects in the force which have to be corrected. The general level of education of new recruits has to be further upgraded, police terms of service have to be regularly reviewed, police relations with the public are capable of a wide measure of improvement, and there has to be close collaboration between the police and the Independent Commission Against Corruption in giving top-most priority in rooting out syndicated corruption and syndicated crime, a point which I would like to emphasize once again even though I had already referred to it at the previous Council sitting.

Increasingly large amounts of money from the public treasury are being spent on building up the Police Force and the Independent Commission Against Corruption. It is within reason to expect therefore that during the coming fiscal year and in the years to come, the crime situation will have stabilized and may even show marked improvement, and the image of Hong Kong and its administration be portrayed and lauded as one of successfully fighting and reducing crime and corruption.

Without good law and order, Hong Kong cannot progress either economically or socially. Expansion and re-organization in the Police Force have brought about better person-to-person relations between the public and the police. This is a significant breakthrough and the momentum towards getting more active co-operation from the public in fighting crime should not be lost.

Already there are signs that the incidence of violent crime in certain areas has abated, either through stronger police action or through the formation of mutual aid committees and neighbourhood patrol units. In some districts, people are now less worried about going out into the streets later at night, although admittedly this is not the case in every district.

[MR CHEONG-LEEN] **Appropriation Bill — resumption of debate on second reading (25.2.76)**

It would seem from latest available reports on the expansion of the mutual aid committee movement that there is need for consolidation of the existing position, which can best be done by having a sufficient number of high calibre liaison officers to service the 2,000 mutual aid committees which have already been formed.

As to new mutual aid committees, they should be formed on the basis of priority of need, such as for example, in consultation with the police in crime "black spots" for the purpose of reducing violent crime, in consultation with the Urban Services Department to curb triad domination in certain streets where hawkers are concentrated, in certain multi-storey buildings where illegal gambling or other forms of vice persist and cannot be rooted out by the authorities.

The Police Force cannot expand indefinitely and now that it is about to reach full strength, it is up to the public and the other associated Government departments, such as the Home Affairs Department, to pool their efforts together in order to bring about a better state of law and order.

I would therefore urge that the Home Affairs Department in particular be given sufficient funds to expand its mutual aid committee liaison staff so as to enable the mutual aid committee movement to work closely with the Government agencies to fight crime as well as to improve the general living environment. This is an area where public funds if judiciously applied could enhance Hong Kong's image as a well-administered international city, from the point of view of both residents and visitors alike.

While still on the subject of law and order, I do hope that a comprehensive review will be carried out as to whether all of our youth services are effectively meeting the real needs of our young people, especially since in 1975, 50.5% of persons arrested for crime were first offenders, and of the first offenders 46% were under the age of 21 years.

It is a matter for controversy as to whether long prison terms are the most effective solution in reducing violent crime perpetrated by young people. With the present overcrowded condition of our prisons, this is certainly not the final answer.

There is furthermore the added complication that nearly 60% of all convicted persons entering prison are drug-addicted, and that there

is a high level of triad activity acting virtually as a second level of command in the main prisons. One can only question whether Hong Kong prisons are the most suitable places to confine young persons convicted of crime for long periods of time. Is it not logical to assume that the longer the prison term, the greater the chance of younger persons leaving prison to be even more anti-social in their attitudes having acquired closer links in the triad and crime world while in prison?

Equally disturbing is the more noticeable link between narcotic addiction and crime in Hong Kong, where the addict is becoming more prone to commit crime in order to pay for the drug. Because there are a reported 80,000 to 100,000 addicts in Hong Kong, this trend has to be more closely monitored and measures taken to anticipate and counter the potential danger.

On the face of it, there certainly seems to be a need for additional finances to be made available to strengthen the intelligence gathering and other preventive measures in regard to narcotics and triad activities within the prisons. It is wasteful and socially ineffective to build more prisons because we have to treat our prisoners humanely and in a civilized manner in accommodation that is often more spacious than some of our older resettlement estates and licensed areas, yet at the same time not doing enough to eradicate the stranglehold of the triads in the prisons.

Sir, reducing the level of violent crime in our midst has no simple solution. It is a long, hard, plodding process of co-ordinating the efforts of the Police and of the other Government departments with the all-out and active support of the public.

The short-term approach is already in train and hopefully we will see a certain falling-off in the level of violent crime now that the economic situation has somewhat improved.

We should now be equally concerned with the long-term approach, which in the main consists of changing the living environment through better housing, education, recreation, etc. so as to control and reduce the flow of young people who are drawn into the criminal world. And for those young people who are on probation, or have expiated their sentences in prison, there has to be adequate follow-up services provided by the Prisons and Social Welfare Departments to keep recidivism at its lowest possible level.

[MR CHEONG-LEEN] **Appropriation Bill—resumption of debate on second reading
(25.2.76)**

Housing

As to the improvement of the living environment, there is nothing more dear to the heart of the average Hong Kong family than to have a decent home to live in. The Housing Authority and the Housing Society have made notable achievements in providing subsidized housing through Government support for over two million people.

I therefore welcome the honourable Financial Secretary's statement that during 1976-77 about \$220 million will be spent on the Housing Authority's existing building programme, of which half will come from the Authority's own funds while the balance will come from the Development Loan Fund.

I also welcome his assurance that the Public Works Department will continue construction work on the twenty estates on which planning had already started when the new Housing Authority was formed. I would further like to see the planned improvements in all licensed areas, particularly the older and sub-standard ones, finished as early as possible.

As to the older Mark I and Mark II estates, I would urge an accelerated pace in the redesigning and rebuilding of all these sub-standard estates. Perhaps a revised and more definite plan can be drawn up for redevelopment to be completed within the next 10 years instead of by 1991. As the land is under the control of the Housing Authority, the possibility of private enterprise participating in the redevelopment of these estates could also be explored.

I furthermore welcome the announcement by the Financial Secretary that a revolving fund of about \$300 million will be made available to build 5,000 flats annually capable of housing an additional 30,000 people on the basis of a home ownership scheme.

Quite rightly, the terms of sale will have to be devised so as not to inhibit private development, and should be open on the basis of priority to those families who are in public housing estates and whose incomes have increased over the years to make them no longer dependent upon subsidized public housing.

I support this home ownership scheme, and believe it is a step in the right direction for the Housing Authority to take, providing the scheme is carefully thought out and properly planned for in advance.

The Authority has done much to stabilize living costs in Hong Kong and in an indirect way to keep down manufacturing costs and assist Hong Kong manufactured goods to be more competitive in world markets. However, as the economy continues on the upswing, there will be increasing pressure on Government to lift rent controls. While periodic reviews and reasonable adjustments of the level of rents are acceptable, it would be a serious mistake for Government to embark upon any radical changes in the present rent control system, which could affect living costs and create more inflation than what already exists. Rents for domestic and industrial premises are still higher than what is prevalent in other places in the Asian region which are strong industrial competitors of Hong Kong, and we do not want Hong Kong's competitive position to become any more difficult than what is already the case.

Dependent parents allowance

Sir, when I spoke last year at the budget debate, I spoke on the Government's budgetary philosophy and on budget strategy by putting forward a few suggestions on raising additional fiscal revenue and on tax deductions.

I have so far not repeated anything I said last year, but I shall now proceed to do so on one particular matter which is very much relevant to the pocket-books of the income tax paying heads of families, and that is provision for a dependent parents allowance.

On April 1, 1973, the honourable Financial Secretary abolished the dependent parents allowance which allowed for \$2,000 per parent not working and who would be living in the taxpayer's household.

Last year I reminded the honourable Financial Secretary that looking after one's dependent parents is a traditional Chinese virtue, especially in a city like Hong Kong where there are hardly any old people's homes to speak of and where dependent parents are forced to stay with their married sons or daughters, often in overcrowded conditions in old slums or in the older Group B housing estates.

I said last year that "knowing him to be the sensitive, sympathetic and understanding person that he is, I am sure that he would be the last person in the world to want to be accused of using fiscal measures to discourage Hong Kong people from practising this traditional virtue."

Realizing how strong, with justifiable reason too, Chinese public opinion is on this point, I find it incumbent upon me to ask my

[MR CHEONG-LEEN] **Appropriation Bill—resumption of debate on second reading**
(25.2.76)

honourable Friend how is it that the Finance Branch can be so unsympathetic and so lacking in understanding of this local custom that Government is quite prepared to use fiscal measures to deny Hong Kong taxpayers in the lower income bracket this form of assistance so that they can practise what is a traditional Chinese virtue?

British colonial policy has for centuries shown respect for local customs, and I find it difficult to understand why the honourable Financial Secretary is not prepared this year to reinstate the dependent parents allowance, even to a lesser figure per parent, and perhaps limited to incomes below a certain level.

Life in Hong Kong is a sharply competitive existence, and any modicum of help the Government can give through a lessening of the financial burden of families which have parents who are not working and are living with them will be one way to show respect for and to keep intact the dignity of family life.

Factories in non-industrial buildings

I now wish to make a few comments on Government's action programme against industrial undertakings in non-industrial buildings.

It is not forgotten that my honourable Friend the Secretary for the Environment assured this Council on February 11th last that "no premature or precipitate action will be taken by any Government department until the problem has been carefully analysed and a practical approach has been worked out". This assurance is most welcome.

The great majority of the estimated 22,000 factories of all types operating in non-industrial buildings are comparatively small occupying space varying from less than 1,000 square feet up to 2,000 square feet.

The core of the problem is that most industrial buildings have factory units of a minimum of 3,000 sq. ft. and up, as below this size it would be uneconomical to meet the various requirements of the Fire Services and Labour Departments.

If my honourable Friend wishes to proceed with his action programme, it will be necessary for Government and the private sector to co-operate together to plan and to construct industrial buildings or

flatted factories with units varying in size from 1,000 sq. ft. to 2,000 sq. ft. to cater for the needs of this large number of factories in non-industrial buildings.

It could be a worthwhile exercise if the Environment Branch could examine how to simplify the procedures whereby two or more small factories presently in non-industrial premises can jointly be accommodated in one large unit in existing industrial buildings, at minimum construction costs and architectural fees.

Perhaps too it might be worthwhile to consider having Crown land auctioned for industrial use in certain designated districts and sites with the stipulation that the industrial buildings to be erected must provide a certain number of smaller factory units as well as a number of larger ones.

In conclusion, Sir, may I express support to the honourable financial Secretary for consistently adhering to what he has so eloquently described in the last paragraph of his budget speech as "that traditional mix of fiscal conservatism and economic liberalism" which eloquent phrase covers a multitude of sins and equally a multitude of promises and opportunities depending upon which side you are looking at it, and which as my honourable Friend says is the mainspring of our economic and social progress.

The people of Hong Kong are fortunate to have a climate of political stability, which augurs well for continued economic growth, backed by a taxation level sufficiently low and simple enough to attract foreign investment into new industries. It is on this dual foundation of political stability and economic growth that social services can be expanded and our young people be given a better chance to discover their abilities and realize their opportunities.

I fully agree with Your Excellency, when you said in a recent speech that we accept the free enterprise system as the generating force of our economy. It is to be hoped that Hong Kong will continue to grow from strength to strength, socially, economically and culturally, in the many challenging and prosperous years that lie ahead.

I have pleasure in supporting the motion.

MR F. W. LI:—Your Excellency, I must congratulate my honourable Friend the Financial Secretary for his most thorough and detailed deliberations when introducing the 1976-77 budget a month ago. No one would deny that his restricted programme of caution and austerity

[Mr F. W. Li] **Appropriation Bill—resumption of debate on second reading
(25.2.76)**

has now resulted in an assumed deficit of only \$50 million for the current year against an original budgeted deficit of \$430 million. My honourable Friend has admitted his inaccuracy in the approved budgeted deficit for 1975-76 and his under-estimation of the ability of our economy to achieve a fast rate of growth, once given the opportunity.

In my opinion, the budget which he presented last year was quite accurate, in that the deficit for the year would indeed be in the region of \$450 million had there not been a saving of \$393 million in the revised estimates. An examination of the Draft Estimates of Expenditure reveals that the five items of Public Works Non-recurrent Expenditure for 1975-76 was some \$440 million underspent. Although various reasons, such as lower tender prices and the unusual rainy summer, were given for the delay in these projects, one wonders whether the real cause was due to over-reaction and a deliberate slow-down in the programme purely for fiscal reasons.

My honourable Friend, the Financial Secretary has now presented us with a budgeted deficit of \$355 million for 1976-77. He has again resorted to minor tax increases. In his usual astute way, he has defined Government priorities and has made plans for a moderate expansion of expenditure and new services selectively. The budget itself is a sound and conservative one, and I cannot help but have a feeling that the anticipated deficit may vanish with a wave of the wizard's wand.

Sir, when addressing this Council in October last year, you spoke with a note of optimism. Since then, there have been ample signs of relief and confidence. This is evidenced by the recent favourable trade figures and an improved employment situation. There is no doubt that our general economy has definitely shown an upturn after some two years of recession. The people of Hong Kong have once more demonstrated their unique qualities of flexibility and resilience in adversity.

As we are now returning to normal with great vigour, we must therefore re-assess our present position. We have a strong currency, a comparatively stable foreign exchange market, a near zero inflation rate, and a very liquid banking system. All these are most favourable to our recovery. With the reflation of the world economy, we are in a strong competitive position to take advantage of export market opportunities. One feels, however, uneasy to hear that an inflation rate

of 6% *per annum* may be expected. In a small and open economy such as ours, dependent so much on overseas sources of supply of goods and services, there is little we can do to avoid externally generated inflation. We must therefore be mindful of internal factors, such as excessive stress in some sectors or speculative developments in others which could generate inflationary pressures. This, I believe, is of great importance to the healthy recovery of our economy. We have to strike a careful balance between full employment and price stability. So far, the upturn of our economy is a great encouragement to every member of our community, and I have reason to expect that this trend will continue, so that once again the people of Hong Kong may enjoy the quality of life which was achieved through their own industrious efforts in the period immediately prior to the recession.

Sir, when I spoke in the 1974 debate, I drew attention to the substantial amounts referred to in the Director of Audit's report for 1972-73 which appeared to be irrecoverable. On 20th March last year I pointed out that the situation had deteriorated, since the total arrears of revenue in his 1973-74 report were even higher than those in previous years. Far from being satisfactory, in fact the situation seems to have gone from bad to worse. By 31st March 1975, the total arrears of revenue had reached the alarming figure of \$273 million, which was subsequently reduced to \$136 million at the end of June, excluding new arrears accumulated during the first three months of the current financial year. Ironically, this sum of \$136 million represents exactly the same amount which my honourable Friend, the Financial Secretary expects to gain as additional revenue from his tax increase proposals for 1976-77.

The implications of the report reflect a certain degree of discredit on the Civil Service. They also reflect misuse of public funds due to lack of adequate and proper control. Year after year, we read with growing dismay and frustration, the tales of mismanagement, inadequate supervision, unco-ordinated planning and outright negligence. Two years ago, my honourable Friend, the Financial Secretary, had said that he welcomed my observations. He also stated that the report from the Director of Audit should deserve more attention. Obviously, mere attention has proven inadequate; positive and immediate action is now necessary. How and when does Government plan to remedy this sorry state of affairs?

While Government has gone a long way in exercising economy during the past two years wherever possible, it is discouraging indeed to see that there has been so much wastage in so many departments

[Mr F. W. LI] **Appropriation Bill — resumption of debate on second reading**
(25.2.76)

in so many ways. If I were a shareholder of a company which presents an auditor's report with qualifications and unfavourable comments similar to those of the Director of Audit, I would certainly take one of two actions: I would either sell all my share holdings quietly and sever all relationship with this company, or I would ask the directors and management of the company for an explanation to my satisfaction. With respect, Sir, I am extremely surprised that the Secretary of State for Foreign and Commonwealth Affairs has not made an issue out of this, after he has received the report each year.

Good management is not a prerogative of profit-making enterprises alone. It must also apply to Government departments. It was in recognition of this fact that we have had the McKinsey consultants to advise us on the machinery of Government and the subsequent appointments of the Secretary for Administration and the Deputy Secretary (Management). But it appears to me that there is still a need for adequate central and departmental machinery to ensure that there is no extravagance or wastage in the expenditure of public funds once those funds are approved in the Estimates.

I fully appreciate that the Finance Branch, in conjunction with other policy and resource branches in the Colonial Secretariat, do exercise a certain degree of control over expenditure at an earlier stage, when departments submit their budget proposals for the annual Estimates. Once approved, however, heads of departments are virtually free to spend the funds, provided the fund is spent for a particular purpose and the total amount is not exceeded.

At this point, I feel that there is a need to impress on the minds of heads of departments and other senior Government officers the fact that they bear the major responsibility of ensuring that the money voted to their department is properly spent. For in the proper administration of public funds, they cannot escape being accountable for the actions of their staff. In this respect, a department head is not merely responsible to someone in the Colonial Secretariat; he is also accountable to the taxpayers of this community who have directly or indirectly contributed the funds made available.

Now that stringent controls over expenditure, imposed from necessity during the recession, can be slightly relaxed, I suggest that Government set up a permanent central team to monitor departmental expenditure, perhaps comprising members of the Finance Branch, the

Treasury, and even independent members co-opted from the private sector. Such a team, operating from the Secretariat, would have to make surprise visits to each Government department at least twice a year and it would include within its purview the scrutiny of expenditure on items in all departmental programmes. In addition, it should be empowered to make recommendations on the redeployment or reduction of staff if such recommendations should naturally flow from their investigations. I venture to stress here, Sir, that what is contained in the annual report of the Director of Audit cannot by any means be a full and comprehensive account of departmental extravagance and wastage. With the establishment of the proposed team, I am certain that much more will be revealed.

In this connection, as a complementary step I suggest that the establishment of a small internal monitoring team within the headquarters of each department. This team would be directly responsible to the department head himself, and would operate on his instructions to ensure that money is properly spent. It should satisfy itself that the need to spend money voted for a particular purpose has not been diminished by changes in circumstances occurring after the departmental Estimates are approved. In addition to its monitoring duties in respect of departmental expenditure, its responsibility should include the submission of separate reports to the department head on any defects in the departmental machinery during the course of its investigations, and of staff in any section who may have become permanently under-employed. To obtain the best results such a departmental team must, of course, be authorized to operate independently, somewhat along the lines of the former Technical Audit Unit of the Public Works Department.

My honourable Friend the Financial Secretary has pointed out that personal emoluments for the Civil Service estimated for 1976-77 is only 37% of the total recurrent expenditure and that this percentage is lower than that in previous years. He further referred to the possibility of a salary revision from 1st April this year, for which he has made no provision in the budget. A rough estimate of the amount involved, even in modest terms, would be around \$200 million for the next financial year. This, of course, does not include the annual in-crements already provided for in the Master Pay Scales.

I should like to make it quite clear that few would begrudge this possibility as there has been no revision during the current year. However, the Financial Secretary mentioned two conditions which must be satisfied before Civil Service salaries can be revised to maintain their

[MR F. W. LI] **Appropriation Bill—resumption of debate on second reading**
(25.2.76)

real value. Firstly, any revision must be consistent with the current practice of the private sector; and, secondly, the Government's general financial situation must be such as to enable a revision to be paid for.

Whilst I believe that Government should be a good employer, I should like to suggest a third condition: that civil servants fully accept the expectation of this community that there must be, in a manner of speaking, a *quid pro quo*. No one will argue with the merits of the dictum: "Pay for the job," but with another salary revision, the public has a right to expect "More pay for a job better done". I feel that taxpayers will accept higher taxes and the widening of the tax net to pay for our developing social services and public works programmes, and to meet our share of the defence contribution, but it does not necessarily follow that they, as taxpayers, will agree a salary revision is justified unless there is a corresponding increase in performance and efficiency. To my mind, this is the most important of all the conditions.

In the 1973 budget debate two unofficial members of this Council spoke on the topic of a centralized budgetary and payments system, and the need for decentralization in certain fields of the services provided by Government. I refer, in particular, to the idea of reneunegerating departments being detached from the central Government as autonomous corporations over which Government would retain ultimate control, but which as business enterprises, would be left to operate as such under their own boards of directors. In my view, this proposal, which was recommended earlier by the McKinsey consultants, merits close consideration. I must mention here that my Unofficial colleague Mr Alex WU again raised this matter by way of a question in this Council on 11th February this year, and in reply, the Acting Colonial Secretary stated that Government's views had remained unchanged from those summarised by the Financial Secretary in the 1973 budget debate. I am somewhat surprised that Government's views have not changed over the period of three years during which so many unusual developments in our economy and that of the world have taken place. Surely, at this juncture, when ways and means of increasing revenue are of the utmost importance, it is most timely for Government to change this dogmatic attitude and review the situation.

Whilst I fully appreciate the reasons recently stated by my honourable Friend the Acting Colonial Secretary, I should like to comment

briefly on these reasons and on the benefits of decentralization. I agree that strong central control is necessary to allow for maximum flexibility in the use of resources and keeping overheads low. But, taking for example the Mass Transit Authority, which Government has placed under its own statutory body, or, for that matter, the Urban Council and the Housing Authority, which have financial autonomy, I think it can be said that Government still maintains a strong but detached control over these three bodies. Could not the same degree of supervision be maintained over the financial activities of the Kowloon-Canton Railway, the Airport Services and the Water Authority if these were placed under direct control of statutory bodies?

In fact, if one is to refer to the appropriations-in-aid system which is now being introduced in its complexity by the Financial Secretary, this is at least one step in the direction of financial decentralization in-sofar as the Kowloon-Canton Railway, the Airport Services, the Water Authority, and the Post Office are concerned.

I do not feel that the overall plans for the development of Hong Kong would be adversely affected by the establishment of autonomous bodies, since policy decisions on planning can still be transmitted to the statutory body controlling any department which is established as a separate corporation. By the same token, overall priorities would not be affected, as they could continue to be determined by a small group in Government.

I agree that it is absolutely vital to ensure there is uniform application of standards, but only in the case of *essential* standards.

Sir, it is my belief that appointment of experienced and highly qualified management, geared to cost-saving and profit-making, would ensure that the autonomous bodies would be most economically run in the interests of the users, namely, the members of the community. As the public service expands, there is an increasing danger of civil servants losing their identity and individuality, and also their incentive to remain efficient; as promotion prospects diminish in the everincreasing size of the individual department, so regrettably there will be a growing tendency to favour civil service careers merely for salary and security. Decentralization, however, would give staff members the benefits of a career incentive and corporation identity. This is apparent in organizations like the Mass Transit Corporation and even the Independent Commission Against Corruption. By retaining a majority of senior Government officials on the boards, it would be possible to ensure that the public interest is fully and carefully considered before major decisions especially those on costs and prices are made. There

[MR F. W. LI] **Appropriation Bill — resumption of debate on second reading
(25.2.76)**

would also be scope for greater participation by members of the private sector in this community in the governing boards.

I feel that there is a strong case for a number of revenue-generating departments to be hived off in the interests of Government and the public-at-large. As business concerns, and of course they must be managed as such, they would become more cost-conscious than as Government departments, and far more profit-conscious.

I therefore urge strongly that Government should appoint a high-powered committee, consisting of outside consultants, civil servants and businessmen, to make a full feasibility study of the proposal for the decentralization of certain revenue-generating departments. This study could reveal that Government may be able to raise considerable revenue and be freed of future development cost ultimately.

Sir, with these remarks, 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.

Suspended accordingly at fifteen minutes to five o'clock.