

OFFICIAL REPORT OF PROCEEDINGS**Wednesday, 13th March 1974****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
MR DENYS TUDOR EMIL ROBERTS, CBE, QC, JP
THE HONOURABLE THE FINANCIAL SECRETARY
MR CHARLES PHILIP HADDON-CAVE, CMG, JP
THE HONOURABLE THE ATTORNEY GENERAL
MR JOHN WILLIAM DIXON HOBLEY, QC, JP
THE HONOURABLE THE SECRETARY FOR HOME AFFAIRS
MR DENIS CAMPBELL BRAY, JP
THE HONOURABLE DAVID RICHARD WATSON ALEXANDER, CBE, JP
DIRECTOR OF URBAN SERVICES
THE HONOURABLE JOHN CANNING, JP
DIRECTOR OF EDUCATION
DR THE HONOURABLE GERALD HUGH CHOA, CBE, JP
DIRECTOR OF MEDICAL AND HEALTH SERVICES
THE HONOURABLE IAN MACDONALD LIGHTBODY, CMG, JP
SECRETARY FOR HOUSING
THE HONOURABLE DAVID HAROLD JORDAN, MBE, JP
DIRECTOR OF COMMERCE AND INDUSTRY
THE HONOURABLE LI FOOK-KOW, JP
SECRETARY FOR SOCIAL SERVICES
THE HONOURABLE DAVID AKERS-JONES, JP
DISTRICT COMMISSIONER, NEW TERRITORIES
THE HONOURABLE DAVID WYLIE MCDONALD, JP
DIRECTOR OF PUBLIC WORKS
THE HONOURABLE LEWIS MERVYN DAVIES, CMG, OBE
SECRETARY FOR SECURITY (*Acting*)
THE HONOURABLE WOO PAK-CHUEN, CBE, JP
THE HONOURABLE SZETO WAI, CBE, JP
THE HONOURABLE WILFRED WONG SIEN-BING, OBE, JP
THE HONOURABLE WILSON WANG TZE-SAM, OBE, JP
DR THE HONOURABLE CHUNG SZE-YUEN, OBE, JP
THE HONOURABLE LEE QUO-WEI, OBE, JP
THE HONOURABLE ANN TSE-KAI, OBE, JP
THE HONOURABLE MRS CATHERINE JOYCE SYMONS, OBE, JP
THE HONOURABLE PETER GORDON WILLIAMS, JP
THE HONOURABLE JAMES WU MAN-HON, JP
THE HONOURABLE HILTON CHEONG-LEEN, OBE, JP
THE HONOURABLE GUY MOWBRAY SAYER, JP
THE HONOURABLE LI FOOK-WO, OBE, JP

ABSENT

THE HONOURABLE JAMES JEAVONS ROBSON, CBE, JP

SECRETARY FOR THE ENVIRONMENT

THE HONOURABLE OSWALD VICTOR CHEUNG, OBE, QC, JP

THE HONOURABLE ROGERIO HYNDMAN LOBO, OBE, JP

IN ATTENDANCE

THE CLERK TO THE LEGISLATIVE COUNCIL

MR KENNETH HARRY WHEELER

Oath

MR DAVIES took the Oath of Allegiance and assumed his seat as a Member of the Council.

HIS EXCELLENCY THE PRESIDENT: —I should like to welcome Mr DAVIES to this Council.

Papers

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

<i>Subject</i>	<i>LN No</i>
Subsidiary Legislation:	
Crown Land Ordinance.	
Crown Land (Amendment) Regulations 1974	33
Marriage Ordinance.	
Marriage Ordinance (Amendment of Second Schedule) Order 1974	34
Public Health and Urban Services Ordinance.	
Hawker (Amendment) By-laws 1974.....	35
Summary Offences Ordinance.	
Summary Offences Ordinance (Exemption from section 13) Order 1974	36

<i>Subject</i>	<i>LN No</i>
Public Health and Urban Services Ordinance.	
Offensive Trades (New Territories) (Amendment) Regulations 1973 (Commencement) Notice 1974	37
Interpretation and General Clauses Ordinance.	
Rectification of Errors Order 1974	38
Securities Ordinance 1974.	
Securities Ordinance 1974 (Commencement Notice 1974	39
Factories and Industrial Undertakings (First Aid in Registrable Workplaces) (Amendment) Regulations 1973	43
Road Traffic Ordinance.	
Road Traffic (Taxis, Public Omnibuses, Public Light Buses and Public Cars) (Amendment) Regulations 1974.....	44
Emergency (Control of Oil) Regulations 1973.	
Emergency (Motor Fuel) (Cancellation) Order 1974.....	45
Magistrates Ordinance.	
Magistrates (Forms) (Amendment) Rules 1974	46
Public Health and Urban Services Ordinance.	
Hawker (Permitted Place) Declaration 1974	47
Merchant Shipping (Safety Convention) Act 1949 as Extended by Section 1 of the Merchant Shipping Act 1964 as Extended to Hong Kong by the Merchant Shipping Safety Convention (Hong Kong) No. 1 Order 1973 and the Merchant Shipping (Safety Convention) (Hong Kong) Order 1965	48
Report: —	
White Paper "The Problem of Dangerous Drugs in Hong Kong" (published on 13.3.74).	

Oral answer to question**Tragedy in Tolo Harbour**

1. MRS SYMONS asked: —

- (a) Will Government make a statement on the tragedy in Tolo Harbour due to overloading of a boat?
- (b) What urgent action will Government take to prevent a recurrence?

THE COLONIAL SECRETARY: —Sir, on the morning of Sunday 24th February, a motor fishing vessel capsized when between 50 and 100 yards off the shore near Ma On Shan. Unhappily, three of the passengers lost their lives and I should like to take this opportunity of expressing the Government's sympathy with the families of the victims.

Their deaths will be the subject of a coroner's enquiry or of criminal proceedings, and in these circumstances, it would not be proper for me to comment further on the facts of the particular incident.

With regard to the second part of the question, this tragic accident raises the general problem of water transport in the New Territories. In approaching this problem, the Government has to bear in mind both the needs of residents of the New Territories and those of visitors.

In general, it seems to be feasible for the needs of local inhabitants to be largely met by the operation of ferries providing regular scheduled services.

The demands of holiday makers, picnickers and other visitors for sea transport have increased greatly in recent years, particularly in the areas of Tolo Harbour and Mirs Bay. This traffic occurs mainly on public holidays and at weekends, and a substantial supplement to the regular services is necessary at these times.

The Government's hope is that both the needs of the residents and those of the visitors can be met safely. This can best be achieved by an expansion of services by the larger ferry companies, which have an enviable record of safety, though it must be recognized that they cannot be expected to provide all the services required, since some of those which are needed only intermittently are unlikely to be attractive to large operators.

Although we will do our best to persuade the larger companies to expand their services as much as possible, it will still be necessary to license a sufficient number of other craft to ply these routes, though we must ensure that adequate standards of safety are maintained, particularly by limiting the number of passengers and by prescribing a minimum quantity of life saving equipment. The police will do their best, though the area is big and extensive patrols would be required, to prevent boats from carrying passengers for hire unless they are licensed to do so.

MRS SYMONS: —Sir, will a full statement of the accident be made when appropriate?

THE COLONIAL SECRETARY: —Yes, indeed. As I indicated it is likely that either an inquest or a prosecution or perhaps even both might follow this incident. The Attorney General has power to direct an inquest to be held and in circumstances such as this, I imagine that he would give very serious consideration to issuing such an instruction if the Coroner proved to be reluctant for some reason to hold an inquest. However, if neither a prosecution nor an inquest were to take place, then I can assure the honourable Member that the Government would then be in a position to issue and would issue a full statement of the facts as it saw them after the inquiry which is being held by the Marine Department is completed.

Statement

White Paper "The Problem of Dangerous Drugs in Hong Kong"

SECRETARY FOR SECURITY: —Sir, amongst the papers laid before this Council today is one of particular importance—namely the White Paper about the Problem of Dangerous Drugs in Hong Kong.

Because the budget will occupy the attention of honourable Members for the remainder of this month, it is not intended on this occasion to do more than table the White Paper. However, it is proposed to introduce a motion into the Council probably in April to give Members an opportunity to express their views about the illicit drug trade, the suppression of which is of cardinal importance to the well being of the people of Hong Kong.

Government business**Second reading of bills (Resumed debate)****APPROPRIATION BILL 1974****Resumption of debate on second reading (27th February 1974)***Question proposed.*

MR WOO:—Sir, the Unofficial Members have given careful consideration to everything that the Financial Secretary has had to say in his masterful review of the Colony's economic and financial situation. Let me say straight away that we are in agreement with much of his philosophy and general approach to budgeting. But there are some specific areas where we disagree and one where we seek postponement of his proposals.

Most of us go along with the Financial Secretary in his optimistic forecast of Hong Kong's ability to cope with the serious economic problems which have so suddenly arisen. There is the oil crisis, shortages of raw materials and worldwide inflation. Our belief is that the flexibility and initiative of the Colony's business and industrial community and of its skilful and hard-working employees will prevail. We believe that once again Hong Kong will be more readily able to adapt itself to the new situation than the controlled economies of many overseas countries. At the same time there is no room for complacency since certain of our neighbours in Asia have been able to keep down their costs well below our own.

The Financial Secretary's speech shows that we have come to or almost come to the cross roads. Gone are the days when automatic revenue surpluses provided for all our needs both for current and also for capital expenditure. The pace of public spending is very much greater now. Although he did not say so in as many words, the Financial Secretary was really posing a basic question. Are we to meet the social targets upon which we have already embarked in the spheres of education, housing, social welfare, medical and many other community services—in which case we have to pay the price for them? Or are we going to scale them down on the grounds that the ambitious plans already accepted by this Council will after all be too expensive?

The Unofficial Members will give a clear answer to this question. We are opposed to any scaling down of the targets. We remain committed to programmes which will provide a better life for all in the

1980's. It is an enormously expensive programme: but to turn back now because of inflation and other difficulties would be an admission of defeat.

So it boils down to this. We have the programme but we shall not have in the years ahead enough revenue to meet it. To meet the targets we are clearly going to need a new source of revenue. The Financial Secretary has made this absolutely clear with his presentation and forward projection of figures. Here I must say how much we welcome the attempt to forecast expenditure for three years ahead. We also applaud the efforts made to improve the presentation of the Estimates and to provide additional background material. All of this makes it easier to examine and comment upon our budgetary policies.

To return to the subject of raising revenue, the Financial Secretary has intimated that in the last resort he would raise the rate of direct taxation. The Unofficial Members are opposed to this. We do not believe that an increase in direct taxation is the right way. The approach that we would recommend would be, firstly, to borrow as far as it is possible to do so in order to help to meet the vast capital development programme. Not only should a loan be negotiated from the World Bank but also Government bonds should be floated in the local market. Utilization of a portion of the reserves need not be regarded as out of the question, though we accept the case for maintaining a substantial sum by way of reserves. And how about our greatest potential cash asset—land? We have repeatedly urged the speeding up of sale of much more land for Private development. But when the time comes to look for new sources of revenue the Unofficial Members favour indirect taxation. Furthermore the method of taxation chosen should be one which shares out the burden of taxation as equitably as possible among those who are the more readily able to bear the cost. That is to say, taxation which is inflationary at the basic cost of living level should be avoided. We must look for means of taxation which take money out of the hands of the more well-to-do.

The Unofficial Members would like to have a study made of the various means by which such a policy of increasing indirect taxation could be put into effect. The study should be published for general information and discussion in accordance with present day philosophy of open Government and maximum consultation and discussion. It is of course unlikely that universal agreement would ever be reached on what forms of new taxation should be adopted. But if the community as a whole wants all the additional social services which are contemplated—and I am sure the great majority of people do—then

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it also has to be accepted that the basis of taxation in the years ahead must be expanded. But the form of taxation adopted should not have the effect of inflating the cost of the essential basic commodities.

I turn now to the Financial Secretary's proposals for taxation in the sphere of transport. The Unofficial Members consider that these are premature in view of the imminent publication of the green paper on transport. Decisions should first be taken on the policy to be adopted in relation to various types of public transport. The general public have for long been promised the opportunity of putting forward their views in accordance with the philosophy of open Government. Only after these views have been considered and policy decided should licence and other fees be if necessary raised. We therefore ask that these proposals be deferred for the time being—I repeat—for the time being. If it is imperative for fiscal reasons to raise additional revenue at once, other sources of indirect taxation should be considered.

The greatest criticism of the budget which has come from all levels of society is the failure to recognise or propose counter measures against inflation. The view of the Unofficials is that Government's policies must be related to the need to keep down the basic living costs of the man in the street. Although much inflation is imported there is a degree of internal inflation. Some firms engage in profiteering by putting up prices more rapidly than the increase in cost. Consideration must be given to means of stabilising the prices of at least the essential commodities and of keeping down price rises in respect of those commodities to the absolute minimum.

Take, for example, rice. The present scheme of control still leaves scope for a degree of profiteering. We are glad to know that steps are now being taken to curb such profits. There are other foodstuffs which come into the same category and should be dealt with in the same way. Transport is another sphere where inflation can quickly erode the cheap forms of travel from which we have benefited in the past. It is in this context that the proposal to increase minibuss licences has been criticised since it may be used as the pretext for an increase in fares.

Once again, the Unofficial Members urge upon Government the need to set up an economic advisory committee. We are not convinced by the arguments for not having such a committee. The committee

should have unofficial representation and should keep constantly under review the economic problems of the day. At the present time the number one problem to which I have already referred is inflation and its effect on the cost of living.

As part of the attack on this problem the Unofficial Members welcome the proposal for a consumer council to which people can take complaints on prices and other consumer matters. It is up to the consumer council to report the extent to which profiteering does in fact take place. If it did take place extensively legislation against it will then have to be considered.

Finally, I come to the question of Government expenditure. At a time when we are talking of increased taxation the need arises for much closer control of Government spending than in the past few years of affluence. The Financial Secretary has made the point that supplementary provisions in future must be the exception rather than the rule. Heads of departments must keep to their budgeted sums and must also cut out unnecessary waste in expenditure. There are several spheres which will be touched upon by my colleagues in which savings can be made, for example, quartering, leasing of accommodation, travelling expenses, consumption of stationery and office equipment. The extent to which it has been possible to save on fuel consumption is a good example of how savings can be made. I am sure that many of us have been astonished to discover how much fuel we can save in our offices and our homes without undue hardship. The same spirit of austerity is needed in regard to the consumption in Government departments of a wide range of stores and equipment.

All members of the community will inevitably have to tighten their belts and adjust their standard of living. But the period of austerity need not be too long if we all pull together, work somewhat harder and a little longer, and exercise economy and restraint. What counts in the long run is productivity and our ability to export. The Unofficial Members are confident of Hong Kong's ability not only to maintain its past record in these spheres, but indeed to improve upon them.

MR SZETO: —Sir, in concluding his budget speech, my honourable Friend the Financial Secretary, reminded us that in the Year of the Tiger we have to exercise caution in all fields of activity while taking comfort in our past economic and social progress. Public reaction to the budget and to his speech is clear; to the man-in-the-street there

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is a feeling of despair and abandonment—abandoned to the forces of uncontrolled inflation, imported as well as home-made, which may be likened to the ferocity of a tiger.

My senior Unofficial colleague has outlined the general stand of the Unofficial Members to the contents of the budget speech. Clearly, the absence of any concrete proposal to contain and tackle inflationary prices has been not only a great disappointment but a deep concern to the general public. This concern is shared by all the Unofficial Members and had been vigorously voiced in this Chamber last November; it will be voiced again today with redoubtable force.

The fact that Hong Kong is too exposed to external inflationary forces against which it is difficult to shield ourselves is not to be denied. But what about internal inflation by price manipulation and profiteering of our own making? In the course of the last year, prices of staple foodstuff and essentials have spiralled and continue to spiral today while Government remains reluctant to interfere, apart from maintaining the Consumer Advisory Service by publishing the daily wholesale market prices and supplies of basic foodstuff which provides no solution to checking rising prices.

In recent months there have been reports and allegations of serious speculation and profiteering in the prices of rice which clearly show that whatever control system Government presently has over this most vital commodity is ineffective, and certainly the time has come when Government must be seen to be genuinely concerned with the situation created by unscrupulous merchants and profiteers in our midst. Therefore new measures with effective legal control over the prices of rice and other foodstuffs and essential commodities are urgently needed, and I hope the newly established advisory committee on rice would be provided with some real legal teeth despite its advisory status.

Sir, while the whole of Hong Kong is perturbed by inflation, it is strange to hear the Financial Secretary say that prior to the emergence of the fuel crisis and shortage of raw materials, 1973 generally saw our economy set on the right course and that internal inflationary tendencies were under control. A year ago, in the same vein, he reminded us that the Year of the Ox would bring prosperity to Hong Kong provided we dealt with the inflationary problems that beset us with patience and resolution. Patience? Yes, there was no lack of it. But resolution? Regrettably, there appeared to be none!

Ironically the ox, in traditional Chinese phraseology, is synonymous with sweat and labour.

Sir, more than anything else, inflation is the one worry that looms large in everyone's mind today, and as this subject will be dealt with at great length and in great depth by several of my Unofficial colleagues, I shall confine myself to those items of capital expenditure in the budget which concern our social, economic and community services on which my honourable Friend the Financial Secretary has laid considerable stress. I shall also dwell on the rather premature blows which my honourable Friend has delivered on the long suffering motorists. The lightning below-the-belt attack, so to speak, can only be described as unfair and ungallant in view of what he said and promised when he introduced the 1973-74 budget. I shall revert to this subject later, Sir.

I would now like to comment briefly on the accounts for the current year as well as the budget for the coming year as presented to this Council.

The increase of revenue over the revised estimate for 1972-73 is \$678 million or 15% as against the 3% increase anticipated. The biggest increase was in earnings and profits taxes which netted an additional \$395 million or almost one third over the original estimate. This was not foreseen despite my honourable Friend's estimated 17% growth in the gross domestic product for 1973 as it was for 1972. There was a 22% gain of revenue from land sales due to more acreage having been disposed of than estimated. However, credit must be given for the remarkable achievement in the forecast of \$85 million from taxi premia which turned out to be \$84.84 million, and for this I regret my earlier optimism.

This year's \$425 million excess in expenditure is 9.6% over the approved estimate and 13% over the actual expenditure in 1972-73. I consider, however, a good part of this increase is due to inflationary prices in Public Works Non-Recurrent projects and thus the true increase value should be much smaller, say, about 5-6% taking into consideration the proportionate cost of public works projects to total capital expenditure. In comparison, it is much lower in true value than the 9.8% increase in 1969-70 over 1968-69 or the 11.2% increase in 1968-69 over 1967-68 when building prices were stable. Clearly, we are now suffering from our tardiness in expanding our community services in early years, especially in the field of transport. Roadworks had been a poor cousin of waterworks and housing for years and it was not until 1972-73 when its expenditure was boosted to \$113 million.

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This year's original provision of \$144 million demonstrates Government's determination to resolve our transport problems. In this connection, Sir, it is of interest to recall that roadworks expenditure for 1969-70 was a mere \$42 million, that for 1970-71, \$50 million and for 1971-72, \$68 million. But in so doing, we are not comparing like with like as we are caught by escalating costs and have to pay over double for what we could have achieved in early years. If a decision to construct the Mass Transit Railway had been made in 1968 or 1969 it would not have cost us half of what we are now committed to not to mention the gains in social and economic benefits through its earlier completion.

As for the 1974-75 budget, I must commend my honourable Friend for his considerably more realistic proposals than those in previous years, and in particular for his courage to break away from the long held policy of budgeting for a surplus, though regrettably he found it necessary to balance the deficit by cutting back \$205 million in public works projects and by resorting to certain fiscal measures even at the risk of jeopardizing the public's faith in "open Government". It is after all a small forecast deficit in the face of our customary swelling surpluses and the degree of accuracy in budgeting exercises.

On revenue estimates, I have comments to make on three subheads. First, earnings and profits taxes are estimated at \$1,745 million which is only 6% up on this year's revised estimate which in turn is 56% over the revised estimate of 1972-73. The increase in 1972-73 over 1971-72 was 15%. Yet according to my honourable Friend, the gross domestic products for 1972 and 1973 were both at 17% while that he estimated for 1974 being 15%.

Second—stamp duties, which is the second largest contribution to internal revenue. But the forecast represents no movement at all from this year's revised estimate—neither upward nor downward. I realize my honourable Friend has been let down badly this year by this particular source.

It is perhaps on land sales that the estimate is rather pessimistic. If his estimation that almost one million square feet of land in the urban area and six million square feet in the New Territories would be available for disposal in the coming year is correct, then I expect the premia will be substantially in excess of the \$270 million provided.

The 1974-75 estimated capital expenditure has a \$294 million or 26% increase over projects in the public works programme over the current year's revised estimate. Of the total non-recurrent public works expenditure of \$1,408 million, I am glad to see that \$255 million is for roadworks which is 78% up on 1973-74, 125% up on 1972-73 and as much as 275% up on 1971-72. Of course, these increases are in terms of costs which have escalated almost 100% since 1971. Nevertheless, it is exhilarating to know that our transport problems are given the proper priority in that our long neglected roadworks programme is being expanded and accelerated.

In presenting his budget, my honourable Friend laid great stress on our financial commitment in the public works programme for the immediate 3 years to come, 1975-76 to 1977-78, estimated at \$3,914 million at 1974 prices but will increase to \$4,843 million in 1977-78. He also sought to impress on us the four-fold magnitude of this capital expenditure for a 10-year period from 1974-75 to 1983-84.

One of the assumptions on which the forecast of expenditure for the three years beginning 1975-76 was based was that the capital commitment resulting from approved policies will be implemented in accordance with the time schedule proposed by the departments involved without any constraints of a physical, economic, political or financial nature such as to affect the rate of growth or pattern of expenditure as stated by my honourable Friend. But, and this is a large "but", how firm are these assumptions, especially in regard to the factor of physical constraint? And what stage have these projects now attained that we will be irrevocably committed to their work-phasing and expenditure allocation? The over-spending in public works projects in 1970-71, 1971-72 and 1973-74 was mainly due to increases in contract prices. Even then in 1972-73 there was under-spending of \$87 million due to delay which is a common factor occurring in either planning or construction or both that may be attributed to "physical constraint" categorized by my honourable Friend. To substantiate, Sir, I may cite the three years ending 1968-69 prior to the occurrence of any serious inflationary building prices, their annual under-spending in public works reached an average of almost 25%.

In the annual reports of my honourable Friend the Director of Public Works for the last three consecutive years, 1970-71 to 1972-73, it was stated that the department had been continuously working below strength to the extent of 43 % and that the deficiency varies from 15% to 28% in professional grades of various disciplines and up to 35% in technical grades. The Director admitted that the general

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effect of these deficiencies had been to delay Government projects, and despite the employment of consultants this situation appeared likely to continue.

Clearly then, the Public Works Programme as forecast by the Financial Secretary for the three years 1975-76 to 1977-78 is not likely to achieve its time schedule, and what with the imminent construction of the Mass Transit Railway, the high activity of the private sector of the building industry, the shortage of materials and technical staff, weather conditions, *etc.* the programme is bound to overshoot its allocated span of 3 years and could well extend into its 4th or even 5th year and thus reduce our yearly expenditure commitment in these years. The question now posed is whether this factor was taken into consideration when the 3-year costing exercise was regarded as integral to the 1974-75 Estimates. This is not to say, however, that the grey clouds dominating our economic horizon in the immediate future should not be heeded, but the gloomy prospect in the lean years ahead may not be as alarming as the forecast figures show, and situations like the fuel crisis, shortage of materials and world monetary confusion are beyond the capability of accurate planning. For similar reasons, the exercise of the order of cost of projected capital works over 1974-75 to 1983-84 is, in my view, no more than academic.

I would now return to the great shock provided in, the Financial Secretary's speech. His proposal to restructure vehicle licence fees and parking charges are a "bitter pill" for the already suffering motorists. He sought to increase revenue under the pretext of policy objectives although their validity and merits in the context of Hong Kong have yet to be established. My honourable Friend stands to be criticized for pre-empting the public from the opportunity of debating the much publicised green paper on transport policy which the Government has pledged to it.

A year ago, this Council was promised by the Financial Secretary that he would refrain from proposing any restraint measures on road use until after a debate on a comprehensive transport policy has taken place. Since then and since the reference Your Excellency made to it in this Council last October, the public has eagerly awaited the green paper's publication and in the meantime, public interest has multiplied. Government's image no doubt will suffer by such pre-emption at a time when the issue of green papers as a process of Government-by-consultation is winning public confidence.

In introducing the 1973-74 budget last year, my honourable Friend outlined five considerations which dictated our fiscal policies, one of which being the possible need to achieve certain policy objectives via fiscal measures. But what are these policy objectives in relation to transport? And logically, their validity in the context of Hong Kong must first be examined and debated. It is in this light that my honourable Friend appeared to have been guilty of being illogical by saying in one breath that as the green paper would be published in April, he would not wish to pre-empt our conclusions in the debate on it, and then in another proposing to raise additional revenue by restructuring the existing system of levies on vehicles in line with the proposals in the green paper. For this reason alone, Sir, I find myself unable to support his proposals.

Sir, I believe all right-thinking people will agree that same form of restraint on car ownership is necessary to reduce congestion on our roads. On the other hand, Government is expected to push on with urgency our roadwork schemes and with improvement on our inadequate public transport. However, the proper priority of these several aspects has to be examined and established. Whilst some people would argue about the inappropriate and unrefined platforming of the proposed new fees others would advocate fees to be calculated equitably on cylinder capacity or on vehicle dimensions. I consider all these proposals are irrelevant at this point of time. There are other devices of restraint and not all of them fiscal discussed in the green paper with their pros and cons all intended for public examination and debate.

Since it is the Financial Secretary's chief aim to raise additional revenue to offset deficit and his resort to "policy objectives" appears to be a mere expedient, it will be prudent to forgo a fraction of the anticipated additional revenue and defer the proposals for, say, three to four months until after the publication and subsequent debate in this Council on the policy after the green paper has emerged as a white paper. The resultant loss of revenue will be minimal and may be recovered from other sources without tears. To do otherwise would be short-sighted—to use my honourable Friend's own words.

MR WONG: —Your Excellency, in the past, the fiscal problems of whether we should draw on our reserves, resort to loan financing for parts of our public works programme or consider additional taxation have been debated during budget time. These questions are still topical. However, as the magic of our financial secretaries came into

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operation, turning forecast deficits into surpluses, the problems have resolved themselves.

Next year is no exception and our Financial Secretary, in his wisdom, has turned an estimated \$67 million deficit into a surplus of \$21 million.

I must express my admiration for the brilliant and thorough presentation of the budget and I find little to criticize on the increases in direct taxation on luxuries. I applaud the allowances, the exemptions and the reliefs. But I find one statement on the revenue proposals by the Financial Secretary very surprising indeed, "However, there can be no question of our compounding our future problems by carrying forward a deficit, no matter how small, to the general revenue balance". This statement appears to rule out any possibility of drawing on our reserves and points directly to the probability of increasing taxation in the future. No doubt, it has been the customary financial policy of the Hong Kong Government judiciously to avoid any actual deficit. It took many years of mellowing before the then Financial Secretary, Sir John COWPERTHWAIT, conceded in his budget speech of 1971 when he said, "With financial resources of the present size and with our comparatively large reserve of taxable capacity, deficit years, within limits, would have no effect on our credit. Indeed, deficit budgets are now commonplace, if not fashionable". Now, with the recent statements by my honourable Friend, the Financial Secretary, we are back to square one. I shall come to the question of a deficit budget, which would mean, of course, drawing on our reserves, later.

With Hong Kong's ever increasing social, community, economic and general services, coupled with the planned expansion of the ten year housing programme, the ten year educational programme, and the ten year medical programme, the odds are that some day expenditure will greatly exceed revenue and that we will have to face these problems long before the ten year programmes are completed. As an instance, the public works programme for the next ten years alone will absorb \$28,000 million at the present price of materials and labour.

As we look at the estimated financial position for 1974-75, you will note that while the estimated revenue is \$5,854 million, the estimated expenditure is \$5,833 million resulting in an estimated surplus of \$21 million.

In fact, in accordance with five year forecasts of revenue and expenditure, which were available up to 1972, we were supposed to go into deficits in 1968-69 and for every year after that. Let us have a glance at these records for the last five years—

1968-69	\$208 million	Surplus
1969-70	\$448 million	Surplus
1970-71	\$619 million	Surplus
1971-72	\$640 million	Surplus
1972-73	\$637 million	Surplus

The estimated surplus for 1973-74 is \$443 million.

Whereas the world economy has experienced five business cycles of boom and recession between 1890 and 1939, Hong Kong has enjoyed, with most of the world, continued prosperity since the end of World War II in 1945. During the last ten years, revenue has increased at an average rate of 15 % per year and inland revenue at 25% per year for the last five years which has thus nearly doubled every four years. This is the result of continued prosperity under free enterprise and low taxation. As we look at revenue and expenditure for the past year, we will note that while revenue increased from \$4,900 million in 1972-73 to \$5,200 million in 1973-74, an increase of 6.9%, expenditure increased from \$4,300 million in 1972-73 to \$4,800 million in 1973-74, an increase of 12.4%. This will probably establish a pattern and a warning must now be sounded because economic forces not only have a tendency towards fluctuations, but the effects of man-made energy crises which permeate every economic activity cannot be under-rated. As an instance not only plastics, but nylon and acrylic, come from oil; even some of our favourite vitamins are also derived from oil. We do not realize how important hydro-carbons are until they are in short supply.

In spite of this, however, Hong Kong continues to enjoy a favourable balance of payments estimated at \$3,000 million annually. The GDP for 1973 is estimated at just below \$6,000 *per capita* and the public debt is \$14 *per capita*. Bank deposits at the end of 1973 were \$26,190 million, an increase of 6.4% over a year ago; while loans and advances were \$23,264 million, an increase of 31.2% over a year ago. Both register an all-time record. Imports and total exports show increases of 33.3% and 34% respectively. In spite of the falling stock market, inflation and the world energy crisis, the economy of Hong Kong is still basically strong.

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Nevertheless, as previously pointed out, a straight upward curve is historically rare and because of natural forces of action and reaction together with man-made crises, such an upward trend is bound to level off and my honourable Friend, the Financial Secretary, has cautiously budgeted for a small surplus of \$21 million for the year 1974-75.

As future revenue will be lower and as expenditure will be higher, partly because of inflation and partly because Government is committed to a ten year programme of social services, the desirability of having the benefit of our large reserves should reach the present generation as well as the future generation. The budgetary policy of Hong Kong should ideally be to go into a deficit and draw on our reserves. I, for one, would not like to see the vast reserves we have painfully accumulated through thrift to be squandered away by (二世祖), second generation.

May I elaborate on the drawing on our reserves and on deficit financing. While general reserves are desirable, they are not necessary in modern Government financing. In fact, they are practically nonexistent except in the oil producing and oil exporting countries. Reserves are derived from taxes which come from the public. The public will expect the reserves to cushion them against taxes on rainy days. Surely, reserves are means to an end and not an end in themselves. To borrow a term from an illustrious person, reserves should not be our "sacred cow".

When we go into deficit financing, do we have to raise taxes? The answer is emphatically no because, in the first place, Hong Kong thrives on a low taxation structure because we have no natural resources. Any increase in direct taxes would not only discourage local enterprise, but also foreign investment which plays such an important part in our financial structure. Because of the importance of foreign investment, a reconsideration of the imposition of withholding tax should be made. Secondly, there is no need to raise money by taxation since we have a large reserve. There is even merit in going into real deficit financing but this is too early a time to discuss it. Suffice it to say that there is no need to increase taxes as long as our total balance of payments is still favourable and as long as our expenditure is not unduly out of proportion with revenue.

My honourable Friend, the Financial Secretary, is contemplating raising the standard rates, presumably on direct taxation in the year 1975-76. But he has wisely stated that he will not allow fiscal considerations to over-ride economic realities. The economic realities would be to deprive Hong Kong of its main incentive in trade, commerce, and industries, and it would be a disastrous move to kill the goose that lays the golden egg. Revenue from direct taxation instead of increasing could decrease.

Another way to overcome a deficit budget is to resort to loan financing, on some self-liquidating projects outside the budget. It does not, however, make sense to borrow money at a higher rate of interest than that which we are getting on our reserves. The only condition would be to borrow long at a lower rate of interest and lend short at a higher rate. This is not likely at the present time of the money market.

On the mass transit railway system, I note that Government intends to adopt, as a means of financing the balance apart from equity, a funded debt which is a sort of Government bond—a method which I have been advocating for years. I am aware that the mass transit railway corporation will be a commercial enterprise, but our public housing organization is already approaching such a status. The initial expenditure of \$500 million on the mass transit system is, however, to be transferred from general revenue and another \$300 million is expected to be transferred from the general revenue account making a total of \$800 million as Hong Kong Government equity in the mass transit railway. This is a great deal of money—public money.

On the question of inflation, when Hong Kong food prices rose by 35% in 1973 and the consumer price index rose by 23.8%, while I agree that inflation is admittedly worldwide and not limited to Hong Kong alone, I do not agree that we cannot plan ahead so as to alleviate, to a certain extent, our own rise in food prices. This will, however, require special techniques for dealing with rice imports, the encouragement of vegetable planting, and fishing. It has been said that an economic advisory council would erode the position of the Executive Council. I am of the opinion that the Executive Council is a sort of cabinet with policy-making powers, whereas the economic advisory committee is a committee and advisory in nature. We like to think of Hong Kong's as the most efficient Government, but even the most efficient Government may benefit from the advice of its advisory committees.

With these remarks, I support the motion.

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MR WANG: —Sir, today I propose to use a language of my own with a dialect which is not my mother tongue. The result is it is much easier to write the speech but not so easy for me to read it, and I fear it might not be so easy for even my Chinese friends to listen to me. I would therefore advise at their own discretion either to use the earphones or not.

(Address delivered in the Cantonese dialect. The following is the interpretation of what Mr WANG said.)

Sir, at this moment when we are debating the Appropriation Bill for the coming year we must not lose sight of all the Primary VI pupils who are cramming very hard to face the coming Secondary School Entrance Examination and also the anxiety of their parents over the future prospects of their children's education after this summer. This is because with the new and old schools added together the number of aided places available to them is hardly over 20,000 and together with the assisted and bought places the total will not be over 45,000. To the large majority of these pupils the prospect is very dim for them to be able to score the stop grade and to acquire any of these places. As soon as the result of this examination is published 70,000 of these children will have to fall out from the selected list. For those whose families can afford to pay the school fees they will have a chance to seek admission into private schools. The condition this year will not be better than the previous years in that it is clear that some 30,000 of these primary school leavers will have to drop out from school altogether—a very frightening figure indeed!

Another heart-breaking fact which should also be borne in mind is that the 115,000 pupils now studying in Primary VI is a number which has diminished year after year from the original 160,000 Primary I pupils. Of course, a big part of this difference is due to a good number of them having to repeat at some stage during the six primary school years but we can assume that at least 30,000 of them must have dropped out before they had completed six years of primary education—which here again is another alarming figure!

Looking at this situation in terms of subsidy from public funds, it should be noted that for those who are on top of the list and will be awarded five-year places in Government or subsidized schools, 45%

of them will be granted fee-remission while the rest will each pay a fee of \$400 per annum. The cost to Government per pupil for the five years will amount to \$8,000 for those with three-year places, \$4,800 in subsidized schools, \$1,800 in assisted schools, and about \$1,350 for a bought place in private schools. For the rest of the children, about 40,000 of them, studying in private schools, will have to pay on the average a fee of about \$700 a year at no cost to Government at all. There is, therefore, a very big differentiation between them and the other selected ones as beneficiaries of public funds. What is even more our deep concern is those 30,000 drop-outs among whom not a few are necessarily inferior in quality or academic standards to their counterparts who are able to study in private schools, but for the fact that they belong to the poorer families, and hitherto no Government assistance has been offered to them: another very disheartening situation indeed!

A study of the situation as described above can but lead one to the logical conclusion that the problems confronting the parents in the education of their children are such that the present provision and its differentials of Government assistance is most unsatisfactory and immediate steps should be taken to remedy the situation. It is obvious also that the provision as proposed in the green paper with an interim target set at 1981 for aided places available to 80% of the children between the ages of 12 and 14 will not offer a satisfactory solution to this problem, particularly the very present problem. As the Chinese saying goes "one cannot fill the stomach by drawing a piece of cake" or "fight a fire when the water is far away"!!

At the opening session of the Council, Your Excellency showed deepest concern over this situation and expressed the hope that Government should continue to seek a way to improve the time scale and interim target as proposed in the green paper. Since the publication of this paper, the Unofficial Members of this Council have shared the same concern and recognized the urgent need for a closer examination into a better solution to this problem. An *ad hoc* group has since been convened and a report of its findings was duly completed and gained the unanimous support of all their colleagues.

At this moment it has become very apparent that our society cannot permit any longer the situation of having from one year to another tens of thousands of children leaving school with no prospects of continuing their education before they reach the age of 15. From an estimation based on our existing physical and financial resources, it is not an impossible task to create 20,000 to 30,000 more places to make good the deficiencies required for the coming academic year provided

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that two conditions are accepted. Firstly, the adoption of bi-sessionalism or any some form of maximizing the usage of the present school facilities and classrooms including the surplus of places now found in a good number of primary schools and, secondly, it is obvious that appropriation must be provided for the additional expenditure involved.

Bi-sessionalism in the form as described in the green paper had indeed met with no little criticism but, fortunately, since then suggestions have been forwarded, including those from the professional groups to make good what would be regarded as its apparent weakness. At any rate, I am sure that recognizing the gravity of the problems confronting us today, no one can deny that our first and foremost responsibility is to find a solution to alleviate the hardship of all the parents over their children's education at the present moment.

Obviously, additional appropriation in this year's estimates will have to be provided and it is on this very motive of canvassing for the support of this Council, particularly that of my honourable Friend, the Financial Secretary, in anticipation of the success of this movement that I consider it most opportune to raise this matter in this debate. I, for one, believe that there should not be any difficulty in such a provision which I estimate to cost no more than 0.5% of the total expenditure estimate or 3% of the \$1,070 million appropriated for the total expenditure for education in the coming year.

Time is running short if improvement is to be made to reduce the hardship of our primary school leavers this summer. I have, therefore, decided to discard my other preoccupations and to limit myself today to making one single but urgent appeal on their behalf to do all we can to help solve their problems.

DR CHUNG: — Your Excellency, I would first like to express my appreciation to the honourable Financial Secretary for his most eloquent and informative budget speech and for the various background material and national statistics tabled in this Council two weeks ago. From my own experience, I think that it would give the Unofficial Members a better chance to digest and interpret all those figures if the printed booklets could be made available earlier than the budget day.

The uppermost concern in the minds of the majority of people in Hong Kong today, I believe, is inflation. Prior to 1973, Hong Kong has had a long period of low inflation and fast rising wages. During that period nominal wages for industrial workers were increasing at about 15% per year whereas inflation, as measured by the consumer price index, was rising at approximately 5% per annum. As a result real wages and hence standards of living of the people in Hong Kong were improving at an appreciable rate of around 10% per year.

A significant rate of inflation started to creep in during the first half of last year and, by June 1973, the 12-month moving average of the consumer price index had gone up by 10% as compared to that of a year ago. Three months later, by September last year, it moved up to 15% and at the end of 1973 the average annual rate of inflation reached almost 20% which is the highest since 1963-64 when the index was introduced. On the other hand, nominal wage increase during the same period was only 11%. Therefore, for the first time since the real wage index was compiled in 1963, there was a reduction in real wages of 9% in the manufacturing industry and of 7% in all industries.

During last year, the very rapid rise of food prices was mainly responsible for the high rate of inflation. But at the end of 1973, the whole free world was beset with the oil crisis and since then rapid inflation was spreading to other commodities. Many Unofficial Members expressed their concern in this Council in November and I joined my colleagues in urging Government to appoint a committee to look more deeply into anti-inflation measures. Regrettably, this proposal was not acceptable to Government.

In the meantime, the situation is becoming worse. Prices of foodstuffs and other commodities continue to rise rapidly. For example, it was reported that the retail price of sugar had gone up by 100% in three months and the retail price of rice before a week ago also by 100% to \$2.70 a catty since January 1973. It is true that a large element of Hong Kong's inflation is imported but it is equally true that there is profiteering and hoarding by some unscrupulous merchants.

In order to substantiate my statement, I wish to refer to a publication titled "The 1974-75 Budget: Economic Background" which was laid on the table of this Council two weeks ago. This booklet contains much useful statistical information and I would like to take this opportunity to congratulate those in the Economic Branch of the Secretariat who were responsible for its publication.

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Table 31 in this publication, which is reproduced on the paper before honourable Members, compares the rates of increase of import, wholesale and retail prices for a number of foodstuffs during the twelve months to September 1973. There are two cases which clearly indicate some profiteering. One is locally slaughtered beef, in which case the increase of wholesale price was 18.9% as compared to 13.9% increase in import price. The other case is live poultry. Whilst there was only 5.8% increase in the wholesale price, the increase in the retail price was as much as 12%.

It is important to note that even when retail price percentage increase is lower than either the wholesale or import price percentage increase, there could still be elements of profiteering. Sir, allow me to take an example to illustrate this point. Assume the present pricing structure for a merchandize is, say, \$100 for the import price, \$140 for the wholesale price and \$200 for the retail price. If the import price over night goes up by \$50 or 50% to \$150, the wholesaler puts up his price by \$65 which is \$15 more than his cost increase. The percentage increase in the wholesale price is 46% which is still below the 50% increase in the import price. Similarly, although the retailer puts up his retail price by \$90 which is \$25 more than his cost increase, the percentage increase in retail price is only 45% which again is less than the 50% increase in import price and the 46% increase in the wholesale price. Therefore, I submit, Sir, that Table 31 of that publication can conclusively prove that there has been evidence of some profiteering.

A few days ago the Secretary for Economic Services distributed to UMELCO a list of statistics showing monthly average prices of certain foodstuffs for 1972 and 1973. I understand it was on these statistics that Table 31 of the publication which I referred to was compiled. Three items, namely, pork, beef and poultry, are reproduced on the same paper before honourable Members.

	<i>Import Price</i> HK\$/picul	<i>Wholesale price</i> HK\$/picul	<i>Retail price</i> HK\$/picul
<i>Pork (not frozen)</i>			
(A) 1972 1st quarter	239.06	200.33	486.00
(B) 1972 4th quarter	239.10	203.00	487.67
(C) 1973 4th quarter	299.26	288.67	643.33
(C) - (B)	60.16	85.34	155.66

	<i>Import Price</i> HK\$/picul	<i>Wholesale price</i> HK\$/picul	<i>Retail price</i> HK\$/picul
<i>Poultry (not frozen)</i>			
(A) 1972 1st quarter	234.30	433.67	545.67
(B) 1972 4th quarter	204.95	359.33	505.00
(C) 1973 4th quarter	255.91	463.00	645.33
(C) - (B)	50.96	103.67	140.33
<i>Beef (not frozen)</i>			
(A) 1972 1st quarter	277.14	347.67	612.33
(B) 1972 4th quarter	202.43	311.00	598.00
(C) 1973 4th quarter	272.59	408.33	783.00
(C) - (B)	70.16	97.33	185.00
(C) - (A)	-4.55	60.66	170.67

Assuming that these statistics are reasonably reliable and accurate, honourable Members will see that in the case of pork, the average import price during the fourth quarter 1973 as compared to that during the same quarter 1972 showed an increase of only \$60 whereas the retail price, the third column, had increased by \$155. As a side remark, Sir, it seems strange to me that the wholesale prices for pork were lower than the import prices, but I would like to leave the explanation to the honourable Financial Secretary when he replies to this Council in a fortnight's time. In the case of poultry the element of local inflation is even worse. The average increase in retail price in the fourth quarter 1973 as compared to that in the same quarter 1972 was triple the average increase in the import price over the same period.

The worst of these three examples is beef. The average import price in the last quarter 1973 was in fact slightly lower than that in the first quarter of 1972 which is two years ago, but the average wholesale price had increased by \$60 and the average retail price by as much as \$170.

With these statistics, Sir, I do not think one can dispute the fact that there is profiteering in Hong Kong and that there is a great deal of internal inflation. Under normal conditions, I believe in the policy of free enterprise as well as in minimal control and least interference by Government. But Hong Kong is now in a rather abnormal situation and there are signs that the people in Hong Kong are probably beginning to show some discontent. Last week, hundreds of thousands of people in Japan staged a mass rally to check inflation and to halt profiteering. We must avoid this kind of demonstration in Hong Kong. I therefore feel that it is important for the Hong Kong Government not

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only to show its genuine concern on inflation but to be seen that it is doing something positive about it. The least that the Government can do is to immediately appoint a price-stabilization committee or commission consisting of senior Government officials, economic experts and community leaders to find ways and means to reduce the rate of internal inflation.

A good case in point is the distribution of rice. For some years now certain people in Hong Kong have questioned the need for retaining the wholesaler system in the rice trade. It is said that sufficient safeguard on the rice stock in Hong Kong could be accomplished by the present method of authorized rice importers and that any retailer or individual organization could purchase rice direct from those authorized rice importers for resale or own use provided the quantity reaches a certain minimum. By this way, it is claimed, the element of local inflation and profiteering could be minimized. Like many people, I am glad to see that my honourable Friend, the Director of Commerce and Industry, is doing something positive along this line during the past week. I am sure this will reduce profiteering and internal inflation and I support the proposal by the Senior Unofficial Member that there are other foodstuffs which come into the same category as rice and should be dealt with in the similar manner.

Rapid inflation in many countries—developed and developing alike—in recent years has created new problems, one of which is the growing disparity in capital return between investment in appreciating assets (real estate property) and investment in depreciating machinery (manufacturing companies). Take for an example, there are two companies: one (Company A) deals in real estate property and the other (Company B) in manufacturing. In 1969, Company A invested \$10 million in a building for shops and offices and today its annual return at market price from rental is roughly \$2 million and its capital assets at market price have appreciated to about \$25 million. In the same year 1969, Company B invested also \$10 million but in a manufacturing plant. Today, it may earn the same annual return, say \$2 million, as in Company A but its capital assets in the form of machinery and equipment again at market price, have depreciated, instead of appreciated, to possibly say \$4 million based on a life expectancy of 10 years. At the end of the 10-year period, Company B has set aside \$10 million on a historical cost basis but the replacement cost would probably be \$30 million if an average annual rate of inflation of 12% is taken.

Using "inflation accounting" an extra \$20 million would be required as a replacement allowance. The crux of this problem now comes to light, Sir, because this extra cash for plant replacement in Company B would have to come out of profits. This reduces the profitability of manufacturing companies *vis-à-vis* property companies.

In the past when inflation was low, say, 2% or 3% a year, there might not be a need for "inflation accounting". But when we are faced with an annual inflation rate of 15% or 20% or even 25% a year, "inflation accounting" will provide a more equitable tax policy between the property and manufacturing companies. Generally speaking "inflation accounting" will boost the earnings of property companies and reduce those of manufacturing enterprises. At present, the British Government is finding itself under mounting pressure from both the accountancy profession and the Confederation of British Industries to give some form of inflation-pegged tax concession to the profits of manufacturing companies. As a result, the Government in the UK has set up an inquiry into this issue but the report is still awaited.

After declaring my interest, Sir, as a manufacturer, I must say that Hong Kong's life blood still depends and will continue to depend greatly on its export-oriented manufacturing industry. Manufacturing is the largest contributor to Hong Kong's gross domestic product and the biggest earner of foreign exchange. Manufacturing offers the greatest job opportunities and at present employs half of Hong Kong's total working population. In view of the utmost importance of the manufacturing industry in Hong Kong's economic survival, I hope that Government will look at the issue of "inflation accounting" with an aim of providing a more equitable tax policy for the manufacturing companies *vis-à-vis* the property companies. The proposed tax relief for industry through the increase of depreciation rates as announced by the honourable Financial Secretary in his budget speech is a step in the right direction. In fact, higher depreciation allowances for plant and machinery can not, strictly speaking, be considered as tax relief. Higher depreciation allowances only defer and I repeat defer tax payments and do not waive any taxes.

Whilst on the subject of depreciation, I recall some years ago a proposal was made to Government for changing the depreciation formula from reducing balance to a straight line method. The proposal was not accepted at that time. Since the honourable Financial Secretary is now anxious to offer encouragement to manufacturers to re-equip and upgrade their plant and equipment in the light of changing conditions, it is hoped that my honourable Friend will reconsider this

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particular matter and permit the use of straight line method for depreciation.

Sir, Hong Kong is well-known for its *laissez faire* policy and free enterprise system. In most areas Hong Kong has an open door policy welcoming and, in fact, in many instances inviting world renowned competitors to operate here. Hong Kong offers no special favours to, nor imposes any discriminations against, foreign or local operators. However, this is not true for banking business. For nearly a decade, the Hong Kong Government has imposed a moratorium on banking licences and this policy is inconsistent with that for other businesses. The honourable Financial Secretary is right when he said that such a moratorium is not really logical and is also not entirely defensible. I therefore support his proposal that it is now time to have a review on the moratorium policy of banking licences. Of course, any newcomer, whether foreign or local, must be thoroughly scrutinized and be able to fulfil Hong Kong's strict banking conditions and to meet Hong Kong's high banking standards. The question of reciprocity between Hong Kong and another country should also not be overlooked.

Last year, Sir, the honourable Financial Secretary budgeted a surplus of \$513 million for the 1973-74 financial year and the actual surplus is now estimated to be about \$500 million. I must congratulate my honourable Friend for his accurate forecast and effective control on the 1973-74 fiscal performance.

Although the budgeted deficit in the printed Estimates of Revenue and Expenditure for the Financial Year 1974-75 is only \$68 million, the honourable Financial Secretary after further adjustments now estimates that the final estimated deficit would be about \$154 million. In order to eliminate this budget deficit, my honourable Friend has made a number of revenue proposals. With the exception of those related to transport, the various tax proposals, generally speaking, have my support.

With regard to the increased tax proposals related to transport, there will be \$56 million from car licences, \$5 million from goods vehicle licences, \$12 million from public light bus licences, \$10 million from first registration tax and \$4 million from car parking charges. The total amount comes to about \$87 million for the financial year 1974-75.

In making these tax proposals, the honourable Financial Secretary explained that last year he refrained from putting forward any restraint measures to achieve a better use of road space because he wanted to provide a chance for a public debate in this Council on the problems of a viable and acceptable transport policy for the 1970's and the 1980's. He further indicated that a green paper entitled "Transport in Hong Kong" will be published in April this year.

As honourable Members are no doubt aware, there are many outcries from the general public and in particular from those affected against such substantial and alleged inequitable increases on various car licence fees, parking charges, *etc.* There was universal criticism on this particular item when the UMELCO recently met both the Chinese and English press editors and representatives. One of the most leading English newspaper said in its editorial on March 6 and I quote: "Where the Government must be criticized is for introducing these charges before the green paper has been published and debated", unquote.

What would be the effect if these increases in licensing, parking and first registration were deferred, say, for three months or four months until the green paper on transport has been debated in this Council? It will mean only a possible loss of less than \$30 million in revenue which when compared to an estimated revenue of \$5,679 million for the year 1974-75, represents only about one half of one *per cent.*

Furthermore, there have been phenomenal increases in internal revenue (direct taxation) during the three years ended 1972-73. The increase in 1970-71 was 25.5%, in 1971-72 25.2% and in 1972-73 as much as 53.2%. The increase in 1973-74 as shown in the printed revised estimate is still 15.1 %, a figure which looks to me rather conservative. The honourable Financial Secretary in his 1974-75 revenue budget gave a rather exceptionally low increase of only 4.7% under the head of internal revenue despite his forecast growth in gross domestic product of around 14 of 15% to \$32,400 million at current market prices in 1974. Had he forecast a modest growth rate of 10% in internal revenue in the 1974-75 estimate, there would be an additional estimated income of \$118 million for the Government, so it does really boil down to a stroke of the pen. Sir, I am making this analysis to show that there is no hardship on the part of Government to defer the introduction of the increases in licensing, parking and first registration of all motor vehicles till June or July this year until the green paper on transport has been published and subsequently debated. Otherwise, the good intention for the publication of the green paper

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would be lost. I therefore support my senior unofficial colleagues in urging Government to seriously reconsider this issue.

Finally, Sir, I would like to say a few words about the immediate future of Hong Kong's manufacturing industry which has an important bearing on Hong Kong's overall economy. The whole free world is still plagued with energy crisis and material shortage. Consequently, supplies are erratic and prices chaotic. This situation will likely continue for some time. On the whole, larger corporations with sounder finance and better supply connections are in a more favourable condition or position *vis-à-vis* smaller companies.

Hong Kong's external competitors can generally be classified or grouped into those in the developing countries and those in the developed nations. With the phenomenal rise of raw material prices in the past few months, Hong Kong's competitors in those low labour cost countries have lost some of their low wage advantage over Hong Kong. Conversely, Hong Kong's cost advantage over its competitors in those developed nations has also somewhat diminished. However, since Hong Kong is competing more with developing than with developed countries. Hong Kong's overall competitiveness in the world markets should not in my view be impaired.

It is likely that mild economic recession might occur in some of Hong Kong's markets and therefore demand for Hong Kong's largely non-essential products could be eased. Nevertheless, most manufacturers and exporters in Hong Kong are quite aware of this possibility and are exerting greater efforts to develop new markets.

Judging from the past few months, Hong Kong's manufacturing industry has been doing quite well. During the last quarter of 1973, Hong Kong's domestic exports were up by 43% as compared to the same quarter of 1972. In January this year, exports from the manufacturing industry soared to \$1,896 million, representing an even more spectacular 56% increase over January 1973. Hong Kong's manufacturing industry is well-known for its resilience and I believe this time is no exception. Like the honourable Financial Secretary, I also expect that domestic exports for 1974 will continue to expand by about 20 to 30%, though much of this increase will be due to price inflation. Hong Kong's economic outlook for 1974 in my view, Sir, is still quite optimistic.

MR LEE: —Your Excellency, this year's budget speech by my honourable Friend the Financial Secretary marked a highly significant development in the presentation of Hong Kong's budget proposals. He demonstrated not only a mastery of comprehensive compilation and analysis of Hong Kong's financial and economic situation, but also a good deal of courage in exposing his calculations and conclusions in such detail for all to see.

The Financial Secretary pointed out that if the projected capital works for our social developments were to proceed over a forecast period of three years ending 1977-78, there would be a shortfall of \$4,000 million based on certain assumptions, at 1974 price level and at current tax rates. He believed the economy could give some more contribution through higher taxation, additional capital revenue and raising of loans, producing in the forecast period extra revenue of \$2,040 million. But there would still be an accumulated shortfall of \$1,960 million to be rephased to later years or adjusted by economies.

I agree with most of the eight headings as proposed to raise extra revenue. But like all my other unofficial colleagues, I am opposed to the increase of direct tax.

Regarding fees and charges, it would be fair in principle to update them to cover the full costs. The Immigration Department is a good example where the Director is almost able to balance his books. The same should apply to other departments wherever possible. As to licences, no doubt some of their fees are antiquated. For example there would seem to be a case for increasing banking licence fees to meet a larger portion of the cost of running the office of the Commissioner of Banking. But for some categories, the principle that they should be set in terms of what the market can bear should not be applied too rigidly, otherwise it would lead to internally-generated inflation and cause social uneasiness. Here I give as an example that the proposed increase of annual licence fees for public light buses from \$3,000 to \$6,000 would only result in fare increases. I trust all the above points have been taken into consideration, in the exercise recently completed by the Finance Branch for the revision of fees and charges.

As to loan financing, I fully support the principle and I agree it is most important that it should not be used other than for direct self-liquidating projects. Perhaps Government may also consider raising funds from the World Bank as well as in the international money market, besides from the Asian Development Bank, to establish Hong Kong's eligibility and credit worthiness. Housing Authority estates are, to my mind, suitable projects for which to raise loans instead of

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resorting to the Development Loan Fund, the source of which in fact comes from general revenue.

I now turn to the important point of whether or not some capital projects should be deferred during the forecast years because of the accumulated shortfall of \$1,960 million mentioned earlier. There are two points for consideration: first, our financial resources; and secondly, the capacity of related industry to cope with them.

On the first point, the Financial Secretary had already demonstrated his calculations of the shortfall on certain assumptions which were considered cautious by some or even pessimistic by others. Here I would like to point out that, although he based his budget figures conservatively and quite understandably too at 4% growth rate in real terms for the year 1974-75, he did use, for the three years forecast period, the rate of 7% per annum which compared reasonably with the average annual growth rate of 7½% for the six years ending 1972. I think this is as far as any responsible Financial Secretary could reliably go. In taking for granted that expenditure costs will increase in line with the pattern of our growth, it must be accepted that the arithmetic clearly shows we are not able to meet the difference of \$1,960 million without resorting to further measures in addition to those already proposed. From the standpoint of fiscal consideration alone, therefore, there would seem to be justification for deferment.

The second point, as mentioned by the Financial Secretary, is our capacity to cope with the proposed projects. If our capacity is over-utilized, the result could again be internally generated inflation which would adversely affect our economy. I think this deserves serious consideration. No doubt, the results of the comprehensive study now being undertaken to ascertain the load on industry and economy will be very carefully considered.

Sir, having commented in general on a few of the points raised in the budget speech, I would now express my own thinking of how to provide some answers to the problem of finding the substantial amounts of money needed to proceed with the various programmes in accordance with agreed policies.

In my view, our problem cannot be solved simply by increasing direct or indirect taxation. Nor can it be solved by utilizing our already reduced reserves because this would weaken our ability to

deal with unforeseen contingencies as already has happened on many occasions in the past few years. Nor can it be solved by deferring the implementation of our programmes, because this would defeat our objective of the social development and meeting the needs of our people. The long term solution, Sir, I submit, is to ensure that our economy will continue to grow at a steadily increasing rate commensurate with our social development needs.

For many years in the past, it has been possible for us to finance substantial increases in expenditure, both recurrent and capital, from current revenue: this has been made possible by our high rate of economic growth. In the last decade it could have been argued that social development was not possible without economic development—but such is the position of Hong Kong today, such are the rising expectations and the growing awareness of our community that I venture to suggest the economic development in the next ten years will not be possible without social development—the type of development, Sir, which you have so ably and far-sightedly expressed in your address at the opening session of this Council. In fact, economic and social developments are so completely complementary that they can only be planned and proceeded with together.

In our *laissez faire* tradition, the private sector of our trade and industry has contributed immeasurably to the development of our economy. But changing and challenging world circumstances have made if necessary for a greater degree of governmental involvement in the past few years. As my honourable Friend the Financial Secretary said in his address to a conference organized by the Hong Kong Management Association in November last year and I quote "The growth of the economy itself would depend increasingly on the Government complementing initiatives taken by the private sector". He also said that while he did not anticipate a greater degree of interference with the economy, he was sure the degree of involvement must continue to increase. The Government has indeed increased its involvement in such areas as the recent decision to bring plastic raw materials under export quota licensing; and the introduction of a new industrial land policy. The higher depreciation allowance now proposed for industrial equipment and machinery is another welcome and encouraging action of Government assistance to industry.

In this connection, Sir, I wish to make some suggestions for greater Government involvement that I consider necessary to assist in the further growth of our economy.

[MR LEE] **Appropriation Bill—resumption of debate on second reading**
(27.2.74)

My first point is to strengthen the Commerce and Industry Department. This department has been playing a vital role in protecting our access to world markets and to assist our industrial output. It has earned world acclaim for its efficiency and its ability to negotiate. The present circumstances, however, suggest that it is time to look into its staff resources, especially at the senior level, as well as its organization, whether it could meet successfully the major tasks and challenges which will fall to it in the years ahead. It seems to me that there is a good case for upgrading the title of the head of the Commerce and Industry Department to Secretary, this is in line with his counterparts in other countries whose economy depends so heavily on external trade and industry like Hong Kong. He should, of course, still be under the Financial Secretary on important policy matters.

My second point is on the long term planning of our social and economic development. Our problem should best be tackled by an outward looking expansionist economic policy supported by a much increased Government effort and involvement. This should be in concert with the best brains available in the private sector, channelled into a system of consultation, advice and action.

For many years, my colleague, the honourable Wilfred WONG, has proposed some kind of a mechanism whereby economic planning can be studied and discussed for recommendation to the Government. I personally have always maintained an open mind on this issue, because I understand the Financial Secretary's research resources are already ably engaged towards that direction of planning and I also feel that the idea of the mechanism as proposed may have practical difficulties, but I believe that in the present circumstances, Government should at least take a new look at this matter. I suggest for Government consideration that a study group be formed as soon as possible to consider whether it is advisable to have such consultative machinery. This study group should comprise of some of the Unofficial Members of the Executive and Legislative Councils together with Government officials.

Our internal and external circumstances dictate that we must intensify all our efforts to expand trade and industry. We are all aware of the great work and the effectiveness of the Trade Development Council. And now is time for the Council to seek to redouble its efforts, not only in our major markets, but also in the opening up of new markets. Their efforts in Eastern Europe have been most

commendable: they need to be followed through with determination. I should like to see greater efforts made to expand our trade with Central and South America and the Third World generally.

The Trade Development Council's terms of reference are to do with trade and not just exports. I mention this because basically, ours is also an importing economy: we must first import in order to export. The TDC has concerned itself to some extent with imports, but I believe that further efforts are needed in order to secure at the best possible prices our necessary imports not only of raw materials, but also of consumer goods and food supply. This would help to moderate our rising cost of living.

World trade, world inflation, are problems difficult to forecast and not easy to cope with. But these problems are common to most countries, and, in particular, to our competitors. We all have confidence, Sir, in Hong Kong's economy and our businessmen—their ability to deal with problems flexibly—and I believe Hong Kong's economy will continue expanding and very healthy in the years ahead. It has been said that the Hong Kong businessman is at his best in changing parameters of trade; the one thing that we can be certain of in the future is that the parameters of world trade will be changing, perhaps very rapidly. Thus, the Hong Kong businessman will always be at his best.

With more Government involvement and assistance, the strengthened Commerce and Industry Department, further efforts of the Trade Development Council, I am sure our economy will continue to expand thus rendering our problems not difficult to solve.

Sir, I support the motion.

Suspension of sitting

HIS EXCELLENCY THE PRESIDENT: —In accordance with Standing Orders I now suspend the Council until 2.30 p.m. tomorrow afternoon when debate on the second reading of the Appropriation Bill will be resumed.

Suspended accordingly at twenty-seven minutes to five o'clock.