

OFFICIAL REPORT OF PROCEEDINGS**Thursday, 15th March 1973****The Council met at half past Two o'clock**

[MR PRESIDENT in the Chair]

PRESENT

HIS EXCELLENCY THE GOVERNOR (*PRESIDENT*)
SIR CRAWFORD MURRAY MACLEHOSE, KCMG, MBE
THE HONOURABLE THE COLONIAL SECRETARY
SIR HUGH SELBY NORMAN-WALKER, KCMG, OBE, JP
THE HONOURABLE THE ATTORNEY GENERAL
MR DENYS TUDOR EMIL ROBERTS, CBE, QC, JP
THE HONOURABLE THE SECRETARY FOR HOME AFFAIRS
MR DONALD COLLIN CUMYNN LUDDINGTON, JP
THE HONOURABLE THE FINANCIAL SECRETARY
MR CHARLES PHILIP HADDON-CAVE, JP
THE HONOURABLE DAVID RICHARD WATSON ALEXANDER, CBE, JP
DIRECTOR OF URBAN SERVICES
THE HONOURABLE JAMES JEAVONS ROBSON, CBE, JP
DIRECTOR OF PUBLIC WORKS
THE HONOURABLE JOHN CANNING, JP
DIRECTOR OF EDUCATION
DR THE HONOURABLE GERALD HUGH CHOA, CBE, JP
DIRECTOR OF MEDICAL AND HEALTH SERVICES
THE HONOURABLE JACK CATER, MBE, JP
SECRETARY FOR INFORMATION
THE HONOURABLE DENIS CAMPBELL BRAY, JP
DISTRICT COMMISSIONER, NEW TERRITORIES
THE HONOURABLE PAUL TSUI KA-CHEUNG, CBE, JP
COMMISSIONER OF LABOUR
THE HONOURABLE IAN MACDONALD LIGHTBODY, JP
SECRETARY FOR HOUSING
THE HONOURABLE DAVID HAROLD JORDAN, MBE, JP
DIRECTOR OF COMMERCE AND INDUSTRY
THE HONOURABLE LI FOOK-KOW, JP
DIRECTOR OF SOCIAL WELFARE
THE HONOURABLE WOO PAK-CHUEN, OBE, JP
THE HONOURABLE SZETO WAI, OBE, JP
THE HONOURABLE WILFRED WONG SIEN-BING, OBE, JP
THE HONOURABLE MRS ELLEN LI SHU-PIU, OBE, JP
THE HONOURABLE WILSON WANG TZE-SAM, OBE, JP
THE HONOURABLE HERBERT JOHN CHARLES BROWNE, OBE, JP
DR THE HONOURABLE CHUNG SZE-YUEN, OBE, JP
THE HONOURABLE LEE QUO-WEI, OBE, JP
THE HONOURABLE OSWALD VICTOR CHEUNG, OBE, QC, JP
THE HONOURABLE ANN TSE-KAI, OBE, JP
THE HONOURABLE ROGERIO HYNDMAN LOBO, OBE, JP
THE HONOURABLE MRS CATHERINE JOYCE SYMONS, OBE, JP
THE HONOURABLE PETER GORDON WILLIAMS, JP
THE HONOURABLE JAMES WU MAN-HON, JP

ABSENT

THE HONOURABLE MRS MARY WONG WING-CHEUNG, MBE, JP

IN ATTENDANCETHE CLERK TO THE LEGISLATIVE COUNCIL
MR RODERICK JOHN FRAMPTON

Second reading of bill**APPROPRIATION BILL 1973****Resumption of debate on second reading (14th March 1973)**

HIS EXCELLENCY THE PRESIDENT: —Council will resume and continue with the debate on the Appropriation Bill 1973.

Question again proposed.

MR LEE: —Sir, in answer to a question I raised in this Council on 3rd January this year, my honourable Friend the Financial Secretary said that although he did not take the logic of my proposal that the value of property transactions eligible for concessionary stamp duty should be increased, he agreed to have it reviewed in 56 days. I was so glad that the time had come when two weeks ago not only this was included in his tax relief proposals but also he himself advanced most convincing reasons to justify his action. His attitude was most admirable. In fact, anyone who listened to his other tax relief suggestions should have felt that he had a sincere desire for the well-being of the public in mind, so much so that he was even prepared to exempt stamp duty on contract notes for jobbing transactions for the already prosperous stockbrokers. This, I am afraid I have to concur with my honourable Friends Mrs Ellen LI and Mr BROWNE, was not so logical.

With this introduction, I must now join my other Unofficial colleagues to compliment my honourable Friend the Financial Secretary for his most acceptable budget. I am not going to repeat the remarks already made but wish to say that he has fully demonstrated his desire for a better Hong Kong by proposing considerable increases in expenditure in the various heads for the coming year. Whether some of these increases are big enough is a matter of further deliberation, but I have to point out that since he took office 21 months ago the world has seen many important economic, political and financial changes, all of which have in one way or another affected Hong Kong. I do not envy him for the rough seas he has had to sail in the world monetary crises, but must compliment him for still being able to maintain a sound economic position with strong reserves for Hong Kong.

I know my satisfaction with the strong reserve position enjoyed by Hong Kong is not necessarily shared by all. My honourable Friend Mr Wilfred WONG for example, has long been advocating deficit financing. In my view, the position of Hong Kong is unique and the theory of incurring public debt should be viewed with great care. As Mr WONG has already pointed out, our social and community services still lag behind what society needs and we have an obligation to meet these requirements.

In any case, I consider that our surplus is not as substantial as it appears to be. Accounting adjustments alone would present a different picture. To give an example, if the Financial Secretary did not propose to put aside \$500 million for the Mass Transit, our surplus would show a correspondingly increased figure. Or if the estimated figures of the long term expenditure such as \$500 million for education and \$1,000 million for further water projects were to be treated in the same way as the Mass Transit, our general reserve would show a substantially reduced amount. The Financial Secretary has taken all these into account in the ten-year expenditure programme forecast and should, in so doing, answer those critical of the apparently large surplus which Hong Kong possesses at present.

Now that we do have a surplus, my honourable Friend Mr Wilfred WONG is right to have pointed out that we have investment problems, including the depreciation of currencies in which we invest. This is precisely what is happening to our innocent Hong Kong dollar.

When debating on the 1972-73 budget on 16th March last year, I pointed out the changing character of the UK Sterling Guarantee which, when initially concluded in September 1968, covered our sterling funds only at US\$2.40 while sterling was later re-aligned at the rate of US\$2.60 in December 1971.

On 21st June 1972, when speaking on a motion to increase the borrowing powers of the Exchange Fund, I again commented that with the substantial amounts of sterling deposits in the United Kingdom, Hong Kong had a \$935 million question mark hanging over it, because we could in theory suffer a loss of \$935 million should sterling fall back to US\$2.40. I suggested as an interim measure and a partial solution that the sterling held by the Exchange Fund in respect of note issue cover should be guaranteed on the basis of an exchange rate of HK\$14.54 to the pound. A few days thereafter the UK Government decided to float the pound after it was under sudden pressure. The result was that the Hong Kong dollar value of our sterling assets suffered a loss of approximately HK\$900 million, as disclosed by the Financial Secretary.

Again in February this year, when the US dollar was devalued for the second time, the Hong Kong dollar had to be revalued. This caused our sterling assets further to slump, quite substantially too.

Sir, I recall these events not to cry over spilt milk. These losses were in many ways difficult to avoid. But I would emphasize the fact that, notwithstanding our external assets already having been depleted for the second time, the innocent Hong Kong dollar is still facing the dilemma of further uncertainties because of the current international monetary problems. The meetings in Europe of the Finance Ministers

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of the major industrial countries are still on. Any change in the exchange rate of major world currencies, especially the US dollar and sterling, whether by refixing, floating, revaluing or devaluing, will in one way or another affect the value of the Hong Kong dollar because of their direct or indirect relationship. Should the value of the US dollar or sterling further be adversely affected, we shall have to make another very difficult decision of whether we should or could maintain the present value of the Hong Kong dollar. If we do, we shall not only have a third depletion of the Hong Kong dollar value of our external assets but also the problem of whether or not our manufacturing exports will remain competitive. If we do not maintain our currency's present value, our cost of living will go up and this would create social problems. Although the exchange value of a country's currency is not entirely determined by how strong is her reserve position, it does have important considerations.

I believe we all agree that our reserves have been accumulated not by sheer luck, nor by commercial tariff or quota discrimination, but by the hard work and thrift of the people in Hong Kong. We need them to meet the commitments involved in our long term projects, and we need them to be able to look after our 4 million people in case of an emergency. The important question now confronting Hong Kong is the best measures we should take to protect the value of our reserves. My honourable Friend the Financial Secretary and his able staff must have given this plenty of thought, and so have all of us here.

It appears to me that, on a matter of principle, it is contrary to economic sense for a territory with a sound economy such as ours to hold most of its reserves in the currency of a country such as Britain, whose economy is full of uncertainties and problems. If for any reason we still have to keep a greater part of our reserves in sterling, we must be given more effective protection by the UK Government against future weakness of the pound.

I suggest the most appropriate and reasonable protection for Hong Kong is to ask the UK Government to guarantee all or at least a substantial part of our sterling assets in terms of the Hong Kong dollar or in gold. Otherwise, there seems to be no other solution except for us to run down the bulk of our sterling holdings and to seek diversification into other forms of investments.

The proposal to develop Hong Kong as a major market for foreign currencies is generally welcome. This has for some time been the subject of discussion in both local and overseas financial quarters. Those who have taken an interest in this subject must now be pleased

to know that Government is prepared to assist the establishment of such a market not only in respect of foreign currencies but also in Hong Kong dollar Certificate of Deposits by the removal of interest tax under certain conditions. I am in agreement with the Financial Secretary that, if an international currency market can be established in Hong Kong, it will broaden the range of facilities which banking and other financial institutions can offer. However, there could also be possible disadvantages associated with a move to include the Hong Kong dollar, and I would like to take this opportunity to single them out not for the purpose of objecting to the proposal but as a warning to those concerned of the need to give the proposal careful consideration.

Interest structure: the first disadvantage concerns the interest structure. Thanks to the existence of an interest rate agreement among the banking institutions, the interest structure in Hong Kong has for many years been kept at a reasonable level, affected only very marginally by fluctuations in world markets. Our prime lending rate has always remained stable which is useful for the development of our commerce and industry. If our financial institutions acquired an international character and included facilities in Hong Kong dollars, the interest payable on Hong Kong dollar facilities must, as a consequence, move up towards international levels which have more often than not been higher than those of Hong Kong. A higher interest rate structure will affect all borrowers, both local and foreign. This will not be in our interest.

Inflation and the consequentially expensive Hong Kong dollar: the second disadvantage concerns possible inflation and appreciation of the Hong Kong dollar. At present the Hong Kong dollar is a strong currency. Since December 1971 the Hong Kong dollar has been revalued upwards against the two major world currencies; by approximately 19% against the US dollar and approximately 14% against sterling. The easing of interest tax should therefore attract an even larger inflow of money into Hong Kong. The possible consequences of such a situation, particularly if money floods into Hong Kong in a disorderly manner, will be inflationary as well as an artificial increase in the exchange value of our Hong Kong dollar, and hence making it more difficult to export our goods. I need not stress too strongly that both a disorderly increase in the money supply and an expensive Hong Kong dollar are not good for Hong Kong.

Deflation and consequentially cheap Hong Kong dollar: the third disadvantage concerns deflation and depreciation of the Hong Kong dollar. Conversely, if for any unforeseen reasons there should be a sudden repatriation of funds out of Hong Kong, the result will be credit squeeze, deflation and a cheap Hong Kong dollar. Either of these would have repercussions.

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Sir, these are some of the possible risks to which the Hong Kong economy may be exposed if our proposed international currencies market were to include the Hong Kong dollar. But they are not necessarily insoluble problems. As the Financial Secretary has already said, we must be sure to create a prudent and orderly market which does not harm our economy and this can be achieved by the introduction of legislation to regulate the activities of those banks and finance companies which seek to operate in this market.

Now I would like to mention that under the existing Stamp Ordinance all bills of exchange, remittances, *etc.*, attract stamp duty at the rate of 25 cents per \$1.000. As the proposed international currencies market must be operated through the instruments mentioned in the Ordinance, I suggest that stamp duty on these items should be exempted. This will make our terms identical to those in other markets and is essential for our proposed market to function competitively.

In my opinion, this kind of stamp duty should be totally abolished for all other transactions as well. I do not see much justification in its continued existence. If it is only for revenue reasons, I hope the Financial Secretary will be able to adjust his books.

In addition, I would also like to suggest that the 20 cents stamp duty on cheques should be dispensed with. Again, presumably, it is levied for revenue reasons. But like bills of lading, insurance policies, *etc.* stamp duty on cheques is no longer levied in most other countries; besides, this does not seem to fall into any of the nine groups of compulsory contributors to public revenue, as analysed by the Financial Secretary.

Sir, I have pleasure in supporting the motion.

MR CHEUNG: —Sir, I join my colleagues in congratulating the honourable Financial Secretary for the very lucid way in which he expounded his budget proposals. I for one was exceedingly grateful that he expounded it at an intelligent level that was comprehensible to me, and at the outset I would wish to acknowledge the promptness and sympathy with which he acted on my modest proposal for relief to parents of incapacitated children, who will be grateful for the relief that he will now grant them.

I can only wish, however, that his proposal to abolish deductions for life insurance premia had never seen the light of day. It has earned

the distinction of being damned by faint praise from one, and one only, of my colleagues: every one else who has spoken on it has indicated that legislation to effect it would be met with emphatic dissent. I would suggest for reasons which have been given by my honourable colleagues, and in particular by my honourable Friend Dr S. Y. CHUNG, that this would be a proper and perfectly respectable case for an abortion.

I am sorry that the matter has diverted attention from a number of aspects of the budget, and Government policy as reflected in the budget, that cause me real concern.

It is recognized on all sides that the shortage of land is the root cause of most of our economic ills. My colleagues experienced in commerce and industry have voiced grave concern that shortage of land leads to a rising cost of living, to loss of our competitiveness in international markets for our exports, and to the possible stagnation and ruin of our economy. I need hardly say that if we lose our export trade there would be Armageddon and the end of all our hopes for a better life for all our citizens, and I would ask all in the administration who are concerned with land to weigh and consider my colleagues' warnings. This shortage of land has also been one of the basic causes of the upsurge of stock prices, particularly in the prices of shares of companies that invest in land, because the popular sentiment is that you can hardly be wrong in buying such shares so long as there is a steady, if not a meteoric, rise in the value of the landed assets; and popular sentiment, I am inclined to think, is likely to be right when land is not readily made available from the prime source.

I am therefore very distressed that my honourable Friend indicates that in the next financial year only 175,000 sq. ft. of non-industrial land in the urban area would be made available for sale, and no more than 485,000 sq. ft. in the New Territories, a total of 660,000 sq. ft., or about 15 acres. When it is realized, first, that this land is not for purely residential purposes and, secondly, that our low cost housing estates are being designed to accommodate residents at no more than 1,000 per acre to give an acceptable environment, the land that Government proposes to release would be enough, taking an optimistic view, for no more than 15,000 persons or, on a more realistic view, 10,000. I would point out, Sir, that the rate of natural increase in our population is running at about 80,000 per annum, if not more, notwithstanding the efforts of the Family Planning Association. Having regard to those facts, the land which is to be released is a paltry amount.

There is not the slightest doubt that, with minor though important exceptions, like the Dockyard, like Chai Wan and possibly Aberdeen,

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only the New Territories can provide the land we need. The debate whether this is so has passed the point of no return.

Whilst I see that there has been some further reinforcement of the staff of the New Territories Administration, there has not been that strengthening and augmentation of the Commissioner's staff which would enable him to perform the massive task which planning, housing schemes and new towns require. I am not satisfied that he has enough land assistants, estate surveyors or engineers to perform the necessary tasks. I believe, as regards estate surveyors, that there are a number of established posts that have not even been filled. Whether it is recruitment that is not efficient, or whether the terms of employment, especially those offered to local staff, are not sufficiently attractive, I do not know. But in my respectful submission there must be urgent consideration of this very important problem of augmenting every sector of the staff of the Commissioner which has to do with land and land policies.

The whole question of land, at this time in our history, is one that merits consideration in depth at the highest levels, and whilst financial considerations, such as the prices that land may fetch at auction or the level of our commitments in public works, are relevant or even important, I would submit that they are not the only considerations that should guide Government policy.

With those remarks, Sir, I have pleasure in supporting the motion. I may add that if my honourable Friend the Financial Secretary had asked for substantially higher appropriations which would help to remove the canker of land shortage, I would gladly have supported him.

MR ANN: —Your Excellency, I very much wish to join my senior colleagues in congratulating my honourable Friend the Financial Secretary on his improved presentation of the Estimates for the year 1973-74. His ingenious arrangement of keeping the fundamental facts and other relevant information separate from his budget speech has given us much easier access to the thinking behind the preparation of this budget.

Sir, I will endeavour to keep my comments as brief as possible. As the whole world is entering a very uncertain era in international trade and there are many matters beyond Hong Kong's ability to exercise any influence, I agree with my honourable Friend the Financial Secretary that we must budget for a surplus.

As is always the case, no budget will tally with the actual accounts when the year ends. What is comparatively certain is the expenditure on personal emoluments and pensions and the priorities in expenditure that have been decided on. Even so, personal emoluments and building costs are prone to increase in present-day circumstances. And Government can of course always, for one reason or another, postpone some of its actual payments to the following year.

On the revenue side, very much will have to depend on the unfolding of economic development in the private sector in the coming year. Now the situation is being subjected, to a very large extent, to the unprecedented international monetary upheavals that have become so much more manifest as the current financial year draws to a close.

In his second year budget speech, my honourable Friend the Financial Secretary has made much less philosophical development of his fiscal policy. What is disappointing is that practically nothing has been said of our dollar. It is its external relationship I am looking for, which is inevitably the basis of this budget. Since we cannot live without import and export, any change in the external value of our dollar will inflate or deflate our economy. I have further found that little has been mentioned about the future of our manufacturing industry, or the effect his budget will have on this aspect of our economic activities apart from some tax relief proposals.

The Financial Secretary said in his last year's budget speech that our manufacturing industry contributed 43% of the Gross Domestic Product. He further said that the main primary determinant of incomes, and hence of revenue yields, is the economy's export performance. But the events of the past 14 months, to the grievance of our manufacturing industry and exporters, seemingly, have not taken this into account. Our dollar has been made dearer to our clients who pay us with the United States dollar.

Though by virtue of world inflationary trends we fared better than others in the sixties, the accelerated inflationary trends in the economies of our trading partners in the past two years have much camouflaged our failure to achieve comparable growth in our export performance.

I wish to raise the point that the reason we achieved such enormous success in the sixties is also, to a very large part, attributable to the ingenuity and industriousness of our people. Let no new development damage this spirit that is burning in the heart of every hard working man. He always treats the dollar as a dollar, and never doubts its value. I mean to say that our fiscal policy guiding our socio-economic development should be such that it must cause rewards to be awarded largely to those who do work hard and serve the many, the bread earners of Hong Kong.

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I hope that my honourable Friend the Financial Secretary will have regard to this important point when he is again forced to make important decisions on our dollar.

On the 9th October 1970 the former Financial Secretary, Sir John COWPERTHWAITTE, said *inter alia* in this Council:

"Our spending power derives almost wholly from what we earn through our external trade; we do not create it internally and artificially."

Those engaged in the manufacture for external trade are truly Hong Kong's bread earners in the first degree. Sir John further commented on the then already felt inflationary pressure, in the initial stage of our second building boom which started in early 1968:

"Our economic experience has indeed been very like that of Germany and, perhaps to a lesser extent, of Japan, in recent years. We have been importing inflation from our export markets, while experiencing substantial balance of payments surplus, because the nature of our economy prevents our costs and prices outrunning those of our export markets. Like Germany, too, substantial inflows of capital have added to these pressures."

Further on he agreed to my argument that the internal building boom had had the effect of inflation, but argued that the effect was only a secondary cause of our rising costs.

This last point has now become much more manifest after a lapse of less than two and a half years. What Sir John said in the first instance should strengthen the point I made earlier on about rewards for those who work hard, and his argument that the nature of our economy prevents our costs and prices outrunning those of our export markets is no longer watertight as our overseas buyers, especially in the United States are now resolutely resisting our new prices which are to be based on the new exchange rate of HK\$5.08 to US\$1.

Sir, on the other hand, strangely we have a locally induced inflationary factor which has been intensifying since last autumn. It is the skyrocketing of our land prices. As it stands, and even if it does not rise further, the after-effects are yet to be weighed by our economy. Whether the economy can bear it is questionable. The mutual quick upbidding of land prices with property stock prices has reached an alarming state. I think it is now high time for Government to do some deep thinking on this matter. The fragmentation of land leasehold ownership via the stock markets thus financially liquefying the

solid lands, and the possibility of seeing every piece of property in Hong Kong float on the stock exchanges, really warrants immediate soul-searching on the part of Government. One more simple reason is that, generally, land will not lose its value quickly, but with liquefied land it is no longer so. It is almost axiomatic that when a stock market ever falls, for one reason or another, no country has yet succeeded in arresting the fall and in a falling market all shares, good or bad, are equally susceptible to decline in price, so will now our land be exposed to this danger. A review of Government land policy is indisputably overdue. My honourable colleague Mr Wilfred WONG prescribed yesterday a working solution to the problem and its attendant issue of rents spiralling, but I think it should also include the suspension of further land sales by Government on instalment basis. It was one of the prime movers of land prices skyrocketing.

Sir, rents, chiefly as a result of the skyrocketing of land prices, have now gone up to such an unbelievable level as has also been expounded by my honourable colleague Dr S. Y. CHUNG in his speech made in this Council on 28th February last. It is true that more than 1½ million people are living in Government subsidized or aided housing estates, while those of the rich class can live in their self-owned houses or flats. It is the middle class citizen, who aspires to a better life by making more effort than the average person, who is now suffering most with a fixed income. This is the sector of our population which has definitely also been playing a very important role in our social, cultural and economic development and incidentally consists of a significant number of tax payers. The rent levels of ordinary acceptable commercial flats have now far exceeded that which their present income can bear. Young people reaching marriageable age are now encountering great difficulties in finding a flat within their means, and all this just started half a year ago. Pressure for higher increases of salaries and wages is looming on the horizon and will eventually further aggravate the inflationary trend of our economy.

At this point, I feel I must say something about the matter of increases in industrial rents. While the honourable Financial Secretary has estimated the rate of increases for flatted industrial factories during 1972 to be 3.5%, a more realistic appraisal of official statistics gives a figure of 27% on average, which is closer to the experience of manufacturers, who estimate rises in the region of 30 to 40 per cent on average.

A further point I wish to make here is that whenever a new rate of exchange was fixed, Government invariably defended the revaluation of our dollar by putting emphasis on the possibility of rises in the cost of foodstuffs. In fact, foodstuffs consist of only 17% of our total import bill, and this should not warrant over-emphasis since an

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increase of say 5% could affect our actual and not imaginary living cost only to the extent of 2½%, even if we take foodstuffs to consist of 50% of the Consumer Price Index for the average person. If a rise of 2½% in the foodstuffs price is so fearful, what should we say of the 100% or 200% increases in the domestic and commercial rents? If food price rises can induce a chain reaction so can rents, and, indeed, this is a situation which does, in fact, exist in the case of rents at this moment. If we say that rents will find their natural level by the Law of Supply and Demand, should this not also apply in the case of foodstuffs? As a matter of fact, in spite of everything, the price of rice has already risen.

In respect of consumer goods, one would agree that, if circumstances necessitated, we could exercise frugality. When the whole world is undergoing changes resulting from monetary upheavals it is questionable as to how we can, and whether we should, maintain our high standard of living in luxurious items.

Further, I wish to emphasize that, whenever there was a change in the external value of the Hong Kong dollar, our manufacturers and exporters suffered the penalty of receiving less for their exports. As there was no way they could offset this loss unless their buyers could agree to a corresponding increase in price, and certainly not through reductions in salaries and wages, the only recourse, in the circumstances, was to absorb their loss in their already small profit margin.

If the fact is that the manufacturing industry in Hong Kong is not contributing substantially to our total revenue, the manufacturing industry will then be in a still more difficult position to meet the present situation of repeated revaluation of our dollar. Our exports are becoming more and more expensive on overseas markets and less and less attractive to our buyers. Losing out in international competition will in due course cause the industry to wither, not to speak of expansion to offer more employment to the upcoming young generation. Is there really a new field we can explore apart from the manufacturing industry that can offer such large employment? While I welcome the move to establish an Asian dollar market in Hong Kong, I fail to see how the building-up of Hong Kong into an international financial centre will help our employment problem. When Switzerland was one of the world's international financial centres in the sixties, a very large portion of the money gathered around there from elsewhere was in fact reinvested on the New York stock market.

For the coming year, I am wondering really whether Government can realize such a large slice of revenue amounting to HK\$1,265 million

from earnings and profits tax. I observe that this year's budget for earnings and profits tax doubled the actual figure for 1969-70. In 1969 our domestic exports were only around HK\$10,520 million. For 1973 it will be no higher than HK\$16,770 million, even if we accept the Financial Secretary's forecast of 10% increase from the 1972 figure. We note that it was in 1971 that monetary problems cropped up in Europe and 1971 was the year on which the revenue for 1972-73 was actually based. Of course, there are now many more persons liable to salary tax, but has the percentage of business profit margin for 1972 really that much improved from the base of 1971?

From available statistics savings deposits have increased from HK\$79 million in December 1954 to HK\$8,306 million in December 1972. A large part of this increase actually belongs to the working classes, who have saved it in one generation as a result of hard work and their housing being subsidized or aided by Government resettlement and low cost housing schemes. In consideration that not all workers are living in Government subsidized or aided housing, industry is paying the workers as if they were living in private housing. There is evidence that, from January this year, these savings deposits are now moving out into current accounts, ready for a plunge into the stock market or to be consumed in more extravagant living. In January 1973, whereas total deposits have further increased from HK\$24,613 million to HK\$27,151 million, the savings deposits dwindled by about HK\$1,000 million down to HK\$7,386 million from HK\$8,306 million. Possibly the February figure will be still more alarming.

An economist, in the circumstances, would say that the gradual distribution of wealth during the past two decades to many more people from a larger slice of a much larger cake has now given way to a new development which is causing a quick redistribution on a less equitable basis. It is most probable that once a trend is reversed, it will not come back so easily. Some are anxious that it may spell a social problem in the not too distant future.

Sir, I will still come back to the same topic and advocate that we should not be too much influenced by the fact that Japan is our neighbour and that raw materials from that country are indispensable to our industrial activities. We must not miss the point that it is to some extent due to the aggressiveness of Japanese merchants that their sales to our market, and indeed to the whole world, have grown to such a proportion.

Japan's rising labour costs and the upvaluation of the yen are expected to make Japan sell less to Hong Kong, and I believe that in our free economy we have the facilities for finding substitute sources of supply and the ability to manufacture raw materials for our secondary

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industry, such as fabric for garments. In the case of raw cotton, for instance, Hong Kong changes its suppliers from year to year, and always buys from the cheapest sources. With the help of our importers, I believe we will succeed in finding new sources of raw material supplies spurred by the export drives which will surely be launched by many countries following the monetary upheavals. In the early sixties, when Australian wools became intolerably expensive, Hong Kong started to buy from Uruguay and now Uruguay has become a constant supplier of wools for Hong Kong. As it now stands, India can supply cheaper brass than Japan, who used to dominate our market.

It is possible that the present hectic monetary situation and the threat of trade war may continue for a few years to come. This situation began in 1971 and has intensified in 1972. Although people refrain from using the words "monetary war" and "trade war", they are, as a matter of fact, collective terms: one meaning "successive changes in exchange rates" and the other meaning "introduction of complex trade restrictions, both tariff and non-tariff" characterized by measures and counter-measures between states or on a multinational basis. In the thirties, trade war was a continuity of monetary war. It appears that the present day situation is much more tense and on a much larger scale, loaded with different sets of problems. However, the matter is still being held in the balance, although a monetary war must have already begun. Not one country has yet openly and audaciously vowed to start a trade war. However, if it ever comes and it may come subtly, we shall be among the first to suffer under the cross-fire, as we are naked with no protective armour and no natural resources to fall back on.

A fiscal policy preparing for the worst and hoping for the best, which implies ways and means to survive this eventuality, should exercise the mind of Government. While I am still optimistic that the worst may not happen, I believe that we must think ahead.

My honourable Friend the Financial Secretary has said that he does not regard with much composure the much reduced percentage in our general reserves in relation to our annual expenditure, to which I have the same feeling. In this regard, if I am permitted to say, Sir, there is for the public sector at this moment really no need to compete *too* keenly with the super-heated private sector for immediate availability of building labour, since it can be achieved only at the price of generating further self-induced inflation, which I think we must avoid in earnest.

Sir, with these comments, I support the bill.

MR LOBO: —Your Excellency, I would like to compliment my honourable Friend the Financial Secretary on two counts.

Firstly, on his presentation of the budget, which was generally well accepted and pleasing to most and, secondly, for his stamina when presenting the bill.

Reverting to the budget, my honourable Friend the Financial Secretary made proposals which left little room for criticism in my opinion. In fact he produced what three satisfied religious leaders had separately devised to resolve their own financial problems. In a discussion one said "I give the Lord half of what I receive and we are both happy." The second said "I give Him all I get and somehow it works out alright." The third said "Well, I put everything I get on a platter and throw it up to Him and everytime He sends it all back to me within seconds."

Despite this happy state of affairs, I find nevertheless the need to join the chorus in singing the "high rents lullaby".

In his speech the honourable Financial Secretary said that there has been no easing on the level of rents in private domestic accommodation, but gave us the encouraging news that this sector should at least stabilize in the course of the year.

Whilst we know that eventually things will improve, and whilst we are endeavouring to provide better accommodation and build more new homes in order to improve the quality of life, this current unchecked rent increase is indeed creating a new type of hard-pressed and frustrated residents who, through force of circumstances, have to lower their standards of living by paying out almost 50%, if not more, of their take home salary for their roofs instead of improving their quality of life.

We cannot wait for water to find its own level because in the meantime the strong will swim but the weak will drown.

I do not wish to jeopardise any development nor discourage land transactions to upset the honourable Financial Secretary's plans. But I would like to suggest that, in fairness to all concerned, all premises, old and new, and in all rental brackets, should fall within one control system along the lines of a comprehensive Rent Increases (Domestic Premises) Control Ordinance. The new legislation should provide for rent control over a period of several years ahead. The landlord should not be able to charge his tenant any increase of more than 5% or to a maximum of say 8% per annum. The tenant would have the protection of a statutory lease which would safeguard him from having to pay his landlord an exorbitant rent if he chooses to remain where he is.

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At the same time the landlord would receive a fair return on his investment notwithstanding the fact that, in the meantime, the residual value of the property will also increase.

The next suggestion is a small one moneywise but I must voice it as a matter of principle. Sir, like my colleagues, I too was disappointed to hear the honourable Financial Secretary say that the tax on admission charges to cinemas should be abolished. I would have been much happier had he said instead that for the time being taxation would be abolished only on those films which are acceptable for universal viewing, that is, for the whole family, thus serving more than one purpose. Perhaps consideration could be given to this matter in view of the current and future campaigns to stamp out excessive sex and violence on the screens.

Finally, I should now like to turn to social welfare.

Like other honourable Members, Sir, I welcomed the emphasis which my honourable Friend the Financial Secretary placed on social welfare. The community can well afford to spend more on helping its less fortunate members.

May I point out, however, that we have still got a long way to go in expanding and improving our social welfare services. It is appreciated that social welfare expenditure by the Government has gone up remarkably in recent years. But, after all, this was from a very low base. The very helpful graphic guide which was produced for this budget statement shows that social welfare expenditure in 1962-63 was only \$15 million, as against a projected \$102 million for 1973-74. The other side of the coin is that, 10 years ago, Hong Kong was relying much more substantially on overseas aid, which was provided to the social welfare agencies operating here. That burden is now being taken over by Hong Kong itself, either through the Government directly or through voluntary giving, especially to the very successful Community Chest. In other words, while we have undoubtedly progressed in these 10 years, we have not progressed quite as far as the figures given in the graphic guide appear to show.

I made that point, Sir, not to belittle what the Government is now doing but to emphasize that I very much hope that my honourable Friend the Financial Secretary accepts that we are only at the beginning of establishing social welfare services of a standard that a community like Hong Kong can reasonably expect.

Against this background, I should expect social welfare expenditure to go up fairly sharply in the next few years. Indeed, I wonder

whether projected expenditure for 1973-74 is not somewhat underestimated. In particular, it is not clear to me how far allowance is made for the many proposals in the draft White Paper "Social Welfare in Hong Kong: The way ahead". For example, I appreciate that the cost of the disability and infirmity allowance scheme will be met by supplementary estimate. But the amount of \$12 million for 1973-74 mentioned by my honourable Friend the Financial Secretary falls well short of the estimated costs of the scheme when in full operation, which could be over \$30 million a year.

Sir, I should also like to refer to what my honourable Friend said about the amount of work involved in processing social welfare subventions. As a member of the Social Welfare Advisory Committee, which is heavily involved in the annual subventions exercise, I can only agree—very wholeheartedly. It is right that subvention requests should be looked at carefully, but this work should not be duplicated unnecessarily. I very much hope that some means can be found of streamlining the present process in a way that meets the wishes of the social welfare agencies, but at the same time satisfies the Government's financial requirements.

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

MRS SYMONS: —Sir, I would like to begin my remarks by congratulating the honourable Financial Secretary on his "happy" budget, which must be the envy of many Chancellors of the Exchequer at this period of turmoil and difficulties on the international financial front. A Financial Secretary must be a man of many parts, not least of a philosophic turn since, however excellent a budget he produces, criticism from one group or another is sure to follow. Today on the Ides of March some of us feel it our duty to strike not deadly blows but wounding jabs, which will doubtlessly heal in a fortnight's time when Mr HADDON-CAVE returns unbowed to the fray.

Financial experts elsewhere may wonder about the miraculous viability of our economy, but we who live here know that a most valuable asset is the willingness of our people to work hard and well.

My second thought is one of self-bewilderment as I attempt to speak on what must be housekeeping on a mammoth scale. Now that there are three women on this Council, our colleagues must expect more discussion stemming from the distaff side. One attribute of wise housekeeping is thrift and the provision of some savings for the future. I was therefore surprised and disappointed to find that the honourable Financial Secretary proposes to abolish tax relief on

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life insurance policies. As I understand it, there is to be something of a package deal, the balancing of extra tax relief on various aspects of personal allowance, which is about \$21 million, and the savings from the proposed imposition of tax for life insurance and other payments, which is about \$3 million. No balance is evident and I can't understand why it should be a deal.

One could be glib and follow the man in the street when he says "The Financial Secretary does not want us to dabble on the stock market, neither he does not want us to save in a responsible manner". It surely goes deeper than that.

There are many middle-class workers and professional men and women who will not benefit from pension contributions or realistically sound provident fund contributions even after working a life-time; and every encouragement should be given to these people to save for the future. I am sure that there will be a greater interest in the purchase of with-profits policies and mortgage protection policies as many young couples aspire to buy their own homes, however small, in the years ahead.

Our Government has done an excellent job, particularly in the last decade, on providing social services for the poor. We have pledged ourselves to further expansion in the next decade; but I would like to suggest that we do not forget the salaried tax-payer (of whom there are about 75,000) who bears so heavy a share of direct tax. While it cannot be denied that our tax is low, I often feel that the "forgotten man" in the fiscal picture of Hong Kong is the direct tax-payer whose employer declares his salary in the proper manner.

It is for such that I urge more recognition, and a fine start would be in the retention of the present tax relief on life insurance and other payments. I support my senior colleagues in opposition to the proposal to abolish this tax relief.

My third concern today is again for the middle class white collar worker. I do not want to delve into the dangerous pit of high rents today except to say that one of our biggest landlords in Hong Kong has already passed on to at least one tenant the increased rating evaluation. If ever Government had a pious hope it was to think that such would not be the case. I believe firmly that there should be a new policy on rent control, and I share the concern of my colleagues where land is concerned and where rents are so cruelly high.

It is in other areas of a man's life that I wish to speak, hopefully in order, for it is a budget debate. Having put up a case for our typical citizen to be encouraged to save prudently, let us continue on a despondent note and imagine him unlucky enough to be seriously ill. Have we enough Government, subvented and private hospitals where the average white-collar worker can be assured of hospitalisation that may cure him physically but ruin him financially? I note with satisfaction that there is to be an in-depth study of the provision of medical facilities in our city.

For some months there has been a deliberate and most welcome attempt to improve the quality of life here. If the proposed anticrime campaign is to succeed, as indeed it must, we would need even more dedicated leadership, full co-operation, sustained effort and funds. I for one will gladly vote any extra funds needed. In this connection I assume the estimates for the Royal Hong Kong Police and Auxiliary Police Forces can be supplemented at a later date if the recruitment drive is more successful. We need more policemen and if we are not getting them there must be urgent revision of the conditions of service. Law and Order are too important to be maintained on the cheap. There is a growing sense of helplessness, particularly amongst the middle classes who, travelling by public transport, get robbed daily in more ways than one, who cannot afford watchmen, who cannot keep dogs in small homes, who docilely carry a couple of hundred dollar bills handy for the all too prevalent "mugging".

Sir, I would like now to turn from the general to a very important social service which affects all.

The estimated provision of \$816 million for education, or about 19% of the total estimate, is about the same level as that for 1972-73, an increase of 5% on the previous budget, which increase the honourable Financial Secretary described as "startling". In terms of population, the young form about 50% of our people. There is no simple equation here but the proportionately small amount spent on education stems from the fact that so many of our young people are not at school, or never have been.

The fundamental fact, and it is a harsh one to be faced fair and square, is that we have failed hopelessly in the provision of educational facilities in the last quarter of a century. The situation is now improving but I must warn the honourable Financial Secretary to brace his nerve in the years ahead.

We have been singularly fortunate in the buoyancy of our economy year after year; but if recession should set in, how heavily will

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the axe fall on the educational sector? Or will we hold it to be inviolate and effect economies elsewhere? I must urge the latter should we be faced with such an unhappy decision. Quality of education we must promote, conserve and even improve as we forge new plans for the future. I would also ask that savings in one sector of education be used in another sector of education without it being lost in general revenue.

I feel that, within the estimates for all sectors of education, consideration should be given to the primary and tertiary levels if the secondary level is to be improved and expanded with new ancillary services, expanded Educational Television and a fully co-ordinated plan of extra-mural facilities in specially designed cultural centres in urban areas, and additional recreational amenities extended even to Lantau, Hay Ling Chau and other outlying areas.

When universal primary education was provided we held our heads up high. I think we were carried away and lost our heads in the clouds when we made it free. Provided the poor parent, and I mean poor, pays nothing. I suspect about half a million out of 700,000 parents would be willing and able to pay about \$10 a month (with ten payments a year) for his child attending a primary school, if the money is earmarked for the provision of a secondary school place. What people want are good secondary places and not necessarily free primary ones. The development of secondary education will be certainly expensive as envisaged by the honourable Financial Secretary; but we all look forward to this expansion which is overdue. With rising costs and a more than likely trend away from private schools at this stage of schooling, the general level of expenditure will certainly be startling, but it must be met.

At the tertiary level we will be spending vast sums on our two universities and the polytechnic. Very careful vetting of this account must be constantly undertaken if we are to avoid prohibitive costs which even now are heavy for this part of the world and in comparison with costs in the United Kingdom. No useful purpose can be served at this stage by expanding on this theme except to caution some economies of size in academic staff and capital expenditure.

In accepting the estimates proposed I look forward to working with members of Finance Committee as we begin another fiscal year which promises to be exciting, challenging and expensive.

With these remarks, Sir, I support the motion.

MR WILLIAMS: —Our overseas trade in 1972 was not bad. We did not have the heady export growths of the late sixties, but saw a solid performance in increasingly competitive conditions. We are nearer equilibrium in our visible balance of trade, which must give underlying strength to the Hong Kong dollar.

As usual we have many pessimists amongst us with their jeremiads of dark days to come. I am not one of them although, along with my honourable Friends Dr S. Y. CHUNG and Mr T. K. ANN, I do see clouds of concern.

The first is markets for our products. We cannot be complacent about an increase of only 8% in our major outlet the United States of America, particularly with restrictive attitudes prevailing and the devaluation of the US dollar diminishing our price advantages. But we are well attuned to this market and we shall see more good business there.

Europe has been an expanding market for us and with the UK entry, the EEC now takes one third of our domestic exports. France remains an intractable trading partner despite profiting from our local partiality to brandy. The latest quota arrangements imposed by West Germany are a shock in what has been an important and receptive market. It will need skilled commercial diplomacy to preserve our position in the EEC countries. We must rely on the UK Government for our direct representation, but I hope ways can be found to develop channels of more direct representation where we can urge our own cause.

It is disappointing too that our exports to Japan fell away last year. We all pursue our own ends in trade but I sense an increasing awareness in Japan that the bitter reaction everywhere to this country's extremely selfish trading policies could be detrimental to their long term interests. Japan must be urged to return some of the favours she has enjoyed from us for so long.

The oil rich Middle East is buying more from us; and we could benefit from the improving economies in South America. Overall, I believe the honourable Financial Secretary's predictions of our exports and imports this year will be near the mark and, whilst his growth rates are on the low side, they are calculated largely on the basis of the 1960s.

The present unstable currency position creates great difficulties in international trading, but everybody is in the same boat and with our superior financial facilities and expertise, good communications and trading skills, this could be turned to our advantage. In the international commercial race, most prizes go to the countries with a strong currency, and the strength of the Hong Kong dollar is an enormous asset.

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Fears are expressed that the stock market and land are more attractive investments to our industrialists than plant and machinery. The stock markets are at present an unhealthy distraction to many working at all levels in our economy. But our business community are too diehard to be seriously diverted from more concrete objectives.

In the early sixties many bodies came into being to enrich our commercial and industrial infrastructure. The Federation of Hong Kong Industries; the Management Association, the Trade Development Council; the Productivity Centre; the Packaging Council; the Design Centre, are some of them. These investments, both in money and time of our leading businessmen, are now showing a rich return. These have now become major institutions of international stature and their output is a powerful force in assisting the business community to achieve its economic ends.

Lastly, rising costs of materials and labour can make us uncompetitive. We cannot be unworried about this, but this disadvantage can be overcome by increased productivity and the costs of our competitors are also rising. Indeed we have contained our costs better than many. But I must remove my rose coloured spectacles to contemplate one cost, which is, of course, the cost of land. None of our competitors have to face land costs and consequent high rents of the frightening order encountered in Hong Kong. I support the remarks made by my honourable colleagues on this issue. It is the biggest obstacle to our future and one on which our ship of trade could founder.

Much has been said in and out of this chamber on the subject of crime. More police are demanded and better pay and equipment for them. The timid public are exhorted to summon their courage and report crime. We are striving for social conditions which will not be breeding grounds for the unlawful. We are fighting the drug problem and so on.

But little is said or enquiry made into a corner stone of this problem. What happens to the convicted criminal when he goes to prison, and is enough attention paid to him when he comes out? We judge the police, but say little about the prison and probation service who have an equally important role to play in the control of crime.

This is easy to understand. The prison service and the inside of prisons are visible to very few of the public and not many of us know anything about prison management.

I have had the opportunity to visit most of the prison establishments in Hong Kong—as a Justice of the Peace, may I make clear (*laughter*)—and I have had the chance to talk to prison officers and see conditions at first hand. Even to one ignorant of penology, it is plain and evident that we have a first class service built over past years and now administered by many enlightened and dedicated men working often in conditions, particularly on the islands, which are hard on them and their family life. And this view is frequently confirmed by the compliments paid to the prison service by international experts.

I have every confidence that the Prison Department can and will play their part in combatting Hong Kong's crime problem, provided they have adequate support.

Looking at actual and estimated expenditure for 1970-71 to 1973-74, I note that in 1970-71 a fraction under one percent (0.93%) of our expenditure was to the Prisons Department. This is reduced to 0.68% of our expenditure in the estimate for 1973-74. In absolute terms the increase in expenditure since 1970-71 is 32%, which is one of the lowest increases of all departments despite an increase in the prison population. The increase in expenditure on the police is much higher.

May I have an assurance that the needs of the Prison Department at this time, so they have the men and facilities to carry out their most important role in keeping down crime, are not being deprived on financial grounds.

I believe money is well spent on the new detention centres, which are a most constructive approach to the problem of the young delinquent. It is too early to judge how successful they are but we all look forward to an evaluation when sufficient time has passed.

It is disappointing that there are insufficient places to take all young offenders. I hope this can soon be remedied. And I consider it wrong that an offender over the age of 18, suitable for a detention centre, must be sent to prison for six months because the detention centre cannot take him.

Whatever treatment a prisoner receives, the biggest punishment is deprivation of liberty itself, particularly for a young man. Six months in prison is four months with remission for good behaviour, and after associating with hardened criminals he could come out worse than he went in. If he cannot go to a detention centre, it would hurt him much more to have to spend fifteen months in a training centre and with a better chance of his redemption. The real answer is to enlarge the detention centres.

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I fully support additional expenditure on recreational facilities and would like to see more done to promote sport and physical recreation. In other countries a national spirit is often stimulated to achieve political ends. We have nothing of this sort here. But I see only good in encouraging local pride—whether pride of the housing estate; the village; the district or of Hong Kong itself. And the "Clean Hong Kong" campaign showed that local pride can be aroused.

It is in communal and recreational activity that this can be achieved, and I am particularly interested in sports. At the beginning of May the first multi-purpose games hall, the Kai Tak Far East Playground, will be opened at San Po Kong. This has been provided by the Royal Hongkong Jockey Club at a cost of about \$1.6 million. At least a dozen of such centres are needed throughout the Colony and I consider Government should provide them.

I understand approval in principle has been given to the first sports centre at Causeway Bay and I hope approval to go ahead will soon follow. Another will be needed in Kowloon. And may I repeat my previous remarks in this Chamber that Sports and Physical training should have central direction and qualified instructors and trainers made available.

It was disclosed by my honourable Friend Mr Wilfred WONG yesterday that there were 4,200 vacant flats at the end of 1972, which is disturbing. I understand that the figure has risen sharply since then. This should be investigated and, if this hoarding is a device to maintain rents at largely high levels, measures should be considered to induce landlords to let out these empty flats. My honourable Friend Mr Wilson WANG spoke yesterday about decentralized budget control, and I support his views. I agree with the honourable Financial Secretary that maximum flexibility in the use of financial resources is obtained with central government control, provided the speed of decision is the same in both systems. But one cannot escape noticing that delays do occur when decisions are referred to a central authority.

Most of us consider the figure of 35 sq. ft. per person for public housing regrettably low, even if it is the best that can be done at present. Most of us welcome the proposed mass transportation system. Aside from the infrastructure, the expenditure on blocks of flats to house 1.8 million people over the next 10 years is about \$3,200 million at today's prices. The mass transportation scheme is said to be of the order of twice this amount. If, therefore, we did not proceed with

the mass transportation scheme, we could perhaps build flats three times as large and give each person over 100 sq. ft. which to live.

This is an oversimple, if not spurious, proposition and I mention it simply to give an illustration on the one hand of the costs of the mass transportation scheme in non-monetary terms, and on the other that our means of production, which must be limited and not easily expanded, can of course be put to alternative uses.

We have increasing revenues and large budget surpluses; rises incomes; and a huge increase in the supply of funds. We may be swimming in money. We must not let our apparent wealth blind us to realities and the immensely difficult task ahead of us in getting the most out of real and not over-plentiful resources.

Sir, there is a quality in this budget both in substance and in presentation, and I am pleased to support the motion.

MR WU: —Your Excellency, in his speech yesterday my honourable colleague Mr SZETO aptly described the achievement of the honourable Financial Secretary with the Chinese saying "As green is evolved from blue, it emerges as a more distinguished colour than blue (青出於藍而勝於藍)". For the benefit of my non-Chinese friends, I would say that the common interpretation of this saying, as I know it, is that the accomplished apprentice is better than the master craftsman.

Sir, honourable Members have expressed concern over the inflationary effect of soaring rents in the industrial, commercial and domestic sectors directly resulting from an overheated and stimulated stock market dominated by property shares, and do not share the optimistic view expressed by the honourable Financial Secretary in paragraph 24 of his budget speech. In support of my senior colleagues, I would like to quote the following cases:

- (a) Contrasting the 3½% increase in 1972 as mentioned by the honourable Financial Secretary, the rental of flatted factories has gone up from 40—50 cents per sq. ft. in January 1972 to 80—90 cents a sq. ft. for upper floor premises in late 1972 and early 1973, an annual increase of nearly 100%. An industrial lot in Tsun Wan was recently auctioned off at close to \$400 a sq. foot; in early 1972 it was nearer to \$100 a sq. ft.
- (b) A commercial 12-storey building in Des Voeux Road Central (West of Central Market) with a lot area of 2,750 sq. ft. was sold for \$18 million in late 1972. This same building was re-sold last week for \$38 million, and the vendor property company boasted a \$20 million profit in three months time.

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In this latter deal, both vendor and purchaser companies had their shares floated recently and both had greatly publicized their deal by advertisement or news release.

- (c) An editorial in a leading Chinese financial daily gave a detailed analysis on the case of a particular lot of Crown Land auctioned off recently for residential development in North Kowloon. The land price was such that by the time the lot was to have been developed to the maximum degree allowable by the sales conditions the *cost* to the developer would be \$400 per sq. ft. of floor area for *land* cost alone, plus a minimum of \$60 for construction cost. For the deal to be worthwhile to him, and allowing for interest during the development period, he would have to sell at well over \$500 per sq. ft. or let out at \$5.00 per sq. ft. per month.

Honourable Members will remember that as late as November 1972 I mentioned, in my annual debate speech, the then very high prevailing price of but \$200 per sq. foot of floor space. Again, in January 1973, feverish share market conditions had prompted me to ask a question on the effect of this on our economy, and since then share prices related to real estates have generally gone up by about 100%.

It is obvious that high rents resulting from high land costs have somehow to be borne by the tenants. Furthermore, with the existing very high price/earning ratio of property shares, there is intense pressure to force rents even higher.

Sir, facts are harder than fancies, and in the present circumstances it would need no less than a miracle to render my honourable Friend's prophecy on trends in rents to become a reality.

Perhaps we have too much faith in the behaviour of natural market forces and people's (or should I say gamblers') sanity. Perhaps Government has acted too little and too late in its regulatory functions and options. The fact remains that a large part of our industry and commerce and unfortunate domestic tenants are going to be saddled with exceedingly and increasingly burdensome rents (and therefore very high overheads), which no increase in productivity can alleviate without substantial price or wage increases, thereby perpetrating and aggravating the vicious cycle. It is all the more unfortunate that, at a time when Hong Kong needs modern managerial and technological expertise most, the cost of providing for accommodation alone for such high calibre people almost matches their salaries.

Rocking an overloaded boat may quicken its eventual disaster, but rocking by unloading it in shallow water may be minimizing a lot of casualties.

The lack of, or inadequate control in, rents has contributed to Hong Kong having the highest rents in the world. It has also created a virtual monopoly of key business premises where the demands for rents are exorbitant and pace-setting. It is high time that Government should now hold its promised review of the TIAB recommendation for a Fair Rent Tribunal submitted over two years ago.

In the long term view there must be a stepping up of the sale of Crown land to reduce congestion and stabilize prices, and more funds and manpower must be allocated to expedite the planning and preparation work for the sale of areas in Wanchai, Kowloon Bay reclamation, Yau Tong, Sha Tin reclamation, and areas in Castle Peak or even the Kam Tin valley in the New Territories. Consideration for open and public space in other requirements may also need be reviewed where too restrictive a development in respect of usable floor area may unduly force up prices and rents so that people for economic reasons may be forced to intolerable congestion indoors where they stay more hours of the day than in the open. Perhaps the Hong Kong situation deserves different considerations from established standards elsewhere.

My learned colleague Dr CHUNG pointed out yesterday that our manufacturing industry in 1972 contributed over \$6,300 million, or 32%, to the net domestic product, and provided employment for over $\frac{3}{4}$ million people or almost 50% of the working population. He was also alarmed at the greatly reduced rate of growth from 16% in 1968 to only 4% for both 1971 and 1972 and, I may add, at a time when our nearest competitor has been enjoying successive growth rates several times ours for the last few years. This may prove that, in a free economy, a degree of Government planning, regulation and assistance, particularly in the setting up of basic supporting industries, can be most beneficial for industrial development and certainly helps to channel the abundance of capital from within and without into productive enterprises.

By contrast, one academic was reported to have criticized our budget as being essentially one for sound housekeeping but lacking in elements of planning for development.

The industrial scene in 1973 has certainly been difficult, perhaps the most difficult in our history. The recent international monetary crisis has dealt us double-barrelled blows. Apart from short term exchange losses, our exports are costing our largest customer, the USA, which takes over 40% of our domestic exports, a minimum of 11%

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more, reducing our competitive advantage with US industries and countries whose currencies follow more or less the American dollar devaluation. Our large proportion of material supplies from Japan are, on the other hand, costing us more by some 10% because of the Yen appreciation and because of export controls of certain items in that country. Alternative sources of supply take time to develop and meanwhile our industries suffer. Because of the monetary situation and stock market frenzy, there is a credit squeeze for supply of materials to smaller factories. All these together will no doubt combine to prove our Financial Secretary right in his predictions for another low rate of expansion. Sir, you gave us your guidance last October in this Council, and I quote, "in the final analysis our competitive position in export markets, and the rate of investment in our industries, must always receive priority. It is on these that all depends". In these days of speculation and quick profits only the very dedicated industrialists would be inclined to go along with your guidance, although your wisdom is never doubted.

Sir, to take your point further, industrialists local or foreign, would find it difficult at this moment to invest or re-invest in industry. Taking the case of industrial land, this is at times provided on a basis of expediency, as there appears to be no industrial land policy. Some land is controlled by the Director of Public Works, and land in the New Territories is controlled by the District Commissioner, New Territories. There is a Lands Branch in the Secretariat, which does not seem to exercise a great deal of authority over the two executive departments that are by authority less concerned with industrial development but more with property development for maximized return in land sales. The Department of Commerce and Industry has long enjoyed a high reputation for its efficient and honest administration and skilful trade negotiations, but its officers frankly admit that they need more specialist help in industrial promotions. Matters normally brought up for discussion at the TIAB do not normally appear to be of sufficient significance, and recommendations go back to the crowded desk of the Deputy Economic Secretary who seems, I am glad to say, to be gradually taking more progressive views. To effectively implement Your Excellency's guidance, the time may now be opportune for the establishment of a high-powered Industrial Development Council to co-ordinate the functions of departments and institutions responsible for land, manpower development, technology and applied research facilities, finance, and export promotion. With the high degree of affluence and inflation in the EEC and America, the appreciated Yen and high costs in Japan, and the declared policy of self reliance and sufficiency in the People's Republic of China—and

this would mean less emphasis on exports—there are some bright prospects for our manufacturing industry in products of high quality and sophistication in the developed markets which we have or are already enjoying.

In a recent UMELCO visit to private factories, Members were told by the top management of a multi-national corporation with electronics manufacturing plants throughout South East Asia, that wages for workers were US 44 cents per hour in Hong Kong, US 31 cents in Singapore and US 15 cents in Taiwan, with a difference of about 5% in efficiency of productivity between Hong Kong and Taiwan workers, who started much later. With high rents and wages, one would naturally look to improved productivity as a remedy. I was initially disappointed by the lack of increased provision for the Industrial Training Division of the Labour Department, but was later assured by my honourable Friend the Commissioner of Labour that substantial increase in numbers of high level officers would be provided to serve the Hong Kong Training Council, and I hope that this would be forthcoming soon to meet this long felt need.

In the field of technician and technologist training, I am pleased to place on record that, largely because of Your Excellency's taking a personal interest, the speedy approval of an attractive scale of pay for the teaching and administrative staff at the Hong Kong Polytechnic has produced encouraging results in its world wide recruitment exercise. The Board of Governors is keen to advance the high standard and output of this institution and will make the best use of the resources provided at their disposal to serve our industry and commerce of growing sophistication. I take the point in regard to cost raised by my honourable colleague Mrs SYMONS.

An adviser invited by the Education Department from UK was recently reported to have said that our technical education tended to be too academic but lacking in practical approach. This is no strange news to industrialists who have to undertake the not always welcome task of training an often misguided graduate in the rudiments of practical application. This, in my opinion, is due to our present policies that tend to create lifetime classroom technical teachers, oblivious of modern developments in industrial trends and production techniques. A recent visit to our newest technical institute by a group of engineers and industrial training people found that the Tool and Die and Production Training Sections needed much improvement in quality and quantity to simulate methods and conditions in modern factories. In all the vocational training centres I visited in Japan, I have found that they had certainly achieved this position. As a sound investment for future productivity, Hong Kong deserves no less. It is also obvious that our technical teachers should be given assistance and opportunities for continuous development and self

[MR WU] **Appropriation Bill—resumption of debate on second reading (14.3.73)**

improvement by the provision of scholarships and study leaves in Hong Kong or overseas institutions and factories. I do sincerely recommend this to my honourable Friend the Director of Education and of course to the Polytechnic Board.

I am also very glad to know that the newly reconstituted Board of Education, under the distinguished Chairmanship of my honourable colleague Mr P. C. Woo, has called for views from the community on proposals for the extension of secondary education. I anticipate that the outcome of work by this knowledgeable, experienced and distinguished group would contribute immensely to the education of our younger citizens with a purpose of life and proper sense of values in addition to being a productive element in the society.

The mass transit railway scheme is of course much acclaimed, though not without some murmured fears of inflationary effects for a project of this magnitude. I am, however, more concerned that our immediate and constant improvement of road works should be overshadowed or even jeopardized by this gigantic project, so that before it is utilizable in five years' time our surface traffic would have ground to a complete halt at the present rate of increase in car registration. I do not hold an optimistic view that the restrictive measures proposed or adopted will solve the problem. Private cars are here to stay and to increase, with or without the underground. The introduction of a system of elevated expressways as in Tokyo should go a long way in speeding up traffic flow. I can imagine the benefit of such elevated expressways along Connaught Road, Waterfront Road, Hennessy Road, Causeway Road, Kings Road and Sai Wan Ho Street on the Island; and Chatham Road, Ma Tau Wai Road, Prince Edward Road and Kwun Tong Road in East Kowloon; and Nathan Road, Cheung Sha Wan Road; with cross links via Waterloo Road and Argyle Street and exits and entries at suitable points. My only credentials for this free and non-professional advice are that of a motorist and fleet operator of over 30 years standing, and that of a world traveller.

On tax reforms, I would say that my honourable Friend the Financial Secretary was treading on very dangerous ground when he proposed no deductions for dependent parent's relief and for life insurance and similar payments. I note the serious objections by my senior colleagues. I feel that in today's changed sense of morals and values, which have not been helped by "pop" culture, and the frenetic shares and money market, it would be very wrong for Government to be seemingly trading off the two traditionally Chinese virtues of

filial piety and thrift for a mere total of \$5.5 million per year, particularly at a time when our system of providing for social security has hardly gotten off the ground.

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

Motion made. That the debate on the second reading of the bill be adjourned—THE COLONIAL SECRETARY (SIR HUGH NORMAN-WALKER).

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 Wednesday the 28th of March.

Adjourned accordingly at twenty-one minutes past four o'clock.