

**OFFICIAL REPORT OF PROCEEDINGS****Thursday, 16 November 1978****The Council met at half past two o'clock****PRESENT**

THE HONOURABLE THE CHIEF SECRETARY (*PRESIDENT*)  
MR JACK CATER, CBE, 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 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 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 JOHN CHARLES CREASEY WALDEN, JP  
DIRECTOR OF HOME AFFAIRS

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

THE HONOURABLE JAMES NEIL HENDERSON, JP  
COMMISSIONER FOR LABOUR

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

THE HONOURABLE OSWALD VICTOR CHEUNG, CBE, QC, JP

THE HONOURABLE ROGERIO HYNDMAN LOBO, CBE, 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 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, OBE, 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

DR THE HONOURABLE HO KAM-FAI

THE HONOURABLE ALLEN LEE PENG-FEI

THE HONOURABLE ANDREW SO KWOK-WING

**ABSENT**

HIS EXCELLENCY THE GOVERNOR  
SIR CRAWFORD MURRAY MACLEHOSE, GBE, KCMG, KCVO

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

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

THE HONOURABLE LO TAK-SHING, OBE, JP

THE HONOURABLE DAVID KENNEDY NEWBIGGING, JP

**IN ATTENDANCE**

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

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**Motions****Address of thanks****Resumption of debate on motion (15 November 1978)**

DIRECTOR OF MEDICAL & HEALTH SERVICES:—Sir, on previous occasions when I had the privilege to speak in this Council I described in some detail the plans and projects as embodied in the Ten Year Medical Development Plan. These plans are reviewed and updated annually by the Medical Development Advisory Committee (MDAC) to take into account as much as possible the changing needs in regard to areas of service as well as in the time schedule.

It is therefore not my intention to take up the time of this Council in enumerating again individual projects but simply to say that within these plans there will be more and better general out-patients services, maternal and child health services, family planning, health education, day patient care and other facilities which will be available progressively from now until the end of the decade.

In the development of hospitals and specialist facilities four major hospitals of between 1,200 to 1,400 beds each are expected to be completed within the same period.

Major improvements are also being considered for the three existing regional hospitals and other hospital in the whole health care delivery system. It is therefore not surprising that the capital expenditure will exceed \$2,200 million while the recurrent expenditure will total more than \$1,600 million by 1986-87 at present day prices.

Thus, the good medical services as mentioned by His Excellency will become even better when these plans become reality.

While on the subject of development of medical facilities, I should like to take up relevant points raised by Mr CHEONG-LEEN and Miss BENNETT.

Mr CHEONG-LEEN has most eloquently put the case for the need to improve paediatric facilities. I should say at once that I am in agreement in principle with him that there is such a need, although I must hasten to add that the present insufficiency is by no means 'shocking'. There are already specialist paediatric units attached to our three major regional hospitals, namely: Queen Mary, Queen Elizabeth and Princess Margaret Hospitals with a total

bed complement of 614 beds. It is fair to say that these units and their staff both in the Government and the University are providing a good and efficient service which to a large extent has contributed to the fact that our infant and child mortality rates are among the lowest and compare very favourably with the best in the world.

Honourable Members will recall that the principle of regionalization of medical services as recommended by the MDAC has been accepted by the Government in 1974. In accordance with this principle, medical services are to be provided by having specialist facilities, including paediatrics, being incorporated and attached to general hospitals, rather than to cater for such services in separate specialist hospitals. This is particularly relevant and practical in the context of Hong Kong where precious resources in terms of professional expertise and facilities as well as competing claims of various specialties make it inevitable that resources should be utilized to the fullest extent. This arrangement has the added advantage that a wide range of services, including specialist services, would be available and accessible in locations which are most convenient for the public. I may add that in many advanced countries the general trend is also towards the provision of specialist facilities being attached to general hospitals. Thus, the present arrangements in respect of specialist paediatric units in our three regional hospitals are entirely logical.

There is, of course, much room for improvement and none for complacency and Mr CHEONG-LEEN would be glad to know that in fact a feasibility study will be undertaken soon in connection with a proposal to update paediatric and other facilities for the Queen Mary Hospital while an item for similar improvements at the Queen Elizabeth Hospital has already been submitted for inclusion in the Public Works Programme. Also, plans for a modern and up-to-date paediatric unit has been incorporated in the Teaching Hospital at Sha Tin.

I am most grateful to Miss BENNETT for giving me this opportunity to inform the Council of our plans for providing more medical facilities in the East Kowloon area. Miss BENNETT will no doubt be glad to hear that the MDAC has already endorsed my Department's recommendations for the provision of a major acute hospital to be located in the Jordan Valley area just off Clear Water Bay Road. This is envisaged to be completed in the mid-1980s subject to the provision of funds. In the meantime, various projects aimed at improving the medical and health facilities in the East Kowloon area are already in the pipeline. These include a large clinic catering for day patient facilities which is expected to be completed in 1980 in Ngau Tau Kok; a \$45 million health centre will also be built by 1981-82; a polyclinic at Hammerhill Road is expected to come up in the same year. Another general clinic at Lam Tin will be built in 1982 to be followed by a polyclinic at Kwun Tong later. With all these additional facilities, I am confident that medical and health needs in this area will be met satisfactorily.

The commissioning of new hospitals and clinics involve not only the construction of complex projects but also the recruitment and retention of qualified personnel as well as the exercise of management skills. Of course, these are always present in the operation of any institutions but they are expected to be more acute in the commissioning of new units. I feel it will not be out of place for me at this point to record my appreciation of the devotion and dedication of all ranks and for their forbearance and patience in the face of ceaseless pressure in their service to the public in all my departments' institutions. I am well aware of the problems and frustrations that the staff have often to face. Being a firm believer in good staff relation-ship, I welcome the maintenance of consultations with staff at all levels and at all times.

Dr FANG has referred to the wastage of doctors in particular and I agree with him that recent measures on housing and the creation of more senior posts to recognize higher levels of responsibility should encourage more medical officers to stay longer in the public service.

Another aspect to the maintenance of numbers of medical officers on my departmental establishment is the supply of qualified doctors. At present the main source is the University of Hong Kong, to be augmented in the not too distant future by the Chinese University of Hong Kong. However, there is a further source from which the overall number of practising doctors in Hong Kong is being increased. I refer to the Licentiate Examination Scheme. This is a Scheme which operates under the auspices of the Medical Council of Hong Kong. There has been real cooperation between the Government and the Medical Council aimed at implementing to the fullest extent the policy inherent in the report of the Working Party on Unregistrable Doctors. I should like at this stage to put on record my appreciation for the sterling efforts of the members of the Medical Council, as well as the Chairman and Members of the Licentiate Committee, in particular, who have contributed so much to make the scheme a success. So far 150 candidates have passed the prescribed examinations and will be available to serve the community after completion of their externship.

It remains for me to take up one last point concerning the School Medical Service Scheme raised by Mr CHEONG-LEEN. This has been a subject of repeated debate in this Council from time to time and the factors behind the low enrolment rate have been examined carefully in the past. As I have stated in my reply to the question by Dr Ho on 18 October 1978, the School Medical Service Board is now in the process of considering a report produced by a Special Working Committee and I cannot appropriately anticipate the Board's decision. However, in response to Mr CHEONG-LEEN's real concern and his proposal to turn the Scheme into a free and compulsory one, I should like to make three points, hopefully, without prejudice to the Board's independent deliberations:

Firstly, I am of the opinion that the \$5 contribution for a whole year in the context of Hong Kong today cannot be by itself a prohibitive factor in influencing those parents or children who would wish to join the scheme.

Secondly, if the scheme were to be made compulsory, it is quite conceivable that the enrolment may be increased on paper, but it does not necessarily follow that the actual attendance at doctors clinics will proportionately increase. As this is the ultimate objective of the scheme, the mere increase in enrolment without actual participation by the students would appear to defeat the objective, not to mention the fact that public funds may be expended for services not actually rendered.

Thirdly, compulsion may not be well received by some of the parents and students in particulars as the School Medical Service Scheme is very much a personal health service and the present arrangements afford the doctors and the school authorities on the one hand and the parents and their children on the other, freedom of choice to serve and be served, in a scheme which is highly personalized.

Finally, Sir, with your permission, I venture to follow in Mr CHEONG-LEEN's footsteps in quoting from the same School Medical Service Board Report which summarises aptly the views on this complex problem:

Para. 40 of the Report reads:

'Enrolment being voluntary and school-based the school principal holds the key. His interest and enthusiasm for the scheme is vital, hence it is doubtful whether the normal yardstick should apply to enrolment, since publicity is directed mainly at him and through him. Rather, it should be a matter of satisfaction that there is available to all children within the Government's present programme of nine years free education (*ie* all in primary and those in Forms I to III in secondary), an economical medical scheme permitting any number of consultations a year with medicine free of charge for a premium of less than fifty cents a month. One may not be insurance minded, but comparable medical attention would be difficult to obtain so economically elsewhere.'

Sir, I support the Motion.

DIRECTOR OF SOCIAL WELFARE:—

### *Regionalization*

Sir, I am grateful to Dr Ho Kam-fai for his support of the forthcoming regionalization of the Social Welfare Department as a means of improving administrative and operational efficiency, and I welcome the opportunity to set his mind at rest with regard to its possible implications on the voluntary welfare sector.

The first point that I would like to make is that regionalization is only one aspect of a general restructuring of the Social Welfare Department. The operational arm of the Department is now divided into six centralized divisions covering the various fields of service. With effect from 1 April 1979, responsibility for day-to-day operation in all these fields will be decentralized to 11 District Social Welfare Officers, who will be responsible to four Regional Officers. This will increase administrative efficiency, as most decisions on operational matters will be taken at district level rather than in Headquarters, and it will allow better concentration and co-ordination of services. The ultimate aim is to enable clients to receive a comprehensive service in a welfare office under one roof. However, the Departmental Headquarters will retain the responsibility for the planning and development of new services, for the administration of subventions and for training, as well as for a few services, which must continue to be administered centrally. To enable these duties to be carried out satisfactorily in view of the rapid increases in the size of the Department and in the scope of its services, the Headquarters has been strengthened in the areas of planning, development and the administration of subventions.

I have gone into some detail with regard to the general restructuring of the Department in order to make it clear to Dr Ho that regionalization will not have the detrimental effects that he fears on the relationship between Government and voluntary agencies. The two particular points on which he expressed concern were that the voluntary agencies will be subjected to a subordinate, dependent position by the new functions of the Regional Officers and that the planning units within each agency will have to move from the agency's headquarters to its branch offices, thus leading to a loss of central control. As I have explained, the Department's regionalization proposals only affect its operational side. The responsibility for planning and development, and for the administration of subventions, will remain with the Social Welfare Department Headquarters and will not be regionalized. I see no reason, therefore, why agencies should make any change to their existing planning machinery. Once this point has been understood, Dr Ho's fear that agencies may lose control of their branch offices can be seen to be unfounded.

After regionalization, the Regional Social Welfare Officers will, of course, liaise closely with the voluntary agencies operating in their Regions. They will be responsible for ensuring that there is no unnecessary overlap in the services provided by the Government and the voluntary sector, and for identifying new service areas. At a lower level, there will be staff in each district office who are specifically responsible for liaison and evaluation work in various fields. I would like to clarify this word 'evaluation', for I think that it is this aspect that is of particular concern to my honourable Friend, and indeed to others in the voluntary sector. In the current financial year, the Government has budgetted \$100 million for social welfare subventions. This is an increase of almost a 100% over the last two years, and there can be no doubt that the rate of increase in the future will also be considerable

because of our new plan in social welfare. It is the responsibility of the Social Welfare Department to make sure that this money is properly spent, and I am certain that Members of this Council and indeed the public would not wish it otherwise. Procedures already exist for the assessment and evaluation of the services provided by subvented agencies. As I have explained, the administration of subventions will continue to be centralized. The main change in the future will be that reports made on an individual voluntary agency by liaison staff in the field will be channelled through Regional Officers rather than, as now, through Divisional Heads in Headquarters. In other words, after regionalization we shall be able to monitor more effectively the use that voluntary agencies make of funds that are provided by the Government, but there is nothing in the regionalization scheme itself that will undermine the very valuable partnership that exists at present between the Government and the voluntary sector.

Dr HO's last comment on the subject of regionalization was to ask how the boundaries of the 4 Regions and 11 Districts had been determined. The answer is very simple. The districts have been based on the administrative districts into which the urban areas and the New Territories are divided. The boundaries that have been used are the same, except that where for various reasons it did not seem that separate districts were justified in social welfare terms, two districts have been combined into one. We shall keep the validity of these combined districts under close review, in particular as the population, and thus the likely social welfare workload and capacity increase in the New Towns, but we shall make sure that we continue to be consistent with the administrative district boundaries used by the Home Affairs Department and the New Territories Administration.

#### *Manpower Planning*

Dr HO also had some valuable comments to make on the subject of manpower planning in the social welfare field. I am as aware as he is of the need to increase the supply of trained social workers, and to make the best use of those already available. Steps are being taken to increase the output of trained workers and to deploy trained personnel only in jobs which require social work skills with a view to reducing the present shortfall. Opportunities in training will be provided to enable progression from one career stream to another and to borrow Dr Ho's words job levels will be appropriately matched with professional competence.

#### *Consultation with Advisory Committees*

Dr Rayson HUANG spoke of the need to extend public participation in decision-making, and he quoted two instances where he believed that decisions had been made by Government without the appropriate advisory bodies being consulted. The first was the proposal to train primary school teachers to be student guidance officers, which, as Members may recall, was included in

the Green Paper on Personal Social Work among Young People. This Green Paper which was itself based on consultation with the voluntary sector was discussed and approved by the Social Welfare Advisory Committee in March 1978, after it had been issued for public comment.

Dr HUANG's second example was, if I understand him correctly, the proposal to amend the entry requirements for the post of assistant social welfare officer. There are various stages of consultation through which changes of this sort would have had to go before implementation including the need to seek the advice of the Public Services Commission. In this particular case, it was decided, before completion of discussion with the staff through the normal consultative machinery, not to pursue the proposal further. The matter was later discussed with the Advisory Committee on Social Work Training when the advice of the Committee was sought on a related matter concerning the provision of training courses. In the event, no change to the entry requirements of this rank has been made.

#### *Child care centres*

Two other Members made suggestions on the subject of child care. Mr CHEONG-LEEN suggested that the Urban Council might be interested in providing subvented nurseries and creches to complement the work now being done by voluntary agencies. While I appreciate Mr CHEONG-LEEN's good intention, this would be outside the Council's existing area of responsibility and I will need to be convinced that the Urban Council or the Urban Services Department has the necessary facilities and expertise to enter this field.

Miss BENNETT raised the question of qualifications for workers in child care centres. The Government has considered carefully the many views expressed on the proposed relaxation of these qualifications. It shares the view of the Social Welfare Advisory Committee that Form III is a realistic level which would ease difficulties experienced in recruiting and especially in retaining staff without compromising the need for children to be adequately looked after. It would also make it possible for young persons leaving school after Form III who are truly interested in child care to have a career in this field after suitable training. Let me stress that Form III is proposed to be the *minimum* qualification and that any child care centre would be at liberty to employ exclusively persons with Form V academic qualifications; Government would also continue to calculate their eligibility for subventions on the basis of using Form V graduates in this work.

I agree with Miss BENNETT that proper career prospects should be created for workers in child care centres. In the event the proposal is approved and implemented, training courses would be provided for child care workers with Form III qualifications which together with a suitable period of working experience could be deemed to be equivalent to formal education at the Form V level, thus enabling suitable child care works to become supervisors in due course.

*The Central Registry for the Disabled*

Miss BENNETT also made a request to advance the date of the establishment of the Central Registry for the Disabled. The Rehabilitation White Paper, published in October last year, accepted the need to set up a Central Registry in 1978-79. An inter-departmental working group has examined the details of the proposal and recommended that, in view of the potential number of records involved, it would be desirable to explore the use of a computer. Any proposal to use a computer necessarily involves careful investigation to ensure that the need can be demonstrated and that an appropriate system can be devised. This will inevitably take time, and I regret that it will not be possible to have the system in operation by the date originally intended. However, we shall do everything possible to ensure that the Central Registry becomes functional without undue delay.

With these words, Sir, I support the motion.

COMMISSIONER FOR LABOUR:—Sir, His Excellency mentioned in his speech to this Council on 11 October that some new items of labour legislation will be introduced during this session and he said that he would leave it to me to elaborate on these.

The first item concerns the extension of the minimum age of employment of 14 to the non-industrial sector other than for part-time and perhaps holiday work. Preparatory work is now well in hand and I envisage that it should be possible to enact legislation to control such employment in the non-industrial sector during 1979; and this will be followed by raising the minimum age of employment in all sectors to 15 in late 1980. This progress is made possible by the developments in Secondary Education making nine years' education compulsory. I hope that Mr Hilton CHEONG-LEEN will be assured that this legislative reform will make a substantial contribution to the International Year of the Child in 1979.

Work is also in progress on the raising of the wage ceiling in the Employment Ordinance from \$2,000 a month to \$5,000, though a lower figure will apply for the calculation of the maximum figure for severance pay. This will extend the protection afforded by this Ordinance to the vast majority of Hong Kong's wage and salary earners.

His Excellency has commented on the annual leave legislation brought into force this January. A major piece of labour legislation of this kind takes time to become a community habit and part of the social fabric, which is its best guarantee of enforcement. Considering this is its first year of operation and the year is not yet over, the legislation has on the whole worked well and has had a higher degree of social acceptance than I would have expected so soon. There are however some ambiguities in the legislation that have come to light in practice, and if the Executive Council accepts some minor amendments, I would propose to seek enactment of these in this Council before the end of the year.

Regulations to provide for workers' safety in the use of electricity and to control fire safety in industry are also in the course of preparation. The former will be a relatively simple code based on the United Kingdom Factories Acts' Electricity Regulations and will cover insulation, circuit protection, wiring connections and earthings of electrical equipment in industrial under-takings. The latter will codify the present fire safety requirements to enable better understanding of them by factory proprietors and more effective enforcement of them in appropriate cases by the factory inspectorate to complement the work of the Fire Services in this field.

The Labour Advisory Board has been consulted on all these items and has agreed that they should be proceeded with.

With regard to workmen's compensation, the Working Party that was set up in February this year to review the Ordinance comprehensively has nearly finished its task and will be submitting its report to me next month. I understand that its main recommendations are likely to include:

- (a) the extension of the coverage of the Ordinance to all employees;
- (b) the general introduction of compulsory insurance;
- (c) several improvements to the present system of assessing compensation to ensure that all relevant factors are taken into account in assessing an injured employee's loss of earning capacity;
- (d) provision for age to be taken into account in the assessment of compensation; and
- (e) substantial increases in the maximum limits of compensation payable.

In order to speed up the payment of compensation, I understand the Working Party also proposes a number of practical measures to achieve this objective. Whether all Working Party's recommendations are proceeded with depends on further consideration and consultation, but I would hope to bring at least some of them to this Council next year.

Although the legislation to provide for a Pneumoconiosis compensation scheme was enacted earlier this year, some unforeseen practical difficulties have, unfortunately, been encountered in drawing up the necessary statutory regulations to implement the scheme. It may therefore be necessary for me to propose some further amendments, though this will in no way alter the objectives of compensating silicotic cases under the terms outlined when I introduced that legislation.

His Excellency reminded this Council that a further eight trades were designated during the year under the Apprenticeship Ordinance. This brought the total number of trades designated to date to 31. Following consultations between the Training Council's Building and Civil Engineering Industry Training Board and the furniture industry, it is likely that the Training Council will recommend the designation of several more trades, which are common to both industries, in the near future.

I thank Mr Allen LEE for his encouraging reference to the merits of Apprenticeship. Members may be interested to know that arising out of the efforts of the Industrial Training Branch the number of apprentices registered under the Apprenticeship Ordinance has risen from about 3,500 by end of 1977 to about 6,000 this year. This increase has resulted in a substantial increase in the enrolment of part-time day release students in the technical institutes this year.

His Excellency also informed Members, Sir, that he intended to appoint further training boards and committees to cater for the training needs of the commercial and service sectors. I hope these appointments will take effect from 1 January 1979. Members may be interested to know that the technically qualified staff needed to service these training boards and committees are now being recruited but I hope I shall be able to provide service to some of, if not all, these boards and committees by early 1979.

Mr Hilton CHEONG-LEEN referred to a survey on the vocational training and employment problems facing young people living in the Chai Wan Temporary Housing Area. As I understand it the main conclusion from the survey was the need to ensure that these young people were informed or had access to the information about how to obtain training and what opportunities were available.

The Industrial Training Branch has been liaising with the Housing Department on how best to inform young people in these areas of the training opportunities available in industry, as well as to assist them to take advantage of such opportunities. Also, through its mobile exhibition unit, the Youth Employment Advisory Service has sought to publicise occupations suitable for people with the various levels of educational attainment.

I was grateful for Mr NEWBIGGING's remarks on the vital role that labour relations play in the progress and prosperity of this community. I endorse the need for vigilance in this field. For my part I would hope to extend and improve the scope of our conciliation services; and I am very conscious of the need to maintain their quality and impartiality.

Finally, I welcome the comments of Mr Allen LEE and Mr Andrew So on the progress of labour legislation. Mr LEE thinks we have rushed through too much labour legislation too quickly, and I would certainly admit to the occasional stumble in this respect, and as His Excellency stressed there is the need for administrative consolidation in the Department. But I would *not* admit to a 'deaf ear'. Industrialists can and do make themselves heard, they would very soon supply me with the latest electronic hearing aid, if it were otherwise. Indeed on the whole I think employers in Hong Kong do themselves a considerable injustice. The substantial labour legislation passed in recent years has largely been with their support and understanding after consultation and then consideration in the Labour Advisory Board. They should perhaps be proud of, rather than carping about, their record in this respect.

Mr SO, on the other hand, urges further benefits for employees by legislation. He rightly counsels however that this should be pursued taking into account the particular set of circumstances of Hong Kong. I think therefore that while the three of us might give differing emphasis to the pace and balance of labour legislation, we would all concur in the direction of the signpost in His Excellency's address that 'Our concern is what is beneficial for Hong Kong, its workforce, and its economy as a whole.'

With these remarks, Sir, I support the motion.

SECRETARY FOR HOME AFFAIRS:—Sir, Mr Oswald CHEUNG made a specific plea for massive increases in squash courts, youth hostels in country parks, and centres for sailing, rowing and canoeing. Yesterday, the Secretary for the New Territories outlined the present position with regard to the provision of youth hostels in country parks. To complete the picture, I would like to describe briefly Government's plans for squash courts and water sports centres.

Squash is one of the fastest growing sports in Hong Kong, and I agree that there is a lack of facilities at present. Apart from the 60 courts in private clubs, there are only six public courts available—four in the urban areas and two in Tsuen Wan. In the next five years, however, the Urban Council and the Government between them plan to build some 70 public squash courts, 31 in the urban areas and 39 in the New Territories. This programme, when completed, will, I hope, help meet the demand for the very fast growing sport.

As regards facilities for sailing, canoeing and rowing, there are at present 27 centres operated by recreational clubs and sports associations. Most of these are located on land granted by Government and some have obtained financial assistance to buy canoes, dinghies and other equipment from trust funds administered by Government. The Recreation and Sport Service and the Civil Aid Service Cadet Corps are currently planning to set up water activity centres at Tsak Yue Wu and Tai Tan in Sai Kung. In addition, a most imaginative project is being planned at Tai Mei Tuk in Tolo Harbour; here a number of voluntary organizations have joined with the Recreation and Sport Service and the District Office, Tai Po to establish a comprehensive water sports centre which will provide a wide range of facilities catering for all kinds of water sports. If funds can be made available soon, all three centres should be ready for use within the next two or three years. At the same time, Government will encourage and support the establishment of more centres.

Sir, turning from facilities to activities, I am glad that Mr CHEONG-LEEN has mentioned the Summer Youth Programme in this debate. This is particularly timely because the programme has just celebrated its 10th anniversary and has proved to be a 'growing' success, with its contents becoming richer and more diverse every year. This year, over 8,000 separate events were organized with the help of an army of nearly 50,000 volunteers, providing

fun and enjoyment for over two million young participants. Although the Summer Youth Programme attracts much interest and publicity each year, I should like to assure Mr CHEONG-LEEN that it is not an isolated event but is the culmination of a continuing year-round programme. Both Government and voluntary agencies run recreational activities and programmes throughout the year, with special emphasis on weekends and public holidays, to enable both young and old to spend their leisure time joyfully and fruitfully. These regular activities are not normally widely publicised as they have become very much a part of everyday life in Hong Kong.

Before leaving this subject I would like to mention a new venture started last February. With the introduction of seven days paid annual leave for workers, there is a need to provide recreation activities during the time when they are most likely to take these holidays. So during the Chinese New Year holidays of 1978, the Central Co-ordinating Committee for Youth Recreation organized, on an experimental basis, a series of recreational and entertainment programmes. Many of these proved to be very popular and were greatly welcomed by young and old alike. The Committee therefore intends to organize similar programmes during the next Chinese New Year holidays; these programmes will be more diverse in content and more reflective of the spirit of the season. If it again proves to be a success, we shall incorporate it into the year-round activities as a second highlight to the Summer Youth Programme.

Sir, Mr CHEONG-LEEN, Mr Alex WU and Mr Charles YEUNG all spoke on the development of cultural and leisure activities emphasising the need for greater co-ordination. In this connection, I acknowledge that Government's efforts to achieve the most within a relatively short time have been at the expense of some administrative untidiness. Accordingly, the Administration Branch is currently conducting a management study of my Branch with a view to streamlining the administration of the many spheres of activities under my responsibility. I hope that this review will, when completed later this year, include recommendations on how the existing administrative structure might be reformed and strengthened to achieve this aim.

I would, at this point, like to draw Honourable Members' attention to the picture I painted to this Council last year of what was being done in the field of cultural development. I pointed out, Sir, that the Government was concentrating its efforts on pushing ahead with the various training schemes on music, an area where there is wide and established interest and where talent is not lacking. The demand and interest in the other performing arts were not quite so evident; it was, therefore, felt they could be left to voluntary bodies for the time being. This situation still holds good today, and the Government's policy remains unchanged. However, in addition to expanding the activities of the Music Administrator's Office, we will also be considering giving greater assistance to voluntary bodies engaged in the promotion of music and its appreciation such as the Hong Kong Conservatory of Music

and the Hong Kong Philharmonic Society. I also pointed out last year that the Government has established a close relationship with organizations involved in the active promotion of culture and the arts in Hong Kong. This is achieved formally through Government representatives sitting on the Committees of these organizations, and informally through constant liaison and consultation between these bodies, the Urban Council and staff of my Branch.

The situation today differs little except in terms of the increased efforts, money and energy that have been put in by all concerned. We have, I believe, succeeded in bringing culture and the arts closer to the people. No one can deny that the Arts play a greater part in the life of the Community than ever before. This has been made possible because of the availability of funds from a wide variety of sources and this has meant that we have been able to move more quickly than might otherwise have been the case if we had relied exclusively on the provision of public funds. There have been other developments too: the accelerating shift of population out of the old urban areas, the increase in quantity as well as quality of cultural programmes, visits of world-class orchestras and other performers. For all these reasons, I agree with Mr Alex Wu that there is, as always, room for improvement. I shall therefore be happy to give further consideration to his proposal concerning the establishment of an Arts Council. The development of cultural and leisure activities is such a wide and varied field and there is so much still to be done that there is surely room for all to help and participate. We all, after all, share a common aim.

Sir, several Members spoke on communications between the Government and the public. The establishment and maintenance of effective channels of communication is a problematic task which faces all administration everywhere, always. Government recognizes that, in the special circumstances of Hong Kong, the development of these communication channels is particularly important and accordingly has put much time and effort into this area of activity. Nevertheless it is one in which there can be no complacency, in this field there is always room for improvement. Indeed, an important and continuing task must be to keep our performance under review: constantly to seek and to implement ways of improving our present system so that we may achieve greater understanding of the needs and rightful aspirations of our community, in order that these may be properly gauged and taken into account before decisions vitally affecting the community's well-being, are taken. It is important that we not only are, but are seen to be, a Government which cares.

I am pleased that Miss DUNN agrees that our present system of advisory bodies is one of the more effective and imaginative systems of Government and suited to our own special political circumstances. One of our tasks in the coming months, in fact, will be to strengthen this system. We must seek to widen representations on our advisory committees, to bring more people into the decision-making process; and, as Dr Rayson HUANG suggests, try to

involve more members of the public in the implementation process. Miss DUNN has made the point that any advisory committee is only as good as the people who serve on it and especially the official who chairs it. I agree with her even if it means having to change the ways of dogmatic chairmen—both officials and unofficials. (*laughter*) Miss DUNN goes on to comment that some hide-bound official chairmen are suspected of being unwilling to recommend for appointment to their committees anyone who is known to be a critic. I agree once more that, if true, this kind of attitude would undermine the effectiveness of the system. The best committees—and these are what we aim to cultivate—are those where informed, constructive comment and criticism flourish. One might say that such criticism provides the fertiliser which aids the production of a healthy plant ... And here may I, Sir, remark that Miss DUNN's comment on the dogmatic committee chairman, sensitive to criticism, clearly does not apply to all chairmen of all committees, or indeed all councils: else most, if not all, Unofficial Members of this Council would not be here today. (*laughter*)

Miss DUNN also pleads for greater understanding: she says that it would be wrong to dismiss all complaints as trivia and rightly states that it is vital that officials at all levels be willing to talk, willing to listen and just occasionally be willing to admit that they too can make mistakes. Of course she is absolutely right. But how unfortunate it is that Miss DUNN, in her speech, appears to have done herself less than justice when she seems prepared to dismiss as 'relatively trivial' matters such as traffic congestion and the future of the Supreme Court building. (*laughter*) What some Government servants (and apparently some Unofficial Members too) consider trivial can be, and very often is, very important indeed to those making the representation or the complaint. If somebody thinks a matter sufficiently important to warrant bringing it to the attention of an official or an unofficial, then that somebody (to use Miss DUNN's plea) should be listened to and notice taken of the complaint. Of course it takes time and trouble but it must be done in the interests of good Government and in the interests of our community.

Mr WONG Lam has said that many members of the public believe that Government attaches only superficial importance to anything written in Chinese, particularly in the correspondence columns of newspapers. I hope he will be reassured to know that in order to keep Government officers abreast of the various news items in the Chinese press as well as on television and radio stations, a daily two-page tabloid newspaper is produced, copies of which are circulated to all departments and within the Government Secretariat. There is also a weekly review of Chinese news media comment. Within the Government Secretariat, a daily summary of Chinese press comment and editorials is widely circulated and I know that it is common practice in departments to have translations made of items of particular interest.

As to letters in the correspondence columns, some 23 Chinese newspapers are examined daily and the attention of the appropriate departments is drawn

to letters. This procedure is also adopted in respect of the English press. Members will, I am sure, be interested to hear that over the past two years the answer-rate of letters in these Chinese newspapers has been about 85% and that for the English papers about 83%. Of the unanswered remainder most referred to complaints that had already been dealt with or had been answered by a public announcement.

I have covered this point in some detail because I want to demonstrate that Government is well aware of the problem posed by Mr WONG and also to show that Government goes to a great deal of trouble to minimise it. The importance of the media in Hong Kong, and especially the Chinese media, is well understood: it is, of course, vital to any endeavour to improve communications within the community and in the promotion of better understanding. But having said that, I must also say too that I share some of Mr WONG's misgivings in that perhaps not all senior officers yet fully appreciate the importance of the Chinese language press and accordingly pay insufficient attention to it.

Sir, both Mr CHEONG-LEEN and Miss BENNETT spoke about community building and I agree with them that more emphasis should be placed on district programmes. The majority of the current programmes are already aimed at developing a sense of responsibility and participation at the district level. These programmes are organized by the district Five O's in consultation with unofficials of the City District Committees, Area Committees, Mutual Aid Committees, Kaifong Associations and other voluntary organizations.

As regards Miss BENNETT's suggestion that the New Territories town hall concept should be considered for some urban areas, I should point out that the multi-purpose auditoria and other cultural facilities included in such complexes are already provided in the City Hall and the Tsim Sha Tsui Cultural Complex and that the facilities for community development are provided in existing community centres. Consequently, I doubt if town halls in the urban areas are urgently required. On the other hand, I fully appreciate the need to provide improved facilities and to ensure a more flexible approach in terms of size and usage to meet particular district needs. Accordingly, Government is conducting a review on community centres and related facilities and we shall of course consult the voluntary agencies and other district unofficials.

Sir, I support the motion.

SECRETARY FOR THE CIVIL SERVICE:—Sir, I cannot think of a better starting point than Dr Rayson HUANG's plea that we should do more to inculcate in civil servants a true sense of service to the community. We have, I think, made considerable strides in this direction during the past decade, and the great majority of civil servants do undoubtedly recognize where their responsibility lies. But there are regrettably some amongst us who need reminding of this point, and we shall check that we really are getting the

message across during induction training, and, later on, during the in-service training which more and more officers are now attending.

I thought that Dr HUANG's points on the need for the Civil Service to achieve greater rapport with the community, with corresponding changes in administrative style, were most apposite, and we shall consider introducing this theme into some of our seminars for more senior officers.

Several Members expressed keen interest in the outcome of the current review of policies for the housing of civil servants. Work on the review itself is now substantially complete. However, the purpose of the review was to form a basis for considering improved forms of assistance to civil servants. This, I regret to say, has proved a more difficult task than we had expected, not least because of the upward trend in property costs, and more recently in interest rates. Inevitably this has had a big impact on the arithmetic of possible schemes of assistance, and, while we are continuing to search for appropriate solutions, I must warn that the way ahead may be neither quick nor easy.

Dr FANG suggested that Government should consider taking out insurance cover for its medical officers, or reimburse those doctors who chose to insure themselves against claims for professional malpractice. While respecting the arguments adduced by Dr FANG, my present view is that the Government would not be justified in abandoning its long-established policy of carrying its own insurance risks. Nor do I think that a case has yet been made out for treating medical officers differently from other officers employed by the Crown. It is of interest that in the United Kingdom doctors employed by the Crown, and by the Area Health Authorities, are expected to take out insurance with a medical insurance society at their own expense, and without reimbursement. There is nothing to prevent a medical officer employed by the Crown in Hong Kong from taking out his own insurance in the same way, that is if he is not satisfied with the protection offered by the Government. However, I am open to further arguments on this question, whether from Dr FANG or from the doctors themselves.

Miss DUNN has referred to the pressures on the Civil Service over the past 6 years or so. While I do not certainly go so far as Miss DUNN in saying that some departments are near breaking point, there are some signs of over-stretch, particularly in areas of personnel management and communications, which in some departments tend to have been left a little to one side.

During these past few years the burden of work falling on the public service has expanded enormously as we carry through the multifarious programmes aimed at improving the quality of life in our community, and meeting rising and rightful expectations. While this expansion and these aims have been necessary and right, and have enjoyed wide support, they have undoubtedly put a very severe strain on the middle and upper management levels throughout the service. In the circumstances it is not surprising that good staff

relations and good man-management have sometimes suffered. The problem and its cause are however quite clear, and Members may rest assured that the Administration will take steps to put it right by reviewing personnel arrangements generally. I shall be mentioning later some specific measures which we propose to take now.

I should like next to reply to three specific staff matters raised by Miss DUNN.

As regards training, despite the very great pressures on the service, there has in fact been a steady improvement in both the quantity and quality of induction training and instruction in basic skills. What we now need is a corresponding effort aimed at equipping middle grade officers with the perspectives and skills needed for management posts.

Miss DUNN made a plea that experienced officers in their prime should be dissuaded from retiring at too early an age. She will be glad to know that I shall shortly be consulting the staff associations on a package of measures designed to encourage efficient officers to continue in the service for as long after 55 as they are able to contribute effectively. Among other things I shall be proposing that officers retained beyond 55 should in future be eligible for promotion. Given continued expansion of the public service I do not think that the measures I have in mind will in practice materially impede the advancement of younger officers of ability.

Many people would share Miss DUNN's view that too high a proportion of Administrative Officers are concentrated in the Secretariat, the Home Affairs Department and the New Territories Administration. However, Administrative Officers are now serving in 15 other departments, the latest to acquire one being the Kowloon Canton Railway, where the General Manager now has an AO assisting with the administrative aspects of the modernization and electrification programme.

The task of managing the Government machine has now become so complex that there is in my view a need to employ more, many more professional administrators, and I foresee a wider use of Administrative Officers outside the Government Secretariat as more become available.

I welcome the constructive views expressed by Mr Hilton CHEONG-LEEN, Dr FANG, Miss DUNN and Mr WONG Lam on the need for a salaries commission, or other suitable machinery, to help resolve the salary and structure problems which have recently been giving rise to unwelcome friction within the civil service.

Our present class structure and salary scales are based on the recommendations of the 1971 Salaries Commission. These have served us well, but, inevitably, as the years pass and circumstances change the need to review them grows stronger. Certainly, the aspirations of civil servants seem to me to have changed markedly in recent years, as also has the social and economic environment within which the civil service operates.

As Dr FANG has pointed out, the present arrangements for settling pay and structure problems within the service are no longer effective. They may well have been appropriate when the service was smaller and less complex, when staff associations were fewer and less active, and when management was still able to take most decisions with little or no consultation with staff. But most people would agree that these days are gone forever, and that our present *ad hoc* arrangements do need to be replaced quickly by comprehensive machinery incorporating agreed procedures for the handling of pay and related claims.

It is of course those staff who threaten or take industrial action who attract all the attention. The public hears little of all the other civil servants, some 115,000 or so, who are not currently pressing a pay claim, nor, I might add, threatening the community with industrial action. I am sure it will be agreed that we must look after the interests of this great silent majority, some of whom are deliberately refraining from any action which might embarrass the community in the expectation that we shall not overlook their needs. This means, I suggest, that we should not review the salary scales of staff who are threatening industrial action without at the same time being prepared to review the salary scales of the silent majority.

I believe, Sir, that everything that has been said in this debate points to the need to establish special machinery to advise the Government on the class structure and salary scales of the *whole* civil service, excepting only Directorate posts.

The new machinery needs to be set up quickly, and to be continuously available. It should provide clear and agreed channels for the staff side to present and argue their views. Its advice should be expert and impartial, and should take into account the best interests of the community at large.

I am able to announce that it has been decided to set up without delay a review body, or some form of commission, on a standing basis. The Staff Side of the Senior Civil Service Council will be consulted shortly on the terms of reference and membership of the new standing body. I hope that it will then be possible to put firm proposals to the Governor in Council before the end of the calendar year.

I believe, Sir, that with goodwill all round, this new standing body will provide an effective means of keeping salary scales and class structures under review, and recommending changes whenever the need arises. In setting up this new review body we shall have taken a major step towards improving staff relations within the civil service, for practically all major disputes, and certainly all disputes involving industrial action, have concerned those pay and structure matters which it is proposed to include in its terms of reference. However, it must be understood that the size and complexity of the Hong Kong Civil Service are now such that a thorough review will necessarily take time.

On staff relations generally, we must not overlook the fact that the seeds of discontent in the civil service are often to be found in matters of staff management within departments. As Miss DUNN has pointed out, we need to strengthen the consultative process at this level. As a start we must now re-think the role of Departmental Staff Consultative Councils in the light of the decision to establish a new standing body to keep under review salary scales and class structures. I believe the aim should then be to develop Departmental Staff Consultative Councils into more effective instruments for resolving matters which are within the Head of Department's authority.

Good Staff management is no less important and there is clearly much that requires to be done, and done with despatch. Some of the measures we are now studying will necessarily be medium or long-term in their effect, but there are three particular measures which we can and should adopt now:

*First*, we should attach very much greater weight to skills in staff management when assessing an officer's suitability for advancement to any post or rank having management responsibilities. I intend to implement this forthwith.

*Second*, we should give greater weight to the provision of an adequate management capability when considering departmental proposals for expansion or reorganization,

and *third*, greater weight should be given to the subject of staff management in all relevant departmental and central training courses.

These three measures should between them have a considerable and early impact throughout the service.

Finally, Sir, I should like to refer to Mr CHEONG-LEEN's remark that the Hong Kong Civil Service is one of the best, if not *the* best in Asia. I have no doubt that he is right. It *is* a good service, doing a fine job, and I know that all the Official Members of this Council are proud to be members of it.

Sir, I support the motion.

THE FINANCIAL SECRETARY:—

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Sir,

### *INTRODUCTION*

I shall do my best not to turn the closing stages of this interesting debate on His Excellency's annual review of the Government's policies and programmes into a mini-budget debate. We have a long tradition in Hong Kong of limiting ourselves, deliberately, to an annual statement of account. Apart from our supplementary estimates procedure, the authorities contained in the Approved Estimates of Expenditure remain valid throughout the year; and, generally speaking, proposals for changes in tax rates or in fiscal policy are always announced in the context of the annual statement of account. This is not to say that commentary is inappropriate during a year. As we are currently passing through rather strenuous times, I welcome this opportunity to state the Government's view on the present course of the economy and I shall take 'inflation' as my central theme. In the latter part of this speech, I shall deal with several proposals put forward for improving the prospects of our economy in the longer term.

### *I INFLATION*

- (1) *UNOFFICIAL MEMBERS' WORRIES* Four Honourable Members have provided me with succinct texts for my analysis of 'inflation'. Mr James WU believed that 'very high domestic

demand' has 'stunted export growth' and that 'there is no substitute for reduced domestic demand and increased exports'; Mr Hilton CHEONG-LEEN said 'we are today faced with a situation where too much money is chasing after too little land' creating 'unhealthy speculation and spiralling land costs'; Miss DUNN argued that 'domestic inflation ... is a direct ... outcome of excessive domestic demand coupled with a high level of Government activity'; and Mr NEWBIGGING is worried that 'inflation may rise here at a ... rate ... (that) could undermine (our) competitive position and, therefore, the vital further development ... of ... our industrial and export base'.

(2) *MEASUREMENT OF 'INFLATION'*

To begin with: Sir, what are the facts about 'inflation' taking that term to be descriptive of a situation of rising prices? As an inevitable consequence of the fact that our economy has to follow a fluctuating growth path in response to external and internal influences, prices in Hong Kong are forever changing, usually around an upward trend, though the *rate* of change can vary quite widely over time; and this is true whether or not the economy is operating under a fixed or floating exchange rate regime.

(a) *General price level*

The index used to reduce the Gross Domestic Product in current price terms to constant price terms (or from money values to real values), the so-called GDP deflator, provides us with a measure of changes in the general price level. My forecast for this year is that the rate of increase in the general price level, measured in this way, will not exceed 6%. This may seem a surprisingly low figure, but it is a reflection of the fact that both consumer prices and export prices are increasing at a rather lower rate than this. A rate of increase of 6% in 1978 may be compared with 8.6% in 1976 when export prices were rising sharply as the growth rate of world trade recovered from the 1974-75 recession; and it may also be compared with the average annual increase over the four year period 1972 to 1976 of 8.7%, this period representing a clearly defined cycle of economic activity.

(b) *Consumer prices*

It is, of course, changes in consumer prices which attract the most attention because of their direct impact on the standard of living. In the first nine months of this year the Consumer Price Index (A) was 5.3% higher than in the same period last year<sup>(1)</sup>. This index is heavily weighted towards foodstuffs (57%), and fresh foodstuffs at that (23%), and a very large proportion of our foodstuffs is imported. Retail prices of foodstuffs in Hong Kong are, therefore, sensitive to factors beyond our control. Yet, in the first nine months of this year, the component of the CPI representing the price of foodstuffs was only 5.9% higher than in the same period last year.

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(1) *Corresponding changes in the CPI(B) and the Hang Seng Consumer Price Index were 5.4% and 5.0% respectively.*

For 1978 as a whole compared with 1977 as a whole, I recently forecast that the increase in the CPI would be about 6% and I stick by that forecast, which is, incidentally, only slightly above the increase of 5.8% in 1977 over 1976. These increases may be compared with the historic high of 18.2% in 1973 over 1972 and the average annual increase over the four year period 1972 to 1976 of 9.5%.

*(c) Prices of investment goods*

As for the prices of investment goods, as indicated by the deflator used to calculate the investment component of the GDP in real terms, my forecast is for an increase in 1978 over 1977 of 8% which represents an acceleration on the 6.8% increase in 1977 over 1976. But this is still below the average annual increase over the four year period 1972 to 1976 of 8.5%. This overall measure of increases in the prices of investment goods conceals, of course, differences between increases in the prices charged by the building and construction industry, on the one hand, and increases in the prices of plant and machinery, on the other. *As regards the former*, the labour and material cost index shows signs of accelerating: in the first eight months of this year, the index was 11.8% higher than in the same period last year (and the prices of completed accommodation have certainly increased faster than this); whilst the increase for the whole of 1977 was 9.9% higher than in 1976 and that for 1976 was only 3.7% higher than in 1975. However, *as regards the latter*, that is the prices of plant and machinery, the unit value index of imported capital goods was only 4.4% higher in the first eight months of 1978 than in the same period last year and this is actually lower than the increase in the whole of 1977 over 1976 of 5%.

*(d) Prices of imported raw materials and semi-manufactures*

As the direct and indirect import content of the gross value of manufacturing production is well over 50% (the remainder being the Hong Kong value added content), the prices of imported raw materials and semi-manufactures are critical to our ability to maintain the competitiveness of our exports *vis-a-vis* domestic and third country suppliers at given profit margins and wage levels. The unit value index of imports of raw materials and semi-manufactures was only 1.1% higher in the first eight months of this year than in the same period last year. This represents a sharp deceleration compared with the increase in the whole of 1977 over 1976 of 3.2% and in 1976 over 1975 of 6%. Of course, our competitors have enjoyed the same slowing down in the rate of increase in world prices of these products and, to the extent that the exchange values of their domestic currencies have not depreciated as much as the Hong Kong dollar over the past 18 months or so, they have acquired a relative cost advantage over us in respect of the imported inputs in their exports.

*(e) Wage rates, profit margins and export prices*

As wage costs represent a large proportion of the Hong Kong value added content of the gross value of manufacturing production and determine the share available for profits, increases in wage rates can be as important as

increases in import prices in determining the competitiveness of our exports, and sometimes even more so, particularly when wage rates elsewhere are under different influences. Nominal average daily wage rates (including fringe benefits) for manufacturing workers were 8% higher in March 1978 than in September 1977 which may be compared with an average half-yearly increase in the previous 18 months of 5.7%. It is true that wage rates increased by 10.5% in the six months ending March 1976, but this reflected the upsurge in demand for our exports as we moved out of recession. For the half-yearly increase in wage rates to accelerate to 8% in this mature phase of the upswing—and I suspect that in the six months ending September of this year this rate of increase will have been sustained—for the half yearly increase in wage rates to accelerate in the six months ending September in the mature phase of this up swing can only mean that profit margins are being squeezed. This is not, in itself, unusual or necessarily unfair inasmuch as profit margins widened on the downturn in 1974-75 involving a decline in the relative share of wages.

*Prima facie* evidence that profit margins are being squeezed as a result of these wage increases is provided by the relatively small movements in the unit value index of domestic exports: in the first eight months of this year the index was 3% higher than in the same period of last year. This shows a slight acceleration compared with the increase of 2% in the whole of 1977 over 1976, but is explained by a strengthening of demand for exports in 1978 compared with 1977, just as in 1976 export prices increased by 10% as we troughed out of recession and recorded that remarkable 30% increase in domestic exports in quantity terms.

Given that the Hong Kong dollar depreciated substantially between these two eight month periods<sup>(2)</sup>, this relatively modest increase in export prices in Hong Kong dollar terms represents a fall in prices in terms of overseas currencies. Even if we take the export-weighted exchange rate index<sup>(3)</sup>, although it has depreciated less, the conclusion that Hong Kong's export competitiveness has improved remains<sup>(4)</sup>.

(2) *Trade-weighted exchange rate index (18 December 1971=100):*

	1976	1977
31 December	114.4	106.6
	1977	1978
31 August	112.8	96.7

(3) *The trade-weighted (or effective) exchange rate index averages together the exchange rates of the Hong Kong dollar against the currencies of fifteen foreign countries with weights derived from the total trade (imports and exports) between Hong Kong and these countries in 1972. The export-weighted exchange rate index is the export-weighted component of the trade-weighted index. It involves a similar calculation to that for the effective exchange rate index, but using Hong Kong's export trade with these countries as the basis for the weights. It is thus a better index to use when assessing changes in Hong Kong's export competitiveness.*

(4) *Export-weighted exchange rate index (18 December 1971=100):*

	1976	1977
31 December	118.0	112.5
	1977	1978
31 August	117.3	105.1

(3) *ABSENCE SO FAR OF IMPORTED INFLATION*

So we are not yet, Sir, suffering from historically high rates of price increases, except in the property market. In particular, on this occasion, imported inflation in the form of rapidly rising prices of imports in foreign currency terms has been of limited significance so far (in contrast to the severe price inflation of 1973-74<sup>(5)</sup>). As the world supply position of primary commodities (including foodstuffs) has kept prices on world markets generally lower in 1978 than in 1977, the effect of the depreciation of the Hong Kong dollar on domestic prices has been offset to a quite significant extent. This is not to say that the prices of many items (eg Mercedes cars from Germany) have not increased, particularly those imported from strong currency countries.

(4) *INCIPIENT THREAT OF INFLATION*

But there is a very real threat that an inflationary situation is now developing in Hong Kong. This is due, *first*, to the extent to which the adjustment mechanism has been operating through the depreciation of the exchange rate; and, *secondly*, to an imbalance between the supply of, and demand for, real resources, particularly in certain sectors.

(a) *Depreciation of the Hong Kong dollar*

Whereas the depreciation of the Hong Kong dollar we have experienced in the past 20 months of between 18% and 19%<sup>(6)</sup> has helped the export sector to improve its competitiveness, the domestic price increases we have so far experienced have been really very modest, particularly when it is realized that the import-weighted exchange rate index has depreciated faster than the trade-weighted index<sup>(7)</sup>. But it is unlikely that the price effects of the depreciation of the Hong Kong dollar in, say, the last six months of

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(5) *Hong Kong Hansard, 1973, pages 231-247.*

(6) *Trade-weighted effective exchange rate index (18 December 1971=100):*

16 March 1977	115.5
10 November 1978	94.1

(7) *Effective exchange rates of the Hong Kong dollar:*

	<i>Trade-weighted</i>	<i>Import-weighted(*)</i>	<i>Export-weighted(*)</i>
31.12.71	99.1	99.5	98.7
30.12.72	98.1	97.5	98.8
31.12.73	103.7	102.0	105.8
30.12.74	105.9	104.6	107.9
30.12.75	107.4	105.7	109.4
31.12.76	114.4	111.5	118.0
31.12.77	106.6	102.2	112.5
31. 1.78	107.0	102.5	112.9
28. 2.78	105.2	100.5	111.6
31. 3.78	103.8	98.6	110.9
29. 4.78	104.6	99.4	111.7
31. 5.78	104.0	98.8	111.2
30. 6.78	101.6	95.7	109.6
31. 7.78	98.6	92.3	107.3
31. 8.78	96.7	90.6	105.1
30. 9.78	95.3	89.3	103.7
31.10.78	90.7	84.8	98.9

*Note: (\*) New, hitherto unpublished, series.*

around 10% have yet filtered completely through to the retail level. On the other hand, as pointed out in this year's Half-yearly Economic Report, since mid-1977 there has been a significant discrepancy between the rate of increase in import prices and the rate of increase in the retail prices of consumer goods<sup>(8)</sup>, which suggests that increases in import prices may not always be matched in full by increases at the retail level. Nevertheless, we must be careful not to assume that an adjustment process which has been relying heavily on a depreciation of the exchange rate can go on working relatively painlessly. This is particularly so in present circumstances, when domestic sector activity is so strong that offsetting cost increases are allied with a diversion of resources away from the export sector to meet domestic demand at a time when exports are becoming more competitive in foreign currency terms.

*(b) Pressure of domestic demand*

But what is really worrying me, and obviously some Honourable Members too, is the present imbalance in the supply of, and demand for, real resources of land, labour and capital. There is no doubt that demand is out-running available supply with the result that prices are being competitively bid up and, as a further reflection of this, retained imports are growing very fast, in fact roughly twice as fast as domestic exports.

The imbalance is particularly noticeable in the case of the property market. I say this because there is no evidence that private sector demand for new property is yet being satisfied. Consents to developers to commence work were 16% higher in terms of floor area in the first nine months of this year than in the same period last year, at a time when the increase in the labour and material cost index is accelerating, and at a time when the demands on the building and construction industry have pushed the PWD's tender price index up by 23% in the first nine months of this year compared with the same period last year.

An important factor affecting the supply price of new private property is the growing demands being placed on the building and construction industry by the public sector, defined in national accounts terms to include the MTR project. This sector is now taking an increasing share of the output of the industry: in the first six months of this year, public sector expenditure on building and construction was 35% higher in real terms than in the same period last year, whilst private sector expenditure was only 8% higher. As a consequence, the public sector is now taking about half the total output of the building and construction industry, compared with 42% in the first six months of last year and an average of 39% over the four year period 1973 to 1976.

To sum up: Sir, in a situation in which those producing for domestic demand are better able to pass on price increases to consumers than those

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(8) *Paragraph 85.*

producing for export markets—even allowing for the helpful effects in some markets of the depreciation of the Hong Kong dollar—in that situation an excess of demand for, over supply of, real resources is contributing to the high growth rate of those components of GDP catering for domestic demand, namely, private consumption expenditure, Government consumption expenditure and gross domestic fixed capital formation<sup>(9)</sup>. However, with the economy as a whole enjoying double-digit growth for the third year running, it is inescapable that the relatively higher growth rates in those sectors must slow down so that resources can be made available to the export sector and the severity of the adverse trade balance (likely to be of the order of \$7 billion in 1978) can be diminished<sup>(10)</sup>.

(c) *Adverse trade balance and tourism*

Here I would like to digress for a moment to say that, whilst I agree with Mr NEWBIGGING's point that 'there is a case for trying to quantify and improve (our) understanding of the economic contribution of our important service industries', and surveys of these industries are now in hand, I think he exaggerated the extent to which the tourist industry contributes to our net external earnings. Expenditure by tourists in Hong Kong is of the order of HK\$4 billion and it is true that this figure represents about 7.5% of GDP in current price terms. But this does not necessarily mean that 'the tourist industry ... contributes 7.5% of our GDP'; just as it would not be correct to say obviously that the manufacturing industry contributed 64% of our GDP in 1977 simply because the value of domestic exports represented 64% of GDP in that year<sup>(11)</sup>. The reason for this is that the goods and services consumed by tourists have a high import content so

(9) *Growth rates (%) in real terms:*

	1972-76 (average)	1977	1978 (forecast)
<i>Gross domestic product</i>	8.8	11.4	10
<i>Private consumption expenditure</i>	7.9	14.9	13
<i>Government consumption expenditure</i>	9.3	13.3	14
<i>Gross domestic fixed capital formation</i>	6.6	25.7	15
<i>Exports of goods:</i>	8.3	5.4	11
<i>Domestic exports</i>	8.5	5.3	7
<i>Re-exports</i>	7.9	5.6	25
<i>Imports of goods</i>	6.4	7.9	15

(10) *Trade balances in \$ billion:*

	1976	1977	1977 (9 months)	1978 (9 months)
<i>Exports</i>	41.6	44.8	32.6	38.0
<i>Imports</i>	43.3	48.7	35.2	44.0
<i>Balance</i>	<u>-1.7</u>	<u>-3.9</u>	<u>-2.6</u>	<u>-6.0</u>

(11) *A rough estimate of the contribution of the manufacturing sector to GDP in 1977 (that is to say, the value added by the manufacturing sector) is 26%. See also BS, 1978, fn (15). The hotel industry, which serves mainly tourists, employs 15,400 people out of a total labour force of about 2 million. This is less than 1%. In addition, a small proportion of people working in retail shops and restaurants serve tourists. Together their productivity and the profit margin of the tourist industry as a whole would have to be very high compared with other sectors of the economy for their contribution to the GDP to be as high as 7.5%.*

that domestic income generated, in terms of value added in producing them, is less than is implied by the figure of total expenditure.

Furthermore, any direct comparison between the gross earnings from tourism and the visible trade deficit is misleading. As well as foreign tourists visiting Hong Kong, there are Hong Kong residents travelling abroad. So in order to evaluate the contribution of tourism to our balance of payments, we must take the net surplus of tourist expenditure (or, to put this in more technical terms, the net balance between the imports and exports of tourism). But in the past decade this net surplus has been narrowing rapidly. In 1967 it was about \$870 million, but by 1977 it had fallen to about \$215 million (both figures at current prices), despite the growth in the number of tourists visiting Hong Kong. This latter figure was only 5.6% of the visible trade deficit in 1977 which, I am afraid, is a long, long way from Mr NEWBIGGING's average figure of 90% over the last decade (not that 5.6% is necessarily insignificant and we would almost certainly have had a high negative balance on tourism account but for the marketing efforts of the Hong Kong Tourist Association).

#### (5) *GROWTH OF THE MONEY SUPPLY*

But to return to my main theme, namely, the present imbalance in the supply of, and demand for, real resources. For as long as interest rates remained relatively low and the banks and deposit-taking companies continued to accommodate the demand for loans, the excessive growth rate of domestic demand was being encouraged. It is in this context that the growth of the money supply has been such a matter of concern in recent weeks.

##### (a) *Determinants*

Apart from changes in the cash element, changes in the money supply, as presently measured<sup>(12)</sup>, are determined by changes in the level of bank deposits. These changes are generated, *first*, by the demand for credit which, in turn, is influenced by the rate of interest at which advances are offered by banks; and, *secondly*, by the net acquisition of foreign currency assets by banks in Hong Kong. These assets are either purchased from the non-bank private sector in the open market or acquired *via* swap arrangements with head offices or other banks overseas.

Now the Government can only directly influence the growth of the money supply through its transactions in the foreign exchange market: when, through the Exchange Fund, it converts a Hong Kong dollar balance into a foreign currency balance held overseas the money supply is reduced, compared with what it would have otherwise been, and *vice versa*. In the normal way, when there is a surplus on budgetary account, there is a transfer of deposits from the non-bank private sector to the Government's bank accounts and, if this surplus is retained in Hong Kong in the form of Hong

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(12) *That is, excluding deposits with deposit-taking companies, as the necessary figures will not be available until some time in 1979.*

Kong dollar deposits, the effect on the money supply is neutral. If there is a deficit on budgetary account, there is a transfer of deposits *from* the Government's bank accounts *to* the non-bank private sector and the effect on the money supply is again neutral. Only if there is a net transfer of Hong Kong dollar assets into foreign currency assets held overseas (or *vice versa*) is the money supply affected.

Normally, also, an expansion or contraction of the note issue is neutral in terms of the money supply: when the Hong Kong dollar was tied to sterling, the note issuing banks exchanged sterling assets against Certificates of Indebtedness issued by the Exchange Fund and so, when the note issue expanded, the banks' other liquid assets were reduced; and *vice versa* when the note issue contracted. But, since the middle of 1972, Certificates of Indebtedness have been issued against the creation of Hong Kong dollar deposits and, particularly since the floating of the Hong Kong dollar in November 1974, it has not always been possible to use these Hong Kong dollars to acquire foreign currency assets because of the virtual certainty of the foreign exchange market being disturbed. But with the very ready co-operation of the note-issuing banks this problem can be, and has been from time to time, overcome.

(b) *Statistics (M2)*

Using the broader definition of the money supply (M2) which includes currency in circulation and all bank deposits in the hands of the public (including the Government), there has recently been an acceleration in the growth of the money supply: at the end of 1976 the money supply was 21% higher than a year earlier and this rate of increase was maintained in 1977. The average annual growth rate of GDP in current price terms over these two years was almost exactly in line with the growth rate of the money supply. Bank lending was an increasingly important determinant of this growth in the money supply: in 1977 it represented 73% of the increase compared with only 53% in 1976 (when the net acquisition of foreign currency assets, in other words, was relatively more important). By contrast, in the year ending 30 September this year, the money supply increased by 30%, having accelerated month by month since the end of May and bank lending accounted for 78% of this growth<sup>(13)</sup>. A growth rate of 30% is probably not far short of twice the present growth rate of the GDP in money terms.

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(13) *Nevertheless, the ratio of domestic loans to deposits has only increased as follows:*

<i>31 December 1976</i>	<i>67.0%</i>
<i>31 December 1977</i>	<i>69.6%</i>
<i>31 May 1978</i>	<i>70.8%</i>
<i>30 September 1978</i>	<i>72.0%</i>
<i>and the average liquidity ratio of the banking system has changed very little:</i>	
<i>31 December 1976</i>	<i>45.3%</i>
<i>31 December 1977</i>	<i>45.3%</i>
<i>31 May 1978</i>	<i>45.0%</i>
<i>30 September 1978</i>	<i>46.5%</i>

To an extent, this faster growth rate of the money supply is not entirely surprising for, in a situation in which the growth of the economy is propelled by strong domestic demand, the money supply will tend to grow faster than the GDP in money terms. This is because the proportion of bank loans financing activities to satisfy domestic demand is always larger than the proportion of bank loans financing exports and these activities tend to rely more heavily on bank loans than do those to satisfy export demand. However, even allowing for this tendency, the growth rate of the money supply recently has been so fast as to indicate an excessive growth rate of domestic demand. Let me illustrate this point: in the three months ending 30 September this year compared with the three months ending 30 June this year, the growth rate of bank loans to manufacturing fell from 14.4% to 1.6%, a sharp fall even allowing for seasonal factors, but it *increased* from 5.3% to 11.4% for transport and transport equipment, from 14.1% to 20.6% for building and construction and from 5% to 12.2% to individuals for private and business purposes, obviously in part for speculative activities in the stock and property markets. These latter activities are *also* being financed by credit made available by deposit-taking companies, frequently on lower margins than in the past and this has been a factor in the volatility of the stock market in recent weeks.

(c) *Changes in interest rates*

I am sure, Sir, that Honourable Members will agree with me when I say that the higher interest rates resulting from the two recent increases in the Best Lending Rate were consistent with the requirements of this developing situation. The Best Lending Rate has now been adjusted upwards four times this year: it had remained at 4¾% since 14 April 1977 until 1 May 1978 when it was increased to 5½%. It was further increased to 6% on 17 July; then to 7¼% on 30 October, by which time the effective exchange rate index had fallen to 90.7, the lowest level ever; and then to 8¾% on 9 November. In the interval between these two last moves the effective exchange rate index had recovered to 94.3 (but only in response to President Carter's measures to defend the US dollar) and the September money supply figures, which had just been published, were a cause for great concern.

Thus, in the past 6½ months, the Best Lending Rate has been increased by 84% and many bank customers will now be paying rates of 10-11% and even higher. Whether lending rates will have to be raised again in the near future remains to be seen, but I expect to see over the next few months, a dampening down of the demand for loans and thereby a slowing down of the growth rate of the money supply; and, in due time, I have no doubt that the exchange value of the Hong Kong dollar will strengthen. At the same time, there will be a helpful reduction in the spending power of those with outstanding loans<sup>(14)</sup>. I would hope, in particular, that the

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(14) *Although the practice in respect of many mortgage loans for flats is for the repayment period to be extended when the interest rate is adjusted upwards.*

demand for loans for property development and for speculative property purchases will be dampened down with a beneficial effect on the rate at which prices are presently increasing.

Deposit rates have also been increased. To the extent that the consequential narrowing of the differential between interest rates in Hong Kong and overseas<sup>(15)</sup> increases the net inflow of funds—for example, by dissuading exporters from retaining their earnings overseas and borrowing relatively cheaply in Hong Kong to meet their Hong Kong dollar liabilities, by discouraging Hong Kong residents from placing their funds overseas and by encouraging foreign banks to be less dependent on the inter-bank market to the extent that the next inflow of funds be encouraged—the exchange value of the Hong Kong dollar should be strengthened. Although an increase in the net inflow of funds may have a perverse effect on the growth of the money supply, the offsetting influence of higher interest rates on the demand for loans should not be overlooked.

*(d) Control of the money supply*

There has been some public discussion recently of the ways in which interest rates are determined by the banks. Indeed I, myself, have suggested that we should consider whether the present institutional arrangements for determining borrowing and lending rates in Hong Kong are now entirely relevant to our requirements. Part of my argument was based on the delays which might be caused by these arrangements in introducing desirable interest rate changes and, of course, the speed of the last change has proved—to the discomfort, I am afraid, of some—that rates *can* sometimes be changed quickly.

Under a fixed exchange rate regime the internal economy automatically adjusts to external circumstances *via* imbalances in the balance of payments triggering off a contraction or expansion, as the case may be, of the money supply. But under the novel circumstances represented by the floating exchange rate regime under which we now have to live, we need to have

*(15) Interest rates on 3-month deposits:*

	<i>Euro-dollar time deposits</i>	<i>HK dollar time deposits (*)</i>	<i>HK dollar certificates of deposits</i>
28. 1.78	7 7/16	1 3/4	4 7/8
4. 3.78	7 1/4	1 3/4	5
1. 4.78	7 7/16	1 3/4	5 1/8
29. 4.78	7 5/8	1 3/4	4 5/8
27. 5.78	8 1/16	2 1/4	5 1/8
1. 7.78	8 5/8	2 1/4	5 1/2
29. 7.78	8 7/16	2 1/2	5 5/8
26. 8.78	8 1/2	2 1/2	5 1/2
2. 9.78	8 7/8	2 1/2	5 5/8
30. 9.78	9 7/16	2 1/2	6 5/8
28.10.78	10 3/4	2 1/2	7
4.11.78	11 3/8	3 1/2	7 1/4
9.11.78	11 13/16	4 1/2	8 1/4

*Note:* (\*) Rate paid by principal banks.

some means of protecting the economy from internally generated inflationary pressures. So I welcome this evidence of flexibility in the operation of present arrangements for determining interest rates. But the whole question of the determination of interest rates, obviously, must be given further thought. Meanwhile, I shall be watching the growth of the money supply very carefully and also considering what direct measures might be used to restrain the growth of the money supply as and when necessary; but I do not expect, at present, that such measures will have to be invoked and, before using them, I would have to satisfy myself that they would be equitable and predictable in their effect.

(6) *MANAGEMENT OF THE PUBLIC FINANCES*

At the same time, I can assure Miss DUNN that the Government *is* mindful of *its* responsibilities ‘in the way it manages its own affairs and, in particular, in the way it controls the growth of public expenditure’. In this connection, I can assure her that, however frequently I may be encouraged on other occasions not to take too seriously in the framework within which our budgetary and fiscal policies are constructed, I intend to stick by it. None of my guideline ratios and absolute guideline figures relating to the relative size of the public sector or the construction of the annual budget or the balance of the fiscal system or the steady development of the public sector’s services and facilities or the relative size of our fiscal reserves, is sacrosanct, but each imposes discipline and reminds us to think through the consequences of particular courses of action. For instance, the financing of the capital account would be placed in jeopardy if we did not watch very carefully the proportion of recurrent revenue absorbed by recurrent expenditure and this means accurate forecasting of the financial implications of policy decisions.

Thus I really cannot accept that our rolling three-year forecasts are prepared to quote Miss DUNN ‘more for presentational reasons than to provide us with an effective regulator’. I would not argue that these forecasts are a perfect regulator and, although our objective is always to foresee and to monitor the implications for expenditure in the following years of new policies and projects approved and implemented *during* a year, we sometimes fail to do so. It is for this reason that I have sympathy with Mr T. S. LO’s suggestion that ‘the Government might seriously consider spacing out expenditure on the PWD programme’, but I think he has overlooked the fact that the very concept of the absolute guideline figures for the two components of the Public Works Programme is designed to ensure that bunching of expenditure does not occur. That, at any rate, is the theory even if, in practice, we make a few mistakes.

Nor would I argue that we evaluate and review, and check on the validity of the assumptions underlying, our policies and programmes as regularly and as thoroughly as desirable. But I can assure Miss DUNN we are at least *aware* of the need to do so. Above all, we are conscious of the

fundamental importance of our capital works programmes not only matching the economic and social needs of the community, but also being consistent with the legitimate demands for resources by the private sector. Here, indeed, we are in something of a dilemma inasmuch as many of our capital works projects are designed to provide the essential infrastructural facilities without which our economy cannot develop and the private sector prosper. The supply of formed and serviced land, for example, for sale to the public is the good illustration of this point; in the five years ending 1982-83 present plans provide for the expenditure of nearly \$2,300 million at current prices to produce 715 hectares (=1760 acres) of industrial and commercial/residential land for disposal to the private sector. So, unless the *public* sector is able to command a certain share of available resources of labour and capital in the short and medium term, the supply of land available to the private sector in the longer term will be prejudiced.

Finally, I would mention that Miss DUNN, unlike some press and radio commentators, correctly interpreted His Excellency when she said that 'the Government's present thinking was based on the *assumption*' and not necessarily on the *expectation* 'of a continuation of the trend growth rate of the economy of 9% per annum in real terms'. This is not a matter of semantics and, as His Excellency stressed, 'the need for flexibility and adaptability in the design and implementation of our programmes in changing circumstances is of course well understood'.

## II GOVERNMENT POLICY IN THE LONGER TERM

### (7) CONFLICT OF VIEWS

While expressing concern about what was obviously presently happening to the economy, Honourable Members were obviously mindful also of the implications of excessive domestic demand for our longer term prospects and Miss DUNN, for example, emphasized the role of stable fiscal policies and the importance of the public sector not crowding out the private sector. But several went further than this and, by implication, did not agree with Mr Alex WU when he said that he 'would be reluctant to see us resort to more direct attempts to regulate behaviour in the economic fields'.

### (8) ADVISORY COMMITTEE ON DIVERSIFICATION

#### (a) Hong Kong Research Council

Thus Mr James WU called for the establishment of a largely Government- financed Hong Kong Research Council to undertake research in social, economic and technological subjects and he thought we should establish the Council straightaway and 'not leave it to the conclusion of the Advisory Committee's work next summer'.

I do not feel that I am competent to pass judgment on the need for research into social problems. However, I think we can all agree that

there is a continuing need to improve our knowledge of the workings of our increasing complex economy, and the phased programme of surveys already started by the Census and Statistics Department into the activities of the tertiary services sector and the proposed improvements to our financial statistics provided for in recent amendments to the Banking Ordinance and the Deposit-taking Companies Ordinance are steps in the right direction.

The Advisory Committee on Diversification has established an Industrial Development Sub-Committee under Mr James WU's chairmanship to advise on 'whether the extent of the Government's existing involvement in assisting Hong Kong's industries should be widened and enhanced, how this is to be achieved, and the costs and benefits involved'. These terms of reference encompass an examination of the need for co-ordinated research and the Government's involvement in it. So I leave it to Mr WU to have his proposal to establish a Research Council examined by his sub-committee and the Advisory Committee itself will await with interest their detailed recommendations.

*(b) Industrial Development Council*

I shall draw the attention of the Advisory Committee on Diversification to Mr Allen LEE's plea for an Industrial Development Council, based as it was on his emphatic belief that the Government should guide the diversification of Hong Kong's industry. This Council, he said, should be 'a central body with statutory status to plan and co-ordinate all activities relating to industrial development'. To my dismay he even hinted that the Government's establishment of the Advisory Committee indicated that 'the Government will probably take an active role in directing (industrial diversification)'. The Government had no such pre-conceived notions in mind when the Advisory Committee was established as the terms of reference make it abundantly clear.

*(c) Interim report*

Finally, Mr Hilton CHEONG-LEEN asked whether it would be possible for the Advisory Committee on Diversification to issue an interim report for public information, and to seek informed comment from industrial and commercial organisations. His Excellency has already outlined the progress made by the Advisory Committee to date and how it expects to complete its task. To ask the Advisory Committee to produce an interim report, when it is now heavily engaged in examining various policies and procedures, would disrupt its work programme. The Advisory Committee is aware, however, of the need to seek informed comment from industrial and commercial organizations and decided early on that it would do so at the appropriate time. Indeed, some contacts have already been made.

(9) *INTERVENTIONISM VERSUS NON-INTERVENTIONISM*

(a) *General*

Fundamentally, those who argue for Government direction, as opposed to general help and advice, must show that it is possible for the Government, or a body appointed to it, to forecast the pattern of demand in our overseas markets, to determine what share of that demand it would be appropriate for Hong Kong's industry to try to meet, and then to persuade our industrialists and exporters to base their commercial decisions on all these forecasts and calculations (and notwithstanding their own views as to where their most profitable opportunities lie). Yet how can any Government body, no matter what its composition, determine in the abstract what will be the potential demand in our overseas markets for products of interest to us? Surely we can do no better than leave individual businessmen, with their intimate knowledge of overseas markets, to follow their homing instinct for profits.

Whilst, of course, as Chairman of the Advisory Committee on Diversification, I shall do my best to keep an open mind. I might also add that I do not believe that the experience of some of our competing neighbours is necessarily relevant to us. I would remind Mr LEE and Mr James WU that those governments which have been successful in directing the pattern of industrial development in their countries have had substantial protected domestic markets on which to base their direction and, through their interference with the price mechanism, to finance hidden cost and even losses. In Hong Kong, losses would have to be financed from general revenue unless those individual businessmen who sustained losses as a result of errors of judgment not of their own making were prepared to finance those losses themselves.

So I, personally, would need powerful arguments to be persuaded that the policy of leaving the commercial decision-making process to individual businessmen should now be abandoned; and that certain cost inputs should be subsidised from, and trading losses underwritten by, general revenue. In other words, as I said at much greater length when winding up last year's and this year's budget debates<sup>(16)</sup>, I remain quite unconvinced that the arguments so far adduced in favour of lessening our reliance on the market mechanism to allocate resources efficiently and in favour of lessening our faith in the free enterprise system are in the least compelling.

(b) *Fiscal policy*

Consistent with our determination to maintain our policy of not becoming involved in the detailed direction of the economy, despite Mr Allen LEE's plea that 'the Government should attempt to guide industry to diversify in the correct direction rather than to let (businessmen) proceed on their

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(16) *BS 1977, paras 44-50 and BS, 1978, paras 53-58.*

own as in the past', our tax system is designed, *inter alia*, so as to be as neutral as possible as regards the internal cost/price structure and investment decisions. Further to this, the basic principle of the pricing policies we adopt for Government-owned and operated public utility undertakings is that consumers are charged the full cost of the resources consumed by each undertaking unless conscious policy decisions dictate that this policy should be modified.

As I said in this year's budget speech<sup>(17)</sup>, the application of the no-subsidy principle to the waterworks has always been troublesome and we have not adhered to it in recent years as strictly as pure theory dictates in respect either of domestic supplies or trade supplies. This is not to say that water charges should not be updated and re-structured from time to time; and I have repeatedly warned Honourable Members that an updating and re-structuring exercise was inevitable. I was very surprised, therefore, that Mr Allen LEE misinterpreted His Excellency's reference to the implications for the level of water charges of the new contract for water supplies from China. It is true that the increased cost of these supplies—from \$1.26 per 1,000 gallons of untreated water to \$1.88 per 1,000 gallons—is still less than the cost of untreated water from our own catchment system and would not *in itself* require increased charges to consumers for the proportion of cheaper water in the supply system as a whole has increased. But the need for conservation remains as strong as ever and a deficit overall remains in the accounts and is projected to persist. So we are now working on the final details of a new and very carefully designed tariff which seeks to reconcile fiscal, social and economic considerations and which will be introduced, I hope, some time next year.

### CONCLUSION

Sir, on your behalf, I must conclude this debate by paying tribute to Unofficial Members for the time and energy they devote, and the wisdom they bring to, the discharge of public business and the care with which they handle complaints from members of the public and help those who have difficulties in their dealings with Government departments. Official Members of this Council look forward to the 1978-79 session in the confident expectation that we shall be subjected to another year of probing questions and critical commentary fair and unfair, (*laughter*) and, in the tone and content of our responses, we shall try to match Unofficial Members' deep concern with the public interest.

And next, Sir, I move that this Council thanks the Governor for His Address.

*Question put and agreed to.*

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(17) BS, 1978, paragraph 190.

**Adjournment and next sitting**

THE PRESIDENT:—In accordance with Standing Orders I now adjourn the Council until 2.30pm on Wednesday, 29 November.

*Adjourned accordingly at half past four o'clock.*