

OFFICIAL REPORT OF PROCEEDINGS**Wednesday, 28 March 1984****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.

HIS HONOUR THE DEPUTY TO THE GOVERNOR
THE HONOURABLE THE CHIEF SECRETARY
SIR CHARLES PHILIP HADDON-CAVE, K.B.E., C.M.G., J.P.

THE HONOURABLE THE FINANCIAL SECRETARY
SIR JOHN HENRY BREMRIDGE, K.B.E., J.P.

THE HONOURABLE THE ATTORNEY GENERAL
MR. MICHAEL DAVID THOMAS, Q.C.

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

THE HONOURABLE DENIS CAMPBELL BRAY, C.M.G., C.V.O., J.P.
SECRETARY FOR HOME AFFAIRS

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

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

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

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

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

THE HONOURABLE LYDIA DUNN, C.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

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

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

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

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

THE HONOURABLE CHAN KAM-CHUEN, J.P.

THE HONOURABLE COLVYN HUGH HAYE, C.B.E. J.P.
DIRECTOR OF EDUCATION

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

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

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

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 HENRY CHING, C.B.E., J.P.
SECRETARY FOR HEALTH AND WELFARE

THE HONOURABLE CHAN NAI-KEONG, J.P.
SECRETARY FOR LANDS AND WORKS

THE HONOURABLE RONALD GEORGE BLACKER BRIDGE, J.P.
COMMISSIONER FOR LABOUR

THE HONOURABLE CHAN YING-LUN

THE HONOURABLE MRS. RITA FAN HSU LAI-TAI

THE HONOURABLE MRS. PAULINE NG CHOW MAY-LIN

THE HONOURABLE PETER POON WING-CHEUNG, M.B.E., J.P.

THE HONOURABLE YEUNG PO-KWAN, C.P.M.

THE HONOURABLE JAMES NEIL HENDERSON, O.B.E., J.P.
SECRETARY FOR EDUCATION AND MANPOWER

ABSENT

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

THE HONOURABLE JOHN JOSEPH SWAINE, O.B.E., Q.C., 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):—

<i>Subject</i>	<i>L.N. No.</i>
Subsidiary Legislation:	
Hong Kong Airport (Regulations) Ordinance	
Hong Kong Airport (Traffic) (Amendment) Regulations 1984	71
Evidence Ordinance	
Evidence (Authorized Persons) (No. 2) Order 1984	75
Public Order Ordinance	
Frontier Closed Area—Permission to Enter	76
Road Tunnels (Government) Ordinance	
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Shipping and Port Control Ordinance	
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Banking Ordinance	
Banking Ordinance (Fees) Order 1984.....	79
Deposit-taking Companies Ordinance	
Deposit-taking Companies Ordinance (Amendment of Second Schedule) Notice 1984	80
Mass Transit Railway Corporation Ordinance	
Mass Transit Railway Corporation (Permitted Activities) Order 1984.....	81
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Tax Reserve Certificates (Rate of Interest) (No. 2) Notice 1984	82
Public Health and Urban Services Ordinance	
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Public Health and Urban Services Ordinance	
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Pleasure Grounds (Amendment) By-Laws 1984.....	85
Inland Revenue Ordinance	
Inland Revenue (Interest Tax) (Exemption) (Am	86

Sessional Papers 1983-84:

No. 49—Traffic Accident Victims Assistance Fund—Annual Report by the Director of Social Welfare Incorporated for the year from 1 April 1982 to 31 March 1983.

No. 50—Report on the Administration of the Fire Services Welfare Fund with Balance Sheet and Income and Expenditure Account for the year ended 31 March 1983.

Oral answer to question

Visit by Secretary of State for Foreign and Commonwealth Affairs

1. MR. ALLEN LEE asked:—*Will the Government invite the Secretary of State for Foreign and Commonwealth Affairs to visit Hong Kong before as well as after his impending visit to China?*

THE ATTORNEY GENERAL:—Sir, as Members are aware, the Secretary of State announced in the House of Commons on 22 March that he would be visiting China in mid-April for talks on Hong Kong with the Chinese Foreign Minister and other Chinese leaders. He said that from there he would travel on to Hong Kong for further discussions, and that he was looking forward to both these visits. Sir GEOFFREY is aware that he is welcome in Hong Kong at any time but I understand that his other commitments will not allow him to visit Hong Kong before he visits Peking. Nevertheless, Sir, he stressed in his statement on 22 March the importance he attaches to keeping in close touch with opinion in Hong Kong. He referred in particular to the visit which the Minister of State had made to Hong Kong only a month ago and to the wide range of opinions which had been conveyed to him on that visit. In addition, there have been a number of visits to London by Unofficial Members of the Executive Council since the talks began. Members will know that Unofficial Members of the Executive Council will again visit London for talks with Ministers, including the Secretary of State, before the Secretary of State departs on his Far Eastern tour. This will enable them to convey to Ministers at first hand the latest views of Unofficial Members generally.

MR. ALLEN LEE:—*Sir, arising from the reply will the Government then make every effort to ensure that when the Secretary of State visits Hong Kong he will be given the widest opportunity to consult different groups and individuals?*

THE ATTORNEY GENERAL:—Sir, details of the programme for the Secretary of State's visit have not yet been announced, but Members may rest assured that the intention is that he should meet as many local people as possible within the limits of the time available in order to listen to a wide range of local opinion.

Government business

Motion

THE FINANCIAL SECRETARY:—Sir, in my Budget Speech I said that I would be seeking His Excellency's authority for the issue of an appropriate Revenue Protection Order to give effect to my proposal for increased betting duty. I have since learned that such an order could be taken to be in breach of an undertaking given to Unofficial Members in 1974 in the context of an amendment to the Public Revenue Protection Ordinance. While the precise scope of that undertaking is far from clear, I do not wish to seem to be breaching it. I have therefore decided to proceed by way of a resolution under the Betting Duty Ordinance.

At the same time, however, it would be neither courteous nor right to move such a resolution until Unofficial Members have spoken on the second reading of the Appropriation Bill. Unfortunately Standing Orders 11 and 12 and the practice of this Council require motions to be listed and to be taken before bills. Therefore, in accordance with Standing Order 68, with your consent, I move that Standing Order 11(1) be suspended so that the motion standing in my name in the Order Paper may be dealt with tomorrow, after the Unofficial Members have finished speaking on, and agreeing with, of course, (*laughter*) the second reading of the Appropriation Bill.

Question put and agreed to.

Second reading of bill

APPROPRIATION BILL 1984

Resumption of debate on second reading (29 February 1984)

DR. FANG:—Sir, I wish to congratulate the Financial Secretary on a very sensible and considerate Budget and wish to speak on three subjects.

Commissioner for Rehabilitation

I am pleased to note that \$831 million will be provided for rehabilitation services next year. This is a 12.6% increase over the current year's revised estimates. Given the Financial Secretary's budgetting principle of reflecting priority by patterns of public expenditure, it is clear that the significance of rehabilitation in our public services has been fully recognized.

Sir, \$831 million really points up how much rehabilitation has expanded since the 1977 White Paper and the formation of the Rehabilitation Development Co-ordinating Committee (R.D.C.C.). Correspondingly, the workload on the central Government co-ordinating machinery, as well as on subvented

voluntary agencies in the field, have increased substantially. Interrelationship between Government departments and voluntary agencies providing rehabilitation services is now much more complex.

Despite all these achievements and growth, rehabilitation has no real central identity within Government. Government's Rehabilitation Division is headed by an officer whose title has nothing to do with rehabilitation. There is no visible leadership, no one with whom our many local agencies, media, and visitors can properly identify; no one to whom the disabled themselves can turn if they feel they are getting a raw deal; no one centrally to be accountable for the vast sums of rehabilitation allocation, to ensure that it is allocated according to agreed priorities. Internationally, while Hong Kong has a fairly advanced rehabilitation service and participates actively in world conferences, seminars and sport events for the disabled, and for that matter, closely liaises with United Nations Agencies, such as W.H.O., U.N.I.S.E.F., I.L.O. and U.N.D.P., we do not have a senior Government official whom we can proudly introduce to our overseas visitors as solely in charge of developing rehabilitation service, and who can correspond with our international friends in such capacity.

Furthermore, a continuous series of new legislation, new services and new capital projects for the disabled are in the process of formulation, the successful implementation of which depends on the co-operation of and co-ordination among the executive departments. From my personal involvement with the R.D.C.C., I find that the ranking of the existing officer in the Education and Manpower Branch is not commensurate with the heavy responsibility arising from the efficient executive co-ordination constantly demanded of him.

I do feel most strongly, Sir, that these problems could be overcome if we had a Commissioner for Rehabilitation. But I must stress that the Commissioner should not be the Deputy Branch Secretary. His brief should be solely that of the rehabilitation of the disabled.

I first raised this matter in this Chamber in 1977. I note that though Government had then decided not to appoint a Commissioner, but hoped to review this at a later date. This time has now come. For the reasons I have explained, and not least for public presentational reasons, the function, rank and title of 'Commissioner' should be very much in line with that of the Commissioner for Narcotics, whose structure and operations have distinct similarities, though the cost of the rehabilitation programme as well as the people being served are almost three times as much.

Central Provident Fund

Sir, the establishment of a compulsory Central Provident Fund is an issue which was raised first by Sir S. Y. CHUNG as far back as 1974 and has since been reiterated by me and a number of my Unofficial Colleagues in this Council.

Although a number of banks, insurance companies and other financial institutions are offering a variety of Provident Fund Schemes, they have by and large not been very popular with employers and employees. It is estimated that outside Government, less than 10% of the workers in Hong Kong participate in any kind of protection schemes covering retirement, sickness, disability and death (not work related). In contrast, most of our neighbouring countries, including Singapore, Japan, Malaysia, Taiwan and Korea all have statutory retirement schemes where most, if not all, of the workers participate.

The existing private schemes are unpopular because there are a number of drawbacks:

- (1) such schemes are all offered through the employers as a means of retaining staff loyalty. Thus, an employee changing jobs between companies will lose most, if not all, of his retirement benefits, and has to start all over again with his new employer, and
- (2) they do not offer insurance and safeguards against loss of employment due to illness, disability or death.

The Government's stance is that it will concentrate 'On those least able to help themselves'. In my opinion this objective is more effectively achieved if those people who because of retirement, sickness or loss of a chief breadwinner could be helped by being encouraged to insure against them by contributing to a Central Provident Fund.

In his speech on November 9, 1983, the Secretary for Health and Welfare mentioned that he would be willing to re-examine the issue of Central Provident Funds again if 'new arguments are presented'. May I therefore advance the following 'new arguments' for his consideration.

One of the major banks in Hong Kong have indicated that it is willing and able to develop and administer an individual account oriented retirement scheme whereby the worker could carry the benefits with him wherever he goes. Depending on the contribution from the worker and the employer the scheme could carry with it an insurance element such that there would be benefits payable for unemployment due to illness, disability or death. Such a scheme would be operated on a commercial basis and income from fees and investments would hopefully sustain the operation on an on-going basis, that is if workers in significant numbers would join. Because such funds are put and operated by professional management the returns are likely to be higher than ordinary schemes.

At the same time, a responsible organization of workers' union has informed me that it has been established by a survey among over 100 workers' organizations that a Central Provident Fund, with contributions from both employers and employees, will be accepted by the workers. It also revealed that

workers are willing to contribute 6% of the earnings towards this fund (5% to cover retirement, 0.5% for sickness and disability which are not compensated under existing legislation, and 0.5% for life insurance.)

Sir, what is needed now is the initial momentum. The long term success of a Central Provident Fund must depend on the Government either making it compulsory, or at least providing strong support for such schemes by offering incentives such as tax exemption for contribution from the employers and employees.

Salaries tax

According to the Financial Secretary's calculations, for a married couple with no children and no dependent parent the standard flat tax rate of 17% will apply if their combined income is \$237,500 or more each year. I imagine that a young couple, with perhaps university education, will be able to get a combined income of \$20,000 p.m. after a few years' working experience if they join a profession.

They have just started their career, with little savings, and probably committed to use a large proportion of their income to repay the mortgage on their home. They can hardly be called rich. I doubt whether they are the ones best afforded to shoulder the proposed increase in salaries tax.

I agree entirely that the more well-off should be asked to shoulder a larger share of the tax increase in the light of the budget deficit and the objective of maintaining vigorous investment by the Government. But I disagree that those earning \$500,000 p.a. or more will only be required to pay the same 17% tax as those earning only \$250,000 p.a. I therefore suggest that differential standard tax structure, based on household income, should be set. In other words, different standard rates will be applied to tax payers within different income ranges. My suggested tax rates and the income ranges are set out in the *appendix* to my speech. Continuing to use a married couple with no child and no dependent parent as my example, I propose that they will continue to pay 15% standard rate if their income is \$190,000 p.a. (i.e. the existing threshold), they will pay 16% standard rate if their income rises to \$237,500 p.a., and 17% only on reaching \$290,000 p.a. For those with higher incomes, i.e. above \$340,000 p.a., I propose a higher standard rate of 18% which will be the maximum. The progressive differential standard rate will more equitably reflect the objective of obtaining the required additional revenue from those who are 'best placed to afford it', and I think it will not result in any loss of revenue.

Sir, with these remarks, I have pleasure to support the motion.

APPENDIX

**Income levels at which salaries tax payers enter
the differential standard rate zone**

	15%	16%	17%	18%
<i>No dependent parent</i>				
Single	120 000	150 000	180 000	210 000
Married	190 000	237 500	290 000	340 000
Married + 1 child	210 000	262 500	310 000	360 000
Married + 2 children	223 750	279 687	340 000	400 000
Married + 3 children	231 250	289 062	350 000	410 000
<i>Including two dependent parents</i>				
Single	160 000	200 000	240 000	280 000
Married	230 000	287 500	350 000	410 000
Married + 1 child	250 000	312 500	370 000	430 000
Married + 2 children	263 750	329 687	400 000	470 000
Married + 3 children	271 250	339 062	410 000	480 000

MR. TIEN:—Sir, let me first congratulate you for your timely establishment of the Education Commission. The Commission, with its mandate to report to the Governor in Council within six months its views on the major recommendations in the Llewellyn Report, will have to work hard to achieve its immediate objectives. With the willing support of all the members of the Commission, of which the Chairman of the Vocational Training Council (V.T.C.) is one, I have little doubt that those objectives will be achieved.

I would now like to say a few words on the current state of play of the new Technical Institutes building programme.

You will recall, Sir, that His Excellency informed this Council in October last year that the new Technical Institutes in Sha Tin and Tuen Mun were expected to be completed in July 1985. In his Budget Speech, the Financial Secretary informed this Council that the planning for the two new Institutes was at an advanced stage.

Indeed the planning is at a very advanced stage. In fact tenders were received some time ago for the foundations of the Institutes and the V.T.C.'s consultant architects are at a point where they are ready to invite tenders for the superstructure.

When informing the V.T.C. that Government has approved its Programmes of Proposed Activities and Estimates of Receipts and Payments for 1984-85, the Secretary for Education and Manpower told the V.T.C. that the Finance Committee would be asked to approve increased commitments for the two Institutes once the Government had satisfied itself that the building costs were reasonable and acceptable.

Charged as the V.T.C. is to bring these Institutes into being, either partially or wholly, by the beginning of the 1985-86 Session, it is unable to progress the projects further because the Finance Committee of this Council has yet to be asked to approve commitments for them.

The V.T.C. is becoming exceedingly anxious and has asked me to make its anxiety known to this Council. It wants to know what would happen if at this late stage, the Government is not satisfied, for whatever reason, that the building costs are reasonable and acceptable. As to be expected, the most up-to-date estimated costs based on the final plans are higher than the original estimates which were worked out on the basis of information supplied by the Architectural Office of the Building Development Department and included in the V.T.C.'s Estimates of Receipts and Payments for 1982-83. They are, however, about the same as the updated estimates included in the V.T.C.'s Estimates for 1984-85.

What is worrying the V.T.C. is: what happens if facilities it considers necessary and which are in accordance with approved educational policy for improvement in Technical Institutes are considered as *unnecessary* by Government? Further, what if, in order to satisfy the Government the Institute have to be totally re-designed? Should the V.T.C. go back to square one?

Sir, if the latter is the case, not only will the substantial amount of money already paid to the consultant architects as fees go down the drain, but also more importantly, the projects will be delayed by at least an academic year. If this should happen, the V.T.C. and the public would regard this as totally unacceptable.

The V.T.C. therefore asks for the earliest approval of the commitments needed for these Institutes. The community needs them and the industrial sector cries out for them. Government must not fail by opting for inferior institutions and delay. Sir, His Excellency has reminded this Council in the speech I referred to earlier, that he believed the people in Hong Kong were prepared to pay for improvements in education. The V.T.C. agrees with you and hopes that Government does as well.

Sir, I support the motion.

MR. S. L. CHEN:—Sir, there are two important aspects of the Financial Secretary's Speech on moving the second reading of the Appropriation Bill which attracted my attention. These were industrial investment, or more correctly the lack of it, and inflation. I propose to deal with them in turn.

Commenting on the likely economic growth in 1984, the Financial Secretary said 'Investment in new plant and machinery will be less than I would like ...'. This was an under-statement, if ever there was one, and it reflects the Financial Secretary's concern in the state of capital investment in industry. From the statistics on Expenditure on the G.D.P. by Component shown in the Appendix of the 1984 Economic Prospects it is not difficult to see that during the late 70's expenditure in the private sector on plant, machinery and equipment increased by leaps and bounds at an average annual growth rate of nearly 22% in real terms. By comparison, we had a negative growth of about 7.2% in 1982. 1983 did not fare much better and saw a growth of only 0.8% over 1982. In contrast to the strong export performance forecast for 1984, private investment

expenditure is clearly not matching the improvement in export demand. Obviously industrialists are reluctant to invest or re-invest for reasons we all know too well.

This, indeed is a very serious situation. Without timely and adequate investment in new capital plant and machinery, and in advanced technology, our industries will soon both lose their competitive edge and become obsolete. In time, they would be unable to maintain a foothold in the world market.

I shall now turn to the point concerning inflation.

As the major theme of the 1984-85 Budget is 'moderate inflation with particular attention to the burden of increasing consumer prices on the less well off', I paid particular attention to the Financial Secretary's closing remarks when he said that inflation in 1984, running at about 12% in the opening months of the year, was expected to trend down to about 7% towards the end. The basis for this optimistic outlook appears to have been his expectation that inflation would fall under the combined influence of stable exchange rate vis-avis the U.S. Dollar and low inflation in countries with which we trade.

The value of our dollar has been fairly stable for some considerable time right up to the beginning of 1983, when it began to deteriorate from an exchange rate round about 6.5 to 1 against the U.S. Dollar. The link established last October, while helping to restore confidence in our currency, has meant in reality nearly 17% depreciation in the value of our dollar and immediate inflationary pressure on our economy. The result was more costly import of food and other items of necessity for our daily life, and of plant and raw materials for our industries. It would be a long time before the effects of such a huge currency depreciation work their way through the economy. Consequently, I am of the opinion that in the absence of a rapid recovery in the value of our dollar, the Financial Secretary's prediction that inflation would be down to 7% by the end of the year would appear to be somewhat optimistic.

I now turn to the Budget proposals.

Public spending is still on the increase, though at a slower pace than a few years ago. In particular, the all important recurrent expenditure as budgeted stands at 15.7% over the provision in the revised estimate for 1983-84, and at 72% still uncomfortably high in relation to total expenditure. The budgetary guideline requires this ratio to be not more than 65%. Moreover, without taking into account the revenue proposals, it represents 93% of recurrent revenue against a notional guideline of no more than 85%. The need for exercising stringent control on expenditure is abundantly clear. I am sure on this point the Financial Secretary would have no quarrel with me.

In the provision for Personal Emoluments budgeted at \$8.9 billion, there is a 6.2% increase over the provision in the revised estimate for 1983-84. Presumably, this increase is necessary to cover the 2.7% growth in establishment.

as well as the normal annual incremental increase in salaries. The Financial Secretary warned, however, that this provision makes no allowance for any salary adjustments in the coming financial year and I expect therefore that any such adjustments will have to come out of the \$1.8 billion budgeted for Additional Commitments. The recent salary review proposals, if approved by the Finance Committee of this Council, would absorb a very substantial portion of this \$1.8 billion contingent provision, thus making it so much harder to provide cover for other worthwhile but unforeseen commitments.

Regarding revenue proposals, considering the unfavourable fiscal climate at the present time, the taxation proposals as a whole appear quite reasonable and consistent with the underlying theme of the Budget which was regard for the burden on the less well off. I have no qualms against being kind to the less well off, but then the Financial Secretary's way of skinning the cat was particularly harsh to the so-called 'sandwiched' class who, by virtue of the proposed increase in standard rate on salaries tax, will have to bear the brunt of the additional tax burden. It is hardly fair on salary earners who have no means to recover their losses. A salary adjustment is their only hope but that would not be without repercussions for the economy.

Contrary to his approach adopted last year where nearly all increased taxes were raised without impinging on the income-sensitive elements of the taxation system, the Financial Secretary has now taken almost a complete U-turn. His justification was that direct taxation has a less adverse effect on inflation than indirect taxation. While there is some truth in this argument, the fact remains that taxations, direct or indirect, are inflationary, the only difference is in the timing of the impact.

Sir, I would have preferred to see a different package of direct and indirect tax increase with a higher contribution from indirect taxation. In the light of the Financial Secretary's optimistic outlook on inflation, I believe this to be both possible and equitable and it would relieve some of the unrelenting pressure to which the 'sandwiched' class is subjected.

There are many options for raising more indirect taxation without causing undue hardship to the man in the street.

One is to levy heavy tax on those commodities which only the well off can normally afford. To name just a few, perfumes, expensive clothes, lavish banquets, luxurious pleasure crafts, etc. This would have been perfectly in line with the sentiment expressed by the Financial Secretary in the early part of his Speech where he said 'taxation should be moderate, falling more heavily on the better off.'

Another is to increase the tax on petrol (having first regard to the needs of public transport). This is a fair way to tax usage of road space. One might of course argue that this would increase the burden on many people, including

those in the 'sandwiched' class who own cars as a means of personal transport. But be that as it may, at least they have a choice between using public transport or paying more for petrol just for the sake of using their own cars. Since taxation is proposed as a fiscal means to relieve congestion of the Cross Harbour Tunnel, I see no valid argument against additional tax on petrol as a general means of traffic management to reduce road congestion.

Sir, in conclusion, the Financial Secretary can be congratulated for having lightened the burden of the less well-off. My only complaint is that he has done so at the expense of the 'sandwiched' class. He would have achieved perfectly the Robin Hood image had he done so at the expense of the well-off.

With these remarks, Sir, I support the motion.

MISS DUNN:—Sir, I was very glad to see that, when it became clear that revenue in 1983-84 would be below the estimate, the Financial Secretary was able to slow down both recurrent and capital expenditure. The importance of this is shown by the fact that if expenditure had not been thus limited the deficit for the year would have been well over four billion dollars, instead of 3.3 billion, which is worrying enough even after it has been brought down to this figure by the Exchange Fund's purchase of the Development Loan Fund's equity holdings.

I hope the Financial Secretary will be equally austere in 1984-85 because I must say that I have grave doubts as to whether we can at present afford the level of public sector expenditure proposed in the Estimates.

However, before we look at the future, we can at least take heart from the fact that 1983-84 in the end turned out better than at one time seemed possible. An excellent export performance, coupled with a general improvement in the economic situation, the stabilization of the exchange rate by the measure introduced in October 1983, strict control of expenditure and a further fall in the Tender Price Index for public works, have all contributed to a brighter picture, for which both the Government and the community can take some credit.

Nevertheless, we face still, as we first did in 1982, a previously unfamiliar situation as regards the Government's finances. In the Budget Debate 1982 I said—

'should land sales falter ... and should yield from our system of taxes and charges decline as a result of a possibly sluggish world economy, then I foresee real difficulties ahead in financing our recurrent services and our capital works programmes'.

The Financial Secretary in his reply said that little could be done about such hypothetical horrors. They ceased to be hypothetical a few months later and I believe that now, in considering the third consecutive year of deficit financing, we must face the fact that, even if land sales revive, we cannot expect our capital revenue to reach again the dizzy heights it reached in the recent past. Indeed the

Financial Secretary himself described the revenue from land sales during the boom as 'of a windfall nature'. In the first six years of the 1970s to 1976-77 land revenue averaged about 7% of total revenue; in the next three years to 1979-80, land revenue averaged 17%; in the following two years to 1981-82, land revenue averaged no less than 32%; thereafter falling away sharply. So the latter years of the 1970s were quite exceptional. It is unlikely it will ever be so easy again to finance the deficit on capital account. That is really no bad thing. Long-term sustainable growth in the economy requires that land should not be a scarce commodity whose price is constantly driven up by an extreme imbalance between supply and demand ...

His Honour the President suspended the Council at 3:10 p.m.

His Excellency the Governor arrived and assumed his seat as President of the Council.

Council then resumed.

MISS DUNN continued:—My principal concern about the Budget Speech is that it does not set out a coherent strategy for the future, based on our present and likely future situation. There are only occasional references to the future, the 'new forecast period', that is up to 31 March 1988, by which time our formal contingent liabilities will have risen from the present level of about 14 billion dollars to 23 billion. We are told that our aim must be to keep annual civil service growth below 2½ per cent for the foreseeable future. But how far below? What is the foreseeable future? And what are the policy and financial implications of these remarks? We have a statement that land revenue in 1985-86 cannot be expected to exceed two billion dollars, less than half the estimate for 1984-85. This surely has considerable strategic implications for next year's budget.

In short, where are the forecasts of revenue and expenditure for the 'forecast period'? And where is the budgetary strategy designed to bring them into line?

My concern about these omissions from the Financial Secretary's speech is heightened by some of the things he *has* said. For example, he said,

'My intention remains to ensure that the growth rate in real terms in public sector expenditure ... does not over a period of years exceed the growth rate of G.D.P.'.

In my opinion we cannot afford to let the growth rate of public sector expenditure come anywhere near the growth rate of G.D.P. until we are out of the wood. It has already, over almost any recent 'period of years', exceeded the growth rate of G.D.P. by a considerable margin. For instance, Appendix A to the Budget Speech tells us that since 1979 Consolidated Account Expenditure has grown at a rate 50% faster than the G.D.P.

That gives a pretty hollow ring to the statement that

‘The first of the principles we apply in the management of our public finances is that the growth rate of public sector expenditure should have regard to the growth rate of the economy’

and it has meant that we have drawn more and more people and resources away from the profit-making economic activity on which our revenues, our prosperity and our growth depend. It is true our economy is now absolutely large enough to sustain a larger public sector than, say, in the early 1970s. Nevertheless, the relative size of the public sector increased from 12.9 per cent of G.D.P. in 1973-74 to a peak of 19.4 per cent in 1982-83. We must all be glad that the Financial Secretary has set out to halt this trend but, despite his efforts, the estimate for 1984-85 is that the public sector will still take 18.3 per cent of G.D.P.

In our present situation, the more important point is that it is appropriate to allow this criterion—the ratio of public sector expenditure to G.D.P.—to set the limit for the growth of public sector expenditure when, but only when, revenue is so abundant that there are no budgetary constraints on a higher level of public expenditure. When there *are* budgetary constraints, as there have since 1982-83, then the operative criterion must be level of revenue available to finance expenditure. By this I do not mean to rule out deficit financing in all circumstances, but I would argue that it is acceptable only as a short-term expedient. In the long run, whether the deficits are financed by borrowing or by increased taxation, deficit financing inhibits growth and fuels inflation, which is still too high even now.

I believe that we should be aiming for a balanced budget and I am concerned that the Financial Secretary has not said, nor has he given any indication that that is what he is aiming for, if not this year then next year, or at least the year after. Indeed he has implied that he has no such aim. In paragraph 7 of the Budget Speech he said

‘A calm, steady, clearly understood and balanced approach towards moderating the unforeseen deficits now facing us is essential. Such a major adjustment requires time. My prime aim is to get budget deficits below one per cent of G.D.P. A deficit of this order can be handled, provided that recurrent expenditure is amply covered’.

Quite apart from the complete absence of any attempt to rationalize the case for the 1% rule, can the Financial Secretary really believe that deficit financing can go on for ever just because each deficit is below 1% of G.D.P.?

The forecast of G.D.P. for 1984 is 240 billion dollars and it can be expected to continue to increase in future years. I do not believe that deficits of this order of one per cent of this sum are acceptable and ‘can be handled’ even if they are partly covered by bond issues. Let us remember, with the Financial Secretary, that loans carry interest and provision must be made for their repayment, provision which will further reduce our free fiscal reserves.

I believe that we need 'a calm, steady, clearly understood and balanced approach' towards eliminating our present chronic tendency for the public accounts to be in deficit; and certainly within three years. But I do not believe it should be done by raising tax rates any further in the near future, if ever, let alone by altering the ambit of the charge. Our direct tax system is already beginning to lose much of its simplicity and we have already had some unhappy experience of the working of the law of diminishing returns. We just cannot depend on steadily increasing tax rates and more and more complicated revenue laws to finance steadily increasing public expenditure.

I believe that we must reduce expenditure. We must get back to cutting our coat according to our cloth.

The Government should put before this Council the measures necessary to start such a process. I am not asking for panic measures—our present situation is not desperate—and we can still hope that the general improvement in the world economy and a resolution of present political uncertainties will lead to an improvement in our financial situation. But, for the time being, we should face circumstances as they *are*.

I believe that we cannot now afford to treat as sacrosanct programmes that were devised and accepted in more prosperous times. For example, the total estimate for public sector expenditure on building and construction, including civil engineering, for 1984-85 is within three per cent of the revised estimate for 1983-84, but since the Tender Price Index is estimated to have fallen by a further 12 per cent in 1983-84, this surely implies an increase in real terms for 1984-85. Is it sensible to accelerate expenditure when we are facing another deficit? Would it not be more prudent to slow down until our prospects improve again?

My dictionary tells me that economic comes from a Greek word meaning household management. Would any householder think it sensible, after two years in which his savings have dwindled by half, as our free fiscal reserves have done, to go on spending more than is coming in, without a firm plan to get back into balance before the savings are all gone?

I think I must have made it clear by now that I would rather see expenditure reduced than taxation increased. Our rates of direct tax may still seem low but I am not sure that, at the rates now proposed, they would still seem so when compared with *effective* rates in other countries. In many of them the opportunities for legal tax avoidance greatly reduce the actual liabilities of corporations and individuals.

If the proposed increases in direct tax rates go through I think the Financial Secretary will have to go further than saying 'I hope that this will enable us to face 1985-86 without further direct tax increase.' I think we need an assurance that, if estimated expenditure for 1985-86 cannot be met without further tax increases, then the estimates will be cut.

Immediately, Sir, I must anticipate the question ‘What would you cut—which school, which hospital, which road?’ That emotionally-loaded question is only an attempt to divert attention from the real issue. When resources are finite— and they always are—choices must be made. Speaking of capital programmes, the Financial Secretary said ‘There have been no cutbacks’ but earlier he had told us that he set a limit to General Revenue Account Expenditure of 26.8 billion dollars excluding additional commitments and transfers to the Funds. Then he said—

‘In the event after much hard bargaining and no little anguish the Draft Estimates that emerged provide just over \$26.6 billion’.

In other words, his choice was to maintain the capital works programme intact and restrain other spending. There is no logical basis for this decision. The improvement of an existing service may be just as desirable as the provision of a new road or building.

When financial restraint is necessary it is the duty of this Council to determine the acceptable levels of expenditure for the coming year by refusing if necessary to pass the Appropriation Bill as printed. Within the sums finally made available it is up to heads of departments and the Secretariat to consider how best to allocate the reduced appropriations. It is the Director of Education who should advise on which school should be cut, the Director of Medical and Health Services on which hospital and so on. Only they have the detailed information necessary to determine the least painful way to make any cuts that may be needed. If and when Unofficials have Ministerial responsibility—and authority—it will be appropriate for the Minister of Education to answer the question of which school should be cut because when that day comes the Director of Education and his department will advise and answer to the Minister. But until that day comes the responsibility rests with the Officials concerned.

Sir, I last spoke at length on the role of the Unofficials in our Government in October 1980. I recommended that *individual* Unofficial Members should be invited to exercise a supervisory-cum-monitoring role over the performance and needs of individual departments or groups of departments. I saw this as a further development beyond the already established role of the Unofficials and on advisory boards and committees.

The *then* Chief Secretary, replying for the Government, spoke at length on the existing role of Unofficials, but finally admitted that this fell short of linking Unofficials with executive responsibility. His last words on the subject were

‘It is by no means clear that such a division of executive responsibility would be in the interests of efficiency or that it would fit in with the system that has been evolved’.

The Government was clearly unwilling to consider any real change in the role of Unofficials. It is a pity that we have consequently lost so much time, with the

result that it is now clearly necessary that we should think ahead a good deal further than I did in 1980. It is, I think, now widely accepted that we must advance towards a more representative form of government. This cannot be a purely cosmetic change. It must involve a gradual transfer of real power from Officials to the Unofficials, somehow selected as representatives of the people. It seems to me that we should be considering now adaptation to the system so that they can be well and truly implemented before the end of this decade. There are many difficult questions to be tackled and they won't get any easier to answer with the passage of time.

Although, thanks to the factors I mentioned at the beginning of this speech, the general economic picture is encouraging, this does not mean that everyone is relaxed and happy about the future, as the debate held by this Council two weeks ago showed very clearly. The Hang Seng Index, the trade figures and other similar indicators are not all that matter.

Our society has changed a great deal in recent years. It is not just more prosperous. It is younger and more educated. It is only natural (but a great change from the past) that people want to know what the future holds for them and they also want to have to say in shaping that future. The reason is selfevident: they are somewhat fearful of the future. In particular, they are fearful that the freedoms which they have, for so long, been able to enjoy and take for granted may be eroded. They value their freedoms and the life style which flows from those freedoms. So they seek credible assurances as to the maintenance of those freedoms. If those assurances are forthcoming, but only if they are forthcoming, will the people have confidence in the future of Hong Kong. It is essential, therefore, and in the interests of both China and Britain too, that the agreement now being negotiated should take fully into account the views, the aspirations, and the fears of the people who live here.

I support the motion.

REVD. P. T. MCGOVERN:—Sir, I note with approbation that in spite of the overall effort to curtail public spending, the expenditure on education in the coming financial year is estimated to increase by almost 18 per cent over 1983-84. This is in keeping with the 24th point put forward by Unofficial Members in the debate on the Llewellyn Report on the 13 July 1983 i.e. that 'money spent on education is money well invested in the future of Hong Kong'. Unofficial Members are no doubt pleased that someone was listening and that the trend of the earlier eighties of a declining proportion of consolidated account expenditure for education has been reversed.

I also note with approbation that the advice of some Unofficial Members at last year's budget debate that if tax increases were necessary this year the increase should be by direct taxation rather than indirect was heeded.

I note also, with somewhat less approbation, in indirect budgetary matters, that a little progress has been made since August in that the Education Commission has been partly set up. A pleasing feature is that the advice of Unofficials has again been heeded in that the number of Officials on the Commission has been reduced and the number of Unofficials is to be increased. Until I hear more comment I reserve my position as to whether or not it is a good thing that the Commission should not be a Statutory Body as recommended in the Report. But statutory or not I must express a preliminary hope that in its co-ordinating role, while not usurping the powers or roles of other bodies, the Commission will have sufficient clout to knock heads together where they need knocking.

One further point before leaving the subject of education: on the 13 July 1983 in closing his side of the debate, the then Secretary for Education and Manpower assured us that Government has no intention of dragging its feet. That was July last year (eight months ago). As Members well know there is in the meantime a widespread suspicion among those concerned with education that in spite of assurances things are not moving as fast as could be expected. It now looks as if we have to wait another six months, while the Commission is digesting the Report and the comments on it, before we get concrete proposals for action. The question in many people's minds is what will happen if in six months time the Commission selects priorities for action which are more costly than the present 'continuing improvements', will the estimated 16% of the consolidated account expenditure assigned to education be enough to pay for what needs to be done? It may be that the Government is not dragging its feet, but the fear is that when the time comes the Commission may find its hands tied for lack of funds. I hope such fear turns out to be unfounded.

I turn briefly to another topic. In paragraph 117 of the Budget Speech proposing the Cross Harbour Tunnel tax the Financial Secretary says 'This measure strictly speaking is of a transport nature because its primary function is to alleviate congestion'. In the Cross Harbour Tunnel Company Limited Annual Report 1983 page 6 paragraph 1 the Chairman of the Company states in part 'The generally difficult economic conditions which prevailed during the year under review combined with the severe fiscal measures introduced by the Government in 1982 to curb the growth in private vehicle ownership have resulted in a drop of 0.47% in the number of vehicles using the tunnel compared to the previous year'. The Chairman continues in paragraph two 'In the medium term at any rate the Company is not anticipating a marked increase in demand and thus the congestion at tunnel portals is not expected to worsen significantly.' I do not intend to debate the subject here, but it is clear that the transport nature of the measure, strictly speaking, does not exist and therefore there is no primary reason for this tax. If the Financial Secretary is so unwise as to go ahead with the Tunnel Tax proposal I now declare my intention of opposing it.

With these remarks, Sir, I support the motion.

MR. PETER C. WONG:—Sir, I rise to support the motion before Council, and in doing so I would like to pay tribute to the Financial Secretary for the very skillful way in which he has proposed to skin the not so lean and yet not so fat Hong Kong cat. It is an unenviable and extremely difficult task, compounded by the fact that the Hong Kong cat is still reeling under the shock and uncertainty of recent domestic and international events.

The Budget has been generally well received and variously described as cautious, mild, fair and painless. Perhaps the Financial Secretary has even mastered the art of administering anaesthesia.

Facing huge deficits for two successive years is not something to be dismissed lightly, especially when present indications point to at least yet another year of sizable deficits. No one is more conscious of the implications and complexities of the matter than the Financial Secretary himself. His prime aim is to get budget deficits below 1% of G.D.P. and to achieve this objective by a judicious mix of controlled expenditure and increased revenue. The ultimate aim must be to restore equilibrium, if not the surpluses of former years.

Economists generally agree that fiscal policy has more than one function. Apart from raising revenue, taxation is used as an instrument of social policy. With the enormous growth of social expenditure in the post-war years, it is necessary to raise the level of taxation substantially, but in a way compatible with taxation's secondary function, in the sense that higher taxes coupled with appropriate tax free allowances, have reduced inequalities of wealth and income. A third function of fiscal policy is its effect on the management of the economy. An obvious example is that fiscal policy can be used as an effective weapon to check inflation. In my view, the 1984-85 Budget has been carefully designed to reflect all these three essential functions of fiscal policy.

Inevitably, there have been adverse comments from certain sectors of our community. But as the Financial Secretary himself has said, taxation is a highly subjective matter and his proposals remain open to debate. This afternoon I propose to offer a few random thoughts on the estimated expenditure, revenue proposals and related issues.

Estimated expenditure for 1984-85

At 37.3 billion the estimated expenditure represents only a moderate increase over the 1983-84 figure of 35.4 billion. The deficit of 3.6 billion, although much less than last year's 6.2 billion, still represents 1.5% of the estimated G.D.P. and is uncomfortably high. A main contributory factor for the deficits is Government's policy to maintain general services at acceptable levels, while on the social front, moderate increases are proposed. Responsible commentators have hailed the Budget as a demonstration of Government's optimism and confidence in the territory's future. I agree. It is difficult to fault the Financial Secretary, confronted as he is with fiscal as well as political constraints.

The Financial Secretary attaches great importance to measures designed to promote increases in productivity and value for money. The recent announcement by the Postmaster General to use electronic sorting of mail is a good example of cost effectiveness and increased efficiency. The greater use of technological advances would enhance productivity.

Privatization and public corporation

The privatization process and the establishment of public corporations should continue. It will relieve the central Government from responsibilities in respect of services which could be managed with equal if not improved efficiency under private or independent management. Recent examples such as the Kowloon-Canton Railway Corporation and the Government multi-storey car parks show that this trend is being actively promoted.

The Government Secretariat

As a result of the McKinsey recommendations, a number of secretaries were appointed to assist the Chief Secretary in formulating and co-ordinating Government policies in related fields. After almost a decade, it is perhaps time to see whether it is necessary to revamp the system, particularly when Hong Kong has witnessed phenomenal expansion and changes in almost all spheres of activity. It is essential to ensure that no discord and conflict of interest exist, which may result in undue and unnecessary delays in the implementation of Government decisions. Harmony and identity of purpose are perhaps the best guarantees to better efficiency and productivity.

Revenue proposals

Quite understandably, a number of people are opposed to the 2% proposed increase in direct taxation. My own view is that moderate increase after 18 years is justified. Although the distribution of the tax burden may not be entirely even, it would be absurd to suggest that the proposed increase would pose a threat to our trade and investment. It is fair to say that the Financial Secretary takes a long term view in his fiscal measures. The better view is that he will not be tempted to propose further increases in the next few years. In fact he has categorically stated that low taxes have long been and will continue to be a major contributor to Hong Kong's growth. Of significance is the Financial Secretary's promise to reconsider salaries tax thresholds carefully in his next budget. And to have a look at initial allowances. This is clear evidence that the Financial Secretary recognizes the need for concession if circumstances permit.

The quota allocation system

Last year the quota system was reviewed by the Department of Trade. The exercise was to plug loopholes in the allocation procedure. Quotas may be sold or transferred at a price which is normally fairly high, sometimes more expensive than the products. Although the system of transfer of quotas adds

flexibility to the trade, possible abuse must be prevented by meaningful and enforceable rules. There are quota holders who make a profit merely by selling or transferring their quotas. To the outsider, this appears highly undesirable if not inequitable. Quota premiums are on the rise, which is taken to be an indicator that the trade is doing well. But higher costs may have adverse effects on the competitiveness of our products. It is important that our export led recovery should not be undermined. Perhaps it is time that the Department takes a fresh look at this complex and much criticized system.

Dollar link and interest rates

The dollar link has been blamed for the wild fluctuations in interest rates in recent weeks. Latest figures show that Hong Kong dollar deposits in January amounted to no less than 161.3 billion. This sudden rise was attributed to the fact that many people believed that the Hong Kong dollar was due for an upward revaluation. Over supply means it is cheaper to borrow from the money market than from banks, which are bound by the interest-rate agreement. There are therefore suggestions that either the dollar be allowed to float or the interest-rate agreement be abolished. The Financial Secretary has stated in no uncertain terms that he would not revise the dollar parity in the short term. The dollar link has restored confidence and resulted in a stable exchange rate which is important to traders and manufacturers in making long term planning. The Financial Secretary's decision to hold the dollar parity is a prudent decision even though it has its own limiting factors. Admittedly, frequent changes in interest rates are undesirable, and frustrating if the changes make borrowing more costly. Obviously, the situation presents a dilemma, and its warrants close monitoring. Perhaps tighter money control and judicious intervention is the only alternative in the short term.

Sir, looking forward to clearer skies ahead, I have great pleasure in supporting the motion.

MR. WONG LAM delivered his speech in Cantonese:—

總督閣下：八四一八五年度財政預算案有兩項基本精神是非常明顯和值得稱頌的。

其一是預算案中對各項有利民生、繁榮和安定的服務計劃及基本建設積極撥款，尤以對治安、社會服務、醫療計劃、教育設施和房屋建設等為然。這點非常重要。近月來許多人談及一九九七年之後如何保持繁榮和安定。本人認為最重要的是如何能夠在現今至一九九七年的一段時間內，自強不息，一方面既保持目前的繁榮和安定，另一方面也為一九九七之後的繁榮和安定播下種籽，好使屆時香港仍有其獨特存在的價值。本年度的預算案，充份反映出這種自強不息的精神，即使面臨財政困難，但政府仍以長遠的眼光來處理這些重要的計劃和基本建設。這是非常負責任和有勇氣的表現。

其二是預算案中所流露的對付通脹的決心。政府不獨將公營部門的編制和開支置於嚴密的控制下，而且在稅收方面也儘量避免提高間接稅。這些措施無疑都是積極針對通脹，以民生為重的表現。

過認為即使政府為減輕隧道擠塞的理由而徵收隧道稅的說法成立的話，也不應一概而論地不分時間而徵收隧道使用稅。既然政府的目的是要藉徵稅來「減輕（隧道）擠塞」，那麼原則上那些在非繁忙時間使用隧道的人便不應支付這稅項，所以政府有需要依據隧道來往每日不同時間的使用率（甚至每星期不同日子的使用率）而訂定何謂繁忙（擠塞）時間，何謂非繁忙時間。祇有繁忙時間的使用者才應該支付此項課稅。當然，這種釐訂出繁忙與非繁忙時間的做法可能會改變目前隧道的使用模式，但也可能不會改變，所以政府的決定不應太倉卒，同時對於沒有造成交通擠塞的隧道使用者，在課稅上應該網開一面。

剛才所提及的三點是本人對八四一一八五年度預算案的個人意見。從本人與市民的接觸中，也聽到他們對預算案的其他意見，例如教育界人士提出增加博彩稅以減輕對中等收入人士的課稅，工商界人士認為政府在促進投資意願——尤其是固定資本性投資方面——鼓勵太少等。本人對這些意見都表示讚同，不過相信其他議員會就這些問題和提議作更深入的討論，所以就略過。

閣下，本人謹表明對預算案部份保留態度。本人支持動議。

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

Sir, two basic lines of thinking in the 1984-85 Budget are obvious and commendable.

The first is that the Government should continue to invest on infrastructure build-up and fund those service programmes which are important to the people's livelihood and the prosperity and stability of Hong Kong, especially those for law and order, social and medical care, as well as education and housing. This line of thinking is extremely important. In recent months, many people have been talking about ways of maintaining prosperity and stability after 1997. To my mind the most useful way is to show our determination and make earnest effort, even in the interim period between now and 1997, to maintain the present prosperity and stability on the one hand and sow the seeds of prosperity and stability for the post-1997 years on the other, so that by that time Hong Kong will still have its unique value of existence. The Budget for this fiscal year fully reflects the Government's efforts in this connection. In spite of financial difficulties, the Government continues to treat these important programmes and infrastructure build-up in the long term perspective. This is a very responsible and positive attitude of the Government.

The second line of thinking as reflected in the Budget is the determination to crack down on inflation. The Government does not only tighten its control on the establishment and expenditure of the public sector, but also tries its best to avoid raising indirect taxes. These are undoubtedly positive anti-inflationary measures aimed at bettering the lot of the people.

There are, however, several points about the Budget which I think call for comments.

First, the Government's financial arrangements have inflated the deficit. Although the estimated expenditure of the Capital Works Reserve Fund in 1984-85 is \$7.9 billion, with a surplus of about \$2.8 billion in the Fund at the end of 1983-84, there is no need for the Government to transfer as much as \$7.3 billion to the Fund. Admittedly money must be retained in the Fund to offset the advance of \$1.45 billion to the consortium for the development of Tin Shui Wai, Footnote 29 of the Budget Speech clearly indicates that 'this liability will remain in the accounts for the next 12 years or so until the land has been formed and a portion handed back to the consortium.' In other words, this sum of some \$1.4 billion will only be paid in stages and not in at one go. Therefore, it seems unnecessary to transfer the full amount to the Fund immediately. The present financial arrangements result in a sum of about \$2.2 billion of public money lying idle in the Fund which is unlikely to be used in full even in case of unforeseen needs. If half of this sum were transferred back to the General Revenue Account, the estimated deficit of some three billion for 1984-85 could be reduced by nearly one-third.

I have reservations about excessive funds being reserved under individual heads of expenditure or Funds. One of the important functions of Government's General Fiscal Reserve is already to meet unforeseen needs, and it is really not necessary to retain excessive reserve funds again under individual heads of expenditure or Funds, for this will virtually lead to an inflated deficit, resulting in the need for raising of further taxes by the Government.

The second point I wish to comment on the Budget is that although it pledges to look after the low income class as much as possible, it overlooks the interests of the middle-income class. A lot have already been said about the great contributions of the middle-income class to the prosperity of Hong Kong and I am not going to repeat them here. However, their interests appear to have been overlooked. It is difficult to define the middle-income class, but undoubtedly many of those earning more than \$10,000 a month should still fall into this category. Their so-called 'high salaries' are the result of high inflation rates in recent years. Inflation has raised their salaries, as well as their expenditures. It is therefore inappropriate to regard them as really well paid people. The 1984-85 Budget hits them hard. Take the payment of income tax as an example, some such people will have to bear a higher rate or even the higher standard rate. They enjoy few direct benefits in social services, such as public housing or welfare allowances, but they have to pay income tax at the same rate as those whose incomes are multiples of theirs. Take a married couple of Assistant Education Officers in the Government as an example (or officers of similar rank, e.g. Executive Officers whose monthly income just exceeds \$10,000). They are seven or eight ranks below that of the Director of Education and their total salaries are but half of that of the Director (or even one-third or less if the Director's other fringe benefits are taken into consideration). Yet they have to bear the same rate of tax as the Director, bearing in mind the latter's rank and

salary are much much higher and fringe benefits are much much better. Just think how they would feel? If this couple have to pay for their own housing by instalments, they are further faced with the question of increased rates. Although the Financial Secretary has, by administrative measures, limited the increase to a ceiling of 20% per annum, in a matter of three to four years their rates payment will double. If for certain reasons this couple have to drive their car through the cross-harbour tunnel to go to work, their burden will be even heavier. The income of this class of people, when compared with those genuine high income earners are still way behind, yet in terms of salaries tax levies, they are dealt a very heavy blow. The Financial Secretary said that 'no one more dislikes paying higher tax than I do'. I am sure this sort of middle-income earners, whose salaries and fringe benefits are much below his, but whose rate of salary tax (at standard or nearly standard rate) are the same as his, will certainly dislike paying higher tax more than he does.

The above situation reflects one important fact, i.e. there are problems in the present income tax system. It catches those whose incomes are not genuinely high into the net of standard rate. In other words, the progression of the income tax is so rapid that those who earn more because of inflation are required to bear much higher tax rates. It has been suggested in the past that the present progression should be slowed down, so as to widen each platform or tax rates. Although at that time the Government did not agree to this, it is now high time to slow down the progression without delay. The Government has the responsibility to introduce improvements in this respect as soon as possible, in order to reduce the impact of salaries tax on the middle-income class. The Financial Secretary mentioned that 'A good budget is not just a string of figures. It is the stuff of people's lives. And the less well off have absorbed several blows in the last two years.' I cannot agree with him more. I also hope that the Government will appreciate that the middle income class is also the 'people' of Hong Kong. To a large extent, they are also 'the less well off' and the stuff of their lives are also strongly influenced by Government's policies.

The third point about the Budget which I want to comment is the proposal to levy taxes on some users of the cross-harbour tunnel. The Financial Secretary considered that 'there is clearly now a persuasive argument for using fiscal means to deter non-essential usage of the tunnel on traffic management grounds'. I have no intention at the moment to argue whether traffic problems should be tackled by fiscal means. However, even if the Government's argument to levy tunnel tax to reduce congestion holds, I still think that the proposal tax should not be imposed at all times of the day without distinction. Since the Government's aim is to 'reduce the (cross-harbour) traffic' by imposing this tax, then in principle those non-peak hours users should not be made to pay it. Hence it is necessary for the Government to define what are peak (congested) hours, and what are non-peak hours by taking into consideration the usage rates at different times of the day (or even the usage rates of different days of the week). Only peak hours users should pay this tax. The defining of the peak and

non-peak hours may or may not change the present pattern of usage of the tunnel. Hence the Government should not arrive at too hasty a decision, and should spare users who do not contribute to the congestion of the tunnel of the tax.

The three points I just mentioned are my personal views on the 1984-85 Budget. From my contacts with members of the community I have also heard of other comments on the Budget, for instance some people in the education sector propose the raising of betting tax to offset the need to levy heavy tax on the middle-income class; some people in the business sector think that the Government had done too little to encourage investment intentions—fixed-capital investment in particular. I agree with them. As I believe Members will touch on these issues in great depth I do not propose to dwell on them.

Sir, with these reservations on the Budget, I support the motion.

MR. CHARLES YEUNG:—Sir, the general reception of the Budget has been favourable. From the tone of public comments such as ‘predictable’, ‘finely balanced’ and ‘broadly neutral’, set against the background of political uncertainty and economic difficulty of these two years, the budgetary strategy of the Financial Secretary has entered into the realm of wizardry.

The notable characteristics which are apparent throughout the speech of the Financial Secretary are the openness of his thinking and frankness of his approach. My speech would have aptly ended here if we were taking the Budget for the year 1984-85 in isolation. This however would not do the Financial Secretary justice as he has laboured so hard in its conception and has experienced traumatic throes in producing it.

The Financial Secretary has wisely steered our economy through the turbulent water of the diplomatic discussions on our future with a firm hand on the helm. Without alarming his passengers he simply noted that: ‘It is, however, clear that sentiment about [the talks] has had some influence on economic and monetary trends.’ Between the lines one feels the anxiety and doubt experienced by the people of Hong Kong. I cannot agree more with the Financial Secretary that uncertainty is possibly a larger threat than lack of confidence.

Uncertainty is many-faceted and it makes itself felt by different individuals at different times with different degrees of impact. No matter what the eventual outcome, uncertainty like woodworm is eating into the fabric of our society and economy as has been amply manifested in these last 18 months. During this period of uncertainty the search by some Hong Kong residents for the assurance of emigration abroad has been both saddening and depressing, but at the same time, there has been a visible upward trend of Hong Kong overseas settlers and immigrants returning to live and work in Hong Kong. These highly educated and highly trained people have much to offer in upholding our future economic

activities, both now and in the future. We hope that this new expression of confidence in Hong Kong's prospects will be reflected by those in Hong Kong who are now experiencing anxieties about their future and are investigating the alternatives open to them.

I believe that as the option of emigration remains open to the people of Hong Kong, guaranteeing them the continuing right to choose where they wish to live and work, they will continue to work calmly and diligently for the continued prosperity of the territory. The continued prosperity of Hong Kong is the common objective of all concerned in the future of Hong Kong and depends on stability and not uncertainty, the mere existence of a possible alternative will certainly encourage Hong Kong people to strive and do their best for the place because in the final analysis Hong Kong is their home and where they ultimately wish to stay.

I now turn to the taxation measures concerning interest proposed by the Financial Secretary. While I share his concern at the ease with which some of the cleverer taxpayers are able to avoid liability to Hong Kong tax, and while I also understand the need to recoup the revenue lost by the abolition of Interest Tax on foreign currency and Hong Kong dollar deposits with financial institutions, I am, however, concerned at the wider implications of the proposals.

Hong Kong has established itself as one of the world's major financial centres and although this has been achieved through many factors, not the least the wise encouragement of the Hong Kong Government, one of the major reasons for its success has clearly been the stable, low, source-based tax system. It is now proposed to change these advantages with foreseeable uncertainties in its wake—not only uncertainty in the interpretation of the law, but uncertainty in what these changes portend for the future.

I must make haste to add that I am not an expert in public finance and my knowledge of commercial financing is a smattering, albeit I had the benefit of studying British taxation under the renowned scholar Professor Wheatcroft many years ago. I must say that I dislike these changes in taxes as they have many ramifications and will create uncertainty and confusion, leading to unproductive effort and energy of the community resources in the war of attrition between the Inland Revenue Department and the tax avoidance industry. It will therefore be important to scrutinize the complicated drafting. But revenue has to be found somehow and somewhere and I do not have other better solutions unfortunately. I therefore appeal to the Financial Secretary to treat these taxes and concepts as a matter of last resort and to reinstate the position as soon as our fiscal position stabilizes.

Generally I endorse the revenue proposals of the Financial Secretary particularly in raising the rate of direct taxation to support recurrent expenditure and borrowing \$1 billion to finance public capital expenditure

whilst the ratio of recurrent expenditure against recurrent revenue is maintained at a decent level, so that we do not have to dig too deep and too long into our free reserve. Deficit financing, if for the necessary capital investment expenditure, with interest coming from immediate recurrent revenue, and repayment position covered by the combination of future return and revenue receipts, is both progressive and non-inflationary. Otherwise the infrastructure for our economic growth will not be maintainable and as a result our future prosperity will suffer. I have no quarrel for further tighter constraint of our public service. But the successful restraint on public sector demand during these past two years deserves special recognition for our civil service and all concerned, to whom our community is indebted.

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

4.10 p.m.

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

4.27 p.m.

HIS EXCELLENCY THE PRESIDENT:—Council will resume.

DR. HO:—Sir, at a time when revenue is not catching up with the demand for public sector expenditure, management of public finance is not an enviable task. Our Financial Secretary proposed to alleviate a foreseeable deficit in the forthcoming year's budget by recourse to increased taxation, use of the fiscal reserves and issue of Government bonds, while bearing in mind the need to moderate inflation and to shield the less well—off against the burden of increased taxation. With this three-pronged approach, the Government hopes to be able to raise enough income to permit itself to steadily spend on our general infrastructure and long-term social and economic development programmes. These investments are vital, because they will enable our economy to stay viable and the private sector to speedily respond to the economic upturn of our major trading partners. I therefore support the Financial Secretary's budgetary proposals in general.

Salaries tax

Given the burgeoning demand for public services, in quantitative and qualitative terms, the 2% increase in the standard rate of salaries tax, as proposed by the Financial Secretary, is inevitable. It must be acknowledged that the spiralling inflation in recent years has the effect of inadvertently pushing the sandwiched class into higher tax brackets. As a result of the combined effect of the increased tax rate and inflation, our middle-class is shouldering a relatively

heavy tax burden. In fact, the effective tax rates of single-persons earning between \$100,000 and \$180,000 per annum in Hong Kong are higher than those of their counterparts in Singapore and Japan. In order to mitigate the effect of inflation and to achieve a greater degree of equity in direct taxation, I would like to ask the Financial Secretary to consider setting the tax bands of net chargeable income at \$15,000 intervals. Other academics and community leaders have put forward similar views this year and last year. This revised tax bands would result in a small reduction in the estimated revenue, which is, however, justified on equity ground.

Law enforcement—Apprenticeship Inspectors

I recall Mr. Alex Wu had questioned in 1976 the sufficiency of staff to administer and enforce the Apprenticeship Ordinance in view of the complexity involved and the volume of inspection and services required from the Apprenticeship Inspectors.

Sir, my recent research indicates that the establishment of the Apprenticeship Inspectorate in the Technical Education and Industrial Training Department has been shrinking, from 72 in 1980-81 and 1981-82 to 53 in 1983-84 and 1984-85, while its strength remained around 52. I have noted from the data collected by the Census and Statistics Department in September 1982, that the number of industrial establishments likely to be encompassed by the Apprenticeship Ordinance in the 38 designated trades is 52 352, comprising 47 000 manufacturing establishments, 2 600 electrical repair shops, 1 600 garages, 52 hotels and 1 000 construction sites. The number of apprentices likely to be put under the supervision of the Inspectors is estimated to exceed 11 000 in 1984-85.

The functions of the Apprenticeship Inspectorate are to ensure:—

- (i) that all young persons engaged in a designated trade would be under the protection of the Ordinance, and
- (ii) that all apprentices whose contracts of apprenticeship are registered under the Ordinance will be given adequate training.

One would therefore be induced to ask the question how an approved establishment of only 53 Inspectors of Apprentice can effectively and satisfactorily enforce the Ordinance, given the ratio of one Inspector to 1 000 work places.

Sir, I have good reasons to believe that the Ordinance is not, and has not been for sometime, adequately enforced. Inadequate enforcement would not only lead to accusation of window-dressing, but also has an adverse effect on the career prospects of young people as well as on the future development of our economy. Hence, there is certainly a strong case for expanding considerably the establishment of the Apprenticeship Inspectorate in order to enable it to carry out the task for which it was set up.

Industrial safety—Factory Inspectors

I now turn to the protection of the safety and health of workers in industry. While the reported number of accidents at work-sites was reduced in 1983, it is still considered too high a level to be acceptable. There are fears expressed that the number of industrial accidents would begin to rise again this year as the economy recovers. Factory Inspectors are deployed to enforce the Factories and Industrial Undertakings Ordinance and its subsidiary regulations. The establishment of the Factory Inspectorate in the last two years had remained unchanged at 205, whereas the number of establishments encompassed by the legislation has been steadily increasing from 73 000 in 1982 to roughly 77 000 in 1983. Furthermore, the approved posts of Factory Inspectors have never been fully filled. In 1983, there were ten vacancies. On average therefore, one Factory Inspector has to police 394 factories and industrial undertakings per year, which is far greater than the optimal ratio of 1:300 recommended by British experts. As a consequence, the present level of enforcement, that is how often inspection visits are made to each establishment, is far from satisfactory. The inspection cycle may range from six months to about 1½ years, depending on the degree of potential hazards associated to each industrial undertaking. In some extreme cases, a second inspection may take place some four to five years after the first inspection was made, as revealed by an inquiry into a fire accident of a wig factory in North Point in 1981 which claimed 11 lives.

The unsatisfactorily low level of enforcement of the industrial safety regulations as a result of a shortage of Factory Inspectors has caused grave concern to the community. In January 1982, the Commissioner for Labour informed this Council that a five-year expansion plan was being implemented with the aim of increasing the establishment of the Factory Inspectorate to 250 by 1984. We have yet to see this plan realized.

The inadequate enforcement of the industrial safety legislation generates consequences in social and economic terms. Industrial accidents not only bring much human suffering to the injured workers and miseries to their families; but also disruption to production to the employers and financial losses to the Community at large. I would therefore urge the Government to review the establishment of the Factory Inspectorate in the light of the current high level of industrial accidents. I note that \$1.5 million has been provided in the Draft Estimates for promotion of industrial safety, but I personally believe that more stringent policing by Factory Inspectors is a surer way to bring about more immediate effect.

Vocational training for disabled persons

According to the 1977 White Paper 'Integrating the Disabled into the Community—a United Effort', the aim of vocational training for disabled persons is to provide them with skills which will enable them to obtain open

employment. There is clearly a need to integrate the training of disabled persons with the comprehensive system of technical education and industrial training currently being developed by the Vocational Training Council (V.T.C.). But while vocational training for the disabled is provided through the Technical Educational and Industrial Training Department, the executive arm of the V.T.C., the V.T.C. itself is handicapped by the lack of a rehabilitation expert among its members. I propose therefore that the membership of the V.T.C. should be expanded or adjusted to include a representative from the Rehabilitation Development Co-ordinating Committee so that the necessary advice on the special needs of disabled persons in training or employment can be obtained.

With these remarks, Sir, I support the motion.

MR. ALLEN LEE:—Sir, I would like to congratulate the Financial Secretary for an overall well-prepared and cautious budget for the year 1984-85. He is budgeting yet another year of deficit which would make it the third year in a row of Government deficits. Of course as a government, we cannot continue forever on deficit financing. I have reviewed the proposals made by the Financial Secretary on raising revenue through various means and also on maintaining a balanced ratio of direct to indirect taxation. I must agree, at this point in time, that the proposed measures are reasonable and acceptable without causing an intolerable impact on our community.

In the past, I have spoken a number of times with regard to the necessity of continuing our efforts in the area of industrial investment promotion. It is more evident now than ever before that the growth of our economy is significantly most dependent on our export performance. We should not let the short-lived property boom or any other external factors divert our attention from the main pillar of our economy. We should pay much more attention to the manufacturing sector and we should review, from time to time, our policies towards enhancing the growth of our manufacturing industries. After all, manufacturing and export are our blood-line providing not only employment opportunities but also affecting the very livelihood of our people. I do not wish to propound on this subject any more as in my opinion, it is already well-known.

Today, I would like to speak on two subjects, namely; controlling of recurrent expenditure and the value of the Hong Kong dollar.

Controlling of recurrent public expenditure

Sir, may I first take this opportunity to pay tribute to the controlling officers of the Government departments who have, during the past year, made major efforts in the controlling of expenditure. It is a good beginning. However, I feel much more can be done particularly when Government faces a deficit situation, and as I have said before, we cannot continue forever in deficit financing. The best way to combat this is to carefully review the controlling of recurrent expenditure.

Government financing is no different from commercial financing. When a business is in trouble, the first thing a manager asks himself is which corners he can cut in order to turn the business around. I am sure sectoral interests in the Government would argue that we need more social welfare, more hospitals, more schools, and more of this and more of that. But the Finance Branch must play the part of devil's advocate by asking: Where will the money come from? Can we afford it?

Recently, the civil service unions have been asking for salary adjustments beyond what the Government can afford. In my opinion, the leaders of these unions must calm down and realistically review the financial situation of our Government. In the event that these unions have forgotten, may I ask them to review the pay adjustments of the civil service since 1978. There is one point that I am quite certain about. Overall speaking, their increases have better than those in the private sector. In fact, my colleagues in industry have asked me to present their concerns with regard to civil service salary increases in this debate.

There is no argument from my colleagues concerning the recent announcement of an increase of direct taxation by 2%. We understand the difficulties that our Government is facing, but the public servants must play their part in ensuring the continued viability of our economy. By controlling growth of the civil service and controlling the recurrent Government expenditure, we will all have a better tomorrow.

Value of the Hong Kong Dollar

When the Government installed the link between the Hong Kong and U.S. dollar, it was because of the speculative element creeping in to Foreign Exchange dealings brought about by political uncertainty over the future of Hong Kong. At that time, I totally agreed with the Government's move.

Sir, the Financial Secretary has repeatedly stated that the Hong Kong dollar link to the U.S. dollar at 7.8 to 1 will not change. I hope he does not mean to say that it will *never* change. I would like to put my suggestions and arguments forward for his consideration.

I would suggest that the Financial Secretary reviews the current situation and lifts the link in due course allowing the Hong Kong dollar to float freely as in the past. My argument is as follows:

First, lifting the link and letting the Hong Kong dollar find its true value versus foreign currencies is in line with Government's prior philosophy and policy.

Secondly, the export performance of 1983 and the narrowing of the visible trade gap does not reflect the true value of the Hong Kong dollar and as it is predicted that the export trend of 1984 will be stronger than 1983, therefore, it is grossly wrong to link the Hong Kong dollar to the U.S. dollar at 7.8 to 1.0.

Thirdly, the performance of the U.S. of dollar versus other foreign currencies has weakened in recent months and it has been predicted that it will further weaken in the future. As Hong Kong imports a lot of material, foodstuff, machinery, etc. it is highly inflationary. This inflation is caused by the linkage to the U.S. dollar, therefore, it cannot be justified. I must agree with my colleague, the Honourable S. L. Chen, on inflation.

Fourthly, the Government always has the right to establish a link in the future in case of speculation.

Therefore, I believe this is the time to abolish such a link and to let the Hong Kong dollar float freely as it once did. My suggestion might be controversial but I believe it is correct.

Sir, it would be foolish of us to believe that the political uncertainty does not dictate the economic and monetary trends. It is, vital now, for Hong Kong to have confidence in its future. I have been asked by many foreign correspondents to define what it is that makes the Hong Kong system work so well. After long moments of soul searching, I replied that it is not the number of factories nor the number of skyscrapers soaring their way to Victoria Peak. To use simple computer language which I understand, it is not the 'hardware' that is impressive but the 'software' which takes many many years to develop. The software comprises every Hong Kong person who has helped to make this place one of the most wonderful places in the world to live in. If the 'software' is destroyed, then the system will not operate and it will not be the Hong Kong we used to know. Therefore, we must maintain the 'software' and continue to develop it in the future so that we can have a society that will prosper for many, many generations to come.

With these remarks and suggestions, I support the Appropriation Bill 1984.

MR. SO delivered his speech in Cantonese:—

督憲閣下：香港雖然是個彈丸之地，但卻容納了超過五百多萬活躍和勤懇的人口。我們的經濟雖然受海外的動態所影響，但因為政府維持穩定一貫的政策，潛質和競爭力非常強，而且受國際讚許。隨着人口的增加和經濟活動的增長，處理廢料和防止染污本港大自然環境的工作，定然愈來愈艱巨，加上我們的環境資源有限，在這方面的壓力是可想而知的。同時因為這個原故，保護香港環境的工作和措施，比起其他地區的需要也較大。

十年前，政府委派了顧問團研究如何在法律和組織方面保護香港的環境。一九七七年政府在收到顧問團草擬的報告書後，建立了基本的架構，進行保護環境的計劃和工作。其後，有關水質管制和空氣染污的條例亦相繼於一九八〇年和八三年由本局制訂。噪音管制的法案亦相信在本年底便可提交本局辯論。

環境保護處的設立，各有關部門加強執行保護香港環境的工作；環境保護諮詢委員會在組織上的變化，政策的制訂由環境司和民政司轉移到衛生福利司身上等等，都反映出香港在保護環境工作方面雖有決心但感到非常棘手。

政府處理廢物的政策是以成本低，不損壞環境和盡量將廢物再用作資源為原則。本港每日需要處理六千五百三十公噸廢物，預料至一九八九年這個數字將會增至一萬公噸。有關環境遭受污染的問題和實例，我們每天都從報章，區議會會議報告，市政總署或新界市政

署報告中聽聞，單是本月初本局財務委員會的四天公開會議中，四百多條用書面或口頭上提出的問題中便有很多涉及環境。較典型的就是我們僅有的河流受嚴重污染，溝渠的污水發出臭氣，海邊的紅潮，大亞灣核電廠環境輻射監察計劃，焚化爐在排放氣體管道內裝置靜電除塵器以便減少排放出來的黑煙，勞工處設立測量氣體硫化率的測量站收集污染氣體的來源及資料等。

一九八四至八五年財政年度政府收支預算案的綜合帳目指出用作環境保護工作方面的，共有五億五千七百萬元，比今年增加了百分之十二點七。這一點顯示了政府雖然履行將公營部門開支作嚴密的控制，但仍然繼續穩步進行保護香港環境的承諾。不過本人認為政府在這方面的工作過於流散，負起不同保護環境責任的政府部門包括有漁農處、機電工程署、港九市政署、皇家香港天文台、新界市政署、皇家香港警務處、勞工處、建築拓展署、

水務署、海事處等等，受政府津貼的也有聯邦林務組織(Commonwealth Forestry Institute)和防止虐畜會(Royal Society for the Prevention of Cruelty to Animals)。在這種情況下，環境保護處的發展工作不容易與此等政府部門協調，各部門間的責任有時亦不容易劃清，市民遇到與環境有關的問題時亦很難弄清楚應該與那一個政府部門聯絡。環境保護處既然沒有實權控制環境的污染，各政府部門亦因為有其他優先處理的事項，往往把保護環境的工作放在次要的地位。這樣的結構不免會流於臃腫和鬆懈，運作亦感呆滯。政府部門亦易於推卸責任，本人認為政府要在這方面發揮較高的效率，便應把目前的情況作徹底的整頓。其次，環境保護諮詢委員會的組織亦應就目前地區行政的實施和可能設立的區域議局，作出檢討，以配合實際的需要。保護香港環境是我們不能鬆懈的工作，絕不應受到當前經濟和政治情況不明朗的氣候所影響。

督憲閣下，本人謹此陳辭，支持動議。

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

Sir, though Hong Kong is only a small place, it accommodates over five million active and industrious people. Our economy, though affected by activities overseas, has great potential, is highly competitive and widely acclaimed by countries all over the world, thanks to the Government's steady and consistent policies. But with the increase in population and economic activities, waste disposal and prevention of pollution to our natural environment is becoming a more difficult task. And the pressure is felt all the more because of our limited natural resources, which explains why we in Hong Kong have a greater demand for environmental protection than other places.

Ten years ago, the Government entrusted a group of consultants with the task of studying what legislation and organization are needed to protect the territory's environment. In 1977, upon receipt of the report by the consultants, the Government established a framework for planning and implementing environmental protection. Subsequently, in 1980 and 1983, the Water Pollution Control Ordinance and the Air Pollution Control Ordinance were enacted. And it is believed that the Noise Pollution Control Bill will be introduced into this Council at end of the year.

Although Hong Kong is determined to protect its environment, the task is not without difficulties. This can be seen from the establishment of the Environmental Protection Agency, the stepped-up efforts of various departments

concerned in this respect, the changes in the organization of the Environmental Protection Advisory Committee, and the transfer of the task of policy formulation from the Secretary for the Environment and Secretary for Home Affairs to the Secretary for Health and Welfare.

The guiding principles of Government's waste disposal policy are low cost, conservation of environment and recycling of waste whenever possible. Hong Kong handles 6 530 tonnes of waste per day and it is estimated that the figure will rise to 10 000 tonnes in 1989. Problems and cases of environmental pollution can be seen and heard every day from newspapers, District Boards' reports and reports by the Urban Services Department and New Territories services Department. During the four-day public session of this Council's Finance Committee held earlier this month, among the 400-odd written or verbal questions raised, quite a number were environment-related. The more typical ones were on serious pollution of our rivers; obnoxious smell from sewage in gutters; red tides; radiation monitoring scheme in connection with the nuclear power plant at Daya Bay; installation of electrostatic precipitators in the exhaust pipes of incinerators to reduce the emission of black smoke; establishment of monitoring stations by the Labour Department to monitor the sulphuration rate in the air with a view to tracing the sources of air pollutants and collecting other relevant information.

According to the 1984-85 budget, estimated Consolidated Account expenditure on environmental protection is \$557 million, which represents a growth of 12.7% over the expenditure for 1983-84. This shows that although the Government exercises strict control on public sector expenditure, it has steadily carried out its commitments to protect the environment of Hong Kong. However, I think that the work of the Government in this area lacks coordination. Government departments responsible for different aspects of environmental protection include the Agriculture and Fisheries Department, Electrical and Mechanical Services Department, City Services Department, Royal Observatory, New Territories Services Department, Royal Hong Kong Police Force, Labour Department, Building Development Department, Water Supplies Department and Marine Department. Government-subsidized organizations involved in the work of environmental protection include the Commonwealth Forestry Institute and the Royal Society for the Prevention of Cruelty to Animals. Such being the case, it is difficult to co-ordinate the development programmes undertaken by the Environmental Protection Agency and the work of the aforesaid Government departments. At times it is also difficult to draw clear distinctions between the responsibilities of different departments. When members of the public come across problems related to environmental matters, they do not know which department they should approach. As the Environmental Protection Agency has no real power in controlling environmental pollution, and the various Government departments may deal with other priorities and treat environmental protection as something

of secondary importance, the above framework for environmental protection is bound to be oversized, poorly co-ordinated and inefficient. Also, it would be easy for the Government departments to shirk responsibilities. In my opinion, the Government should introduce radical reforms if it is to improve efficiency in this respect. The structure of the Environmental Protection Advisory Committee should also be reviewed in the light of the operation of District Administration and the proposed Regional Councils so as to meet the people's actual needs. To protect the environment of Hong Kong is a task which we should undertake with unrelenting effort. It must not be affected by the uncertainty of the prevailing economic and political climate.

Sir, with these remarks, I support the motion.

MR. F. K. HU:—Sir, at a time of economic difficulty, the Financial Secretary has an unenviable task to perform, that is, to find revenue without causing undue hardship especially to the less well-off sectors of the tax-paying community. At the same time, he has to limit the growth of public sector expenditure while continuing to spend steadily and without arbitrary cutback on our general infrastructure which whatever our short term difficulties is essential for our long term success. Generally speaking, the people of Hong Kong have accepted the budget of the Financial Secretary as being fair and well balanced and the Financial Secretary has rightly anticipated the mildly unfavourable comments especially from the so-called sandwich class raising from 15% to 17% of the standard rate of tax.

It is encouraging to note the rapid recovery of Hong Kong's external trade and the increasing economic links with China. All these favourable factors have helped to reduce the unemployment rate from 5.1% in the first quarter of 1983 down to 4.1% at the end of 1983 despite the fact that the size of the labour force has increased during the year. However although there has been increasing investment by other countries, especially China, the volume of local investment in the provision of plant, machinery and equipment declined in 1983 and the improvement in the demand for exports has not been matched by a recovery in private investment expenditure. Spare production capacity in the manufacturing industry has been practically exhausted. Sales of factory premises are not encouraging and more manufacturers opt for rented factory space.

These are the signs of the lack of confidence in our future under the present atmosphere of political uncertainty. This uncertainty is largely the result of the confidentiality surrounding the negotiations between the Chinese and British Governments and persists despite indications that negotiations have been progressing smoothly.

We have no natural resources at our disposal and we must have confidence in our own ability to adapt to changing situations and to resolve our own problems during difficult times as we have done in the past. Lack of investment by our own people at this crucial time could seriously impair our prosperity and stability in future.

I am pleased to note that there is no cutback on capital programmes on agreed transport projects that are ready to proceed. We all recognize the limitation of our road capacity and the necessity of movement of people and goods in the territory. Therefore we must keep on improving our transport infrastructure and encourage the general public to use public transport, first by improving its standard of service and secondly by ensuring efficient operation so that fair and reasonable fares are charged. Then through fiscal measures, the growth rate of inefficient road users, such as private cars, should be restrained.

Taxis are useful but not efficient road users and they are the main cause of road congestion during peak hours. Taxis are luxurious personalized public transport for those wishing to pay more for better and more comfortable service and for use during emergencies. Through actual observation, the waiting time for taxis has been reduced considerably in recent years, therefore there is no necessity to issue more taxi licences and taxi fares should be allowed to increase, together with suitable fiscal measures, in order to give the operators reasonable return even with less usage. For the same reason, I support the introduction of a cross harbour tunnel tax as a fiscal measure to deter non-essential usage of the tunnel on traffic management grounds. A positive solution to the congestion problem would be the construction of a second cross harbour tunnel which should be looked into without further delay.

We are all proud of our public housing programme as the total production in the next four years including Housing Society flats and Private Sector Participation Scheme flats is estimated to be at an average completion rate of 44 000 units a year. A considerable percentage of rental public housing is still heavily subsidized although many tenants have prospered over the years and could well afford to move to H.O.S. flats or pay a reasonable rent which, while pitched to cover maintenance, improvement and an element of possible redevelopment costs would still be subsidized to the extent that no land cost is included. The Housing Authority should pursue a sound rental policy to reduce the gap between actual costs and rental income so that gradually the Authority could contribute more toward meeting the construction cost of rental housing estates and thus be less dependent on public funds. It is encouraging to note that amount required from the Development Loan Fund to finance Public Rented Housing will be reduced from \$2 billion in 1983-84 to \$1.8 billion in 1984-85.

In the area of social welfare, it is appreciated that there will be no cutback in its recurrent expenditure. Indeed there will be an increase. However, a substantial proportion of this increase will go to direct payments in public assistance and special needs allowance due to the recent increase in the various payment rates and the consequent increase in the number of cases which will become eligible for assistance under the means test. I suggest that it is sound social policy not to over-encourage people to depend on social security and assistance except those who really cannot fend for themselves.

I am particularly concerned with one situation whereby hostels, homes and half-way houses announced an increase in fees effective from 1 March 1984. This increase will affect both groups of clients whether or not they are on public assistance. For those who have not been on public assistance, it will be a pity to see them bracketed into the public assistance net because they have become eligible simply due to the increased fees they have to bear.

Another point I wish to raise is that we should maintain a balance between social work and social security. I understand that although there will be no cutback in recurrent expenditure on social welfare, it is doubtful whether the measures to improve social work services will be allowed to go ahead as already planned. Social work is the positive arm of social welfare. It helps people to be self-sufficient and independent. It will pay in the long run to raise the quality of the service whether it is provided by the Government or by the voluntary agencies through subventions. I urge that the Government should not hold up or delay any of its development plans on social work because Hong Kong cannot afford not to strive continuously toward improving the quality of its social work services.

Hong Kong is gradually moving toward more elected political bodies. District Boards have been firmly established and should be able to assist in the management and promotion of facilities and activities specifically for the benefit of residents in their districts under the guiding policies set up by the Urban Council in the urban area and the Central Government in New Territories. There is basically no difference in such policies in urban areas and the New Territories as the executive department is the same Urban Services Department in both geographical areas.

Both the Urban Council and the Central Government could be relieved of the responsibilities of managing and promoting activities of a purely district nature as District Boards could exercise the necessary adjustment at the district level to suit the local situation in the implementation of the guiding policies already decided by the Urban Council and the Central Government. Should the final decision be made to set up a new Regional Council for the New Territories, there could be confusion if the two councils adopt different approaches on the same policy matter. Therefore, one re-constituted, enlarged council for the whole territory would ensure uniformity and consistency in the implementation of guiding policies.

Financially, the cost for one council would be less than the cost for two councils due to savings for instance in administrative expenses, and the time spent by civil servants in attending to council matters. Whether the money comes from rates or general revenue is irrelevant as both sources are public money from tax-payers. Worry about one enlarged council being too large and unwieldy is just an assessment not yet proven, but the saving cost for one enlarged council is a certain assessment. Whatever is the decision, one must bear in mind that continuous urbanization of the New Territories will make Hong

Kong more homogeneous and there will be eventually no difference between the urban area and the New Territories. With the change of status of Hong Kong, there will be only one territory requiring one council only. We must have an open mind in finding the best solution to this complicated problem.

Sir, with these remarks, I support the motion.

MR. WONG PO-YAN:—Your Excellency, against the background of continuing large deficits, I sympathize with the Financial Secretary in his difficult task of balancing ‘spending priorities against the need to control public sector growth and to limit taxation’ I endorse the major theme of this year’s budget which is— ‘to moderate inflation, with particular attention to the burden of increasing consumer prices on the less well off’; and I could not agree with him more that ‘a good budget is not just a string of figures. It is the stuff of people’s lives.’

There fore, I am pleased to note that there have been no cut backs in the programme of works for 1984-85 in respect of land production, transport and institutional projects that are ready to proceed in spite of the proclaimed budgetary stringency; and that \$7.06 billion, representing an increase of 17.9% over 1983-84, has been budgeted for investment in human resources so that further opportunities will be provided for education, including pre-primary, primary and secondary education, adult education, post-secondary, tertiary education and vocational training.

I am pleased to note, too, that \$3.55 billion, representing an increase of almost 16% on the revised estimate of expenditure for 1983-84, has been included for Government and subvented medical services; and that \$2.4 billion, an increase of nearly 19% on the revised estimate of expenditure for 1983-84, has been provisioned for social welfare services.

I am pleased, too, that in addition to the 43% of the total population already accommodated in public housing estates, 700 000 citizens would be provided subsidized housing in the next four years.

The Government’s goodwill and intention for the well being of the citizens are beyond any doubt.

However, all these increases are made possible against a tightly held down spending in other areas; and I am convinced that there would be decisive and consequential effects to our future development. I feel particularly concerned about: first, the continuing deficits; secondly, inflation; and thirdly, the promotion of science and technology to ensure our future economic vitality.

The continuing deficits

The continuing deficits—\$3.6 billion for 1982-83, \$3.3 billion for the revised estimate of 1983-84, and \$3.6 billion for the draft estimate of 1984-85—are, indeed, sobering realities.

As at 1 April 1981, our free fiscal reserves stood at \$11.3 billion. On 1 April 1982, they stood at \$16.1 billion. They fell to \$11.9 billion on 1 April 1983; and by 1 April 1984, our free fiscal reserves are estimated to stand at \$8.2 billion, with the prospect of being drawn further down by the anticipated continuing deficit of 1985-86 as a result of the fall in land sales revenue.

By end of March 1985, our free fiscal reserves will be about \$7.1 billion.

How many more years can we rely on our fiscal reserves to finance our expenditure?

It is self-evident that our fiscal reserves cannot be continuously drawn down. For Hong Kong, this diminishing balance of fiscal reserves is particularly unacceptable as we have no inherent natural resources—neither oil nor mineral wealth—to which we could resort to replenish our fiscal reserves.

We could, of course, turn to bond issuing and/or borrowing. But, in the words of our Financial Secretary, ‘to choose debts as a solution to all budgetary problems ... must be treated with considerable circumspection ... for loans carry interest and have to be funded or repaid’. ‘Debt without discipline’ may spoil our reputation as an effective financial centre, in the unique situation of Hong Kong, this cannot be tolerated.

Thus, the only sensible option would be to trim down expenditure, to pare down to the bone if need be, and to make optimal use of revenue raised.

I appreciate Government’s efforts to contain and constrain public expenditure, particularly recurrent expenditure. The relative size of the public sector in 1984-85 is estimated to be 18.3%, compared with 19.4% for 1983-84 and 1982-83. Sir, but this decrease of 1.1% is still far from satisfactory as ‘the base was high in the period of large budget surpluses’. Further efforts should be made, therefore, to reduce the relative size of the public sector to around 15%, taking into account the 12.9% for 1973-74, 15.0% for 1974-75, 14.2% for 1975-76, 12.4% for 1976-77, 13.3% for 1977-78, 14.9% for 1978-79 and 14.6% for 1979-80.

On the other hand, I understand Government’s commitment in the provision of social services, in particular in medical and social welfare. Of the total estimated expenditure for 1984-85 under these two programmes, 85.6% and 94.3% respectively are recurrent expenditure. Therefore, there is the urgency to encourage growth in G.D.P. by increasing expenditure on selected infrastructure projects and to accelerate economic development to sustain these services in the long term and, at the same time, to make every effort to improve these services in the most cost effective way.

For example, projects such as public housing, road construction and civil engineering with high G.D.P. multiplier effects could facilitate economic growth and development and ensure adequate revenue to sustain and improve these social services.

Thus, in accepting the desirability to promote our stability and prosperity by generous outlay in medical and welfare services, I also urge that priority be allocated to projects that would exert multiplier effects on our economic growth rate.

Inflation

Our Financial Secretary pointed out that ‘among the unsatisfactory aspects of the economy in 1983 was the rate of inflation’ which, in terms of the Consumer Price Index registered about 10%.

The policy is, therefore, to ‘moderate inflation, with particular attention to the burden of increasing consumer prices on the less well-off.’

I concur with this view, and I support in principle the proposed revenue measures. But in commending the Financial Secretary’s ‘wish to avoid sudden shocks’ at this crucial and difficult period, I sincerely hope this intention will be translated into policy as there is the ‘on-going exercise to keep fees and charges up to date’. This exercise, I understand, will continue during 1984-85, and I wish to caution that, unless an increase is justified after the strictest scrutiny, rises in fees and charges should be avoided during the year.

I do not intend to dwell on the adverse effects of inflation on the standard of living of the citizen. This I have oft repeated in this Chamber.

I do intend, nevertheless, to emphasize the impact of inflation on trading and manufacturing activities, our lifeblood.

Although it is pleasing to note that growth rate of labour productivity has increased from 0.3% in 1982 to 4.5% in 1983, which compares favourably to the United States figures of 3.2% in 1983 and the estimate of 2.5% in 1984, this increase is largely due ‘to the gradual improvement in the underemployment situation during the year’. Inflation differential between Hong Kong—which is estimated at 7% for 1984-85—and its major trading partners and competitors would render our exports less competitive in foreign markets.

The promotion of science and technology

It is an established fact that Hong Kong no longer enjoys the advantage of cheap labour and that our products are no longer competitive in the lower end market.

Our efforts to move up market have achieved considerable success as evidenced by the increasing sophistication of our products and the recent robust export performance.

Improved economic conditions in our major import markets might lead to greater demand for our exports and to a greater inflow of direct investment capital, but, unless this improvement in export demand is matched by a

recovery in private investment expenditure—which registered a decline of 8% in real terms in 1983—Hong Kong might not be able to benefit from the growth in our major trading partners.

If that should happen, we would have to pay heavily in opportunity costs because Hong Kong would then fail to exploit fully the recovery in our major markets in the years ahead.

We should, therefore, take every possible step to support our economy using all the means under our control to ensure that we would be in a position to take full advantage of whatever benefits ensuing from that recovery.

Sir, investment and reinvestment in our industry represent technological advancement that affect our export capability and future development. The adverse effects of the continual decline in recent years must be minimized.

On the other hand, there is an urgent need for the establishment of a centralized co-ordinating body that would promote and disseminate relevant technological information to our industrialists. This body will complement our existing efforts in vocational and industrial training, promote technological transfer from abroad, encourage product design and innovation, and facilitate research. In short, this body will establish an efficient and effective technological infrastructure that would assist our industrialists to meet the challenge of the future competently.

In the present climate, I am aware that it would not be feasible for Government to offer direct subsidies or tax concessions.

However, it would not be economical in terms of applications of resources if the present fragmented approach—that of leaving the task to institutions and organizations—is to be continued.

Most importantly, it would not be viable for the majority of our industrial manufacturers, over 90% of whom employ less than 50 employees, to undertake the task without assistance or direction.

I advocate, therefore, the establishment of an institute to meet such objectives. The setting up of such an institute would, of course, involve sizeable investment which, I am sure, could be financed by an export levy.

Conclusion

Sir, this budget reaffirms Government's commitment to the community's stability and prosperity, and I have much pleasure in supporting the motion.

Suspension of sitting

His Excellency the President:—In accordance with Standing Orders I now suspend the Council until 2.30 p.m. tomorrow afternoon.

Suspended accordingly at twenty-three minutes past five o'clock.