

OFFICIAL REPORT OF PROCEEDINGS**Wednesday, 29 March 1978****The Council met at half past two o'clock**

PRESENT

HIS EXCELLENCY THE GOVERNOR (*PRESIDENT*)
SIR CRAWFORD MURRAY MACLEHOSE, GBE, KCMG, KCVO

THE HONOURABLE THE CHIEF SECRETARY
SIR DENYS TUDOR EMIL ROBERTS, KBE, 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 LI FOOK-KOW, CMG, JP

THE HONOURABLE DAVID HAROLD JORDAN, CMG, MBE, JP
DIRECTOR OF TRADE, INDUSTRY AND CUSTOMS

THE HONOURABLE DAVID AKERS-JONES, CMG, JP
SECRETARY FOR THE NEW TERRITORIES

THE HONOURABLE LEWIS MERVYN DAVIES, CMG, OBE, JP
SECRETARY FOR SECURITY

THE HONOURABLE DAVID WYLIE McDONALD, CMG, JP
DIRECTOR OF PUBLIC WORKS

THE HONOURABLE KENNETH WALLIS JOSEPH TOPLEY, CMG, JP
DIRECTOR OF EDUCATION

THE HONOURABLE DAVID GREGORY JEAFFRESON, JP
SECRETARY FOR ECONOMIC SERVICES

THE HONOURABLE ALAN JAMES SCOTT, JP
SECRETARY FOR HOUSING

THE HONOURABLE EDWARD HEWITT NICHOLS, OBE, JP
DIRECTOR OF AGRICULTURE AND FISHERIES

THE HONOURABLE THOMAS LEE CHUN-YON, CBE, JP
DIRECTOR OF SOCIAL WELFARE

THE HONOURABLE DEREK JOHN CLAREMONT JONES, JP
SECRETARY FOR THE ENVIRONMENT

DR THE HONOURABLE THONG KAH-LEONG, JP
DIRECTOR OF MEDICAL AND HEALTH SERVICES

THE HONOURABLE ERIC PETER HO, JP
SECRETARY FOR SOCIAL SERVICES

THE HONOURABLE PETER BARRY WILLIAMS, JP
COMMISSIONER FOR LABOUR

THE HONOURABLE JOHN CHARLES CREASEY WALDEN, JP
DIRECTOR OF HOME AFFAIRS

THE HONOURABLE JOHN MARTIN ROWLANDS, JP
SECRETARY FOR THE CIVIL SERVICE

THE HONOURABLE DAVID RAYMOND BOY, JP
SOLICITOR GENERAL (*Acting*)

THE HONOURABLE SIR SZE-YUEN CHUNG, CBE, JP

THE HONOURABLE LEE QUO-WEI, CBE, JP

THE HONOURABLE OSWALD VICTOR CHEUNG, CBE, QC, JP

THE HONOURABLE ROGERIO HYNDMAN LOBO, OBE, JP

THE HONOURABLE JAMES WU MAN-HON, OBE, JP

THE HONOURABLE HILTON CHEONG-LEEN, OBE, JP

THE HONOURABLE LI FOOK-WO, OBE, JP

THE HONOURABLE JOHN HENRY BREMRIDGE, OBE, JP

DR THE HONOURABLE HARRY FANG SIN-YANG, OBE, JP

THE HONOURABLE MRS KWAN KO SIU-WAH, OBE, JP

THE HONOURABLE LO TAK-SHING, OBE, JP

THE HONOURABLE FRANCIS YUAN-HAO TIEN, OBE, JP

THE HONOURABLE ALEX WU SHU-CHIH, OBE, JP

THE REV THE HONOURABLE JOYCE MARY BENNETT, JP

THE HONOURABLE CHEN SHOU-LUM, JP

THE HONOURABLE LYDIA DUNN, OBE, JP

DR THE HONOURABLE HENRY HU HUNG-LICK, OBE, JP

THE HONOURABLE LEUNG TAT-SHING, JP

THE REV THE HONOURABLE PATRICK TERENCE McGOVERN, SJ, JP

THE HONOURABLE PETER C. WONG, JP

THE HONOURABLE WONG LAM, OBE, JP

DR THE HONOURABLE RAYSON LISUNG HUANG, CBE, JP

THE HONOURABLE CHARLES YEUNG SIU-CHO, JP

ABSENT

THE HONOURABLE PETER GORDON WILLIAMS, OBE, JP

IN ATTENDANCE

THE CLERK TO THE LEGISLATIVE COUNCIL
MR STEPHEN TAM SHU-PUI

Oath

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

HIS EXCELLENCY THE PRESIDENT:—May I welcome Mr ROWLANDS to this Council.

Papers

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

<i>Subject</i>	<i>LN No</i>
Subsidiary Legislation:—	
Interpretation and General Clauses Ordinance. Specification of Public Office	60
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Dogs and Cats Ordinance. Dogs and Cats (Amendment) Regulations 1978 (Commencement) Notice 1978.....	65
Public Health and Urban Services Ordinance. Laundries (New Territories) (Revocation) Regulations 1978.....	66

<i>Subject</i>	<i>LN No</i>
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Evidence Ordinance. Evidence (Authorized Persons) (No 4) Order 1978	68
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Government business

Second reading of bill (Resumed debate)

APPROPRIATION BILL 1978

Resumption of debate on second reading (1st March 1978)

Question proposed.

SIR S. Y. CHUNG:—Your Excellency, in rising to open the debate on the 1978-79 Budget, may I on behalf of all the Unofficial Members of this Council say how delighted we were to hear last week that your term of office has been extended to August 1979. I know our feelings are shared by the people of Hong Kong. Under your able leadership, Sir, we are confident that Hong Kong will continue to move from strength to strength and to that end my Unofficial Colleagues and I pledge you our full and whole-hearted support.

Turning now to the budget, I wish to begin my comments by congratulating the Financial Secretary on the comprehensive manner with which he presented the budget. Although his Budget Speech is without doubt the longest one in this Council every year, every paragraph of the 226 paragraphs and every minute of the 172 minutes of his speech deserves our careful study and attention.

Sir, my first comment is on *Budgetary Trends and Guidelines*—Once again, the Financial Secretary has proved himself to be a man of prudence. There are really no surprising or drastic proposals in his Budget. During both the last two budget debates in this Council, I said that the Financial Secretary had been very conservative in his estimates of revenue.

In the 1976 budget debate, I compared his 1976-77 revenue estimates with the historical trends developed from my statistical analysis and I said: 'From historical projections, recurrent revenue for the 1976-77 budget should be

around \$7,000 million which is about 10% higher than \$6,370 million estimated by the Financial Secretary.’ The final accounts for the fiscal year 1976-77 are now available, and they show that recurrent revenue amounted to \$6,849 million which is very much nearer to my estimate than his.

Last year the Financial Secretary gave an estimate of \$7,474 million for the recurrent revenue for 1977-78. In my 1977 budget speech I said that his estimate of recurrent revenue was again conservative because from historical trends recurrent revenue for 1977-78 would be about \$8,000 million.

Unfortunately for him and fortunately for me, the revised estimate of recurrent revenue which is \$8,074 million given by the Financial Secretary on 1 March this year is once again very much closer to my estimate or forecast than his.

Sir, allow me to make one point very clear at this stage. These comparisons do not imply that I am better than the Financial Secretary in preparing estimates. Any man in his position would have taken a cautious and careful approach. In fact, last year in my budget speech I did say that I would not argue with him on his lower estimate of recurrent revenue and that I would be prepared to subscribe to his prudence in the light of the rather uncertain outlook of the world economy at that time.

This year for the first time, the Financial Secretary and myself have arrived at very similar estimates for 1978-79. His forecast of \$9,130 million for recurrent revenue for 1978-79 is very near to my figure of \$9,300 million derived from my statistical analysis of historical trends.

With regard to the expenditure side of the budget, the Financial Secretary and I have been in reasonably close agreement in the past few years. This year is no exception. His 1978-79 estimates of \$7,323 million for recurrent expenditure and \$10,266 million for total expenditure are practically identical to my estimates of \$7,300 million and \$10,000 million respectively, again based on statistical analysis.

All in all, the 1978-79 budget is generally in line with our past trends and acceptable guidelines and therefore has my support. I believe this is also the general feeling of all my Unofficial Colleagues of this Council.

My second comment is on *GDP Components—Their Change and Importance*—Sir, we in Hong Kong have made very satisfactory progress in economic development since we entered this decade. Gross Domestic Product at current market prices rose from \$18,670 million in 1970 to \$54,444 million in 1977—an overall increase of about 200 percent or an average annual growth of nearly 17 percent. GDP per capita at current market prices rose from \$4,716 in 1970 to \$12,100 in 1977—an average annual growth of 14 percent. These growth rates, despite the high rate of inflation in the early 1970’s, are high by any standards.

Whilst we may take pride in our achievements in raising the level of our Gross Domestic Product, there are signs for concern about the change of the relative importance in the components of the GDP. First, the export-oriented manufacturing sector which contributed over 31% of the total GDP in 1970 is gradually losing its importance. Its contribution to the total GDP was only 26.6% in 1975 and went down further in 1977, possibly to about 24%. Secondly, the expenditure of outgoing tourists in 1977 rose very much faster than receipts from incoming tourists. In making this comparison we must not forget that every dollar spent by Hong Kong residents abroad is a net outflow of funds whereas only a small portion of the average dollar spent in Hong Kong by incoming tourists is retained by us.

On the other hand, the contribution to GDP from domestic activities, particularly from civil construction and real estate, has been and is still rising quite fast. As we all well know, Hong Kong has no natural material resources nor has it sufficient arable land to produce all the food we require. We must not lose sight of the very fact that our people have to export to live. On a short-term basis our GDP can be raised by boosting domestic activities but in the long run this is not possible given Hong Kong's circumstances. We should not also overlook the fact that the increasing amount of civil construction work generated particularly by the Mass Transit Railway is financed from funds borrowed abroad and that eventually Hong Kong residents will have to pay for every dollar of these loans and the interest on them.

Sir, this leads me to reiterate the need for accelerated *Development of Export-oriented Industries and Services*—There is no doubt that it is the Government's responsibility to ensure a continuous increase in export earnings in order to match the growth in per capita GDP and the rising expectations of the population which must result in higher imports. In view of the slower rate of growth of export earnings as compared to the rising rate of domestic activities, there is an urgent need to accelerate the development of export-oriented industries and services.

So far, the Government has maintained that each individual industry must in itself be economically viable and does not believe that it should take an active role in promoting industrial inter-dependence and overall optimization in industrial development. There is however a growing body of local opinion that we in Hong Kong should not ignore the fact that a major reason for the successful industrial development in Japan, and, more recently, in South Korea and Taiwan is the direct and active involvement of their governments in these fields.

I would like to cite the rapid development of the electronics industry in South Korea as a case in point. In 1972 South Korea exported only HK\$800 million worth of electronic products which was less than half of our exports of HK\$1,700 million. By 1976 South Korea's export of electronics had already overtaken ours by 50 percent—theirs being HK\$5,550 million as against ours

of HK\$3,850 million. Within five years, their exports increased sevenfold whereas ours increased by only 125 percent.

The high rate of growth in electronics exports by our competitors has been achieved not by the efforts of the industry alone but with much Government assistance and involvement. In South Korea, for example, there is the Korean Institute of Science and Technology which carries out research and development for industry. There is also the Korean Institute of Electronic Technology to assist the electronics industry in technological transfer. A recent project of this Institute was concerned with the production and application of large scale integrated circuits. This particular Institute was established with funds amounting to about HK\$54 million—\$9 million from industry and \$45 million from the South Korean Government. The same Government has also established with public funds an Electronic Technician Training Centre and a Fine Instrument Centre comprising a standard calibration laboratory and a radio interference testing laboratory.

In the case of Hong Kong, Sir, the question now is not whether the Government should be involved in industrial development but to what extent that involvement should be.

Sir, as one of its members I am very much aware of the work of the Advisory Committee on Diversification which, since its establishment in October last year, has met six times. Seven more meetings are now scheduled to be held during the next three months. The Secretariat is working very hard and members of the Committee have gone through many piles of papers. I can only say that it is no easy task and, despite the impatience shown by some members of the press, it is my opinion that the Committee should not be pushed into coming to superficial conclusions and making hasty recommendations. The formulation of Hong Kong's economic policies in the next ten years depends very much on the findings and proposals of this Committee.

Water Supply

Sir, one of the items in this year's budget which has attracted the most comments from the public is that concerning water supply and charges. For a number of years the Financial Secretary has made repeated threats to increase water charges. Each time his threat was met with objections from the public and this year is again no exception.

As far as domestic consumption is concerned, the Government has already accepted modification of the no-subsidy principle since 1971. The more urgent problem now is how to improve the degree of fairness to those residents living in flats without individual water meters and those families which share apartments with only one meter for all the families.

Almost every year since 1975 the Financial Secretary and I have exchanged words on water charges. In his speech on 1 March this year, he said that the waterworks accounts were barely in balance in 1976-77 and were estimated

to be in deficit by \$200 million in 1977-78 and by \$250 million in 1978-79. He also indicated that further deficits would be incurred in the three year forecast period amounting to \$400 million. The Financial Secretary was no doubt preparing a case for an increase of water charges. However we must not forget that a deficit can be eliminated not only by raising income but also by reducing the cost. Has the Government done enough to reduce the cost of water charges? This is a question I would like to ask. Waterworks is one of the public utilities run by the Government. As far as management is concerned, there is no difference whether it is run as a public or private enterprise.

Sir, there are three basic objectives in the management of public utilities. The first objective is to provide supply on demand; the second is an efficient and dependable service of good quality; and the third is maintaining the lowest possible costs and charges consistent with the standard of service provided. The Government has on many occasions failed to maintain the first objective of providing supply on demand by allowing supply to lag behind demand. The Government has also failed to a certain extent in achieving the third objective of maintaining the lowest possible costs and charges.

We all realize that we in Hong Kong obtain our fresh water supply from three sources, namely, (1) local rainfall which is collected and stored in reservoirs, (2) water provided by the Chinese Authorities from the East River, and (3) desalting seawater using fuel oil. The economics of obtaining water from these sources as given by the Government are as follows:

First, capital cost at 1977 prices for every thousand gallons capacity.

Conventional reservoirs	\$1.80 to \$3.70
East River	\$0.25
Desalting plant	\$7.30

Secondly, recurrent cost, excluding depreciation, at 1977 prices for every thousand gallons supplied.

Conventional reservoirs	\$1.85 to \$1.92
East River	\$3.22(*)
Desalting plant	\$12.89

(*) The East River water cost of \$3.22 includes the premium of \$1.20 paid to the Chinese Authorities.

It will be seen that water from the East River not only gives the most economical optimum when both capital and recurrent costs are taken into consideration but also is much more dependable than conventional reservoirs as the East River never dries up. Like many people in Hong Kong, I voiced in 1975 in this Council the desirability of approaching the Chinese Authorities for more water to be supplied from the East River. It is gratifying to learn that the Chinese Authorities have agreed to increase their supply during the current period, between 1 October 1977 and 31 July 1978, from 24,000 to

30,000 million gallons and further during future years to 37,000 million gallons annually.

With consumption of approximately 80,000 million gallons a year under the current water restrictions, the amount of Chinese water (that is, 37,000 million gallons per annum) constitutes 46% of the total demand. If we are going to resume the 24-hour supply, I am given to understand that this proportion will be reduced to 38%. I understand that 37,000 million gallons of Chinese water per annum is the maximum capacity of the existing pipelines. It would seem logical in the circumstances for the Government to approach the Chinese Authorities with a view to negotiating for the installation of a second set of pipelines in order to, say, double the current quantity to 74,000 million gallons per annum. This together with the completion of the High Island Reservoir Scheme will solve our water problem for the next ten years. I say 'logical' because this method of increasing the water supply requires the minimum capital cost, the shortest construction time and a recurrent cost which is comparable to the conventional method of supply from reservoirs. With the present excellent Sino-British relations, I believe, as many people do, that our request for more water from the East River will receive a very sympathetic and favourable response by the Chinese Authorities.

Provisional Tax-Instalment System

Of the seven revenue proposals made by the Financial Secretary, I shall comment on two. The first concerns payment of provisional tax on the due date. The Financial Secretary has disclosed that about 20,000 persons defaulted on both tax instalments for 1976-77 and earlier years. I deprecate these tax defaulters. Nonetheless, I don't see the logic of the penalty proposed by the Financial Secretary. His proposal is that if the first instalment is not paid by that due date, the second instalment will automatically become due.

As we know, payment of provisional salaries and profits tax can be made in two instalments, 75% being due normally at the beginning of the calendar year to cover the provisional tax for the previous nine months (April to December inclusive) and the remaining 25% normally at the beginning of the financial year for the previous three months (January to March inclusive). At present a tax-payer who fails to pay any instalment on the due date has to pay a surcharge of 5%. This penal system is badly designed as there is no further penalty to prompt a tax defaulter to pay the instalment and the 5% surcharge as early as possible after the due date. As a result, once the due date is past a tax defaulter tends to delay payment and I do agree with the Financial Secretary that some additional penalty is necessary. However, I cannot agree with his proposed additional penalty because it will again not meet the original objection that tax payments would have to be made before earnings or profits had been received. This will bring us back to square one. In my view, a better way to encourage a tax defaulter to pay on the due date is to

replace the present fixed surcharge of 5% with a progressive surcharge which increases with the time of delay in payment after the due date.

Excise Duty on Imported Cigarettes

The other revenue proposal which I would like to comment on is the excise duty on imported cigarettes. In November last year, the local cigarette manufacturing industry made representations to the UMELCO Office on the existing system of excise duties on cigarettes. They pointed out that the local cigarette manufacturing industry is on the decline. In 1949 there were about nine manufacturers and today only three remain. The market share of locally manufactured cigarettes has also shrunk from about 50% in 1965-66 to 44% in 1971-72 and further to approximately 33% in 1975-76. The erosion of the differential duty since 1960 is alleged to have been one of the major reasons for the decline in their share of the market, although other factors, such as prestige and brand name, could also be relevant.

The Unofficial Members have been informed that in many countries, such as the UK and other EEC countries, duties on cigarettes are no longer based on the weight of tobacco but rather on the number of cigarettes in a packet and on the price of the packet itself. The industry for its own survival has appealed through UMELCO to the Government to assist the local industry either by the re-introduction of an ad valorem duty or by the restoration of a wider duty differential between imported and locally-made cigarettes.

My Unofficial Colleagues and I were very pleased to learn from the Financial Secretary on 1 March that the Government has taken a step to widen the duty differential by increasing the rate of duty on imported cigarettes only. It is hoped that the local cigarette manufacturing industry will be able to develop a greater volume of sales, thus regaining some of its loss of their share of the market in recent years.

Sir, in explaining the consequences of the duty increase by \$1.65 per pound to \$20.15 per pound, the Financial Secretary mentioned that the amount of duty levied on a packet of 20 imported cigarettes would only increase by six cents and indicated that the retail prices should be increased only slightly and not necessarily immediately. Unfortunately, the Financial Secretary's predictions were not accurate as the retail prices have been increased by much more than six cents per packet and almost immediately.

In this context it is interesting to recall the budget speech of 1966 in which the then Financial Secretary said:

'The price of a packet of twenty cigarettes can move only multiples of ten cents; (he was so right) so that, if duty is increased by an amount substantially higher than the equivalent of ten cents a packet the manufacturer's or dealer's profit may be unreasonably cut; whilst if the duty is increased by an amount substantially less than the equivalent of ten cents a packet, profits may be unreasonably increased. In practice, therefore,

other things being equal, duty can only be changed by multiples of approximately \$2 a pound.’

I wonder why this principle which seems most logical was not followed by the Government in this instance.

In consequence, the Government will receive about \$7 million less in revenue per annum and the manufacturers and dealers will, on the other hand, obtain a windfall of the same amount. This is rather unfortunate as the Government provides an unnecessary opportunity for consumer exploitation.

Junior Secondary Education

Sir, my final topic today concerns the proposal to provide free and compulsory junior secondary education. It was certainly not my intention to talk on this subject during the budget debate because the Unofficial Members will in all probability introduce a motion for a full debate on the Green Paper on Senior Secondary and Tertiary Education later this Session. However, in the course of discussion among the Unofficial Members, there emerged a divergence of views on this proposal.

Although the majority of the Unofficials support the proposal that 3 years of junior secondary education should be provided free and made compulsory, a small minority of them believe that the money would be better spent on subsidising 5 years of secondary education with remission of school fees for those who cannot afford to pay. Because of this difference in opinion the Unofficials agreed that some of them would express their personal views on the matter during this debate. Accordingly, about nine Unofficial Members will touch on this subject either today or tomorrow.

In my maiden budget speech in this Council ten years ago when I spoke in support of free and compulsory primary education, I said:

‘With our industries climbing up the technological ladder year by year, the (general) education requirements of the industrial labour force must likewise rise. Today (that is, in 1968) a large proportion of shop-floor workers in the electronics industry, for instance, must have completed primary education. In the next decade, the (general) educational requirements for industrial workers must be even higher.’

Today, I speak in support of free and compulsory junior secondary education.

Furthermore, apart from vocational requirements, there is also a need to raise the general level of education of future generations. As we continue to develop our economic position with the same success as in the past and our society becomes increasingly more affluent, we should be able economically to afford to provide gradually *ALL* our children, before they enter employment or enrol for vocational education and training, with an even higher level of general education than at the present time. During the next decade a

minimum of 9 years free and compulsory education is, in my opinion, entirely appropriate in Hong Kong's circumstances.

It has always been argued by some people that given Hong Kong's low taxation public funds should not be used indiscriminately to subsidize rich and poor alike. They also argue that a system of fee remission for those children whose parents are poor would be more desirable so that no child will be debarred from acquiring junior secondary education if he wishes it. While I agree with this view in the context of higher education, I totally disagree with it so far as the proposal to provide 9 years of general education is concerned. Firstly, junior secondary education cannot be made compulsory if it is not free as we cannot force poor parents to send their children to school on the one hand and ask them to apply for remission of fees on the other. Secondly, in a world of increasing social consciousness, it is only right for us in Hong Kong to recognize and accept the fact that every child is born with the right to acquire at least a minimum of 9 years general education without the children of the less fortunate members of our community having to go through the agony and humiliation of exposing the straitened financial circumstances of their parents. This is not charity, it is the birth right of every child and our duty to provide them with it.

With these comments and observations, Sir, I support the motion before Council.

MR Q. W. LEE:—Sir, the Budget is many things to many people, but some people are interested more in some things than in others. And there are a few people, an important few, who take a great interest in how the Budget is prepared and why it is so prepared.

Although being an international trader, Hong Kong for many years in the past did not necessarily have to follow world-wide movements in costs and prices. But because of our continuous growth and because of the uneven political and economic developments in the various economies in the world, this fortunate position has now changed and changed immensely. For example, all of our supplies have now to be obtained at world prices instead of at given prices aimed at maximizing the quantum of sales to us in the past; the external value of the Hong Kong Dollar no longer has a fixed relationship with any currency but is now floating, and our financial activities are now closely involved with international markets.

All these changes point to the fact that we are much more vulnerable to international developments and that our fiscal, monetary and economic policies must have regard to the importance of maintaining external competitiveness and confidence. As those interested in our policies are people who are either doing business in Hong Kong, or with Hong Kong, or able to influence such business decisions, it is important that what we do and plan to do must be consistent and explained in great length as the Financial Secretary always so ably does in presenting his Budget. People may not

necessarily have to agree with all of our policies but the important thing is that they know what these policies are and that they are always consistent with certain basic sound principles.

The significance of this year's Budget lies, as it did in the past years, in our ability to finance an ever-increasing package of programs without throwing a strain on the economy or the Government's credit worthiness both at home and abroad, and in the existence and consistency of a rational body of well-founded policies. Sir, I can say that the Budget Speech, with the supporting comprehensive background publications, is in fact a valuable annual economic essay on Hong Kong. It reflects sound management which, no doubt, generates great internal and external confidence, and is vital to our continued development and prosperity.

Land

I now wish to speak about a subject of some complexity and this is land and its use. Already much has been done and is being done by Government to produce land. Your Excellency had appointed a Special Committee on Land Production which reported that there would be a substantial increase in land production over the next few years and the Committee is to remain in being in order to produce a further report on the assessed land demand.

But the Report of that Committee also highlighted the problems involved, in terms of cost and time, in producing land. And the Financial Secretary has made it even clearer that the quantity of land produced is not the same as the quantity of land made available for sale. Indeed, against the background of that Report, the 1978-79 revenue estimate for land sale and of the quantity it represents is not entirely satisfactory. The Government sold 136 acres in 1976-77 and 115 acres in 1977-78, but there will only be 88 acres for sale in 1978-79. Of these 88 acres, 68 acres are non-industrial and 20 industrial. When industrial diversification is so much in our mind, the 20 acres for industrial use do not compare favourably with those sold in previous years at all.

I have no doubt there will be more land both industrial and non-industrial for sale in the programme of subsequent years. Now even accepting that this trend can be reversed in the long-term with the production of more land particularly in the New Towns where we hope people will move to, our problem, which I think will be with us for sometime, is that land prices are rising at such a rate that they are taking up a disproportionate part in our productivity cost. Here I wish to illustrate that in the overall cost of a building, the ratio of cost of land to cost of construction was, generally speaking, approximately 1 to 1 for residential accommodation and 0.5 to 1 for flatted factories a few years ago. This ratio has now reached the average level of between 2 and 3 to 1 in the case of residential accommodation, about 1½ to 1 in flatted factories and between 2 and 4 to 1 in commercial accommodation, not to mention office accommodation in the central area which ratio

is even much higher. Unless land prices come down, this ratio will not be reduced. This means a very high proportion of the return from our exports will continue to be absorbed by the cost of land at the expense of the income of the community and the rate of our industrial expansion. The result is of course very obstructive to the growth of our economy.

Sir, so far, our efforts have been centred on the production of land, and assessing the demand for it. I believe it is time for us to put our attention now also on the usage of land, the logic being to maximize the use of this scarce commodity with a view to increasing its effective contribution to productivity. Here I wish to make two suggestions.

The first concerns a re-examination of the present limitations on land use. I suggest that the restrictions on plot ratios and on height restrictions in the urban area (other than for height restriction in the flight path to Kai Tak) and in the New Towns should be eased. The result will be that on a given piece of land the total floor area available for use will be increased.

In conjunction with this exercise, we should also review the existing density zoning policy, by which the urban areas and the New Territories are designated into four types of zones. I would suggest that consideration be given to redesignating some Zone 4 areas as Zone 3 areas and some Zone 3 areas as Zone 2 areas and some Zone 2 areas as Zone 1 areas.

In view of the immediate potential effect, I think that both the above possibilities should be studied as a matter of urgency. If the study is positive, premium should of course be paid by the land owners for the increased benefit where justified.

Secondly, the Government is Hong Kong's biggest land owner not subject to the discipline of the dollar to the same degree as private developers. I have no idea what standards are involved in the reservation of land for Government, institutional and community use in developing areas, but the Report of the Special Committee on Land Production shows as much as 40% of the total quantity of land to be produced in areas covered by definite works projects are GIC land reservations. This raises the question as to whether or not the planning and environmental standards currently in use should now be reviewed and revised in the light of economic and financial opportunities thus foregone.

While my suggestions will certainly increase the productive value of land, I realize that they also have environmental, population density and engineering services implications. But I must point out that, even in 1961, a PWD Working Party, which recommended the present building restrictions, had recognized and yet I quote that 'the need for high densities in Hong Kong for both residential and commercial buildings must be accepted.'

So it is a matter of finding the right balance, bearing in mind the fact that the Building (Planning) (Amendment) (No 2) Regulations 1962, introduced

to reduce intensity of developments in urban areas, were made in the light of economic situation 17 years ago. I hope the Land Development Policy Committee, the Town Planning Board and other appropriate Government departments would jointly re-examine the situation taking into account not only environmental consideration and planning standards, but also the cost to the economy of maintaining these standards as against the benefit involved in relaxing them. I understand Mr T. S. LO has the same feeling and he will also speak on them tomorrow.

Education

On education, I welcome the nearly 15% increase in this area and the expansion this provides for, and I am particularly pleased to see that an additional sum has been earmarked for the introduction of free junior secondary education. But as mentioned by Sir S. Y. CHUNG, this measure has generated a fair amount of public argument and some of my Unofficial Colleagues will be speaking on it in the course of this debate. Speaking for myself, I can say that I fully support this measure. All parents have a desire for education for their children. The community should regard basic education as a social right for all. So I would personally welcome proposals for providing more of this basic service as long as we move in an orderly sequence, first by making places available to all who want them, then towards making them free and finally making them compulsory, provided that, in doing so, we are satisfied that we can afford the costs.

Fiscal Policy

On fiscal policy, I have studied with great interest what the Financial Secretary has said, in particular on the recommendation of the Third Inland Revenue Ordinance Review Committee dealing with the taxation treatment of interest generally. On this point, the Review Committee had recommended that the territorial source criterion should be extended so as to tax interest received on funds used by the borrower to produce profits chargeable to Hong Kong tax. This was based on the view that all significant flows of income which are the result of economic activity carried on in Hong Kong should be taxed. The Government Working Party accepted this point of view, but in order to obviate problems of apportionment of funds, it concluded that a supplementary source test related to the activities of the borrower should be applied. In the event, however, the Government finally took the view that the implications of applying such a supplementary source test were unacceptable.

Since the Financial Secretary has not explained what these implications are, I and my Colleagues on the Review Committee can only say that such a decision has left a tax loophole open to abuse. One of the consequences will be a further erosion of the yield from interest tax. Already, we have seen Hong Kong Dollar loans provided from funds in Hong Kong being structured to avoid interest tax. The Government's decision may well further encourage

movements to structure future loans in this way. The result will of course be further loss of revenue.

Another consequence is that this loophole will only benefit the sophisticated borrower; because it will not be easy for the smaller borrowers to arrange such an interest-tax-free loan. Here an element of equity is wanting. In this light, Government's decision inevitably begs the question as to how this loophole will be removed, because we now come back to exactly where we were when this loophole was first referred to the Review Committee by the Commissioner of Inland Revenue.

Financial Administration

Sir, in concluding his speech, the Financial Secretary suggested we should give careful thought to the way in which our Administration might be adapted to meet the challenges of the years ahead of us in the light of our present size and scope of activities and their implications for our system of financial administration and, indeed, for the organization of the Government's internal administration as a whole. Our activities are reflected in the size of our Civil Service and the volume of transactions of our income and expenditure. Our Civil Service has now grown to 126,000 in posts. They are serving us well and making a positive contribution to our economic and social progress. The total volume of transactions in the coming year in the General Revenue Account and Consolidated Account will reach \$20,000 million and \$23,000 million respectively. Both of these have, indeed, grown very substantially. Members of this Council must have seen in the past years a general tidying up of estimates, a greater degree of financial authority and flexibility given to heads of departments both directly in terms of the powers delegated from this Council and indirectly by including fewer annually recurrent sub-heads in the estimates. But these were changes of degree and not changes in the basic system of financial administration. Speaking for myself, I wish to recommend that a Working Party, headed by the Financial Secretary, be formed to study whether there is a need for any basic change in the direction of simplification and delegation. As further delegation of authority would result in further relaxation of control over vote provision on the part of the Legislature, it may be useful for some Unofficial Members of this Council to be included in the Working Party. Properly devised simplification and delegation will certainly achieve greater productivity and expediency. With the proposed Public Accounts Committee soon coming into being to work with the Director of Audit, I am sure further simplification and delegation, if carefully devised, will only assist to monitor that public funds are expended in accordance with the value and purpose for which they are voted.

Sir, with these remarks, I support the motion.

MR LOBO:—Your Excellency, I will begin this afternoon where the Financial Secretary left off four weeks ago when he presented to this council yet another record budget. He said: 'Let us not forget that the Civil Service

now comprises nearly 126,000 posts and the number will have to increase further during 1978-79.'

Sir, the size, the payroll, the morale and, even more important, the internal management of this vast body are a cause of much concern to me.

Cases of dispute within the public service are no longer a rare occurrence. For instance, the Senior Non-Expatriate Officers Association is unhappy with the lot of its members, the stenographers are still pursuing their cause and, from time to time, there surfaces in public some grievance from other groups of civil servants from one department or another.

Recently, much to the indignation and surprise of some sectors of our community who consider that Government's conditions of service, particularly in the field of welfare, are far superior to anything which the voluntary sector can offer, even Government's social workers who felt discriminated, apparently based on internal relativities, particularly with those in other social services, have raised their banners for improved salary scales. (Perhaps I should point out at this stage that since January 1977 there have been 16 known cases of dispute within Government, of which 8 took some form of industrial action.)

It is also relevant to mention here the unfortunate incident which took place last November. While it can be argued that this incident had much wider implications, it also involved, as has since been pointed out, 'a question of personnel management'. I would go so far as to say that it was more a question of the lack of personnel management.

There is, of course, no way of knowing whether this upsurge in the number of disputes reflects growing dissatisfaction generally within the public service. It could be the result of strong minded minority groups exercising their influence; it could be the opportunism on the part of those already eating from 'iron rice bowls'; it could be cultural and linguistic difference; and it could be that civil servants, particularly at the junior levels, are now generally better educated and thus inclined to be more vocal. Whatever the reason, it is not something which is capable of statistical analysis. All the same, I think there are strong grounds for considering whether or not sufficient attention is paid at the various supervisory levels of departments to the vital area of staff relations.

Sir, I do not believe I am alone in expressing concern on this matter. When the Financial Secretary delivered his budget address, I detected that he too was concerned even though he did not elaborate to the extent that he did on other subjects. But he said, and I quote: '... I cannot pretend to be satisfied that we are able to devote enough attention to the manning of departments generally as opposed to applications for particular increases ...'

Over recent years we have commissioned sophisticated and costly studies of the policy-making and decision-making machinery of the Government.

Tall as the order may be, we must now know if we are over-employing or substituting quantity for quality. We must therefore have an equally sophisticated approach to the management of the large staff which carry out those policies and decisions.

With 126 thousand people on a payroll of \$2,662 million or, say, \$2,771 million with overtime and allowances, there is certainly justification for careful and thoughtful staff management.

The Civil Service Branch of the Secretariat plays the part of the personnel department of the Government. It is responsible for recruiting, training and disciplinary matters and for reviewing the pay and grading of the public service.

I do not know whether this important Branch has formal machinery for keeping its fingers on 126 thousand pulses but quite clearly that finger has been lifted on more than just one occasion as was admitted recently. In this day and age staff relations cannot be ignored or handled haphazardly.

While we concentrate on recruiting and training the staff to carry out an increasingly sophisticated range of public services, we must not lose sight of the need to sustain morale and foster incentive within the Civil Service by providing career development and job satisfaction.

It has often been found that grievances expressed in terms of pay comparisons or promotion prospects have their roots in a general feeling of neglect and of belonging to a large machine which itself is impersonal and tends to regard its employees as mere cogs rather than as individuals.

Let us remind ourselves that the Civil Service represents directly and indirectly the aspirations and aims of perhaps, I hazard to guess, half a million members of our community. Therefore, if there is an argument for staff relations beginning at home, Government should set an example in this field to the rest of the community.

Inevitably, in an organization as large and as diverse as the public service, growing at over 7% a year and constantly changing, there will be dissatisfaction with material conditions. Proper personnel management which recognizes the importance of attitudes to work and staff relations could do much to anticipate problems and to relieve them as well as making the public service more effective. This is where middle and senior management within Government should play a much larger role.

The questions that come to my mind are:—

- (a) Why is it that with so much being said about localization, so little has been done to localize the top level of the Civil Service Branch where leadership, communication and understanding are so vital to good staff management and hence Government?

- (b) How can Government effectively create closer and better communications with the people when communications within Government itself is deficient? I realize, of course, that there are consultative councils within department but are they effective?
- (c) Could it be that in the course of building up and training our large and relatively efficient public service, we have overlooked the less tangible aspects of our responsibilities as good employers?

Hong Kong's economy is dependent on many factors, but among the vital ones are: firstly, the confidence of our own community and, secondly and no less important, the confidence which Hong Kong can generate overseas to attract business and inflow of capital.

We must not therefore overrule the possibility of disputes within the Civil Service being exploited by those who are anti-Hong Kong, if they have not already done so. Civil servants' protests could so easily be used in promulgating the myth of the Hong Kong sweat shop. If Government is not seen to be looking after its own, how can it expect others to do better?

Sir, although there are wide divergence of views on this subject the fact remains that the problem of handling people is always a most complex one and must be dealt with expertly, firmly and fairly.

I would like now to make a few remarks on Public Housing.

Firstly, there appears to be some difference between my understanding of the financial situation in this area and what was said by the Financial Secretary in his Budget Speech. I confess I am unable to reconcile his figures with the Housing Authority's own projection of expenditure for 1978-79.

I have no doubt that there is a perfectly good explanation for the shortfall of \$296 million in the Housing Authority's estimated expenditure for the next year and I would seek an assurance from the Financial Secretary that Government is in no way overlooking its recent commitment to provide from the Development Loan Fund such capital as is needed from time to time to finance the Authority's construction programme. If this assurance is forthcoming, then it would confirm my understanding of the figures and it would also serve to reassure the Housing Authority that it is not working under a wrong assumption.

Secondly, Sir, when I suggested last year that we should set our sights higher for the Home Ownership initial scheme, the official reply was 'we must learn to walk before we could run'.

Today, I wish to compliment those involved in bringing the scheme on to line. Not only has the scheme got off to a running start, but the initial modest plan has been doubled in addition to Phase II of the scheme.

I am told that there were over 200,000 requests for application forms with a very pleasing number of returns.

I am also told that public housing tenants constitute a fairly high percentage of prospective home buyers.

The imaginative and well-inspired Home Ownership Scheme has the objectives of creating a sense of belonging and security and of providing accommodation with a faster recycling of money for further development in housing or for meeting other social needs.

This scheme is complementary to the Ten Year Housing Programme which is now reaching top gear again after the hiccup caused by the recession.

Meanwhile the biggest redevelopment programme in the world is moving ahead smoothly to convert and rebuild the former resettlement estates to bring it up to present-day standards. At the same time a large programme is in full swing to construct part-built structures in a large number of temporary housing areas to provide stop-gap but reasonable housing for some categories of squatters, emergency cases and so on.

Whilst the ultimate aim of this vast Public Housing Programme is to provide homes, relieve overcrowding, or, in short, to improve the quality of life, few remarks have been made in regard to the cost of Public Housing on rates and to tax payers.

We have written off the Housing Authority's old debts. Free land and interest free loans are being granted in addition to the provision of funds from the Development Loan Fund. We have on our drawing boards plans for extensive development.

Today, approximately 47% of our population live in Public Housing and statistics show that these tenants currently pay an average of only 4.3% of their income on rent as compared to 6.3% in 1971. The figure in the private sector today is 19.5% as compared to 19.3% in 1971.

The rent gap therefore between private and public housing is widening year after year and this could well become an insoluble problem.

Having been directly connected with Public Housing for over 13 years, I am conscious of the fact that it is one of Hong Kong's greatest successes (regardless of what some critics may say). However, I have often wondered what percentage of our population is to be housed eventually in Public Housing, appreciating that some very and quite well-to-do people are already public housing tenants.

In which direction and how far should we go? Are we going on a never ending basis? Are we going to leave the private sector to do its fair share? How much bigger is the world's biggest landlord going to become?

I hope to receive some answers to these questions in the course of this debate.

With these remarks, Sir, I support the Appropriation Bill 1978.

MR JAMES WU:—Sir, the Financial Secretary, Mr HADDON-CAVE has undoubtedly advanced his popularity rating in the community after he had presented his usual marathon Budget Speech that proposed Hong Kong's first \$10 billion budget, together with its \$1 billion surplus, without any significant tax increase. However, he might not be aware that his usual style of analysis and presentation has also won him a top grade in the 'academic world', as one respected Chinese newspaper presented him with the title of 'professor HA' in its editorial. What the editor apparently did not know was that our 'Professor HA' had indeed lectured in an Australian University many years ago, and judging from his present performance, I would be most surprised indeed if he had taught his students the New Economics of Lord Keynes without warning them of the dangers and limitations.

I myself would however like, if I may, to confer upon him the qualification of 'Dr HA' in the 'pseudo medical sense' for his succinct diagnosis of the state of health, or otherwise, of our present economy, and to proceed to discuss with him possible prescriptions of tonics or preventive medicine that might be required but have not as yet been suggested.

Changing Structure of the Economy

The Financial Secretary indicated that in the 1970's our tertiary or service industries had begun to grow in relative importance while manufacturing industries had declined in importance. He also said that the shift had been into industries offering a substantial higher output per head and almost certainly a substantially lower proportion of imported inputs in their gross inputs, although he did not know unfortunately as yet the net contribution of tertiary industries to the current account of the balance of payments. In a table in the presentation, he showed as a rough indication, that whereas the two main categories of productive industries such as manufacturing and agriculture fishing and mining provided for 46% of employment, with 27% of the output, the other 6 categories of mainly tertiary service, or supporting industries together employed the other 54% with 73% of the output.

Sir, whilst the FS observed that such a shift was a development phase common amongst more developed economies, he did not elaborate on the significance, and implications resulting therefrom. However, considering the nature of these service industries as listed in the table, it is difficult to visualize that they together could become net contributors to our balance of payments and therefore be self-sustaining.

This is particularly so in regard to:

- (a) Wholesale and retail trade, restaurants and hotels industries which accounted for 20% employment and 23% output.
- (b) The Financing, insurance, business, services and real-estates accounting for 3% employment and 20% output, and
- (c) Community, social and personal services employing 16% with 16% output.

In considering the above, it has also to be borne in mind that most restaurants and imported consumer goods are for local residents, and that whilst item (b) mainly serves industry and trade, item (c) will have to be financed by the wealth created by these two productive activities.

Sir, it has been so often pointed out by the British people themselves that, in contrast to Japan and W. Germany, their economic ills could have been due in no small measure to too much service industries and too little, or less productive, manufacturing industries. Our mind will therefore not be at ease until it has been proven conclusively that our tertiary service industries as such are net contributors to our balance of payments, however difficult it might be for such proof to be established.

Inflationary Pressure on the manufacturing industries

Sir, the FS in Para 37 of his speech stated that in contrast to the buoyancy of domestic activity the mere 5% growth in total exports in 1977 as against a forecast of 8%, might have been due not only to a reduced demand from the EEC markets but also to an additional factor that the strength of domestic activity in 1977 prevented the cost/price structure from adjusting sufficiently to make exports more competitive. Sir, whilst this observation was substantially correct, it did not adequately reflect the many factors confronting industrialists and inhibiting the growth. For whilst reduced demand might have been a factor, our worthy competitors in the region still enjoyed sustained double digit growths in 1977 exports, with absolute values now exceeding ours. In Hong Kong, the items of costs that hit industries most are

- (a) Increase in rents, rates and/or industrial land prices by over 50% during the year on an already very high level.
- (b) Increase in wages of up to 30%, particularly those having to compete for technicians and labour with the building trades in the public and private sector.
- (c) Increase in material costs from Japan which has now changed to quoting in Yens which appreciates substantially over the Hong Kong dollar and US dollars. The Hong Kong dollars has also depreciated more than 10% against the Reminbu in the last 12 months, causing an upsurge in costs of our foods, daily necessities and some materials.
- (d) Increase in burdens due to newly introduced labour legislation.

To be sure, our competitors in the region will suffer likewise from inflation, but certainly to a much lesser extent, particularly in regard to items (a), (c) in that they produce some of their raw materials, and (d). This would mean that we will be meeting keener competition for the coming years and the recent lack of new investments or re-investments in the manufacturing sector by foreign and local interests appears to confirm the difficulties.

Future Outlook and Development

Sir, the FS felt that to maintain a desired GDP growth of 9%, we would have to trade up in textiles and clothing and to find new markets for these traditional exports, and supposing that the growth rate for such exports was halved exports of other products might have to increase by over 12% per annum (as compared to a recent trend of 8%) if we were to maintain the desired growth. He said that at our present stage of development, we might find that the scope in respect of textiles and clothing is limited, and he sounded less than confident as to whether the other industries could make up the 12% growth to off-set the reduced growth of textiles and garments.

Sir, I agree that we need not be over-pessimistic, nor should we be complacent. This calls for a correct assessment of the situation and the will and means to tackle it. A great deal more input, including a changing attitude, would have to come from Government, as I shall now explain.

For some time, Japan flourished in light industries for consumer goods in textiles and garments, toys and metal ware. With massive investment from giant banks and trading houses and government assistance, they began to re-develop not so long ago their heavier and more sophisticated industries in the field of automobiles, electrical apparatus and appliances, machinery, petro-chemicals, steel and ship-building, so that when their labour intensive industries of marginal technology were threatened by competition from lower-cost regions, they were able to trade-up or expand into these more sophisticated fields employing higher technology. That they have been able in a matter of 20/30 years, to rebuild from ruins and to beat the Americans and Europeans at their own games in the electronics, iron and steel, automobiles and petrochemical industries is a great tribute to their policies and efforts, with government and business working in a concerted manner as one 'Japan Inc.', encouraging technical innovation and maintaining technical leadership in these fields, pushing the technical frontier at greater horizons, and exploiting technological advances to the full to bring about prosperity and affluence for the people.

Hong Kong in the last 20/30 years has been developing its own light industries to the extent that it has been quite successful in competing with Japan taking over the leadership in garments, toys and simpler electronics. It is, however, being closely pursued by S. Korea and Taiwan, both of which, following the development patterns and methods of Japan, have scored great successes in a wide industrial spectrum, and observers are likening it to the state of Japanese development some 15/20 years ago.

In contrast, and in spite of our earlier successes in the textiles and garments, toys and electronics industries, much of these are due to our earlier starts and better craftsmanship of our workers with only marginal technology to speak of. It is fair to say that excepting a few subsidiaries of large foreign companies, not many factories in Hong Kong have good access to developing technology, even fewer can afford its own design and development facilities

in respect of products and processes. At our present stage of development, and with little new industries and foreign investments, the growth will be far short of the magnitude we are used to see, if left by itself without massive efforts and input both by the public and private sectors. Yet the only public institutions we have that are connected with the promotion of industrial technology are the Productivity Council and Centre and the Federation of Hongkong Industries, and Government assistance to these two institutions of only \$5 million dollars a year. Compared with the many science and technology centers in the countries mentioned that are set up for the purpose of serving industry and accelerating technology transfer, as Sir S. Y. CHUNG mentioned earlier, Hong Kong is falling very much behind. With our scare human resources, this is clearly unacceptable, since economic growth today depends so much on technological advancement.

We have so often heard from our official sources that industry should be taking care of itself and not expect assistance or hidden subsidy of any nature. This is clearly not the case in any industrialized country and I stress that we must be pragmatic, as in many instances, certain types of concerted efforts could only be marshalled with active official participation, given the many small industrial undertakings we have, and the individualistic nature of our entrepreneurs that are both our strength and weakness. For example, our textiles and garment industry's growth and development in the past was due in no small measure to the excellent performance of the Department of Trade, Industry and Customs in the negotiations for, and subsequent implementation of, the quotas that have taken a considerable part of the resources of the department, working in close concert with industry.

There is no reason why such type of co-operation and assistance could not be initiated, organized or expanded with relevant and appropriate Government departments or public institutions in matters relating to all aspects of trade, manpower utilization and amenities, applied research and development, technical assistance and transfer, as have already been started with the formation of the TDC and the Hong Kong Training Council. Government sponsorship of, and contribution in these services and activities will have a catalytic effect bringing about very rewarding results. These are fully proven approaches, and I can recommend them to the Financial Secretary to invest a minute fraction of our record \$1 billion surplus to this use for rich dividends that are to come by way of increased profits and revenue before long.

Hong Kong is today in the top league of industrial exports, and are facing unprecedented competition. Nothing short of fully concerted efforts can assure our success and prosperity, and changing conditions and technology dictate a new approach to the challenge.

I know that the FS will be surprised if I do not mention an Industrial Development Council. But is there an alternative and can we afford to wait any longer?

Sir, I know that you are aware and believe that the industrial land problem is the real stumbling block to our industrial development. Yet the land available for auction this year is so disappointingly low, and the situation is aggravated by a new brand of speculators who, fuelled by large amount of idle cash snapped up premises for profiteering purposes, so that the genuine users suffer or are deterred from investing for productive ventures. Indeed, knowing industrialists would doubt very much if at such high rentals or prices, once viable ventures are still possible. I know that there are many who would still say that free market prices reflect true value, having soon forgotten the lesson of the stock market prices at 1700 points of the Hang Sang Index in 1973. Could not the Government find a way to channel and absorb all these idle cash into the development and production of more land for both industrial and residential use before any irreparable harm is done to the economy?

Finally, Sir, I wish to sound a warning, as I have done on previous occasions, to the Financial Secretary's suggestion to raise water charges. I consider this both untimely and uncalled for, as it would greatly endanger our supporting industries in dyeing and finishing and metal finishing. I also consider that when the community's well-being depends so much on the viability of our manufacturing industries, any measure that threatens to hurt a sector that can prejudice the whole should not be likely taken, as in the long range view, the community would in turn benefit from any success we have in our export industries.

That last statement, Sir, just about sums up my view-point in my presentation and I am glad to find out that it agrees very much with that of my senior Members.

Sir, I support the motion before Council.

MR CHEONG-LEEN:—Sir, I welcome the Financial Secretary's Budget Speech, not so much for it's being the longest speech in Hong Kong annually for which the Financial Secretary has no competitor in the horizon so far, but for its moderate and cautious stance in facing up to 1978-79.

It is moderate in that the proposals for tax increases will hardly affect the living standard of our lower income groups, who represent the majority of the population.

It is cautious in that while for the first time Hong Kong's annual budget will exceed \$10,000 million, the Financial Secretary is still budgetting for a balance in 1978-79, even though he has predicted the surplus for the past year will be \$1,150 million, thus increasing our reserves to nearly \$5,000 million.

One can well understand the caution of the Financial Secretary for had land sales in 1977-78 not exceeded the original estimate by over \$1,000 million, there would be hardly any surplus to show for that particular year.

The Financial Secretary is deliberately estimating land sales in 1978-79 at the conservative figure of \$874 million and not anywhere near the revised revenue estimate for 1977-78 land sales at \$1,797 million. He could well be overcautious, since if more land is offered for sale soon, this figure of \$874 million could easily be arrived at in the coming six to eight months.

EXPORT PERFORMANCE

There is of course another underlying reason why an element of caution is called for during the coming year, and that is the continuing difficulties overseas which are buffeting Hong Kong's narrowly based exports products.

Although the Financial Secretary has pointed out that there has been a shift towards the tertiary industries, we have still to be very much concerned about the future of our manufacturing industries, which employ 44% of our labour population, not to mention the fact that manufacturing is a vital mainstay of our externally dependent economy.

We are meeting stiffer competition from low-cost countries in Asia, in product lines for which Hong Kong has been well-established, such as textiles and toys. Furthermore, we are having to withstand illogical and often emotional attacks on Hong Kong's export performance which emanate particularly from protectionist-minded groups within the Common Market. On top of that, the movement to diversify even more Hong Kong's industries has still to build up momentum, as may be seen from the fact that to date not too many companies have been allocated sites in the Industrial Estates.

It appears that the Financial Secretary's Diversification Committee report will not be ready until the middle of this year. Meantime the need for the setting up of an Industrial Development Board or Council, as previously advocated by Sir S. Y. CHUNG and Mr James WU, becomes even more apparent than ever before. Last year, the Trade, Industry and Customs Department sent industrial promotion missions to USA, Europe, Australia and Japan, and this year similar missions to the same countries are planned for, as provided for in the Budget. This year too, such missions are being reinforced by important visits by Your Excellency and by the Chief Secretary to a number of selected countries to promote more trade for Hong Kong and to stimulate industrial diversification.

The earlier a decision is taken to set up the Industrial Development Board or Council, the more productive the results will become in future, as there will be even closer co-ordination as between the private sector and Government in industrial promotion on a basis of 'selective encouragement', to use a term coined by Mr David JORDAN, of suitable high technology industries and target overseas companies. Concurrently, local companies will not by any means remain idle in expanding on their established technological base.

It would be preferable that such Board or Council be chaired by an unofficial Chairman so that Government will be seen to be encouraging and

assisting rather than directing and controlling. It is to be hoped that this year, Government will set up the Industrial Development Board or Council to work in tandem with the Trade Development Council to build up Hong Kong's trade performance, particularly export performance, in the face of growing protectionism in the developed countries, which are Hong Kong's main markets. The overall objective should on no account be to subsidize industries which will not be viable. Rather it should be a long-term, continuous and hard-sell programme to bring viable new industries to Hong Kong which will pay their own way and broaden our industrial base.

TAXATION

The majority of people in Hong Kong strongly supports the Financial Secretary in his reaffirmation of Government's wellknown policy of keeping the level of direct taxation at a realistically low level. By so doing, the Financial Secretary sparks the initiative of Hong Kong people, and keeps alive their willingness to work hard to strengthen our economy, to improve their living standard and to actively participate in the betterment of their community. He has also displayed political wisdom in refraining to raise water rates this year. I hope that he will do the same thing next year, or if he has to increase charges, they will be the absolute minimum as a deliberate policy decision in the full realization that Hong Kong people regard water as a basic necessity in the same way they do housing.

Dependent Parents Allowance

On occasion, our Financial Secretary has been described as a financial genius, but there are times when his genius fails to take account of some obvious discrepancy, or need for change, due either to a lack of appreciation of the wider nature of the problem or to sheer intellectual obstinacy.

A prime example is the Financial Secretary's unwillingness to reintroduce the dependent parents allowance of \$2,000 for each dependent parent. I see no difficulty in this providing the Financial Secretary exercises more flexibility of mind and lays down a simpler set of conditions, which would include:

- (1) The taxpayer applying for the allowance should attach a photostatic copy of his parent's identity card.
- (2) Disregard the parent's income, if any, so long as the parent does not qualify to file a separate tax return.
- (3) Make use of the computer facilities to avoid duplication of the allowance granted in respect of the same parent.

These conditions could not be any more simple or practical, and I commend them to the Financial Secretary in his finer moments for sympathetic and unbiased consideration. (*Laughter*).

Increased Allowances

The spiralling costs in the purchase price of new housing, and the recent allowable increases by Government on rents of controlled premises are

affecting the incomes of middle-income families, a great many of whom are tenants and tax-payers.

Very sizable amounts of money are meantime falling into the Government coffers derived from the sale of land at high prices. The Financial Secretary could therefore well afford to ease the financial burden that weights upon middle-income families by increasing personal allowances by between \$500 to \$1,000 per head, which could assist them to tide over in part the 5% inflation that will hit them during 1978.

HOUSING

Mark I and II Redevelopment

In his Budget Speech, the Financial Secretary gave details of the sizable funds that will be spent on new public housing and related community facilities.

Additionally, the Housing Authority has embarked on a 15-year rebuilding programme of the former Mark I and II resettlement estates.

Following a recent visit to some of the redeveloped Mark I and II estates, I came to the firm conclusion that more effort is required to ensure, even at some additional cost, that these redeveloped estate blocks do not re-acquire all too soon the 'resettlement' or slum atmosphere. The solution is to repaint the redeveloped blocks at least once every 2 years instead of 4 years, and to do some simple landscaping to the open spaces in between each block so that they are both functional and pleasing to the eye, and so to bring their standard slightly closer to the newer public housing estates.

Private Development

With the rapid pace of private development of domestic accommodation, it is hoped that the Building Authority insists that the minimum standard for the smaller flats will be at least on a par with the standard in the newer Housing Authority estates. Government ought not to fall into the environmental trap of acquiescing to low standards of domestic housing put up by private enterprise, all in the name of rapid development, which eventually may turn Hong Kong into a 'city of slums' as recently warned by a well-known local architect.

For too long already is the management situation in many thousands of multi-storey buildings in the private sector in a sorry state, causing problems relating to law and order and public hygiene.

The Home Affairs Department in recent years has been encouraging the setting up of owner corporations and Mutual Aid Committees in many buildings. Further expansion of this activity is hampered by the lack of professional housing management personnel to give management advice when required. So what is needed is the secondment of a team of Housing Authority

or Housing Society management personnel to the Home Affairs Department to assist and advise in the setting up of efficient management services in private multi-storey buildings.

An important factor leading to spiralling costs of building in both domestic and industrial premises has been Government's tendency to stimulate land speculation by deliberately rationing out land for auction, although more land is available, so as to keep prices at extra-ordinary high levels. Surely it is to the public interest that the supply of land for domestic and industrial development should always be one step ahead of demand in order that land prices should be kept at reasonable levels to keep living standards stable and to avoid Hong Kong's export-oriented economy becoming unbalanced.

Especially now since Government has begun to promote Home Ownership Scheme, it is a vital necessity that the prices of domestic flats in the private sector do not become so inflated that they are beyond the reach of those middle income families who are not yet being catered for by the Government Home Ownership Scheme.

Before I pass on to another subject, may I express admiration for the good work which the Hong Kong Housing Society has been quietly performing to provide low-cost and well-managed living accommodation for about 148,000 Hong Kong citizens, with other public projects under construction or in an advanced planning stage to accommodate another 34,000 persons.

As the Housing Authority is already fully committed to redeveloping the old Mark I and II estates, and in building new estates in the New Territories, I would urge Government to review the capabilities of the Hong Kong Housing Society in putting more steam into the Urban Improvement Scheme. There are still quite a number of pre-war premises which are in a very dilapidated condition, and it is time that Government make a more positive effort to expedite the rebuilding of these dilapidated properties. Government should exploit to the full the experience and expertise of the Hong Kong Housing Society in the area of urban renewal so as to rid Hong Kong during the next ten years of its pre-war slum buildings and thus improve the quality of life in the more crowded urban districts. No doubt, within the next few years, when the housing programme in the New Territories is in full stride, the Housing Authority also will be able to deploy some of its resources in the area of urban renewal.

JUNIOR SECONDARY EDUCATION

On education, Government is embarking on free junior secondary education from September 1978, starting with the provision of sufficient Form I places for all Primary 6 leavers in 1978, with steady increases of Forms II and III places so that by 1981, the demand for Form I to III places will be met 100%. This is to be welcome as it is a social anomaly that there are still 16% of Hong Kong's children in the 12-14 age group who are not in full-time education.

During the course of this Debate, one or more of my Colleagues will be stating more specifically their worries that this rapid build-up of junior secondary education will seriously undermine the quality of teaching standards. I support them on this point; it is clear that Government will have to expedite the training facilities for teachers in order to eliminate substandard junior secondary education, and to ensure that all teachers in Forms I to III will be eventually on comparatively equal scales of pay.

At the same time, we will have to set our sights at a higher level between now and 1981, and that is to aim to provide two years of subsidized universal education after Form III, whether in a grammar school or in a technical school. This is a goal which we cannot afford to lose sight of if we are to progress towards more economic growth and higher living standards; leaving school at Form III is simply not good enough in this day and age. However, this is an aspect of education which will be debated in full in this Council later in the year. Suffice it to say now, that Government will do well to drop its proposal to introduce a publicly-held Junior Certificate of Education Examination which should be replaced by some other form of internal assessment and selection process to facilitate streaming into academic or technical education.

LAW AND ORDER

I note that the Law and Order vote represents 10% of the Budget, which underlines the importance the Government gives to improving even more the state of law and order in Hong Kong.

In the light of changing conditions, there seems to be a greater need to set up more Neighbourhood Police Units as against the more static Police Reporting Centres.

The discipline, morale and communication within the Police Force are still capable of improvement, and two aspects which need more attention by Government are expanded housing facilities for the families of policemen and better promotion prospects for local officers to reach the upper echelons of leadership in the Force. The promotion of a local officer to the rank of Assistant Commissioner of Police for the first time ever, as announced last week, is a good start.

Government could not be more generous in the manner in which funds have been made available in recent years to build up an efficient Police Force to serve the public. It is only reasonable to expect that the Force will soon become one of the finest Police Forces in the world, giving a high level of security and protection to the citizens of Hong Kong, plus the 1.7 million tourists who visit Hong Kong every year. However, public confidence and support cannot be gained by group demonstrations or other actions which might give the wrong impression that there is a breakdown or slackening of Police discipline, and that any particular group within the Force is putting its own interests before the wider public interests.

Although provision is made to increase the Force establishment by 1,987 new posts, I believe it is very necessary to concentrate more attention on consolidation and better co-ordination within the Force. I look forward to seeing improved communication between the upper and lower echelons within the Force, and also between the Police and the public resulting from the formation of the new Public Relations Wing.

Meanwhile, Government ought not to overlook the very useful and important roles of the Auxiliary Police Force, the Civil Aid Services and the Auxiliary Medical Service. In the case of the Auxiliary Police Force, I hope that the strength can be kept up to as close as possible to the establishment figure of 5,000 and that their capabilities are fully utilized particularly to expand the Neighbourhood Police Scheme.

As to the Civil Aid Services, it is disappointing that the present recruitment limit is still fixed at 2,750 for the coming year. In late 1974, due to the economic recession, 2,000 CAS volunteers had to be released, bringing the operational strength down at that time from 4,321 to 2,300.

During 1977, the call for assistance on CAS personnel was very heavy. There are increasing requests for them to assist in forest fire fighting on week-ends and public holidays, in organizing and controlling large crowds for Community Chest fund-raising drives, to come out in times of emergency such as landslips, house collapses, and so on. In fact, there are over 1,000 Hong Kong citizens eager and willing to join the CAS to do their civic duty. The esprit in the CAS is good, and Government ought to increase the recruiting limit in the coming financial year so as to meet the regional needs in the urban areas and the new towns, as well as to give the opportunity to more young people to participate in voluntary activity, and acquire a sense of identity in the process.

Hawking

Last year, the Police files recorded 205,000 miscellaneous offences, ranging from gambling, hawking, prostitution, obstruction, etc. Of this number, just over half were hawker offences. I am concerned at the amount of Police manpower and time still being concentrated on hawkers, when the main thrust of Police activities should be on reducing violent and other forms of serious crime.

Especially in the New Territories new towns, the shortage of hawker staff in the Urban Services Department is dismally acute. Unless the Government is prepared to act more decisively in providing the Urban Services Department with additional staff and more land for hawker bazaars and markets, the situation in the New Territories will degenerate to what it is in many of the hawker congested areas in Kowloon over which the Urban Council and the USD barely has control.

Nowadays it is often more rewarding to be an unlicensed hawker than to work in a factory, and it is not at all surprising that the Employment Offices of the Labour Department are usually unable to persuade unlicensed hawkers to work in factories or in other legitimate occupations.

MAGISTRATES COURTS

Sir, under Head 43 Subhead 65 of the Estimates of the coming year it is noted that there will be a reduction of Magistrates from 30 to 25. I find this to be somewhat mystifying since it is a wellknown fact that virtually all magistrates courts are full every day, and those who have to attend Court hearings must spend a comparatively long time before commencement of the proceedings in which they are involved.

Witnesses and defendants who have to attend court have often been heard to complain that they were required to wait for many hours before their cases were heard. Some of them had to be sent away after waiting the whole day with the request to return on another day as the Court had been too busy on that particular day.

If Government wishes to improve the processes of law and order in Hong Kong, and to gain even more co-operation on the part of the public, it would be advisable not to decrease the number of Magistrates Courts (even though there will be more Districts Courts) so that the public can attend court with minimum delay and inconvenience.

ENVIRONMENT

In recent years the pace of development and building both in the urban areas and in the New Territories has been proceeding at an unbelievable rate. For this reason, the final report on the Control of the Environment in Hong Kong which was completed in June last year is of significant importance to the life-style and well-being of our 4½ million citizens.

Government is now aware of the principal environmental problems and the potential health hazards deriving from sea, land, air and noise pollution. It is important that recruitment of qualified staff for the Environmental Protection Unit should proceed with despatch.

Holiday Camps

As regards holiday camps, I welcome the assurance of the Secretary for the New Territories that there will be 'real progress in locating sites for holiday camps within the next few months', to use his own words. The working group was set up in June 1977, and the only decision arrived at so far has been to propose that a map be produced showing various suitable sites. I urge that the job be proceeded with expeditiously and funds be found to set up more holiday sites in the New Territories so that our citizens, both old and young alike, can get away on public holidays and week-ends from the noise, overcrowdedness, polluted air and tension of the urban areas.

Road Safety

In 1977 there were a total of 13,862 traffic accidents, the highest on record in the history of Hong Kong. Out of this total, there were 372 persons killed, 6,031 persons seriously injured, and 11,454 slightly injured. Pedestrian carelessness I am told, was a principal cause, comprising about 40% of all accidents. Other principal causes were carelessness, inattention or misjudgement by drivers, and speeding. Already there are grim forebodings that 1978 could be another tragic year of high traffic accidents and number of persons killed and seriously injured.

I understand that funds are provided for the 1978 Road Safety Campaign under Head 41 Subhead 100, Item 002, but no details are given of the Campaign itself, its duration and scope, and whether it is expected to achieve even more effective results than last year. Also, since the level of violent crime has begun to level off, it is a valid question to ask if the JPC movement can become more actively engaged in promoting road safety.

At long last, the subvention for the Road Safety Association will be increased from \$100,000 to \$200,000, to partly cover the cost of uniforms issued by the Association to its patrol members. This will encourage the formation of more road safety groups and assist young people to give service to their community.

I suggest that Government review its entire programme of road safety activities to see if they could be carried out with more vigour continuously throughout the year. I do not propose that we in Hong Kong should adopt any or all of the tough draconic measures with harsh penalties against offenders that exist in Singapore, but I would certainly advocate that Government gives a greater level or at least the same level of attention to road safety campaigns in future as it is now giving to the Keep Hong Kong Clean Campaign, where a more widespread community participation is involved. The number of traffic accidents, the large number of people killed, maimed, seriously and slightly injured, certainly warrant such expanded campaigns.

Car Parking

On the several occasions that I have inquired about the car parking policy last year I was told that the long-term policy is still under review in the context of the draft White Paper on Transport Policy. I am concerned at the lack of co-ordination both among Government departments and between Government and the private sector in the provision of car parks, particularly in the heavily built-up areas. This situation has existed for more years than I can remember, and it is disquieting that a long-term policy on car-parking, including the provision of multi-storey car parks both by Government and the private sector in each district, with the financial implications, has yet to be fully worked out.

CULTURE

With the opening of the Arts Centre, it would seem that culture in Hong Kong is at last beginning to generate its own momentum. The decision to expand music education and cultural activities in schools will foster a new generation of Hong Kong citizens with an appreciation for the arts at an early age, who will have more opportunity to pursue whatever musical talents they possess.

The setting up by the Urban Council of the Hong Kong Chinese Music Orchestra and the Hong Kong Repertory Company on a professional basis last year were noteworthy events as they were indicative of the Urban Council's determination to build up the artistic talents of Hong Kong people through the medium of their own native culture.

I am sure that the District Advisory Boards in the New Territories will undoubtedly wish to emulate the Urban Council's example to the extent of the resources they have available.

It is disappointing that Government has so far been unable to allocate a suitable site to the Urban Council for the building of a Science and Technology Museum. At this point, I must declare an interest as a member of the Urban Council. No one who has visited the Tokyo Science Museum can but come away deeply impressed by the tremendous interest and enthusiasm which the thousands of Japanese school children show on a weekend or weekday holiday when visiting the museum. If it is really Government's policy to encourage young people to take a greater interest in technical and science education, early steps should be taken to assist the Urban Council in the building of the Science and Technology Museum.

CONCLUSION

In closing, Sir, may I say that the 1978-79 Budget can only be construed in one way, which is, that it is both a testimony and a reaffirmation of the very great faith which we have in the long-term future of Hong Kong. We are taking steps to study the feasibility of a bridge to Lantau, to expand our water supply sources for the future, to study the need for a newer and larger airport to replace Kai Tak Airport, and to plan for other new towns and development programmes which will reach out into the early part of the 21st century. We are in effect fostering a climate of confidence in which private enterprise will continue to invest and expand.

Under Your Excellency's wise leadership and ably supported by Mr HADDON-CAVE's financial acumen, the people of Hong Kong look forward to a steady canter through the year of the Horse with resoluteness, courage and optimism.

4.32 p.m.

THE PRESIDENT:—I think at this point, Honourable Members might like a short break. Accordingly Council will resume in 15 minutes time.

4.50 p.m.

THE PRESIDENT:—Council will resume.

MR F. W. LI:—Sir, I should like to start by congratulating the Financial Secretary for his presentation of Hong Kong's first \$10 billion Budget for next year, with its first \$1 billion surplus for the current year. He has surpassed all records.

The Financial Secretary has spoken at length on the growth and development of our economy in the 1970's and our performance in 1977. He has, as usual, given fully his reasons for the under-estimation of the growth in the Gross Domestic Product from a forecast of 7% to 12% in real terms. He has also provided us with his detailed explanations for the outturn from a modest budgetted surplus of \$30 million to a revised anticipated surplus of \$1,150 million for 1977-78. He has estimated that our fiscal reserves in the General Revenue Account will stand at a record figure of \$4,890 million at the beginning of the next financial year. I fully agree with him that it has been 'a rather remarkable achievement even for this very remarkable place'. Our economy is indeed in a healthy state and we may look forward to the coming year with a degree of optimism.

We were told four weeks ago that the present happy state is the result of an unexpected flush of revenue rather than a failure of expenditure. The Financial Secretary has put forward seven revenue proposals; some will be chargeable to General Revenue while others will add to it, although he has assured this Council that they are not designed solely to raise additional revenue.

The net cost of the seven proposals to the General Revenue Account is about \$120 million, thus reducing the estimated revenue from a total of \$10,366 million to \$10,246 million. With the estimated expenditure of \$10,266 million, the Financial Secretary has now budgetted for a small deficit of \$20 million, which in effect, is a balanced budget.

Sir, of the seven revenue proposals, I have my reservations on the one designed to reduce losses being incurred on certain postal services. These include inland printed papers, re-direction of mail and the business reply service, principally facilities which are provided for individuals or businesses or voluntary agencies within Hong Kong. The increases are insignificant, bringing in a mere \$8 million next year, and the administrative cost involved in making the changes may well swallow up the additional revenue. I fail to see any merit in the increased charges for these basic components in our communication network. As a matter of principle, I feel that taxpayers and the public are entitled to these services. After all, the Post Office, as a whole, is not a loss-making proposition. If the policy of cross-subsidisation is to be ignored for these services, should not certain loss-making services in other departments such as the Government Information Services and Radio Television-sion Hong Kong be made to pay their own way also?

I would therefore suggest that this particular proposal be abandoned thus adding \$8 million to the budgetted deficit, bringing up to \$28 million, which, in my opinion, is still aiming for a balanced budget. However, I venture to predict, as I did in the previous two years, that when the Financial Secretary moves the second reading of the Appropriation Bill next year, he will be announcing with appropriate explanations, another substantial surplus for 1978-79. (*laughter*)

There is no doubt that the recent recession is behind us, and that we have performed well during the past two years. Our economy is generally strong in most sectors, and we have accrued substantial reserves. Unemployment is low at 4%, and the work force has shown itself to be capable of adapting to technological advances as well as changing patterns of employment prospects.

Because of the shift to protectionism in certain countries, we have commenced to look into the possibilities of industrial diversification. Whilst it may be true that we lack the advantage of a lead in terms of experience in many cases, as referred to by the Financial Secretary, I think the time has come to remedy the situation. We should not continue to be contented with being a 'follower' rather than a 'leader'. I would respectfully urge that Government must take the initiative.

The development of new industries requires land, and a comprehensive report has been produced by the Special Committee on Land Production appointed. In the meantime, some additional sites are available on Tsing Yi Island and elsewhere in the New Territories, and large industrial estates are now being formed at Tai Po and later on at Yuen Long. Our natural resources are admittedly limited, but much can be done in the allocation of these precious remaining assets.

Sir, in concluding his Speech, the Financial Secretary referred to the present size and scope of Government activities, the total volume of transactions in the public accounts, and the need for careful thought to be given to the way in which the Administration might be adapted to meet the challenges of the years ahead.

I would like to associate myself fully with his remarks. But I think it is time for a reassessment and for us to ask ourselves a few questions. What are the priorities? Do we need another Master Plan? How best we carry out our aim to make Hong Kong a better place to live in?

We have recently been presented with quite a number of Green Papers and White Papers, which endeavour to link together the past, present and future. These are very useful papers, and part and parcel of the open Government concept. Public reactions, however, has not always been favourable, and some proposals or policy decisions have been criticized as inadequate if not unrealistic. There is clearly insufficient planning in certain areas. Also, in other areas what was at one time adequate needs to be up-dated. Co-ordination and phasing of activities can also be improved.

Sir, in 1974 when Your Excellency addressed this Council at the Opening of the Session, you referred to the need to take stock. Three and a half years have gone by and, as the Financial Secretary has pointed out, it is obvious that our situation has changed out of all recognition. Few of us really expected Hong Kong to become so prosperous in such a relatively short period of time. Now that we have gone through a recession without having sustained severe damage to the economy and are on the upswing, I think it is appropriate to take stock once again.

We should re-examine our policies, and how we propose to implement them in the early years of the next decade. Our order of priorities will have to be reviewed and revised, having regard to the availability of public funds. Services are expensive, and the magnitude and range of Government activities and of activities conducted by subvented voluntary agencies should be reappraised in the light of the latest forecasts of growth and variation in population. Having taken stock, and indeed, even during such an evaluation, we shall have to consider how the Administration and the Civil Service might be modified to deal with problems which are bound to confront us in the future.

Some three years ago, Government thought it necessary, because of the recession, to impose a partial freeze on the growth in the Civil Service. This restraint resulted in an increase in the approved establishment of only 4,677 posts over the three years ended 31 March 1977, bringing the total number to 117,495. But for the current financial year alone, another 8,414 posts have been approved, making the total 125,909.

It is obvious that for 1978-79, a further increase in the Civil Service establishment is inevitable. Whilst this may still fall within the Financial Secretary's guideline, it must be borne in mind that personal emoluments include only salaries and some allowances. Additional posts would surely mean a substantial increase in fringe benefits such as housing which includes quarters, hotel accommodation and private tenancies, medical and dental treatment, passages and local travelling expenses, and ultimately the civil pension vote. I would therefore strongly urge that extreme care must be taken to ensure only such increases as are absolutely essential should be approved.

The Financial Secretary mentioned that some attention might also be devoted to the manning of departments generally, as opposed to applications for particular increases. This could be coupled with a re-examination of the Government machinery as a whole. It has been some years since a number of the 'McKinsey Report' recommendations were implemented, and it is time we have another close look at the structure of the Administration, with perhaps some attention given to the progress made in the localization of the Civil Service and in the introduction of management principles. I am not for a moment suggesting another McKinsey, but I feel strongly that we should satisfy ourselves whether the present system is working effectively and whether the level of productivity is sufficiently high.

In previous years, I commented at length on the management aspects of Government activities, drawing particular attention to the inadequacy of supervision, the lack of central co-ordination and the wastage of public assets. The Director of Audit's report for the year 1976-77 has been tabled, and I do not propose to comment on it now. After four years of persuasion, I am heartened to learn that Government has at last decided to establish a Public Accounts Committee in time to examine the Government accounts for 1977-78.

Sir, in March 1976 when speaking on the Appropriation Bill, I advocated that certain public enterprises should be hived off to operate on a commercial basis. These would become independent corporations, with Government officials nominated to serve on their boards. This suggestion was dismissed out of hand by the Financial Secretary when he concluded the debate that year.

When he addressed this Council this year, however, the Financial Secretary referred to the pricing policy which must be adopted for Government owned and operated public utility undertakings, namely, the Waterworks, the Post Office, the Airport, the Kowloon-Canton Railway and the Lion Rock Tunnel, but excluding certain facilities in the New Territories and those under the control of the Urban Council. He went on to say that the basic principle of pricing policy must be, that consumers—be they individuals or trades or industries—should be charged the full cost of the resources consumed by each undertaking unless conscious policy decisions dictate otherwise on social or political grounds. Such a pricing policy is in accordance with commercial practice in the private sector. Here I would like to mention that a policy decision *was* consciously made that student fares should not reflect on the full cost of the resources consumed by a number of public transport companies. Honourable Members may have noted that the amount of \$35.67 million has been budgetted for this item for 1978-79 under Miscellaneous Services.

I would urge that we begin to assess the implications of our system of financial administration and, indeed, for the organization of the Government's internal administration as a whole. We should also give careful consideration to the possibility of re-constituting some of the Government undertakings as independent corporations. The resources involved are large, but that alone should not rule out my proposal since the assets placed at the disposal of the Mass Transit Railway Corporation already amount to \$1,142 million. This figure does not include contingent liabilities arising from Government guarantee of loans obtained by the Corporation from and overseas local sources.

Any hiving off of public enterprises would have staff implications, including the transfer of civil servants to the new corporations. Such details as the terms of transfer or secondment, the preservation of pension rights, and so forth would be another exercise which I am sure the Secretary for the Civil

Service will gladly accept as an additional chore! With the establishment of separate corporations, the Civil Service would be reduced to a more manageable proportion. This would in turn lead to greater productivity, with the taxpayer getting value for his money.

Sir, earlier in my speech, I referred to the fiscal reserves, which the Financial Secretary estimates will total \$4,890 million on 1 April. He proposes to earmark two-thirds of that sum to secure contingent liabilities, and the remaining one-third to cover short-term difficulties and seasonal deficits.

The assets in the Development Loan Fund and the Lotteries Fund have not been included in the fiscal reserves, however, as they are committed to approved loan allocations. Since the available assets in the Development Loan Fund by the end of the current financial year will be insufficient to meet anticipated calls during the next year, provision has been made in the draft Estimates for another \$400 million to be transferred from General Revenue.

The position of the Lotteries Fund is somewhat different. The Financial Secretary estimates the total assets in 1978-79 to come to \$67 million, and payments to be only \$24 million, leaving a balance of \$43 million by end of March 1979 with outstanding allocations amounting to \$13 million. In other words, there will be a surplus of \$30 million even after taking into account all outstanding commitments. As this Fund was created for the purpose of financing the development of social welfare services by way of grants, loans and advances, it appears that there are certain weaknesses in the operation of the Fund. On the one hand, there are regular indications from social welfare agencies that inadequate funds have been allocated to them for their expansion programmes, and on the other hand, the Fund, especially established for the purpose of meeting such needs, shows a healthy surplus at the end of each financial year.

Whilst I do not query the principles and the administration of this Fund, I see the need for Government to re-examine the procedure and criteria governing applications for assistance from the Lotteries Fund. It has been some thirteen years since this Fund was first created by Resolution of this Council and many changes have evolved during this period which may warrant some modification to allow its assets to be employed more effectively.

Sir, with these remarks, I support the motion.

MR BREMRIDGE:—Sir, in the context of a widely accepted budget I wish to touch on a few lateral aspects.

Luxury Taxes

I much welcome Government's decision to bring in differential taxation on expensive motor cars. There appears indeed to be ample room for further increase at the top end. I have spoken before in this Chamber about what seems to me to be a developing tendency in Hong Kong towards conspicuous

consumption; and I suggest that the Financial Secretary in 1979 might also consider other increases bearing on the flaunting of wealth. Indirect taxation on the spending of the rich has much to commend it. I hope my Colleagues will share in my masochism (*laughter*).

Russian Shipping

Hong Kong depends on its export trade, the majority of which now and for evermore will be carried by international shipping. The budget debate is concerned with our economy. I make no apology therefore for raising again in this Chamber the subject on which I have spoken before—the threat presented to Hong Kong by Russian liner shipping. Naturally I concentrate on our angle, but it is a world-wide problem.

I am not so naive or so self-interested that I do not accept that even given the efforts of Shippers Councils shipping conferences might become unbearable without some degree of outside competition—actual or threatened. Such competition must exist, and should be welcome to the extent that it is fair, and does not result in shipping tariffs becoming completely uncertain as a result of anarchy. No one can or should object to fair competition. In fact capitalism without competition would be intolerable. But the Russians characteristically do not compete fairly. There is clearly also the over-riding consideration that there is a point beyond which no community can allow a vital interest to be heavily influenced by those it does not trust. While therefore merchants must welcome to some extent the cost cutting tactics of the Russians, it is foolish to let this get out of hand. The reasons are clear. They could at any time withdraw in an effort to put various types of pressure upon us, and they certainly would withdraw in any sort of major emergency (and no doubt taking our cargo with them).

I have figures on Hong Kong's major and vital export routes to Europe and to the West Coast USA. To Europe via the trans-Siberian railway in 1977 the Russians lifted about 134,000 tons of Hong Kong cargo, which is about 7.6% of the total movement. To the West Coast of the USA they lifted 104,000 tons, which was about 8.2% of the total. There are other incursions e.g. to Australia. These figures to Europe and the USA seem to me to be nudging on the tolerable limits, and while there is as yet no cause for undue alarm I must suggest that Government should now begin to consider administrative measures to ensure that the Russians do not increase their carryings.

All know that Russian shipping operates with crews that are paid well below normal standards. In fact compared with over HK\$2,000 per month for a Hong Kong seaman the Russian figure is about HK\$450 per month. Their ships generally speaking are repaired and dry-docked in Russia, are victualled with Russian food, and to a considerable extent are bunkered with Russian fuel. Their depreciation policy is quite enigmatic, as are calculations of building cost and overall profit. Let them carry a fair share of their own

imports and exports, but in cross trades these built in factors must surely require an imposed discipline. Unless wisdom prevails—which seems unlikely—or unless otherwise checked the Russians could in theory continue to expand almost to the extinction of Western shipping by their present policy of undercutting tariffs by about 25%. I do not believe that this bleak future will necessarily occur; but it seems to me essential to understand that it is at any rate possible for the Russians for their own purposes—strategic, or the acquisition of stronger foreign currencies—to drive competing Western shipping from cross seas trades until and unless Western governments recognize the menace for what it is. Let no one talk of Russian goodwill, for it does not exist. We cannot accept a Siberian thumb on our jugular.

Kai Tak's Future

I turn now briefly to the question of the airport. It is generally accepted that by about 1985 at the very latest Kai Tak will not be able to accommodate any additional aircraft movements. The single runway will be fully utilized. That is to say that relatively small aircraft may be translated into larger ones in so far as that is practicable, but that passenger growth must thereafter drop sharply—with the certainty that it will tail off completely a few years later. It is perfectly clear to anyone who can sense the various nuances that a decision for Government about building a second airport is fraught with serious difficulties. Consequently I make no criticism; but I believe that it is important that Government should make the facts widely known for it is sure that in the later 1980s our tourist growth will halt. This obviously has fairly wide ranging economic implications, not least with regard to possible over building of hotels.

Secondary Education

Sir, may I also touch briefly on Government's proposals to bring in 3 years free and compulsory secondary education as soon as possible—starting in the 1978 academic year. There is a conflict of views about this expensive new policy both amongst my Colleagues and outside. Ignoring the lunatic fringe who believe in neither free nor compulsory education, there is a clear cut and honest difference of opinion between those who like myself believe that a minimum reasonable base education (say 9 years) must be made compulsory, and thus free, on the grounds that outside general taxation it is quite unfair to compel a man to spend money; and those who in the Hong Kong context believe that while sufficient education should be made available and indeed be compulsory, it should not be free to the extent that those who can afford to pay for it wholly or in part should do so. This then would release some taxpayers' money for other priorities—though critics often fail to appreciate the costly administrative problems that would be involved.

Every advanced Western country and indeed nearly all our Eastern neighbours now supply primary and secondary education at least to the extent of a total of 9 years compulsory schooling. In addition fee paying schools

often exist outside the Government ambit. I submit that all the contrary arguments can be read in the various histories of the last 90 years or so ago, whereafter time and wisdom have been a kind blanket; and I firmly believe that a reasonable compulsory education should be provided free by governments if they can afford to do so. It is not of course inevitable or even always sensible that Hong Kong should follow Western fashion. Indeed we have much to teach. Nevertheless I believe that it is misguided to attempt to persuade Government that its recent wise and generous policy towards free and compulsory secondary education is wrong. This will certainly not assist our image overseas. Moreover if critics feel this way about secondary education, will they now suggest that primary education also should no longer necessarily be free, but in effect be means tested? I do not happen to believe in human rights per se, but I do believe in the provision of adequate free and compulsory education as a concomitant of any civilized society. I do not preclude the parallel availability of some independent schools whose costs are covered by fees. But at least no parent should be forced to pay school fees because adequate free education is not otherwise available.

UK Exports

I now wish to underline the success of an initiative in which you, Sir, have been yourself so much concerned. I refer to the drive to increase UK exports to Hong Kong, which is of major importance both political and economic. In 1977 it was most satisfactory that our imports from the UK rose by 32%. They are now of the same order as UK exports to the huge continent of India, and indeed considerably greater if Government aid is subtracted. Moreover as a matter of interest UK exports to Hong Kong now exceed the total to Indonesia, Thailand, and the Philippines all put together. I hope and believe that this trend will continue because I believe that UK imports represent good value for money, because I believe very strongly in bilateral trade, because at a time of worrying unemployment in UK this means work for many men, and because this very large source of earnings for the UK underlines our mutual relationship. Of course there are issues above mere trade balances for blood is thicker than water, but I believe that it is of considerable significance that in 1977 Hong Kong took over £ 270 million worth of imports from the UK, and that given goodwill and hard work in equal measure this figure is clearly going to increase in the years ahead. Japan with a population 30 times as large as ours only took £ 469 million worth of UK imports last year.

ICAC

May I say, Sir, how much I appreciate the proposed increased expenditure on the ICAC. Without stirring the pot I believe that the public is firmly behind you in thus supporting the cleaning up of Hong Kong—and in the private sector as much as in the public. But present priorities are pretty clear, and the amnesty has certainly not meant less work for the ICAC.

Minority Groups

Of course, much remains to be done in Hong Kong particularly for the underprivileged and only fools can believe that all is perfect. But largely due to your efforts, Sir, we are now moving fast in the right direction—perhaps faster than any other similar community. We must never forget our duty to the poor. The rich can certainly look after themselves. This continuous process of change and improvement can never end, and indeed fair criticism is part of it. The lack of critics is not however one of Hong Kong's shortcomings.

There are indeed many increasingly vociferous minority groups. Some are wise. Others are not. Generally speaking they complain rather than praise. This is the nature of a free society. Some of the complaints about lack of communication may have a foundation. In other cases what is deplored is that those who carry the burden of responsibility do not agree with the complainers. This is however what responsibility is all about.

May I, Sir, as a member of many minority groups including this Chamber far from complaining proclaim not only in the light of this Budget but in the context of our overall economic situation how much I believe that Hong Kong—all Hong Kong—owes to our prudent Financial Secretary.

Hilaire BELLOC clearly had the current Hong Kong position in mind when he almost wrote: 'Pale EBENEZER thought it wrong to fight but roaring Phil who killed him knew it right.' (*laughter*) Well, Sir, we all have our pet Ebenezers and we all know we have to fight.

With these words I support the motion.

DR FANG:—Your Excellency, the Budget for 1978-79 spares the man in the street whilst promising a higher standard of living and improved social services for all. This is no mean feat in an era of ever growing expenditure and I congratulate the Financial Secretary on yet another sound Budget.

Medical Services

I should like first of all to speak on our medical services. This year is likely to see underspending to the tune of \$46 million. An analysis of past expenditure figures reveals that expenditure on medical services as a percentage of total Government expenditure was 11.3%, 9.4%, 9.3%, 9.8% and 9.2% in the successive years of 1971, 74, 75, 76 and 77 respectively. In 1978-79, expenditure is estimated at \$891 million. Although a substantial sum in itself, it is nevertheless only 8.7% of total expenditure. In other words, a decreasing slice of the cake is going towards a very basic and essential service.

It strikes me that more should be spent to improve our medical services. Although we have set ourselves a planning target of 5.5 hospital beds per thousand population, we will only achieve 4.3 beds by 1978-79 and 4.62 beds by the end of 1982. Could this rate not be accelerated?

We are particularly short of out-patient clinics, judging by the long queues outside existing clinics. The Director of Medical and Health Services has wisely opened clinics on Sundays and in the evenings to alleviate pressure but this cannot be considered to be a satisfactory long-term solution. I should, therefore, like to urge Government to establish more general outpatient clinics as part of its medical regionalization plans so that members of the public can be attended to without undue delay or having to travel inordinately long distances. As it has already been acknowledged in this Council that the problem is not one of staff shortage but physical limitation, we should take advantage of our present surplus position to correct this deficiency.

I turn now to the Industrial Health Division operated by the Labour Department with staff seconded from the Medical and Health Department. This division's primary responsibility is to promote the health of workers in the various occupations and industries. But I understand that this very important work is being seriously undermined by its preoccupation with the administration of workmen's compensation legislation. An overseas advisor, Dr Geoffrey FFRENCH, was appointed some time ago to examine this entire service and a report was submitted to Government last June. As I have been given to understand that Government has since accepted the report, I urge that an announcement be made soon on the steps that will be taken to implement its recommendation.

Much has been said in this Council on the need to train professional and semi-professional personnel since they are the key to achieving our goals in the White Paper on Rehabilitation and the Green Paper on the Elderly. Large numbers of para-medical staff will have to be trained by the Polytechnic as already indicated by Government. In order to allow for the proper planning and provision of training facilities, it is essential to introduce legislation stipulating the minimum standards expected of the para-medical professions. Without such standards, there would also be no incentive for any one wishing to join one of the para-medical professions to engage in formal training. This legislation has been under preparation for the last three years and I must urge that it be enacted during the current session.

Also on training, Sir, I am concerned about the provision of clinical teaching staff for the second medical school which will be receiving its first intake of students in 1982. It is important to plan now for the training of clinical teachers, especially at the more junior level. These teachers must be able to relate to the patients who constitute an integral part of the teaching process. For this reason, they should be able to communicate with patients in the Chinese language. In other words, we should aim at local recruitment of clinical teachers for our second medical school. This will not only conform with Government's localization policy but is also far less expensive to the public purse since it will then not be necessary to provide passages and other fringe benefits for overseas recruits. Our local graduates have a high reputation

and measure up well to international standards. Therefore, from all points of view, we should be looking to our own resources to fill the clinical teaching posts at the second medical school, and a start should now be made to plan for this. I realize that universities are autonomous institutions but, as it involves public funds, I hope Government and the authorities concerned will take these points into serious consideration.

Housing

Government has acknowledged that decent housing is the right of every individual in our community though the fulfilment of this target may still be a long way off. Two groups deserve some priority consideration, namely the disabled and the elderly. I am glad to note from the Green Paper on Services for the Elderly that it is proposed to set aside a quota in the public housing stock for the elderly. I should like to suggest that this concession be extended to the disabled as well since they also comprise a clearly definable vulnerable group. The present arrangements for the disabled to be housed through the compassionate housing quota do not seem to work well—I suspect not because the demand is not there but because the criteria is unduly restrictive. It would be simpler all round if a quota could be earmarked for the disabled, thus relieving professional social workers to tackle other compassionate cases. In constructing new housing estates I should also like to suggest that these separate quotas of flats be incorporated in the design to suit the needs of the disabled and the elderly. The present arrangements for modifying standard housing units to suit their needs before they move in are both expensive and time-consuming.

In respect of the Home Ownership Scheme I sincerely hope that Government's partnership with private real estate developers will prove a success and a further boost to promoting home ownership. I hope that some priority consideration may be given to the disabled and elderly who can afford the initial downpayments and instalment payments. Indeed, there are very few disabled and elderly persons who earn enough to qualify for the Home Ownership Scheme but for those who do and are prepared to apply, I hope that some priority will be given to them in the allocation of flats as a positive encouragement towards self-reliance. Self-reliance by the disabled and the elderly is in fact the ultimate goal that we hope to achieve in the White Paper on Rehabilitation. I also feel that civil servants whose earnings render them ineligible for public housing deserve a special helping hand and perhaps consideration could be given to earmarking a number of home ownership flats for this group in the same way as the existing public housing quota for their more junior colleagues.

Whilst on the subject of housing, I should like to comment on Government's private tenancy allowance scheme. The rules operating here seem to conflict with Government's aim of promoting home ownership since an eligible officer occupying his own flat receives a house allowance of a mere two or three hundred dollars compared with a private tenancy allowance of

several thousand dollars for another eligible officer who is not living in his own flat. It is high time that this entire scheme was reviewed since it not only discourages home ownership but also invites abuse through officers buying properties under assumed names. Financially, it makes no difference to Government whether the money is paid out in rental in monthly instalments or in loans to buy their own flats. Indeed, if converted into loans, Government would stand to gain in more ways than one. I urge Government to consider long-term loans at concessionary rates of interest to assist its employees in purchasing their own homes, and this should apply to both local and expatriate officers.

Taxation—Dependent Parents' Allowance

Sir, as Convener of the UMELCO ad hoc group formed to study the Green Paper on Services for the Elderly I feel duty bound to ask the Financial Secretary to reconsider reinstating the Dependent Parents' Allowance. (*laughter*) The abolition of this allowance in 1973 was ostensibly to simplify and assist administration and discourage evasion. This reason can no longer be valid now that there has been a significant increase in the staff of the Inland Revenue Department. Furthermore, the planned introduction of computerization should also simplify administration. Admittedly, the abolition of the Dependent Parents' Allowance in 1973 was part of a quid pro quo for an increase in personal, wife and child allowances. However, these allowances have remained largely unchanged for 5 years and any benefits in real terms derived from the 1973 package deal have long since been eroded by inflation. In spite of the administrative difficulties involved in policing this allowance, it seems quite wrong in principle to penalize the majority because a few unscrupulous taxpayers abused the scheme. Of the administrative difficulties detailed by the Financial Secretary in his speech in this Council on 28 February 1973, more appear insoluble. The community has spoken with one voice on this issue and I hope that it will move, I repeat move, the Financial Secretary to reconsider his stand.

Social Welfare

On social welfare subventions, I fully support the move towards unit rate subvention since this will give greater security and confidence to the voluntary agencies in helping to implement the various proposals made in Government's Green and White Papers on Social Services. Of the \$100 million allocated for subventions to voluntary agencies, I note that \$85 million is for existing services and \$7.2 million for refund of rates and certain new projects under the rehabilitation programme. The balance of \$7 million is reserved to meet expenditure arising out of Government's proposals for the young and the elderly as published in its Green Papers. However, it will be some time before these papers turn White. If the \$7 million cannot be spent on elderly and youth services in 1978-79, I hope that it will be made available for expansion in existing services in various fields.

Auxiliary Police Force

Finally, Sir, I should like to draw attention to the remuneration for the auxiliary police force. I am sorry to say that the pay and allowances for auxiliary policemen have not been adjusted since 1972 during which time their regular counterparts have had four salary increases in 1973, 74, 76 and 77 along with the rest of the Civil Service and, in addition, in November 1973 a special revision was made for the regular rank and file. The Draft Estimates for 1978-79 indicate that this will soon be put right but I should like to know whether the funds earmarked cover any retrospective adjustments. In line with the increases for the Civil Service as a whole, I believe that the revised salary scales should have retrospective effect at least to 1 April 1977 *i.e.* the effective date of the last salaries revision in respect of the whole of the Civil Service.

Members of this excellent force have proven their worth many times over, particularly in troubled periods now happily behind us. It is right, therefore, that the community should show its appreciation by ensuring that they are adequately remunerated.

Sir, with these words, I have pleasure in supporting the motion.

MISS KO:—Your Excellency, the Appropriation Bill for the coming year has been generally considered more realistic than last year's and on the whole has been well received by the public, particularly the increasing emphasis on social services. The estimated surplus of more than \$1,000 million for 1977-78 indicates, however, that Government should take a still more active role in improving both the quality and quantity of public services. I hope that in the coming year if evidence indicates that revenue will exceed expenditure more resources will be immediately directed to the expansion of social services without waiting until the following financial year.

Revenue

On several occasions in this Council, I have voiced my support for increasing the tax on luxury goods. The proposal to raise revenue by imposing heavier tax on imported cigarettes and expensive cars is therefore welcome but I feel it should be extended to other luxury items as well. I note that in the coming year Government expects an enormous sum of \$480 million from taxes on gambling activities, particularly horse racing, but personally I do not consider this a laudable situation. Many young people who indulge in gambling are the vulnerable ones capable of causing serious social problems and it might be necessary for Government to spend a lot on social welfare and law and order as a result of these social problems. From a social viewpoint, it is better for Government to generate the necessary funds in more salubrious ways. The time has come for Government to look carefully into the matter and do something to stop any further expansion of gambling activities.

I am, however, disappointed that the Financial Secretary did not grant tax allowances for dependent parents and working wives. (*laughter*) Tax allowances in these areas would have significant social implications in strengthening cohesion between family members. I therefore urge Government to consider reintroducing the dependent parents and working wife allowances. As regards the level of allowances, I suggest that to lighten the tax burden on taxpayers with small incomes, a lower rate, say 2 per cent, should be levied on the first \$10,000 net taxable income, and the rate gradually increased.

Conditions of Service of Female Civil Servants

In regard to the conditions of service of civil servants, I wish to point out that there are still areas for improvement such as those pertaining to married female officers in respect of subsidized housing, education allowances for their children and free medical and dental treatment for their dependents. I hope that this unsatisfactory situation will be reviewed and a working party formed with a view to bringing into line the conditions of service of male and female civil servants, single and married alike. These fringe benefits should be provided with safeguards to avoid any overlapping should both husband and wife happen to be eligible civil servants or if either spouse is receiving such benefits in the private sector.

Social Services

Turning now to estimated expenditure, I shall confine my remarks to the area of social services, particularly social welfare, social security, medical and health problems and education.

I welcome the high priority given to the expansion of social services. A White Paper on the development of rehabilitation services was published late last year and four Green Papers on services for the elderly, social security, personal social work among young people and senior secondary and tertiary education are now being studied. Some of the programmes proposed in these papers are scheduled for implementation in the coming year. In the field of education, free junior secondary education will be introduced from the beginning of the next school year. In view of the development programmes which have either been approved or are going to be approved, the level of expenditure on social services is still far short of what is needed.

Education

In the field of education, a Form I place in the public sector will be available for all primary 6 leavers in 1978 and from the beginning of the next school year, education at the junior secondary level is to be free. This is a costly development as mentioned by the Financial Secretary. Furthermore, according to the Green Paper on Senior Secondary and Tertiary Education, the Government's aim is to provide a range of opportunities, mainly in schools and technical institutes, for students to continue their education on a subsidized basis after completing Form III. In a few years time, the programme

described in this Green Paper will improve upon the targets for senior secondary education outlined in the 1974 White Paper by providing by Government in aided and private non-profit making schools more Form IV and Form V places as well as places in technical institutes.

Quality and Quantity

I would like to stress very strongly that the quality of education should not be sacrificed for the sake of providing more school places. In expanding the education programme, Government should ensure that both quality and quantity are equally emphasized. Therefore I hope Government will strengthen both the pre-service and in-service teachers training programmes in the two Universities and the Colleges of Education in order to cope with the expansion. As over half of the Form I places will be bought in private schools in 1978-79, it is important for Government to accord the highest priority to upgrading the quality of education in the private sector. Government should bring under its Code of Aid those private schools which have the intention and the potential to become properly aided ones. Sufficient subsidy should be given to these schools to enable them to employ qualified and trained teachers thereby raising the standard of education as a whole. This should also apply to the new private asymmetrical schools on which Government relies carefully in finding the additional places required. The floating class system is having an adverse effect on the quality of education and in my view this practice should be discontinued as soon as possible.

Transition Period

If Government is not in a position at present to cope with the above suggestions on financial grounds, I would like to suggest that a transition period be provided so that *free* junior secondary education for all will be postponed for the time being. To ensure that no hardship arises from the postponement of the introduction of free junior secondary education, a scheme should be devised to provide free places for students who are in need of free education. I am of the opinion that those parents who can afford to pay for the education of their children should do so. In so doing, part of the Government funds could be released for use in other areas such as in improving the quality of education. As regards senior secondary education, I hope that sufficient subsidized places would be provided for those who want them.

Tong Fai

It was mentioned in the Financial Secretary's speech that consideration is being given on whether school authorities will, in future, be precluded from charging tong fai and other subscription charges. In my opinion, it is important that individual schools should be allowed to continue charging tong fai and other subscription charges if they so choose since these subscription charges would be expended on improving school facilities and providing various extra-curricular activities for the benefit of students. Such charges

are also used in employing helping hands for odd jobs so that teachers and principals can concentrate on more important matters. In this connection, I wish to point out that free education in Hong Kong means the exemption of school fees only. Students still have to pay for their textbooks, uniform etc., and tong fai is one of the items charged on top of school fees.

Appropriation for Social Welfare and Social Security

The 1978-79 appropriation for social welfare, including subventions to voluntary welfare agencies, is estimated at \$535 million, or roughly 5.2% of the total expenditure. It exceeds the 1977-78 revised estimate for social welfare by \$127 million and represents therefore a substantial increase in absolute terms.

The allocation for the Social Welfare Department for 1978-79 is estimated at \$415 million, \$99 million over the \$316 million for the previous year. A large part of this increase (almost 90%) will be absorbed by the expansion of the Public Assistance Scheme, the lowering of the qualifying age for the Old Age Allowance, and the subsequent increase in staff to deal with additional cases. While of course I recognize the need to increase the appropriation for social security, I am concerned about the proportionately smaller provision for other welfare services of the Department. Apart from social security the appropriation for the Social Welfare Department allows little opportunity for expansion, let alone improvement in quality. I suggest that social security and social welfare should be considered as two separate items in the Appropriation Bill, so that justice is done to both. The administration of social security is, in fact, different from other welfare services and does not necessarily require personnel with social work training. There will of course be a need for close co-ordination and effective referral procedures between social security and social welfare, but social security should have its own administration to increase its efficiency in investigation and authorization.

It is estimated that \$100 million will be spent on subventions for the voluntary welfare sector this year, an increase of \$28 million over the revised estimate for 1977-78. This increase appears substantial, but closer examination shows that 85.8% of it will be used to cover the cost of maintaining existing services, salary increments, rent and rates increases, and contributions to provident funds. On the other hand, a mere \$7 million will be available for voluntary agencies to carry out the many proposals in the Green Papers on the development of services for the elderly and young people. Looking from this angle, the appropriation for subvention to voluntary welfare agencies is not as generous nor the increase as significant as first appears. In fact, the requirements of voluntary agencies for subventions are estimated by the Social Welfare Advisory Committee to be about \$116 million rather than \$100 million, if the existing programmes are to continue and essential new services are to be implemented. The \$100 million allocated is not sufficient for the voluntary agencies to carry out their existing programmes and the programmes in the Five Year Plan for Social Welfare,

or the many proposals in the three Green Papers. Without adequate financial assistance, voluntary agencies cannot venture into new areas. I strongly urge Government to take more positive steps to ensure that proposals included in the various development plans for social welfare are not delayed because of insufficient financial support. The resources at the disposal of the Government give no reason for caution in this area.

Social Welfare Subvention Policy

The Financial Secretary questioned in his Budget Speech whether Government's financial assistance to voluntary agencies should be converted to a unit cost basis. In my opinion, financial support based on unit cost is more appropriate in some areas such as nursery services where subvention is in the form of a fixed sum for each child per month. In working out the unit cost, the standard setting and evaluation of the services are essential and should not be neglected. It would, however, be more difficult to calculate unit cost for services which are not easily quantified and measured. The whole matter needs to be thoroughly studied in the future. In this connection, I suggest Government should also consider expanding the purchase of certain services of high priority at full cost from voluntary agencies. Contributions from the Community Chest to voluntary agencies should complement Government's subventions and be used mainly on financing pilot projects, enhancing the pioneering role of voluntary agencies and supporting valuable social welfare programmes not considered to be of top priority by Government.

Furthermore, I note that in calculating subventions to voluntary agencies, the increase in the cost of providing or maintaining a service other than salary increases is often neglected. The time has come for Government to take a fresh look at the issue, particularly the way in which the one-line vote operates. I hope that in determining the requirements of voluntary agencies for subventions in future, Government will take into account the need for expanding and improving the services and the inflated cost of providing such services apart from increase in staff salaries.

Training and Research in Social Welfare

The two universities, the Hong Kong Polytechnic and the post-secondary colleges should be encouraged to increase their capacities for the training of social workers to cope with the development of social welfare programmes. I hope that additional funds will be made available for expanding their training programmes. As regards the planning of social welfare development, I feel that there has not been sufficient research to form a basis for realistic decisions and the planning of nursery service is a case in point. As a consequence, much time and money have been wasted. I suggest a subcommittee be formed under the Social Welfare Advisory Committee to plan and initiate the necessary research work on social welfare services to be conducted by independent bodies.

Community Nursing Service

With regard to medical matters, the Medical Development Advisory Committee's decision to keep the community nursing service at 'no expansion' for the three-year evaluation period from 1977-78 to 1979-80 requires reconsideration. In October and November last year, a total of 591 referrals had to be rejected due to insufficient staff. One year of the three-year evaluation period has elapsed and a lot of information on the demand for community nursing service is now available for assessment. Furthermore, it is mentioned in the Green Paper on Services for the Elderly that community nursing is a practical means of coping with the needs of the elderly and an early expansion of the service beyond the present restricted scope is urged in the light of operating experience so far. It is estimated that no less than 91 community nurses are required to meet the needs for such services in 1978 and the number will be increase to 130 by 1986. It would be short-sighted not to expand this much-needed service for another two years and I urge Government to re-examine the decision of the Medical Development Advisory Committee as a matter of urgency.

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

Suspension of sitting

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

Suspended accordingly at five minutes past six o'clock.