

OFFICIAL REPORT OF PROCEEDINGS**Thursday, 14th 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 (*Acting*)
MR GARTH CECIL THORNTON, QC
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 WAT, 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 OSWALD VICTOR CHEUNG, OBE, QC, 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 ROGERIO HYNDMAN LOBO, OBE, JP

IN ATTENDANCE

THE CLERK TO THE LEGISLATIVE COUNCIL

MR KENNETH HARRY WHEELER

Second reading of bills (resumed debate)**APPROPRIATION BILL 1974****Resumption of debate on second reading (13th March 1974)***Question proposed.*

MR ANN: —Your Excellency, I echo the views of my senior colleagues who spoke yesterday on the presentation of the Estimates for the year 1974-75 which had been again so much improved that all the information is now much more easily digestible. In particular, the memorandum notes under different expenditure heads are concise and informative. I have great pleasure in joining my honourable colleagues to congratulate my honourable Friend, the Financial Secretary, on his most eloquent speech made two weeks ago and also the Commissioner of Census and Statistics Department on his painstakingly prepared gross domestic product of 1966 to 72. Further, to have made the Chinese version of the Financial Secretary's speech available at the same time as the English original text is a praiseworthy effort.

As I listened to my honourable Friend, the Financial Secretary's speech two weeks ago, I had in mind the discernment I made on 16th March 1972 in this Council, of the new direction of public financing revealed in his first budget speech made on 2nd March 1972. I find today in his revenue proposals for 1974-75 that he does march in the very direction he committed himself to two years ago. He called his attitude cautious. Some newspapers thought this was an austere budget; others preferred to use the words "belt-tightening". But if one puts all aspects of our economic problems in perspective, the budget for 1974-75 is but realistic. The tone of his speech was optimistic. However, many of the grounds of his proposals were founded on past performances plus statistical extrapolation.

The honourable the Financial Secretary admitted that to forecast the future was a hazardous business. He said that he had failed to foresee the accelerating pace of world inflation during 1973 coupled with shortages of raw materials and some foodstuffs, and the oil crisis. He had been too conservative in estimating the monetary growth of our economy. I too was wrong last year in disbelieving the possible realization of a very large slice of revenue from earnings and profits tax by forgetting the possible huge amount of non-capital gains made by some during the stock market booming period, and I could not imagine that the rise in our domestic exports would exceed by \$2,700 million or an additional 16% over the figure forecast by the honourable the Financial Secretary.

Looking back to the years 1972 and 1973, we now realize that they were years in which world trade was expanding despite monetary instability. It was an era of "demand-pull". Being always extra-sensitive to international economic and political changes, Hong Kong would not have missed the chance of achieving more than an average rate of expansion in trade. Just look at the headlines of our newspapers and the increase in number of our buyer-visitors. The sudden rise in world raw material prices in the middle of 1972 and the frenetic purchase and hoarding by Japan of all kinds of raw materials in the early part of 1973 in order to dispose of her excessive reserves of foreign exchange, could not have escaped the notice of and must have spurred Hong Kong merchants and industrialists to take precautionary measures in advance of our competing countries. We likewise rushed and increased purchase of raw materials. This was quite obvious from the import statistics as from April 1973 onward, followed by increase in domestic exports from May 1973.

During this period, Hong Kong's position as a free port—free of trade restrictions and free of exchange control, and unrestricted free supply of bunker, of course not without payment—was brought into full play and stood in Hong Kong's good stead. It is a pity that our GDP does not take raw material stock changes into account, otherwise it would have been made manifest. However, we have paid a price. The general consumer price index showed a rise of 27 points or about 19% from 143 in December 1972 to 170 in December 1973 higher than any other place in this region. An even higher index of 180 has been recorded for January this year. Of course it may have been influenced by seasonal changes.

The honourable the Financial Secretary ascribed our inflation all to outside factors, missing out the skyrocketing of our land prices and

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consequential rent spiralling during the fourth quarter of 1972 and first quarter of 1973. I pointed out in my speech in this Council on the 15th March 1973 that these were the locally induced inflationary factors. Its after-effects are still being felt these days since under the circumstances there has not been much choice left to the average person, as landlords can always hold out for better terms while the average tenant does not move house like a bird.

We are now in the era of "cost-push". This is a more serious stage, than that of demand-pull. In addition, the raw material stocks acquired at advantageous price levels are diminishing. To replenish stocks at the present unprecedented high levels, makes any sensible entrepreneur shiver. Because some raw materials have already gone up by 150%, some 200% and some 300% since 1972. Where are we to go from here I ask?

According to *The Economist*, the new price indicator for fibres rose from 112 in January 1972 to 240 in February 1973, peaked at 363 in January 1974, and dipped to 310 in February 1974. In oil, the increase was 350% in three months at the point of origin, though it could possibly go down to 200%. In the pricing of primary commodities or so to say their market habit, after a straight uptrend the next stage is often not a plateau. It could be an accelerated upward movement or turn to a continuous downtrend. Both are horrible and daunting.

For some staple items, at the present moment raw material prices are higher than manufacturers can allow for their raw material cost, or their lowest selling prices of the manufactured goods will be higher than overseas buyers are willing or ready to pay. Nobody wants to buy and hoard anything that cannot stand the passage of time, for example perishable goods and fashion items. Thus, goods in which the time factor is important are suffering from discrimination and therefore manufacturers simply cannot plan ahead. There have been hoarders all along the pipeline here and everywhere. Stock-piling for the sake of ensuring a supply of raw materials is in monetary terms, no different from speculative hoarding.

All I say above refers to the problem now being faced by the manufacturers. In terms of Hong Kong's circumstances, it is a serious problem, because the manufacturing industry is the largest employer and bread earner in the first degree. When inflation starts to hurt manufacturers, those of them nearest to the direct consumers feel the

pinch first. People will buy things which they think still relatively cheap but when they start to resist rising prices, recession is in the making.

The oil crisis is not yet quite settled and is still subject to political change. Nobody can yet envisage how the price difference between now and before October last can be financed. To Hong Kong, it is a question of an additional annual unfavourable balance of payments of \$1,600-\$2,000 million if we continue to consume oil in the same way as before. Its effect on certain industry is colossal, of which I will speak later.

Major buyers of our manufactured goods—the United States and the United Kingdom—are exercising a form of price freeze and are threatened by further inflation as a result of the oil crisis. Many predict that it may lead to a recession or there will be no growth in the GNP.

Every indication points to an unprecedented situation to be faced by us in 1974-75. The uncertainty we are in, is really unpredictability. Notwithstanding the fact that all our competitors will have to face the same plight, what will happen to us if trade dwindles on a world scale? Under the circumstances, how can the growth or higher profitability of our domestic exports be assured? Where will our increased revenue come from?

Further, one strange phenomenon exists in Hong Kong that whilst prices tend to rise and rise rapidly, money supply is tight as banks' liquidity has gone down to 11%. This clearly indicates "cost-push" inflation and will lead to "stagflation" which Hong Kong cannot bear, for many reasons. Measures should be devised to check and curb the rise in prices of essentials at the retail level. My honourable colleague, Mr P. C. Woo, has made a suggestion of setting up an economic advisory committee to study our economic problems, which I fully endorse.

In my view, Government should endeavour by visible action to see that supplies of essentials are assured at reasonably stabilized prices; make up a list of essentials and take a piercing look to find out whether there are other internally induced inflationary factors that are working and if anything can be done to arrest them without prejudicing our basic policies.

In Japan to fight inflation MITI or Ministry of International Trade and Industry has very recently introduced the scheme of putting 41

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items of commodities connected with oil and 159 items connected with daily life under prior recognized price increase control. In this regard, I think of my honourable colleague Mr Q. W. LEE's suggestion of strengthening the Commerce and Industry Department and upgrading the post of its department head to Secretary level which I also fully endorse in view of the importance of the said department in our past and future trade and industry expansion.

I said before in this Council that Hong Kong's success was the result of our successful public housing schemes which now accommodate 1.7 million out of our 4.2 million population. Rents in Government Group "A" Estates range from \$51 to \$249 a month and Group "B" Estates from \$18 to \$38. According to a 1971 estimate, out of a total of 846,670 households, 497,399 or about 59% paid an average of not more than \$70 a month in rent and rates, consisting of only 10% of their average income. Rent consists of a very high proportion of a worker's household expenditure in other countries in this region. Therefore, despite all difficulties and in view of the slowdown of building in the private sector, our approved housing plans must go ahead at full steam. I would not endorse any increase in rent in existing public housing estates whatever the reason, in 1974-75, which is such a crucial year, with the exception of newly built estates to be entered as from now on.

Other building plans, except expansion of secondary and technical education, could be deferred if the year turns out not as promising as my honourable Friend the Financial Secretary predicted. Maybe a mid-year forecast and review would be useful.

The plan of raising direct tax should not be envisaged, as it would only aggravate an untenable situation. Other ways and means of balancing our budget should be found if need be. We should look ahead and encourage new investors and new businesses. I said in March 1972 that we cannot rely only on old industries for full employment which is a matter of first importance. Now Government by changing land policy has attracted new and highly technological industries. The threat of higher direct taxation will only frighten away new industries and make newcomers hesitate. I must say that our general reserve of \$3,000 million should not be treated as sacrosanct. As we are confident of the future, it would not be wrong to appropriate part of it to meet expenditure in a medium-term sense.

Sir, I find the 1974-75 Estimates highly satisfactory in one particular aspect. My honourable Friend the Financial Secretary has truly the manufacturing industry at heart and has accepted its appeal to look into the propriety of the existing rates of depreciation allowance on plant, machinery and equipment. 25% for initial allowance and 20% on balance are now proposed for the textile and plastic industries which are in fact two of Hong Kong's main industries. The last concession was made in April 1968 about six years ago. I call to look at this question more often and to adjust the allowances in line with the development of new industries and new technology.

However, the honourable Financial Secretary threatened to increase water charges in 1975-76. It would not only affect the basic cost of living but would impose an extra burden on industry especially after the recent rise in the cost of fuel and electricity. It will particularly heavily penalize the textile finishing industry. In certain factories, fuel, electricity and water alone have now already reached one-third of their direct cost. Of course, it will be less in other industries. I said enough on this subject on 10th March 1971 in this Council.

To meet the challenges of this crucial year, apart from applying stricter control on expenditure, perhaps more stringent supervision should be exercised by Government on the productivity of Model 1 Scale labourers of Government. These days, in comparatively remote areas, one often observes several labourers assembled on a spot watching one or two doing a job—maybe those who are not doing work are supervising. In recent years, the large increase of establishment posts has been in this class of Government employees.

It appears that I am rather pessimistic about 1974, for I prefer to see from the dark side first so that we can have a self-generated feedback of a possible appalling situation and go out to seek means to avert it.

Before concluding, Sir, I will strike some optimistic notes. In the present circumstances, stocks of Hong Kong goods in our traditional buyers' hands could be depleting. With the possible removal of price control in the United States, our buyers who defected may woo us again. They are disappointed with our chief competing countries who have behaved rather badly in the recent hectic months by attempting to default their sale contracts, because their own rapidly rising costs are causing them difficulties. The other point is that the price of some raw materials may have peaked out.

I have said, Hong Kong is an island of free economy in the ocean of controlled economies. A grand strategy of our economic policies

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should be, without forgetting fundamentals and within permissible scope, to allow or tolerate what other countries in the region do not, and allow people to enjoy what is not possible elsewhere, such as a low taxation structure, less bureaucracy—for instance, a trip to Macao to gamble to their satisfaction.

In the above sense, the warnings the honourable Financial Secretary sounded for 1975-76 against increase of fees, charges and taxes appear over early as it is not possible at this moment to see the year 1974-75 clearly. Many not directly connected with domestic exports are already complaining of less or lack of business. Any doubts in people's mind as to Government's future taxation policy will only retard their plans for development and expansion.

Sir, with these comments I support the motion.

MRS SYMONS: —Sir, in speaking on the occasion of the debate on the Appropriation Bill I feel confident that my Unofficial colleagues will indicate in their wisdom and integrity very clear and helpful guidelines to Government in the financial challenges, opportunities and obligations in the fiscal year ahead.

Speaking personally, I am grateful to the honourable Financial Secretary for his clear and minute exposition of his plans, and for the innovation of a forecast system of expenditure for the next three years.

One fact emerges very strikingly in the latter: committed as we are, and rightly so, to our imaginative yet very expensive expansion of social services among other items, the will to be ready financially must be there in letter and spirit.

If I may be allowed to digress on a lighter note—any executive who has to introduce an unpalatable measure should do so on budget day, when many of our citizens are readier to accuse Government or Government officials or both of wanton disregard and callous indifference, than to criticize the executive's own proposals. I know, I have just tried it.

Each citizen has naturally his own subjective assessment of the tax measures proposed; and were it possible to please everyone, I suppose no taxes would be collected and no expenditure would be possible.

Each year at this time, there is much misunderstanding, which frankly, Government should endeavour strenuously to dispel, not spasmodically, but continuously. One misunderstanding is that Government is mean and squeezes as much as possible towards the reserves in London. Just how much have we in reserve? Half a year's expenditure at the present rate; for have we not just over \$3,000 million in reserve and are we not committed to spend about \$5,700 million in the financial year 1974-75? Would any head of a family or an organization pare so close to the bone? If much less had been spent since the war on rebuilding Hong Kong and its services, because the overall aim was to save money to be deposited in London, I, too, would join the ranks of those clamouring for the return or the rapid liquidation of those reserves.

The situation is simply that as a community we will have to pay more and more for the ever-increasing scope and cost of our social services, not to mention other provisions like transport amenities. The necessity to pay for a tremendous net-work of major roads and flyovers, and initially for the underground had to be considered most carefully by the honourable Financial Secretary; nevertheless it is ill-timed I think to suggest considerable increases before the introduction of the green paper on transport. We have fortunately moved into an era of green papers (one I have been associated with has turned yellow under the blistering attack by many sectors of the public) (*laughter*); and as transport like education concerns practically every member of the public, almost everyone is a self-appointed critic. Be that as it may, I wish the green paper had preceded tax proposals or that the latter may be delayed for a while. It is perhaps incredible to suggest reducing the types of motor car licences from six to two simply to save work. The rationale of taxing the owner of a magnificent, gigantic and exorbitantly-priced motor car (I must refrain from advertising) no more than the owner of an unpretentious yet often necessary family car has been commented upon in critical terms by many motorists since budget day.

We have urged that the proposed tax increases should be delayed until a new transport policy has been publicized, criticized and amended if necessary before implementation. It is my hope that many opportunities will be provided for frank discussion before changes in all types of vehicle licence charges are imposed. I do not for a moment suggest, Sir, that a request to delay new charges should be urged in this Council every time there is a public outcry; but I do consider it a matter of principle that policy must precede taxation.

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Unfortunately this budget day has come at a time of rapidly accelerating price spirals, the oil crisis and inflationary trends in many parts of the world. Economists and experts may claim logically, precisely and rightly in their jargon that there is no real or worrying inflation here; but all the average house-keeper knows is that prices are never stationary. The ordinary citizen must somehow be protected from undue profiteering, from unscrupulous entrepreneurs who will fleece him of what little he has left after the stock market crash. A year later, he is sadder and sorrier for the Financial Secretary had warned him last year about the giddy conditions prevailing on the stock markets. Let us assume that our average citizen is wiser, but is he any readier to take advice? Even if he is not, the Government must surely have a duty to protect him from the danger of exposing himself to any unscrupulous operator of deposit taking finance companies by providing suitable legislation as soon as possible. I must leave it to some of my colleagues to spell this out, but could not let it pass without comment.

While the Government may not be able to bring in rigid price control of ordinary household commodities in daily use, there is the urgent need, I feel, to ensure that there is no profiteering in the sale of rice, cooking oil, flour and sugar, to mention only a few essential items. Something must be done, too, to use the persuasive powers of the Government Information Service and the City District Office scheme to calm the fears of the common man and to hit for six any unfounded rumour about shortages. Hoarding comes easily to our people, but the effects of hoarding are not fully appreciated. I would suggest instant hot-lines to City District Offices from members of the public reporting concrete examples of flagrant profiteering.

These reports could perhaps be tabulated and checked when the present inspectors from the Commerce and Industry Department go round to collect figures which are now used in Government statistics.

I would suggest that at the end of the process, the ordinary man in the street can be involved and should be involved, perhaps with his efforts being co-ordinated by the City District Officers into the admirable system of mutual aid committees which were so healthy a feature of the anti-litter and anti-violent crime campaigns.

Several of my colleagues have urged the formation of an economic advisory committee or a consumer advisory committee. While all this

can take time and of a necessity must be correctly set up with some legal backing, my suggestion at this juncture is to utilize the responsible co-operation of the man in the street. After all, while not every one throws litter anywhere, and even fewer are criminals, we all have to eat, buy certain commodities of a humble household nature and we are all genuinely concerned this time. Give us a chance, too, to help as Government makes every attempt to curb prices. In addition I would suggest daily broadcasts suggesting price ranges of some of the important commodities. Since October a list of wholesale prices has appeared in some newspapers almost every day, but something else is needed now; above all, the idea should be constantly reiterated to our people that they can tune, and they should be selective in their patronage of stores and stalls. Free enterprise must surely coincide with free choice. Is this generally understood by our people? Often they have been hoodwinked into paying more when the shop-keeper in defending his rising prices turns round and in very effective terms puts the blame squarely on Government at all times and on the weather when appropriate. In a twinkling, the shopper joins in the criticism of Government and the sale is effected.

Gentle persuasion is indicated on all sides.

I was very interested to hear the honourable Financial Secretary suggest that Government itself should not be extravagant in its use or misuse of manpower or physical resources. This is very wise and proper. In recent weeks we have seen economy in the use of electricity and fuel practised successfully in Government circles and in the community at large; and should the necessity arise more could be done with Government quite dutifully setting an example.

Yes, we are beginning to grow up as a community and together Government and people can face 1974 with fortitude and middle-of-the-road confidence.

Subject to these comments I have pleasure in supporting the motion, except in the area of immediate increased transport charges.

MR WILLIAMS: —Sir, this budget deals with formidable figures and the most substantial item remains the cost of the public service which has grown to over 112,000. Whilst there is a slight reduction in the cost as a percentage of recurrent expenditure from 44.48% in 1973-74 to an estimated 42.83% in 1974-75, there is no substantial economy of

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scale that one would hope to find in a business with a comparable expansion to that we have had in the economy as a whole.

How can we contain and get the best out of this huge expenditure? Both the size of the service and its quality must be examined.

To do everything we want would mean enlisting legions. For example, I understand a small army would be required to ensure the law is strictly observed in such matters as unauthorized alterations to buildings. How do we decide how far to go? And how do we decide which competing needs for manpower have a higher priority?

With public works, to put it most simply, we want a hospital, a school and a road, but we cannot have them all at once and a decision is made which should have priority in the community interest.

The capacity to staff a school or a hospital can be a critical factor in this decision, but often when we examine increases in establishment to do a job other competing needs are not directly considered. Of course, judgments, and no doubt sensible judgments, are made within Government but I would like to see devised a method, crude as it might be, to establish priorities for engagement of people as is done for projects in the Public Works Sub-Committee.

Quality of the material employed must be the basis of the quality and performance of the service as a whole. The ability and capacity of people can vary so much. Is prompt action taken early on to weed out duds? From experience in business, I know that busy managers, glad to have an extra hand, will often not face the fact that at the end of a probation period an employee is not up to standard. I suspect that this also happens in Government. Effective procedures, and pressures to make them work, must tell us whether the newcomer on the bottom rung is fit to climb the ladder.

Possibly a pre-engagement course for various grades might be considered, the object being to test the individual and find out if he or she is the right material as well as giving some pre-training. The cost of this non-productive period could quickly be recovered by better material entering the service. Could pilot schemes on these lines be considered?

Is the standard of confidential reporting on officers good enough? Too often here there is a tendency to shirk from criticizing if this must

be brought to the notice of the individual concerned with results in the end both unfair to the person and most harmful to the service.

Is the emphasis in considering promotion still too much on age and service, so we do not reap the benefits of an outstanding young man soon enough? Increasingly, it is the practice in business to bring on the bright quickly and this should be followed in the Government service. And if an increase in the retiring age is contemplated, accelerated promotion, in my view, is a pre-requisite or you will end up with good people leaving and ineffective upper echelons.

At senior levels in Government I would like to refer to committees. Many of these go on for too long a time. With proper preparation few committee meetings should last much longer than an hour.

It is not easy to set a value on people's time, but it would not be unreasonable for a top business man with comparable responsibilities to a senior Government officer to charge out his time at a few hundred dollars an hour. So tying down ten people for more than three hours, as I have often seen happen, is expensive. But aside from the cost everybody works better and more efficiently under some pressure and with shorter meetings time is released to get on with other things.

I hope my honourable Friend the Colonial Secretary would not consider it an impertinence if I suggest that he requires a report of the duration of any meeting which lasts over say 1¼ hours. By this simple procedure some slow moving and inefficient areas in Government might well be revealed.

In the short period I have served as Chairman of the Establishment Sub-Committee I have been impressed by the work of C Division of Finance Branch. Government have employed consultants to advise on the better utilization of manpower. What they have to say is doubtless more expert and based on greater knowledge than my comments. But even if we arrive at the best solutions for dealing with people, tenacity and toughness are needed to make them work and this is the main burden of my remarks this afternoon.

Having said all this I acknowledge by comparisons elsewhere we have a good public service, but it costs 43% of our recurrent expenditure and we must see this vast sum is well spent.

I would like to congratulate all concerned in the preparation of the supporting material for the budget speech laid on the table on budget day. The presentation and content is much improved and it

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is a great help to all. The estimate of gross domestic product for 1970 and 1971 using the income approach is interesting and the nearness to the expenditure estimate rather encouraging. Improvement in the income estimates and their regular publication together with the expenditure estimates will be most welcome. May I suggest that the presentation shows Government income as an industrial origin heading, so that direct comparisons can be made. I also question that Government trading bodies should be included in the estimates of private consumption expenditure. Perhaps an extract of this can be detailed separately so that the total Government involvement on the economy can be seen.

My Unofficial colleagues have spoken on the problems of inflation and I share their great concern. I would only add that I remain worried at the threat of inflation generated internally. Government expenditure in 1974 will probably be over 17% of the gross domestic product as against 12.8% in 1969. The time scale of expenditure in the private and public sectors is different and it is not easy to slow down committed Government expenditure to avoid competition with the private sector. And whilst I am not opposed to external loans to finance self-liquidating projects these could create internal inflation if they are used as extra funds to compete for domestic resources.

The honourable Financial Secretary expressed a personal view that the moratorium on the issue of more banking licences should be relaxed. Competition must be good for banks as it is for other industries, although Hong Kong by the widest stretch of imagination cannot be said to be underbanked. But let us look a little closer at this question of competition.

A large part of any bank's operations in Hong Kong is the financing and servicing of foreign trade, for which they must have branches or correspondents overseas; but how must choice do our locally constituted banks—and there are many of them—have in the matter of deciding to establish branches in other countries? For example, can they expect to secure a banking licence in Canada, or Australia, or Indonesia? The answer is no. Even if they were granted a licence to bank in the USA, would the provisions of the One Bank Holding Company Act make it worth their while to do so? And in Switzerland and Singapore, what about restrictions on work permits and limitations on dealing in the domestic banking fields? Many who wish to exploit our market under the guise of bringing in "know-how" and new business are not willing or are not able to procure reciprocity.

Hong Kong merchants and industrialists have a high regard for our local banking industry, the contribution it has made over the years to the development of our trade and industry, and its ability to meet fair competition. But lack of reciprocity is unfair and I hope that this will be taken into account in framing the stiff conditions to be met by newcomers, as well as a requirement to provide substantial local capital.

Obviously in anticipation of higher duties, there were large withdrawals of wines, spirits, and tobacco from bonded stocks prior to the budget speech. Because of this, on February 19th, an order was made to stop further withdrawals, although strangely this was not gazetted until February 22nd.

I am not arguing that it was wrong to make this order in the circumstances, but such an action has bad effects. It signals budget proposals leading to profiteering and hoarding. It confers an advantage on those who got in early.

Usually, there are larger withdrawals prior to the budget. This year they may have been unusually large which is not surprising in the present economic climate. Having a knowledge of this business, I can say that the trade do not want to speculate in this way. Merchants do not want to tie up their money in duty paid stocks. It is not a matter of making a windfall profit, but a necessary action to secure their competitive position with others.

I am sure the trade would welcome an arrangement by which withdrawals from say the Chinese New Year to budget day were restricted to near normal levels and I suggest the Commerce and Industry Department talks with the trade to work out such an arrangement. This should be done now, so that no relation to future budget proposals can be construed.

Regarding transport, I join the chorus of my Unofficial colleagues that proposals here are untimely coming before the green paper is published and discussed. Indeed, in the area of transport the Government seems to be putting itself in the position of a children's outing where all the sandwiches are eaten long before the picnic. (*Laughter*)

Road users must be expected to pay more but the measures proposed will have significant social and economic effects. We should have the opportunity to discuss these in the context of the whole transport problem before action is taken.

Now I will take up just one point, and I challenge strongly, the proposal to abolish the monthly parking pass. Many persons and

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companies need cars parked near at hand, available at any time to take them about their business. Many will be able to pay the proposed new fees and will not be deterred from their present parking practices.

I can visualize chaotic conditions during the evening rush hour when motorists go to collect their cars. Indeed, over a year they will have paid a substantial sum for the privilege of being parked in a queue awaiting to pay a parking fee, aside from the frustration and irritation it will arouse.

A monthly pass set at a realistic figure will reduce such congestion. It will be a convenience to many busy people. It will avoid having to keep drivers supplied with money which could be abused. And the objectives of a better utilization of car parking space and revenue expectations can be achieved.

I estimate that at a month's figure of around \$500, much the same deterrent effect to parking for long periods will be achieved as by the new rates. And those that will not be deterred will pay as much if not more with a monthly pass as they would otherwise, bearing in mind that it should not be difficult to arrange to have a car taken out for an airing after 5 hours to return, refreshed, for another sojourn at the cheapest rates.

This is a budget of prudent measures to meet the challenge of the future as best one can see it, with little inhibition to the continued growth of our economy. And I agree with my Unofficial colleague the honourable Mr Q. W. LEE that above all else we must ensure our economy grows at a steadily increasing rate to meet our future needs and social expectations.

Confidence is the motive force of our economy and this must be maintained at all cost. Confident leadership of Government and top businessmen is essential. Positive action to encourage expansion is most necessary and here I would mention that Mr LEE's suggestion to strengthen the Commerce and Industry Department has my full support. Let us consider the effect on confidence on all we do or say. Dark mornings can bring gloom to the whole day.

With the expectation that the views of the Unofficial Members on the transport provisions can be accommodated in the committee stage, I support the motion.

MR WU: —Your Excellency, two weeks ago my honourable Friend the Financial Secretary in presenting his budget for the coming year in this Council had again demonstrated clarity and stamina that inspire confidence and admiration. A fortnight's close scrutiny and criticism by the public in general, and my honourable Unofficial colleagues in particular, give one the impression that, by and large, the cautious approach has won popular support to which I associate myself.

It has been suggested to UMELCO members that this Council is conspicuous by the rarity of ferocious attacks on Government officials so common in similar bodies elsewhere. While this certainly does not help in selling more newspapers, periodicals, or winning popularity contests, it would be wrong to assume that bills proposed would be rubber-s-tamped. The truth is that particularly on important issues a great deal of consultation, persuasion or wrangling is done for the public good behind the scenes at one stage or another before a bill becomes law. My experience shows that with the support and guidance of public opinion, better communication, understanding, and agreement can be reached in this manner in the Hong Kong context, as to render open, sharp and often damaging exchanges unnecessary.

For instance, it is clear for all to see that the Financial Secretary could have been better advised against hitting the motoring and minibus sectors too hard and too soon for fear of making the forthcoming green paper on public transport a mockery, apart from causing undue hardship for so many people in their everyday life. Of particular irritation is the proposal to impose a fee on every endorsement permitting people to drive various different classes of vehicle. Obviously little thought has been given to the fact that many occupational drivers would hold more licence endorsements than just two for motor cycles and private cars. Whilst it is appropriate to charge what is to them a minimal registration fee for doctors, accountants and architects to practise their professions, it would be grossly unfair to levy an even larger fee (if he had enough endorsements) for a driver to practise his trade for a living that is never done for craftsmen of other trades. I therefore sympathize with the Motor Transport Workers Union in their appeal against this extra endorsement fee. I also foresee that inconvenience, difficulty, and inefficiency would be caused to commerce and industry many of whose employees in their daily work involve, specifically or concurrently, the driving of various types of vehicles, namely lorries, delivery vans, repair or service cars or motor-cycles. Already, due to long waiting for tests for driving licences for these types of vehicles, there exists a shortage of qualified drivers. Nor would the pretext of safety reasons hold water. Declaring the interest of one with four endorsements required in his earlier work, I would say that with

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modern transmission, power steering and power brakes, a 10-ton lorry could be as easy to handle as a private car, and be got used to in a matter of minutes by one with prior experience. I would feel that the Financial Secretary could have got away with tens of millions of dollars by seeking for a substantial increase on existing platforms without involving policy issues.

My honourable colleague, Mr Wilfred WONG's scholarly advice in this Council has never failed to attract attention, and sometimes controversy from our midst. In supporting Mr WONG and in allaying the fears of my honourable Friend Mrs SYMONS over the proposal of another Member, I venture to suggest that managing the finance of a government has its difference from managing the same of a family. An authoritative economist Samuelson said in his widely used textbook that "growing debt holds little peril for a dynamically growing economy". He cited that in the past 100 years, the national debt of the United States of America had grown more than 100-fold from under US\$3 billion in 1868 to over US\$300 billion in the 1960s, and that of Britain from £ 840 million in 1818 to £ 29,000 million in 1962. Indeed, Alexander HAMILTON, the Financial Secretary of George WASHINGTON and the spokesman of a conservative party in the US, was known to have said that "when rightly managed and in the right amount, a public debt would be a national blessing".

The underlying truth is that the real national product of a country is an ever-growing thing, by way of population growth and increased productivity through improved man-hour efficiency and new manufacturing or management techniques. Thus even a prudent businessman or industrialist today would not hesitate to borrow (if he can) for a viable project at a reasonable interest that he can comfortably service.

As Mr WONG has indicated, such arguments have in the past been rendered academic, as in the Hong Kong scene, deficit budgets have in most cases through the magic wand of our financial secretaries turned surplus. It could be a different situation today in view of our unprecedented heavy commitments in social services including the vital aspects of education and housing. There is of course a wide choice of alternatives and options, of which my learned Unofficial colleagues have suggested several including loans but definitely excluding direct taxation for fear of discouraging inflow of outside capital to, and escape of local capital from, Hong Kong which many still considered to be in a high-risk area.

In this regard, I support the proposals of my honourable Friend Mr Q. W. LEE. Being a banker, it was unselfish of him to have proposed an increase of licence fees for banks. In view of their highly lucrative operations in recent years, it would seem that a substantial contribution from the banking sector towards public funds would be in order, if not in the Robin Hood spirit on the part of the Financial Secretary.

Mr LEE'S other suggestion that increased expenditure be financed by increased revenue, rendered possible by a high rate of economic growth, makes good economic sense, as indeed has been proven in the past by our community through industry, thrift and good business sense of our labour, management or entrepreneurs alike. Let us learn from, and make the ill wind of the stock market crash bring at least some good, and that is to pare off excessive fat and laxity we tend to gather with our newly-gained affluence and leisure. For in today's abruptly changed circumstances and material shortages, a complete change in outlook is imperative. Not even the richest nation can continue to entertain the idea that the economy thrives on wastes, and thrift and austerity suddenly become necessary and even fashionable. Such, after all, is the most effective way to beat inflation and profiteering as I mentioned last November in this Council, and the honourable Financial Secretary endorsed.

Whilst there is no cause for a pessimistic view, we do need at this moment some pump-priming operations for our economy. The Financial Secretary has at long last agreed to improve the depreciation rates for plant and machinery. In the present situation of greatly reduced liquidity in the banks, the waiving of \$66 million from interest tax may indeed be more than compensated by increased corporation or profits tax, and rates and property tax due to increased development with funds from within and without responding to the encouragement.

My honourable Friend the Secretary for the Environment recently made a proposal to property developers which in effect suggested joint development so that Government gets much needed flats for its employees, and the developer gets the work and the money, the shortage of which appears to be the prime cause of the present stagnation. Perhaps by pursuing this proposal further and including in it lower cost housing to be sold to the public and financed by increased capitalisation or borrowing of the Hong Kong Building and Loan Agency, the objectives of our housing programme could be reached earlier and at lower costs, as people in urgent need are

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prepared to buy with their own means instead of renting with public subsidy (if only hidden).

With so much said by my colleagues on inflation and suggestions to contain it, I do not intend to add more to same, except that I concur with their views in general and the establishment of an economic advisory council in particular.

In the management of our economic affairs, I have always maintained that Government should not view the out-dated policy of *laissez faire* as a "sacred cow" and confuse intervention with co-operation and involvement. Today's rapidly changing conditions require quick response, and Government is unlikely to have felt the pulse soon enough if it takes for too long a detached view of developing situations. The problem is compounded by the fact that as one former Financial Secretary said, Government plans normally take about five years to come to reality, if not longer. To the eyes of the business world, the highly essential features of flexibility and adaptability that contribute to Hong Kong's success are thus largely lost.

In retrospect, if Government had listened earlier to industry and commerce and started by the mid-1960s on special land sales to preferred industries, establishment of the polytechnic and technical institutes, and increased rate of depreciation we would have by now a much broader industrial base and larger reservoir of trained manpower to meet our current situation. Indeed, perhaps even the catastrophe in the stock market could have been greatly reduced if effective action was taken early enough.

I share my learned colleague Dr CHUNG's view of optimism in Hong Kong industry, in that there is still so much that we can do in the way of improving on the productivity of our people and the sophistication of our products in the ever-enlarging world markets. As an example, the average prices of our metal and engineering products are still in the region of HK\$2.50 to \$4.50 per pound whereas the more advanced appliances and machines of developed countries tend to be in the region of HK\$8 to over HK\$20 a pound. Assuming there being not much difference in material costs, the edge is in the value added, and Hong Kong in this aspect must stay ahead of its competitors.

To do so would require increased efforts from Government and quasi-government institutions in helping to organize, co-ordinate, and

directly assist in special projects in industry where indicated. The Commerce of Industry Department need therefore be upgraded and enlarged, as Mr LEE suggested, and additionally staffed with people possessing industrial experience and technological expertise to help promote industrial development. Staff of the Universities, the Polytechnic, and the Productivity Council would likewise need to be more closely associated with industry and commerce for cross-fertilization and increased contribution to the training, studies and applied research that are of direct relevance in the local scene. After all, Hong Kong pays well, as it should, for the service of its civil servants and academic staff as compared to similar posts in any developed country, and its tax-payers are rightfully entitled to the former's contributions at a time when they are needed most. Only by so doing can we justify, and be able to afford, the greatly increased expenditure in salaries in the budget without contributing to further inflation.

Sir, with these remarks, I support the motion.

MR CHEONG-LEEN: —Your Excellency, in speaking on this year's budget presentation by the Financial Secretary, I propose to confine myself to a few subjects related to our serious inflation and the attendant rising living costs, and the urgent need for Government and the people to cooperate closely together to meet such inflation.

I shall not speak on budgetary philosophy, or on long-term economic and financial policies, even though I shall keep them very much in mind. Instead I shall concentrate on what is foremost in the minds of most people today, that is how to cope with the escalating prices of foodstuffs and other daily necessities, such as soap, toilet paper, public transport, *etc.*

It is one thing for official spokesmen to keep on repeating that the departments of Government are working consciously to keep down prices and to prevent unwarranted internal inflation.

It is quite another thing as to whether or not the majority of our population believe that Government is doing—and what is of great importance is openly seen to be doing—everything possible to dampen down internal inflation, eliminate profiteering in essential commodities, and dispel the fear of not being able to cope with runaway prices.

Let us take rice as the prime example. The fact of the matter is that Government projects the image to most people in Hong Kong as either being too *laissez faire* in its measures to tackle inflation, or as being helpless, unimaginative and uncourageous—at least until last

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week—in gaining the active support of the community at all levels in a joint effort to keep down the price of rice.

Last week's meetings by the Commerce and Industry Department with the rice importers, wholesalers and retailers groups have been constructive—they should have taken place a long time ago.

Previously, Government had adopted the ostrich-like stance that it had some control over rice prices at the import and wholesale levels, but could not do anything about retail prices.

Now it appears that imaginative ways are being devised to keep down rice prices at the retail level, such as by selling rice through large department store and supermarket outlets, and by allowing groups of rice retailers or large voluntary groups to buy rice direct from importers.

I had asked several questions in this Council in recent months on the subject of rice prices. The answers had not been satisfactory.

Why it should have taken only until now for Government to make the general public realize some decisive action is being taken to curb rice profiteering at the retail level is a lesson which should be analysed and stored for future application in bridging the "communication gap".

I would like to raise six points relating to the budget, to high living costs, fighting internal inflation, and ensuring that public money will be spent effectively and productively.

First of all, Government should seek more public support in the fight against profiteering in rice at the wholesale and retail levels, which is a key psychological factor in the inflationary spiral.

I fail to see why Government had been so adamant in refusing to publish regularly the retail prices of rice, but instead persisted in publishing only wholesale prices which conveyed little meaning to non-English speaking housewives who understand only retail prices, that is, prices at which they actually buy their rice.

Fortunately for housewives Radio Hong Kong recently commenced to provide average retail prices on rice and other essential foodstuffs. This helps housewives to be on the alert against buying at too high prices. It is a service to the public which is to be welcomed.

I would suggest that the Commerce and Industry Department seek the co-operation of the CDO Area Committees, the Mutual Aid Committees, the Kaifong Associations and other organizations to join forces with Government and call upon rice retailers urging them to maintain reasonable retail prices, and to report to the Government any blatant case of profiteering.

Apart from rice, Government should also ensure that there will continue to be adequate reserve stocks of all essential commodities and inform the public at close and regular intervals of the stock position in Hong Kong of such commodities so as to deter panic buying and hoarding.

The foregoing are only two suggestions as to what might be done to inspire greater public confidence in Government's efforts to battle inflation and prevent artificially created shortages and excessively high prices for basic commodities.

It does not matter whether the results are achieved through the setting up of advisory committees or consumer councils. What does matter is that Government must be seen to be acting decisively, openly and effectively in the public interest.

The second point has to do with rents, where it would seem worthwhile in the public interest for Government to set up Fair Rents Tribunals to resolve disputes on high rent increases on shops and office premises.

Inflation is a worldwide phenomenon, and in Hong Kong it is made even more acute by the unfettered capacity of some landlords of shops or office premises to double or even treble the rental upon expiration of the lease. Naturally such additional costs are passed on to the consumers, whether they be purchasers of canned foods, fresh fruit or clothing, or whether they be patients of doctors or dentists.

The setting up of fair rents tribunals should be based on several principles: they should be set up by the Rating and Valuation Department; either a landlord or a tenant could refer a dispute on increased rent to a tribunal; premises not previously let will not fall within the ambit of the tribunal; any increases in rent allowed should be fair and reasonable, and should be flexibly relevant to the rateable value of the premises; and the decision of the tribunal should be final, with the costs of the tribunal to be shared equally by landlord and tenant.

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Hong Kong has reportedly acquired the unenviable reputation of having had about the worst inflation last year among the world's major cities, with high rents being a major contributing factor.

This is not the kind of reputation that we want or deserve, and the sooner we erase such image among the international community the better it will be for Hong Kong to continue as a stable, competitive and attractive centre for economic and industrial investment.

Compared to many places in Asia, Hong Kong is still very much an attractive investment centre principally because of our realistic 15% standard rate of taxation. With a lower rate of inflation derived from more stable shop and office rentals, such image for Hong Kong as a good long- and medium-term investment centre will be even more enhanced.

My third point has to do with public transport and the raising by 100% of the fee for public light buses from \$3,000 to \$6,000. This is a matter of wide concern to the general public.

From what I can gather, the general public will not respond favourably to any move on the part of the PLBs to increase their fares on normal days beyond the 50 cents for shorter routes and \$1 for longer routes.

The eight associations representing about 70% of the PLBs have indicated to UMELCO in strong terms that the burden of a 100% increase in the licence fee would cause much hardship to the operators.

I would urge therefore that Government review their request seriously and objectively and put forward new proposals which are fair, reasonable and which will not impose hardship on the livelihood of the PLB operators.

Then there is what I would term the over-simplified and wrong approach in restructuring the six platforms for private car licence fees into just two platforms of 1,500 cubic centimetres and less to pay I \$400 a year and above that platform \$1,000 a year.

I would disagree with the statement in the budget speech that: I quote—

"Although the relative increases may seem fairly steep—licence fees for many of the popular makes of car will be more than doubled—the absolute increases are not unreasonable".

The increases based on the two platform structure are not only steep, they are also unreasonable from the point of view of the general public.

Government is urged to revert back to the six platform fee structure for private cars so that the burden of licence increases is more equitably distributed.

Another source of strong public dissatisfaction with the budget is the proposal to increase off-street car parking charges to what can only be described as exorbitant levels.

Such increased parking costs will inflict hardship in inflationary times like these on those members of the public who must use private cars to commute to office, particularly when buses or taxis are not easily available from where they live without long waiting or when they cannot afford to employ a chauffeur.

Such punishing tactics aimed at those with private cars create the impression that Government has lost sight of reality. Most people will be forced to tighten their belts and pay the higher parking fees, but they will not get off the road because they need their cars for going about their daily business affairs.

I would urge Government to reconsider the parking fees in public multi-storey car parks and set them at \$1.50 per hour for the first ten hours and at \$2.50 for every hour thereafter. This would be a sufficient deterrent to drivers from parking for too long periods at any one time.

As to car parking in general, I must say that the general public consider it appalling that Government has done little to encourage the building of more public and privately-owned multi-storey car parks. This shortsightedness in planning needs to be rectified, otherwise one can only assume that Government is satisfied with the *status quo* whereby about 70,000 parking tickets are been handed out monthly, generating a handsome income of \$2.1 million per month, potentially \$25 million per year.

UMELCO has also received representations from a large body of professional drivers who state that the proposal to apply the fee of \$50 to each endorsement on a licence is a grave threat to their livelihood.

Professional drivers I understand are required to hold a driving licence for a private car for several years before they are allowed to apply for a test to drive other larger vehicles. They have to graduate

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as it were from driving private cars, then to taxis and on to public buses.

These professional drivers seriously feel that their livelihood is threatened if once they are qualified they do not have their licence endorsed from year to year to permit them to drive different types of vehicles, depending upon the job opening available at the moment.

With the price of rice and other essential commodities rising at such a rapid rate, it is a heavy financial burden for them to pay \$50 for each additional endorsement on the licence.

More than that, they consider that it is an oppressive form of taxation on them as part of the poorer section of the community.

Government is therefore urged to reconsider its proposals on this subject, and either keep the licence fee at \$50 (which incidentally was increased from \$10 to \$50 last year) with all endorsements, or at the most, additional endorsements should not exceed a nominal \$5 per endorsement to cover the administrative expense involved.

While on the subject of vehicle classification, I would mention that it has been suggested that Government simplify the classification from 15 to 8 categories as follows:

1. Private car.
Goods vehicle not over 2 tons unladen.
2. Taxi.
New Territories taxi.
Public car.
3. Private light bus.
Public light bus.
4. Goods vehicle.
5. Private omnibus.
Public omnibus.
Public omnibus (double decked, and Guy Arab single decked only).
Public omnibus (double decked, and Albion and Seddon single decked only).

6. Motor tricycle and motor cycle.
7. Motor assisted pedal.
8. Invalid carriage.

The fourth point is on the subject of public housing. I would remind Government of the necessity to go full speed ahead in its plans to rebuild all the very old resettlement estates, now known as Group B Estates.

The older resettlement estates are the slums of our urban areas, and we owe it to the more than half-a-million residents in these estates to have them completely rebuilt so that the residents will have not only an improved housing standard but an improved quality of life as well.

Your Excellency has been the prime mover in the Government's ten-year programme to provide public housing for 1.8 million persons. I am concerned that the pressing ahead with this programme may be held up or retarded due to budgetary reasons.

I would urge that Government explore all possibilities of outside long-term loans for our specific major developmental projects, which would in turn release more funds to allow the Public Works Department to proceed full speed ahead in its New Towns and Public Housing Development Programme in accordance with the original scheduling.

A greater availability of public housing at rentals which our lower income groups can afford is one effective way to keep down inflation and rising living costs, and is a matter of the utmost priority.

To cut back on our public housing programme now and for the next two or three years would only make it more expensive and more difficult to complete in the years ahead.

The fifth point has to do with the fact that within the past few years the rate of our population growth due to natural increase and immigration has been putting a heavy strain on our social services.

The faster our population expands the more difficult it will be for our public housing programme, our education expansion plan and our other social services to be able to provide a higher living standard and improved quality of life for our population.

Since the oil crisis, there has been an increasing level of unemployment and under-employment in Hong Kong, and I would urge Government to watch this situation most carefully.

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I would also suggest greater co-ordination between Government departments, such as between the Labour Department, which operates the Employment Service, and the Home Affairs Department in making known the facilities of the Employment Service at the CDO District level and within Government housing estates.

The smaller the unemployment figure we have in Hong Kong, the higher our overall productivity will be, and this contributes to the Hong Kong economy remaining more buoyant and stable in today's conditions.

My sixth and last point has to do with the Civil Service.

From the point of view of the ordinary citizen, it seems that Government has a most cumbersome system of reviewing the salaries of civil servants.

For example, after completion of salary reviews, Government has the habit of back-dating pay awards for as long a period as 6 to 9 months. It is obvious that by the time such salary reimbursements are made, the civil servant will have already weathered the worst of the inflationary spiral, with or without interim increases.

To put it simply, I am in favour of interim allowances being awarded to civil servants to cope with sharp inflationary spirals as and when the situation demands. However, after the recommendations of any committee which has been set up to review salaries have been accepted by Government, no back pay should be allowed and the revised salaries should immediately supersede the interim salaries.

It seems to me that this is a more sensible and practical way to go about increasing the salaries of civil servants, and to ensure in a balanced way that they are not too badly hit by inflation and sharply rising living costs.

Another aspect of the Civil Service that I wish to make reference to is the proposed establishment for 1974-75 of 105,383 permanent posts and 7,435 supernumerary posts, which represents a 7.55 *per cent* increase in the total net establishment.

At a time when it seems to be Government's policy to tighten the belt a little, it would seem to make sense that all departments keep

their new manpower requirements to the very minimum and concentrate on maximum efficiency and productivity among existing staff.

From what I am given to understand, we still have a long way yet to go to implement the McKinsey Report in boosting up the efficiency and productivity of the Civil Service as a whole.

I would now like to draw attention to Head 84—Subventions: Social Welfare, where the working figure of \$37.6 million was proposed by the Social Welfare Department after it was endorsed by the Social Welfare Advisory Committee and approved on 31st October 1973.

For budgetary reasons—arbitrarily arrived at of course—the sum has been reduced by \$1 million. This is a matter of very great regret, and in the opinion of many responsible social workers will set back progress on the Five Year Plan for social welfare development in Hong Kong 1973-78, and rather unnecessarily at that in view of the comparatively small amount involved.

I would urge that Government accept the figure of \$37.6 million as endorsed by the Social Welfare Advisory Committee, and seek to raise the \$1 million amount from other sources of revenue.

It has been suggested—somewhat lightheartedly but with a grain of seriousness—that one such additional source of revenue which has still to be tapped could be some of the so-called "protected" establishments such as music parlours, which pay only \$25 business registration fee a year in addition to a variable but no doubt sizeable amount of protection money.

Finally, Sir, I wish to point out how very disappointed the 36 assisted private schools which had applied last year for full subsidy are that no mention is made in the budget of this subsidy being given.

These 36 assisted private schools which are non-profit making are collecting \$75 - \$80 school fees monthly from over 30,000 students in Forms I to V. Unless their application for full subsidy can be met by the coming September, they may be forced to raise school fees due to increased costs, thus adding to the already severe financial burden of lower-income families.

I would strongly urge that the application of these 36 assisted private schools which are all well-known and well-established schools in Hong Kong be dealt with sympathetically and that some positive action be taken expeditiously before September this year.

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Your Excellency, may I say in closing that I have the greatest confidence and faith in the future of Hong Kong, and I know that this confidence and faith is universally shared by the people of Hong Kong.

MR SAYER: —Sir, in his review of our economy and his presentation of the Government's accounts and his budget proposals for 1974-75, the honourable Financial Secretary gave a most impressive and comprehensive report and I would like to add my congratulations. No one can say that he has not been fully informed as to what is going on and the choices open to us.

The issues in Hong Kong are finely balanced. On the one hand there is the need to provide better housing, education and other community services, and on the other hand there is the need to ensure that the commercial sector can function profitably and without undue concern.

I believe, Sir, that the Government's policies have been right in the past and its projections for the years ahead are well tuned to the rather specialized circumstances of our existence.

The question which must exercise our minds in the future, if we are to ensure improved living standards and an orderly development of our economy, is the extent of intervention required from Government and how much we can expect. There is a price to pay in the form of increased revenues from taxes and a possible reduction in freedom of choice. In my view, there is now a better understanding and acceptance amongst our population of the necessity for greater participation by Government in every facet of our lives—indeed this trend has been growing for a number of years. There is also in my view a greater willingness today to put something back into the community, and the Government has done much to foster this spirit.

At the same time we must allow the enterprising and industrious spirit of our people to flourish and at all times to maintain public confidence in the future of Hong Kong. Government has the unenviable task of setting the pace and utilizing often limited resources to ensure steady progress. It is something of a tight-rope walk, but Government has a good sense of balance.

Sir, my bouquet is not without a few hidden thorns! There are some aspects of the Financial Secretary's speech with which I do not entirely agree and to which I would advocate deeper consideration.

Firstly, his reference to finance companies and in particular deposit taking finance companies. One has only to look to the United Kingdom to see the effects on a monetary system of the uncontrolled proliferation of finance companies and secondary banks. It is not therefore surprising that questions should be asked as to the composition and the mode of doing business of institutions of this kind operating in Hong Kong. Furthermore we do not know if the number is large or small because definitive records are not kept, but the point is that we ought to have some idea of the extent of their activities and the impact they have or might have on our financial structuring. A first step must surely be to establish a list of those concerns who do or wish to actively seek deposits from the public—and in speaking of the public I include corporate bodies. For all we know the list may be small, in which case it should be comparatively easy to license them and to exercise some control including the adoption of the minimum deposit concept the Financial Secretary has suggested. If the list is large, then the problem of control is, I agree, going to be difficult, but it may also mean that there is a greater urgency for something to be done. Self-discipline has been suggested as a means of regulating the activities of these companies; however this is not easy to promote—just as it has proved difficult to promote amongst those in the business of dealing in securities. And without some indication of how many and who are in this business, it would probably be impossible. I would therefore urge that these companies be required to register, after which licences can be issued subject to minimum requirements being met as to capital and the observance of the minimum deposit concept. Having done this, I would not put it beyond the bounds of possibility for an association or associations to be formed with the object of maintaining rules and standards without the Government having to introduce a complex range of statutory requirements and to employ an army of enforcement officials. Nevertheless a positive lead from Government is required.

Secondly, the matter of interest tax. The Government's reluctance to abolish this particular form of tax is well known. The argument has been that there is a risk of disturbing the Hong Kong dollar deposit base and it is a valid one, although I personally do not subscribe to it. If people lose confidence in our currency and are able to do so, they will move their money out anyway. Nor do I consider the loss of \$66 million a major factor when compared with the total

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revenue estimate for 1974-75 of \$5,276 million. Be that as it may, I do not wish to press the point; but what about our ability to accept foreign currency deposits and quote competitive interest rates? I listened with interest to the Financial Secretary's words on his soundings and surveys in the market. I can understand that many of the institutions which were approached, including those very deposit taking finance companies I have already mentioned, want the privilege of taking these deposits in their books without the honour of paying profits tax on the turn they make, but I suggest this is akin to having one's cake and eating it!

There are nevertheless four distinct advantages to my mind in allowing licensed banks to participate effectively by abolishing the interest tax on this particular form of deposit. Firstly, it means that Hong Kong will be able to offer a service for which there is undoubtedly a demand. Secondly, it means that these funds will be deposited with institutions who are obliged to observe rules and standards laid down by our Banking Ordinance, thereby affording protection to depositors. Thirdly, these foreign currency deposits are largely term deposits—that is they are deposited for fixed periods of time—and consequently could and would be available to re-cycle into our economy. Fourthly, there should be a profit in the business which would be taxable, and by this means provide a valuable source of revenue. To put it another way, Sir, I would rather see this money under the control of institutions here and providing resources and revenue for our community than being remitted out of Hong Kong where we can reap none of the benefits I have mentioned.

Finally, Sir, reference has been made to the possibility of having to increase taxation as well as to widening the scope of taxation. I do hope that when these matters are reviewed care will be taken not to drive away investors and industrialists and those who are accustomed to using Hong Kong as their centre of operations, because these people have a vital role to play in the development of our economy. I personally would like to see further thought given to better collection of existing taxes within the existing tax framework, although I do question whether the present post-war devised system is still suitable and whether it is really effective and enforceable within the limited resources available to the Inland Revenue Department.

Sir, I beg to support the motion.

MR F. W. LI: —Sir, when I first read the draft Estimates of Revenue and Expenditure for the year 1974-75, I was neither surprised nor alarmed to see that an estimated deficit of \$68 million was budgeted for. This deficit is indeed a small amount, in comparison to the huge surpluses which we have been accumulating for the past years. My honourable Friend, the Financial Secretary has now made proposals to increase certain taxes to bring in more revenue instead of curtailing expenditures too drastically. He has not only balanced the budget but created a small estimated surplus of \$21 million. This he has done with admirable ingenuity, for which I must congratulate him. The fact that he has managed to safeguard our policies in pressing forward with the programmes planned for the benefit of the community, despite the uncertainty in the economy, is indeed itself a remarkable achievement.

It is gratifying to note the growth of total expenditure on social services in its five segments has increased from \$550 million for 1963-64 to \$1,980 million for 1973-74 and an estimate of \$2,367 million for 1974-75, which represents 39% of the total budgeted expenditure.

In answer to a question I raised in this Council on 13th February this year my honourable Friend, the Secretary for Social Services, explained that voluntary organizations on discretionary grants are not provided with funds to assist them in granting to their own staff equivalent salary increases to those approved for comparable posts in the public service during the course of a financial year. Such increases are however taken into consideration when determining their subvention for the ensuing year only. I refer in the first instance to medical subvented agencies such as the Pok Oi Hospital, whose nursing staff made strong representations to UMELCO for adjustment of their salary scales for the year 1973-74. The medical staff of these organizations, which together operate over 3,000 of the total 14,000 odd hospital beds available in Hong Kong, are normally behind their Government counterparts in terms of remuneration. Their salaries are in fact tied to those paid by Government, but unlike their counterparts in the public service, they receive no back pay and have to wait until such time as an additional subvention is approved, if at all.

In addition, I refer to an anomaly which exists in certain subvented organizations, for example, the Hong Kong Red Cross. This organization is a member of the Community Chest, and is currently receiving subventions from three Government departments, namely, deficiency grants from the Education Department, and discretionary grants from the Medical and Health Department and the Social Welfare Department. Sir, I am sure that my honourable Friend the Financial Secretary

[Mr LI] **Appropriation Bill—resumption of debate on second reading (13.3.74)**

will understand the difficult situation arising from differential treatment to various employees within one organization.

I understand also that representations to Government have been made by two groups of voluntary agencies, and they have received replies to the effect that it is up to the individual organizations concerned to meet contingencies such as salary increases by raising additional funds on their own. The results of such action could be very uncertain, especially in view of the Community Chest. The actual position is that most of these organizations rely primarily on Government subventions, and find themselves in an impossible situation caused by Government's stand, which seems quite inconsistent with previous indications of the principles of the White Paper. The voluntary sector had been greatly encouraged by this white paper, "The Way Ahead" on social welfare development in Hong Kong, and also looked forward to active participation in both the implementation and the periodic reviews of the Five Year Plan based on the White Paper.

At the present time, for the staff employed in these organizations, it is not difficult to envisage their frustration in knowing that they are receiving less pay than their Government counterparts, particularly if they have the same qualifications and are doing the same type of work. The present position can only lead to further erosion of the morale of their existing staff which in turn may lead to a decline in the quality of service to the general public.

From the standpoint of economy, and since Government could not possibly take over and manage all voluntary agencies on its own, I feel that their appeal should be reconsidered, so that they may have a chance to survive and continue to serve the community.

Hence, I firmly recommend that Government should revise its established subvention policy with a view to applying the principle of "Equal Pay for Equal Work" to all. This means that all the voluntary organizations concerned should be provided with sufficient funds to enable them to pay salary increases retrospectively to the same date as that chosen for Government servants. Furthermore, the financial procedure should be so arranged as to enable the adjustments in the salaries to be made at the same time as those applicable to the public service. Anything less can only be regarded as discriminatory and unfair to the staff concerned. After all, employees of organizations subvented by Government should be considered subvented Government

servants, as they serve the community in exactly the same way as their Civil Service counterparts.

Sir, I would be grateful for an assurance that this matter, which is so urgent, be looked into without delay.

Throughout the Financial Secretary's comprehensive and lucid speech, I sense a note of caution and austerity. He stresses the necessity of "a tightening of financial control to ensure cost-efficiency, modesty of standard, minimum overheads and elimination of waste and extravagance".

As the total estimated expenditure for next year will reach a new record of \$5,679 million and the size of the Public Service will be close to 113,000 posts, I would heartily endorse his views.

I wish to point out some of the remarks made by the Director of Audit in his report for the year ended 31st March 1973, which was tabled in this Council recently. I do not propose to dwell at length on its full contents, but there are a few representative items out of the fifty-odd statements which I feel deserve special mention in relation to administrative and financial control. They are—

- (1) Miscellaneous Advances of \$20.6 million which included two advances totalling \$19.8 million, a substantial amount of which is likely to prove irrecoverable.
- (2) Arrears of revenue totalling \$88.6 million of which \$48.6 million was still outstanding at the end of June last year.
- (3) Internal Revenue of \$16 million additional tax was overlooked due to a misunderstanding which had occurred between the Inland Revenue Department and the Treasury with regard to a procedure introduced in 1966.
- (4) Overpayments of overtime allowance had occurred as a result of the deliberate fabrication of entries on claim forms in order to circumvent the provisions of regulations governing the payment of overtime.
- (5) On several occasions, long delays between the leasing of office accommodation by Government and its occupation by departments, which resulted in Government paying rent on unoccupied premises for as long as a twelve-month period.
- (6) Notice has been made of departmental quarters being occupied by persons other than serving officers, in some cases without payment of rent. Conversely, some quarters have remained empty for as long as five years or more for various reasons.

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(13.3.74)**

Simple arithmetic will show that the total amount involved in the above cases alone is a cause for serious concern to us, in particular to the taxpayers. I venture to suggest, Sir, that if all the above waste and mismanagement had not taken place, the Financial Secretary might not have found it necessary to propose some of the tax increases. I strongly urge that the new planning processes of monitoring and control of departmental expenditure as recommended in the McKinsey Report, should be fully implemented in order that more stringent and effective control can be exercised within the Service.

In November last year, when I was speaking at the opening session of this Council, I suggested that priority be given to the construction of more Government buildings to meet the need of staff quartering and office accommodation. I also mentioned that it was still economic for Government to build for its own use instead of having to bear the burden of high rentals and hotel charges.

In the Estimates for 1974-75, under Miscellaneous Services, Government has again budgeted for \$24.3 million for quartering which includes \$4 million for hotel expenses and \$48.5 million for Government leased accommodation. These add up to the vast sum of \$72.8 million.

From information supplied, the number of private tenancies is estimated at 550, while the total area of leased office accommodation is about 850,000 square feet. Whether or not the average rental payable for them is considered excessive at present day market prices, these two items of expenditure must be looked upon with a long-term view. I dread to think of the consequences if Government were faced with unreasonable demands by unscrupulous landlords of business premises which are not under any rent control.

With such a large outlay by way of rental payments, I maintain that, to build and own properties is a better investment in the long run, especially since only Government have access to "free" land. We must therefore build enough for our own use without having to depend on the private sector.

I have no doubt that my honourable Friend, the Financial Secretary will wish to draw my attention to the estimated revenue of \$459 million from land sales as compared with \$367 million for 1973-74, an increase of almost \$100 million. I fully appreciate this; but my point is, why cannot Government carry out sales of choice sites and at the

same time construct buildings for its own use on less expensive sites? Furthermore, could not older premises and larger areas now accommodating, say, one or two families be redeveloped into new quarters which could house many more families, thus utilizing the land more economically and relieving the shortage?

Under the same head, there is an item of "Purchase of Non-Departmental Quarters" at \$29.8 million in Subhead 39. This represents the payment by instalments of the cost of purchasing 120 flats in Pok Fu Lam at \$42.9 million. The average price of these flats amounts to over \$357,000 each. In this respect, I question the necessity of such generous accommodation. While I welcome the decision that Government should own property, whether by purchase or construction, or by any other workable method such as those suggested by my honourable Friend, the Secretary for the Environment in a recent speech made to members of the Real Estate Developers Association.

I therefore reiterate that Government must aim at building and owning enough quarters and office accommodation for its own use. If this policy is adopted, it may ultimately lead to elimination of the heavy burden of expenditure on hotel charges, private tenancies and office rentals.

My honourable Friend, the Financial Secretary, mentioned in his speech two weeks ago that he had in mind the introduction of a Protection of Depositors Bill, the main provision of which would be the stipulation of a minimum size of deposit which finance companies could accept from the general public. Unless the minimum size of this deposit is prohibitive to the ordinary depositor, I feel that this form of protection alone is inadequate.

I welcome the presence of finance companies, which could contribute their share in enhancing Hong Kong as a major financial centre. However, I think some legislation besides the size of deposit is necessary. I would envisage the deposit-taking finance companies playing a role complementary to other financial institutions and forming an integral part of our financial structure. I am sure that the reputable finance companies will agree with me because they would not wish any adverse reflection on themselves should any eventualities arise.

With respect, I do not entirely agree that a full range of statutory regulations is too complicated and difficult to enforce, as it has worked well in our neighbouring cities. But in view of the time involved, I advocate that simple regulations be introduced through the Protection of Depositors Bill to control these finance companies which take

[MR LI] **Appropriation Bill—resumption of debate on second reading (13.3.74)**

deposits. They are, compulsory registration, payment of an annual licence fee, a minimum paid-up capital, a minimum liquidity ratio, a minimum size of deposit which they can accept and the filing of monthly returns. These requirements are not too troublesome for the companies to fulfil, and neither should they be too much work for Government to police.

I stress this, because we have certainly had an unfortunate experience in our stock market. To those who deplore that the Securities Bill might have come too late, I would say it was a case of "better late than never".

Without wishing to cause undue apprehension, a word of warning would seem opportune here. The recent difficulties experienced by the "fringe" financial institutions in the United Kingdom could well serve as a lesson to Hong Kong. I submit, Sir, that the time is now ripe to take immediate action in the interest of the public.

Sir, subject to these remarks and the objections on points raised by my senior Unofficial colleagues, I support the motion.

MR CHEUNG: —Sir, whilst I have no brief to summarize the views of my Unofficial colleagues, one or two trends in the debate I think would have been apparent. Our concern, like the concern of my honourable Friend the Financial Secretary, is with the continued economic growth of this Colony and bringing about a better life.

To bring about the economic growth, I would suggest that it is necessary to build the roads and means of communications which are in the public works programme, and to provide the infrastructure for the new towns which are being built. This is money which is going into capital investment, not recurrent spending, and this is capital investment on a large scale. Eventually Government will get it back and the gross domestic product will increase by way of land sales, more property taxes, more profits tax, more rates; and what I disagree with, in my honourable Friend's speech, is that he looks at this capital investment programme over a period of three years as if he expects a quick return from this capital investment. It is not possible. We are laying out the money now, and we shan't get it back, even in Hong Kong, in three years. I should be very sorry indeed to see any curtailment in capital expenditure which is necessary for our economic growth.

It seems to me that there are really two things we have to do: one is to raise more revenue, two, to exercise some economies. Now, when it comes to the raising of revenue, I am very disappointed with the way that my honourable Friend has dealt with the excise duty on spirits. Whilst I do not aspire to the capacity of the late Prime Minister who drank before, during and after meals, and if need be, in between, nevertheless I am not a teetotalter (*laughter*), but I am disappointed at the very modest increase which my Friend has levied on spirits, and I would suggest that there is a reserve in taxation capacity which he might well use next year.

Other methods of raising finance have been mentioned by him and by my honourable colleagues: one is obviously the raising of loans to finance capital expenditure. Apart from that there is only one source of potentially large revenue that I can think of which so far has not been canvassed, I think, in this Council, and it is to grant a franchise of the same kind which sustains the neighbouring Colony of Macao. (*laughter*) I won't explore that thought further today, but I think the time has now come when serious consideration ought to be given to such a franchise, and what safeguards there ought to be in granting such a franchise.

Like all my Unofficial colleagues I deplore the depredations which my honourable Friend is about to make on motorists. They have over the past twenty years by the taxes they paid, on first registration tax, Commonwealth preference tax, tax on petrol, driving licences and everything else, paid for our roads many times over, although the roads are not only for the use of the private motorists. And the proposal by my Friend to raise the car parking fees to the astronomical levels that he indicated he proposed to do, goes absolutely counter to the one transport policy which was agreed unanimously by the Transport Advisory Committee, and that was to take stationary cars off our roads, to make use of our roads as roads and not as car parking spaces. However, we are not debating, I have checked, these proposed increases today, and I shall not qualify my remarks when I support the motion that it is subject to amendments about those taxes, but I think sufficient has been said by my honourable colleagues that on transport and taxes on motorists, they do not share the philosophy of some of the zealots in Government.

Now, if I may come to some economies. I think a lot of money is wasted in enforcing certain laws. Money is being frittered away this very moment by having a large number of policemen see whether motorists are crossing the double white lines which are part of our

[MR CHEUNG] **Appropriation Bill—resumption of debate on second reading**
(13.3.74)

roads. That is a regulation about which I shall have more to say, but, at this moment, I will merely confine myself to observing that it borders on the lunatic. It was laid on the table of this Council, unfortunately, when I was on vacation last year (*laughter*), otherwise honourable Members would have heard from me before now about it (*laughter*), and I only discovered recently it had been enacted. I won't tell the circumstances in which I discovered that it was enacted (*laughter*).

Now the other, rather a second way in which I think justifiably we can exercise economy is in the size of quarters which are provided for members of the Civil Service. I absolutely would support proposals to provide the Civil Service with decent housing. But I have before now in Public Works Sub-Committee objected to the scale of the accommodation which is provided; to the scale of the rooms and the number of rooms which are provided in quarters for civil servants, and I think when proposals to build more quarters come up in Public Works Sub-Committee, I for one will certainly exercise a very critical eye over the proposals, and in that I hope to have the support of my honourable Friend, the Financial Secretary.

The third matter where I think we've got to be realistic about financing—maybe this is not really an economy—and that is in the rents which we get from public housing. I don't suggest for one moment that (not today at any rate) that we disturb the rents that existing tenants pay for existing low cost housing premises or the resettlement premises which the Housing Authority has taken over. But I do suggest that in the new estates which are being built, in the new towns which are being built, the standard provided is very good and the amenities provided are in fact better than a lot of housing in the private sector, and I think that in respect of these new estates the Government, or rather the Housing Authority—I discover that we have delegated this to the Housing Authority (*laughter*)—surprising how much one finds out, Sir, after the event in this regard, I think there must be a realistic policy about the rents which are to be charged in these housing estates; and they've got to be realistic as to the period over which the capital cost is to be amortized and the rate of interest which is to be used in calculations. We must get a reasonable return on these new amenities.

I only have one more thing to say. You, Sir, and members of Government would have heard the grave concern that my colleagues

have expressed on inflation. I think it would be apparent to anybody who has listened to—or who will read—the speeches that have been made in this Council, that it is a matter which Unofficials, and I think, Government officials too, view with alarm, and I think it is fair to warn those who profiteer, and who contribute to an unreasonable rate of inflation, that this Council is becoming so concerned about it that it might twist the arm of the Government to take more positive measures to curb inflation. And the warning I wish to sound is this: once freedom of contract is lost, it is not easily regained; and to those who profiteer, I would bring to their recollection the example of landlords. I support all that my colleagues have urged, and it would be right for Government to make investigation to see whether somewhere along the line there is not excessive profiteering.

I have come across two forms. One particular brand of whisky which used to sell for \$39 before the budget now sells for \$45, although I am informed my honourable Friend has only increased the duty on it by \$2.50. One kind of cigarette which sold for \$1.40 for twenty now sells for \$1.70, although the tax increase, so my honourable Friend informs me, is only 10¢ upon the twenty. Somebody is taking advantage of the rise in these duties to make extra profits which at this time in this economic climate in Hong Kong is undesirable; and it is right that Government should check into where the abuse is. It might also check into the price of fish and vegetables. So far as I know the selling prices of fish and vegetables in the wholesale market have not gone up that dramatically—I believe my Friend Dr CHUNG gave figures yesterday as to the cost of certain foodstuffs—and somewhere along the line the producers are not getting very much higher prices but the common people of Hong Kong are paying a good deal more.

Whilst on the subject of inflation, I don't know if it's proper for me to suggest this, but I do suggest it—you can rule me out of order, Sir—I would respectively suggest that it would be proper to find out what prices are being charged for our foodstuffs by our largest supplier, to see whether our largest supplier has in fact increased considerably the prices charged on foodstuffs, and if the prices have been steeply raised, or very much raised, then it may be, Sir, a matter for negotiations between governments, and in the negotiations to ask whether it is really in the interests of the supplier or in our interests that prices should be raised to such levels.

With those remarks, Sir, I support the Appropriation Bill, that's not the one by which my Friend wants further taxes, that's the one, I gather, in which he wants $5\frac{3}{4}$ billion dollars, which I gladly accept.

Motion made. That the debate on the second reading of the bill be adjourned—THE COLONIAL SECRETARY.

Question put and agreed to.

**MASS TRANSIT RAILWAY PROVISIONAL
AUTHORITY BILL 1974**

Resumption of debate on second reading (13th February 1974)

Question proposed.

Question put and agreed to.

Bill read the second time.

Bill committed to a committee of the whole Council pursuant to Standing Order 43(1).

First reading of bills

INLAND REVENUE (AMENDMENT) BILL 1974

**QUARANTINE AND PREVENTION OF DISEASE (AMENDMENT) BILL
1974**

**LANDLORD AND TENANT (CONSOLIDATION) (AMENDMENT) BILL
1974**

EMPLOYMENT (AMENDMENT) BILL 1974

WORKMENS COMPENSATION (AMENDMENT) BILL 1974

Bills read the first time and ordered to be set down for second reading pursuant to Standing Order 41(3).

Second reading of bills

INLAND REVENUE (AMENDMENT) BILL 1974

THE FINANCIAL SECRETARY moved the second reading of: —"A bill to amend the Inland Revenue Ordinance."

He said: —Sir, in paragraphs 140-141 of my budget speech last month, I said I proposed to introduce an amending bill into this Council as soon as possible to correct an error on my part in charging half

property tax on vacant premises. As I explained to honourable Members, before 1st April 1973 owners of vacant properties could claim full refunds of property tax. When half rates were introduced under the Rating Ordinance 1973, I also introduced half property tax coincidentally, without realising at that time that such a move was wrong, wicked and illogical.

The main object of the bill now before Council is to exempt vacant properties from full instead of half property tax, for three reasons: first, owners of properties used for producing profits would be able to offset their half property tax against profits under section 25 of the Ordinance; secondly, most corporations would not be liable for the half property tax since they are exempted under section 5(2)(a) of the Ordinance; and thirdly to presume income when there was by definition no source for income was obviously a departure from the principles underlying taxation in Hong Kong. Clause 3 of the bill restores the position before 1st April 1973 when full property tax was exempted.

I have also taken this opportunity to introduce another amendment in the bill. My object here is to relieve owners of pre-war rent restricted properties from paying increased property tax following a re-assessment of rateable values. Because of doubts as to the assessment of rateable values for premises let at rents controlled under Part I of the Landlord and Tenant (Consolidation) Ordinance, the Commissioner of Rating and Valuation has, in many cases, accepted the restricted rent passing as the basis of rateable value. These doubts have now been removed by a court judgment to the effect that rateable values can not be restricted to the levels of rents. So, on re-assessment, rateable values may now exceed the restricted rent passing by a considerable amount and rightly so. The resulting property tax charges however could then be quite inequitable. To prevent this happening, it is proposed to freeze the property tax charges for such premises to that payable as at 1st April 1973, notwithstanding any subsequent re-assessment. Clause 2 of the bill provides accordingly.

Motion made. That the debate on the second reading of the bill be adjourned—THE FINANCIAL SECRETARY.

Question put and agreed to.

**QUARANTINE AND PREVENTION OF DISEASE
(AMENDMENT) BILL 1974**

DR CHOA moved the second reading of:—"A bill to amend the Quarantine and Prevention of Disease Ordinance."

He said:—Sir, the bill makes three main amendments to the Quarantine and Prevention of Disease Ordinance.

By clause 2 of the bill, the existing definition of "infectious disease" in section 2 of the Ordinance is deleted. This is replaced by a list of infectious diseases as set out in a new First Schedule. The new Schedule includes two new diseases and also two other diseases which have already been declared infectious diseases by the Governor in Council.

The two new diseases are viral hepatitis and food poisoning (excluding dysentery and enteric fever). Both diseases are at present only voluntarily notifiable in Hong Kong. However, voluntary notifications are quite incomplete. On public health grounds it is necessary to have a more comprehensive picture of their incidence and to be able, as a result, to take appropriate preventive measures. It is therefore necessary to make these two diseases statutorily notifiable so as to have a much more complete picture of these two diseases in Hong Kong. The proposals have been discussed with the two medical associations, namely the Hong Kong Medical Association and the British Medical Association Hong Kong Branch. Neither has any objections. The terminology used to describe the diseases also has the agreement of the associations.

The two other diseases to be included in the new Schedule are ophthalmia neonatorum and leprosy. They have been previously declared infectious diseases by the Governor in Council.

Secondly, clause 6 provides that the list of infectious diseases in the new First Schedule may be amended by the Director of Medical and Health Services. The opportunity is also taken to empower the Director to amend the forms in the existing Schedule.

Thirdly, clause 4 extends the application of section 41. At present any reasonable costs incurred by Government, acting under the Ordinance in relation to persons on any vessel or aircraft, may be recovered from the owners or agents of the vessel under section 41. Clause 4 extends the section so that it also includes the owners or agents of aircraft.

If the present bill becomes law, certain amendments have to be made in respect to two sets of subsidiary legislation—the Prevention of the Spread of Infectious Diseases (Cancellations) Notification 1974 and the Prevention of the Spread of Infectious Diseases (Amendment) Regulations 1974. The purpose of these amendments is to streamline the operation of the related regulations.

The Prevention of the Spread of Infectious Diseases (Cancellations) Notification 1974 cancels the notifications declaring ophthalmia neonatorum and leprosy to be infectious diseases. These are no longer required as they are to be included in the new list of scheduled diseases in the Ordinance.

The Prevention of the Spread of Infectious Diseases (Amendment) Regulations make two changes. First, regulation 2 deletes the definition of "infectious disease", which is replaced by the list of diseases specified in the First Schedule to the Ordinance. Secondly, regulation 3 provides that payment for notification of infectious diseases may be made to the doctor concerned without the need for a special application to that effect.

A detailed explanation of the provisions of this bill is given in the explanatory memorandum appended to the bill.

Motion made. That the debate on the second reading of the bill be adjourned—DR CHOA.

Question put and agreed to.

LANDLORD AND TENANT (CONSOLIDATION) (AMENDMENT) BILL 1974

SECRETARY FOR HOUSING moved the second reading of:—"A bill to amend the Landlord and Tenant (Consolidation) Ordinance."

He said:—Sir, the purpose of this bill is to transfer from the Secretary for Home Affairs to the Commissioner of Rating and Valuation a variety of functions under the Landlord and Tenant Ordinance affecting pre-war controlled premises, both domestic and non-domestic. These functions are discharged by the Tenancy Inquiry Bureaux administered by the Home Affairs Department, and it is proposed to transfer these very useful bureaux to the Rating and Valuation Department. The latter department is already the competent authority for all such matters affecting post-war rent-controlled domestic premises, the numbers of which greatly exceed the diminishing number of pre-war

[SECRETARY FOR HOUSING] **Landlord and Tenant (Consolidation) (Amendment) Bill—second reading**

properties, and it is therefore good sense to assemble all these functions in the Rating and Valuation Department. To this end, the bill now before honourable Members provides for the transfer of these statutory duties from the Secretary for Home Affairs to the Commissioner of Rating and Valuation. The work of the bureaux also includes a wide range of non-statutory services to tenants and to tenancy tribunals, but this bill deals of course only with statutory functions.

Once all such services are centralized in the Rating and Valuation Department it will be possible to achieve some rationalization in the use of staff, and so to provide a better service to the public. At the same time, I should add that it is hoped in due course to locate both the Kowloon and the Hong Kong Island bureaux in premises more accessible to the public.

Motion made. That the debate on the second reading of the bill be adjourned—SECRETARY FOR HOUSING.

Question put and agreed to.

EMPLOYMENT (AMENDMENT) BILL 1974

SECRETARY FOR SOCIAL SERVICES moved the second reading of: —"A bill to amend the Employment Ordinance."

He said: —Sir, when the Employment Ordinance was enacted in September 1968, its provisions were applied to all manual workers and to those employed in non-manual work whose wages did not exceed fifteen hundred dollars a month.

Both wages and the cost of living have increased since 1968. The nominal wage index for industrial workers rose by nearly 89 *per cent* from 134 in September 1968 to 253 in September 1973. There is no index reflecting wage movements for non-manual workers. But on the assumption that their wages have been adjusted to reflect the rise in the cost of living, it would seem reasonable to assume an increase equivalent to the change in the Consumer Price Index over the same period. Taking the moving annual average of the Consumer Price Index, which tends to iron out seasonal fluctuations, there has been an increase of about 37½ *per cent* in those five years. As there was an extremely high increase for the quarter ended September last year,

which may have distorted the position somewhat, a slightly lower adjustment would seem reasonable. Hence it is proposed to raise the wage ceiling by 33 *per cent*, that is, from \$1,500 to \$2,000 a month. In this way, Sir, entitlement would be restored under the Ordinance to those non-manual workers whose present wages may reasonably be considered as equivalent in value to a monthly wage of up to \$1,500 in 1968. Such workers should not be denied protection merely because of a cost of living adjustment in their wages.

The Labour Advisory Board was consulted in October 1973 and members endorsed the proposal.

Motion made. That the debate on the second reading of the bill be adjourned—SECRETARY FOR SOCIAL SERVICES.

Question put and agreed to.

WORKMEN'S COMPENSATION (AMENDMENT)

BILL 1974

SECRETARY FOR SOCIAL SERVICES moved the second reading of: —"A bill to amend the Workmen's Compensation Ordinance."

He said: —the Workmen's Compensation Ordinance was originally enacted in 1953 and has since been amended on a number of occasions. These amendments have included adjustments, in the light of wage increases, to the maximum ceiling for the entitlement of non-manual workers under the Ordinance as well as to the maximum levels of compensation payable to injured workmen. The present ceiling and compensation rates were established in 1969 and, for the same reasons that I have just outlined in moving the second reading of the Employment (Amendment) Bill 1974, it is now proposed that the wage ceiling for non-manual workers be increased also from \$1,500 to \$2,000 per month.

Sir, In addition to raising the wage ceiling of non-manual workers, it is also proposed that the compensation rates for three categories of compensation be similarly increased by the same proportion of 33 *per cent*.

Firstly, dependents of a worker killed in the course of his employment are at present entitled to compensation, under section 6 of the Ordinance, equal to 36 months' wages which should not be less than

[SECRETARY FOR SOCIAL SERVICES] **Workmen's Compensation (Amendment)**
Bill—second reading

\$7,200 or more than \$45,000. Clause 3 of the bill proposes to increase these to \$9,600 and \$60,000 respectively.

Secondly, workers who suffer permanent incapacity are presently entitled to 48 months' wages which should not be less than \$9,600 or more than \$60,000. Clause 4 of the bill aims to amend section 7 of the Ordinance by raising these limits to \$12,800 and \$80,000.

Finally, a workman who requires constant attention as a result of his injuries may receive additional compensation of up to \$24,000 under section 8 of the Ordinance and clause 5 of the bill is intended to increase this to a maximum of \$32,000.

Sir, it is intended that the new rates of compensation should be applicable in respect of accidents occurring on or after 1st of July this year. The reason for this is to allow the insurance companies adequate time to make necessary preparations and adjustments before the bill is brought into effect on 1st July 1974 by notice in the *Gazette*.

The Labour Advisory Board has endorsed these amendments.

Motion made. That the debate on the second reading of the bill be adjourned—SECRETARY FOR SOCIAL SERVICES.

Question put and agreed to.

Committee stage of bill

Council went into Committee.

MASS TRANSIT RAILWAY PROVISIONAL AUTHORITY
BILL 1974

HIS EXCELLENCY THE PRESIDENT: —We will take the clauses in a group.

Clauses 1 to 9 were agreed to.

Council then resumed.

Third reading of bill

THE ATTORNEY GENERAL reported that the Mass Transit Railway Provisional Authority Bill 1974 had passed through Committee without amendment and moved the third reading of the bill.

Question put and agreed to.

Bill read the third time and passed.

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 27th of March.

Adjourned accordingly at five minutes to five o'clock.