

OFFICIAL REPORT OF PROCEEDINGS**Wednesday, 23 March 1983****The Council met at half past two o'clock****PRESENT**

HIS EXCELLENCY THE GOVERNOR (*PRESIDENT*)
SIR EDWARD YOUDE, G.C.M.G., M.B.E.

THE HONOURABLE THE CHIEF SECRETARY (*Acting*)
THE HONOURABLE THE SECRETARY FOR HOME AFFAIRS
MR. DENIS CAMPBELL BRAY, C.M.G., C.V.O., J.P.

THE HONOURABLE THE FINANCIAL SECRETARY
MR. JOHN HENRY BREMRIDGE, O.B.E.

THE HONOURABLE THE ATTORNEY GENERAL
MR. JOHN CALVERT GRIFFITHS, Q.C.

THE HONOURABLE ROGERIO HYNDMAN LOBO, C.B.E., J.P.

THE HONOURABLE DAVID AKERS-JONES, C.M.G., J.P.
SECRETARY FOR DISTRICT ADMINISTRATION

THE HONOURABLE DAVID WYLIE McDONALD, C.M.G., J.P.
SECRETARY FOR LANDS AND WORKS

DR. THE HONOURABLE HARRY FANG SIN-YANG, C.B.E., J.P.

THE HONOURABLE LO TAK-SHING, C.B.E., J.P.

THE HONOURABLE FRANCIS YUAN-HAO TIEN, O.B.E., J.P.

THE HONOURABLE KENNETH WALLIS JOSEPH TOPLEY, C.M.G., J.P.
SECRETARY FOR EDUCATION AND MANPOWER

THE REVD. THE HONOURABLE JOYCE MARY BENNETT, O.B.E., J.P.

THE HONOURABLE CHEN SHOU-LUM, O.B.E., J.P.

DR. THE HONOURABLE HENRY HU HUNG-LICK, O.B.E., J.P.

THE REVD. THE HONOURABLE PATRICK TERENCE MCGOVERN, O.B.E., S.J., J.P.

THE HONOURABLE ALAN JAMES SCOTT, C.B.E., J.P.
SECRETARY FOR TRANSPORT

THE HONOURABLE PETER C. WONG, O.B.E., J.P.

THE HONOURABLE WONG LAM, O.B.E., J.P.

DR. THE HONOURABLE THONG KAH-LEONG, C.B.E., J.P.
DIRECTOR OF MEDICAL AND HEALTH SERVICES

DR. THE HONOURABLE RAYSON LISUNG HUANG, C.B.E., J.P.

THE HONOURABLE CHARLES YEUNG SIU-CHO, O.B.E., J.P.

THE HONOURABLE JOHN MARTIN ROWLANDS, C.B.E., J.P.
SECRETARY FOR THE CIVIL SERVICE

THE HONOURABLE JAMES NEIL HENDERSON, O.B.E., J.P.
COMMISSIONER FOR LABOUR

DR. THE HONOURABLE HO KAM-FAI, O.B.E., J.P.

THE HONOURABLE ALLEN LEE PENG-FEI, O.B.E., J.P.

THE HONOURABLE ANDREW SO KWOK-WING, J.P.

THE HONOURABLE GERALD PAUL NAZARETH, O.B.E., Q.C., J.P.
LAW DRAFTSMAN

THE HONOURABLE HU FA-KUANG, J.P.

THE HONOURABLE WONG PO-YAN, O.B.E., J.P.

THE HONOURABLE JOHN MORRISON RIDDELL-SWAN, O.B.E., J.P.
DIRECTOR OF AGRICULTURE AND FISHERIES

THE HONOURABLE DONALD LIAO POON-HUAI, C.B.E., J.P.
SECRETARY FOR HOUSING

THE HONOURABLE GRAHAM BARNES, J.P.
REGIONAL SECRETARY (HONG KONG AND KOWLOON), CITY AND NEW TERRITORIES
ADMINISTRATION

THE HONOURABLE WILLIAM CHARLES LANGDON BROWN, O.B.E., J.P.

THE HONOURABLE CHAN KAM-CHUEN, J.P.

THE HONOURABLE STEPHEN CHEONG KAM-CHUEN, J.P.

THE HONOURABLE CHEUNG YAN-LUNG, M.B.E., J.P.

THE HONOURABLE IAN FRANCIS CLUNY MACPHERSON, O.B.E., J.P.
REGIONAL SECRETARY (NEW TERRITORIES), CITY AND NEW TERRITORIES ADMINISTRATION

THE HONOURABLE MARIA TAM WAI-CHU, J.P.

DR. THE HONOURABLE HENRIETTA IP MAN-HING

THE HONOURABLE PIERS JACOBS, O.B.E., J.P.
SECRETARY FOR ECONOMIC SERVICES

THE HONOURABLE DAVID GREGORY JEAFFRESON, C.B.E., J.P.
SECRETARY FOR SECURITY

THE HONOURABLE GEOFFREY THOMAS BARNES, J.P.
SECRETARY FOR HEALTH AND WELFARE

THE HONOURABLE JOHN WALTER CHAMBERS, J.P.
DIRECTOR OF SOCIAL WELFARE

THE HONOURABLE MICHAEL LEUNG MAN-KIN, J.P.
DIRECTOR OF EDUCATION (*Acting*)

ABSENT

THE HONOURABLE ALEX WU SHU-CHIH, C.B.E., J.P.

THE HONOURABLE LYDIA DUNN, O.B.E., J.P.

THE HONOURABLE ERIC PETER HO, C.B.E., J.P.
SECRETARY FOR TRADE AND INDUSTRY

THE HONOURABLE JOHN JOSEPH SWAINE, O.B.E., Q.C., J.P.

THE HONOURABLE MRS. SELINA CHOW LIANG SHUK-YEE, J.P.

IN ATTENDANCE

THE CLERK TO THE LEGISLATIVE COUNCIL
MRS. JENNIE CHOK PANG YUEN-YEE

Papers

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

Subject *L.N. No.*

Subsidiary Legislation:

Hong Kong Tourist Association Ordinance.	
Hong Kong Tourist Association (Amendment) Rules 1983	82
Public Health (Animals and Birds) Ordinance.	
Regulation of Movement of Dogs Order 1983	84
Hong Kong Airport (Regulations) Ordinance.	
Hong Kong Airport (Traffic) (Amendment) Regulations 1983	85
Registration of Persons Ordinance.	
Registration of Persons (Amendment) Regulations 1983	86
Registration of Persons (Amendment) Ordinance 1983.	
Registration of Persons (Amendment) Ordinance 1983 (Commencement) Notice 1983	88

Sessional Papers 1982-83:

No. 46—University and Polytechnic Grants Committee of Hong Kong—Report for the period July 1980 to December 1982.

No. 47—Government Minute in response to the report of the Public Accounts Committee dated December 1982.

Government business**Second reading of bill****APPROPRIATION BILL 1983****Resumption of debate on second reading (23 February 1983)***Question proposed.*

DR. FANG:—Sir, the Financial Secretary's Budget proposals serve as a sobering reminder to us all that lean times remain with us and that some belt tightening is required to see us through this patchy period. I agree that Hong Kong has been spared the worst rigours of the recession that is gripping the world though this is cold comfort to the unemployed and the underemployed. Basically sound social

and fiscal policies coupled with the community's willingness to take the good times with the bad have seen us through worst periods and will undoubtedly see us through this one. I do not expect that the Financial Secretary's proposals to raise revenue will find universal acceptance for we all have our favourite indulgences. But even he cannot work miracles. The money must come from somewhere and I generally support his move to raise new revenue from indirect taxation and charges, this being the least painful for the masses of the people. In the course of these two days, almost all my Unofficial Colleagues will be speaking. Whilst some may take issue with specific proposals, I hope there will be a wide measure of support for the underlying philosophies governing this year's Budget. I have the privilege, Sir, of leading the debate and will therefore set a good example by being brief.

Firstly, Sir, I would seek an assurance from the Financial Secretary that long term planning in the social services field will continue. He has already made it clear that the housing programme will be maintained. I have more to say on this later. But it is no less important that projects in the medical, rehabilitation and social welfare field should proceed as planned for these not only affect the well being of large sectors of the community but are the stuff that demonstrates a caring and compassionate Government. Sir, I do not advocate reckless spending but I do ask that in the allocation of funds, we get our priorities right, or as nearly right as possible, and that we avoid a 'stop-go' approach in planning for purpose built facilities.

I welcome Government's assurance that there will continue to be an annual production of 35 000 public housing units. I estimate that this would cost us some \$3.6 billion discounting land costs. This is larger than the deficit for 1982-83. Few will disagree that housing is one of our most pressing problems and I remain convinced that Government should continue to provide rental accommodation for those who cannot afford their own housing. But we have come a long way since the great fire at Shek Kip Mei set in motion our public housing programme. Times have changed, people's aspirations have changed and so have their pockets. I believe we must now consider new initiatives in the housing field and I would urge that serious thought be given to increasing home ownership by encouraging those in public housing estates to buy the units they are now living in. Home ownership makes sound social policy but it is clear that only limited inroads can be made if we continue to rely on the present strategy. In the 1983-84 housing programme for example, only 6 400 units out of a total estimated stock of 36 600 units will be for sale. Greater impact could be achieved and much needed revenue raised if we were to impose a means-test on those who have resided in public housing estates for say, ten years or over, and give them an option to buy their living units if they are found to be no longer eligible to retain them on a rental basis. As a start, the choice of units for sale might be limited to those estates that have already achieved maximum development. If the terms of purchase can be made reasonably attractive, and with the assistance of 20 year bank mortgages, I believe that the capital outlay

and monthly instalment payments would be within the reach of a sizeable number of sitting tenants. It is well known that some long term residents in public housing estates now earn incomes well in excess of the eligibility limit for their highly subsidized rental accommodation. By resorting to buy, such families can avoid the means-test and free themselves from the existing restrictive tenancy regulations, quite apart from securing a realizable asset. I estimate that this form of home ownership will bring in some \$3.5 billion even on a conservative reckoning. This is calculated on the basis that at least 7% of existing households in public housing (or 35 000 units out of a total stock of half a million) will have the capacity to buy at an average cost of \$100,000 per unit. I do not underestimate the administrative complexities of mounting such a scheme but I believe that if there is the will, a way will be found.

I would also like to comment on the Financial Secretary's proposals regarding separate taxation for married women. Speaking as a reasonably enlightened male, with no vested interest, I welcome the Financial Secretary's proposal to grant married women their own legal identity. This is a significant move. I agree that the revenue loss inherent in separate taxation for married women cannot be afforded at present and I do not think that many would seriously argue for this in our present difficulties. So the aggregation of incomes for tax purposes must continue. But as there is to be no real financial advantage, I question whether married women would opt voluntarily for joint tax returns and what is more important, accept a liability to pay tax where there is no such liability at present. Notwithstanding the Financial Secretary's statement that he cannot see separate taxation as right for this community, it seems to me that having conceded the social principle, this must come sooner or later. Perhaps the Financial Secretary would be prepared to take another look at this possibility when the economy improves. I think he will find that the community will support such a move at the right time.

Training of civil servants in managing public sector activities is imperative to maintaining an efficient Administration in Hong Kong. There is a growing awareness of the need to groom up the upper middle echelon of our civil servants to face greater challenges in the future. Given the increasing costs of overseas training, a natural development towards meeting training needs in the public sector would be the establishment of a 'command and management course' locally, which the Chief Secretary had revealed during the last budget debate.

What I wish to put forward as my final point in this debate is an extension of this concept, to bring it out of the local confines and to give it an international perspective. Hong Kong should establish an Asian Management Development Centre, aiming at fulfilling the same functions of the Henley Management College in Europe and the Harvard Business School in America.

Domestically, the Management Development Centre should be able to cater for the training needs of the civil service. It can also provide management training to the private sector, thereby relieving the two Universities, the Polytechnic, the Vocational Training Council, professional associations and other large private corporations for the need to run management training programmes of their own. A single management training institution can optimise resources and avoid wastages caused by duplications and overlapping programmes. A result which we all wish to achieve at the present economic climate.

Externally, an internationally recognized training institution would enhance Hong Kong's status as an educational centre, balancing nicely with our other image projected by our commercial and financial success. With our cosmopolitan outlook and advance support facilities, we should be able to attract trainees from many countries in the region, including China which should require a large cadre of trained managers for her modernization programmes. The benefits to our economy from this constant flow of trainees from other countries are obvious. They are what we normally call 'invisible' gains.

Sir, with these remarks, I support the motion.

MR. LO delivered his speech in Cantonese:—

督憲閣下：財政司提出政府預算案時致辭，曾經既明確亦含蓄地指出，香港經濟的安定與繁榮，實繫於市民對本港前景的信心。本人極為贊同這看法，故謹藉此機會，討論在短期以至長期而言，信心對本港經濟及繁榮的重要性。

本港經濟所面臨的大部分難題，無疑是因世界性經濟衰退所引致，當世界經濟復甦時，這些困難當可緩和。但除此之外，香港還有對政治前景失去信心的問題。正如財政司所說，由於信心動搖，本港經濟各環節都受影響。

為了解何以必須維持信心，以及喪失信心所帶來的不良影響，我們需要認識本港過去經濟蓬勃，日益繁榮安定的原因。

本人將會談到一些涉及政治的問題，我認為現在是公開討論這些問題的適當時間，因為它們關乎全港市民的日常生活以至前途。

雖然本港目前遭遇困難，過去多年來，本港的經濟卻極為繁榮；相信現時的困難亦不會長期持續下去。根據一份於一九八一年底發表的調查報告，一九七四至八一年期內，在接受調查的八十五個非共產國家中，香港的整體經濟表現名列第三；以經濟增長率而言，則高踞榜首。對於一般市民而言，高度經濟增長率使同期內製造業的實際工資，每年增長約百分之五。其他經濟體系能有此成績的，可說絕無僅有。

本人不打算明確地分析本港的成功因素這個複雜問題，卻想研究一下信心與本港經濟繁榮之間的關係、維持信心對在此生活和工作的人有何重要性、以及我認為恢復和保持信心所需要的先決條件。

香港是個小地方，祇擁有極少天然資源，它的經濟繁榮，有賴廠商以合理的價格，大量輸出貨品，亦視乎其他國家的消費者是否願意或有能力購買這些貨品。香港的經濟繁榮許多時受外來因素所影響，這些因素大部分並非本港人士所能控制。港人本身可作的貢獻，主要是靠賴本港企業家和工人的優良技術和刻苦耐勞，大量生產貨品，以合理的價錢發售，迎合各國消費者的需求。

工人們在這方面的貢獻是顯而易見的。企業家所作的努力，則決定生產甚麼貨來，為商人們在市場上找尋所需之原料、機器以及齒輪等。企業家必須提供新機器，資本公司和工人必須提供新設計之機器，以便生產。企業家必須提供新設計之機器，以便生產。

至於企業家是否願意繼續投入足夠資金，以購置更多新機器，則與他們對本港前途的信心有重大關係。在決定投資之前，他們首先要考慮將來可以獲得的收益。他們是否願意投資，須視乎他們認為能否預測將來貿易環境而定。他們對前景的穩定和繁榮愈有信心，便會更樂於投入資金，結果本港的經濟會更繁榮。

本港的經濟是否會繼續繁榮，工商界能否提供足夠的就業機會，使實際工資繼續增長，實在取決於是否有足夠的資金繼續投入。正如財政司所說，法律不能強迫人們投資。是否繼續有足夠的投資，須視乎人們能否維持充分的信心，認為將來的貿易環境，可以提供賺取豐厚利潤的合理機會，以抵銷投資時須承擔的風險。

為達成這目的，政府已盡了本分，致力提供一個合理、穩定、始終如一和可靠的財政、法律、行政與嚴密管理的環境。有這樣的環境存在，企業家便有信心承擔投資的風險。

政府長期以來，堅定不移地執行這些促進經濟增長的政策，終於成功地建立起大眾的信心。若非如此，本港的經濟增長率便不會有過往輝煌的成績。

但信心是要逐步建立的，並且易受打擊。一旦信心受損，便難以重建。政策改變，尤其是突如其來的迅速改變，以及恐懼政策可能改變，都很容易削弱信心。

各種建立信心的條件如果有所改變，而這些改變又長期令人信心動搖，不能確定是否可以自由發揮才能時，這些人的反應，可能對經濟和當地居民的生活水準，造成長遠的損害。

造成這現象的原因有多種。無論是工人或是企業家，如果不能夠享受到他努力的成功，幹勁會大打折扣，結果工作成績立即下降，收入亦隨着減少。企業家不但不願意冒險將資金投入本港的業務，而他現時的收入降低，亦令可用以投資的資金減少。任何經濟體系的投資和再投資財源，大部分來自原有投資賺取的資金，香港也不例外。資金決不會源源不斷，用之不竭。

假如在香港投資和再投資的吸引力減退，比較下其他地區的吸引力便大為增加。因此，本港企業家可能會將部分，甚至全部新投資轉移外地。雖然，遷移廠房機器等固定資產並不切實際，但這些機器廠房如果沒有足夠的保養，很快便會變得殘舊，而沒有新的投資，更會變為落伍。整個經濟體系的生產力隨之下降。工人祇有古老過時的機器可用，便會愈來愈難於維持原有的產量，跟着也不能維持收入。事實上，如果我們停滯不前，單是人口增加便會令我們的經濟倒退。

此外，我留意到自從去年九月以來，港幣匯率大跌，這清楚顯示很多企業家認為在香港投資和再投資的吸引力，已較其他地區大為遜色。短期資金因為受利率吸引而為增加，而從海外流入本港的長期資金，亦有減少。

另一方面，長遠來說，如果信心受損過鉅，企業家、專業人士和技術人員等中產階級，可能會設法離開香港，連同他們的技術和積蓄，一去不返。大多數國家對移民均有限制，因此能夠移居外地的，將會是那些在可動用資金或技能上對本港貢獻最大，又最難以替代的人士。也就是說，最可能離開香港的是我們在經濟上最不容失去的人。本港經濟需要他們的創業精神、管理和技術才能，以及廣博的知識，才不得以斷向前推進。他們離去，對本港的經濟，和依靠經濟體系謀生的人，永遠留下不良影響。

除了個別人士離開香港而引起種種問題外，由於信心喪失，香港不再是生意人的樂園時，海外投資者會因而卻步。過往這些投資者為本港帶來新的意念、技術和資金，使我們得

益不少。但他們將不再為本港提供先進技術和增加就業機會。結果，香港人更難找到好工作，收入亦會減少。

督憲閣下，既然我們對於談判香港前途問題可能產生的結果，最關心的是要維持安定和繁榮，因此，關鍵其實是在於談判結果對信心的影響。正如我在開始時說過，維持信心有賴於各種因素，其中包括由政府提供一個在財政、法制、行政和嚴密管理這幾方面都是政策一貫，穩定可靠的環境。我認為本年度的財政預算案切合上述要求，值得支持。

(The following is the interpretation of what Mr. LO said.)

Sir, in his speech opening this Budget Debate, the Financial Secretary has mentioned both explicitly and implicitly the importance of confidence to the continued stability and prosperity of the Hong Kong economy. I could not agree with him more. And, because of this, I should like to take this opportunity to discuss the role of confidence in our economy and its importance for the prosperity of everyone living in Hong Kong, both in the short-run and more particularly in the longer-run.

Undoubtedly most of the present problems besetting our economy are a consequence of the world economic recession and these problems can be expected to become less serious as the world economy recovers. But Hong Kong has suffered, in addition, from an erosion of confidence about its political future. The consequences of which, as the Financial Secretary rightly said, have been felt in all sectors of the economy.

In order to understand why the maintenance of confidence is so important and why the loss of confidence is so damaging it is necessary to form a view as to why the Hong Kong economy has been so successful in achieving increasing prosperity with stability.

I recognize the political nature of some of what I shall say but think that the time has come for these issues to be discussed openly because of their relevance to the day-to-day lives and, more importantly, to the future of all Hong Kong residents.

Despite its present difficulties, which I trust will be short-lived, it is undeniable that the Hong Kong economy has been very successful over a considerable number of years. A survey published in late 1981 rated Hong Kong third on overall economic performance over the period 1974-1981, out of the eighty-five non-Communist economies surveyed; in terms of economic growth, Hong Kong rated first. What this means for the man in the street is that the high growth rate of the economy has made possible an increase in manufacturing wages in real terms of about 5% a year over the same period. Few, if any, other economies have matched or can match this.

I do not propose to attempt a definitive analysis of the complex subject of what makes us successful but I do wish to consider the role of confidence in the success of our economy, the importance of the maintenance of confidence for the future well being of individuals living and working in Hong Kong and what I see as the preconditions for the restoration and maintenance of confidence.

Being a small economy with very few natural resources Hong Kong's economic success is inevitably dependent on its ability to supply at competitive prices an increasing volume of goods for export and on the willingness and ability of consumers in other economies to purchase these goods. Many of the decisions affecting Hong Kong's success are made elsewhere and are largely outside the control of people here. The main contribution to success from within Hong Kong comes from the skill and hard work of Hong Kong entrepreneurs and workers in meeting the demands of the world's consumers by producing increasing quantities of the goods they want at competitive prices.

The contribution of the worker to this is clear; the entrepreneur's contribution is in choosing the products to make, in finding markets for them, in organizing their production, but above all in venturing his capital or borrowed capital to provide the raw materials, machines and premises required. Although entrepreneurs and workers may often argue over their relative contribution to the productive process, especially when it comes to the division of the net income from it between profits and wages, fundamentally the relationship between them is interdependent; economic success requires a continuing contribution from both of them. Entrepreneurs must provide an increasing number of machines involving new processes and producing new products and workers must continue to be willing to work hard with these machines while adapting to the new processes and products.

It is in relation to the continued willingness of entrepreneurs to undertake adequate investment in new and additional machines that the question of confidence in the future is critical. People making investment decisions have to be willing to lay out money in the expectation of future returns. Their willingness to do this clearly depends on their confidence in their ability to predict the business environment in which they will be operating in the future. The more confidence they can have in the stability and attractiveness of the business environment, the more likely they are to invest and the more likely is economic success.

Continued economic success, including the provision of an adequate number of jobs at increasing real wages depends crucially on continued adequate investment. As the Financial Secretary said, no law can compel people to invest. The continuation of adequate investment depends on the maintenance of sufficient confidence in the continuation of a business environment that offers reasonable opportunity of an attractive return to the risk-taking inevitably involved in investment.

To this and the Government has done its part: it has emphasized the provision of an acceptable, stable, consistent and predictable fiscal, legal, administrative and regulatory environment. The existence of such an environment gives entrepreneurs the confidence to take the risks associated with their investment.

It has taken the Government a long time to foster confidence in its determination to adhere to these stable and growth-oriented policies. Had it not been successful in this, it is likely that the economy's growth rate would have been a good deal less than has been achieved.

Confidence is only built-up gradually and is fragile. Once eroded, it is difficult to rebuild. Policy changes, particularly if rapid and unexpected, and fears that there may be policy changes can easily erode confidence.

If any change in the elements which together produces confidence takes place and if this change is regarded by individuals as permanently adversely affecting their confidence that they will be free to realize their aspirations, their reactions are likely to cause lasting damage to the economy and to the standard of living of all those resident here.

This would come about in a number of ways. Any erosion of the ability of an individual—be he a worker or an entrepreneur—to enjoy the fruits of his efforts is likely to make him work less hard with immediate effects on the level of output and thus earnings. Not only will the entrepreneur be less willing to risk his capital on ventures in Hong Kong but the reduction in his current earnings will reduce the funds he has available for investment. In any economy, and Hong Kong is no exception, much of the investment and reinvestment undertaken is financed out of current earnings from old investment. There is no bottomless pit of funds, no inexhaustible 'crock of gold' to be tapped for this purpose.

If new investment and reinvestment in Hong Kong becomes less attractive, investment elsewhere would become relatively more attractive. Thus, local entrepreneurs would be tempted to move some, perhaps all, of their new investment spending away from here. Further, although it is not practical to move away such fixed capital investment as buildings and machinery, without adequate expenditure on maintenance and reinvestment they will fairly quickly become worn out and, without new investment, out of date. Thus the productive capacity of the economy will be reduced and, because workers have only old and out-of-date machines to use, they will find it increasingly difficult even to maintain their previous level of output and, thus earnings. Indeed, if we merely stood still, if only because of the increase to our population, we would be going backwards.

In this connection, I would observe that the sharp depreciation of the exchange rate since September last year clearly indicated that to many entrepreneurs investment and reinvestment in Hong Kong has become relatively less attractive than elsewhere. I believe that the inflow of short-term funds from overseas for interest rate reasons has served to mask both a substantially increased outflow of longer-term funds to finance increased investment overseas by Hong Kong people and a reduced inflow of longer-term funds by overseas investments.

Another aspect is that in the longer term if confidence is sufficiently damaged both entrepreneurs and members of the professionally and technically qualified middle class are likely to try to leave Hong Kong permanently taking their skills and as much of their savings as possible with them. Given the constraints placed by most countries on immigration, those who will be most successful in emigrating are likely to be those that have the most to offer and are the hardest to replace, either in the way of transferable capital or of skill. Thus, those most likely to leave are those the economy can least afford to lose. They are those on whom the economy relies to provide it with the entrepreneurial spirit, the management and technical skills and the knowledge on which the economy's continued dynamism depends. Their departure would have permanent adverse effects on the economy and on all those relying on it to provide them with a living.

As well as the problems posed by the departure of individuals from Hong Kong, loss of confidence in the continued attractiveness of Hong Kong as a place to do business will mean that fewer overseas investors, who have benefitted us in the past by bringing in new ideas, new technology and new capital, will come here. The improved technology and additional jobs they would have provided will not be available. Again good jobs will be harder to find and incomes lower as a result.

Sir, given the maintenance of stability and prosperity is a major criterion against which any possible outcome of the present negotiations about Hong Kong's future has to be judged, its impact on confidence is central. I thus conclude my intervention in this budget debate by setting it against the backdrop of the wider aim. Confidence, as I said in the first part of my speech, depends upon a number of elements including the provision by the Government of a stable, consistent and predictable fiscal, legal, administrative and regulatory environment. In my view this budget is consistent with these requirements. and for that reason has my support.

MR. TIEN:—Sir, today I am happy to commend the efforts of my good Friend, the Financial Secretary for his second budget. In general I approve of the shift to indirect taxation but in particular about the tax on brandy.

In adding my congratulations regarding the imposition of a swingeing tax upon brandy I wish to indicate that I have, in my remarks to stress both a serious as well as a rather more lighthearted approach to the problem of brandy-drinking.

The serious aspect concerns alcoholism as a social problem. Without doubt I am in full agreement that the abuse of alcohol should be subject to checks, both fiscal and actual. I also believe it to be a serious matter with respect to our less-than-perfect relations with the French. It will do no harm if the Hong Kong public restrict its consumption of brandy as useful or useless to mankind as French Exocet missiles for whatever reason and whatever pretext.

The rather more lighthearted approach concerns my views on French brandy generally. Of course brandy-drinking is a subject on which honourable Members of this Council are quite ignorant, as I myself. But as the famous singer Josephine BAKER put it, when the French insult you they do it so very nicely. Let me now return the compliment.

Brandy in French is translated as water of life (eau de vie). Let me suggest that there's not much life in French brandy production for us. Let me also say that I am almost tempted to agree with the half-truth of the famous writer Peter USTINOV who said: 'I can never forgive God for having invented the French'. The French brandy industry requires a constant reminder of its discriminatory policies vis-a-vis the Hong Kong producers. The French invented the guillotine but they use it against us, drowning us in a sea of lethal brandy but severely limiting their imports of our time-pieces and garments in return. Let me hope that the Financial Secretary has succeeded in reducing our disadvantage. It will not be easy. Frenchmen say: 'I am a native of France. Nothing foreign to me appears altogether human.' So runs the judgment on non-Frenchmen. Surveys here show that Hong Kong has the world's highest *per capita* consumption of brandy, showing that one-third of Hong Kong's grown-ups consuming brandy here in any given month. We should find some substitute and the sooner the better. Our livers should not protest in vain.

I would not like it to be thought that French cause problems to us alone with their export of their pernicious drink. Some Senior Members of this Chamber will recall that sixteen years ago a British high official came to Hong Kong to negotiate restrictions on textile imports. He consumed a fair amount of brandy so much so that shortly after arrival at the departure lounge at the airport he inadvertently locked himself in the toilet. He was rescued from his predicament through the good offices of one of our respected senior Council Members. Hong Kong had a bad textile agreement with U.K. that year. Britannia ruled against Hong Kong jeans. May be brandy was to blame.

To continue on this theme, it has well been said that the British invented the shirt and the French invented the ruffle. Neither of them is keen either on Hong Kong's shirts or its ruffles. Let them remember that we too wish to have a place under the sun and a right to fair trade and dignity. I trust the new Secretary for Trade and Industry and the new head of the T.D.C. will both lend their full support to the worthy cause of fair trade and fair play. I hope my message gets through to them.

Sir, I support the motion.

REVD. JOYCE M. BENNETT:—Your Excellency, the Financial Secretary clearly expounded the Government policy this year to be the tightening of belts, the spending of less and the consuming of less. He spoke of a lean year ahead, possibly of two lean years before the economy would recover sufficiently to embark again on an expansion of the social services. However he did

emphasize that the Government would 'remain always sympathetic to the reasonable requirements of the disadvantaged and the poor'. With this in mind it becomes imperative to assess where within the provision of expenditure on social services we are being extravagant and where we are not getting sufficient value for the money we are spending. I wish to investigate these areas of our estimates this year and suggest remedies.

Where then are we being extravagant? Clearly our one extravagance in education lies in continuing to allow the Chinese University to have a four year course for its major first degree programmes. I have spoken before in this Council on this and I wish to reiterate once more the folly of this wastage of public money. We are still not yet able to provide enough university education for all our qualified secondary and middle school graduates. Why should they be deprived or forced to go overseas, at great expense, for their university education because we extravagantly allow some to have four years of university education? In the fifties Anglo-Chinese secondary schools had reluctantly and very rapidly to add a seventh year to their school course and to develop two year Advanced Level preparatory courses for Hong Kong University entrance. The eighties should see a similar revision of the entrance to and length of the Chinese University course. Both Universities should have in the majority of subjects a three year Bachelor's Degree course. Whereas in the fifties the schools had a real headache in devising the courses required, today in the eighties there should be no problem. Chinese schools that claim how difficult it would be to add one more year to their course must be reminded of the experience of the Anglo-Chinese schools in the fifties. There should be no insuperable difficulties in providing Chinese versions for the Advanced Level subjects. Just as the Hong Kong University in the fifties was expected to redeploy staff to cover an increased intake of students at Year One, so must the Chinese University be expected to do so in these present years of financial stringency.

An added advantage in that more students can have a meaningful two years' Sixth Form course, instead of trying to cram a year's examination course into the few months from September to April. So many over the years have not valued that course, opting to start the two years course and take and pass the Higher Level examination on the side. In this way they have deprived a student of a two years' place and shown their scorn of an examination that can be passed satisfactorily without any specific course of study being pursued. To conclude, then, this part of my speech, I ask that the Government reduce the examination pressure for our students by abolishing the Higher Level Examination and by cutting down the Chinese University course by one year. We can then have a common university entrance policy and choose the best students for each course offered in the two Universities. The financial savings will be both worthwhile and educationally most meaningful.

My first point relating to the cutting out of extravagance leads naturally into my second where I stress the importance of using our resources wisely and being sensitive to the wastage that occurs when two institutions or departments overlap in their services. Just as the two Universities need to ensure there is no wastage of resources, so must the departments supplying services for offenders who when young are called delinquents and when older are called criminals. To date the Correctional Services Department and the Social Welfare Department both run institutions for offenders under the age of 18. There needs to be far closer co-operation between these two Departments and the Education Department to ensure the proper use of manpower and the optimum use of our resources in the rehabilitation of juvenile offenders. Each of these Departments rightly have their own specialist staff which includes psychologists who have special aims in assessing the young people referred to them. But the development of their work in both the Education Department and the Social Welfare Department is still in fairly early stages. At the moment, for example, very little is being done to assess the reasons for children being slow in learning and backward at their lessons. Too often those children considered to be slow learners develop criminal tendencies and get brought before the Juvenile Courts. In fact their intelligence is often not below average and they fail to devote their energy to their school work and instead get into mischief, sometimes of a very serious nature. We seem indeed to be breeding criminals by failing to assess adequately these youngsters and those already in the correctional institutions of the Social Welfare Department.

We need a better assessment system which will include the expertise of the Educational Psychologists in the Education Department and the Clinical Psychologists in the Social Welfare Department and the Correctional Services Department. We already have in each of these Departments psychologists whose common aim is the full development of future good citizens of Hong Kong. Once assessed effectively the young people should be fitted into the correct special programmes which will bring about their development to full maturity and rehabilitation. In order to conserve our financial resources the psychologists in these three Departments should liaise together. They should then assess those referred by the courts, the schools and welfare agencies. With this co-operation there could be a Centralized Diagnostic Centre which would classify the true delinquent elements from the young people in need of care and protection. Too often I have heard cries of horror at the suggestion that a girl needs to be placed in the Ma Tau Wai Home. In the minds of the general public that home caters for terrible delinquents and the parents do not wish their girls on any account to mix with such bad elements. We need to have a central system to sort out the criminal cases from those in need of care and protection who should be looked after by the Social Welfare Department. I can see that this centralized diagnostic centre could well begin on an informal basis as an organization to draw together workers in similar fields. But the organization would call upon the best expertise available in the Education, Social Welfare

and Correctional Services Departments. At the moment I very much fear we are wasting our resources by not having sufficient link-ups between these Departments. We must do more to prevent our young people from building on criminal tendencies. We must prevent them from falling into criminal habits.

We have still not tackled seriously the education of children on probation and under Care and Protection Orders, who are confined in the Social Welfare Department-run correctional institutions. We are paying for specialists in Special Education within the Education Department. But we do not use all their resources properly. As a result of the Jarman Report, the Unofficial Members of this Council were informed that an Education Adviser would be seconded from the Education Department to the Social Welfare Department to advise on the schooling of the inmates in their institutions. Imagine my distress and, if I may also say my annoyance, to find that that Education Adviser was only advising on administrative matters. He was not an expert in special education from the Special Education Section of the Department. Why are the classes in these Social Welfare Department-run homes not inspected by the Inspectors from the Special Education Section of the Education Department? Those Inspectors have a certain expertise; they have studied the needs of socially deprived and emotionally disturbed children. All children in these homes are socially deprived by virtue of their confinement. Many of them are also emotionally disturbed. We must not deprive them even more by failing to give them the best provisions for their schooling and their rehabilitation. Our Government departments must be willing to liaise together and so economize on our resources.

In recent years there has been considerable criticism of the expansion of the personnel employed in the public sector. Clearly we must ensure that this extra manpower is used efficiently and effectively. My pleas relating to the work with juveniles who may have delinquent tendencies will ensure there is no wasteful overlapping of resources. If we establish, informally at first, this Diagnostic Centre for the assessment of children who are in trouble and need, we can make further financial saving by co-ordinating the compiling of reports on suitability for the different forms of training and treatment. It could well be useful to call upon the voluntary sector to provide for the Diagnostic Centre some unofficial input, perhaps at the chairman level. Then schools running classes for slow learners and maladjusted children could be assured that the best psychological services were available to them in assessing their children, because in this psychological assessment centre we could call on the best of the educational, clinical and criminal psychologists in Hong Kong. Our expertise in criminal psychology should be utilized to the full for this purpose. Am I asking too much? I do not think so, as it is essential that all Government personnel and staff subvented by the Government work together in harmony to prevent these problem children from becoming the criminals of the future and so destroying the fabric of our society.

I realize that some in the business community cannot always appreciate the value of our social services and of our increased expenditure on education, although they are quick to point out the falling standards in English and Chinese among their young employees. I should like therefore to place on record that the extra teachers granted to secondary schools for remedial teaching in English and Chinese are already proving beneficial in the teaching of these languages. I am confident that the extra graduate teacher to be granted in September 1983 and the two non-graduate teachers to be provided in 1984 will indeed considerably raise the standard of our education. My Unofficial Colleagues and I are impatient to see the report on the overall review of the education system in Hong Kong that this Council was informed arrived on the 30th of November 1982. The slowness of its publication naturally arouses suspicions in our minds that the Government intends to pigeon-hole it away and not make public its recommendations. I trust our misgivings are unfounded and that the Government does not intend to waste the money spent on this enquiry, which I am told will have cost the taxpayers almost a million dollars by the time the accounts are completed.

One further point regarding the full and right use of Government-paid personnel needs to be mentioned. We must not countenance any idleness or slackness because of poor timing of work programmes. If there are insufficient typewriters for use or if equipment is out of use because of its breakdown, we must make sure that these failures are swiftly remedied. Similarly we must see that personnel trained in one sphere are not required to cover vacancies in other spheres. Such breeds inefficiency and wastage of resources. Very often responsible directors of voluntary organizations are distressed and frustrated by the delay in the answering of their letters by the Government departments with whom they have to deal. Their visits to Government departments leave them with the impression that a lot of Government personnel have time on their hands for gossip and tea-drinking.

I trust that is not true, but I do know that those voluntary agencies do not always receive sufficient back-up from one Government department in their dealings with another department. In consequence capital building plans are considerably delayed. When examining the estimates, we were particularly struck by the large amount of approved commitments for new projects in the capital account for Special Education Subventions. Over \$140 million are committed on most worthwhile projects. They have been approved; but for one reason or another, they have been delayed. It seems to be no one's business to cut through red tape and ensure there are none of these interminable delays. Every year of delay must raise the costs by several millions of dollars. We questioned the reasons for the delays. We were given various reasons. I think the Government must be more in control of these projects where it will pay such vast sums from the public purse. Some reasons for delays may be acceptable, but some cannot be accepted. Let me give an example. Schools, such as the Hong Kong School for the Deaf, where squatters have encroached on their

private land are not given sufficient backup by the Government. Were the land to be Crown Land and it needed for a public purpose, the squatters would be removed. Schools run by the voluntary sector, but fully aided by Government are part of the public sector. When they need to recover their land for fuller development of their site to provide better facilities, their site must be treated as land required for a public purpose. Such voluntary organizations cannot find large sums in legal fees in order to have squatters removed. Consequently school buildings can be delayed and children deprived of their rightful education. Unfortunately it seems that the Government has not paid sufficient heed to those in the Special Education Section of the Education Department who would like to see these capital projects brought rapidly to conclusion. They include projects for the deaf and many projects for the mentally retarded and maladjusted. There are similar delays in other projects in the field of Medical and Health. Letters are sent and no answers come, a month goes by, a second and a third month. One case was recently brought to my attention, a letter remained unanswered for over a year. Perhaps the Government considers not all the delays lie in its court. If so, what do the civil servants do to maintain frequent liaison with the voluntary agency to provide expert advice and to see that the project can be completed within a reasonable time? In the end after these delays, it is the public purse that suffers as it has to meet the higher costs caused by them. We were informed that sometimes the voluntary bodies withdraw from a project. I consider part of the reasons for that may be unreasonable demands and conditions made by the Government on the voluntary organizations, who reluctantly have to decide that such a project will not after all be suitable for them to undertake. What a tragedy as the poor, the handicapped and those in need will have to wait even longer for the services to which Government policy has already stated they are entitled.

We need to remember that we have laid down certain policies regarding social services provisions. Amongst these is the commitment to provide free and compulsory education for nine years in the public sector to all who wish to avail themselves of public sector education. Unfortunately we do not yet have enough secondary school places in Government, fully-aided and non-profit-making schools of good standing. The Education Department has three grades of independent private schools in which it buys places to enable children to receive their three years free and compulsory junior secondary education. Unfortunately we are still having to buy places in many of these schools which are sub-standard in quality. The majority of these worse schools are in Kowloon and the New Territories. They do not have proper school buildings; they have little or no play areas and they do not have many trained teachers. The following figures reveal the reason for my concern. On Hong Kong Island only 17 of our 64 secondary schools are not in purpose built and free standing premises; but in Kowloon, 33 of our 94 secondary schools are in this category, that is, if I may say, more than one-third; and in the New Territories, 17 out of

the 44 secondary schools are of this inferior standard, again more than one-third. Of these 67 schools operating in sub-standard premises, 40 are having bought places, thus these schools are within the public sector. Is it any wonder that parents do not wish for their children to attend them? But many poor and illiterate parents have no alternative but to send their children to the school to which they are allocated by the Government system. I realize that the lack of school buildings will be with us for a few more years yet, but I plead that every consideration be given to overcome this problem as soon as possible.

I put in this plea, because I am concerned for our teachers and students suffering injustice in giving and receiving education in these sub-standard institutions. Never forget that schools with bought places are part of the public sector, so that their teaching staff must be compared with those in Government and aided schools. I long for the day when all schools in the public sector can receive similar treatment in staffing and in staff benefits. Only then can one and all work together in harmony towards the common good. In this connection I wish to raise a warning to those concerned with deciding on pay increases to the civil servants. Some are suggesting that in making the next pay adjustment award, regard must be taken of the value of the civil service fringe benefits. This could create increased ill-feeling between staff in institutions receiving subvented salaries on a par with civil servants and those in Government service, since it is only those in Government service that have those other benefits of pensions, housing, medical, dental and education allowances. Ill-feeling will lead to friction between employees within the Government and voluntary sectors. This will militate against the peace and security of our community. We must avoid such friction and do nothing to reduce the quality of life among the professional members of our society. However much we have to watch our expenditure this year, we must do our best to preserve harmony within our community. My suggestions for economy and the wise use of our financial resources will do much to enhance the social environment of a wide spectrum of our citizens.

Sir, with these remarks, I support the motion.

MR. S. L. CHEN:—Sir, as far as I can recall all Budget Speeches given by the Financial Secretary in the past have made the point about the importance of the manufacturing industries to Hong Kong's economy, but never have I been more convinced of the sincerity of the statement as I was when I heard this year's Speech by the Financial Secretary and his emphasis that our economy is and must be export-led. In the wake of the difficulties experienced by our economy during 1982, it is comforting to hear that Hong Kong's main export markets are expecting a mild but growing recovery in 1983. If this materializes, we should see again a growth in Hong Kong exports.

But is our industry ready and able to take advantage of the situation? Quite obviously, unless our products are competitive and will remain competitive, Hong Kong would not be able to benefit from an upturn of the world's

economy. It is therefore vitally important that our industrialists must be encouraged to continue with confidence their investments in updating their plant and equipment and in improving their production processes, whilst at the same time Government must be seen doing all it can within established policy guidelines to assist maintaining industry's competitive position. To this end, I am pleased to note that despite obvious financial problems, Government decided to maintain in 1983-84 a high level of investment in manpower development and training and other industry and trade related supporting facilities.

I note in particular that in the 1983-84 Budget, a notional sum of \$125 million has been set aside for vocational education and training. In addition there is also \$1,300 million earmarked for the two universities, Baptist College and the Polytechnic and the establishment of a second polytechnic. Vast sums of money would also be spent on other industrial support infrastructure such as development of road, rail and port facilities, sponsorships of industrial research projects, industrial investment promotion, trade development activities, etc. All of these must be viewed as evidence of Government's confidence in Hong Kong and its determination to maintain Hong Kong's position in the international market. Moreover, the recent offer from banks for special loan, and credit facilities to small manufacturers, which constitute the backbone of Hong Kong's industry, is also a tangible expression of confidence in the future of Hong Kong's industry. There is little doubt that a sound and healthy industry is the only thing that would guarantee Hong Kong's economic survival and indeed its stability and prosperity.

Having briefly commented on the economy, I would now like to make a few observations on the Budget proposals.

In the concluding remarks of my speech in the Budget Debate in 1980 I said that and I quote 'we must endeavour to reduce our dependence on large capital revenue which, as I have warned earlier, may be difficult to raise in future. It would therefore be wise for contribution from indirect taxation to be kept at a more reasonable level in relation to direct taxation which is income sensitive...' I was therefore more than pleased in hearing the Financial Secretary's decision and proposals for raising indirect taxation whilst maintaining the present level of direct taxation.

The eleven taxation proposals are attempts to raise additional revenue without impinging on the income sensitive elements of the taxation system. This is good strategy and I need not comment beyond saying that if the law of diminishing return is not going to work against us, additional revenue to the tune of some \$3,000 million or more could be raised. However, I would like to air one or two points which the Financial Secretary touched upon but did not explicitly deal with in his Speech, and which closely concerned constraining public expenditure.

In his Budget Speech last year, the Financial Secretary expressed concern over the growth and total size of the civil service and questioned whether the most effective use was being made of the staff resources. He went on to say that this was the area that would receive particular attention during the year. In the draft estimates for 1983-84, it can be seen that Personal Emoluments at \$8,200 million account for about 37% of the total recurrent expenditure. Although it compares well with the average of 38% over the past five years, it does not necessarily mean that because of a large growing base figure, we are achieving the desired economy in the utilization of manpower resources, for during the past five years there might have been extravagance.

The importance of improved productivity is very obvious from the fact that a 1% saving in manpower resources budgetted for 1983-84 would mean a saving of \$82 million for the coming year. Unfortunately, despite many discussions and debates on the subject in this Chamber over the years, there has been little evidence of real improvement in this direction. Nevertheless, I think we are all glad to see that a conscious effort is being made by Government to keep civil service growth to below 5% albeit that it is 5% of an ever-growing number. While this is certainly a step in the right direction, the question remains: are we doing enough? I have my doubts and would prefer to see an increase in efficiency and productivity instead of further growth in establishment.

My second point concerns control and utilization of financial resources. It is not too difficult to see from the Director of Audit's reports over the years that vast sums of money from the public purse have been mis-spent as a result of bad management, inadequate control, lack of supervision, or even simply sheer carelessness on the part of the Controlling Officers. It is not uncommon to hear criticisms that when Government does a job, it is almost always more costly and takes longer time to complete. The Financial Secretary himself might have thus criticized in this not too distant past. I am afraid that the criticisms are not without justification because there indeed have been numerous works undertaken by Government which suffered from delays or over-spending or both. I need not quote any more examples as my Friend Miss BENNETT did cover this area rather well a few minutes ago.

I cannot, and I hope my Friends in Government would not, accept the accusation that Government must be inefficient, wasteful and slow in doing things. Unfortunately, the impression given to the public is that some civil servants actually accept this situation as the norm and instead of endeavouring to improve matters they strive to create excuses for their short-comings. Here is one area where positive improvement, and effort on the part of the Administration to achieve improvement, is needed. Managers in the Government must be prevailed upon to have a greater sense of the need for thrift and be conscious of the fact that it is their responsibility to ensure that financial and material resources under their control are used to the best effect particularly in financially lean times.

Indeed we are going through financially lean times. Nothing illustrates this better than the fact that the Financial Secretary has found the need to raise trivial amounts of additional revenue through the proposed increases in tax on buoy fees (\$20 million) and bank licence fees (\$25 million). However, I endorse his action. At times when belt-tightening is necessary, every dollar counts. Moreover the action serves as a timely reminder to all who are in control of public expenditure that every effort must be made to make ends meet.

Finally, Sir, I note with interest a new departure from the established practice in Government budgetting. I refer to the substantial provisions in the Budget to cover such contingencies as salary adjustments or price increases. I refer in particular to the Additional Commitments Subheads 251 and 789 in Head 106 Miscellaneous Services amounting to a hefty \$1,300 million and \$200 million respectively in the recurrent and the capital accounts. One can be excused for questioning the need for the scale of such measures when firstly according to the Financial Secretary despite no such provisions having been made in 1982-83, the revised expenditure of the public sector for 1982-83 is likely to exceed the approved estimate only by less than 1%, even including last April's salary adjustment, and secondly, the Financial Secretary intends to apply strict cash limits to constrain Controlling Officers to be much more careful in spending. The anticipated deficit would certainly look less fearsome if some of it could be released as a result of better control and supervision.

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

DR. HENRY HU:—Sir, Your Excellency's policy address in October last year has indicated the main direction of the Government policy that 'We shall be prudent in our public expenditure for we must not live beyond our means.' Your Excellency further indicated that 'it is the policy and the firm intention of this Government to invest vigorously in the future of Hong Kong and its people: that we shall continue to do.'

I admire that the Financial Secretary has carried out this policy most satisfactorily, even in the present difficult time, and with great care and wisdom by using 'a reasonably passimonious approach to expenditure, while still maintaining existing programmes and admitting some new ones.'

I should think that the budgetary strategy of the Financial Secretary is a right one. In my view, Hong Kong's economic future is bright, not only we have a right policy and a good administration but also Hong Kong is not lack of such enterprising individuals who have Hong Kong's interest in their hearts and are willing to work and co-operate with the Government. I view our present economic situation as a necessary re-adjustment after years of double-digit growth. What we really should be careful about is that we should not create a situation that we would gradually be phased out from being an international trading and financial centre. Basically speaking, Hong Kong's economy is based

on a trivet. It is the continuous efforts of the Government in the past years that have firmly established this stable structure. The trivet of Hong Kong's economy comprises:—

(1) *The manufacturing and export sector*

Hong Kong's prosperity is originated from the development of its industries and exports. We should never neglect this important pillar of our economy. One of the keys to help our industries is to increase the competitiveness of their products in the world markets both in terms of quality and prices. The move by the Government to raise the initial depreciation allowance from 35% in 1981-82 and 55% in 1982-83 and to make acquisition cost of patent rights tax deductible this year should have partly alleviated the financial burden of those enterprising industrialists. However, this is not sufficient. I hope that some more positive measures such as research centres, guidance service and information facilities etc. can be provided to them. It would also be of great help if Government could encourage the banking sector to provide loans of low interest rate to small and medium size factories.

(2) *Tertiary service and re-export trade*

This pillar of our economy depends mainly on our economic co-operation with China and in particular the Guangdong Province. Figures show that notwithstanding world recession, the re-export business has been growing constantly. The tertiary services could also minimize the unfavourable effect of the temporary downturn of our manufacturing industries. They have provided in the year of 1982 a total of 583 000 job opportunities. I therefore hope that more economic and commercial contacts and joint enterprises with the Guangdong provincial authorities including the Special Economic Zones could be initiated by us to enhance the economic activities on both sides of the border.

(3) *Hong Kong as a world financial centre*

This pillar of Hong Kong's economy could be further strengthened if we have a relatively strong and stable currency. Mainly because of the abolition of the interest tax for foreign currency deposits the total amount of foreign currency deposits in Hong Kong has been increased more than double last year. It is a good sign for Hong Kong as an international financial centre. But the value of Hong Kong dollar denominated time, call and notice deposits with banks and d.t.c.s has declined from about \$73 billion at the end of February 1982 to \$59 billion at the end of December 1982, while savings deposits, which are not subject to tax, have increased from \$48.3 billion to \$61.9 billion. It would be reasonable to assume that the growth of foreign currency deposits in Hong Kong has been partly at the expense of Hong Kong currency deposits which are being unequally treated. The unequal treatment is not without side effects. It leads to a

weakened local currency which will jeopardize H.K. dollar's position as a means of international payment and more importantly, it will reactivate the only newly harnessed inflation. The Financial Secretary's main concern over the removal of the local deposit interest tax is the loss of the revenue of about \$620 million in 1983-84. Since the estimated revenue for 1982-83 is \$725 million, the revenue is already falling by \$105 million and this trend may continue in the following years unless we do something about it.

I would think if we raise foreign currency deposit interest tax from zero to 5% and reduce Hong Kong currency deposit interest tax from 10% to 5%, there would be no great loss of revenue or outflow of foreign currency deposits from Hong Kong, yet it could boost Hong Kong dollars value and its deposits. I should think the move would bring more revenue to the Government and more benefit to our industries.

In the beginning of Financial Secretary's speech, he mentioned that about \$16.6 billion would be spent on social services as a whole and that his task is to help the poor. I urge the Government to take notice of the change of value conception in Hong Kong and the loosening of the Chinese family tie. I should think that the Government should be more generous in dealing with those people who cannot look after themselves because of old age, immaturity, mental or physical disability etc. I wish particularly to mention about the institutions for severely handicapped persons. During the past years, I have had a chance to visit several of such institutions. Both the people who are serving and the people who are served therein deserve our great sympathy. It needs a great deal of perseverance and patience to serve those severely handicapped persons who are entirely helpless. I should think the manning ratio of such institutions should be 1 to 1 and the staff there should not be working long hours. Next, I wish to mention about the public care for a person who falls into temporary sickness and thus out of work. In such case, he or she should have easy access to free or inexpensive medical treatments.

Since our economic situation is basically sound, we have no reason to be over-irritated and there is no need for the Government to resort to borrowing for financing our recurrent expenditures. There are side-effects of such borrowing. For example, we may pay less attention to intelligent cost cutting, revenue raising and controlling of public expenditure. It may also effect our position as an international financial centre. Therefore, we can only rank borrowing as the last resort to solve our financial problems. We should have confidence in ourselves and the Government. With Hong Kong People's usual resilience and sense of belonging, I am sure that we can overcome all the possible difficulties and there is a bright future lying before us.

With these remarks, Sir, I support the motion.

REVD. P. T. MCGOVERN:—Sir, since the price of land has come down from the exorbitant levels of previous years, the quite accidental revenue from that source has diminished. It is understandable that the Financial Secretary has to scratch around to raise money from other sources. Few would deny that liquor and tobacco can fairly be described as luxuries and therefore make a fair target for additional tax. Few however would agree that the use of a private vehicle is a luxury. The users of AM registered cars will no doubt rush to agree with me when I state that the use of a private vehicle is a necessity for some who, rightly or wrongly, consider the nature of their work to be important.

The Financial Secretary estimates that he can raise an additional \$90 million from fees for licences and tests (Para. 100). From fees for the annual registration of vehicles he hopes to bring in an additional \$220 million (Para. 104). That makes \$310 million from these two types of fee. This is of course in addition to the yield from what I can only call the penal taxes of May 1982.

In paragraph 9 of the budget speech the Financial Secretary comments on the dearth of suggestions on how to get additional revenue. I am happy to offer (without consultancy fees) a suggestion that by one calculation could raise \$417 million, or by another calculation \$466 million, in round figures. (I speak of round figures in the context of mathematical calculations, not in the context of the need to tighten belts.) (laughter)

Paragraph 87 of the budget speech states that it is considered 'inopportune now to increase profits tax'. My suggestion is that not 'now' but next year if additional revenue is still needed, as seems likely, as an alternative to the further persecution of the private motorist, a modest 1% be added to profits tax. If during the coming year profits fall back to about the level of 1981-82 the yield from a 17½% tax would bring in an additional \$417 million. If on the other hand the Financial Secretary's estimate in note 37 to paragraph 73 happens to be right and the present profits tax of 16½% would bring in \$7,700 million, the yield from a 17½% tax would bring in an extra \$466 million. Money to spare over the required \$310 million. Maybe it was a mistake to remove that ½% last year.

One reason why I offer this suggestion is that I notice one peculiar feature in all the recent talk about tightening belts. The Government has been loud and clear for quite some time that there must be cuts in public spending, with one very broad arrow pointing at keeping down the salaries of its employees. The Government is of course a non-profit organization. In the profit making private sector the pressure groups of the business world have also been loud and clear in the media and elsewhere about their determination to keep down the pay of their employees, with fairly obvious arrows pointed at the Salaries Commission's pay trend survey. Both the public sector and the private sector agree, as I do, that belt tightening is necessary. The odd thing I have noted is that they also seem to agree that the belt tightening should be by their employees. Not a word about belt tightening in the board room. Para. 10 of the budget speech in fact comments on the fact that 'industry  does not call  for increased profits tax'. Let me make up for their silence this year, and their

anticipated silence next year, by calling for it now, not for now, but for next year, if additional revenue is still needed then. Perhaps we could all hope to anticipate that by then there will be an upturn in the economy, a hope that might make such a tax more palatable to the tax payer, and more profitable to revenue. I would add that, of course, this would not be soaking the rich, which the Financial Secretary is loathe to do. Those who make profits mostly claim to be in dire straits.

I would make another comment on a totally unrelated subject, and I make it briefly without arguing the case. I merely point out a fact for consideration. We have, especially in the soul-destroying closed camps, which cannot go on for ever, a number of Vietnamese refugees. We have on the other hand hectares of fallow land in many almost deserted parts of the New Territories. It should not be beyond the ingenuity of Hong Kong's fertile brains to put the two facts together and devise a method by which the land owners (if they can be found abroad) could be offered a very modest rent—anything would be better than the nothing which they are getting now—and volunteer refugees could get a modest proportion of what they could earn by productive work, work which would also save some of their dignity. We would all benefit from an increase in, for example, the 40% of home grown vegetables, with the consequent side effect of helping our balance of payments.

I am well aware that there are obstacles of all sorts. But we are in hard times which call for special measures or even special powers to deal with a form of waste which we can ill afford. I believe it would take quite a long time to devise and implement some such scheme and therefore I believe that to begin thinking about it now, especially if in Government Standard Time, would not in any way detract from the hoped for deterrent effect of the present closed camp policy.

So far I have made one suggestion as to an alternative source of revenue, and one suggestion as to a possible saving of waste. Both these suggestions are positive responses offered in the spirit of paragraph 9 of the budget speech.

My next, and last remark, is I am afraid more in the nature of a flat contradiction of fact. I am aware that paragraph 78 of the budget speech is strictly in the context of an economic argument about the price of land. But I believe the conclusion of the paragraph is too broad. It states: 'But it is a fact that poor planning by speculators had led to a considerable oversupply of all types of property'. In the strict context of supply and demand and profit there is a meaning in that sentence. But in the more real context of supply and *need*, as distinct from supply and *demand*, the sentence does not make sense. We still have thousands of squatters on our hillsides, other thousands in temporary housing, still other thousands in rooftop huts, not to mention the older slums and the not very habitable Mark One and Two estates. All these people are looking for just one thing, namely, decent housing at a price they can afford. There is still an acute undersupply of such property.

With these two suggestions and one contradiction, I support the motion.

4:03 p.m.

HIS EXCELLENCY THE PRESIDENT:—At this point, Council might like to take a short break.

4:16 p.m.

HIS EXCELLENCY THE PRESIDENT:—Council will resume.

MR. PETER C. WONG:—Sir, in presenting his 5th budget to the British Parliament last week, the Chancellor of the Exchequer, Sir Geoffrey HOWE, indicated that there were signs that the worst of the problems of the world economy were beginning to abate. This is indeed cheerful news. And so is the recent announcement by the O.P.E.C. countries to cut oil prices by 15% from U.S.\$34 to U.S.\$29 per barrel. Undoubtedly, the weakening of oil prices will help ease the most severe world recession in 50 years. There are also other cheerful prospects on the horizon, but I shall not dwell on them.

Let me now turn to our own budget and our own economy, which as we all know, is very much dependent on the economies of our major trading partners. I agree with the Financial Secretary that it is extremely difficult to make accurate forecasts on the time and rate of the expected recovery, but recent events seem to suggest that we may be seeing light at the end of a long tunnel.

This afternoon I propose to comment briefly on certain aspects of the budget and related matters.

The Deficits

The total estimated deficit for the current year and the coming year will be in the region of some ten billion dollars. Of course the Financial Secretary is concerned, but fortunately for us, he does not panic. On the whole, I endorse his three pronged approach to tackle the budgetary deficits by a balanced contribution of use of fiscal reserves, increased taxation and more tightly restrained public sector expenditure. Our fiscal reserves at the moment stand at around 22 billion dollars. After allowing for the deficits for the current year and the next year, they would be reduced to around 15.5 billion dollars, taking into account the proposed tax increases for the next year.

Estimated Expenditure

I note with approval the Financial Secretary's guideline in imposing a cash limit of 10% to the growth rate in public sector expenditure and in aiming to keep civil service growth overall to below 5%. It is reassuring that the Financial Secretary intends to carry on with existing programmes, but will be frugal regarding new ones. In other words, despite adverse circumstances, Government will not cut back on committed programmes or essential services. There will be money for the public housing programme, new towns and rural New Territories development, main infrastructure facilities, social and security

services. Expenditure for the coming year is estimated at 42.5 billion dollars on Consolidated Account, an increase of 11.7% in money terms compared with the revised estimate for the current year. In real term the increase will be about 3%, a sharp slowing down from the current year. The Financial Secretary's good discipline is commendable.

A new measure will be the provision for possible salary adjustment, which, if required, will be transferred from the additional commitments vote of 1.3 billion dollars. Personally, I would be very cautious in considering any salary adjustment in the coming financial year, but if Government in its wisdom feels that an adjustment is appropriate, I would suggest that it should not exceed 5%, which would amount to some 700 million dollars. This would leave some 600 million dollars in the additional commitments vote for unforeseen commitments not provided for in the Draft Estimates.

At a time when serious crimes are on the increase, I note with concern that expansion of the Police Force in 1983-84 will be limited. The number of disciplined personnel in the regular force will increase from 23 476 at the end of 1982 to about 24 420 at the end of 1983, which represents about 4%. This is below the 5% growth rate imposed by the Financial Secretary. Perhaps some reconsideration may be in order.

New Taxation

Estimated revenue for the coming year will fall short of estimated expenditure by 6.2 billion dollars. The Financial Secretary proposes to meet the deficit by raising three billion dollars in indirect taxes and the balance to be paid out of our fiscal reserves. Of his 11 proposals for tax increases, the first three namely, increases on liquor, tobacco and hydrocarbon oil duties, driving licence and vehicle licence fees amount to no less than two billion dollars. The remaining eight proposals make up another one billion dollars.

While in principle endorsing the proposed increases, I cannot help feeling that the Financial Secretary, thorough and methodical as he is, must have considered and rejected an alternative means of meeting the 6.2 billion dollars deficit by raising two billion dollars in indirect taxes and the balance to be paid out of our fiscal reserves. Obviously, our reserves would be reduced by a further one billion dollars—from 15.5 billion to 14.5 billion dollars. But would that really matter in the context of our economy and in view of the record of our past performance? On the other hand, the burden on the consumer would be considerably lightened if the very heavy increases in regard to the first three proposals were to be cut by 50%, reducing the estimated revenue by one billion dollars.

Before the budget, it was widely tipped that there would be increases in indirect taxes. The proposals in themselves therefore came as no surprise. But the public was surprised by the size or the rate of the increases. Perhaps the Financial Secretary may wish to throw some light on why he had rejected the

idea of using a further billion dollars from our fiscal reserves and instead opted for his present proposals. After all, reserves are to be used in rainy days. It is now raining and raining hard. Any reasonable measure that can lighten the burden of the tax payer must be welcomed.

Tax Concessions and Reform

The two tax concessions and one reform proposed by the Financial Secretary are not cosmetic. In my view, they represent a genuine and sincere concern on the part of the Financial Secretary to lessen the burden of the tax payer and to improve the tax system where appropriate. As such, they have my support.

The Exchange Fund and our Fiscal Reserves

Appendix E of the printed version of the budget speech gives a lucid account of the Exchange Fund. This Fund is entirely managed from Hong Kong. Our fiscal reserves are lent to this Fund against interest bearing certificates. There is therefore no question that our fiscal reserves are not managed by ourselves and therefore not really at our own disposal.

Representations

I have received representations from the Hong Kong Tourist Association regarding the proposed hotel and airport taxes. I understand that similar representations have been made to the Financial Secretary. I shall deal briefly with some of the points raised. H.K.T.A. estimates that tourism has in the past twelve months contributed no less than nine billion dollars to the economy, which is roughly 25% of that contributed by the clothing and textiles industry. The Association asserts that the proposed taxes would have adverse effects on the tourism industry. While it does not object to the taxes *per se*, it has certain reservations. Regarding the airport tax of \$100, it is argued that many tour operators and travel agents have contractual commitments based on the existing service charge of \$20 and they will, therefore, have to accept a large part of the burden of the new tax in the initial period. H.K.T.A. therefore suggests that in these circumstances it would be reasonable to defer the effective date of the new tax to say 1 October 1983. On the hotel tax, H.K.T.A. suggests that the proposed increase of 1% should be introduced not earlier than 1 October 1983, preferably on 1 April 1984. The reason advanced is that the majority of hotels in Hong Kong have contractual agreements, in some cases probably 12 months in advance, which include the hotel tax at a fixed sum. Any increase would therefore have to be absorbed by the hotels during the period covered by the agreements.

H.K.T.A. is justifiably concerned about Government's intention to eliminate its contribution to the Association from General Revenue over a period of four years. The reduction in funds would necessarily entail reduction in activities. This is particularly unfortunate at a time when the Association will have to increase its efforts in attracting visitors and enhancing visitor spending in Hong Kong, thus further improving its contribution to the economy.

I see some merit in the representations of H.K.T.A. and would urge the Financial Secretary, a distinguished former chairman of H.K.T.A., to give them due consideration.

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

MR. WONG LAM delivered his speech in Cantonese:—

督憲閣下：本人要討論的是在目前經濟環境困難的背景下，政府的開源節流問題。

正如眾所週知，本年的經濟環境，令人困擾，大家都不期而然地認為政府應該開源節流，以應時艱。這點本人並無異議。不過，必須特別強調的是：我們不應為了太過着意平衡收支而要求政府過份地節流，這樣很容易使不少重要的服務在運作上受到過份的打擊，從而削弱本港在經濟上的發展和競爭潛力。故此本人非常讚同財政司即使在預計歲入減少的情況下，仍對各項經常性開支的撥款予以適量的增加。這點在大原則上來看無疑是高瞻遠矚和值得支持的。

財政司在預算案中，明確地說明其工作是要改善貧窮人士的生活，來縮窄貧富二者間的差距，而他所列出的多項開源措施，大抵都是以這個目標為依歸。這原則本人非常贊成。不過，本人認為其中有關增加差餉徵收百分率的提議，卻和這原則有所出入，值得比較深入討論。

財政司提議由一九八三年四月一日起，將市區與新界的差餉分別增加百分之二及百分之二又二分一，從而一律徵收百分之十三又二分一。依財政司估計，這表示一名市區差餉繳納人將要多繳百分之十七點四的差餉，而一層典型細小唐樓與大面積的洋樓的增幅，分別為平均每月十元及一百元不等。表面上看來，這種增幅對於富裕的業主，影響並不太大；但並非所有業主都是富裕人士，而更甚的是很多時負起繳納差餉者根本連業主資格也沒有，而祇是一些普通收入租客的租客。對於這類人士，差餉率的增加是直接影響其生活水平的。近月來一般收入人士生活水準不斷受各項加價的衝擊，例如水費、交通費、電費、電話費等，而且新的差餉估值又快將進行，物業稅的實數亦可能向上調整。凡此種種，孤立來看可能影響不大，但整體而言，對於為數不少的小業主或租客的生活水準，肯定是沉重的打擊，與財政司提高貧窮人士生活水平的原則頗不相符。

在討論差餉時值得順帶提及的是，政府有意於一九八四年四月，以重估後的市面租值來作準則釐訂新的差餉值的問題。雖然財政司言明其目的不是要增加差餉方面的收入，因為屆時徵收百分率將會調整，但對於個別單位的業主或租客而言，屆時仍有可能要繳交更高的差餉。本人深切希望政府屆時在釐定新的徵收率前，能夠體諒這類人士的困難，予以一定程度的照顧，以免其受另一次的打擊。

本人認為共渡時艱時無論貧富都應作出承擔。政府固然不應「壓榨」富裕人士以要求他們負起全部重任，但也不須過份倚賴投資和再投資（第八段）的理，而認為現時並不適宜增加對商業盈餘而無增加其利得稅。這對於他納稅人並不妨礙投資，但卻是項很好的增加稅收的方法。事實上，七〇年代中期政府曾把利得稅的百分率提高，及至經濟好轉時才把此百分率回降。預計為七億元，本人估計增加百分之

本人認為政府應盡可能考慮在差餉率方面作若干讓步，而從利得稅中尋求彌補。

至於財政司提及的其他開源項目，大體上都是盡量以不衝擊小市民生活水準為依歸，其精神是值得歡迎的。尤其值得歡迎的是在此困難的環境下，財政司仍提議提高與父母同住者的供養父母免稅額。這點在一個仍然重視人倫關係的香港社會，是非常恰當的和值得支持的，而且間接地對部份市民的生活水準的保持，也有多少的幫助。不過，財政司要求納稅者與父母同住這一點，在實際環境上是有問題的。目前不少居住於公營樓宇人士，其子女於婚後依例是不准繼續於同一單位居住的。他們並非不願與父母同住而是不能這樣做。另外，不少居於非公營樓宇人士，因為種種特殊理由而祇能供養父母，卻不能與父母同住（例如家中地方小而子女眾多），但他們供養父母的支出卻並不比與父母同住的少。所以同住這一條款實在是值得商榷的。基於稅收的損失並不太大，本人認為財政司不妨考慮將此條款取消，而令所有真正供養父母的納稅人都因此獲益。

剛才所討論的是開源及有關的問題，現在要提及的是節流方面的意見。本人認為，政府除了要更加嚴格地控制支出以減低浪費，更有效地利用現有的資源外，不妨利用這個時候考慮一些經濟環境良好時不容易被人接納的提議，例如將部份政府服務以合約方式交予私人機構處理。政府的屠場和車隊都不妨這樣做。另外一項值得政府鄭重考慮的是，政府應否繼續辦理中、小學的問題。目前教育署的龐大支出有部份是用於辦理政府中、小學的。據教育署所提供的資料，政府小學每一學位的支出為三千六百零七元，而化於支助小學的學位則祇二千六百零一元，二者相差近百分之三十九。至於中學方面，其差距亦近百分之三十。政府不妨考慮以漸進方式將官立中、小學移交其他團體辦理。目前不乏宗教及其他組織在辦學方面都深具經驗，而且亦具有良好的表現作據。本人認為政府的責任應該是教育政策的釐訂，教學質素的改善，而非學校的實際管理。同樣地，假如我們深入探討其他政府服務，不難發現相類的情形，例如社會福利工作，電台的設立等，很多都是值得政府考慮祇保持政策的釐訂和監察工作，而將執行的部份撥交志願或私人團體辦理的例子。當然，這種移交將會產生不少過渡性或人事上的問題，但相信仍然值得政府鄭重審慎考慮的。

正如本人在開始時所說，政府的節流應以不妨礙本港各項服務的運作，及避免削弱本港在經濟上的發展和競爭潛力為依歸，所以節流是要非常小心的，一旦矯枉過正或考慮未週而隨便節流，可能得不償失。就以公務員薪金應否調整為例，部份人士最近曾發表意見，認為在目前的經濟環境下，應該凍結公務員薪金的調整。此點本人並不同意。目前公務員人數十多萬，相信極大部份是月入祇有數千的。基本上他們也是中、下層市民的一份子，也正受加價潮流的衝擊，不應因為他們是公務員而加以岐視。政府有需要依着實際環境（例如通脹率及私人機構薪金的增幅）而酌量調整其薪酬。雖然有部份公務員的效率未如理想，但整體而言及與其他地方比較上，本港的公務員是頗具工作熱誠和效率的。為維持其工作效率及生活水平，凍結其薪金調整正是矯枉過正的做法。所以本人並不同意這種做法。

總括而言，本人雖然對財政司部份提議具有不同的看法，但整體上對其開源節流以應付時艱，及保持本港經濟競爭潛力的努力是非常同意的。

督憲閣下，本人支持此項動議。

(The following is the interpretation of what Mr. WONG Lam said.)

Sir, I wish to discuss how the Government should, under the present difficult economic situation, tap new sources of revenue on the one hand and exercise economy on expenditure on the other.

As we all know, the economic background this year is disturbing. This leads many to the obvious suggestion that the Government should explore new sources of revenue and economize on expenditure in order to tide over the present difficulties. I have no objection to this. Nonetheless it must be stressed emphatically that we should not be too concerned with making both ends meet and demand the Government to cut down excessively its expenditure, as to do so would adversely affect the operation of many of the important services of the Government, and undermine Hong Kong's economic development and potential for competition. I therefore endorse fully the Financial Secretary's move to adequately fund the various items of recurrent expenditure, even though the annual revenue is expected to decrease. As a matter of principle, this is undoubtedly farsighted and worthy of support.

The Financial Secretary stated unequivocally in the Budget Speech that this task is to narrow the gap that exist between the successful and the poor by improving the lot of the poor. Indeed this is the spirit of many of his revenue boosting proposals. I fully endorse his intention. However, I think his proposed increase in the percentage of rates to be levied departs from this spirit, and is something that deserves an in-depth discussion.

The Financial Secretary proposed that with effect from 1 April 1983, the rates for the urban areas and the New Territories should be increased by two and two and a half percentage points respectively, thus the uniform rates will be 13½%. According to the Financial Secretary's estimate, this will mean a 17.4% increase in the rates payable by an urban ratepayer. The average increase for a typical small tenement and for a large flat will be \$10 and \$100 a month respectively. On the face of it, this proposal is unlikely to affect too greatly the rich property owners. But not all owners are rich, and what is worse is that very often those who pay rates are not even qualified to be owners but are only tenants with average income. For them the proposed increase directly affects their standard of living. In recent months, the average income group has been given numerous price increases, such as water charges, travelling expenses, electricity and telephone tariffs etc. Moreover, a new valuation of the rateable values will start soon and property tax is likely to be increased. Viewed in isolation, the individual increases may not be great, but taken together as a whole, they undoubtedly deal a heavy blow to the living standard of many small owners or tenants. Thus, the proposed increase in the percentage of rates to be levied is inconsistent with the Financial Secretary's declared intention to improve the living standard of the poor.

While discussing rates, it is worthwhile to comment in passing on the Government's intention to use the re-assessed market rent as the basis for determining the rateable values in April 1984. Although the Financial Secretary stated that the reassessment is not designed to increase the return from rates, as the poundage will be adjusted, it is possible that for certain owners and tenants the absolute amount of rates will still be greater. I earnestly hope that before the

new rate percentage is eventually determined, the Government will view with sympathy the difficulties confronting these people and take appropriate measures to avoid dealing an unintended blow at them.

In my opinion, all of us, no matter rich or poor, should play a part in overcoming the difficulties of the time. Admittedly, the Government should not 'squeeze' the rich in order to make them shoulder the responsibility completely, but neither should it unnecessarily refrain from asking the rich to make a greater contribution than usual. On the ground that 'employment and exports depend on the maintenance of investment and reinvestment' (paragraph 87 of the Budget Speech), the Financial Secretary holds that it is inopportune now to increase the tax on business profits. However, I do not agree with this argument. When the economy was buoyant, the Government did not increase profits tax due to hefty revenue, but now, in the name of encouraging investment in the present poor economic climate, the profits tax is again left untouched. This is not fair to other taxpayers. In my opinion, the present rate of profits tax is not high, and as long as the increase is not inordinate, it would not necessarily affect investment and reinvestment, but would be a very good way to increase revenue. In fact, the Government had raised the rate of profits tax in the mid-seventies, and lowered it only when the economy had improved. Hence the increasing of profits tax is not altogether inconceivable. As the revenue from profits tax for the year 1983-84 is estimated to be \$7.7 billion, I estimate that an increase of one percentage point in the profits tax rate will boost the Government revenue by over \$460 million.

In my opinion, the Government should, as far as possible, consider making a concession in the percentage of rates and make up the loss from a raise in profits tax.

As regards the Financial Secretary's other revenue boosting proposals, they do not, generally speaking, directly affect the living standard of the common people, and are commendable in spirit. Especially commendable is that even in the present difficult situation, the Financial Secretary still proposes to raise the dependant parent allowances of the taxpayers actually living with their parents. This is very appropriate and worthy of support in a community such as Hong Kong where filial piety is still emphasized. Furthermore, it indirectly though modestly, helps many citizens to maintain their living standard. Nonetheless, the Financial Secretary's requirement that taxpayers must live with their parents is in practice open to question. At present, the married children of public housing estates residents are not permitted, under the regulations, to continue to live in their parents' units. They are not unwilling to live with their parents, but they are not allowed to do so. Moreover, quite a number of people who live in private housing, owing to various special reasons, can only support their parents, but cannot live with them (for instances, the living space is too small or they have many children), but the expenses incurred in supporting their parents are not necessarily less than those who actually live with their parents.

Hence, the requirement of actually living with parents is debatable. As the loss of revenue is not too great, I am of the opinion that the Financial Secretary might as well consider cancelling this requirement, so that taxpayers who really support their parents will be benefitted.

Having discussed ways to tap new sources of revenue, I now turn to the question of cutting down public expenditure.

I think the Government should, apart from exercising stricter control of expenditure to reduce waste, and to use more effectively the present resources available, consider proposals which are not readily acceptable in times of economic prosperity. Some Government services or functions, for instance, could be contracted out and taken over by the private sector. This may apply to abattoirs and the Government transport pools. Another major area worthy of consideration is the operation of Government primary and secondary schools. A large share of the huge expenditure of the Education Department is related to the operation of these schools. According to the information provided by the Education Department, the cost per Government primary school place per annum is \$3,607, whereas that of aided schools is only \$2,601. The difference is nearly 39%. In respect of secondary schools the difference is almost 30%. The Government perhaps should consider handing over the Government primary and secondary schools to other organizations on a phased basis, since there are quite a number of religious bodies and organizations which are well experienced and have proven records in the running of schools. I believe the Government's job is to draw up education policy, and to improve the quality of teaching, but not the direct running of schools. Similarly, if we examine closely other public services, such as social welfare work and broadcasting, we may conclude that the Government should only concern itself with the laying down of policies and the monitoring of how these policies are being implemented, but not with the actual implementation as such, which should be left to private or voluntary agencies. Obviously, some transitional or personnel problems will arise during the transfer, but still the suggestion is worthy of the Government's serious and careful consideration.

Just as I mentioned at the beginning, the cutting down of public expenditure should not be allowed to go as far as to affect the operation of public services, and to undermine of Hong Kong's economic development and potential for competition. Retrenchment of expenditure should therefore be done very carefully. Any over-kill or ill-conceived reduction may be counter-productive. Take the case of civil service salary, for example, some critics have recently expressed that in the present economic situation, the pay adjustment of civil servants should be frozen. I do not agree with this. The majority of the 100 000 strong civil servants earn only a few thousand dollars a month. They are basically middle or lower income citizens who are hard hit by the waves of increases. They should not be discriminated just because they are civil servants.

There is a need for the Government to revise their salaries in accordance with the actual circumstance (such as the rate of inflation and the range of increase of salaries in the private sector). Although there are some civil servants whose performance needs improvement, the majority of our civil servants, as compared to civil servants elsewhere, are keen and efficient. In the interests of maintaining their efficiency and living standard, I do not agree that their pay adjustment should be frozen, as this would be an example of over retrenching.

All in all, I may have some reservations on certain of the Financial Secretary's budgetary proposals, I do agree with his overall effort to reduce public expenditure and open new sources of revenue without affecting the potential competitiveness of our economy.

Sir, I support the motion.

DR. HUANG:—Sir, in times of economic buoyancy, the Financial Secretary's task is a pleasant one, for the more widely he spreads taxation concessions the more smiling faces there are. In times of economic difficulties however, his success has to be judged by the number of unsmiling faces, for only if the burden is evenly distributed among the population is he likely to have been fair. So I must commiserate with the Financial Secretary on his task and congratulate him on the fairly wide spread of glumness which his budget has produced!

Hong Kong should be grateful that its Financial Secretary is not a man to court easy popularity. Again this year he has faced hard facts with realism and humanity and has made a real attempt to avoid over-commitment on the part of Government while alleviating genuine distress as far as possible. I fully support the suggestion that in future years Budget Day should be deferred to the end of March to enable fuller data to be available from which more reliable forecasts can be made.

I am heartened by the reiterated 'commitment to pronounced and growing Government support for the basic infrastructure' that is needed to underpin our changing economy—namely, training, research, land, transportation and communication facilities, and market promotion. Expenditure on these services should not be treated as a kind of welfare or relief to industry but as positive measures to supply the missing links existing in the free market. Without these services, the private sector would not be able to respond correctly and speedily to the rapid changes in our economy. Thus, the provision of these services serves public and not just individual interest. It seems to me therefore very reasonable to draw on public resources to finance these services.

In talking about the financial sector, the Financial Secretary states that 'while our economy depends mainly on market forces, it is the Government's responsibility to see that there exist adequate ground rules to ensure that market forces operate fairly' (para. 34 of his speech). This is a very correct attitude which is relevant not only to the financial sector but to the industrial sector

as well. In the process of industrial diversification, it is important for the Government to ensure that market forces operate fairly, efficiently and speedily. The creation of a suitable business environment for industry by way of the provision of adequate training and research and development facilities, the promotion of trade, land formation, adequate transportation and communication: this is our immediate concern.

I agree with the Financial Secretary that, in what we all hope are temporary difficulties, it would be foolish to draw too heavily on our reserves and that, as he says, it is only prudent in hard times to tighten our belts. I also recognize that more revenue may be produced by methods of indirect tax than by increasing the rate of direct tax, but I am less sanguine about his arguments on the philosophy rather than the practicality of keeping a particular ratio of direct to indirect tax: in the course of economic development with a wide direct tax base the importance of direct tax increases naturally, its returns being more responsive to the level of economic activities. I would not think it alarming that the direct to indirect tax ratio reached 69:31 in 1982-83 nor do I think it necessarily an 'improvement' that we move from the ratio of 69:31 to a ratio of 60:40 in 1983-84. It is generally accepted that direct tax is more equitable as it is based more on the principle of ability to pay. It is certainly arguable that Hong Kong's financial success in the past has hinged entirely on our low direct tax structure, and I am inclined to suggest that it is due as much to both business finance and labour being able to rely on any changes in the taxation level being gradual rather than drastic. I believe that any change, provided it is moderate, in our direct tax rate would not produce a significant adverse effect on capital investment or labour supply.

I am by instinct, Sir, opposed in general to drastic measures and cannot help thinking that some of the indirect tax proposals incorporated in the budget come in this category. Increases of over 50% and in some cases as high as 300% defy the description of moderate, particularly when their main impact will be on the so-called 'sandwich' class, that is those who are struggling through hard work and endeavour to provide themselves with a reasonable standard of living but far from a high one. The only smiling faces from this budget will be those of the affluent, and I confess that I would prefer to see them, the affluent, rather than the man in the street, looking a little glum. A progressive increase in direct tax at the higher levels of income might not produce so much revenue but it would at least provide the consolation that those who could afford it best were contributing something extra when times are hard.

With regard to the indirect tax, I am pleased that the Financial Secretary shares my concern that people will no longer be able to drown their sorrows with cheap brandy! I therefore hope that he will find it possible to adopt, as he promises to investigate doing, an *ad valorem* rather than a unitary system of levy. I have no objection to a steady increase in indirect taxation or indeed to a hefty increase which clearly affects only those who can well afford to pay; but

I fear there is a real danger of the drastic increases now proposed causing severe hardship to some who really cannot afford to pay them. The 300% increase in the driving licence, for example, will affect all those who need such a licence for their livelihood and this hits people of the low income groups more than even the middle classes. For vehicle licence fees this is the second drastic increase within a year. For many families, a car is a necessity and not a luxury, and for those in the 'sandwich' community which just managed to acquire cars before these increases, the hardship caused must be great indeed. Moreover, last year's horrendous increases were intended to reduce the number of cars on the road, hence cars of all sizes were not spared. The intention this year, however, is different. It would therefore be more equitable, and probably no less productive of revenue, to make the increase this time much less substantial or none at all for the small car while taxing highly the owners of prestige cars both in vehicle licence cost and in purchase tax. As to increase in rates, this too, unless progressively weighted, will affect disproportionately the less well-off.

If I may return to an issue which I raised last year, that of tax bands, I should like to query the Financial Secretary's assertion that the unchanging width of the tax bands does not push the middle and lower income tax payers into higher tax brackets through the effects of inflation, and thus cause them a loss of real purchasing power. Perhaps I can give specific examples. Using the period 1978-82 which is the period used by Appendix C, and assuming \$100 in 1978 equal to \$176 in 1982 after allowing for changes in consumer prices, a married couple with an income range of \$70,000 per annum in 1978 will have their tax rate increased from 8.9% to 9.6%. A single person earning the equivalent today of \$40,000 a year in 1978 will have his effective tax rate increased from 6.56% to 7.95%. These increases may be relatively slight and may not bite deeply but they compare unfavourably with the rich man whose 15% rate has long remained unaltered.

At a time when we should be encouraging tourists for the revenue they bring to Hong Kong, the proposed airport tax may be counter-productive. The airport levy in Southeast Asia is generally much lower than the rate proposed here and we may gradually, if we are not careful, lose our edge of attractiveness. It would be easy for tour operators to replace Hong Kong in some of their itineraries by one of our neighbours. For the traveller an unexpected bill for \$100 on departure when he has virtually spent up can be upsetting and could mar a happy memory of a pleasant two or three days or even discourage a return visit! Is it possible to tax on arrival instead when the traveller is eager and expectant and likely to mind less? Since it is revenue intended for the Tourist Association I wonder if we might ask the Association to economize a little by being less generous in its free handouts. It would be less damaging to goodwill.

I recognize, Sir, that it is easy to criticize methods of raising revenue but less easy to come up with either alternative methods or compensatory cut-backs in expenditure. A modest profits tax would not be a serious disincentive to investment, and it could be devised to affect only businesses where profits are

large. As for compensatory cut-backs it would not come amiss at this time to freeze top civil service salaries and comparable salaries in the public sector, a measure which would of course hit a good proportion of those of us in this chamber though we would feel the virtue of setting an example ourselves!

With these remarks, Sir, I support the motion.

MR. CHARLES YEUNG:—The Financial Secretary has presented a succinct account of our economy in his budget speech, which has been widely understood and supported.

It had been anticipated since the middle of the financial year that the Government's account for 1982-83 would go into the red as a result of the worldwide economic recession, the collapse of the property market and the political uncertainties unsettling all sectors of the economy. However, it is pleasing to note that the encouraging performance of the last couple of months will somewhat mitigate the estimated deficit.

It is the general belief that the U.S.A. will lead a mild world economic recovery this year to be followed closely by the E.E.C. countries. Our export trade is expected to pick up in its wake. There are signs to support that expectation such as the down trend of world inflation and interest rates. Our economy is expected to shift back to export-led growth as production costs stabilize and our goods regain their competitiveness, this should result in the stabilization of the visible trade gap which during 1982 averaged 10.9%.

Our expected economic recovery will however be nipped in the bud if our major export markets maintain the sort of trade protectionism which was exhibited last year during negotiations on new textile agreements with the United States and the E.E.C. countries. It is hoped that this barrier will be lowered as the economies of these countries improve.

Statistics show that our investment demand and consumption demand weakened in 1982 and there was a decline of 6% in real terms of expenditure on plant and machinery and a negative growth rate in real terms of as much as 9% in retained imports of capital goods over the period. These factors are not conducive to a healthy economy or to the prosperity of Hong Kong. There have been many factors contributing to the economy's disappointing performance and among these the atmosphere of political uncertainty should not be discounted.

Sir, two months ago I had the opportunity of going to Peking with my honourable Friend, Mr. CHEUNG Yan-lung, and some of my Colleagues from the New Territories Heung Yee Kuk to talk to various Chinese leaders. To my understanding both London and Peking are well aware of the adverse effects and the serious consequences of a protracted period of uncertainty which my honourable Friend T. S. LO has so well depicted and in such eloquence in

Cantonese. My belief is that a pragmatic and flexible approach will be adopted by all concerned to achieve a mutually beneficial (I hope beneficial) resolution which takes due regard of the wishes of the people of Hong Kong.

With this guarded optimism in the gradual improvement of our economic and political situation, the Financial Secretary's cautious budgetary strategy as a stop-gap measure to deal with the expected deficit of \$6.3 million is, therefore, met with general approval.

We appreciate Government's attempt to contain the rate of growth of public sector expenditure on all fronts. We note that the public service establishment will only increase by 4.6%. This will, however, unfortunately inconvenience some new services, such as those in the Recreation and Culture and the New Territories Services Departments. It is hoped that the programme of reviews of departmental establishment presently being carried out by the Finance Branch will enable these services to be developed and other services to be maintained through regrading and re-deployment of staff and by transfer between department where practicable. This could be achieved with the help of other Controlling Officers and their departmental establishment committees and the resulting flexibility could greatly improve productivity. Genuinely urgent requests for additional staff could then be processed without delay.

We also note the success of the new approach in handling the Public Works Programme by the creation of the Capital Works Reserve Fund. With the new categorization having come into effect, all works items in Category A have been assured commencement within the financial year of their adoption and have also been financially backed from the Reserve Fund to the final stage of completion. Other priority items, detailed planning and financing for which has not been completed, will wait in Category AB at the starting line for their turn. This approach gives a better picture of Government Public Works expenditure and also commitment at any given time and is, therefore, particularly useful in difficult times such as exist at present.

With these remarks, Sir, it is my pleasure to support the motion.

DR. HO:—Sir, a community, like an individual, is vulnerable to economic cyclical changes. 1982-83 witnessed Hong Kong in budgetary deficits. The prospects of 1983-84 are still uncertain, depending on the revival or otherwise of our major trading partners' economies.

As an architect of fiscal planning, the Financial Secretary must have the vision to differentiate between temporary economic stagnation and long-term depression. He therefore must not become unduly panicked or over-reactive in view of a one-year's unsatisfactory performance in our economy.

Our Financial Secretary has ingeniously devised a package of measures to tide over our difficult times. The proposed increases in indirect taxes tend to spread the onus to that section of the population which can afford to pay, thus

making the impact of the economic pinch less unpalatable to all. Public sector expenditure has been prudently trimmed down. The overall growth of civil service is consciously restrained to below 5%. Non-essential projects in the Public Works Programmes have judiciously been re-phased. The proposal to use our fiscal reserve deserves special mentioning. The revenue accruing from the sale of land in the past years will be ploughed back in the interest of the community. This decision is politically significant in that it helps to dispel the widely held misunderstanding that the annual surpluses from our previous budgets had been destined to boost the coffers of the United Kingdom. Personally, I fully endorse the Financial Secretary's proposed budgetary strategies and regard them as most appropriate and pragmatic to bail us out of our temporary fiscal difficulties.

I. *Prudent Supervision of Public Expenditure*

The Financial Secretary has pointed out that given our current economic and revenue forecasts, expansion in a particular service over those provided in the Estimates of Expenditure must be financed by either increases in taxation or cutbacks in other services. What he did not mention (perhaps it is too obvious) is the third alternative—i.e. elimination of wastages and releasing resources therefrom.

As an effort to get over the financial difficulties in the early 70s, we had seen the Government establishing cost reduction committees in individual departments with a view to locating areas where savings in expenditure could be found. Such committees were considered very effective in those days but with the passage of time, many might have fallen into disuse.

I therefore suggest the revival of the cost reduction committee concept. The current public expenditure monitoring system rests with the Public Accounts Committee and the Director of Audit. They are highly effective in revealing misappropriations of public expenditure and in making public officers accountable for them. One drawback, however, is that their findings are historical. What we need in addition is an on-going mechanism whereby departments are constantly reviewing their expenditure, and controlling officers constantly reminded of the concept of cost-effectiveness.

Departmental cost reduction committees had in the past emphasized on possible savings on items like fuel, light and power, stores and equipment, transport and travelling, etc. I think these are meaningful areas to start with, but to achieve a greater success, input from the management services staff must be sought. The scope of savings could be expanded to cover:

- (i) rationalization and possible merger of functions to optimize resources and avoid duplication;
- (ii) studying existing range of services to check, in the light of changing circumstances, that they are still serving the intended purpose; and

- (iii) constant checks on major items of expenditure, especially those involved phased implementation, to avoid delay, slippages and the inevitable result, i.e., increase in cost.

I am sure the Secretary for the Civil Service would support this idea from the angle of improving efficiency and productivity of civil servants, an object which he is trying very hard to promote right now.

II. *Adult Education*

A versatile, adaptable manpower is essential for economic growth. The Government must therefore not cease to provide or upgrade research and training facilities in a bid to modernize our technology and to update our skilled manpower, so that our workforce is ever ready to capitalize on the global economic upturn, when the slightest signs of recovery begin to surface. With this in mind, I wish to say a few words about adult education, or euphemistically known as continuing education. This form of academic or vocational education is especially useful in Hong Kong. It provides a second chance of training to those well motivated young adults who may aspire to a better career. Such opportunities for social mobility or advancement is conducive to social stability, a result which we must all welcome. It upgrades vocational and commercial skills, and results in raising the workforce's productivity and job satisfaction.

We have not overlooked this important form of non-formal education. Government subvention to voluntary organizations offering adult education courses has been increasing from \$300,000 in 1981-82, to \$434,000 in 1982-83 and to \$1,880,000 in 1983-84.

But despite the increase in expenditure and the recognition of the importance of this form of education, there has been a lack of co-ordination between the Education Department and the voluntary organizations concerned to enable its further development. I therefore venture to suggest the establishment of an Advisory Committee on Adult Education, to be formed along the lines of the Social Welfare Advisory Committee, with membership comprising both Government and non-government experts in this subject. Its terms of reference may include:

- (i) To co-ordinate and advise on the development of adult education and continuing education;
- (ii) To advise on the principles of subvention applicable to eligible organizations;
- (iii) To make recommendations on the training of adult education teachers, development of teaching materials and other facilities for running adult education and continuing education courses.

III. *Harmonious Management-Labour Relations*

The economic prosperity of Hong Kong, as we all know, is contingent to our capability to export. Our workers must realize that they and the management

are complementary components of the same team. They both share one common goal, a goal to secure a higher standard of living for themselves, for their families and for the community of which they are a part. In the days of economic buoyance, this can be achieved easily and without conflict. But, at this time of shrinking world trade, mounting protectionism and increasing unilateral restrictions, sectoral aims must be relegated and co-operation installed in a bid to weather the economic adversities. Pay claims, demands for better working conditions and other material gains must be considered in the light of the resultant erosion to the products' competitiveness. Confrontations and industrial actions must be averted at all costs, such disruptions will only jeopardize our export capability and erode the confidence of overseas investors in Hong Kong.

Our workers had been through the experiences of an economic stringency in the early 1970s and survived it with some but tolerable hardship. I have confidence that our workforce have gained the resilience and stature to emerge from the present recession to a new height of achievement and prosperity again.

The Labour Relations Division of the Labour Department is charged with the task of promoting a harmonious labour and management relation. In the former years, much of the Division's effort was passive and remedial, with responses to calls for conciliation of labour disputes and settlement of grievances high on its policy priorities. I am glad to see therefore that this Division has begun to take more initiative in creating a congenial climate for the nurture of a positive labour relations policies and practices. With an additional \$1 million budgeted for in 1983-84, I would like to see the Division's further efforts in the following directions:

- (i) expansion of its promotional and educational programmes in terms of both size of audience and variety;
- (ii) review of its current conciliation strategies with a view to improving resolving labour disputes which, on the basis of the percentage of cases resolved, shows a declining trend;
- (iii) inculcation in the management and labour of a new social attitude and ethical commitment towards the common good of the wider community; and
- (iv) promotion of the desirability of the use of peaceful and non-litigious means on the part of the labour to pursue their sectoral interests.

IV. Police Strength in the New Territories

Now I turn to my last topic. With the rapid development of new towns, population in the New Territories Police region will increase from 1.5 million in 1982 to 1.6 million this year, against decreases in other regions. On top of this planned growth, the New Territories will receive a continuous large influx of fire and other natural disaster victims and clearers of Crown land resumptions, who will largely be accommodated in the temporary housing areas.

This increase in population brings in its wake a series of changes in the social fabric of the region. A formerly homogenous, close-knit community characterized by a strong sense of mutual aid and a network of informal control is now replaced by a highly stratified community comprising uprooted, somewhat aggrieved individuals precariously brought together by the physical proximity in residence. Human relations are governed largely by utilitarian considerations. Personal interests take precedence over communal concern. As a consequence, crimes and perversion of all kinds prevail. Taking robberies as a rough indicator of the state of law and order, the New Territories region had 1 543 cases in 1981 and 1 667 cases in 1982, a rise of 8%. The increase in robbery cases in Kowloon region for the same period was only 3.2% and Hong Kong region actually recorded a drop of 1.2%. The incidence of crime in general in the New Territories has been reported to be more than doubled in the past ten years.

The residents in the New Territories often attribute This deterioration in law and order to the grossly inadequate deployment of policemen. According to the establishment of the Royal Hong Kong Police Force shown in the Estimates of Expenditure 1982-83, Police personnel directly involved in the maintenance of law and order duties (i.e., from constable rank and above) was 6 032 in the Kowloon region, 3 573 in Hong Kong region and 3 863 in the New Territories region, giving a ratio of Police strength to every 1 000 of population at 2.40 for Kowloon, 2.86 for Hong Kong and 2.62 for the New Territories. The corresponding ratios for 1983, taking into consideration population movements and increases in Police personnel, are 2.48, 2.89 and 2.50 respectively. It is obvious from these statistics that among the Police regions, the New Territories' relative share of Police strength has actually been reduced in spite of the problems I mentioned earlier. As I see it, with deployment of the Police on the basis of the prevalent crime level, geographical spread, the rate of increase in population, and the changing characteristics of the demographic structure, New Territories region deserves a better deal. The Estimates of Expenditure for 1983-84 reflected that 1 072 permanent posts of policemen had been added during the current year and that funds are available for further posts to be created. I wish to urge the Government that in its planning for expansion of the Police Force, the New Territories region, in particular the fast growing new towns of Sha Tin, Tai Po and Tuen Mun, should be given a sympathetic and fair consideration.

With these remarks and observations, Sir, I support the motion.

Motion made. That the debate on second reading of the Bill be adjourned—THE CHIEF SECRETARY.

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 twnety minutes past five o'clock.