

OFFICIAL REPORT OF PROCEEDINGS**Thursday, 29 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.

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 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 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 LYDIA DUNN, C.B.E., J.P.

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

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

Second reading of bill

APPROPRIATION BILL 1984

Resumption of debate on second reading (28 March 1984)

MR. BROWN:—Sir, if the art of taxation is to pluck the goose so as to produce the most feathers with the least hissing, then our Financial Secretary has performed reasonably well with this year's budget. In general terms there is very little to hiss about in his revenue raising proposals, for any fair minded person must find it difficult to deny that they are finely tuned to the political and social realities of the day. Expenditure has been kept under control with the correct emphasis being given to maintaining the public works programme and allocating resources to those areas where lies the greatest social need.

Viewing the budget as a whole, however, it would be a fair observation to say that, although the goose is not hissing, it feels its feathers somewhat ruffled by a number of issues arising from the budget, which are of fundamental importance to the future of our economy.

These issues include the possibility of deficit budgeting becoming a permanent feature of our financial affairs, the further departure from our established territorial concept—that is to say the practice of not taxing transactions which are formally made outside Hong Kong—and measures which some fear will result in retroactive taxation.

I would like to take these in reverse order and first comment briefly on the subject of retroactive taxation, which I am sure the Financial Secretary himself would agree is something to be avoided as a matter of principle in any open society. The possibility of tax being imposed retroactively arises in connection with the proposals to counter tax avoidance devices in regard to the liability to pay profits tax, which have been made possible by the removal of interest tax on deposits.

Being a cautious man I have studied the budget speech carefully in regard to these proposals; it does seem to me premature to jump to conclusions regarding the possibility of tax being levied retroactively until the enabling legislation is laid before us and one can comment on facts rather than assumptions. I would like to believe that tax will not be levied retroactively, and I am optimistic that such in fact will be the outcome. The legislation will certainly be closely examined with this in mind.

The proposal to move further away from the territorial concept of not taxing transactions made outside Hong Kong is more definite, and I might say many, and I include myself amongst them, have sympathy for the proposal to tax interest accruing to businesses carried on in Hong Kong irrespective of the currency in which the transaction is denominated, and notwithstanding that the principal itself may be made available to the borrower outside Hong Kong.

To a large extent business has brought this modification of the territorial concept onto its own head by the degree it had used the 'provision of credit' test to avoid payment of profits tax, and it is difficult to argue against the view that the new rules are reasonable in equity and will lead to a fairer distribution of the overall tax burden.

But, Sir, I wonder whether Government has sufficiently assessed the likely effect of tax avoidance measures on its estimate of the \$350 million additional revenue to be derived from this measure, and whether the side effects have been fully taken into account? In regard to the former we are already witnessing 'smart alecs' devising new avoidance schemes, and in the latter context the Financial Secretary's words, taken at their face value, could mean that companies incorporated in Hong Kong, regardless of the nature of their activities, could be taxable upon interest received overseas. If so, we could witness, at best, interminable arguments with the Inland Revenue authorities and at worst an exodus of many companies who take advantage of Hong Kong's status as an international financial centre to register themselves here (and I might add pay Business Registration Tax) but who do not conduct a trade or business here in the normal sense of those words.

In regard to the taxation of interest earned by companies carrying on business in Hong Kong I hope that the enabling legislation will spell out in clear and precise terms those companies deemed to fall within this definition, for many would be quite prepared to transfer their domicile rather than face uncertainty.

The move away from the territorial concept, albeit a modest and, I would agree, perhaps a necessary one, does cause legitimate concern that it could be the thin end of the wedge. Were we to move even further away and attempt, for example, to apply Hong Kong taxation to all income, wherever it may arise, the repercussions could indeed be serious for the economy. For events in the market this week illustrate that our entrepreneurs will not hesitate to take preventive measure and actions when they feel their commercial interests are threatened. The Budget revenue proposals do not indicate any intention of compromising further the territorial concept, but it would be reassuring if the Financial Secretary could reconfirm that Government remains wedded to the basic principle that taxation should only be applied to income arising in Hong Kong. I have no doubt in my own mind that Government is so wedded, but it is an important issue and to have it reconfirmed in an unequivocal manner would be both helpful and comforting.

Turning now to the budget deficit let us first consider the Financial Secretary's remarks regarding the expected deficit of \$3.3 billion in 1983-84, the budgeted deficit of \$2.1 billion for 1984-85 and his forecast that these deficits are likely to extend also into next year's budget and possibly, even probably, beyond.

One must ask, and indeed one should ask, for it is a legitimate question, where is this leading us? It is a fair assumption that cyclical factors related to the downturn in the economy played a part in first pushing Government into the red. However, the forecast that total expenditure will still exceed total revenue in a period when the recovery in the economy enters into its second and third year, or even further ahead, suggests that a certain portion of the deficit may in fact be structural; that is to say, it will not disappear simply because of more buoyant revenue receipts during the business upswing—a situation I might add that is all too familiar to the authorities in the United States where the size and continued growth of the budget deficit is a cause of not only domestic but international concern.

If there is a structural deficit developing the question arises as to what, if anything, we should do about it, and the answer must depend to a large extent on its degree. The Financial Secretary has set his sights on getting the overall deficit down to below 1% of G.D.P., and the achievement of this aim is one to which we must all give very strong support. And judging from comments made by my Unofficial Colleagues yesterday, there will be no lack of support for measures to achieve this from Members of this Council; indeed it may be necessary to exercise care that in our enthusiasm for financial orthodoxy we do not err to the other extreme and jeopardise social harmony for the sake of balancing the books—a harmony, I might add, which is of particular importance during this difficult period when our very future is under debate.

Structural deficits of course are not easy to cure. The choice between increasing tax rates to achieve a higher level of revenue than the given growth rate of the economy, or the reduction in the relative size of public sector expenditure—as a percentage of G.D.P.—has significant social and political implications.

Given our present and our future plans for public works, housing, transport and other infrastructure facilities, and the very real necessity not to compromise our success in these areas, it is not really feasible, in my view, to freeze or reduce the level of capital expenditure, and to reduce the level of recurrent expenditure would be difficult, not least because such expenditure is directed to eminently desirable ends.

On the other side of the coin it is necessary to prevent the accumulated deficit reducing the level of our 'free' fiscal reserves to an unacceptable level. In these circumstances, Sir, the mix of increased efficiency/productivity of the public sector—and it will be churlish not to acknowledge here the very real achievements that have been made in this area—the mix of increased efficiency/productivity of the public sector, increased taxes and further deficit financing measures seems inevitable and I believe the best course to follow. It follows therefore that the budget has my support and—in the belief that the Financial Secretary will be able to smooth a few feathers by reassuring us in the manner I have suggestion this afternoon—I support the motion.

MR. CHAN KAM-CHUEN:—Sir, the financial year of 1983-84 is now drawing to a close and it is one of the most turbulent years both politically and economically for the people of Hong Kong.

Politically, the uncertainty of the future looms like a shadow on the horizon and is getting bigger and bigger every day until it covers all other issues and becomes 'the subject' in everyone's conversation. The unilateral Chinese statements and relative silence of the British side have convinced the people of Hong Kong that changes are inevitable after 1997. Businessmen are hesitant in investment, and some people could not wait for the final announcement and have packed up and emigrated. Only time will tell whether they have made the right decision. Those who choose to stay are now clamouring for information and talking about their wishes aloud. This is human nature and is quite understandable.

Economically, we have seen a sudden devaluation of our dollar by 20% with a corresponding increase in prices of all daily necessities. With this sudden belttightening but only a 4-5% increase in pay in 1983, no wonder 1984 started with a round of strong union demands. But on the brighter side of things, the devaluation of our dollar gave us a temporary edge over other competing countries. Our exports, especially to the United States and our re-export to China have increased substantially. So has our tourist industry. As long as this improvement holds and our unemployment figures remain low, our internal problems are manageable. Any revaluation of our dollar should be cautious and gradual and calculated to maintaining a competitive margin for our industries.

The confidence crisis has caused people to transfer their money to safer places. The myth that this is only the routine whereby money flows in and out requires more thoughts. There is a lot of difference between hot money coming into speculative markets awaiting a quick kill and investment capitals of a more permanent nature such as capitals for manufacturing. Hot money is water, as capitals for manufacturing and people's lifetime savings are blood to our community. If one injects a large amount of water into ones body and transfuse ones blood out, one can imagine the results in the longer term.

The Budget

The false hope that deficit budgeting may square up one day has trapped many governments, hence I had asked for conservative budgeting before the presentation of the budget. The Chinese sayings 'Adjust ones expenditure to ones income (量入而出)' and 'Establish new sources and prevent wasteful outflow (開源節流)' are time-tested.

From my own departmental doctoring experience, I have found that it pays to pay your staff well and demand maximum efficiency at the same time. By postponing recruitment to fill vacant posts due to natural staff wastage, I have achieved an additional 100% efficiency with the same staff establishment and

expenditure. However, one must be very careful in starting new departments or sections, as once a department is established, it multiplies as quickly as cells. It takes a lot of hard work to maintain zero growth.

The other large item of expenditure is in respect of public works. I think we should take a more critical look at priorities and postpone some new projects to balance our budget.

Vocational Training Council

Sir, I should also like to comment on a point made by Dr. TIEN yesterday concerning the building of two Technical Institutes by the Vocational Training Council. Dr. TIEN informed Members that work on two new technical institutes which are urgently needed might have to come to a halt because Government considered the completed designs to be too expensive. This is after the Vocational Training Council has, in good faith, worked on the projects for more than a year, believing that its brief was to build institutes which were better than the existing ones. The problem, however, is not solely confined to the Vocational Training Council as I believe other organizations are also subjected by Government to a frustrating stop-go experience in their building projects.

To solve this problem, I propose that the Vocational Training Council, and any other organization in a similar situation, be permitted to set up a development fund for savings accrued. These savings have occurred because the V.T.C. has managed its money prudently and invested carefully. But now it has to return them to the Government annually. Such a development fund could be applied by the V.T.C. to help to defray costs of capital projects which are in excess of the approved project costs. As major development plans of the V.T.C. now amount to over \$700 million at current costs, I think it essential for some financial arrangement to be agreed between the V.T.C. and the Government to avoid any unnecessary delay when the V.T.C. has, in fact, funds.

The sandwich class

One may be able to compile a long list of names of sandwiches but the common ones such as club sandwich, ham/cheese sandwich etc. would not be able to reflect the disparity of the middle class in Hong Kong. Therefore I must invent two more types.

The first is the Abalone Sandwich with a top Grade Japanese abalone (two-per-catty) and those who run restaurant business could quote you a four-figure price for a portion. This is the very rare type who earns \$9 million dollars a year, as was revealed at a T.V. interview some time ago.

The second is the Spanish sandwich. On the X'mas eve in 1972 I landed in Spain and had my first meal. Looking at the menu, I saw something called Spanish omelette, I thought it would contain all sorts of Spanish delicacies. To my dismay, it only had onions and potatoes in it. This is the \$23,000 per month family quoted in the budget speech.

By western standards, the middle class is a two car family. How dare the Hong Kong family with \$23,000 per month run two cars'!

By Chinese standards, the breadwinner of such a family would most likely have a university degree. Let us put aside the desire for a better living standard, is it too extravagant to hope that one's children have the same schooling as oneself, or hope that the next generation would be able to follow or overtake the father's footsteps? Due to insufficient places in the universities in Hong Kong one has to send one's children overseas for a university education. It is difficult to make ends meet for such a family and savings become a luxurious thought. This is one of the many reasons why the sandwich class emigrate, and with them went expertise and business talent and spending power, the absence of which makes the consumer business sluggish in Hong Kong and night life lose its glitter. I am not asking you, Sir, for a free sandwich but I am asking you, Sir, to free the sandwich class.

Standard rate of tax

I propose that there should be no increase in the standard rate of tax of 15%. Historically, the 10% standard rate after the war was increased to 15% in the financial year 1966-67, and has since remained there. An increase to 17% now would impair the low tax image of Hong Kong. It would be better to add on a small percentage for the various types of taxes as a temporary measure. In fact in a good year we had reduced corporate tax rate from 17% to 16½%.

Salaries tax

It is proposed that there should be no increase in salaries tax (including personal assessment) for the working class. Besides the reasons given by my colleagues on the hardship of the sandwich class, I can prove by figures that the increase is harsh. As the sum of all the parts (workers) cannot be larger than the whole (the business establishment), we have accepted that the business establishment is the richer and should be taxed more. However, in the Financial Secretary's proposals, whereas the corporate tax rate will increase from 16½% to 18½% which is a 12.12% increase, the worker's salary tax rate will increase from 15% to 17% or 13.3% increase.

Let me illustrate from the macro point of view. An additional tax burden of \$614 million spread over 152 065 business establishments (H.K. Monthly Digest of Statistics December 1983 pages 4-6) means that only an average of \$4,037.74 would be paid per establishment per annum.

However, from the Financial Secretary's footnote (54) to the Budget Speech, an additional tax burden of \$162 million added onto the sandwich class of 30 000 will mean that each member of the sandwich class will have to pay \$5,400 more per annum. The additional tax load is therefore, \$1,362.26 per annum more for an employee than for an employer. I propose that not only

there should be no increase in the tax ceiling of 15% for workers, but would also ask you to consider that personal allowances should be adjusted upwards to reflect inflation since the last adjustment. One would ask where the money is to come from in a year of deficit budgeting. I suggest that we have the resources.

In my speech on 24 March 1983 commenting on the last budget, I mentioned the comparison of faces, smiling or otherwise of people queueing to pay betting tax and salaries tax.

Indeed, I am pleased to hear that betting tax would be some \$50 million in excess of the 1983-84 estimates. This tax is paid voluntarily as the public likes to bet and if this 'leisure money' does not come into the public coffers it would go to illegal 'turf accountants' doing no good to the public.

The public also like to travel and the departure figure increase rapidly from 5.98 million in 1977 to 13.85 million in 1983. Of the 1983 figure, 9.94 million persons left by land and sea routes. It is a pity that the suggestion of \$50 departure tax by land and sea was turned down last year, otherwise this would have yielded \$497 million which would be sufficient to cover

\$100 million for loss in liquor duties.

\$162 million for increase in salaries tax and personal assessment.

\$235 million for increase in personal allowances for tax assessments and other uses.

The loophole in duty on liquor is that one can get a bottle of the XO cognac about \$100 cheaper across the border. I appreciate your concern about better international relationship, this is good when we have a surplus in our budget but when we have successive years of deficit, it is no use smacking ones face until it is swollen to put on a fat and prosperous look (打腫臉兒充胖子). For Macau, there will be no less gamblers in their casinos as gamblers have no control of themselves and \$50 departure tax cannot stop them.

For the traveller to China, each spends an average of \$3,137 according to a survey which appeared in the local press. \$50 is 1.6% and could not stop this addiction. Further, many of those loaded with thousands of dollars of goods to see relatives in China never have to pay tax like the sandwich class. They would not find \$50 a hardship.

Besides it is the expressed wishes of both Britain and China to maintain the stability and prosperity of Hong Kong. I believe that China would not interfere with an internal affair of balancing our budget to strengthen our economy and the Hong Kong dollar.

With these observations, Sir, I support the motion.

MR. STEPHEN CHEONG:—Sir, four weeks ago in this Chamber, the Financial Secretary presented us with a no nonsense Budget for 1984-85. There were, of

course, the usual rumblings from the usual quarters, but it cannot be denied that it was generally well received by the public. Having studied his speech several times, I for one must confess that I cannot find any fault with his overall approach. We have gone through an exceptionally difficult period and we must frankly be grateful for ending this year with a deficit of only \$3.3 billion. Despite a strong export-led recovery in 1983, and despite the likelihood of the export sector remaining strong in 1984, I agree whole-heartedly with the Financial Secretary that we are not yet out of the woods. It is good, therefore, to be reminded that income must be earned before it is spent, and that the growth rate of public sector expenditure must not fall out of line with the growth rate of the G.D.P. Hence, I subscribe fully to the three pronged approach which the Financial Secretary has adopted in dealing with the expected deficit of \$3.6 billion for the financial year of 1984-85.

In my view, the community, being willing to increase our share of contributions to recurrent general revenue will help to demonstrate to the world that our community can be relied upon to shoulder and counter effectively within reason, any adverse effects of whatever crisis facing us. To reduce our fiscal reserve; and to finance only a portion of the deficit through incurrence of Public debt coupled with a continued tight rein on Public Sector Expenditure will help to demonstrate to the world that we have, as always, a sensible, responsible and responsive administration. Sir, the success of Hong Kong for the past two decades can no doubt be attributable to a number of factors. Yet, no one can deny, and it will be foolhardy to do so, that one of the most important factors has been the Government's steadfast adherence to a set of economic policies which have time and again allowed business to prosper. Hong Kong owes its success not so much to the generosity of our trading partners as to the environment in which we live and do business. To-date, both politically and economically Hong Kong has reached something of a cross roads. There may be changes ahead and we are naturally concerned about the nature and the extent of such changes. However, as the Financial Secretary has wisely said, there is nothing wrong with change, provided we must be careful not to cast experience aside. We are well known to the world as a hard nosed pragmatic community and no pragmatic community can continue to function or prosper if any implementation of new policies or ideologies is undertaken without due consideration being given to experience. I might add that any call on statutory contributory scheme might well be examined in this light. If, therefore, we are to propel ourselves to greater heights it is vital that we must not allow ourselves to be easily persuaded to deviate from policies that have proven to be so successful in the maintenance of stability and prosperity. It is within this spirit that I wish to make a few observations.

First, I wish to refer to the first of the four basic principles applicable to the management of our public finances, namely, that the growth rate of consolidated account expenditure should not be allowed to exceed that of the G.D.P. While this important principle has been breached continuously for the

past five years, it is encouraging to note that the growth rate of consolidated account expenditure for 1984-85 is budgeted at 2%, against a forecast growth rate of G.D.P. for 1984 of 6%. I sincerely hope this represents only the first of a continuous attempt to reverse the trend. For, in order to redress the imbalance of the past five years, and for the long term health of our economy, the growth rate of consolidated account expenditure should be pitched well below that of G.D.P. for the next few years. The reason is simple. Government expenditures are notoriously difficult to cut, while the growth rate of the G.D.P. is always susceptible to factors beyond our control. There can be no guarantee that we will achieve a positive growth rate for G.D.P. year after year, yet Government expenditures are subject to upward pressures all the time.

Secondly, while in the past year visible improvement has been achieved in bringing expenditure within cash limits, one gets the impression when examining the draft Estimates of Expenditure that not enough has been done by Controlling Officers to review critically and regularly, the public services they provide. The imposition of cash limits, made at a time when bids for individual Heads of Expenditure may have to be fine-tuned soon afterwards, does not appear to have the desirable effect of inducing Controlling Officers to examine sufficiently critically which services should be curtailed so as to allow room for others to grow. Where cash limits have been increased to allow for incremental growth, Controlling Officers have tended to preserve existing services as a base and to allow new services to grow at a pace slower than they had originally planned. Now it may well be that the new services command much greater importance than some of the existing services. Put another way, if a new cash limit were to represent a substantial cut-back on the previous year's approved provision, Controlling Officers will have to decide which of their existing services have to be curtailed substantially. The time is perhaps ripe for a different kind of financial mechanism to be introduced, one that is designed to ask Controlling Officers to review, on a regular basis, the relative importance of the services they are expected to provide. Such a mechanism might determine that certain services have, through the passage of time, become less than essential. If I may be allowed to indulge one of the many bees in my bonnet, I am reminded of the unnecessary competition which seems to exist between the Urban Council and the Department of Recreation and Culture over the provision of cultural services.

Thirdly, a good deal of ink has been spilled over the need to promote increased productivity. One wonders how seriously this concept has been applied to public sector activities. To the best of my knowledge the Government has tried to demonstrate growth in productivity in the Civil Service only in somewhat macro terms, but one wonders whether any Head of Department or Departmental Establishment Committee has introduced specific performance measures for the services their staff provide, and kept them under regular

review. I believe that the U.K. Government has recently asked all ministries to introduce performance measures, as a means of requiring senior management first to keep productivity under review and secondly to seek to promote it. I wonder whether there are lessons to be learnt from such an exercise.

Sir, these are but two possible ideas out of many which the Government might explore, in an endeavour to get Controlling Officers into the habit of curtailing services which have become more desirable than essential, and, echoing Mr. S. L. CHEN and Miss DUNN, of monitoring and controlling the growth rate of recurrent expenditure. Even allowing for the labour intensive nature of most public services, the proportion of recurrent expenditure to total expenditure has become alarmingly high. In 1984-85 Personal Emoluments personnel related expenses plus subventions will account for over 70% of total recurrent expenditure, but it is precisely this type of expenditure that is most difficult to slow down or curtail if we are forced to go for retrenchment.

Fourthly, I think the time may have come to take stock of capital works expenditure as major items will be nearing completion in the coming years. We have already spent a great deal on capital works over the past ten years, and it may perhaps be useful to review what has been done so far before entering into further commitments. Land production is a case in point. With so many new towns being developed, do we need to plan for more new towns? Do we need to consider, for example, the development of Junk Bay when the land development programme are expected to yield nearly over 2 500 hectares over the next four years? Given the current state of our economy and the satisfactory progress of our housing programmes, is it absolutely necessary to spend so much on land production? Should we not be thinking about improving transport links between the new towns and the urban areas—notably Tuen Mun—so as to more importantly redress the imbalance of housing and local employment opportunities in the new towns? If I might echo Miss DUNN, should we not reassess critically our priorities?

Turning now to the revenue side of the Budget, the Financial Secretary has in the past complained that Unofficials have tended to criticise the Government for parsimony but have seldom offered helpful suggestions as to how more income might be generated. So, fifthly, I would like to begin by expressing whole-hearted support for the proposal that fees and charges must be kept under constant review and must be brought into line with costs. Just as Government departments must get into the habit of looking for economies, so members of the public must get into the habit of paying the cost, or a fair proportion of it, of the services received. I have identified a number of fees and charges and suggest that they should be reviewed further. These are:—

- (i) Air Cargo throughput charges
- (ii) Aircraft peak movement charges
- (iii) Rent of Private Post Boxes and Bags

- (iv) Hong Kong-Macau Ferry Terminal—Berthing fees
- (v) Births and deaths registration fees
- (vi) Marriage registration fees
- (vii) Patents and Trade mark registration fees
- (viii) Official Receiver's fees
- (ix) Import and Export Declarations
- (x) Application fees for certificate of origin
- (xi) Subscription to Notice to Exporters
- (xii) Application fees for textile Export licences

Total income for these twelve items is expected to be of the order of \$315 million. Most of these fees and charges have not been increased since 1978. Even if they are increased by, say, 20% to allow for cost increases, these will bring in an additional \$60 odd million. This sum may seem small in comparison with the total Consolidated Account expenditure, but one must not forget that regular revisions will provide a more meaningful yield.

Sixthly, as regards the twin proposals designed to protect the yield from profits tax as well as to charge profits tax on interest received, I can understand fully the concern of the Financial Secretary over the possible loss to revenue arising from the abolition of the interest withholding tax. I accept that something needs to be done. Nevertheless in examining the proposals, I have to point out that they may be unnecessarily punitive to export and manufacturing businesses. Prudent manufacturers and exporters must try to limit their risks especially during this period over foreign exchange fluctuations. If at all possible, they would retain part of their export earnings in foreign currencies, pending settlement of import bills at a later date. Such retained earnings either here or overseas are normally pledged to financial institutions as collateral for the Hong Kong dollar borrowings they require to finance the normal running of their businesses. Of course this would involve a loss to the Government's revenues. The new proposal to charge interest received on foreign currency deposits to profits tax will correct this loss. But to disallow the expenses incurred on Hong Kong dollar borrowings at the same time would be inequitable and would bear harshly on the export sector, and it is the strength of this sector on which the growth rate of the economy in 1984 is forecast to be dependent upon. I must therefore urge the Government to take a close look at this problem.

Finally, Sir, whilst supporting, in principle, my honourable friend Mr. Allen LEE's plea that the Hong Kong dollar be allowed to float again in due course, I am convinced that correct timing is of the utmost importance. A refloat in the near future would not be appropriate. There may have been a view from the manufacturing sector that recent fluctuations in the best lending rates, a phenomenon which indirectly stems from the peg, is unsettling for their sector. But, such unsettling effects are relatively milder and more tolerable than those we experienced in the period July to September last year. There may well be valid

arguments in support of the belief that the current value of the Hong Kong dollar is higher than the existing link. This has led to the belief that a restoration of the floating rate regime, assuming it goes the right way, would lead to a decline in the growth rate of inflation. All this might be true but, a premature restoration of the floating rate regime, at a time when the future of Hong Kong still remains uncertain, would unnecessarily expose our economy to a high risk of destabilization. Our vulnerability has been fully demonstrated as of yesterday afternoon when our financial market experienced havoc in response to certain announcements from just a couple of companies. Despite the fact that one may justifiably express great disappointments over the decisions taken, the damage to the delicate flower of confidence has been done. The lesson we should draw from such experience is that we must all recognize our vulnerability and that we should not make any hasty decisions that would have a bearing on the stability of our economy. I therefore feel it duty bound to urge the Government not to prematurely change the Hong Kong dollar link.

In closing, Sir, I wish to compliment the Financial Secretary on devising an appropriate mix of proposals for the problems facing us next year. His forecasts are suitably sound if conservative. I hope that, by the time he introduces his next Budget, we would hear the good news that the expected deficit of \$1.1 billion would substantially be cut, if not erased altogether, and that the forecast growth rate of G.D.P. at 6% would be exceeded while at the same time the growth rate of consolidated account expenditure would still be pitched at a percentage well below that of the growth rate of our G.D.P.

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

MR. CHEUNG YAN-LUNG:—Sir, I commend the Financial Secretary for a budget that is sensitive to our prevailing economic and political climate. The 1984-85 Budget has been generally well-received and will go some way in building up our general infrastructure which is vital to the maintenance of the prosperity and stability of Hong Kong. Yet it would be unrealistic to debate our economic prospects without mention of 1997.

The 11th round of the Sino-British negotiations has just been concluded, but there is as yet any substantive statements to indicate what have been discussed at the talks. Sir, how many 'useful and constructive' announcements must we endure? The Financial Secretary has rightly pointed out that 'uncertainty is probably a larger threat than lack of confidence'. So I now call for an early announcement on the current state of the negotiations, if not the actual contents. It would be even more useful and constructive if the announcement would contain some form of guarantee on maintaining the capitalist system in the post-1997 Hong Kong. This would help to allay the fear and uncertainty which have largely affected our economy for the past few years. Such an announcement will go a long way in helping our economy to a road of full recovery.

Against this background, I have a few comments on the 1984-85 Budget.

Economic link with China

In 1983, the G.D.P. of Hong Kong grew by 5.9% in real terms. The growth was largely export-led. China remained the major source of our imports, but our exports to China grew by 50% in real terms. In fact over these years, China has emerged as our fourth largest export market. Also our re-exports to China increased by 52% and the value of re-exports from China was 34% higher than in 1982. All these statistics clearly point to a closer economic link with China, a link which we should further cultivate, not only to contribute indirectly to China's modernization, but also to reap economic benefits for ourselves.

Particularly important is Hong Kong's role as an entrepot for goods to and from China. China has opened itself to the world trade in recent years. Hong Kong, being a seasoned trader, should take full advantage of this opportunity. However I notice increasingly a few countries have appointed their own agents to trade directly with China, by-passing Hong Kong. Now is the time for us to explore ways and means to maintain Hong Kong's competitive edge in this area. Obviously the increase in earnings and employment provided by such activities will be most valuable to our economy in contributing to our revenue, particularly at the present state of the property market, which I will turn to later.

Personal taxation

Sir, I believe the Financial Secretary has wisely taken the view that you cannot please all of the people all of the time, and the result is the wisely expected increases in personal taxes. Mr. BREMRIDGE has said he will review initial allowances as soon as possible, and I fully support this plan. However I do hope that when he does review the initial allowances, he will please some of the people who seem to receive the raw end of the stick all of the time, namely the sandwich class. Let us hope they will be treated more kindly in future.

Land sales

I now turn to land sales which have been an important source of our revenue. The Financial Secretary has painted a disappointing picture of land sales, reminding us that the actual land sales revenue in 1983-84 will be about \$1.6 billion, compared to the 1982-83 budgetted revenue of \$9.2 billion. The main cause is uncertainty, uncertainty about the future which is restraining investment and reinvestment in property, which in turn undermines confidence. Fortunately there are signs that the property market has bottomed out. However the extent of the market's recovery will depend on the outcome of the negotiations on Hong Kong's future, and the recovery of this important sector of our economy will help to boost our revenue.

Our problems with land do not confine to the state of the property market. There are also difficulties with administration of land especially that in the New Territories.

Lands Department

For those of us who know and love the New Territories, we understand that the records of land ownership are shown in District Demarcation sheets, or D.D. sheets as they are called. These records are based on land surveys completed in 1905.

The Lands Department is now performing a rather complicated but necessary task in remapping land in the New Territories, as stated in the draft estimates. This is necessary because the existing records compiled some eighty years ago have sometimes shown discrepancies, thereby giving rise to disputes particularly since land has become a valuable commodity over the years. I hope that the Lands Department will take care to preserve the legal rights of N.T. land owners as conferred to them under the Block Crown Lease in carrying out this exercise.

The Lands Department, new streamlined and manned by professionals, aims to provide the public with more efficient services through a more clear-cut system of operations. Does the system operate with enough flexibility to cope with the human side of land administration? I recall when land matters were handled by a District Officer, he performed the task with a strong dose of wisdom and common sense, not unlike 'Solomom', making allowance for minor matters like discrepancies in the spelling of names in old land records.

Let us hope that flexibility is still alive and well in today's Lands Department, and that statutory declarations would not be the only means to prove a point of accuracy.

Pollution

Another related issue is the problem of pollution in Hong Kong. Even as we enter the computer age, it is true to say that our population is appallingly ignorant about the effects of pollution on our health and well-being. On the whole we are misinformed and uninformed about the dangers of pollution. Therefore we must take on a two-pronged approach. On the one hand, we need a set of legislation tackling the problem at source. On the other, we need to educate the public. For the latter, we should not rely on schools alone to cure the ills by formal education. We should also make provision for mass education. Only by prevention can there be cure.

It seems that the Environmental Protection Agency operates within a fairly rigid framework, and to some extent the need for constant consultation with various Government departments may hamper the work of the Agency. The Agency is now carrying on an ambitious programme in drawing up environmental impact assessments, drafting of the Noise Control Bill and residential and commercial noise control regulations, a management plan for wastes and co-disposal of toxic wastes. These are all necessary towards a cleaner

environment for Hong Kong in the long term, but we must do what we can to tackle the problem in the interim.

Sir, soon we will have a whole set of legislation dealing with pollution. However we should think carefully how the legislation will be implemented and what implications the legislation will have not only on the community as a whole but also on our economy. There are many small industries in Hong Kong particularly traditional industries in the New Territories, which may be affected by the proposed legislation. We must therefore bear their interests in mind and whatever measures will be taken should not be too drastic to drive them out of operations.

As regards waste disposal, this has become a big problem in the New Territories as urbanization continues. I think the setting up of the N.T. Regional Council will contribute usefully in this area.

New Territories Regional Council

The proposal for a New Territories Regional Council has been endorsed by the Heung Yee Kuk and by the District Boards. However it has been suggested that the proposed Council, independent of its urban counterpart, will lead to duplication of resources and more bureaucracy. I am afraid I cannot agree with these remarks.

The cleansing operations in the New Territories are now carried out by the New Territories Services Department under the Central Government. I would like to stress that the cleansing problems in the New Territories are very much different from that in the urban area. For instance, there is little precedence in the urban area to draw on as regards the disposal of agricultural wastes. Disposal of domestic waste from a village house in Ta Kwu Ling is quite different from that from a multi-storey building in Central.

The establishment of the Regional Council will not only contribute usefully to the formulation of policies relating to cleansing in the New Territories, but can also result in the work of the Department more responsive to the needs of the residents. At the same time the District Boards can maintain their active role in advising on local affairs, especially those which affect the local living environment. The success of the Regional Council depends on its working relationship with the District Boards. I am sure all concerned will co-operate fully to work for the well-being of the N.T. residents.

I would like to say a few words more on the composition of the Regional Council. After wide consultation and having given this matter a lot of thought, I suggest that initially, the Council should include a majority of appointed members from all district, so as to ensure that every field of expertise is represented. They would join representatives of the Heung Yee Kuk and the District Boards in the New Territories. Therefore, I am confident that the proposed Regional Council will receive popular support and be successful in future.

Inflation

Finally I wish to turn to a subject that concerns everyone in Hong Kong, i.e. inflation. While I appreciate that the Financial Secretary is working hard to lower inflation, I feel I must relay the comments of the man in the street. I have talked to duck farmers and vegetable farmers, to taxi drivers and factory workers, and many other people in Hong Kong. I regret to say they are not concerned with the figures. All they know is that they are paying more every day for their basic needs: food, clothing, transportation and even entertainment. It is becoming more unpleasant for them now that they find their hard-earned savings placed with banks yield little return. The Financial Secretary has predicted that 'the inflationary situation is likely to continue until...around late spring'. I hope he is right.

With these remarks, Sir, I support the motion.

MRS. CHOW:—Sir, today I would like to address questions related to certain aspects of education and communication.

I have advocated repeatedly in this Council the abolition of the J.S.E.A. It is on this subject that I would like to focus attention again.

I am greatly encouraged by the establishment of the Education Commission, and I hope this is one of the areas to which the Commission will see fit to allot priority.

Parents and educators alike have agreed with the Llewellyn recommendation that the J.S.E.A. should be abolished as soon as possible. Assuming the majority view will have considerable influence in bringing about this abolition, the next step is surely to find a way which is economically and practically most viable.

This year 67% of the fifteen-year-olds who took the J.S.E.A. will be awarded a place in a Government or aided school. However it is anticipated that another 23% who do not qualify for a place will pay their way in a private school in order to finish Form V. This means that despite Government's policy, 90% of those who take the J.S.E.A. will go on to finish their fifth year of secondary schooling.

If we are to cater for all the 90% of our Form III students who wish to go on to Form V, one way is to build enough Government or aided schools so as to provide enough places. This option would require the building of 106 schools in order to facilitate the abolition of the J.S.E.A. This would enable the phasing out of bought places at junior secondary school level which at present still stand at almost 70 000. However the enormous capital cost involved at \$20 million per school excluding land cost seems rather prohibitive. Also, this does not fully capitalize on the complementary value of existing facilities such as our better-run private schools and the technical institutes.

A workable alternative is to combine a slightly less ambitious building programme with the recognition of the necessary continuation of bought places in our better private schools, while at the same time taking up the Helmore Report's suggestion of introducing two-year full-time courses in the Technical Institutes as another option for the less academically-inclined Form III students.

If this is accepted as a realistic option, then three measures have to be adopted to determine a target date for the abolition of the J.S.E.A.:

- (1) To phase down the number of bought places to include only those in private schools which are of an acceptable standard at both junior and senior secondary level. Once the number is achieved, they should be retained on a permanent basis.
- (2) To initiate a building programme which will, together with bought places, make up 90% of the required senior secondary places.
- (3) To make up the 10% shortfall by providing places at the Technical Institutes, assuming that they proceed with the two-year full-time courses recommended by Helmore.

These three measures taken as a whole could bring about the dissolution of J.S.E.A. in the early nineties. At this point may I comment on a basic contradiction in Government thinking regarding the private profit making schools. On the one hand the Government feels uncomfortable about the principle of buying places from profit making institutions for the purpose of education, yet measures that would enable the entire phasing out of such places is not financially feasible. On the other hand, Government is only too aware that the standard of facilities in these schools is far from that of Government and aided schools and can only be upgraded through conscious effort and assistance by Government. I propose that Government come to terms with the realities of the situation, accept that we will always have some bought places and put the consideration of our students upper-most. This will mean Government assistance for the upgrading of facilities in those private schools while their profitability should be closely regulated under a scheme of control. This in my view is the best compromise with the least adverse effect on our school children.

May I now move on to another important aspect of education which has far-reaching ramifications.

I am referring to the skill in communication particularly through the use of both official languages.

Undoubtedly language as a medium of teaching has been widely discussed, and the issue is an emotive and controversial one, so much so that it has eclipsed the other important functions of language, as, for instance, a tool for communication, or a means of verbalizing thought and reason.

In recent years, attention has been drawn to a drop in standard of both languages in schools, and remedial measures have been taken by the Education Department, resulting in the provision of in-service training provided to teachers, as well as the encouragement of the employment of native speakers in schools.

Unfortunately not enough attention is being drawn to an equally important secondary source of language education which has distinctively, albeit unwillingly, affected the overall standard of both languages.

I refer to the broadcasting media, which wields tremendous influence over its audience in language matters.

Now that the Broadcasting Review is under way, it might be worthwhile for its members to examine whether our extremely influential radio and television programmes maintain an acceptable standard of the language in which they are produced and broadcast. Furthermore is the media fulfilling its social responsibility to further the standard of language through both instruction and proper usage? Is there any assurance that there will be a proportion, however small, of serious and thought-stimulating programmes in prime time so that the mass audience will have the opportunity of being exposed to language which is a vehicle of different levels of intelligent thinking? May I suggest here that in their deliberation both the Education Commission as well as the Broadcasting Review Panel give due consideration to how the existing media can be usefully exploited in the way of language education for the entire community.

Finally, Sir, I would like to turn to a subject which, apart from the 1997 issue, must be one of the most talked about in Hong Kong today. It is none other than the issue of Election.

The Chief Secretary's statement on local administration made in this Council last month indicated quite clearly that with the expansion of the elected element in District Boards and the formation of another Regional Council in the New Territories, there will be a rapid increase in opportunities for growing political aspirations.

With the advent of the second round of District Board Elections next year, and the next Urban Council election the following year, no doubt the Government information machinery will be set in motion to encourage voters and candidates to participate.

In my opinion it is vital that Government should take up the urgent task of educating the public about elections not as an end in itself, but as a means to the ultimate goal of Democracy.

Up till now it appears that Government is a little too concerned with projecting a glamorous image of Elections, without fully explaining to the public the existing system of Government we have, what we hope to achieve by expanding the representative element in the system and what role and

responsibility that representative element is to assume. Furthermore the transition from our hitherto apathetic approach to politics and civic matters to the present awakening to a need to assume the responsibility of administering ourselves, is a significant step which if handled carelessly or taken abruptly without full understanding of all implications and complexities involved, will not only cause uncertainty and confusion in the short term, but jeopardize the stability which is absolutely vital to our continuing success in the long term.

I call upon Government to come up with a plan to promote understanding of the true meaning of democracy and how it can work in the Hong Kong context. Simultaneously there must be a conscious effort made to explain how our Government works.

I congratulate the Administration for the highly imaginative innovation of opening the examination of the 1984-85 Estimates to public scrutiny. The sense of involvement thus created in those who chose to participate can only help the people of Hong Kong in seeing more clearly our rights and responsibilities as members of this community. Let us hope that this is the first of a series in the education process about our system. It is only through knowledge and understanding that our citizens can participate responsibly and contribute intelligently, as voters or elected representatives, in a desirable system of democracy. Such an education process is all the more urgent, now that we are faced with the all-too-pressing deadline of 1997.

Before I close, Sir, allow me to say a few words on our future.

Since the debate on the Lobo Motion, District Boards have reacted in different ways. Some of them wanted assurance that they would be consulted on the proposed solution. Others felt they needed more time to canvass views from their constituencies.

In case any member of any District Board doubts whether he is constitutionally correct to raise or discuss the subject of the future in his board, he should be assured that he has a definite role to play in representing and reflecting the views of his constituency on matters concerning their welfare, including many policies of central Government. This consultative role should not stop short of the most important single issue that affects our future. However as the issue is so very important, it is absolutely essential that everyone of us approaches it in the most cautious and responsible manner. Nevertheless caution should not be confused with timidity. We must have the courage to speak the truth. It is a duty that each leader and representative owe to the people.

Sir, with these words I support the motion.

DR. IP:—Sir, the 33rd Commonwealth Parliamentary Seminar held in London this month has given me an opportunity to compare the Parliamentary practice and procedure in the United Kingdom and other Commonwealth countries with that of Hong Kong. Furthermore to have witnessed two budget proposals

and debates in the United Kingdom and Hong Kong concurrently, have been a very stimulating experience to me (certainly physically). I am happy to report, Sir, that among other things that we excel in, the method of presentation of the Hong Kong budget which logically encompasses both the *estimates of expenditure for the Budget year* and the *revenue proposals* necessary for it has been considered by many Commonwealth parliamentarians to be the *best system of budgeting*.

A good system only flares will with *a good master*. And we are fortunate to have one! I would like to take my hat off (except that I don't wear one) to Sir John for his excellent *revenue proposals*.

In a year which we will be facing a deficit, his budget has been well accepted because *it is a fair one*, e.g., with taxation falling more heavily on the better off, and e.g., with rate concessions where comprehensive public facilities are lacking.

It is systematic, e.g. with small but continuous increases in fees and charges to keep up with the ever rising running cost, and e.g. with the monumental revaluation exercise on which new rateable values will be based.

The budget will be successful because *it is balanced*, e.g. with the burden of a deficit budgeting distributed evenly between some cuts in expenditure, increase in direct and indirect taxation and the issuance of Government bonds. *It is based on simple and sound principles* with the stress to observe the *no subsidy principle*, unless a positive policy decision is taken to subsidize.

The Financial Secretary is *considerate*, e.g. in his *ad valorem system* of levying duty on liquor and on betting, such that the average man on the street can still enjoy a bit of 'luxury' in life, and e.g. in his determination to *look after those who cannot look after themselves*.

He is analytical, stressing great importance to measures designed 'to promote increases in productivity' and 'value for money'. His summary of the categories of fees and charges into Royalty loaded, tax loaded and cost related ones, leave no doubt in one's mind how the calculations are arrived at.

He is also receptive to public opinion, e.g., in the use of the Letters B extending to many land related transactions; e.g., in his proposed increase in taxation as urged by Members of this Council last year, and in the absence of further rise in the running cost of motor vehicles.

Last, but not least, he *was very frank* with his statement that, '*No Government is free of error*'.

He is right of course. I will extend his phrase to say that '*No one is free of error*'.

However, let me attempt to use a similar approach adopted by our Financial Secretary, namely being fair, balanced, analytical, systematic and based on simple and sound principles, to make some comments on the *estimates of*

expenditure. How I wish more controlling officers can be tuned in to his qualities in their approach towards spending—their priorities and their cost effectiveness.

Government has made a lot of policy commitments, all to be finalized pending available funds. The commitments are in themselves valueless unless the competition for such funds *succeeds in making a commitment a reality*. We all acknowledge that such competition is based on *priorities*. I will set high on my list of priorities *services proven to be deficient* rather than those which are duplicative. I would choose to offer *smaller benefits to the general public at large* rather than larger benefits to some privileged few. I would prefer to *improve facilities shown to be worse than the average*, rather than improving the better one to make it even better still. I would like to see services offered to *people who have contributed most time and effort to Hong Kong which is their home* than to those who come and go. In cutting expenditure, there must be a constant evaluation exercise in *cost-effectiveness*, assessing qualities and deficiencies of services such that cuts are not just done straight across the board. I may appear to have a fixation for the provisions of medical services, educational services and social services for Hong Kong, but let me make it quite clear, that provision of services *do not mean provision of free services*. On the contrary, I see it more important to subsidize just enough to offer important services of good quality at comfortably affordable levels, than to offer incomplete, *free or ridiculously cheap services where temptation to misuse is so high*. And in the days when savings have to be made to cut *previous established recurrent expenditures*, (which was based completely on differing circumstances), so as to meet *existing priorities*, I hope to see *some cut back on benefits* given to those who have had comparatively more than others. We live in an ever evolving society. What we had before we may not have in the future! On the other hand, what *some unfortunate people have tolerated before they may not tolerate now!*

I will give examples of where I believe the priorities in this budget may be readjusted to make the Estimates of expenditure more *fair and balanced*, after a systematic analysis into simple and sound principles as stated.

School places for the mentally handicapped (and I will go into depth on this)

I stressed last year in the Budget Debate that 'If nothing more is done, in the provision of school places for the mentally handicapped, we will still have an estimated 6 000 mentally handicapped children without a school place by the end of March 1984'. This is what exists now. Worse still based on the target demand in the 1983 Rehabilitation Programme Plan Review of 10 398 school places, and the planned provision in the 1984-85 Draft Estimates of only 4 238, there will be a shortfall of more than 6 000 school places at the end of 1985. By the end of 1984, only 15%, and by the end of 1985 even with another miserly sum of \$6 million still *only 20%* of the approved capital commitment to increase the number of school places for the mentally handicapped will have been or would be realized. I know it will be argued that the estimates do not represent

the true picture and the true demand would be revealed soon when the computerized registry for the disabled is published. But don't forget that such registry is not enforced so it is in itself incomplete. *The fact is clear, there are now still mentally handicapped children without a school place.* Why are these pleas for more school places for the mentally handicapped falling onto deaf ears? Do we not care for our mentally handicapped children? Are we writing them off to be non-contributory to our society? Do we want a stage in protest by parents before we intend to rectify this deficiency? Are we not going to 'look after those who cannot look after themselves'? It was said that the development of new special schools generally takes longer than ordinary schools. The reasons given were: because there are no standard designs for special schools, because there is the need to revise sketch plans to meet various requests because there is need to consider a change of site due to geotechnical problems and because of high cost. But these reasons *are not unsurmountable if our able civil servants put their mind to it!* Has Government considered seriously and worked hard enough to aim at operating special schools on *temporary accommodation* until new schools are being built in their place *so that each and every mentally handicapped child can attend school!* It is not good enough to ask parents with a mentally handicapped child to keep the child at home until a school place is available some five years later! If you are the parents of a mentally handicapped child, will you be satisfied with such an answer.

In contrast, *children whose mother tongue is English* can either attend Anglo-Chinese Government or Government aided schools. If their parents also happen to be civil servants, they are also entitled to study abroad with oversea education and travel allowances. And lastly they can and usually do in fact attend the schools operated by the English Schools Foundation which is subsidized by Government. To summarize the situation, there are up to three choices and as far as I am aware, no English speaking child over the age of six are not already in school because of inadequate school places. Yet for information purposes, another *\$13 million* is to be spent in 1984-85 Budget in boosting up to 64% completion of the approved capital commitment of *\$75 million to build new schools for the English Schools Foundation.* The answer I invariably get every year, is that if the development of such schools for the mentally handicapped is speeded up, money will be made available! *Educational services is the responsibility of our Government,* it is up to our Government to speed up such developments, not up to the subvented agencies. Positive-nonintervention may be right for the field of commerce, but is certainly not appropriate here. Again for comparative interest, some \$28 million out of a total commitment of \$49 million (58%), will have been spent by 1984-85 in the construction of 85 staff quarters for the English Schools Foundation by the end of 1985, whereas only a measly sum of \$6 million is allocated this year for developing schools for the mentally handicapped. *I would like to be convinced that such existing priority in allocation of funds is equitable and that the mentally handicapped child is having as fair a deal!*

Government funding for different types of schools

The funds given by Government to operate one junior secondary school place in Government, English Schools Foundation, aided and bought places of private schools lessens from \$8,651, \$7,941, \$6,650 to \$2,276 respectively. A similar trend exists for primary school places. I need to be convinced that this difference is fair to those studying in schools which are receiving less Government funds. I need to be convinced that we are getting 'value for money' in those schools receiving more than the average. I need also to be convinced that there should be any difference at all!

Government funds to operate hospital beds in acute general hospitals run by Government and Government subvented agencies

It is a known fact that Government subvented hospitals get less funding than Government hospitals of the same nature. I need to be similarly convinced of the three aspects expressed above. Please take note that the anticipated answer that all hospitals are different, no comparison can be made which will make sense, *is not an answer, it is only an excuse*. I need more than that to be convinced.

Personnel related expenditure on civil servants

\$2.1 billion are going to be spent on personnel-related expenditure for 176 000 (3% population) civil servants, making it \$12,000 per annum per capita. Interesting enough, this is also what the Financial Secretary has budgeted the *true deficit to be for 84-85*. I do not know the accurate figures, but there must be an equal number, if not more, of *as dedicated staff working in the subvented sector who are not getting all the same benefits*. I am aware of course that if they were also receiving such benefits, we would have an even bigger budget deficit. *However, I also need to be convinced that such discrepancy is fair to those whose dedicated work for our community is done through the subvented agencies*. I need to be convinced that such personnel related expenditure is cost effective. I need an opinion whether we have in fact got ourselves (certainly our civil servants) *locked into overgenerous recurrent expenditure* and if so is there a key to unlock it! We must remember that in hard times, such as this, we must all give up a little for the better of our community in the long run. Unless we do not care about the future of Hong Kong. I do! And I think all of you do! Hong Kong is my home! I happen also to agree that we must cut expenditure rather than to see increasing taxation. Although I cannot confess to be an economist, I know one simple fact '*low taxation*' is *one of the key factors which makes Hong Kong tick! Take this away and you loose the magic*.

Incentives for civil servants

To correlate with the Financial Secretary's statement, 'that incentives must be offered', it was so interesting to learn that there is an incentive cash award of \$5,000 to civil servants for suggestions to improve the efficiency of the civil

service. I wonder whether this goes for Unofficial Members too! I assumed all along that such suggestions should be part and parcel of the job. I agree that we have a highly commendable civil service. I see no reasons why *double increments* cannot be offered to those who excel, on the recommendation of, say three senior officers. Likewise, I see no reasons why *stoppage of annual increments* is not done more often when faced with an inefficient staff, also on similar recommendations.

Dental service for the public

In reply to a written question put down at the Finance Committee to examine the Draft Estimates enquiring into Government dental services for different sectors of the community, and requesting a breakdown of provisions for civil servants and dependents; for members of the public; for hospital in-patients; and for school children, the Controlling Officer said that the information requested cannot be provided or has yet to be provided. It is very difficult in a Budget Debate to make comments without figures, but if these figures, which I feel to be important are made available, one can then analyze and aim at being balanced and fair in our provisions for services to our public vis a vis certain sector of our community. *Dental services need not be free, they can be low cost.* If so, we can offer a bright future for our new dental graduates, a good and reasonable priced dental services for the then healthy community, *without draining our resources.*

It is vitally important to know how our money is being spent, as our Financial Secretary rightly puts it, 'to ensure value for money'. We can only achieve cost effectiveness when we compare the cost of a service with the end results. It is therefore disappointing to receive answers with such phrases as 'it is not feasible to make a comparison of the cost of...', 'no accurate breakdown of provisions can be made ...' or 'it is quite inappropriate to compare the relative costs on different activities...'. If the breakdown of the cost is not available, what basis does one use to compare. The way I see it, Sir, *no costing means no comparison. No comparison means no incentive to economize.* Economists are interested in cutting costs as a means to an end and not an end in itself. I am more interested in cutting costs, but not at the expense of the quality of care. *I would like to be convinced of a better way of assessing cost-effectiveness other than comparing cost and its effectiveness.*

Rate concessions

Just as rate concessions are offered to premises which lack potable water supply, similar concessions should be considered for premises which are not connected to *regional sewage treatment plants* and therefore require costly means of sewage disposal. The *non-availability of an access road* from the public road could likewise be considered for rate concessions.

Use of public service facilities by non-Hong Kong residents

I agree with the Financial Secretary that Hong Kong is no longer poor. We offer far better social welfare, medical and education services than most of our neighbouring countries. 20 years ago, I remember seeing such similar services in United Kingdom being taken advantage of by non-residents from abroad. Now, education for foreigners in United Kingdom is certainly not subsidized any more, and patients without a National Health Service card are expected to pay. I suggest that we should begin to consider the '*no subsidy principle*' for nonresidents to extend from the existing housing policy to possibly education and medical services. As I suggested earlier, I would prefer to see services offered to people who have contributed most in time and effort to Hong Kong which is their home than to those who come and go. This '*no subsidy principle*' does not mean that services will not be provided, it just simply means that full cost must be paid for. If our efficient Government machinery keeps an updated costing as promised I see no great administrative difficulty except of course initially; but all changes are painful in the beginning. As long as the outcome of the change are fruitful and it must be in this case, we must take it as a challenge. This '*no subsidy principle*' to non-residents is a sure way to *discourage the financially less well off to settle in Hong Kong*, leaving only those who can afford it or are under financial guarantee, to enter and contribute to our society *without further draining our resources*.

Separate taxation for married women

Just to show my persistence, the Financial Secretary may be interested to know that among other ideas I have picked up on this recent trip to London, was the knowledge that, after separate taxation for married women was introduced in the United Kingdom, *few couples now live together out of wedlock, (laughter)* for want of tax exemption. So I hope he will bear this in mind whenever he budgets for Hong Kong.

Sir, with these remarks, I support the motion.

MR. CHAN YING-LUN:—Your Excellency, I would like to begin by congratulating the Financial Secretary for presenting a generally well thought-out and balanced Budget. This is no easy task, particularly in these difficult times. Having said this, I should add that the budget hurts, at least it hurts me, for as a member of the 'sandwiched' class, I will have to pay more income tax and rates. Now, I can only hope that next year, the Financial Secretary would look towards the rich, the real rich, for more taxation.

In this debate, I would like to concentrate on two topics, namely, the civil service and district activities, I would point out what I regard as weaknesses in the two areas, so as to illustrate how resources can be more effectively utilized.

The civil service

In his reply to a question from Dr. Ho in this Council on 11 January 1984, the Secretary for the Civil Service said that 'the morale of the public service ... remains high', and that he could not 'recall it having been higher'. Well, Sir, I happen to know quite a few civil servants, mainly at the middle management level, but I am not sure I can agree entirely with his statement. While I do not dispute that the civil service is working effectively and conscientiously, that productivity remains high, that objectives are achieved, and that goods are delivered, but it would be burying one's head in the sand not to have addressed the question of how long the situation can last. My assessment is that many of our devoted and loyal civil servants are as concerned and worried over the future as anybody else, if not more. Come 1997, who would be administering the civil service, what would happen to their career, would they retain their present jobs and what would be their terms of appointment? These are just some of the questions besetting them. There are more.

Our urgent task, therefore, is to maintain a coherent civil service. This will go a long way towards stabilizing our system. The faith of the civil service to continue to work together for a better Hong Kong irrespective of future changes is essential to the continuation of the socio-economic system as a whole. Moreover, the civil service together with their family members, represent over 10% of the total population. Their impact on our future stability can never be over emphasized. I, therefore, urge that Government should ensure that appropriate steps been taken, if they have not yet been taken, to allay civil servant's concern and possible fears of the future, and to reassure the future prospects of our civil service.

Turning back to the Budget Speech, I agree whole-heartedly with the Financial Secretary regarding the aim to keep 'annual civil service growth overall to below 2½% for the foreseeable future' and to provide staff for new facilities by 'increased productivity and redeployment'. However, the Financial Secretary stopped short of suggesting measures designed to promote increases in productivity and value for money. May I offer the following observation and suggestions.

Firstly, I suggest that it should be a continuing process for existing departmental and interdepartmental procedures to be reviewed, updated, simplified and streamlined. I have come across too many examples where outdated and combersome procedures have caused unnecessary waste of manpower and resources, very often resulting in frustration for both the officials and the members of the public concerned. A simple analysis would indicate that most delays are caused by civil servants having to pay excessive attention to details. Let me illustrate with a well known example—the procedures for obtaining a restaurant licence. I have it on good authority that as many as six departments are involved and that even if everything is in order, it will take at least 33 days for a licence to be issued. But that never happens.

Minor discrepancies can often lead to a processing period of a few months, and many applicants have to wait for one year or more before licences are actually issued. Very often, therefore, the operator simply chooses to open the restaurant and take the risk of being fined. I need not elaborate on the attendant corruption opportunities thus arising.

Excessively complicated procedures laid down since time immemorial might have served some purpose. But with changes in times and circumstances, their existence serves only to remind the users of bureaucratic red tapes and to perpetuate unnecessary and unproductive work for civil servants. I therefore suggest that a special review team be attached to the Chief Secretary's Office to identify areas requiring urgent attention and to conduct annual review exercises. This team should comprise staff deployed from the Management Services Division, the Corruption Prevention Department of the I.C.A.C. and experienced Administrative Officers. Alternatively, Controlling Officers could be directed to review their areas of activities and to report to this Council manpower saving procedures they have identified during the year.

My second suggestion is in respect of training for the civil service. I am a believer in training. I am optimistic of what training can achieve, particularly in large and complex organizations such as the civil service. In the past, it had been necessary to invest considerably on programmes which would enable local officers to acquire the necessary professional and technical qualifications. I notice that the trend is changing, and for 1984-85, there is a reduction of \$8.8 million under the general training subhead of the Civil Service Training Centre Head of expenditure because of a reduced need for overseas scholarships for training to fill vacancies for professional officers. This is certainly no bad thing, for it may suggest that our past training policy may begin to pay off.

The next logical step, as I see it, would be to improve on local training, more specifically, on management training. Let me elaborate. Our devoted and loyal civil service comprises individuals from different backgrounds. Some have never heard of management; some have a vague idea of management, but know little about its application; while some know all management theories inside out, but for various reasons would not bring any one of them to use. Still, some know enough about management to be able to put it into practice, but soon meet enough resistance from their subordinates, or worse, negative reinforcement from the not-so-enlightened bosses. The problem is that there is a lack of communication. Civil servants are speaking at different wave lengths; and there is no more heart-breaking scene than to watch a bright, young, and highly-motivated civil servant being demoralized systematically and gradually, eventually leaving the civil service.

Suitably designed training could have changed the scene. I am thinking of a training programme which is to be made mandatory for all civil servants in management. It could be a short, sharp, tailor-made and effective programme calculated to bring home to participants the corporate message—whatever it

may be—and it should be done in-house, with outside assistance if necessary. This type of training will be conducive to positive attitude building within the civil service so that civil servants would be in a better form to meet the future challenge. At the end of the day, even if our civil servants are not any wiser, at least they would all be speaking the same language, and running in the same direction. (*laughter*)

My third suggestion calls for a greater use of the talents in the civil service. Despite the fact that we have more trained professional staff and that we have accumulated plenty of local expertise on various technical subjects, a large number of studies and projects particularly in the engineering and planning fields are still being commissioned to overseas consultants. This is extremely discomfoting. Apart from the huge amount of expenditure involved, it is a waste of local talents, and has a most disheartening effect on our highly qualified experts in the civil service. I suggest therefore, that in future, Government should be more critical of proposals to employ overseas consultants and to ensure that expertise within our civil service are called upon and consulted beforehand.

My fourth and last suggestion concerns a fringe benefit of the civil service. In 1984-85, Government has budgeted \$397.6 million for payment of home purchase allowance to eligible civil servants. This is a very costly scheme, but let me hasten to add that it has my full support. This is because the scheme would enable civil servants to acquire homes and to live in them happily thereafter. This is highly conducive to maintenance of morale. Civil servants will no longer need to worry over the disturbances and expenses arising from moving houses because of increased rental; and when they retire, they can be assured of a place of their choice to live in. I therefore suggest that this scheme should gradually replace the one based on private tenancy allowance. The reason is obvious. The home purchase allowance is only payable for ten years to a civil servant. However, an officer joining the civil service at 25 could receive a monthly private tenancy allowance for 30 years before his normal retirement age. I therefore suggest that civil servants receiving private tenancy allowance be encouraged to join the home purchase scheme, or better still, be given priority in their applications. I trust the Financial Secretary would not mind the savings in annually recurrent expenditure thus achieved.

District activities

Turning now to district activities, we were informed, in the course of examining the draft Estimates of Expenditure, by the Secretary for District Administration that contributions from local leaders and residents on community building involvement projects totalled \$7.4 million in 1982-83 and \$10.4 million in 1983-84, on top of Government expenditure of \$15.1 million and \$18.8 million respectively. These are no small sums. But based on my years of experience of involvement in district community building programmes and activities, I have

doubts on whether all these moneys have been spent in the most effective and productive manner. Very often, various departments organize functions and activities similar to those organized by the local District Boards, using funds provided by the departmental headquarters under the umbrella of community building or district wide campaigns. This may be useful if the activities can really complement each other. But very often they do not.

It is very important, therefore, that district programmes and activities must be critically reviewed to ensure that organizers do not spend funds simply for the sake of spending them and that quality will not be overlooked or sacrificed for statistics on participants. Perhaps the District Boards, in addition to advising on how their funds for community building should be spent, should also stretch its terms of reference to cover co-ordination of the utilization of expenditure allocated by various departments and agencies for community involvement so as to ensure that the programmes organized and funds spent will meet the needs of their particular districts.

Before leaving this subject, I would like to strongly echo and support the Chief Secretary's call in his speech on 15 February 1984 in this Council on the proposed regional council which would ensure that the recreational, cultural and amenity services currently provided by the Urban Council and the Recreation and Culture Department are provided in the most efficient and effective manner. There has been far too much duplication of efforts and overlapping of responsibilities at the district level between these two agencies in the past few years. I firmly believe that this has far too often resulted in waste of manpower and resources, excessive and unhealthy competition for spectators and participants. Not infrequently, rivalry between Government offices has resulted in under utilization of district amenities and recreational facilities. I therefore most whole-heartedly welcome this move.

In rationalizing and streamlining the organization and staffing of the Cultural Services Department and the Recreation and Culture Department—preferably by combining them into one department—savings could be achieved. Again, I am sure that the Financial Secretary would not mind such savings.

With these remarks, Sir, I support the motion.

MRS. FAN delivered her speech in Cantonese:—

督憲閣下：現代任何一個國家或城市，都難以避免財政短絀的情形；本港自不能例外。中國人有句老話：「巧婦難為無米炊」，政府財政既入不敷出，財政司在作預算案的時候，所遇到的困擾，是可以理解的。

但今次的預算案，我見到財政司並無減省撥入公共建設的款項，覺得十分欣慰。因為祇有這樣，才能令居民增加對本港前途的信心。而且，又能使香港處於有利的地位，在世界經濟復甦之際，獲得裨益。所以，我對財政司的這一項措施，深表贊同。

在今次預算案中，財政司相當着重本港稅制。本人對稅制祇是門外漢，但據我所知，香港稅制在國際間一向享有盛譽，由於香港的稅制簡單，而稅率較低。加上在香港經營業務，政府祇對其來自香港的盈利課稅；那些來自海外的盈利，一向不用繳稅。這是香港稅制的一貫精神。

但財政司在今次預算案第一三九段內建議：「由一九八四年四月一日起，凡在香港經營業務而收到或應收作為利息的款項，均應課利得稅，不論交易以何種貨幣結算，又不論所收或應收利息所涉及的款項是在香港以外付給借款人的，亦無例外。」如此，換句話說，利息雖來自海外，也要付稅。我覺得，財政司這項建議，對於香港現行稅制——祇對來自香港的盈利徵稅這種精神——似乎未能吻合。

其次，財政司又提議：香港公司如果向海外公司借款（不包括銀行及財務公司在內），其所付出的利息及其有關開支，都不能扣稅。這一建議與香港現行稅例，有基本上的不同。香港稅例第十六條指出：凡一切費用用於賺取應繳稅的盈利（包括利息），均可在繳稅之盈利內扣除。

如果財政司上述這兩項建議得以實行的話，那麼，海外公司要資助香港分公司在香港發展業務，便無形中增加了一重負擔。一方面是，在香港的分公司所付出給海外母公司的利息不能扣稅；而另一方面，在海外的母公司所收的利息卻須繳納當地稅項。香港一向與世界各國都未有稅務上的安排，故此，外來資金如想在香港發展生意，可能要付出雙重的稅款。

財政司現在所提的上述兩個建議，會不會使外來投資者有所誤解，以為香港有意徵收非來自本港盈利的利得稅，因而減弱其在港投資的興趣？另外，會不會令本港現行的簡單稅制，趨向複雜？本人希望，財政司能夠更進一步去權衡這兩個建議的利害得失。如果決意付諸實行，應對外來投資者作出適當的解釋。以消除他們的疑慮。

在今次的財政預算案中，財政司盱衡時局，一方面要顧及普羅大眾，一方面又要平衡政府開支，因而作出提高稅收的決策，目標是使不甚富裕人士免受額外負擔之苦，其志實屬可嘉。唯美中不足之處，我認為是中產階級——現在大家都稱之為夾心階層——有被遺忘之嫌。

取諸社會，用諸社會，是我們每一個市民都能接受的。中產階級當然也有納稅的義務，可惜在香港的中產階級能享用政府資助的福利微乎其微。他們這一群人處於夾心，多數未能符合享用上述福利的條件。就以本港人最關心的居屋問題來說，政府會有意要以「美樂花園」賣給中產階級，用心雖好，由於交通不方便地點不佳，反應未如理想，自此政府再無意推行同類計劃。中產階級多數希望自己擁有居住單位，但如他們向銀行貸款買屋時，所付的款項，不論本息，都得不到政府稅項的豁免，或其他任何方式的援助。我希望政府在這方面提出切實的方法去幫助中產階級。

今次財政司的建議，是對標準稅率增加百分之二，同時列舉統計數字，祇對三萬多人有所影響。我覺得，此標準稅率的增幅還能勉強接受。但問題是，月入兩萬三千三百元的一家四口，是否真正能列入富裕的階層？我們不要忘記，香港的中產階級，一般都需要自己安排居所、繳納差餉、付出自己及家人的醫藥等等費用。真正的生活質素，比一些入息較低不必納稅而住公屋的人士，不一定佔很大的優勢。

香港現行薪俸稅，自一九七三——七四年度起，每級一萬的訂率從未調整。每進一級，須繳的稅率增加百分之五。另一方面，十年來香港生活指數不斷提高。故本人建議財政司，考慮把現行的累進稅制的累進幅度拉大，由一萬元增至一萬五千元或二萬元一級，藉此略為照顧一下中產階級人士。

中產階級也是構成香港社會的一分子，我們不能因為他們的人數比較少，就令他們長期失望。我的個人希望財政司能夠注意到他們對社會所盡的義務及應有的權益。如果在今年的預算案中暫不適宜作出即時反應，也應該緊接着在明年迅速加以考慮和安排。

我明白到將略進稅制的幅度由一萬元增至一萬五千元或兩萬元，影響政府的稅收。所以，我完全贊同方心讓一萬元增至一萬五千元或兩萬元，影響政府的原則。即以不標準稅率應與公同，用利得稅三千元至一萬元，影響政府的高薪俸稅的標準稅率應與公同，用利得稅三千元至一萬元，影響政府的百分之十八點五為一級，四月入二萬元，影響政府的時差無幾。至於月入一萬元，影響政府的七千五百元。至於月入一萬元，影響政府的稅項則減少了五千元。這樣做，令中產階級人士又可負擔多一項稅項。

另外，還可以考慮多徵收博彩稅。社會上有些人士認為，若果市民辛勞所得的薪俸，亦可抽稅高至百分之十七，為何普通投注稅僅抽百分之九？本人亦有同感。本人以為，普通投注、多款式投注及彩票稅，皆可以考慮增加，如此，一則可以增進庫房收入；二則可以減輕一部份小市民對博彩的狂熱，有利於社會的安定。至於財政司所關注的投注人士會否由於彩池減低而落入非法外圍賭馬集團的手中，則本人深信警方有能力去應付此種非法活動。

督憲閣下，我非常不希望政府批准海底隧道的加價申請。大家都知道，海底隧道公司的盈利，年年遞增。其除稅後的純利，在一九八三年，竟達到一億五千萬，獲利幅度之大，尚要求加價，實難為市民所接受。何況，財政司在提議徵收私家車隧道稅時，已表明「如果這些新措施能減少過海車輛，該公司所損失的收入將獲得合理的賠償。」另外，私家車每次使用海底隧道如通過新的隧道稅便須付出十元，已是頗高，實不應該再加重私家車主的負擔。何況私家車主多數為中產階級。

財政司建議撥款七十億元作為教育用途。比諸去年增加了百分之十七點九。主要的增加在於校舍的擴建和添置校內各項設備。校舍和此種設備增加，學生人數自然也會相應地增加，連帶也使本港的教育更為普及。這真是可喜可賀的一面。

但我同時也注意到，教育署在本年預算案中撥供在職訓練方面的款項，僅有二百二十三萬元，與去年比較，還少了約十一萬。這件事令我多少有點失望，因為香港教育不單祇應該重量，更應該質量並重。量的增加，在今次的預算案中已經獲得保證；而學生的進度，實有賴於教師的循循善誘和校方的完善的管理。我覺得，應該增進在職教師和校方行政人員進修的機會，才能促使他們的專業水準日益提高。

香港的教育，若要在各方面能有新的發展及改進，會需要大量資源。在財源短缺的今天，負責策劃改進教育的人士，極可能將有限的資源，作面面俱圓的分配，這樣造成的結果，是每一方面的改進都未能圓滿。我覺得這不是最佳的方法。我主張一步一步地走，走完一步，才走下一步。目前的急務，應是增進在職教師及校方行政人員的專業水準，引起及保持他們對教育的熱心及投入，令我們的青年人實受其益。

當然，對在職訓練的預算減少，不一定表示在職訓練的質素差了，這原是我們教育界應該特別注意的一個問題。不論教育署在這方面做了多少工作，我深信我們仍須及應該繼續努力，不惜花費人力物力去提高教師的學養，以及增進他們對自己本業的興趣。

督憲閣下，本人謹此陳辭，支持動議。

(The following is the interpretation of what Mrs. FAN said.)

Sir, any modern country or city can hardly escape from a budget deficit and Hong Kong is no exception. There is an old Chinese saying 'Even a clever housewife cannot cook a meal without rice'. As the revenue of the Government could not cover the expenditure, the difficulties encountered by the Financial Secretary in drawing up his budget were understandable.

However I was more than happy when I saw that the Financial Secretary did not apply the axe on allocations for public works in the present budget, because only in this way people could enhance their confidence in Hong Kong's future. Furthermore this would place Hong Kong at an advantageous position to benefit from the world economic recovery if and when it comes. I therefore entirely agree with the Financial Secretary on this point.

In this budget he placed considerable emphasis on Hong Kong's tax system. I am, admittedly, a layman on tax systems. However I understand that the Hong Kong tax system has always enjoyed a good reputation internationally because of its simplicity and the low rates of tax. On top of this, the Government only levies tax on profits arising in or derived from Hong Kong and all income derived from a non-Hong Kong source is not subject to tax. The latter is one of the fundamental spirit of the Hong Kong's tax system.

The Financial Secretary, however, proposed in paragraph 139: 'with effect from 1 April 1984, sums received or accruing by way of interest to businesses carried on in Hong Kong shall be chargeable to profits tax, irrespective of the currency in which the transaction is denominated and notwithstanding that the moneys in respect of which the interest is received or accrues are made available to the borrower outside Hong Kong.' In other words, interests earned overseas will be taxable. I feel that this proposal of the Financial Secretary seems incompatible with Hong Kong's present tax system, i.e. the spirit of taxing only profits arising in and derived from Hong Kong.

The Financial Secretary also proposed that where a Hong Kong company borrows from an overseas company (other than borrowings from financial institutions), the interest and related expenses paid will not be deductible for taxation purposes. This differs basically from the present Hong Kong tax legislation. Section 16 of the Inland Revenue Ordinance points out that all expenses (including interest paid) incurred in the production of profit are deductible from profits chargeable to tax.

If the above proposals of the Financial Secretary are implemented, it would add an extra burden to an overseas company wishes to assist its Hong Kong subsidiary to develop the Hong Kong business. On the one hand the interest paid by the Hong Kong subsidiary to its overseas parent company is not deductible for tax purposes; and on the other hand the overseas parent company will have to pay tax on the interest received in its home country.

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Kong has never had any tax arrangements with any country of the world, and as a consequence, foreign corporations with the intention of developing business in Hong Kong may have to pay double tax in respect of the above situation.

Will the above proposals of the Financial Secretary be misunderstood by overseas investors as to mean that Hong Kong is going to levy tax on profits arising in or derived from overseas and thus dampen their interest in investing in Hong Kong? I hope the Financial Secretary will further consider the pros and cons of these two proposals. If it is decided to implement them, appropriate explanations should be given in order not to confuse foreign investors.

In drawing up the budget, the Financial Secretary was faced with the necessity to generate more revenue, and at the same time, he aimed at not putting undue burden on the less well-off people. His intentions are commendable. What was probably overlooked was the needs of the middle income group—known to most of us as the sandwich class!

All responsible members of the society accept that what is received from the society, some portion must be put back. It goes without saying that the middle class have the obligation to pay tax. Regrettably, they get very little in return. The large majority of them do not meet the criteria for enjoying various programmes which are heavily subsidized by Government. Let me take the housing problem which the people of Hong Kong are most concerned about. At one time, the Government intended to sell units in 'Melody Gardens' to the middle class. The responses fell short of expectations because of the unfavourable location. Since then, the Government had not demonstrated any intention to engage in similar projects. The majority of the middle class wish to have their own flat. However when banks loans are obtained for the purchase of a flat, neither the capital nor the interest paid is deductible in computing their taxable income, nor can they get any other form of assistance from Government. I hope the Government can come up with definite proposals to assist the middle class in the purchase of their own living units.

The Financial Secretary proposed to increase the standard tax rate by 2%, producing at the same time statistics to show that this should only affect some 30 000 people. While I feel that this increase in the standard rate is still acceptable, the question remains whether can we really classify a family of four, with a monthly income of \$23,300, as well-off. We must not forget that Hong Kong's sandwich class in general have to arrange their own housing, pay rates, and medical expenses, etc. Their actual quality of life may not be significantly better than those earning less, but living in public housing, and outside the tax net.

Since 1973-74, the levy of an additional 5% (up to 25%) on every \$10,000 jump in taxable income remains unchanged. On the other hand, in the past ten years, the cost of living in Hong Kong has been rising continuously. Therefore, I

recommend that consideration be given to increasing the current platform of \$10,000 to, say \$15,000—\$20,000, thus giving some relief to the middle class.

The middle class are also members of our society. They should not be continuously disappointed just because there are comparatively few of them. I sincerely hope that the Financial Secretary would take note of their contributions to the society and their due rights. If it is impossible for the needs of the middle class to be taken into full account in the current budget, then consideration and arrangement should be made immediately for the following year.

I understand that the implementation of the above suggested increase in tax platform will reduce Government's revenue. Therefore, I fully support the principle underlining Dr. Harry FANG's proposal regarding the standard rate of salaries tax made in this Council yesterday, namely, different standard rates can be applied to taxpayers within different income ranges. However, I suggest that the maximum standard rate for salaries tax should be the same as profits tax rate, and those earning \$500,000 p.a. or more should pay 18.5% flat rate. If this suggestion is implemented together with the suggested increase in tax platform, the result can be illustrated by the following examples. If the tax platform is \$20,000 per step, then the tax payable by a family of four with \$23,300 income per month is more or less the same with what they have to pay at present. A family of four with income of \$42,000 p.m., i.e. over \$500,000 p.a., will have to pay \$17,500 more in tax. A family of four with a monthly income of \$12,500 p.m., i.e. \$150,000 p.a., will pay \$5,000 less in tax. Thus the middle class may discharge their obligations, whereas the really well-off people may bear a greater share of tax.

In addition, further increases in betting duty could be considered. Some people are of the opinion that since hard-earned salary can be subjected to a 17% tax why, should the duty on standard bets be a mere 9%? I share this view. I think there is scope for increases in the duty on standard bets, exotic bets and lotteries. These increases would not only produce additional revenue, but also serve to cool down the betting craze of some of the ordinary folks, thereby promoting social stability. As to the Financial Secretary's concern that punters might be driven into the arms of illegal bookmakers because of reduction in the size of the prize money pool, I am confident that the police is capable of suppressing this kind of illicit activities.

Sir, I hope I do not have to witness a further increase in tunnel fees as a result of the Cross Harbour Tunnel's application for an increase in toll charges. As everyone is aware, the Tunnel Company's profits have been increasing year after year. After deducting tax, its net profits in 1983 amounted to a total of \$150 million. The public could hardly accept that a company making this level of profit should be allowed to increase the toll charges. Moreover, in proposing

tax on private cars using the tunnel, the Financial Secretary has stated that 'It is, however, reasonable if these new measures reduce cross harbour traffic, the company should receive equitable compensation for revenue lost.' Furthermore, with the implementation of the relevant revenue proposal, a private car has to pay \$10 per trip. This is already a high rate. Hence, additional burden should not be imposed on the private car owners, the majority of whom belongs to the sandwich class.

The financial Secretary proposed an allocation of \$7 billion for educational purposes. This represents an increase of 17.9%. Apart from maintaining current activities, the increase is for the construction and equipping of new school buildings. With the increase in the number of schools and facilities, the number of students will accordingly increase, thus making Hong Kong's education more universal. This is indeed a laudable accomplishment.

However, I have at the same time noticed that the Education Department in this year's budget has earmarked only \$2.23 million for in-service training, which is about \$110,000 less than the previous year's provision. This is somewhat disappointing to me. Education in Hong Kong should not stress on quantity alone, but should attach equal importance to quality and quantity. While the increase in quantity has already been assured in the budget, I consider that as the students' progress depends very much on the teachers' enlightening advice and patient guidance as well as good school management, further training should be given to in-service teachers and school administrators so that they may attain higher professional standards.

In order that local education may achieve new developments and improvements in every aspect, enormous resources will be required. Faced with the prevailing financial stringency, those who are responsible for planning improvements in education may be tempted to apportion the limited resources in such a way that every sector will receive an equitable share. As a result, none can achieve the required improvement. I consider that this is not the best arrangement. I prefer making improvements step by step, that is, we should have completed one step before proceedings to another. The immediate task is to raise the professional standards of in-service teachers and school administrators with a view to arousing and preserving their zeal and devotion towards education, to the benefit of our younger generation.

Of course reduction in the budget for in-service training does not necessarily mean that the quality of in-service training will be sacrificed. This is in any way an area where our educationalists should pay particular attention to. No matter how much the Education Department has already done in this respect, I strongly believe that we should continue our efforts and devote more resources in improving the quality of the teaching staff and promoting their interest in their profession.

Sir, with these remarks, I support the motion.

一般中等入息家庭，由於夫婦同時出外工作，家務及小孩照顧迫得交由親友或傭人代為執行，必須付出酬勞。本人認為，此等支出實應如一般公司業務支出一樣，從總收入中扣除，不應納稅。故本人在此提出已婚婦女外出工作，部份薪金應可獲免稅，免稅額之多少，可以以財政司可能接受之稅收損失而訂。此舉除了令婦女外出工作而須付的支出得到應有的免稅待遇外，也可以鼓勵已婚婦女繼續工作，以她們的學問及專業知識，貢獻於社會。

道德教育及課外活動

教育署於一九八一年九月推出「德育指引」之後德育問題遂引起廣泛關注。「德育指引」之結論中提及「課外活動可以培養學生的領袖才，使他們在任何團體中，無論是身為會員或是幹事，都會深明自己的職責……」。這樣一來，他們自會認識自我，關懷他人，增進他們的社會意識，獲得正確的道德價值觀，增強維持道德標準的信心，培養自制自律的能力和養成良好的行為。

本人從事教育工作已有十五年，深深體會上文之奧秘。

本人盼望政府能加速步伐，盡快為各政府及資助中學提供額外兩名非學位教師，協助推行課外活動及公益少年團等計劃，令學生們有正常之活動及參與社區活動之機會，達到德育訓練之目標。

督憲閣下，本人謹此陳辭，支持動議。

(The following is the interpretation of what Mrs. NG said.)

Street lighting in squatter areas

Sir, in your Annual Address to this Council on 5 October last year, Your Excellency mentioned in paragraph 70 that 'the latest census survey indicates that some 100 000 families still live in temporary huts. Our plans envisage that about half of these families will be rehoused over the next five years. During the same period, a new programme to improve safety, sanitation and environmental conditions in squatter areas should benefit most of the remaining families.' This is indeed a piece of good news of the squatters. But there remains unresolved a seemingly small question which, nevertheless, affects squatters very much. That is, the provision of street lighting in squatter areas.

District Boards and the Squatter Area Improvements Division of the Housing Department provide street lighting in some squatter areas so that the people need not grope their way along circuitous paths in the dark, and lawless elements cannot hide themselves in the dark corners. Street lighting is most important in the maintenance of law and order in squatter areas. Provision of such lighting to squatters is therefore essential. However neither the Housing Department nor the District Boards have funds specified for the purpose of installing street lights in squatter areas. I suggest, therefore, that provisions under Head 43—Engineering Development Department, Subhead 242 Lighting of streets and traffic signals should include street lighting in squatter areas like provisions for lighting in other streets and public places.

Evening clinics

Paragraph 50(C) of Appendix B to the Financial Secretary's Budget Speech on 29 February 1984 reads: 'In addition to the construction of general and specialist hospitals, fourteen new clinics and polyclinics are presently included in the Public Works Programme.' To the general public this is another piece of good news.

At present the Government operates 59 out-patient clinics in Hong Kong, Kowloon and the New Territories. At the same time, evening sessions are available at 15 clinics in the more densely-populated areas, with eight of them opening on Sundays and public holidays as well. In 1983, the total attendance figure at Government out-patient clinics came to 15.1 million, an increase of 4.9% over the previous year. These figures show that there is a pressing demand for out-patient clinic services, especially in the evenings. With the burden of living pressing heavily upon them, many factory workers are forced to go to work even when they are sick lest they should lose a day's wages and the work bonus. Only after work can they seek medical treatment. They will have to turn to private practitioners and incur expensive medical expenses if they cannot get evening out-patient services from the Government. Therefore, the Government should expand evening out-patient services in the interests of the general public. This will also have the additional benefit of maximizing the use of existing facilities at Government clinics.

Cross Harbour Tunnel Tax

In paragraph 117 of the Budget Speech, the Financial Secretary mentioned that 'a bill will be introduced into this Council proposing a new tax on some users of the Cross Harbour Tunnel. This measure strictly speaking is of a transport nature because its primary function is to alleviate congestion.'

Serious congestion in the Cross Harbour Tunnel during rush hours is a fact beyond dispute, I therefore support the Financial Secretary's proposal to levy the new tax for traffic management reasons. But one point the Government must note is that if this method of imposing new tax produces the desired effect, many private car owners will use the vehicular ferry or take other means of public transport to cross the harbour. The Government should therefore make the necessary planning now by studying how many car-owners will change to other means of transport, their daily routes including starting points and destinations, and whether the existing services such as tunnel buses, M.T.R. and maxi-cabs will be able to meet the extra demand on public transport brought about by the tunnel tax. I would imagine that if the supply of public transport is inadequate, many car-owners will have no choice but to continue to use their private cars and bear the high tunnel tolls. If such is the case, not only will the original purpose of improving traffic flow by taxation be defeated, but also ended up in a greater burden be placed upon the middle-income class.

Working wife allowance

In his Budget Speech on 23 February 1983 the Financial Secretary said in paragraph 138 that: 'The adoption of a system of completely separate taxation for husbands and wives would represent a radical departure from our traditional concept of the family unit as the fiscal unit of charge. Hong Kong remains essentially a Chinese community where filial piety and family unity are an integral part of our existence.' Whilst I agree with this philosophy, to the public a philosophy is just a philosophy. What they really care about is that in calculating total tax liability, the incomes of married couples are jointly assessed.

In many middle-income families, both husband and wife have to go out to work, as a result they have to pay their friends, relatives or employ servants to do the household work and take care of the children. In my opinion, this kind of expenses, like the overhead expenses of a company, should be deducted from their total taxable income. I therefore suggest that for working wives, part of their income should be exempted from taxation. The amount of such allowance should be determined by what the Government could afford in terms of reduction in revenue. If such a measure was adopted, working wives could enjoy the allowances they deserve and at the same time, married women would be encouraged to go out to work and serve the community with their knowledge and expertise.

Moral education and extra-curricular activities

The subject of moral education has aroused popular concern after the publication of the 'General Guidelines on Moral Education in Schools' by the Education Department in September 1981. In the conclusion of the Guidelines, it is pointed out that: 'Participation in extra-curricular activities helps positively in leadership training, in making pupils aware of their responsibilities whether as office-bearers or as ordinary members of any club or society ... This will naturally help develop awareness of self, sensitivity to others and social consciousness, and enable pupils to acquire sound moral values and the confidence to maintain moral standards and develop self-control, self-discipline and reasonable behaviour.'

As I have worked in the field of education for fifteen years, I can appreciate fully the meaning of the above remarks.

I hope the Government will promptly provide every Government and aided secondary school with the promised two additional non-graduate teachers to help organize extra-curricular activities and develop such schemes as the Community Youth Club, so that pupils may have the opportunity to participate in extra-curricular activities, thereby achieving the aims of moral training.

Sir, with these remarks, I support the motion.

MR. POON:—Sir, the Financial Secretary's Budget for 1982-83 has been described as generous and his 1983-84 Budget realistic. His 1984-85 Budget is definitely pragmatic. I would like to congratulate him for his budgetary philosophies and policies which are both sound and well-balanced. My comments will concentrate mainly on his proposals on direct taxation.

Direct taxation

Nobody likes to pay tax. Furthermore, nobody including the Financial Secretary likes to pay more tax than is absolutely necessary. In 1789 Benjamin FRANKLIN remarked that 'In this world nothing is certain but death and taxes'. Able as he is, our Financial Secretary has no magic wand, with a stroke of which he can create wealth from nothing. He still needs his rabbits and his hat.

I am sure that many people are glad to hear that despite the original estimated deficit of some \$3.6 billion, no cuts are made on expenditure for Housing, Education, Social Services and Medical and Health. In fact, there are increases in allocations in real terms to such essential public expenditure. Capital construction works will also be maintained at a steady level. This is highly laudable and sensible as we should still be striving for a better society in Hong Kong despite our temporary economic setback. The Budget will have less impact on the less well-off and spread the burden on those who are more able to afford the increases.

At first glance, the increase of 2% on the standard tax rate appears to be a bit too high. One would have hoped that the increase be about 1% to 1½%. Nevertheless, on reflection, it must be considered that in the past years, many businesses suffered losses especially those in the property sector as a result of which there were also substantial bad debts, mainly for banks and financial institutions. This means no tax or reduced tax revenue can be expected from such property concerns for 1984-85. Indeed, there may even be refunds of provisional tax or set off of such losses by profits for that year or perhaps subsequent years for some businesses in that sector.

Luckily, our buoyant export trade will be lucrative but whether tax therefrom will offset the said possible drop in tax revenue remains to be seen. Therefore, a hike of 2% is understandable and acceptable though the business sector will find it an extra burden during a period of gradual recovery and may feel that 18½ is as much as they can bear. An alternative of more borrowing appears not to be sensible because interest will have to be borne and loans will have to be repaid. A further drain on our free fiscal reserves will equally be inadvisable. Taxes therefore have to be raised.

The major concern of the business sector is whether such increase in tax rate will constitute a trend. The Financial Secretary himself said that taxation should be moderate. Therefore, when times are good and Government coffers are full, there is no reason to believe that our Financial Secretary will not consider

whether a tax cut is justified. High taxes are disincentives and in the past few years, the U.K., U.S.A. and Canada all cut their top tax rates to encourage higher performance and productivity.

Business taxation

The tax proposals on anti-avoidance are controversial. It has been forcefully argued that the introduction of anti-avoidance legislation is bound to fail because it will complicate the tax system and will not be effective to catch the guilty but will only inconvenience or punish the innocent. Such arguments are too sweeping.

Surely, if there is a loophole in the tax legislation resulting in blatant tax avoidance possibilities, it is the duty of Government to try to plug it. No law is perfect. It has been said that 'Where there is a law, there is a flaw'. Government may have to introduce further legislation from time to time to combat tax-evasion or tax avoidance schemes. The deterrent effect is important for if nothing is done to remedy the situation, it is the public who will suffer the loss of revenue. However, from the experience overseas, I agree entirely that any such anti-avoidance legislative should be kept as simple as possible though it may not always be easy to do so. Such new tax proposals, however carefully thought out, may cause some hardship to or prejudice certain sectors of the business community. Government should give it careful consideration to such possibilities and grant relief wherever practicable in genuine and deserving cases.

Both anti-avoidance proposals of the Financial Secretary affect only profits tax. His first proposal is that the deduction of interest and related expenses in respect of borrowings from financial institutions (other than borrowings by other financial institutions) will be prohibited where the moneys borrowed are secured or guaranteed, in whole or in part, against a deposit made with a financial institution (whether the lending institution or any other such institution) by a closely connected person. The aim is to prevent tax avoidance by back-to-back arrangements, namely that surplus funds are placed with a financial institution to earn non-taxable interest but similar funds are borrowed on the security of the same deposits, with the interest charged to the Company to reduce profits tax liabilities.

Presumably, the word 'deposit' in the phrase 'deposit made with a financial institution' refers to cash or bank deposits and does not include properties, shares or personal guarantees given to secure such borrowings, otherwise normal commercial arrangements will be unfairly hindered. It is always difficult to define or to enforce any legislative which refers to 'a closely connected person'. However, it is appreciated that unless such a provision is put in, the proposed legislation can be easily avoided. Some may complain that there are genuine business arrangements not designed for tax avoidance but may still be caught. Therefore Government should take this into consideration when implementing the legislation.

The second proposal is that the deduction of interest and related expenses in respect of borrowings (other than borrowings from financial institution) will be prohibited where the money borrowed, in respect of which the interest and related expenses are paid are made available outside Hong Kong. The proposal introduces profits tax on interest earned in local or other currency by business carried on in Hong Kong, whether the interest is derived from funds made available to borrowers in or outside Hong Kong. The proposal had some support in the Third Inland Revenue Ordinance Review Committee in 1976. This, however, is a major change being a re-examination of the 'provision of credit' test in determining the location of interest income and will be quite controversial. It may be interpreted by some as an indication of departure from the 'territorial' concept of taxation in Hong Kong. Government should therefore clarify its intention to allay the fear of further extension of the tax net to other income or profits earned overseas.

Some may doubt the effect of introduction of such legislation and some businesses are probably concerned that existing and future borrowings on credit given by suppliers or manufacturers or large syndicates other than financial institutions will be adversely affected. The proposal may also result in driving certain borrowings to financial institutions. Some critics of the proposal may even say that the new legislation may cause an outflow of funds from Hong Kong. It is premature for me to speak meaningfully on these aspects and I reserve my further comments until the relevant Bills are out. I am sure there will be opportunity for interested parties to make representations before the bills become law.

Personal taxation

Now, I come to salaries tax and the sandwich class. A lot of sympathy has been expressed on how hard hit they are because their income is too high for public housing or assistance and too low to enjoy the benefit of 'flat' rate or rather 'lack of higher progressive rates' of taxation in Hong Kong. Inflation has eroded their earnings and not belonging to any union, they are not organized to fight, bargain or protect themselves against any additional tax burden. Increased interest on mortgage payments and much higher overseas education expenses also contribute to a drop in their real income and savings. The proposal, however, must be looked at in its proper prospective.

Under the Financial Secretary's proposal, there is no change in the present salaries tax payable until a bachelor's salary exceed \$120,000 p.a. and that of a married man with two children exceeds \$223,700 p.a. A bachelor's salary earnings, if over \$150,000 p.a., will be taxed at the new standard rate of 17% instead of 15% and a married man with two children will only be so taxed if his salaries reach \$279,600 p.a. It may also be argued that our relatively cheap transport, medical and education facilities are available to all including the

sandwich class. The tax of the average salary earners, subject to tax at about 8% on the average, is still low compared to other countries. Nevertheless, under the proposal, additional tax burden will have to be borne by some 30,000 salaries tax payers who have contributed much already to Hong Kong.

Perhaps a case for consideration can be made out where both spouses are working. There is clearly an inequity and there will be further pressure for separate taxation of the incomes of the husband and the wife. The Financial Secretary may well look into this and the level of personal allowances and tax bands next year. If due to the cost of implementation or the resultant loss of revenue being too great to be borne and separate taxation cannot be considered, I suggest an interim measure could be the reintroduction of the working wife's allowance at a realistic level say at least \$10,000 p.a.

Government assistance to businesses and industries

It has often been said that not enough incentives are given to commerce and industry. This is not entirely correct. Very generous initial allowance of 55% was granted by the Financial Secretary in his 1982-83 Budget and the rates of annual depreciation allowances were also revised.

There is, however, one single anomaly that requires early review, that is the 'Rebuilding Allowance' on 'Commercial Building' which is at present granted annually at the flat rate 3/4 of one per cent without any initial allowance at all. This means that the capital expenditure on building cost of office or shop premises are not written off for tax purposes until after 133 years. This is hardly fair to the owners even if such buildings can last so long. Realistic upward revision of the Rebuilding Allowance preferably with a new initial allowance will hopefully give a new incentive for businesses to acquire such premises. The revenue which will be lost is only the tax on the amount of the additional allowance on the very original building cost of such premises, and will probably be adequately covered by the additional profits tax and stamp duty, which will accrue to Government should interest in such premises pick up again.

Very little research is conducted by industries in Hong Kong which is detrimental to their growth. I feel that both Government and the industrial sector should co-operate more fully in the field of research and development. Appropriate incentives and subsidies for expenses in this field are absolutely necessary and should be considered in due course. Otherwise, we will never catch up with other countries whose technology is advancing very quickly, and Hong Kong will be left way behind. I hope that the research project on technology transfer conducted by the Hong Kong Productivity Centre will be fruitful and I look forward to the early publication of the research report.

Control of public sector expenditure

So far I have talked about raising revenue. I shall now turn to the control of public sector expenditure. Hong Kong has been very lucky in the recent world recession. However hard it is for many people and businesses, we have little

unemployment. But when the economy is not so good, and it becomes difficult to raise revenue, one is particularly concerned at the growth of the public sector expenditure especially civil service salaries and personnel related expenses which account for about \$11 billion i.e. 44% of the recurrent expenditure account. Total public sector expenditure has also increased substantially in the last few years. The Financial Secretary obviously recognizes such trend and proposes a three-pronged plan to deal with the problem:

- (1) restriction of the growth in the civil service;
- (2) re-development; and
- (3) increased productivity and value for money studies.

Though such measures could be effective, it still leave the question whether the approved establishment of the civil service at 147 000 is too large for our needs.

Our civil service is one of the finest in the world but with the rapid growth in the economy in the past years, the consequent and continued expansion of the Civil Service may ultimately make it unwieldy. We have not had to resort to any cut in numbers so far but up to now we budget for expenditure and try to raise revenue. But when times are bad, we may have to determine expenditure by the revenue we can raise. In the 1983 Budget speech to the House of Commons, the then Chancellor of the Exchequer, Sir Geoffrey HOWE stated that 'Central to the restraint of borrowing is the restraint of public expenditure and the key to effective control of public expenditure is that finance must determine expenditure, not expenditure finance'. Our Financial Secretary himself remarked in his Budget Speech this year that 'Income must be earned before it is spent'.

Government has taken the right step in the privatization of certain services such as the Kowloon-Canton Railway, and now the multi-storey car parks. Further in-depth review of the whole civil service structure is necessary at this stage of our economical development when we have a considerable deficit for a few successive years. Miss Lydia DUNN has expressed on many occasions the necessity of such review. I also fully endorse the suggestion of Mr. S. L. CHEN in his report of the Public Accounts Committee of making more use in Government departments of qualified accountants. I am sure they should be able to contribute to such expenditure control exercise.

Future prospects

What about our future economic prospects? Hong Kong is well-placed to reap substantial benefits from the economic recovery in the world. It would be a great pity if we miss the boat. However, a realistic appraisal would indicate that despite marked improvement, there is still a lack of confidence in the future of Hong Kong resulting in a slow down of investment and re-investment and the possibility of further outflow of funds and human resources. It is regrettable that this, at least to me, is borne out by a company's announcements recently made. If local businesses and professional and management personnel do not adopt long-term views or plans, overseas investment and confidence will also be

affected. I note that according to the Inland Revenue Departmental Report for 1982-83, of the persons charged with salaries tax, 20 879 (i.e. 7.8% numerically) were charged with about \$1,034.5 million in tax or about 53.6% of the 1981-82 total salaries tax charged. Some of these people I gather also contribute to profits tax, interest tax and property tax. We can hardly afford to lose the talent and tax contributions of these people.

In slightly more than ten years, Hong Kong has become the third largest financial centre of the world. The Hong Kong environment is conducive to local and foreign investment. Hong Kong is a big melting pot where local and overseas capital, people, technology and expertise all play an important part in making it a modern day financial miracle. The laws in Hong Kong ensure that businessmen, investors and its people have proper legal remedy through an independent judiciary system. There is hardly any undue Government intervention or arbitrary measures. Commercial and Government disputes can be settled through proper channels. Our laws are based on the 'Common Law' system used in the U.K. Canada, Australia, U.S.A. and Singapore, with a wealth of precedents locally, in U.K. and other parts of the world. Commercial contracts are entered into with more certainty of terms and performance.

We have also developed comparatively sophisticated laws governing companies and the securities, insurance, banking and financial service industries, all adapted to suit local conditions, practices and requirements. Such laws are revised and improved from time to time. Although they are not perfect, they are the results of years of experience and research, all within the ambit of our rapid development as a financial centre. Hong Kong has also enlisted the assistance of top people from international financial centres, such as the appointment of the former Chief Executive of the London Stock Exchange as our Commissioner for Securities and recently the visit of inspectors from the Bank of England to review our banking laws and prudential supervision system. Such measures greatly improve our legal framework in these fields as well as our image and credibility as an international financial centre. It is therefore important that whatever political arrangements are made for the future of Hong Kong, such system should be preserved as far as possible and no drastic changes be made. This will secure the confidence of both our local and overseas investors.

We, the people of Hong Kong, love our home and very few of us would wish to leave. Both China and Britain have indicated that they will listen to the views of the Hong Kong people and we believe that they are sincere in their common aim to maintain the stability and prosperity of Hong Kong. However, the present veil of confidentiality has caused much uncertainty and speculation about the future. I hope that the general plan or framework for Hong Kong's future can be revealed officially soon so that Hong Kong people's constructive views and comments can be given due consideration before a final agreement is reached. On our part, we must think and act positively and must have

confidence in ourselves and stand by our posts. The future stability and prosperity of Hong Kong depend not only on promises and injection of funds, but most essential of all on the confidence in our own future. Once the fog clears away, I am sure the goodship 'Hong Kong', with the staunch support of its entire crew, will steer towards an even brighter future and greater success.

Sir, with these remarks, I support the motion.

MR. YEUNG PO-KWAN delivered his speech in Cantonese:—

督憲閣下：在醫學上，「見紅」一詞（指妊娠早期的出血）並不表示一種可喜的現象，但若處方得宜，總能把病情扭轉，病者的健康狀態得以回復正常。在處理財政問題上，財政司雖面對一項難題——龐大赤字預算——仍表現出無限勇氣，試圖審慎解決困難，希望通過動用儲備金，發行債券及徵稅等三管齊下的方式來彌補赤字。明顯地，爲了減低這些赤字，他決定採取鎮靜、穩定、容易了解和均衡的應付方法，這實在是一個有勇氣與面對現實的決定。雖然這項決定對中層人士（或稱夾心階層）有欠公平，但既能明白從來沒有任何一個財政預算案可以顧及全部市民的利益，而對一部份人士來說，影響在所難免。財政司亦強調今次預算案的一個主要目標，就是抑壓通貨膨脹，並特別顧及消費物價的增加對不甚富裕人士的影響。社會各階層人士對這種做法大多認爲是溫和而可以接受的，所以我認爲今次這項重大的決定值得稱許。

今次的預算案雖然較爲保守，但仍能保持穩定及一貫政策。最難能可貴的，就是能照顧到中下階層方面，不致使他們增加太大的負擔。當然，這個預算案並非十全十美，全無可批評之處，而更重要的就是它背後的意義，即是香港政府以實際行動來顯示對本港長遠前途的樂觀與信心，並且力求穩定與繁榮。在經濟困境中，仍保持對社會福利、醫療衛生、教育、公共建設及發展等各方面作出長遠計劃的撥款，充份表現出政府對香港的前途有足夠信心，繼續爲香港市民的長期福利作龐大投資，回應港府要繼續維持香港社會繁榮及安定的政策。

雖然預算案盡可能做到減輕損害市民與不影響香港政府之經濟建設計劃，但在「開源」及「節流」兩方面仍應多加留意。我在較早時曾指出財政司今次的決定勢必使到受薪之中層人士（即夾心階層）增加負擔，而迫使他们減低購買力與降低生活水平。我們要了解支持香港經濟繁榮，中層人士生活改善與財富增長是主要條件之一，所以政府不應忽視了對中層（夾心階層人士）的應有照顧。「夾心階層」實在是社會的一股安定力量，而且這一階層多屬高等技術人員與基幹份子，在社會生產擔任重要角色。若失去他們的信心，對維持香港的繁榮和安定，將失去了一股很大的支持力。在這方面，政府其實可考慮提高免稅額，降低累進稅率及擴大累進密度。此舉不但可以使許多低薪者脫離稅網，也可減輕稅務署工作量，從而節省若干行政費用；中等入息者亦可減輕負擔。至於高薪者的標準稅率則仍可相應提高，保證稅款收入不會減少，而事實上比對於許多地區而言，香港的標準稅率仍屬較低。此外，政府應該努力加強堵塞避稅的漏洞。稅務局長亦指出逃稅情況仍然嚴重，單以去年四月至年底，就發現二百多宗涉及三億元的逃稅案件，至目前爲止，僅追回應徵稅款八千多萬元。這種不負責任的逃稅態度是應該受到有效的制止，以圖保障公眾利益。

政府計劃增加歲入之餘，理應照顧夾心階層之駕車人士及的士之經營情況會否受到影響。財政司建議使用海底隧道的車輛需要徵稅，一方面增加庫房收入，另一方面可限制車輛使用量，照情理兩個目的俱已達到，不應再批准使用隧道車輛要加費，主要是隧道公司不是虧本，祇是減少利潤。這樣的申請顯然是不合理，祇有令市民加重負擔。

有關經濟方面，政府重申自由經濟的不干預政策，對工業界不會作出任何的直接援助，祇在間接方面提供完善的基本設施協助本港工商業發展。財政司表示預算案的一個主要目標為壓抑通貨膨脹，而他並無對工商業發展提供相對的鼓勵與扶助。其實自由經濟並沒有規定政府不應該協助廠商與貿易商，問題在於政府是否有意這樣做，是否有能力這樣做。若然政府能扶助工商業發展，加強市民的信心，藉着世界經濟復甦，刺激本港經濟迅速回復蓬勃興旺，我相信「見紅」的現象恐怕不會出現吧！

解決財政赤字的方法不外乎開源與節流。節流的重點應在盡量減少公營部門的不必要支出，精簡行政機構及提高工作效率。在這方面，政府應積極研究及推行公務人員「本地化」政策，減少僱用海外公務員的開支及加強監察及考核的程度。核數署署長在年報中批評政府若干部門運用公帑上的不當和錯失，並同時舉出六個浪費病源——即管理不完善，工作疏忽和出錯、部門之間協調不足、計劃不週詳、設施未能配合政府及一般政策指示和監察不足——這種種毛病都證明我們理想中一個工作迅速而有效率的政府仍有一段距離，而我們不應繼續滿足地自我指出由於政府部門複雜與開支浩繁，難免有時出錯。這祇是一種逃避現實的想法，其實每個政府部門在公帑的運用上都應該向市民負責，並應坦誠面對問題，表示尊重核數署署長的批評，旨在尋求解決辦法，防止重蹈覆轍，於必要時，甚至在組織及辦事程序上作適應性的改革，務求建立一個工作迅速而有高度效率的政府。

督憲閣下，本人謹此陳辭，支持此項動議。

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

Sir, in medical science the term 'to see red' (meaning bleeding in early pregnancy) is not something to be rejoiced. However with proper treatment, it is always possible to cure the illness and bring the patient back to good health. In dealing with financial matters, the Financial Secretary, although faced with a problem—a large deficit—still showed his boundless courage and tried to solve the difficulties with care, hoping that the deficit would be covered by his triple-barrelled attack of using the fiscal reserve, issuing bonds and higher taxation. Apparently in order to reduce this deficit, he decided to adopt a calm, steady, clearly understood and balanced approach. This is really a courageous and pragmatic decision. Although this decision is unfair to the middle class (or known as the sandwiched class), yet one should understand that no budget has ever been able to cater for the benefits of all. To some sections of the community, the effects can hardly be escaped. The Financial Secretary also emphasized that one of the main objects of the current budget is to contain inflation, with particular regard to the effect of the increase of consumer prices to the less well-off. Most members of the public consider that this approach is moderate and acceptable. I therefore think that this important decision is commendable.

The current budget, though somewhat conservative, is still steady and consistent. Its most outstanding feature is the care for the lower middle and the lower classes so that their burdens will not be unduly heavy. Of course this budget is not so perfect that no room is left for criticism. What is more important is its underlying meaning, i.e. the Hong Kong Government will show, through practical action, its optimism and confidence in our long-term future, and tries its best to achieve stability and prosperity. Even with economic constraints, it still maintains its commitments to social welfare, medical and

health, education services, public works programmes and long term development. This shows that the Government has full confidence in the future and will continue to invest heavily for the lasting benefits of the people, echoing the Government's policy of preserving the prosperity and stability of Hong Kong.

Whilst the budget has as far as possible strived to minimize the harms caused to citizens and the effects on the economic development programmes of the Hong Kong Government, more attention should still be paid to 'increasing income' and 'reducing expenditure'. I have pointed out earlier that the Financial Secretary's decision will inevitably add to the burden of the salaried middle class (i.e. the sandwiched class) and force them to reduce their purchasing power and lower their living standard. We should understand that the improvements in the livelihood of the middle class and the growth of their wealth are one of the main conditions in maintaining the economic prosperity of Hong Kong, and the Government should not neglect to look after the middle class (sandwiched class). The sandwiched class is actually a stabilizing force in society and it is made up mostly of professional people and the core members who play an important part in society. If we lose their confidence, a major supporting force for maintaining the prosperity and stability of Hong Kong will thus be gone. In this respect, the Government could have considered raising tax thresholds, lowering the progressive rates, as well as expanding the tax bands in taxation. This will not only release many low-salaried people from the tax net but may also reduce the workload of the Inland Revenue Department, thereby saving some administrative expenses, and the burden of the middle class may also be lessened. As for people in the high-salary bracket, the standard rate can still be correspondingly raised to ensure there will be no loss in revenue yields. In fact, compared with many other countries, the standard rate in Hong Kong is still quite low. Moreover, the Government should strengthen its efforts in plugging the loopholes for tax evasions. The Commissioner of Inland Revenue has also pointed out that instances of tax evasions are still serious. From last April to the end of last year alone, more than 200 cases of tax evasion involving \$300 million had been discovered. Up to the present, only \$80 odd million of tax payable have been recovered. Such irresponsible attitude of evading tax should be effectively curbed in order to safeguard public interests.

Apart from planning to increase revenue, the Government should logically consider whether motorists in the sandwiched class and taxi operators would be affected. The Financial Secretary proposed to levy a tax on vehicles using the Cross Harbour Tunnel to boost Treasury revenue on the one hand and to restrain usage of the tunnel on the other. It stands to reason that as these two objectives can be achieved, further applications for increases in the toll charges on vehicles using the tunnel should not be approved mainly because the Cross Harbour Tunnel Company is not suffering any loss but only earning less profits. Such an application is obviously unreasonable and would only increase the burden of citizens.

As to the economy, the Government has reiterated that it will continue with its free and non-intervention policy, giving no direct assistance to our industries, but only help in an indirect way by providing a good infrastructure. The Financial Secretary said that a major theme of his budget was to curb inflation, and he did not propose any corresponding measures to encourage and assist the development of our industries and commerce. In fact, a free economy does not mean that the Government should not give assistance to manufacturers and businessmen; the question is whether the Government intends or is able to do so. If the Government could lend a helping hand to the development of our industries, boost the confidence of the people and stimulate swift recovery of Hong Kong's economy in a time when the world is undergoing economic recovery, I believe that a budget which 'sees red' would never appear!

The ways to tackle a fiscal deficit have always been to increase revenue and to reduce expenses. The emphasis to reduce expenses should be to cut unnecessary expenditure in the public sector as much as possible, while streamlining the administrative structure and improving efficiency at the same time. In this respect, the Government should actively examine and implement the policy of 'localization' of civil servants, reduce the expenses of employing expatriate staff, and tightened up its supervision and monitoring. The Director of Audit has in his annual report criticized certain Government departments for improper use of public funds and other mistakes. He had listed out six areas in which public money was wasted, namely, poor management, negligence and mistakes, insufficient co-ordination between departments, poor planning, facilities not meeting policy requirements and inadequate general policy direction and monitoring. All these inadequacies serve to show that we are still some distance behind an ideally competent and efficient government. We should not complacently say for ourselves that because of the complexities of the Government department and hence their huge expenditure, mistakes are unavoidable. This is only an escapist way of thinking. As a matter of fact, every Government department should be accountable to the general public regarding the use of public funds. They should face the problems with honesty and respect the criticisms of the Director of Audit in order to find solutions to the problems. They should even initiate adaptive reforms to their organization and working procedures if necessary in an effort to build up a highly competent and efficient government.

Sir, with these remarks, I support the motion.

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

Question put and agreed to.

Sir, I beg to move.

Question put and agreed to.

Adjournment and next sitting

HIS EXCELLENCY THE PRESIDENT:—In accordance with Standing Orders I now adjourn the Council until 2.30 p.m. on 25 April 1984.

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