

OFFICIAL REPORT OF PROCEEDINGS**Wednesday, 28 March 1979****The Council met at half past two o'clock****PRESENT**

HIS EXCELLENCY THE ACTING GOVERNOR (*PRESIDENT*)
THE HONOURABLE THE CHIEF SECRETARY
SIR JACK CATER, KBE, JP

THE HONOURABLE THE FINANCIAL SECRETARY
MR CHARLES PHILIP HADDON-CAVE, CMG, JP

THE HONOURABLE THE ATTORNEY GENERAL
MR JOHN WILLIAM DIXON HOBLEY, CMG, QC, JP

THE HONOURABLE THE SECRETARY FOR HOME AFFAIRS
MR LI FOOK-KOW, CMG, JP

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

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

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

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

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

THE HONOURABLE DAVID GREGORY JEAFFRESON, JP
SECRETARY FOR ECONOMIC SERVICES

THE HONOURABLE ALAN JAMES SCOTT, JP
SECRETARY FOR HOUSING

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

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

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

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

THE HONOURABLE JOHN HENRY BREMRIDGE, OBE, JP

THE HONOURABLE LO TAK-SHING, OBE, JP

THE HONOURABLE FRANCIS YUAN-HAO TIEN, OBE, JP

THE HONOURABLE ALEX WU SHU-CHIH, OBE, JP

THE REV. THE HONOURABLE JOYCE MARY BENNETT, OBE, JP

THE HONOURABLE CHEN SHOU-LUM, OBE, 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 DAVID KENNEDY NEWBIGGING, JP

ABSENT

THE HONOURABLE ERIC PETER HO, JP
SECRETARY FOR SOCIAL SERVICES

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

THE HONOURABLE ANDREW SO KWOK-WING

IN ATTENDANCE

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

Papers

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

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Government business**Second reading of bill (resumed debate)****APPROPRIATION BILL 1979****Resumption of debate on second reading (28 February 1979)***Question proposed.*

MR LOBO:—Your Excellency, it was a suitable coincidence that the Financial Secretary should have presented his budget on Ash Wednesday. This serves to remind us that no matter how good things are or may seem to be, we must all make some sacrifices.

My honourable Friend took great pains, and much time, to put a carefully argued case for caution and for certain measures to regulate the economy. I do not dispute that there must be constraints for the overall good of the economy, and it is evident that the budget was well received. However, I must also recognize that the budget tends to get a good reception from those who are relieved because they feel they are not asked to make any immediate sacrifice. We should not forget that for many people in Hong Kong the budget does represent a sacrifice—but not one that they will make willingly. I am thinking particularly of the people on the waiting list for public housing. They, and some others who were looking forward to the extension of various public services, have found it hard to understand why they must continue to wait when we face another, and record, surplus on the Government account.

These problems are made much worse by the tremendous artificial growth in our population. Hong Kong people could be forgiven for resenting these strokes of fate which seem designed to upset the social achievements which we have worked for so long. The strain on our social services is very heavy, and it is a great pity that it comes at a time when, for purely economic reasons, we have to restrain the growth of public expenditure on these services.

Legal and illegal immigrants, regardless of origin, can work against our interests. As the Financial Secretary pointed out, immigrant labour can be an economic liability just as easily as it can be an asset. The depressing message of the budget is that we cannot hope to continue to improve our standard of living under this sort of pressure. It is against this background that we must understand decisions which have been taken to limit immigration wherever it can be controlled.

Everybody who recognizes Hong Kong's achievement in economic development speaks about our one great asset: our people, with their adaptability, their energy, and their desire for education. If we are going to think about people we must not forget the one thing which is uppermost in the minds of the great majority: housing.

For Hong Kong people, housing means much more than a shelter, a roof over their heads. Housing means family unity; it means peace of mind and security; it means improvement in the quality of life; it means a chance to study better, to work better and to live with self respect.

The Housing Authority's own proposed budget for 1979-80 onwards was for some 40-45,000 flats a year, including the Home Ownership Scheme. This target has had to be revised already for various reasons, including the capacity of the construction industry.

The new target will be set at the production figure for next year—35,000 flats. This is a high level by any standards and it will require a great deal of money and a great deal of effort from all concerned. Although the target has had to be lowered as part of a deliberate plan to protect our economic

development, the amount of money earmarked for housing has actually been increased by 35%.

Over the next four years the Government should provide 142,220 flats in public housing, including 25,400 to be built under the Home Ownership Scheme. It is instructive to compare these figures with the present position. To date we have accommodated in public housing very nearly 2 million people—to be exact 1,915,711. On the waiting list at present there are about 143,670 applications for flats. We all know enough about housing to realize that this does not mean that in the next four years we shall wipe out the waiting list, or anything like it. In reality these figures tell us what a long programme it is still before us if we are to meet the housing needs of the community. It is a very tight situation and with the press of immigration it will get tighter. If we accept the need now to cut back for purely economic reasons, we should accept for good social reasons the need for a firm commitment from Government that resources will be provided to reach the target, which has now been set. On this minimum figure the Housing Authority will be able to do the necessary forward planning and the private sector will be able to see clearly the part which will have to play in meeting public demand. I look forward to receiving such an assurance from the Government in due course.

Another example of the heavy pressure on our social services is to be found in the hospitals. The White Paper had recommended a regional approach with the aim of securing a more even use of the general beds available in government and government-aided hospitals. Already some results have been shown. Regretfully however, we cannot say that camp beds have become a thing of the past in our hospitals, even though recently they have almost been eliminated.

The crux of the problem still lies in the demand for the more acute beds and this problem must be aggravated by the rapid artificial increase in population.

The most important factor which leads to overcrowding and the use of camp beds in Hong Kong hospitals is our own policy of instant admission to a regional hospital of every case which qualifies. The problem is, of course, made worse in the event of emergencies when casualties from traffic or other accidents have to be handled.

It is ironic that the use of camp beds in Hong Kong hospitals is a result of a more liberal policy—literally an open door policy, than in, for example, the UK where patients are simply not admitted if all the beds are occupied.

We have to face the fact that this problem is not going to be eliminated in the near future. It will probably get worse for some time to come. In the circumstances, we should consider enlarging the community nursing

scheme which has potential beyond its present scope. We can also re-examine the case for convalescent homes or some other form of 'half-way house'.

Sir, on budget day this Chamber came to life at about 6.30pm when my honourable Friend proposed certain new charges on first and subsequent motor vehicle registrations. He stated very categorically that franchised buses would not fall within the net, and while I do not have strong views on this matter, I must admit I fail to understand why private buses or coaches which occupy much road space and stop anywhere and everywhere, have been spared. Are we creating yet another class of business and private vehicles? I believe that there are some 1,800 such coaches on our roads, and it could be argued that increase in their fees mean little or nothing to our revenue. The questions are: what about consistency and standardization? How and where will they come in? Is there a good reason for this anomaly?

As a matter of interest the China Motor Bus Co. runs only 600 buses and the Kowloon Motor Bus 1,700.

Finally, I would like to say something about what I can only describe as the 'Sandwiched Society'. I was glad to hear the Financial Secretary give some recognition through a modest relief in taxation to this group who might be described as the 'class in the middle' rather than the 'middle class'.

We have made great progress in recent years in every field and conditions have been improving steadily. Now the Financial Secretary has to tell us that he does not rate our chances of maintaining the present rate of improvement in living standards very high in the face of pressure brought about by population increases.

Where does this leave the 'Sandwiched Society', the 'class in the middle?' They have not been the main beneficiaries of public programmes but they have certainly not been rich enough to escape the effects of recent economic developments. In fact, they have probably been the only people who have actually suffered personally. They are the people who have to cope with high rents and who have to use badly run, franchised services. They are the people who are obliged, not only by convention but for the sake of their employment, to dress less casually. They are the people who pay the rates and the personal income tax without any means of shifting any part of that burden. They are the Hong Kong 'belongers', the silent and loyal people who give of their best to their employers and support Hong Kong in the only way they know. They are being squeezed between the rich and the poor and, in real terms, many of them may not be any better off than those who now enjoy social benefits and public housing, and the well-paid casual workers who pay no tax at all.

I believe that these are the people who have the very real right to look forward to a time when their taxes and their sacrifices will have earned them

a less strenuous and a brighter tomorrow. This is a time of frustration for them. Forces beyond their control are robbing them of the future, the future they have worked for. I hope that when we are able to review our plans in more favourable circumstances, the Government will pay more attention to their hopes and aspirations.

With these remarks, Sir, I would like to congratulate the Financial Secretary and support the motion.

MR LO:—

GOVERNMENT'S EFFECT ON HONG KONG'S ECONOMY

- 1 Introduction
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Government's Effect on Hong Kong's Economy

1 Introduction

Sir, contrary to the modest position taken by the Financial Secretary on Government's behalf, examples of which may be found on paragraphs 4 and 19 of his budget speech, Government's actions have had a significantly adverse effect on Hong Kong's economy. I believe therefore it would be salutary to devote a few minutes of our time to consider this particularly as, if it were so minded, it may still be not too late for Government to correct some of its past errors.

2 Effect of Inflation on Hong Kong

It does not take an economist to know that the ultimate effect of inflation is deflation. Nor does it take a politician to know that this process has a tendency of being socially disruptive. Of course, Hong Kong is not alone

in the world in having to face the threat of inflation but many of the causes here as well as the severity of the consequential suffering may very well be unique.

Hong Kong is unique in that we have to buy from abroad raw materials semi-manufactures and capital goods in order to produce and then to export. Other countries export in order to be able to afford to import. If they suffer from inflation and become uncompetitive, the level and variety of their standard of living decline but as they are not dependent entirely on trade their survival is never threatened by this. In our case if we suffer from inflation and become uncompetitive, our very existence is threatened because our only means of livelihood is foreign trade.

Any trade deficit in excess of the amount arising from there being a time lag between when we import the raw materials and semi-manufactures and when we export the finished product, must necessarily lead to inflation. We would simply be spending more than what we could afford. If uncorrected, if we drifted into a situation whereby we were not paying our way, the only possible outcome is falling real incomes and ultimately social disaster.

3 *Contributory Causes of Inflation for which Government is responsible*

(a) *Foreign Negotiations*

In this equation Government plays a vital role. We are utterly dependent on it for the negotiation of our various political as well as trade arrangements so as to enable us to sell abroad such of our products as are competitive. I shall not belabour this point as we all know how very hamstrung it is by our unsympathetic masters in Whitehall.

(b) *Public Sector Expenditure*

On the expenditure side however, the Government is theoretically its own master and if any of its actions or policies has had an adverse effect on the economy it has only itself to blame. I believe that much of its policies in recent years have had such an adverse effect. It is also my belief that Government's plans as disclosed in the budget for the coming year will have such an adverse effect.

(c) *Relative Size of Public Sector Expenditure*

The Financial Secretary has always said that he accepts the view that our public expenditure must be limited not only by fiscal but also by economic considerations, and that it would be wrong for Government to spend to an extent that would contribute to inflation. Consequently it would be obviously wrong for Government to increase the level of public sector expenditure during the upswing of our economy when private sector expenditure is also increasing, very simply because by competing for resources, prices go up and inflation results.

The trouble is that to this perfectly sound concept only lip service has been paid. Without any justification, or even lame excuse the Financial Secretary has allowed public expenditure for 1978-79 to increase to the extent that its relative size of it will actually come to 19.6% for the current year notwithstanding the fact that we are on the upswing with a trade deficit in the current year exceeding \$9 billion or over 20% of our visible exports and so facing what even the Financial Secretary recognizes as the very real prospects of accelerating inflation. His position is even more untenable, and indeed ridiculous when one turns from paragraph 92 of his Budget Speech where he sets out all this to footnote 69 of paragraph 66, because there we discover that in calculating the size of our relative public sector expenditure the Mass Transit Railway amongst others is put onto the other side of the equation and treated as private sector expenditure. What arrant nonsense is this. Little wonder that D'Israeli said, almost a century ago 'Lies, lies and statistics'. If the truth be told, if the Mass Transit Railway is properly calculated as public sector expenditure, (and at my insistence the Finance Branch has worked it out) the relative size of the public sector would actually be over 24% for the current year.

What is worse is that despite all this he is now budgetting for public expenditure to increase by a further 12% in the coming year. He is, of course, compounding his mistake. He is doing precisely what he has always said we should not do. (The unconverted may care to refer to paragraph 210 of his 1976 Budget Speech, paragraph 32 of his reply in the 1976 Budget Speech, paragraph 97 of his 1977 Budget Speech and paragraph 102 of his 1978 Budget Speech). (*laughter*)

(d) *Mass Transit Railway*

Despite Government's understandable reluctance to associate with the Mass Transit Railway, it cannot be ignored in any discussion on Hong Kong's economy because like any non export orientated expenditure it is inflationary for two separate reasons. The first is that it adds to the bill of our total imports without any hope of it ever increasing our exports. It does not even transport goods. The second is that it bids away resources from firms producing for export and being protected from competitions, the increased prices of such resources are fed through to the rest of the economy. Even the Financial Secretary has now admitted this if only impliedly in his budget speech.

If one included the Mass Transit Railway as public sector expenditure, which only an advanced form of sophistry could prevent, the average annual growth rate of public expenditure for the five years 1974-75 to 1978-79 in real terms would be 16% (according to the Finance Branch) instead of the stated 11% which excluded the Mass Transit Railway as public expenditure. The Financial Secretary has called this growth remarkable. It is certainly that, but it is also inflationary, dangerous and wrong.

As you may recall, Sir, I voted against our going into the MTR gamble some years ago but voices of greater authority prevailed, and prevailed overwhelmingly. I have nothing further to say about that. As D'Israeli again said 'A majority is always the best repartee'. However, now that we are irretrievably committed to this venture it obviously behoves Government to cut back on other public expenditure notwithstanding the fact that it may well involve cutting back expenditure on projects which are socially far more desirable.

For this reason I called upon the Government in November last year to space out its capital works projects and although some efforts have been made in this regard not nearly enough has been cut back. I believe our economy cannot safely sustain an expenditure increase (not counting the Mass Transit Railway) of 37% in 1978-79 and a further increase (not counting the Mass Transit Railway) of 12% on top of it in 1979-80.

A number of my Colleagues have urged, and I suspect that a number of them will urge the Government to spend some of its large surpluses on one or other perfectly worthwhile project. I trust that I have made it abundantly clear that whilst I might well not argue with any of them if they wished merely to have the priorities re-allocated, I would not agree to any further overall increase of public sector expenditure. On the contrary I consider that our public sector expenditure should be reduced so that the relative public sector expenditure for 1979-80 be reduced to about 18% (excluding the Mass Transit Railway) or 22.3% (including the Mass Transit Railway). To this argument which is based on economic considerations the fact that we have a revenue surplus is totally and utterly irrelevant.

(e) Civil Service

Another contributory cause for inflation for which the Government is responsible is the Civil Service. We all know that an increase in pay in real terms without a corresponding increase in productivity is inflationary. It is equally true that it is equally inflationary even if the pay remains constant if productivity is reduced. Productivity must reduce if there is decreasing efficiency, which generally happens to any organization if it expands its activities too much too quickly. When Government expenditure is increasing at an average rate of 16% per annum, the pressure on Management is immense. As Chairman of the Establishment Sub-Committee, I have been concerned with the question arising from staff proposals as to whether or not too much pressure has been built up on management through expansion. I will only say at this time that Government must bear in mind the pressure that it exerts on management every time that it decides to surge forward with new activity. I will also say that some departments, particularly those whose activities have expanded enormously in recent years, would be well advised to divert more attention to this aspect.

4 *Effect of Refugees*

Not only will inflation necessarily lead to a reduction of our standard of living but so will the influx of refugees. Once upon a time refugees were a boon for Hong Kong. They provided the labour force for what amounted to our industrial revolution. However that was at a time when our exports had no difficulty in being competitive or in finding ready markets. Now they are jealously regarded and callously restricted. It is virtually impossible for us to increase any export of labour intensive products. The refugee effect on our society today is quite different from the refugee effect on our society in the 50's or even the 60's.

True, the plight of the refugee demands sympathy. However has the Government assessed the effect on our society if we just stood passively by and only rushed around in frenzied activity doing the best we can to cope after they have arrived upon our shores? At the present rate our population will increase from the influx of refugees alone in excess of 3.7% this year. Will it even stop there? If our society is ultimately made to absorb even a substantial portion of them it would stretch our social services, not to mention housing, to breaking point. Surely at some stage they become a threat to our very survival.

Our people here have worked hard to improve their lot and have done this with patience and tolerance and sometimes in pretty adverse conditions. Is it fair that all that they have worked for be taken away through the failure of another society? True, the more humane that the Government is to the refugee, the greater would be the number of international clucks of approval that would be harvested by Whitehall. However, is that being humane to the people in Hong Kong for whom the Government is primarily responsible?

I know that the Government says that there is absolutely nothing further that it can do to keep the invasion at bay. But if other countries can hire tug-boats to tow them away why can't we do this? If other countries can make it sufficiently unattractive for them so that they do not cross their borders or even approach their shores, why can't we do this? It is said that where there is the will, there is a way. In the face of Government's position that there is no way, I cannot help but ask—is there the will?

For example the Government maintains that we would be committing an act of piracy if we were to seize a refugee ship upon it entering our territorial waters and towed it out again. Is this really true? Only yesterday I received a preliminary legal opinion from London on the point which says amongst other things: 'In fact the Hong Kong Government cannot in any circumstances be charged with the crime of piracy, since piracy consists of "illegal acts of violence ... committed for *private* ends by the crew or passengers of a *private* ship" — Article 22 of the High Seas Convention. The Government, as the representative of the State, will always be acting for public ends, and thus cannot commit the crime.'

5 *Need for Assessment of economic consequences of Government policies*

Finally, Sir, Government has caused inflation through all of its efforts artificially to raise the standard of living. However desirable it may be socially it is worthwhile remembering that unless this is done gently and none too suddenly it could have quite the opposite effect. I reiterate what I have said in the Council in March 1978. It is vitally important for Government to assess the economic implications (as opposed to the purely financial implications) of each of its policies, including those which are considered inevitable on social grounds, as well as to assess the economic consequences of the totality of its policies. We in this Council have certainly never been given any proper analysis on this basis and I cannot but suspect that Government does not have the capacity to do this. A minor example of this void is the tourist trade that has resulted from our various statutory holidays. I am sure that the Government has never considered the extent of the private sector expenditure arising from various statutory holidays.

Each dollar that our resident spends abroad is certainly not covered by a dollar that a foreign tourist spends in Hong Kong simply because from the price the incoming tourist pays we must deduct the imported cost element. Even a hotel room is built entirely with imported materials. Accordingly, the extent that the enormous outflow of tourism from Hong Kong has had an inflationary effect is not yet assessed by, nor I suspect, assessable by the Government.

It would be an understatement to say that it would be a pity to raise the standard of living through improved housing, sparkling new towns so impressive to visitors, more holidays from work and greater security in employment and so forth on the one hand only to lower it again on the other hand by accelerated inflation, a rising crime rate and ultimately total social disruption.

6 *Conclusion*

(a) *Summary*

Lest I have been obtuse, I wish to summarise my views on Government's plans encompassed by the budget.

Firstly, Government should cut back expenditure so the relative size of Government expenditure including the Mass Transit Railway would reduce to about 22% or excluding the Mass Transit Railway to about 18%.

Secondly, Government should devote more attention to management aspects of the Civil Service.

Thirdly, Government should be more ingenious in finding acceptable ways to stop the invasion of refugees.

Fourthly, Government should acquire the capacity to assess the economic consequences of its individual policies as well as the totality of them.

(b) Need for Trust

That concludes, Sir, my views on the Government's proposals and plans for 1979-80. To those of us who have pored over Budget Speeches in recent years it would be apparent that what I have been saying that the Government should do is substantially what the Government through the Financial Secretary has always said it should do. Why then is the Government doing something quite different? What is the cause for the apparent inconsistency? Is this evidence of growing discord within the top echelon of the administration? Is this evidence of growing pressure from our Whitehall Masters on the administration of Hong Kong's internal affairs? The Financial Secretary concluded his Budget Speech this year by saying that our success in the coming year will depend upon a united and single minded administration and upon officials and unofficials and the Government and private sector working closely together in concord and co-operation. Before we can achieve any real concord however, we need frankness and trust. In this spirit may I invite the administration to trust this Council and inform its Members fully and without reservation, the nature and extent of the discord, if any, within Government as well as the nature and extent of the pressure, if any, from Whitehall. Above all, tell us why it says one thing and does another.

MR JAMES WU:—Sir, I have pleasure to comment on the Financial Secretary's budget speech in this Council a month ago. As Members will no doubt approve, I intend to be short and to the point, in the hope that this will receive better attention from those concerned.

As is generally understood, the Financial Secretary is taking a cool approach to an overheated economy. Briefly, he intends to take measures to cut down public spending and to discourage private domestic demand. It is also apparent that by so doing he hopes that more resources could be directed in promoting and increasing domestic exports to help narrow down the visible trade deficits, thus helping to stabilize the value of the Hong Kong dollars and to contain inflation.

It will be recalled that these are the very points that featured significantly in my speeches in this Council and at the Federation of Hong Kong Industries during the last two years. For this reason I do not intend to be repetitious. Suffice to say, what I had mentioned about the speculative atmosphere, the propensity to spend, the rapidly widening trade deficit, the de-facto depreciation of the Hong Kong dollar and the spiraling inflation have now developed to such an alarming stage that officialdom has at last been stunned into belated action in the hope of remedying the situation.

The question now is whether what have been planned and indeed implemented are adequate enough to achieve the desired results. I would like to relate the rapid developments in the last six months that have so much affected the manufacturing industry which is such a vital part of our economy.

(1) The political development in Iran that threatened an interruption of oil supply and caused sharp increase in oil prices dampening the recovery in oil consuming countries, in Europe and the USA that are our main export markets.

(2) The shortage of supply, and speculative price increases of vital industrial materials such as plastics and metals etc. that affect both our costs and shipments of orders.

(3) The rapid rise of prime interest rates in Hong Kong, from 4.75% in September '78 to 11% in March '79, thus greatly increasing our overhead, and production costs.

(4) The effective depreciation of the Hong Kong Dollar to as much as 5% in two months, making it difficult to quote firm prices against enquiries for future orders.

(5) The chronic and deteriorating labour shortage that now renders most factories under-staffed by as much as 20 to 30%.

It will be appreciated that these are major problems confronting our industries that work on very close margins. Not only are delivery dates difficult to keep but that prices and quotations are difficult to maintain for any periods of validity. Under the circumstances, our value of domestic exports cannot hope to grow in real terms and the economy would suffer. What is really worrying is that, as I have mentioned before in this Council, the manufacturing industries in the Hong Kong environment have not always been attractive investments. One only has to look at our stock markets where property shares dominate and where speculation had been fuelled by easy money at low interest rate. Whilst the recent rise in interest rate is beginning to discourage the stock market, its deterring effect on industrial investment is perhaps even greater, in view of the situations listed above. In the meantime, there are attractions such as Certificate of Deposits in U.S. Euro or Asian dollars that yield tax-free interest rates that are higher than that obtainable in Hong Kong. I believe no small amount of Hong Kong money has gone overseas in this way alone and so eroded the exchange rate.

Difficult and important the role our industrialists play in the community, it may not be unfair to say that their view points are seldom appreciated and encouragement forthcoming. Indeed, Government officials are so used to this so called 'hands free' policy that even in recent Diversification Committee meetings, a negative attitude still seemed to prevail in that measures taken and proven successful by our competitors got brushed aside without much scrutiny, as these were considered not relevant and impracticable in the Hong Kong sense. Thus we dwell ourselves in complacency, reminiscent of how well we have done in the past, and oblivious to the progress made by our competitors who have now overtaken us in a broader industrial base and in total export value and their growth is still surging forward at tremendous rates.

For instance I would like to cite for example some of the ways South Korea and Taiwan have taken to finance their industrial development. According to our recent country studies sponsored by the Diversification Committee, we knew that the Korean Medium Industry Bank absorbed fixed deposits at 18% but lent out at 14% to industry. We question the viability but were told the effective cost of the Bank's money was just about 12%, considering some low-interest current account and other deposits.

In a Taiwan case, the authorities there were embarrassed by the huge trade surplus and foreign exchange accumulated, and mindful of the highly inflationary trend in the world, it started early last year to offer money to industries at as much as 3 to 4% below prime rate for them to re-equip and modernize and to stock-pile essential materials, mainly imports. In this way, they have very effectively contained inflation and ensure industrial growth that is now the basis of their viability.

In both cases, it will also be noticed that lacking natural resources, their economies are not unlike Hong Kong's in many respects, as each have also embarked on and completed massive public projects, with controlled inflation.

In contrast, our government surpluses had been deposited in commercial banks which in turn lent to the property and speculative markets, as well as overseas, aggravating the inflationary trend and weakening the dollar.

I would therefore suggest that the Financial Secretary take a careful look at the huge surpluses which he now has in control, and are forthcoming in the year ahead, and to see if some of this could be channelled into productive purposes in the way of industrial loans at substantially lower but still much more attractive interest rates than current account deposits in banks offer. I believe our existing banking system has the expertise and facilities to administer this operation on behalf of Government and at its 'direction, without the setting up of an industrial bank.

With these comments, Sir, I support the Bill before Council.

MR CHEONG-LEEN:—Sir, in an attempt to describe the Budget in the format of three superlatives, I can say:

- (1) It was graced by the longest budget speech in the history of Hong Kong;
- (2) The predicted \$1,600 million surplus for 1978-79 will be the biggest on record; and
- (3) The \$1,434 million surplus budgeted for 1979-80 will also be the biggest ever.

As I see it, two main objectives of this year's Budget are firstly, to cool down the overheated economy and reduce inflation, and secondly, to transfer more resources to strengthen our export-oriented economy.

Hong Kong is primarily an open economy, depending much on the industrialized countries to absorb our exports. Particularly this year, if the United

States—our largest market—cannot control inflation, any recession effects will also be felt in Hong Kong.

The American market in 1979 is not expected to be a year of optimism for Hong Kong exports. The Financial Secretary is wise to adopt a posture of cautious growth in his Budget. We would do well to prepare for the worst yet work hard to achieve the best we can.

In the course of his marathon speech, the Financial Secretary outlined several basic steps to dampen the economy so as to facilitate a relative shift in favour of exports.

He predicted the possibility of tightening the conditions under which Government's Hong Kong dollar reserves with local banks are loaned out to the private sector.

However, he did not say how soon deposit-taking companies will have to establish minimum liquidity ratios, as already required of the commercial banking sector. Should this not be taking place with minimum delay?

Nor did he offer any specific proposals of significance for the stimulation of Hong Kong's export economy.

It is regrettable that the Advisory Committee on Diversification Report is not yet completed, otherwise we could have included in this year's Budget some practical proposals to prime Hong Kong's export-oriented economy. The timing would have been just right.

As it is, the Report will not be ready until the second half of this year. Meanwhile the need to strengthen Hong Kong's export-oriented industries remains as urgent as ever.

By the end of the current fiscal year, Hong Kong's fiscal reserves might well be over \$8,000 million. Should we not do something more positive to boost our export-oriented economy?

Productivity Council

One project which deserves greater support is the third 5-year Plan of the Hong Kong Productivity Centre.

The best way to dampen inflation is to increase the amount of goods and services in an hour of work so that the average person can have more leisure and more of the good things of life.

To go about it, we should give workers better training, more up-to-date tools to be used efficiently, so that they can turn out more and better quality goods without extra time or effort. That is called 'productivity'.

There is an obvious need to accelerate implementation of the Productivity Council's Third 5-year Plan without waiting for the completion of the Advisory Committee on Diversification Report. I would urge the Financial Secretary to use his foresight, acumen and flexibility to accelerate the Plan.

Technical Education

As Hong Kong moves ahead in the direction of a technological society, it is wise to plan for a higher level of technical education for the decade of the 80's:

Firstly, there should be universal education up to the age of 16 by the mid-80's;

Secondly, more technical institutes and Polytechnic facilities will be required in the New Territories.

There should be no pulling-in-the-reins for the planning and expansion of technical education.

Long-term loans to industrial enterprises

Sir, the Hong Kong Building and Loan Agency since its setting up has been a success in enabling many middle-income families to pay for their own homes at a reasonable rate of interest.

There is a need for a similar institution with sufficient initial funds both from Government and the private banking sector to assist industrial enterprises to purchase factory premises and expensive capital intensive machinery to be paid for over 10 to 15 years at prime or near prime interest rates. In the absence of an Import-Export Bank, which may not be practical in the Hong Kong economic environment, the need for such a non-Government institution (that is however financially supported by Government), is all too obvious.

The nearest equivalent to a Central Bank (if such it can be called) in Hong Kong is the Exchange Fund. Government through the Fund could play a more sophisticated role in stimulating the timely reallocation of resources or credit jointly with the private banking sector. Hong Kong's export-oriented economy would then be less imperilled because of remedial action being taken too late or too slow.

Tourism

By the mid-80's, Kai Tak Airport is expected to reach a point of saturation.

Government is now planning further studies on building a new and expensive airport at Chek Lap Kok Island off Lantau Island.

Since relations with China are expected to improve in the long term, perhaps the alternative of building a second airport across the Shum Chun border with the cooperation of China could be considered in greater depth. Such an airport would be less expensive than Chek Lap Kok and would also serve as a second airport, particularly for the 2 million Hong Kong residents who will be living in the New Territories by the end of the 80's.

As budget fare travel is now a common phenomenon, perhaps it is time to review the long-term implications of tourism for Hong Kong. When, if

ever, do we expect to reach optimum growth in tourism and what steps are to be taken to make it enhance the Hong Kong economy in real terms?

Civil Service

Government is the largest single employer in Hong Kong, absorbing just over 6% of the total employment of 2 million persons in the economy.

During the past two years in particular, there has been increasing signs of restiveness within the ranks of the Civil Service, which has been described as 'a city within a city'.

The public is most anxious that the Civil Service should preserve high standards of dedication, efficiency and accountability.

It is to be hoped that the newly appointed Standing Salaries Commission will be given the opportunity and time to comprehensively review the present Civil Service structure to make it more flexibly adjusted to changing times.

For example, can a set of productivity guidelines be worked out which would be realistic and acceptable to the Civil Service unions generally?

Can a system of productivity bonuses be devised for civil servants who are professionals so that their income is comparable to the private sector and posts are filled in a reasonable time instead of remaining vacant for 2 or 3 years?

I am glad to hear that Government will soon consider the working party's report on alleviating the housing needs of the middle-income civil servants, who are still not yet receiving any form of housing assistance. This step is much overdue.

Taxation

Last year, less than 70,000 persons paid taxes under personal assessment.

I would estimate that many more are capable and willing to pay income tax, but have not been approached by the Government to do so.

The official attitude that it is mainly the responsibility of the citizen to report his income for assessment is too *laissez-faire*.

At present, notices to supply information on income are sent out to selected groups of individuals. Perhaps the time has come to cast the net wider by sending such forms to all residents over the age of 18 or 21 who hold identity cards. Those who are already reporting their income can so indicate on the returned form.

Public support to curb inflation

After having listened with unflinching attention to the erudite discourse on inflation by the Financial Secretary, I would now urge Government to embark on a communications programme with the public to explain in simple and practical terms how inflation affects them.

Those who are most affected are people such as industrial workers, employees, civil servants and pensioners. They could be encouraged through the mass media to save money. Instead of dissipating their income on short-term consumption items, they might be persuaded to save enough for a down payment on a home.

As a further step to encourage savings, Government could establish a Premium Savings Bond Scheme, in denominations of say \$50, \$100, \$500 and \$1,000. An attractive interest rate of about 8% could be offered. Every month or perhaps every three months a ballot would be held. The lucky numbers would divide up the accumulated interest tax free. Those whose numbers are not drawn will have to forego receiving any interest.

Also Government should reduce the overheat in the real estate industry by auctioning commercial and residential lots on an increased down payment from 30% to 50%, with the balance to be paid over five years instead of ten years. If Government does not take such a measure at this time in respect of commercial and residential lots, it could be accused of itself being a prime cause of overheating the real estate industry.

Planning for the future

Since the reorganization of the Management Services Organization in the Administration Branch, the Five-Year Development Plan is presumably being used more than ever as a management tool for the Chief Secretary's Committee. I hope that there will be increasingly a flexible interfacing between this Plan and the Five Year Financial Forecast, in both economic and social development terms.

More than ever before, the coming generation would like to see Hong Kong's future projected in specific planning terms, meaning more long-term programme plans to improve the living environment.

For the decade of the 80's, we have to plan for:

- (1) more technical education, productivity and manpower development
- (2) more resources to be transferred to technology oriented and capital intensive industries
- (3) combining Hong Kong's marketing and technology oriented resources with China's manpower to produce and export through Hong Kong more manufactured goods.

We face a tremendous challenge in spirit and effort to create sustained economic and social growth in the coming two decades.

Sir, I believe Hong Kong can meet that challenge and have much pleasure in supporting the motion.

MR F. W. LI:—Sir, once again, the Financial Secretary is to be congratulated for announcing another record year with an estimated surplus of \$1,600 million. This comes as no surprise to me although he has reminded us that

no less than \$1,166 million of the predicted surplus is derived from additional revenue in land transactions and that we must not be overly impressed with the figures of outturn for 1978-79. Nevertheless, the fact remains that our economy was sufficiently buoyant to produce a surplus equal to one-third of the fiscal reserves at the beginning of the current financial year. While this is an achievement of no mean proportions, it may be that the Financial Secretary has not been over-cautious in producing a deflationary Budget before this Council. The general reaction to the Budget must therefore be classified as favourable.

The Financial Secretary had expressed mounting concern over the excessive rate of growth of money supply, in turn fuelled by the rapid extension of domestic bank lending as one of the prime factors underlying the weakness of the Hong Kong dollar and accelerating inflation. Indeed he has warned us on 16 November last in this Council that there was a very real threat of an inflationary situation developing. In his view, the statistics that have become available since then confirm that the pressure of demand, allied with the depreciation of the exchange rate, is resulting in a gradual acceleration of the rate of increase in prices. This, unfortunately, has been true enough. In 1979, the rapid growth rate of imports is expected to continue and the visible trade deficit is forecast by the Financial Secretary to rise by a further 23% in real terms. We are told that the growth rate of imports could be decreased by reducing the pressure of demand, and that it may be dangerous to rely on natural market forces as long as domestic credit creation continues at its present rate.

The Financial Secretary then described how he came to the conclusion that the economy could not be allowed to develop further into a situation in 1979 whereby continuing inflation would erode the real incomes of many groups within the community. This was the result of an analysis of forecasts of expenditure for 1979-80 and the following three years and the implications of the growth rates for the various components of Gross Domestic Product in the initial forecast for 1979. So he decided that the emphasis of budgetary policy for the coming year must be to slow down the growth rate of total final demand, in order to bring it more into line with the growth rate of the economy's output. He said that he proposed to do it in such a way as to facilitate a relative shift in favour of exports. This would mean slowing down the growth rate of Government expenditure so as to minimize the distortions within the individual markets and constraining the growth rate of private domestic demand by reducing the growth rate of the money supply in the hands of the non-bank private sector. It is because of that precedent-setting emphasis of budgetary policy—the 4th and 5th objectives mentioned by the Financial Secretary in his Speech—that the Budget now before this Council is in fact historic.

He considers that these objectives could be achieved, firstly, by restricting public expenditure for the next year to \$12,454 million, thereby producing a

surplus of \$1,428 million. Secondly, with a proposal to amend the Exchange Fund Ordinance, he would limit the extent to which the Government's Hong Kong dollar balances could be used as a base for the creation of domestic credit by deeming short term deposits to be deposits from a bank, while long term deposits will continue to be regarded as deposits from a non-bank customer. By so doing, the minimum liquid assets to be held by banks against these deposits will be increased, thus reducing Government's contribution to the growth rate of the money supply. I am relieved that while he has proposed to slow down the growth rate of domestic demand, it will be done in such a manner that expenditure on social services and approved projects will not be affected. This is particularly commendable. The Financial Secretary has, however, indicated that it is not his intention to use fiscal weapons to drain off purchasing power, and that for the time being he will continue to depend primarily on interest rates to influence the growth rate of loans and advances, and hence of the money supply. But what does he propose to do if the measures suggested are inadequate for the purpose? In other words, with the present relatively high average liquidity ratio in our banking system, will these measures succeed?

Sir, I would agree with the Financial Secretary that we must take steps to curb inflation if the quality of life in this community is not to be seriously eroded. I am, however, unable to persuade myself that his proposals are not just a holding operation. I feel that a comprehensive plans is essential to tackle the problem. For instance, he could have elaborated on the various measures which could be introduced by stages to control inflation, even if no dates are given for their respective implementation.

Nonetheless, it is a desirable and highly significant precedent that the Financial Secretary should seek to influence the level of aggregate demand through the rate of growth of money supply. However, given that the Financial Secretary has accepted responsibility for influencing the rate of growth of total demand, and he identified the rate of growth of money supply as the key target variable, would it not be useful for the purpose of indicative planning by the entire business community if he were to state what rate of money supply growth, in say, M2 terms, is implicit in his forecast of GDP growth in 1979? Also, what rate of M2 growth would the Financial Secretary regard as most desirable in terms of averting our 'very real threat of inflation'?

Moreover, the principal weakness in the Hong Kong economy is an imbalance between excessive rate of growth of domestic demand relative to the external sector. Our export industries face difficult enough conditions in 1979 as a result of higher labour and material costs, coupled with slackening in demand in our principal markets, besides increasing protectionism. Is it not, therefore, regrettable that, by continuing to use interest rates as a weapon, the Budget will exert additional pressure on the manufacturing industry where every encouragement to growth is so sorely needed, merely in order to apply restraint to the overheated domestic sector?

In the Budget Speech, we were assured that other forms of direct control, such as the imposition of ceilings on lending for specified purposes, had been examined but these had been discarded because they were either inequitable or inefficient. The Financial Secretary has not given us an explanation of how he arrived at this decision. He added that the imposition of direct controls might be interpreted as a radical change of Government policy and an erroneous conclusion might be drawn from this. However, the introduction of any formal monetary policy, such as the one he had proposed, is in itself a radical change of policy. Is it not the duty of Government, having taken measures to attack an acknowledged area requiring regulation, to ensure that this action must be as effective as possible? Would it not, therefore, be feasible in view of present conditions, for some overall distinction to be made, by freeing advances to the manufacturing sector while restricting loans for all other purposes, rather than resorting generally to yet higher interest rates as a means of exercising some degree of control over the growth of credit extension in the private sector?

Sir, while the Financial Secretary is confident that evidence of his proposed actions will begin to emerge within a few months and that they will have the desired effects of slowing down the growth rate of money supply and loan demand. I am still concerned that higher rates of interest applied generally will tend to affect adversely our industries. No doubt, the Exchange Fund, as banker to the Government, could impose limitations on the use of Government's Hong Kong dollar balances, thereby helping to regulate the creation of domestic credit. By the same token, the Fund might be given additional statutory powers, if necessary, to influence directly the interest rates which are now fixed by the banks. Has the Financial Secretary considered the establishment of a Monetary Authority to regulate our money supply in the absence of a Central Bank?

In my view, by far the best option is the creation of an industrial/ development bank or industrial/development finance corporation which would allow short, medium and long term loans for industrial and trade development projects to be extended to industrialists and manufacturers at preferential rates of interest. It would have the further advantage of permitting industry to take full advantage of the Financial Secretary's proposed 'pooling' system for depreciation allowances. Such a bank or finance corporation could also provide a useful means for the employment of part of our fiscal reserves. I am aware, Sir, that Government had looked into this idea many years ago but was advised against it. Perhaps the time has now come to re-consider this concept, bearing in mind that it has worked well in some of our neighbouring countries.

Interest rates can be a useful weapon. However, by employing it without due regard to its effect on external trade, is to overlook the fact that we are a community which is export-orientated.

With these remarks, Sir, I support the motion.

MR BREMRIDGE:—Your Excellency, the Financial Secretary's budgetary guidelines are sound and proved by experience. May I propose yet one more? The ratio of individual Official to Unofficial time in the first stage of this debate is about 17:1. As an active kindness to elderly and broadly-based Councillors, with the obvious exception of Miss DUNN, could the Financial Secretary please in future seek to reduce this figure to not more than 10:1? *Per ardua ad astra* perhaps a better motto for the RAF than for us.

Sir, while I generally support the Financial Secretary's proposals and certainly their intention, I will confine my direct comment to the necessity of persuading us all that it is essential to cut Government expenditure despite large annual surpluses. That this is the right policy I have no doubt, and I believe myself that the intelligent people of Hong Kong will understand the slogan 'save not spend'.

I intend, however, otherwise to use this occasion to speak on various individual financial and economic issues where I now tend to see a shade of gray instead of the black or white views often put forward. Extreme positions are regularly wrong except in the case of true moral issues—for instance the humane treatment of refugees. Effervescent and kaleidoscopic Hong Kong is no stereotype, and political compromise seems essential in all our affairs. By compromise I do not mean woolly liberalism but old fashioned commonsense. Let me therefore make twelve propositions susceptible to gray solutions.

VEHICLE TAXATION

Firstly; I have never forgotten the freedom acquired when as a young man I was first able to buy a motor bicycle, and later a cheap secondhand car. Rightly or wrongly present vehicle taxation is purely fiscal in nature. While commonsense dictates that in the future road usage will have to be controlled quite strictly, I reject the equity or logic of control solely by licence cost or first registration tax. It seems to me moreover essential to provide incentives for our workers. Let us therefore consider possible alternative taxes on usage not possession, and on controls on areas and times in particular and not in general. I for one believe that area tax rules with timing criteria, and above all increased taxation on use *eg* on fuel cost, merit much closer attention. There is no way in which I can vote for a total preference for vehicle ownership by the rich. In a nutshell can we have some new and fresh thinking on this issue? It is taking place now in the UK, where it is proposed to abandon annual vehicle licences in favour of fuel tax. There are also strong arguments for measures designed deliberately to limit fuel consumption.

ROAD TOLLS

Secondly; I welcome Government's recent decision to charge tolls in the new Aberdeen tunnel, but cannot understand their refusal to consider tolls for the Tun Mun freeway (when completed). There is some validity to

arguments that the road user paying normal road taxes should not pay additional prices for unique facilities. If, however, alternative routes are available, I am a confirmed believer in the virtue of tolls, and I fully agree with the last sentence of paragraph 69 on page 37 of the Financial Secretary's speech. The Aberdeen tunnel will cost in total about \$306 million. Other roads are available. The full Tun Mun Freeway will cost \$438 million. Again other roads are available. And so on and so forth. It appears to me improvident not to charge tolls so that the running cost and full amortisation of these excellent and much needed facilities can fall on the user and not purely and simply on the taxpayer. I can see no philosophical difference between the Aberdeen and Lion Rock tunnels, and the Tun Mun Freeway.

CUTTING THE CIVIL SERVICE

Thirdly; I suggest that Government must consider a little personal shrinkage. The Civil Service is too large, and it is still growing rapidly. Certainly problems abound—and not least actual management issues—but let me again propose some possible areas of devolution. Kowloon-Canton Railway; computers; airport management; water supplies; General Post Office; Government Printer; Radio Television Hong Kong; harbour management; refuse disposal. These could all in theory be sold off either to commercial interests or (perhaps preferably) set up as quasi Government corporations, as for example the Mass Transit Railway. I am of course asking for a fresh look, and am not proposing specifically that all these activities and their important revenue should immediately be abandoned by Government. But at least some of them could, with major consequent saving plus a tighter more competent Civil Service, who are very over-stretched at this juncture. Such a process should also help in salary grading exercises within the Civil Service. I would welcome Government's decision to handover their English schools to the English School's Foundation, which is a good example of what I propose.

LAND SHORTAGE

Fourthly; we all know that many of the underlying problems of Hong Kong, and of the middle classes in particular, arise from the shortage and consequent cost of land. I know that Government is doing much about this, but it still worries me to see all the untilled paddy lying fallow in the New Territories, while I wonder in particular if sufficient attention has been paid to the possibility of land reclamation from the sea. Are the targets of new land provision generous enough? Is the Special Committee on Land Production satisfied? Is it not possible further to involve private enterprise—and reclamation stands out as one possibility. Will Government consider making a general appeal to developers to put forward schemes for reclamation from the sea? As well as considering the reported case for turning Tolo Harbour into a reservoir, should not also a vast land reclamation be studied?

NEW AIRPORT

Fifthly; I believe that Government and this Council should be very cautious before agreeing to the construction of a new airport North of Lantau—costing more than Phase I of the Mass Transit Railway. It is of course obvious that this would benefit hotels, airlines, the tourist industry, and prima facie the Hong Kong economy; that there are clear ecological arguments in favour of moving away from Kai Tak; and that the possibility of an appalling crash in crowded Kowloon would be removed. Certainly at some time in the future a new and self amortising airport will be highly desirable, not least because Kai Tak will be full by 1984 or thereabouts in so far as aircraft movements are concerned. But I do wonder about our overall priorities in the use of resources, and the virtues of an increase in the cheaper end of tourism. A sprinkle of cold water thus seems indicated. We have always before us the problem of priorities, and it is not easy to set the need for a *new* airport—not just an airport—against the claims of public housing, better transport, better schools; and above all less inflation caused by heavy Government spending. I do not doubt that one day we shall need another airport, but the timing of this difficult decision is highly polemical.

FERRY PIERS

Sixthly; why are ferry piers in all cases paid for by the taxpayer? Why for example should not the H.K. & Yaumati Ferry Co. pay for its own particular facilities, and then recover the cost fairly by imaginative building of commercial premises and/or higher fares? There seems much to me to recommend true costing of utilities. If indeed this had been the policy we would not now see half the valuable and expensive Star Ferry piers lying empty and unused—which, to me, is a quite disgraceful waste.

LUXURY TAXES

Seventhly; I understand and respect his philosophy about tax neutrality, even if I do not fully agree with it, and I am delighted with his concessions to the embattled middle class. Nevertheless if it becomes necessary to increase taxation or to find new forms to balance further very necessary middle class benefits, I again ask the Financial Secretary to consider some further degree of sumptuary taxation in the years ahead—and in particular if additional revenue is required to match higher expenditure on social essentials such as schools, hospitals, roads, police, defence, care of refugees, and so on. Such taxes already exist, for example in the case of wines, spirits, and tobacco. Let me give some fresh suggestions which will be relatively painless to the vast majority of our population if not necessary to Members of this Council—expensive motor cars (whose owners still are over privileged), perfumes, hotel room rates, jewellery, private swimming pools, overseas travel, in other words, increased airport tax, imported pleasure boats. While the total return may be relatively low, the social impact will be generally noted, and expensive imports must be a fair target. Moreover

in this context taxation of advertising expenditure is worth at least an investigation. It would seem ideally counter inflationary. I know that elsewhere this possibility has been rejected for sound reasons; but they may not apply in Hong Kong.

STOCK EXCHANGES

Eighthly; particularly in view of the events of last year I believe that the time has come to impose more strict conditions on the marginal transactions allowed by some stockbrokers to their clients. The Hong Kong stock market is still too much of a casino, and its wild gyrations do not impress overseas investors. Some greater degree of maturity is badly needed, and I fear that it can only be imposed from above. Thus I am delighted that Government will continue to press vigorously for one unified stock exchange. In this vein tighter control over the liquidity of both deposit-taking companies and insurance companies is badly needed—in my opinion this is an under- statement.

LAND HOLDINGS OF UTILITIES

Ninthly; why has it been accepted that franchised utilities can separate their surplus land holdings to the profit of their shareholders while at the same time or subsequently they can successfully apply for increased rates in the light of ostensibly dropping profits on their monopoly or franchise operational position? I believe that this policy is quite wrong and should be changed, even if by now most of the damage has been done.

BUS SERVICES

Tenthly; there is general concern about insufficient franchised bus services, even though fares are cheap. There are many sound reasons for this state of affairs of which strain on existing management is only one. I do not envy them their task and problems. But I suggest that bigger is not better, and that the time has now come at least to consider new franchises for new companies. It is worth remarking that in Rio de Janeiro, a city larger than Hong Kong with at least equivalent traffic problems, bus companies compete against each other on the same routes offering different fare standards with seeming efficiency.

CROSS HARBOUR CONNECTIONS

Eleventhly; I am worried about cross harbour connections. The success of the vehicular tunnel is obvious; equally obvious is its insufficiency at certain times of day. Goodness knows what congestion will be like in a few years, even if new internal lanes can be introduced—and the recent proposal by the Cross Harbour Tunnel Co. is indeed most ingenious. I believe therefore that the need for another, probably Western, cross harbour link with the necessary road connections is self evident, and that some priority is indicated. I am conscious of the time taken in the Government process, and note that the construction of a cross harbour tunnel and the

removal of the Services from Central were both first proposed in the Abercrombie report of 1948.

THINK TANK

Twelfthly; the pressures on senior civil servants are enormous,—not least because they have to be both ministers and administrators. I wonder whether they have enough time—any time—for brooding, for lateral thinking, for real innovation. In the United Kingdom in recent years the Central Policy Review staff—the so-called Cabinet Think Tank—has been set up to this end. We cannot justify in Hong Kong such a heavy concentration of talent, but I wonder whether the Financial Secretary (or perhaps the Chief Secretary) might not find it useful to have reporting to him a group of 2 or 3 youngish but experienced Hong Kong born Administrative Grade officers with secretarial support whose full time job over a 3 year posting would be to think forward and sideways either as self starters or on given projects but without administrative chores. It is to me inevitable that Government should play a growing role in the management of our economy, and my suggestion reflects on the additional machinery of Government that will be required.

Sir, none of these broad propositions is likely to cost any significant amount except another cross harbour connection, which in the private sector, I hope, will be self amortising (even though clearly needing front-end guarantee); and in total they offer high potential returns.

My comments may show only how much easier it is to be a critic than to be correct. Let me therefore finally wreath my rod of criticism with roses. Most of us know that our able senior civil servants in Hong Kong work longer hours for less reward than their friends in the private sector. For this they regularly get criticized—usually without being able to defend themselves. May I say that I for one am grateful: and not least to our Financial Secretary; a good and committed servant of the public. It is surely worth at least a passing comment that alone in the free world and despite all our problems Hong Kong offers full employment. This has not happened by chance. It is surely appropriate to thank those who work for us—even if only once a year.

Sir, with these final mellifluous words, I support the motion.

MR TIEN:—Sir, the terms of reference of the Hong Kong Training Council require the Council to be the channel of advice to Government on the financing of industrial training, having regard to Government's policy on the general division of responsibility between Government and industry. The policy is and I quote:—

'Government is responsible for providing the institutional training necessary for the organized teaching of theoretical knowledge at all levels and such practical training as is necessary to illustrate the theory. Into this

category would fall such educational establishments as universities, the Polytechnic, technical institutes and pre-vocational schools ...

Industry must accept the full cost of providing practical training, whether it be given in industrial premises or in training centres built and equipped for this purpose. Where such centres are established, industry must be responsible for both the capital and recurrent costs.'

This policy was formulated jointly and agreed between Government and the Industrial Training Advisory Committee, the predecessor of the Training Council, and subsequently endorsed by the Training Council itself. It brings home the point made sometime ago in this Chamber by Mr S. L. CHEN that technical education alone would not produce the *trained* man- power that industry needs.

This policy is a fair and sensible one because the overall responsibility for producing technical manpower is, as it should be, shared between the ordinary taxpayers and the users of such manpower, that is to say the employers. Employers should quite rightly absorb a part of the overall cost of training and education as they are the ultimate beneficiaries of this total investment. In any event, to be useful and effective, the bulk of the training must be done in industrial training centres in which actual industrial conditions can be simulated or in industry itself.

It was in accordance with this policy that Government embarked on a programme of building additional technical institutes in the early 70's. The Polytechnic too has undergone tremendous expansion and there are plans to expand the facilities in the two universities.

It was also in accordance with this policy that the two training centres financed by levies were brought into being, one for the clothing industry and the other for the construction industry.

At the first meeting of the present session of this Council on 11 October 1978, His Excellency informed this Council that the newly established clothing industry and construction industry training centres were proving to be both popular and successful. He also informed Honourable Members that the Training Council had recommended a number of additional training schemes for other industries to be financed by a general levy and administered by a statutory training council and that the proposal was under consideration by Government.

Indeed, Sir, the Training Council has estimated that a very small general levy would suffice to finance:—

- (i) the existing schemes and all other schemes currently being proposed or contemplated for other industries,
- (ii) an industry-wide training scheme which will provide sound basic practical training in key engineering trades to a substantial number of trainees annually, and

(iii) the industry-wide scheme for providing post-graduate practical training for engineering graduates.

But why did the Training Council propose a general levy in preference to individual levies to finance all necessary training schemes? The answer is simply that it is the fairest way of sharing out the total cost of training, particularly of manpower which is needed by all industries and the commercial and service sectors. It would be simpler to administer, its levy collection is more straightforward and it would enable the body administering the scheme to respond effectively to the manpower training needs of the economy. Equally important, the cost of administration as well as that of levy collection would be substantially lower, if all the necessary training schemes were financed by a general levy and administered by a single body as opposed to their being financed by individual levies—which may be differently based—and administered by individual bodies. In other words, a much smaller proportion of the revenue would be spent on non-training activities. Further, the Training Council has been told that Government would prefer to see a single body to be made responsible for the administration of industrial training rather than a host of statutory bodies looking after individual schemes.

The concept of the necessity for a general levy did not, in fact, originate from the Training Council. It was first proposed in this Chamber by Sir Sze-yuen CHEUNG, an eminent and far-sighted industrialist and a distinguished past Senior Unofficial Member of this Council. When he spoke in support of the Industrial Training (Clothing Industry) Bill and the Industrial Training (Construction Industry) Bill on 30 July 1975, he suggested that it would be more desirable to consider the imposition of a general training levy for all industries as opposed to the concept of a specific training levy which is different for different industries. In his view, a general levy to finance industrial training would:—

- (a) enable training to be so organized that Hong Kong's overall training needs can best be met;
- (b) avoid the proliferation of training authorities and training centres; and
- (c) avoid placing too heavy a burden on the smaller industries which also need trained manpower.

Experience has indeed shown that Sir Sze-yuen was right.

At this point, I would like to remind Honourable Members that the activities of the Training Council have been extended to the commercial and service sectors with the recent establishment of training boards to cater for training in these sectors. It is likely that in the future, these new training boards will also be proposing off-the-job training schemes for their particular sectors similar to those proposed to date.

Sir, there is little need for me to explain the relevance of industrial training to the present Debate or the relevance of a well-trained workforce at all

levels—one that is capable of high productivity and able to design and produce increasingly, more sophisticated products so as to enhance our ability to earn our living as a community.

It has now been over a year since the Training Council submitted its recommendations to Government but we are no nearer to seeing the introduction of the proposed scheme which would provide Hong Kong with a practical training system which is needed to complement and complete the work done by the teaching institutions. Indeed, without such a training system, the community would not get a proper return from its investment on education nor would the economy be able to obtain the *trained* manpower it needs to remain viable, competitive and profitable in an increasingly complex situation. I, in company with most people engaged in industry, do not believe that we can afford to procrastinate in making available the proposed training system.

I also believe that an industrial training system which is capable of making available training in any area, as and when the need arises, and of meeting both short and long term needs, is vital to the success of any effort aimed at upgrading products and its diversification and also to attract overseas investors engaged in high technology industries. Further there is universal agreement that the training schemes proposed by the Training Council are necessary for the development of Hong Kong's economy.

As I mentioned in this Council on 26 October 1977 and I do not think there is any who will disagree with me here today that diversification, upgrading of the levels of products, adoption of higher technology industries are little more than empty words and phrases unless we have suitably trained manpower to make these activities possible.

Sir, I strongly urge Government to approve and implement at the earliest possible date the training schemes recommended by the Training Council and, with these remarks, Sir, I support the motion.

MR ALEX WU:—Your Excellency, before I embark on my short speech, I wish to endorse Mr TIEN's plea for early approval and implementation of industrial training schemes proposed by the Training Council.

Your Excellency, the Financial Secretary's Budget Address was exceptionally comprehensive even by his own high standard. The address was indeed comprehensive in that it covered the whole range of our economic activities, all the factors which might influence our economic development, and all the instruments by which the Government might control it. I admire him for the stamina with which he presented the budget and the steadfastness that is required of one who stands *vigil* over the economy of Hong Kong.

What he has done in his presentation is reminiscent of the seventeenth century, when a single man could claim to comprehend all human knowledge,

including theology, philosophy, astronomy, the natural sciences and the new, unnatural science of economics.

We must regard ourselves as fortunate that we can still conduct a truly comprehensive review of our economy. If it is possible it must be because our economy is still narrow enough, compact enough and visible enough.

But all that must be changing. The time must soon come, even in Hong Kong, when we can hardly pretend that a modern economy, with a large export-directed manufacturing base and a growing involvement in international finance, can be treated like a theoretical model.

Even now the Financial Secretary recognizes a major uncertainty apart from trends in world trade: the impact of China's new directions in industrial development could have very important implication for us.

It is clearly a fact that, as a result of the development in 1978, we arrived in 1979 with total final demand growing faster than the economy's ability to produce. As a consequence we face the possibility of a further growth of imports, a widening visible trade deficit, a further depreciation in the Hong Kong Dollar and substantial inflation before the total final demand could be constrained sufficiently to restore internal and external equilibrium. I am sure that the Financial Secretary is right in his conclusion that the rate of inflation resulting from the adjustment process might have to be so steep that the consequences for the community would be unacceptable.

At the same time, his Budget Speech included a review of the options available to him as instruments of control, some to hand and some up his sleeve.

The Financial Secretary bared his thought processes to us. We have learned how he considered, and why he rejected, this measure and that.

We know what he has up his sleeve, and under what conditions he is prepared to use it.

The fact is that by his own account, the Financial Secretary's options are rather severely limited, *provided* that he sticks to his principles.

I hesitate to abbreviate anything my honourable Friend has expounded so carefully, but the *principles* which seem most important to me are:

- (1) that Government maintains its present services and expand them to meet demand at present standards; and
- (2) that Government introduces desirable new services when we can afford them without disturbing our low tax environment and without introducing direct controls which would be a dangerous departure from our fundamental policy.

I fully support the reductions in growth in public expenditure implied in the Bill now under debate. We must all accept that the consequential postponing of the introduction of further Government services is in the

interests of the community as a whole, including those members whom the social services would be designed primarily to help. Inflation seems to me an unacceptable price to have to pay for improving social services too hurriedly. I would only wish to make one comment: that the Director of Public Works uses any postponement of the letting of contracts for public works projects to build up a reserve ready to be put out to contract, as soon as the state of the construction industry permits. When we are trimming public expenditure to the state of the economy, it will be important to feed a *steady* flow of public works projects into the contract stage, as and when circumstances permit, so as to avoid an involuntary 'stop go'.

So we come to the next option: Limitation of the ways in which the Government Hong Kong Dollars balances can be used. If it does not do the trick, there is the liquidity ratio, and if that is not enough a reluctant Financial Secretary is sure that he can devise some other form of direct constraint in the growth of the money supply.

That persuades me to hope most *earnestly* that the perspicacious business community will display its usual sagacity to support the Financial Secretary so that his imaginative device of the Exchange Fund Deposits will operate as he expects.

Economic management which involves fine tuning and manipulating aggregates has to be delicate and to avoid over-kill or under-kill. The danger lies particularly in over-kill; for it is easier to do and difficult to remedy.

As I have said before, I honestly have some justifiable doubts about the efficacy of interference. I share his devotion to the principles of low taxation and minimum direct Government interference in the mechanism of the economy. Financial Secretaries and their counterparts elsewhere may have a greater faith than ordinary people in the extent to which national economies respond to those delicate touches on the tiller.

The essential economic fact about Hong Kong is that it responds to incentive. In many other places the result of mixing controls and incentives has been that the incentives no longer operate. In Hong Kong our taxation pattern and the relative absence of direct Government interference release economic energy and stimulate enterprise to the benefit of the whole community.

People in Hong Kong must be grateful to the Financial Secretary for the good management which has brought us through the last few years in such good shape under such intricate circumstances. I commend my honourable Friend for his recognition of these important principles, on which confidence in Hong Kong depends.

Your Excellency, I would like to sum up my speech by using a common Chinese phrase '開源節流' which simply means explore resources and restrain spending. It is in this spirit that I support the motion.

REV. JOYCE M. BENNETT:—Sir, I am glad to have the opportunity to support the motion before us today as this year's estimates reflect acceptance of certain proposals made in the 1978 budget debate by several Unofficials, such as the bringing on to full aid of 'per caput' schools and the expansion of the community nursing service. I therefore speak with confidence this afternoon knowing that the Government is mindful of the suggestions made by the Unofficials in the annual budget debate. I wish to speak today on our expenditure on the social services. Our estimated expenditure on education is 16.7% of the total and on the social services as a whole is 42%, this money is vital to the future of Hong Kong. Without sufficient attention to the quality of our schools and other institutions, our people will suffer.

I turn first to education and wish to reiterate how delighted I am to learn of the firm arrangements for all the 'per caput' schools to become fully aided within the next four years. However I do not observe an increase in the number of inspectors of schools to cope with the massive problems involved in bringing 58 schools in 1978 into the public sector, 65 schools in 1979, 77 schools in 1980 and 82 schools in 1981. When a school is private no one expects the Government to provide inspectorate advice on such a large scale. But once these schools are in the public sector, it will be important to increase the Education Department's back-up services such as the advisory inspectorate, short in-service courses for improving the quality of teaching, visual-aids and library services. At present there are only 5 inspectors of English for secondary schools and 4 for primary schools. I was, therefore, shocked to find that there will be no increase in the coming year, despite the intake of additional schools into the public sector.

One other aspect of the growth of the public sector in our schools' system needs to be considered. I refer to the class-teacher ratio. All government and aided secondary schools are being required to expand their number of classes in order to help meet government targets for a free place for three years in secondary school for all those in the relevant age group. There are many problems faced by the schools in implementing these requests. Schools have been very willing to help in this expansion, but they do hope for some relief in return, specifically I support their requests for more laboratory technicians, librarians and a higher class-teacher ratio. The Principals know the problems involved in educating all the population and they seek more personnel to cope with the increase of numbers and increase of problems: I do not find these increases in the estimates, although verbal promises have been made from time to time that these extras are being actively considered. The implication given has been that this relief will come soon, hopefully next September. Sir, what relief can you give the staff in the schools in the public sector? And when will it start? Many of us would prefer the government money spent in that way rather than on abolishing Tong Fai or subscriptions.

It is well-known that the Government is committed to a policy of nine years free and compulsory education. I have been therefore disturbed to discover that there are still 178 day-time private primary schools educating over 74,000 children. In these schools, there are at present 1,828 untrained teachers. I have spoken on the problems of untrained teachers in this Council before and I regret I have once again to urge the Government to be far more positive in its approach to this subject. I was alerted to its malaise and indecision in this matter by the reduction in the estimates for the provision of ICTT teacher training, *ie* the in-service training for untrained teachers. I was further concerned to learn that untrained teachers in private primary schools were being told that the Education Department was making no promise to continue its training courses for them in 1980. This has been confirmed by the Director of Education who has informed me he expects 153 graduates this year from the ICTT course for primary school teachers, 103 graduates in 1980 and 94 graduates in 1981. But after that year he cannot give any figure. Perhaps his figures give a satisfactory impression. But let me repeat he assures me that at the moment there are 1,828 untrained primary school teachers in our private primary schools. Are the parents aware that some of our private primary schools are receiving high fees, yet engaging untrained teachers? The teachers in primary schools lay the foundations for the future academic ability of our children. Can we, dare we allow such a system to continue? If we cannot afford to train these teachers, at least we should insist that private schools publish the numbers of their untrained staff in relation to their trained staff. Has the Education Department ever done a costing exercise to ascertain the cost of in-service training for these untrained teachers? And has that estimate ever been included in its proposals to the Finance Branch for the cost of training our teachers?

I cannot leave educational issues this afternoon without raising questions concerning the financing of the education of English-speaking children. Yes, I am a member of the Public Accounts Committee, which raised the question of the failure of the Education Department to subsidise the schools of the English Schools Foundation on a parity with the Anglo-Chinese schools. It is the job of the Audit Department and the Public Accounts Committee to check whether or not the government policy and accounting have been properly carried out. It is for this Council to decide whether or not it wishes to spend money differently or to calculate its costs any differently. I wish therefore to raise some fundamental questions this afternoon concerning schooling in the medium of the English language. Admittedly this is a minority question, but I believe a community will be judged on how it treats its minorities. I believe that Hong Kong has a very good record for racial harmony and the lack of discrimination. But I see some very disquieting danger signals being raised over the issue of the education of English-speaking children. I also think this issue gives us an opportunity to re-examine the position of those Chinese children who are unable to cope

with the intensive study of Chinese on which their promotion to senior secondary and tertiary education depends.

When I first came to Hong Kong in 1949, it was possible for Chinese children with overseas residence and education to gain exemption from Chinese language requirements by taking a lower Chinese language paper. Others offered French as their second language. Today there is no lower Chinese paper for our Form V students nor for University entrance. Nor is there adequate provision made in our Anglo-Chinese schools for languages other than Chinese and English to be taught. This year 11 schools with 191 candidates are offering French in the Hong Kong Certificate of Education Examination in Form V and 5 schools only are offering French for 11 candidates at the Advanced Level course. We are penalising these children whose second language for examination purposes cannot be Chinese. How are we penalising them? We penalise them by providing for them an inadequate number of schools that are free in the primary and up to Form III and are reasonably priced in the senior secondary course for non-Chinese examination students.

May I ask the indulgence of the Council as I make a short digression on the problems of studying the Chinese language to our present high examination standards? The present system ensures that by the end of Primary One a child should be able to recognize and write 456 characters. Each year in primary school the child is expected to add to that number, so that on entry to Form I the Hong Kong Chinese twelve year old should be able to use 2680 characters. By the end of Form III, he should be familiar with and able to use about 4,000 characters, so that on entry to the Certificate course he has a reasonable hope of gaining Grade E or above in Chinese language. This is good, we are wanting to raise the standard of written Chinese in Hong Kong. But a problem arises when the Chinese child at the age of 10 or 11 returns to Hong Kong after starting primary education overseas, or a child goes overseas to school for a year or more and then returns. Only the English language schools can meet the needs of these children. If they return to the Anglo-Chinese schools they are considered stupid because they cannot recognize and write enough Chinese characters. They will be demoted to a lower class and their health and general development are affected. They will assuredly fail to gain entrance to the Anglo-Chinese school of their choice and gone will be their chances of entry to places of higher learning in Hong Kong.

What is the solution? Several alternatives are available: (1) the provision of free education to children in English language schools as well as to children in the Chinese sector. Or (2) the continuance of fees in these English language schools, but with a far greater amount allowed for fee remission, which should be paid by the Government, thus abandoning the parity principle for fee remissions. Or (3) the subsidising of teachers of French in designated secondary schools in different areas of the territory to

provide a second language for the children whose Chinese, owing to overseas residence, is inadequate for the rigorous demands of our examination system. Each of these three alternatives will cost money and I believe provision must be made in our budget.

I realize that this whole question of educating those children who cannot study in the medium of Chinese throughout their primary school and, if certain educators succeed, up to Form III level, is a very big issue. It is complicated by the fact that the English-speaking schools engage many expatriate teachers who have to be housed and brought here at great expense. Unfortunately, this has led a number of outsiders to imply that these schools are superior to the local Anglo-Chinese schools. I believe this is a wrong impression, we have some excellent government and aided schools which do a fine job for the local community. But at present more thought needs to be given to the best ways of providing reasonably priced education for non-Chinese speaking children. Another relevant point in this discussion is whether or not we are using to the best advantage the local Hong Kong citizens who have returned after graduating from overseas secondary schools and universities. Many of these have benefitted from the less examination-orientated education in the United Kingdom, Canada and Australia. They have something vital to contribute to our local education scene and they do not require housing and travel to be met by the government or voluntary bodies. They are very capable of educating non-Chinese speaking children.

Sir, to sum up my remarks on the financing of the English-speaking schools, I wish to call for a re-examination of the parity principle in financing these schools. Among the Anglo-Chinese schools there is not complete parity, for example, a technical school gets more subsidy than a grammar school; children in special schools and classes have smaller classes than those in ordinary schools and classes. Subsidies should within reasonable limits relate to the needs of the institution and child. Hong Kong has for years benefitted from its international community. Consider the benefits it has received from the Indians and the Portuguese who make their homes here. Many English-speaking children are just as local as the children going to the Anglo-Chinese schools. Their parents are paying taxes. Do not forget that many parents of many children in the Anglo-Chinese sector do not pay taxes, and I have known Chinese children with one or more parent not even living here. Sir, I believe no quick decisions should be made for removing the education of English-speaking children out of the general system. Much has been said about the 1965 White Paper which put forward the principle of parity between the English speaking and the other schools. It was not clearly spelled out in that document. Indeed its paragraph 21 implied uncertainty as to whether it would be practical and I quote: 'It is hoped that with this provision the new fees which are necessary to preserve the principle of equal subsidy for all, will not prove beyond parents' capacity to pay.' It is important that the Government does not foster separatism in the educational system. We must work where government

money is involved towards increased integration of our different communities. If school fees are too high, the Government must provide an alternative which is free and so within the reach of the poorer members of the English-speaking community.

I should like next to speak on the method of subvention for institutions providing care for children and for old people run by voluntary agencies. Most of this will be found under the one line vote in the Social Welfare Department's Estimate. However it is significant that the rehabilitation services have now been removed from the one line vote. The Rehabilitation Development Co-ordinating Committee (RDCC) since October 1977 advises on the subventions necessary for rehabilitation services. Already a lot of good work has been accomplished in that field by revising the Code of Aid for special schools and special classes. I believe it is time that institutions serving children and old people should also be placed under codes of aid, so that there will be clear cut arrangements given to their organizers. Study page 728 paragraph 4 of the estimates and you will discover how clumsy, time-consuming and uncertain are the present arrangements for subventing these institutions through the five stages of obtaining money under the one line vote. Clearly we are hoping for the expansion of these services, but I expect philanthropic organizations hesitate to involve themselves in these services when the amount of subventions are so difficult to gauge and so dependent on the personal whims of Committee members and others. No doubt too under a code of aid the Government could maintain a much stricter control of budgeting and of expenditure. Under the present system of lump-sum subventions, I notice that one or two institutions' subventions were to be increased, because unlike the previous year no surpluses were available to reduce the amount of subvention needed. Naturally once the institution has had its subvention cut by the amount of its surplus, it will be very careful to spend its funds up to the hilt. This seems a wasteful procedure. I suggest another relevant factor here is the continual linking of the money granted by the Community Chest, the Lotteries Fund and the Social Welfare Department. Are we planning a study of how these three help the voluntary agencies provide those services which clearly the Government is not at present in a position to provide? I think such a study would be useful for us all.

With these comments on our services in education and social welfare, I have much pleasure in supporting the motion.

Adjournment and next sitting

HIS EXCELLENCY THE PRESIDENT:—In accordance with Standing Orders I now suspend the Council until 2.30pm tomorrow afternoon.

Suspended accordingly at thirty-eight minutes past four o'clock.