

OFFICIAL REPORT OF PROCEEDINGS**Thursday, 29 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 ERIC PETER HO, JP
SECRETARY FOR SOCIAL SERVICES

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

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

THE HONOURABLE JAMES NEIL HENDERSON, JP
COMMISSIONER FOR LABOUR

THE HONOURABLE 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 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

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

THE HONOURABLE LO TAK-SHING, OBE, JP

THE HONOURABLE ANDREW SO KWOK-WING

IN ATTENDANCE

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

Second reading of bill (resumed debate)**APPROPRIATION BILL 1979****Resumption of debate on second reading (28 March 1979)**

Question proposed.

MR CHEN:—Sir, I would like to begin by stating the principle to which I, a layman, would adhere when carrying out financial planning—‘Earn more and spend less’. I believe any family or company or nation would find this elementary principle a wise one to follow.

In the Financial Secretary’s Budget there is ample evidence of the latter part of the principle in operation, although perhaps in spirit rather than absolute money terms. The call to slow down the growth rate in public spending and to impose a restraint on the supply of money are but two examples of ‘spend less’ measures. There is also the built-in measure in the form of a budgetted surplus of no less than \$1,400 million, equivalent to almost 12% of the total expenditure, to ensure the achievement of the objective of spending less, and to safeguard against inflationary pressure and cushion any impact which may arise from unforeseen contingencies. As to ‘earning more’, however, the Budget appears to have very little to offer although the proposed increase in depreciation allowance may, if wisely re-invested, result in a capacity to ‘earn more’.

Sir, in all sincerity I would like to see a more positive approach to bud-getting. By this I mean that accepting the need for restraining public expenditure, I would, instead of allowing a huge surplus to stagnate (assuming that a surplus will materialize), ‘invest’ some of it as well as the anticipated surplus of \$1,600 million from 1978-79 in activities that would assist in improving Hong Kong’s ability to earn more. This is particularly necessary at a time when we have a huge trade deficit, a major cause of the present inflationary situation. There are several areas where Government investment would be helpful as far as increasing our capacity to earn more is concerned.

First is the production of more land for industry. I do not propose to go into the subject in detail because it has been adequately covered in forums elsewhere. But I would like to suggest that the present Government policy of leaving everything to the dictates of market forces should be given a re-think to see whether a more acceptable solution to this vital problem could be found so that more industrial land can be made available in the future at a more reasonable price and on less inflexible terms.

Secondly, Government must invest more in developing Hong Kong’s manpower resources through manpower training. I shall return to this point later when I comment on our present manpower situation.

Thirdly, Government must invest in building up an efficient industrial infrastructure. A great deal has been said elsewhere on this subject, and it remains for me only to say that the present situation, where many Government subvented organizations for industrial promotion are operating on a shoe-string budget, is certainly not conducive to improving the efficiency and competitiveness of our industry. Very serious efforts, including the provision of adequate financial resources, must be made if the infrastructure is to be in a position to help Hong Kong's industry to keep abreast with its competitors in the world market.

Fourthly, Government should consider introducing some form of incentive to stimulate the export performance of our industry. For example, the stimulus can take the form of a tax rebate as a reward for achievement, a measure adopted by many exporting countries. Having said this, I wish to stress that I am against any proposal for a general tax reduction, an idea being floated by some in the light of the substantial surpluses accrued in recent years.

I wish now to make a few observations on capital expenditures. Because of the time available, I will focus my attention on only two items (*a*) Public Works Programme (other than New Town and Housing) and (*b*) Public Works New Town and Housing Programme plus Housing Authority's Building Programme. In the Appendix to the printed speech, a summary is given showing these two expenditure items for 1977-78 and 1978-79 as well as the estimated expenditure for 1979-80.

The Financial Secretary stated in his Budget Speech that because of the very substantial increase in the New Towns and Housing component of the expenditure, the estimate for the Public Works Programme (other than New Town and Housing) would have to be constrained. Notwithstanding this, the 1979-80 estimate is still 13% higher than the revised estimate for 1978-79. What is more, because of the large increase in the New Town and Housing component, the sum of these two items of estimated expenditure for 1979-80 (*ie* \$3,599 million) is 26.5% more than the revised estimate for 1978-79 (\$2,845 million), which was itself nearly 50% over that for 1977-78 (\$1,900 million). If the building and construction industry was overheated in 1978-79, the additional \$754 million worth of work for 1979-80, even allowing for the effect of inflation, is hardly going to help restore equilibrium. I believe there is a need for a fresh look into whether the capital development programme requires further rephrasing.

Sir, whilst supporting the Financial Secretary's proposed 'spend less' measures, the need for proper and rigorous control over public spending cannot be over-emphasized. In connection with capital development work, I, as a taxpayer, am most concerned about the increasing number of projects, particularly those handled by consultants, where the final costs are almost always substantially in excess of the original estimates. In many cases, the extra costs are far higher than that attributable to inflation, that is, increase in the costs of labour and material. Of course, increase in costs of labour

and material are beyond the control of the engineers or the consultants but apart from this I have, however, a feeling that a proportion of the extra cost could be the result of either oversight or even incompetence on their part. In the worst cases, the difference between the final cost and the original estimate renders budgetting almost meaningless.

Surely, the principle of accountability must apply here. This is to say that an engineer or a consultant must be made accountable for his professional work in the same way as a government administrator is accountable for his management of public funds. I suggest, therefore, that a technical audit system be introduced within the Government machinery to ensure the efficient operation of its technical departments. The point I am trying to bring out is that if the *actual* final cost of a project were known at the decision stage, the decision might have been not to go ahead with the project on the ground that it is not financially viable. An effective technical audit system would assist in preventing Government from embarking on projects on the basis of unrealistic cost estimates.

Before closing, Sir, I would like to say a few words on the manpower scene. The record low unemployment rate in 1978 was a good indication of the acute manpower shortage Hong Kong was experiencing. Moreover, I cannot see any improvement in the situation for two, reasons. First, with the implementation of compulsory 9-year education, the minimum employment age will be raised to 15 and because the majority of the 15-year old Form III leavers will go on to senior secondary education, 60% in aided schools alone by 1981, there will be fewer taking up employment at 15. Secondly, there is a growing preference for leisure as a result of improved living standards, and recently enacted statutory provisions for holidays and rest days. This would lead to fewer total working hours a year.

Undoubtedly, shortage of manpower is a contributing factor in the building up of the present inflationary pressure. What needs to be done is to increase productivity of the work force available and this means intensive training. The situation is particularly serious in the area of *trained* technical manpower and here I emphasize the word 'trained'. A technologist or a technician who has only completed a course of technical education but without practical training is of little use to industry. Many employers resort to 'poaching' which leads to escalating wages. Others may, when recruiting, lower their requirement for quality and skill. The net result is lower productivity, poorer product quality and higher production costs, all of which will make our industry less competitive.

The only solution to this problem is to step-up our efforts in industrial training. Sir, I have on many occasions spoken of Hong Kong's need for a well trained work force, and I make no apology for repeating the remark which I made in this Chamber a year ago that Government has not placed sufficient emphasis on the *practical training* of technical manpower. While I believe we have now a technical education system that is adequate for meeting our

technical manpower needs, for which Government must be congratulated, we unfortunately do not have a corresponding system of practical training to match. I was indeed very glad to hear the relevant comments by my Friend Dr Francis TIEN in his speech yesterday, and I fully support the proposal and the training schemes recommended by the Training Council. I therefore would strongly urge Government to tackle this important issue before it is too late.

Sir, with this remarks, I support the motion before Council.

APPENDIX

Analysis of Two Major Capital Expenditure Components

	<i>Actual</i> 1977-78	<i>Revised Estimate</i> 1978-79	<i>Draft Estimate</i> 1979-80
	<i>\$M</i>	<i>\$M</i>	<i>\$M</i>
Public Works non-recurrent programme (other than New Town and Housing)	753	1,150 *(+52.7%)	1,299 (+13%)
New Town and Housing (including Housing Authority Programme)	<u>1,148</u>	1,695 <u>(+47.6%)</u>	2,300 <u>(+36.3%)</u>
		2,845	3,599
<i>TOTAL</i>	1,901	(+49.7%)	(+26.5%)

* % increase over previous column.

MISS DUNN:—Sir, the Financial Secretary has presented us with a timely budget, the objective of which is to stabilize our economy. This is an objective which accords with the wishes of all sections of the community. His carefully constructed budget speech, together with the meticulously prepared supporting documents, frankly explain the course of our economy in recent years and the Government's record in the management of both our economy and our public finance. During his tenure of office, he has developed a philosophical framework for his policies which are consistent with our circumstances. He never hesitates to defend that framework vigorously; and it is within this framework that he has set out his budgetary strategy for the coming year, rather extensively it is true, but budget day only comes around once a year.

So I do not hesitate to express my general and indeed, very warm, support for the Financial Secretary. But, I fear I have to criticize him on five counts: *first*, his forecasts of price increases in 1979 seem to me to be too low; *secondly*, his attitude towards the MTR project seems to me to be unrealistic; *thirdly*, he made a passing assertion that Government-owned public utility type undertakings are well managed but, uncharacteristically, he did not support this assertion with any evidence; *fourthly*, I am worried by the Government's continuing failure to develop a land production policy which

seriously seeks to cater adequately for the private sector; and *finally*, I was disappointed at the absence in the budget speech of any positive ideas to deal with the problem of immigration generally and the inflow of Vietnamese refugees in particular.

(1) Prices

To begin with prices: in paragraph 61 of his budget speech, the Financial Secretary forecast an increase in consumer prices of only 9% and in the general price level, as measured by the GDP deflator, of only 8%. Because the growth rate of total final demand is forecast to be so much faster than the growth rate of the GDP, I find it difficult to believe that these forecast increases for 1979 are realistic. After all, the trade deficit for the first two months of this year was \$2,100 million or \$400 million more than for the same period last year; and I suspect that the forecast price increases have not allowed sufficiently for the likelihood of oil prices being competitively bid up later on this year.

It is true that the growth rate of public expenditure on Consolidated Account is to be slowed down from 25% in 1978-79 to 7.5% in 1979-80, but it will still be growing faster than the GDP. So I would ask three questions: is the Financial Secretary really satisfied that he has done enough to restrain domestic demand? Specifically, is the Government satisfied that the growth rate of public expenditure has been slowed down sufficiently? And if, during the course of the year, prices tend to increase faster than forecast will the Government take further steps to curtail public expenditure?

(2) MTR & The Public Sector

This brings me to my second criticism of the budget: the Financial Secretary includes in the public sector only '(those) activities financed from public funds no matter by whom the expenditure is incurred.' He has consistently refused to include the Mass Transit Railway project in the public sector, even though it is a statutory corporation, a wholly-owned subsidiary of the Government and one whose liabilities are guaranteed by the Government. Originally, he took this view in order to emphasize that the corporation was obliged by its Ordinance to manage the project as a commercial undertaking. This is understandable and I, for one, certainly believe the MTR should pay its way.

But it is surely misleading not to include the MTR in the public sector when considering an appropriate budgetary strategy designed to stabilize the economy. The Government has budgetted for a surplus of \$1,428 million, on General Revenue Account and \$1,215 million, on Consolidated Account. This is fine as far as it goes. But, according to the Finance Branch, if net expenditure by the Mass Transit Railway Corporation is included, the public sector (*inclusive* of the MTR project for this purpose) will actually be in *deficit* by about \$2,000 million.

I fear the budget, therefore, will be not as disinflationary as the Government claims for, if one includes the MTR project in the public sector, it is apparent that the public sector will not be contributing as much as it should to correct the imbalance between the demand for the economy's output and the economy's ability to supply that output.

(3) Government-owned Public Utilities

So much for my first two criticisms of this year's budget. I turn now to my third. The Government has frequently declared that the pricing policy of Government-owned and operated public utility undertaking must be based on the principle that consumers are charged the full cost of the resources employed by each undertaking unless conscious policy decisions dictate otherwise. I support this no-subsidy principle but, if consumers are to be charged the full cost, they must be satisfied that they are getting value for money. In paragraph 232 of the budget speech, the Financial Secretary indicated that the underlying accounting principles had been 'examined and standardized' and that the notional accounts now show the true profit and loss position of each undertaking and the return on average net fixed assets employed.

I was disappointed that these accounts were not included among the 129 pages, 246 footnotes and 15 annexes to the budget speech! I say this because I would like to put three sets of questions to the Financial Secretary: *first*, what are the returns on net fixed assets employed revealed by these notional accounts? More important, has he settled on the rates of return on net fixed assets to be sought in respect of each undertaking and how have these rates been arrived at? In other words, does the Government impose on its own undertakings rational schemes of control as it does on privately-owned utilities?

Secondly, how well (or badly) is the Government managing these utilities? How does the Government ensure maximum efficiency and courteous service in their day-to-day operations? In this connection, one cannot fail but notice the vast difference in general maintenance between the Government-operated Lion Rock Tunnel and the privately-operated Cross Harbour Tunnel. If the Government insists on running certain undertakings on a commercial basis, and charging the public accordingly, then it must impose on itself the same disciplines as its counterparts in the private sector.

While privately-owned utility companies are expected to meet overall demand irrespective of whether certain sectors of demand are profitable, the same must be expected of Government utilities. So, *thirdly*, I would ask this: how do the responsible Government departments anticipate demand, how do they make investment decisions to cater for that demand and can we be assured that they are required to remain technically up-to-date?

(4) Land Policy

The importance of planning for the future is nowhere more important than in the production of land. And this brings me to my fourth criticism of this year's budget. According to Annex (1) of the budget speech, works projects in the definite projects category will produce 2,374 hectares of land by 1982-83 and 722 hectares after 1982-83. These figures, in themselves, appear fairly impressive, but of the 2,374 hectares to be produced by 1982-83, only 715 hectares, or 30%, will be available for industrial and private non-industrial use. The balance, 70% no less, will be used for public housing and other Government projects. The position after 1982-83 is no better in that only 252 hectares, or 34% are designated for industrial and private non-industrial use.

The Government admits that it has 'inevitably influenced land prices', on the one hand, but appears to offer little in the way of a solution to the current spiralling land prices and speculative activities in property, on the other. I agree that, in the final analysis, the answer lies in the provision of more land. But this will have no effect on prices or help to satisfy demand if most of the land produced is taken up by the Government.

Furthermore, despite the serious hardship that property prices impose on the life of ordinary people and industrialists alike, the Government still clings to its non-interventionist policy of selling land to the highest bidder. I agree that this policy ensures the most efficient use of the land. But, surely, until the Government is in a position to produce sufficient land to satisfy private demand (as opposed to its own requirements), it must review its land disposal policy; and I would go further and suggest that the present division of responsibility for land administration between the PWD, the Environment Branch and the New Territories Administration is far from satisfactory. The Government, in my view should seriously consider setting up a single Land Department.

(5) Immigration & Refugees

We may have a shortage of land, but we certainly have an abundance of people. And so I come to my fifth and final criticism of this year's budget. I have watched with an increasing sense of dismay and frustration the influx of legal and illegal immigrants from China and refugees from Vietnam. No one would deny that these are difficult problems for the Government, but I think all would agree that Hong Kong simply cannot absorb an unlimited number of people, without adding to our already daunting housing problem, a deterioration in law and order, a strain on our social services and facilities, a slowing down in the growth rate of our living standards and, eventually, an actual erosion of those standards—all of which we have struggled so hard to achieve in recent years, with no outside help.

The number of legal and illegal immigrants from China is many more than the number of refugees presently coming in from Vietnam. Obviously, the

Government must continue to seek the cooperation of the Chinese authorities to slow the flow down and must step up its efforts to detect illegal immigrants. But, potentially, the number of refugees from Vietnam could be much greater and the problems and stresses and strains they represent could be *very* much greater.

So, it is in respect of Vietnamese refugees that the Government must urgently devise a firm policy. For the *ad hoc* way in which these arrivals have been dealt with so far is causing increasing concern locally; and the passive, and even wavering, attitude adopted by the Government is being exploited by the refugees themselves as well as those avaricious criminals who are helping to organize this traffic. At this point, I would like to ask the Attorney General why the preferment of charges against owners and masters of ships is such a long drawn out process and whether he thinks the law, or the administration of the law, or our investigative procedures, are deficient in any respect.

It has been argued that only by treating these people in what is described as a humanitarian way will we attract international sympathy and expedite ultimate resettlement. To this, I would echo what the Chief Secretary said in this Council on 10 January last: 'in case there is any doubt anywhere about the humane stance which the Government and people of Hong Kong have always adopted towards refugees and immigrants, let me say that our record is second to none in the world . . .'

But the Government cannot just rest on its past laurels and hope for the best. I say this because the woeful record of overseas countries in receiving refugees from Vietnam clearly shows that our humane attitude does not make any appreciable difference: the 4,000 people who arrived on the Clara Maersk in 1975 took three years, to resettle; from 1 January to 22 March this year 12,129 Vietnamese have arrived, but only 1,771 have been resettled in the same period. There are quota places on offer of only 6,000 from the USA and 2,340 from other countries (including the UK) to be filled this calendar year. The flow of refugees from Vietnam continues unabated, and the weather permitting, is likely to increase. Some commentators, while conceding that the resettlement record of countries which should feel a sense of responsibility is woeful, emotively claim that refugees, living as they do in appalling conditions on board ships and junks deserve our pity. No one can have anything but sympathy for their plight. But it is misguided to view the refugee problem simply in personal terms.

Rather, the Government must view the problem in terms of its impact on Hong Kong, now and in the future and consider the following questions, which are uppermost in many people's minds. Is it fair that facilities should be provided as a matter of priority for refugees from Vietnam when there are so many Hong Kong people still living in squatter huts? Is it fair that our ability to meet the very legitimate aspirations of our own people should

be prejudiced? And is it fair that the quality of life of our own community should be progressively diluted?

Furthermore, there is no doubt that Hong Kong's benevolent attitude to this Great Exodus from Vietnam will be exploited by prosperous Western countries as well as those who have saddled us with it. So, in the long term interests of refugees as well as our own people, the Government must adopt a hard line and not be seduced by the hypocrisy and blandishments of those Governments and groups who would prevail upon us to do otherwise: for we must look after our own people. That is the Government's obligation, and the Government must not allow the plight of refugees to obscure the reality of the consequences of accepting increasing numbers of people.

Let us not forget, also, in these relatively exciting times, when there is a new interest in Hong Kong as an international city, as a meeting place of East and West and as a point of entry to and exit from China, that Hong Kong remains a community in its own right. Its interests must not be sacrificed on the altar of other considerations. I am not suggesting for one moment that the Government, least of all the Financial Secretary, is not devoted to securing Hong Kong's best interests. But I am genuinely worried that we have become bewildered by this latter day version of the problem of people, that we are too concerned with the views and reactions of others and that we are in danger of losing our way.

Nevertheless, Sir, I have pleasure in supporting the motion.

MR LEUNG:—Sir, I rise to speak in support of the motion before this Council. Workers of Hong Kong generally welcome the 1979 Budget in the knowledge that their livelihood remains on course for further improvement.

In the face of the wise exchanges which have marked the introduction of this budget I would like to suggest a very minor concession which would, I consider, be appreciated by the least privileged members of our community.

I endorse the Financial Secretary's decision not to raise the duty on intoxicating liquors. For the diligent workers of Hong Kong, a moderate consumption of liquor is one of the few rewards they can enjoy. Imported European wines and spirits are, however, expensive and are beyond the means of the workers who, with limited incomes, have to be satisfied with cheaper Chinese spirits.

According to statistics supplied to me by the Excise Research Unit of the Trade, Industry and Customs Department, the total quantity of Chinese spirits consumed over the past three years, 1976—1978, amounted to just over 12.4 million Imperial Gallons, bringing in a total revenue of just under \$140 million. Of this, only 3 million Imperial Gallons were locally produced, providing revenue of only \$27.6 million. Thus, locally produced Chinese spirits accounted for only 24.4% of the overall consumption of Chinese spirits, and under 20% of the total revenue.

Therefore, whilst the rate of duty on locally produced Chinese spirits remains at \$8.75 per Imperial Gallon, this only brings in average revenue of \$9.2 million per annum. This amount is indeed insignificant when compared with the estimated revenue for Government as a whole for the coming year.

Government is always searching for ways to enrich the lives of our workers. To enhance its image as an understanding Government, I suggest that consideration be given to abolishing duty on locally produced Chinese spirits. This will result in no great loss of revenue for Government and will at the same time be appreciated by those of our workers who enjoy a couple of drinks after a hard day's work. I do not believe this will lead to excessive consumption. Moreover the abolition of duty should make it unprofitable to operate illegal distilleries. Sir, I hope that Government will give serious consideration to this suggestion, and with this observation I support the motion.

MR PETER C. WONG:—Sir, as far as I am concerned there is one flaw in an otherwise painstakingly presented and realistic budget—the omission in the Estimates of provision for air-conditioning of general wards in Government Hospitals.

I appreciate that when I spoke on this topic in this Council on 14 February, the Estimates had probably been prepared. The purpose of my speaking this afternoon is to seek an assurance from the Financial Secretary that Government has not ignored my plea. Hopefully, a decision has already been made at least regarding new hospitals and, if so, this Council and members of the public should be informed.

Admittedly, the key factor is the question of priorities and competing claims. But in view of the predicted surplus this year and the estimated surplus for the next year—amounting to no less than 3,000 million dollars, I fail to see why this long overdue need should not be accorded high priority.

Whatever competing claims there might be, Government policy should be dictated by common sense and a sense of balance. It would be a sorry day for Hong Kong if Government were so engrossed in weighing the various seemingly competing claims that urgent needs are relegated to the background.

Sir, with these remarks I support the motion.

MR WONG LAM delivered his speech in Cantonese dialect:—

督憲閣下：有關一九七九至一九八〇年度財政預算案，本人準備簡短地表示數點意見。

首先是冷卻內部經濟活動過熱的措施。一九七八至七九年度本港內部經濟活動過熱，是很明顯的現象，而七九至八〇年度，情形可能更甚，所以財政司提出數項措施，以矯正經濟的不平衡。這些措施，包括控制公共開支，緊縮貨幣政策及必要時利用外匯基金作為調節。部份人士對這些

措施表示歡迎，但亦有部份財經人士認為並不足夠。經濟學是一門高深的學問，不同的經濟學家持有不同的看法，自不足怪。不過，任何經濟理論，尤其是國民經濟理論，都不能脫離人而獨立；所以任何的經濟措施，都應該考慮到對大部份人的影響而作出決定。從大部份市民的利益看來，過於急劇的調整措施，雖然在整體上而言，收效可能較為顯著，但對部份行業及市民而言，未必能夠立即適應，從而引致極不良的後果。所以除非有特殊的原因，本人認為政府不應更改這種較溫和及漸進式的措施。

其次要談及的是一九七九至八〇年度財政預算案對中等收入人士的影響。在七八至七九年度的財政預算案辯論時，本人提及在稅制及房屋方面，這些人士都是受惠最少的一群。在本年度（即七九至八〇）的預算案中，財政司提供了兩項令人鼓舞的消息。在稅制方面，這些人士得到若干程度的讓步；在房屋方面，財政司提及居者有其屋計劃申請人的入息限額，將會提高。另外，即使在一個緊縮公共開支的預算案中，仍然大量撥款推行居者有其屋計劃的建設，希望政府此一政策能夠使更多中等收入人士的住屋問題早日獲得解決。對於改善中等收入人士生活水平而言，這些措施，都是直接而有效的，值得予以歡迎。

另外，本人要提及的是政府的開支。雖然財政司提及控制公共開支，但一九七九至八〇年度的預算開支，仍然高達一百二十四億之多，較去年預算案的一百零二億，大幅度增加百分之二十一左右；而去年雖然預算支出一百零二億，但實際支出卻比預算高出百分之九，達一百一十一億之多。無可諱言，近數年間公共開支增長極為急劇，雖然經濟及稅收方面能夠有相當的增長以支持日益龐大的開支，但居安思危，政府對於這種特殊的現象，在政策上應該有詳加檢討的必要。

令過往數年間政費大增的原因之一是公務員數目的激增。無疑政府的公共服務有所增加，但到底是否有必要作如此急劇的增加，可否藉着提高工作效率及其他管理方法來減少增加的數目呢？在一九七八至七九年度的預算案辯論時，銓叙司曾經提及將會加強公務員工作效率及管理，但在七九至八〇年度的預算案中，公務員人數仍將大幅增加七千五百多人，到底這項增加，是否已經是無可避免呢？並且是否人盡其才呢？希望政府能夠對這問題詳加考慮。

督憲閣下，本人支持此項動議。

(The following is the interpretation of what Mr Wong Lam said)

Your Excellency, I would like to speak briefly on a few points about the 1979-80 Budget.

First of all, I refer to measures to cool down Hong Kong's overheated economy. It is very obvious that Hong Kong's economic activities were overheated in 1978-79, and the situation might be aggravated in 1979-80. Therefore, the Financial Secretary proposed to take certain steps to correct the economic imbalance, and these include restraining public expenditure, a tighter monetary policy and using the Exchange Fund to effect adjustments when necessary. There are some who welcome these steps, but there are also others, from the financial and economic circles, who think the steps inadequate. Economics is a profound subject. It is only natural for different economists to hold different views. But no economic theory, national economic theory in particular, can do away with the human factor and stand alone, and that is why before a decision is made on any economic measure, its possible effect on the majority of the people should first be considered. In the interest of the majority, hasty adjustments on the whole might produce more obvious results, but for certain trades and individuals, immediate adaptation to the changes is not always possible and this might

lead to very undesirable consequences. I am therefore of the opinion that unless there are special reasons, the Government should not modify its hitherto relatively moderate and gradual approach.

Next, I would like to say something about the effect of the 1979-80 Budget on the middle income group. In my speech during the 1978-79 Budget Debate, I pointed out that the middle income group were the least benefited as far as taxation and housing were concerned. In this year's (1979-80) Budget, the Financial Secretary offered two pieces of encouraging news. On the one hand, the middle income group are given some concessions in taxation and, on the other, the Financial Secretary mentioned that the income limit for eligibility for the Home Ownership Scheme would be raised. Moreover, notwithstanding a tight budget for public spending, the Government will appropriate large sums of money to implement the Home Ownership Scheme. It is hoped that this policy will help solve at an early date the housing problem of even more people within the middle income bracket. I welcome all these measures because they are effective in improving the living standard of the middle income group and hence directly beneficial to them.

Furthermore, I would like to comment on government expenditure. Although mention was made by the Financial Secretary on restraining public expenditure, the estimated expenditure for 1979-80 still amounts to some \$12,400 million. This represents a large increase of about 21% over last year's estimated expenditure of \$10,200 million. And although last year's estimated expenditure was \$10,200 million, the actual expenditure exceeded the estimate by 9%, amounting to some \$11,100 million. It is undeniable that there has been a rapid growth in public expenditure in recent years. Despite the fact that the ever-increasing public expenditure has somehow been offset by a moderate growth in our economy and public revenue, the Government should take this particular tendency into consideration and carefully review its policy as a precautionary measure.

One of the factors leading to the big increase in government expenditure over the past few years, is the sharp increase in the number of civil servants. It is true that the Government has expanded its public services, but is the rapid growth in establishment really necessary? Can the number be reduced through enhancing efficiency and better methods of management?

During the 1978-79 Budget Debate, the Secretary for the Civil Service said that steps would be taken to improve the management and efficiency of civil servants; but according to the 1979-80 Budget, the number of civil servants will still be considerably increased, by 7,500. Is this increase absolutely necessary and has the Government made full use of its manpower? I hope the Government will consider this question very carefully.

Sir, I support the motion.

MR YEUNG:—Sir, Government's determination to fight inflation and to strengthen the Hong Kong Dollar for the good of Hong Kong has been spelled out loud and clear in the speech of the Financial Secretary. It deserves the full support of this Council and our community.

The two more outstanding and by far the most important proposals put forward by the Financial Secretary in achieving this target are, in sum, firstly to slow down the growth rate of capital expenditure on the public sector and secondly to discourage private domestic demand by constraining the further creation of domestic credit within our banking system. It is the second point that I would like to speak on first.

The Financial Secretary has proposed to amend the Exchange Fund Ordinance so that short term Hong Kong dollar deposits held with the banks by the Fund will be categorized as interbank deposits. The purpose of this move, as explained by the Financial Secretary, is to bring these deposits within the ambit of the 100% liquidity assets requirement under the Banking Ordinance so that such funds will no longer be used as a base for credit creation with a view to arresting or slowing down the trend of inflationary pressure through contraction of money supply. Admittedly this is a step in the right direction but I doubt whether this proposal will be sufficient to achieve the desired effect.

I base my doubt on the loop-hole access of such funds to potential borrowers through the interbank market. Indeed, by changing the status of Government's short term deposits as suggested, the depositary banks cannot use such funds as a base for direct lending. However, there is no guarantee that the funds will not be made available by the depositary banks to other banks which can in turn lend to their non-bank customers. As I understand it, there is a host of local branches of foreign banks here which have a comparatively small local dollar deposit base and which rely significantly on the interbank market for funding their local lending operations. It is also my understanding that, although a 100% liquidity requirement presently exist for demand, call and 7-day money obtained from the inter-bank market, such requirement can be readily circumvented by appropriate 'window-dressing'. The process simply involves the deposit by head offices of foreign banks of an equivalent sum and the contemporaneous re-deposit by the local branch of that sum with a fellow branch or another bank outside Hong Kong in a form which qualifies as a specific liquid asset. Since there is no liquidity requirement for amounts due to a bank outside Hong Kong including sums due to head office, the money so derived and placed abroad (being a specified liquid asset) is available to meet the 100% rule in relation to the funds obtained from the local inter-bank market. Thus through the interbank money market, Government's short term balance albeit assuming bank status, can be re-distributed to the non-bank private sector through the local branches of foreign banks. This, to my mind, will certainly not help the intended limitation of the creation

of money supply. This has been the case in the past. I hope the Government will see to it that this will no longer be the case by introducing measures to plug this loop-hole.

As to the proposal of slowing down the growth rate of domestic demand, I note that Government is to take a lead by identifying the Public Works Programme (including the Mass Transit Railway project) as the main factor contributing to the inflationary pressures affecting the whole economy, and by attempting to constrain growth by rephasing the starting dates for some new projects in the Public Works Programme, (other than New Towns and Housing), according to agreed priorities.

I am all for the proposal to exercise constraint on this component of capital expenditure, I am not entirely in agreement with postponing some works and I am quite unhappy about the priority rating in principle.

There was a father engaged in a profitable business with his son. Later the growth of the volume of business necessitated the father to take in an adopted son to help in the shop. When winter came, the father told the two sons that in order to save fuel the house would not be heated. This remark seemed fair and reasonable as everyone would have to suffer some discomfort. However, the father had inadvertently overlooked the fact that both he and his son had warm winter clothes on but that his poor adopted son was only wearing a singlet and shivering in the cold.

Apart from the facilities in the New Towns, there is not a single cultural complex, not a single auditorium, not a single indoor stadium, not a single indoor games hall, not a single squash court, not a single public park in the New Territories. There are only one football stadium, one substandard running track, one small swimming pool complex, very few villages with street lights, many villages without water supply and many villages without normal postal services.

In recent years Government has addressed its attention to redress this social imbalance and began to speed up the progress of providing basic community services as well as infrastructure for development, those are in the New Territories. Since this is a new phase of Government's activities, only a few projects in the Public Works Programme for the New Territories have been completed or commenced, some are waiting for their turn in Category A to commence work and many are still on the drawing board. The effect of the general constraint across the board will only aggravate the New Territories position, like the adopted son, shivering in the cold winter of discontent.

A warm ray of hope, however, is detected from the warning of the Financial Secretary issued to the Controlling Officers for the heads of expenditure when he stressed that 'while the cash limits will be applied firmly, they will also be applied *flexibly* and *fairly*.'

Indeed, the vote provision available to the Public Works Programme can be, and I respectfully submit, should be administered flexibly and fairly in allowing certain vital Category A projects in the New Territories to proceed by stages or phases according to need, which I shall refer to shortly. In the meantime the activities of all the other projects on the planning stages or on the drawing board should go ahead unabated as such activities will not have a significantly adverse effect on this component of demand.

I now return to the phasing of certain vital projects in the New Territories which should be accorded special attention, I wish to avail myself of this opportunity to remind this Council that the New Territories District Advisory Boards, unlike the Urban Council, are not vested with independent financial resources to fund and determine the direction and progress of their major construction and building works programme. In times of abundance, nobody mind. But in times of want, the inequity is apparent.

For all major and circular road projects in the New Territories planning should go ahead as construction works will be phased and carried out in sections, and will take years to complete. Four sections in the circular road system, however, will require immediate action, namely :—

- (1) The work of the round-about in Au Tau Junction should be commenced immediately for at least four reasons, *ie*, to ease traffic congestion, to form the bases for the future grade separated intersection, the immediate cost is low and there is no land resumption required. It will be the first phase of the construction of the Yuen Long to Au Tau Road Junction dual carriageway, the whole of which should be completed as fast as fiscally possible to resolve the nasty bottleneck in this main traffic artery.
- (2) Another bottleneck in the artery is the main road through Tai Po Market. The Tai Po Bypass should be worked on without delay and the first phase at Yuen Chau Chai should, for obvious reasons, commence as soon as physically possible.
- (3) The Fanling Bypass near the Fanling Magistracy will ease future congestion especially when the frequency of train services is increased due to electrification and double tracking of the railway.
- (4) The Sha Tin/Tai Po coastal road is vital when the Tai Po Industrial Estate is in full operation. Work on it should start without delay so as to cope with the future traffic demand.

All the basic community facility projects should be divided into subprojects according to the priority of local need so that the overall projects may be phased for construction accordingly. The following is the subprojects, which in my mind, should be commenced without postponement:

- (1) The auditoria of the cultural complexes in the New Territories particularly in Tai Po, Yuen Long, Sha Tin and Tuen Mun.
- (2) The football stadia cum running tracks should be built for Tai Po, Sha Tin and Tuen Mun while the concrete spectator stands and changing room facilities can be added as a second phase.

- (3) The swimming pools should be built while spectators stands could be treated as a second phase of development. However in the case of the Yuen Long Swimming Pool complex as land has been resumed and formed, the whole project itself should be treated as having been commenced already in accordance with the guideline of the Financial Secretary. The piling and building work contracts should be let without further waiting.
- (4) The water supply programme (especially in the District of Sai Kung) by reason of its special importance to daily life should be treated as an exception to the overall constraint.
- (5) The overall village lighting programme should be treated as a programme already commenced and therefore contracts should be let for the installation of street lights.
- (6) The supply of enough manpower and equipment for the purpose of keeping the New Territories clean and comparatively pollution free is another programme which should be treated as an exception to the general rule.

Lastly all the revenue-generating projects such as provision of an infrastructure to the minor layout of Tong Yan San Chuen and the construction of commercial/residential podium over Railway Stations and marshalling yards should not be delayed.

Sir, with these remarks, I support the motion.

DR HO:—Sir, the Financial Secretary has thoroughly and accurately diagnosed the ills of our economy, and has prescribed measures for their treatment. By and large, his budget proposals have been well received by various strata of the community. While constraining Government spending, the Financial Secretary did not reduce major commitments for programmes and projects in the social service sector. This can be taken to reflect Government's recognition of the role social development may play in economic progress. In budget planning, however, a good government will make some special effort to improve the lot of certain vulnerable and underprivileged classes. In this regard, I wish to make two suggestions for Government consideration.

I Income Protection for Retirement

The Social Welfare Department administers five major social security schemes, namely: Public Assistance, Special Needs Allowances, the Criminal and Law Enforcement Injuries Compensation Scheme, the Traffic Accident Victims Assistance Scheme and Emergency Relief. These social security schemes are meant to provide an individual with an income alternative when his normal income is disrupted by the occurrence of a life contingency, such as disablement or accident. The benefit payments under these schemes are largely of a supplementary nature, and are only suitable for a temporary cessation of income. For those persons encountering prolonged

absence from work arising from invalidity or retirement, Public Assistance is not a satisfactory form of income protection because of its requirement for a means test and low level of payment. I therefore consider that a longterm income protection scheme for retired persons is necessary in Hong Kong.

In 1977, the total number of old people aged 60 and over was 400,000. This was 9% of the total population. This age group is growing steadily, and in 1986 it will be about 10.6% of the projected population. Though many of the elderly continue to work, mostly part-time, a considerable number of them retire. The majority of the working elderly are in the lower levels of employment. With the disintegration of the traditional family system, many of the elderly live by themselves. According to statistics from the Social Welfare Department, half of the elderly population who live by themselves depend on Public Assistance for their livelihood. The total provisions for Public Assistance and for Special Needs Allowances for 1979-80 amount to \$405 million. Assuming half of this amount will be spent as income payments for the elderly, this constitutes a very heavy financial burden on the Government. Will Government consider introducing an income protection scheme for retirement, whereby individuals can contribute partially towards their future economic security, with Public Assistance continuing to perform a safety-net function? There are two methods to achieve this end.

(A) *Provident Fund*

A Provident Fund is a saving scheme to which both the employee and, employer contribute, normally at equal rates. Benefit payments are in the form of a lump-sum, payable on retirement, invalidity or death of the wage-earner. Financial deficits cannot occur, because only the contributions received are paid out as benefits. It should be quite easy and simple to administer. On the other hand, there are some drawbacks to a provident fund. Since the amount of the lump-sum grant is equivalent to the contributions received plus interest, this may be quite small for a worker with a low income, and therefore may not provide adequate income protection. Lastly, the value of the lump-sum grant may well have been eroded by inflation.

(B) *Pension Scheme*

The other method of providing economic security is a pension scheme operated on social insurance principles. The system of financing a pension is similar to that of a provident fund, involving contributions from both the employee and the employer. The Government may also participate in the scheme either by contributing a specified percentage of the contributions, or by bearing the administrative costs of the scheme.

Such a pension scheme has certain major advantages over a provident fund. Benefit payments under a pension scheme are made periodically and throughout the period following retirement, death or invalidity of the

employee. Thus it affords more income protection for the insured person and his family. The rate of payments can be adjusted in accordance with the cost of living. Hence, the social needs of the employees are appropriately met. Both the aforesaid schemes of income protection enhance the propensity of the insured persons to save, and to make such savings more effective for collective social and economic investments. In addition, the obligation on the part of the insured person to make periodic contributions will constrain his capacity to consume, thus helping, though in a small way, to cool down the overheated domestic market.

The details of an income protection scheme are not appropriate matters for a budget debate. I think it is sufficient to draw the Government's attention to this policy issue regarding long-term income protection following the retirement, invalidity or death of the insured person.

II Subvention Policy for Social Welfare Services

My second suggestion concerns subvention policy for social welfare services. Each year, an enormous amount of public funds is earmarked as subventions to finance voluntary social welfare services. Both the Government and the voluntary sector want to ensure that the money is spent economically and properly. Therefore, the present one-line vote subvention system has aroused much debate among the voluntary organizations.

The subvented agencies feel that the working figure for the one-line vote is determined somewhat arbitrarily, without adequate consultation and without much reference to overall social needs, priorities and quality of services. The ultimate result is that provisions often fall short of the targets for implementing the Five-Year Plan and the Programme Plans.

The seesawing effect of the Community Chest contributions in relation to Government subventions is another area of dissatisfaction. Voluntary agencies have complained that allocations from the Community Chest are normally deducted from their subvention grants. This practice runs counter to the original purpose of Community Chest, which was to raise money from the public for voluntary welfare agencies, in order to offset dwindling overseas funding. I understand that, as a temporary stop-gap to ease the situation, the Social Welfare Department has now agreed that for 1979-80 subventions they will only take into account the Chest allocation level for 1978-79. This, however, is still far from satisfactory and much remains to be done.

Lastly, lump-sum discretionary grants are given to voluntary organizations to provide certain welfare services for the Government. They are meant to partially subsidize the operational expenses of the agencies which enjoy a considerable degree of autonomy and freedom, as they are not required to work to approved budgets, nor to adhere strictly to Government requirements regarding staff ratios, staff qualifications and salaries. These subvented agencies are only required to have their accounts audited, and to ensure that their services are provided within approved policies. In the absence of detailed

supervision by the Government, once the discretionary grant has been made, there can be no guarantee that the money will be used prudently.

In this connection, the Working Party on Subvention Policy set up by the Hong Kong Council of Social Service recently submitted a Report to Government. I hope that Government will soon be in a position to comment on this Report. Meanwhile, I would like to make some observations on its recommendations.

(A) *Unit Rate Subvention*

The first concerns Unit Rate Subvention. The Report proposes that the Government, in consultation with the Social Welfare Advisory Committee, should firstly define those services which are essential to both the individual and the community as a whole. If the Government for one reason or another, cannot provide these services, it should subvent a voluntary organization to do so. For those essential services which can be quantified on a unit cost basis at a commonly agreed standard, subvention computed on a unit cost basis is appropriate. At the present stage, only day nurseries are subvented on a unit cost basis and proposals are being considered to extend this form of subvention to homes of the aged, and residential nurseries and creches. Later, services of a more complex unitary measurement may be added.

(B) *Deficiency Funding*

The Report recommends that for those services that are not amenable to unitary calculation, subvention on a deficiency grant basis should be adopted. As subvention on a deficiency grant will mean greater reliance on public funds, it will require closer control and supervision by the Government. I believe that this will result in a higher standard of services and economy of operation being achieved.

(C) *Discretionary Funding*

As a third method of subvention the Working Party has recommended discretionary funding for those services which are not considered essential but nevertheless desirable since they contribute toward the achievement of approved social objectives. I support this recommendation since it means that these services can be suspended if financial provision is inadequate in the face of competing demands or in times of economic stringency.

It appears to me that there may be a fourth source of subvention, namely, the Community Chest and other charitable trust funds. The unique value of voluntary effort is its ability to innovate and to experiment on new designs of service delivery. These experimental programmes and projects require time for testing and require freedom to depart from established procedures. Therefore, public money is not always suitable for these projects and I feel that the Community Chest, foundations and trust funds can provide an excellent alternative source of funding. In addition, the Chest and other

trust funds can make supplementary grants to support worthwhile programmes and activities low in Government's subvention priority.

With these observations, I have pleasure in supporting the motion.

MR ALLEN LEE:—Sir, may I compliment the Finance Branch, in particular, the Financial Secretary for a very interesting Budget Speech. The preparation must be enormous and the amount of material that he had to review in deciding economic policy is certainly no easy task. It is noticeable from the press the next day that the 1979-80 budget was generally well received. The budget is aimed at curbing inflation and slow down the overheated economy, it is a timely measure and by this time next year, I believe, the Financial Secretary would have succeeded, with public support, in implementing his policies.

Industrial Development and Promotion

We have been very successful in the past two decades, being a free enterprising type of economy. The Government's 'hands off' policy has contributed to the growth in the industrial sector. We enjoy being the world's largest exporter in garments, toys and recently electronic watches. It is an amazing achievement in anybody's term. During the last two years, pressure has been mounting gradually to restrict our exports of garments to the EEC and, recently, to the United States. Our huge trade deficit is a growing concern of the community. Can we learn from some of the industrialized countries, particularly Japan? As Japan is also a country devoid of natural resources, it is an export oriented economy such as ours. I distinctly notice during my many trips to Japan that their government, business, industry and labour do work together very closely. We can witness their success today as one of the world's economic powers. I often wonder how they do it, equally I often compare Hong Kong's system with the Japanese system, both highly successful though different. We have a pressing need in Hong Kong to promote industrial investment and widen our industrial base. Whether our government should change its current policy and assist industry in order to sustain growth in exports for the next decade is for the Government to ponder.

Labour Force

The existing problem of labour shortage is recognized by both the public and private sectors. There is no indication that the situation will change in the near future which in turn will affect our export performance. The unemployment rate of 2.7% in September 1978 was indicative of supply and demand. It is difficult to pinpoint the reasons behind the labour shortage as the labour force increased by about 6.2% in 1978 over 1977. I could only attribute the growing demand for labour to the increase of orders and/or increase in the number of factories in the manufacturing sector. There is no short term solution to this problem. The question is what can we do? It

becomes apparent that we have to increase our productivity. Indeed we need to increase productivity rate per person employed and, therefore, I am in support of my honourable Friend, Dr Francis TIEN's proposal for a general levy to train workers for all industries. We are in desperate need of training at all levels but in particular semi-skilled and skilled labour. The advantage of a centralized training scheme is manifold and I don't intend to list them here one by one. While acknowledging that training is a costly proposition, I believe the cost is well justified in this case.

Water Charges

I misinterpreted His Excellency's opening speech in October 1978 on water charges and I missed the opportunity to debate this subject last month because I had just returned from a trip overseas. However, I would like to bring this subject up again. Recognizing that the increase from \$4 per unit to \$5.5 per unit for trade consumers is a large increase in some instance, the Financial Secretary proposed to grant a concessionary tariff at the current rate of \$4 per unit for water consumption in excess of 6000 units per four-month billing period, or for a period of three years. There are about 200 trade consumers in this category out of 85,000 trade consumers. I am puzzled by the logistics behind this proposal. Does the Government only think about large manufacturers and leave the medium and small manufacturers on their own? It does make good business sense to increase charges if necessary, at least the increase must be fair. Nevertheless, an increase is an increase but whether it is justified to do so at this time while the Government maintains a healthy surplus and when the manufacturing sector needs every bit of help it can get in cost reduction in order to compete, is for the Government to decide.

Consumer Council

As a member of the Consumer Council, I have particular interest in the Council's subvention. It was a pleasant surprise to note at first glance the hefty increase of \$910,000 in the budget, representing an increase of 36%. After looking into the details, I was equally surprised that out of the \$910,000, \$770,000 is for the payment of staff terminal gratuities as agreed between the Government and the Consumer Council during the latter's formation. The remaining \$140,000 will only take care of inflation and staff salary increases during the year.

The Consumer Council has been very successful in recent years, particularly in consumer education and protection. The Council's magazine—'Choice'—is one of the ten most popular magazines in Hong Kong. To continue the good work, the Council requires \$500,000 to hire additional staff and to establish a fourth advice centre, preferably in the dense area of Tsuen Wan, in addition to its three advice centres in Central, Wan Chai and Sham Shui Po. It is beneficial to all consumers in Hong Kong to strengthen the Council.

\$500,000 is a very small drop in the bucket, but the return is immeasurable in terms of dollars.

Sir, I support the motion with pleasure.

MR NEWBIGGING:—

Introduction

Sir, whilst one is unlikely ever to be totally satisfied with a Budget Speech, on balance I must congratulate the Financial Secretary not only for the impressive surplus of \$1,600 million expected for the year now ending, but also on the frankness with which he acknowledged some of the forecasting errors which might have contributed in part to the weakening of the Hong Kong dollar a widening visible trade deficit and a rising rate of inflation. Unfortunate though these errors were, it is encouraging at least that they have been identified and that steps have been proposed to reverse these trends.

In regard to the 1979-80 budget, the Financial Secretary is also to be congratulated on injecting some welcome realism into his forecast surplus of \$1,400 million which I suspect will turn out to be higher notwithstanding his habit of underbudgetting certain expenses by making no allowance for inflation, but trying to balance his with conservative income estimates in certain areas such as land sales.

I should also add that not even the Financial Secretary's severest critics could have been other than impressed by the 'thoroughness' of his presentation, if not by the length of it!

Inflation

I regard inflation, the dangers of which the Financial Secretary emphasised in his speech, as Hong Kong's public enemy No 1. Hong Kong is currently suffering from *internal* inflation. This has been caused primarily by a combination of excess private sector demand and high public sector spending (in which category I classify the MTRC, as does the Financial Secretary in national accounts terms but *not* when talking in terms of the Consolidated Account thus causing some confusion for the layman). A weakening exchange rate is also both partly cause and effect of our internal inflation. It is particularly ominous, therefore, that it seems a further bout of *external* or *imported* inflation is again with us. For let us be under no illusion about the inflationary effect of recent events in Iran on oil prices, when many other world commodity prices are also rising. We cannot escape from world trends; a fact which is driven home by the recent rises in interest rates in Hong Kong notwithstanding an abundant supply of money.

We have all witnessed the 'critical mass effect' that inflation can have in countries when it reaches 10% or above, remains unchecked and goes on to develop its own momentum. The symptoms are a weak currency, labour unrest, social divisions, rising unproductive Government expenditure

to bail out those who cannot protect themselves against inflation, and economic stagnation generally. I suggest, Sir, that it is worth paying a considerable price to prevent these symptoms from getting a grip on Hong Kong. We have a delicate balance to maintain; a balance between encouraging the social, educational and economic aspirations of our community and facing the reality that these aspirations will only be sustainable if the engine room of our economy—our industrial and export base—expands and prospers.

The Financial Secretary has endeavoured to achieve this by slowing the growth of total demand and in particular by reducing the growth rate of Government expenditure; for example by reducing the growth rate of building and construction expenditure from the 43% originally forecast to 4%. To achieve this some painful cuts have been necessary: however, I only hope the measures proposed by the Financial Secretary will prove to be enough.

While on the subject of Government expenditure, I should like to touch on another area of concern—the size and cost of the Public Service. When the Financial Secretary referred to Government employing nearly 6% of the workforce, my immediate reaction was that this was a good example of ‘the body corporate becoming the body corpulent’. However, subsequent research indicates that this percentage has remained remarkably stable at 5.8% to 5.9% over the four years for which figures on a consistent basis are available, and in absolute terms Government employment has risen by only 11.6% during this period.

This is a remarkable performance when put in the context of the substantial expansion of Government activities over the period; in fact so remarkable that there may be cause for concern in exactly the opposite direction to that of my initial reaction. In short, are the human resources of some departments being overstretched to accomplish both the large number of ambitious projects now in hand and also to provide the day-to-day services to which Government is committed? If so, are there dangers of serious cracks appearing in terms of lower standards of service or morale or, higher up, errors being made by people trying to do too much? Doubtless these questions were carefully weighed when estimates were prepared and trimmed, but it is vital not to forget the human dimension since it is people alone who can turn the anonymous and very substantial expenditure presented to this Council for approval into value for money for the benefit of the community as a whole.

Visible Trade Deficit

But if inflation is public enemy No 1, its partner in crime must be the visible trade deficit. An annual visible deficit of \$9,000 million is unacceptable, let alone a deficit of \$12,000 million that is implied in 1979-80. Whilst not expecting a visible surplus in our type of economy, it must be a matter of the highest priority to stop this deficit widening, and thereafter

to reduce it. To put these figures in context, let us compare them with private domestic consumption. In 1978 the visible trade deficit equated with 18.5% of estimated private consumption expenditure: in 1979 this will rise to 20% if the Financial Secretary's final forecast proves correct. It is unrealistic, therefore, to expect us to balance our external trade in the short term by reducing the amount the private sector spends on itself. Since the public sector has already been squeezed near to the limit, we must look for more positive ways of overcoming this problem.

The Financial Secretary's proposals to limit credit creation will have some impact but more fundamental is the necessity to increase exports and new industrial investment, particularly from abroad. Given that virtually everything we export has to be imported, our interests lie not so much in the growth of exports in absolute terms as in the growth of those sectors with a high added value content. We must therefore continue the process of 'trading up': in particular China's new industrial and exporting activities, which could well provide an element of competition to the lower end of those of Hong Kong and also the recent performance of the Hong Kong dollar add an extra element of urgency to this priority.

All this requires not only money—both public and private—but more particularly close cooperation in these endeavours between the public and private sectors. The recently formed committees for business cooperation with Japan are a good example as is the greater emphasis now being placed on industrial investment promotion. Inward investment brings not only foreign capital and access to additional markets, but the technology with which to achieve higher productivity and added value. However, important though imported technology is, there is also an important role to be played in Hong Kong in the fields of *applied* research and development and industrial training so as to equip ourselves with the skills to transform imported technology into foreign exchange earnings.

Land Policy

However, the effectiveness of these efforts is also largely dependent upon an adequate and *predictable* supply of industrial land. Here again another balancing act is required by Government—it must produce enough industrial land to satisfy demand at a cost which justifies the industrial investment and does not cause Hong Kong's products to price themselves out of international markets; it must achieve the forecast capital revenue; it must avoid precipitating another overheating of the property market; and its target of land production must not be achieved at the expense of a further mushrooming of the PWD budget as a result of the associated civil engineering costs. I note from Annex I to the Financial Secretary's budget speech that over 1,000 acres of industrial land are likely to be produced over the next four years: given the 'free' reserves which have been built up, I would hope to see a shift in policy emphasis away from producing land to maximise revenue, towards a policy of having a master plan for

land production to meet anticipated needs. Under such a policy land could be sold on a more predictable price pattern (which must, of course, be above the cost of production to Government) thus greatly reducing the land speculation element in an industrial investment decision. All of this would favour the long term investor.

Invisibles

Following my speech in this Council on 2 November 1978 and the Financial Secretary's reply on 16 November, I was disappointed that virtually no reference was made in the budget speech to invisible earnings and their impact on the trade deficit. It seems that little progress has been made in analysing the importance of Hong Kong's invisibles, at least so far as is reflected in the GDP estimates. I do not intend to cross swords again with the Financial Secretary on the presentation of the arithmetic but, as an example, it is worth noting that the gross contribution of *inward* tourism rose substantially in 1978, to over \$5,000 million including transit passengers and air crews (an increase of about 25%). Whether or not this should be netted off against what I consider to be the unconnected cost of *outward* tourism by Hong Kong residents is less important than the case for being able to quantify, with a reasonable degree of accuracy, the contribution of other less well documented elements of our invisible trade. This would enable (possibly new) priorities to be set and might even put the widening gap in our visible trade in a different light—whether better or worse we will only know when information on our invisibles can be more accurately reported. In the light of the statement made by the Financial Secretary on 16 November 1978, I hope this will be soon.

Credit Creation

In the particular structure of Hong Kong's financial sector the Financial Secretary's proposals to limit credit creation seem sensible. While it may be argued that the banks are being asked to do the Government's 'dirty work', I have no doubt that this is preferable to the alternative of Government directives and the establishment of new machinery to control the supply of credit, which the Financial Secretary is quite rightly keen to avoid. Furthermore, I am sure that some priority will be given to those who wish to borrow (if they can stand the interest rate!) to finance industrial investment or exports. However, we should recognize this as yet another example of the value to Hong Kong of the willing and close cooperation between the private and public sectors.

Conclusion

The underlying objectives of Government and leaders in the private sector are to make Hong Kong a better, happier and more prosperous place in which to live and work; to create an atmosphere of stability and confidence which will encourage our trading partners and investors to establish long term associations with us; and to develop a social and economic structure

which will benefit our residents and enable us to live in harmony with our neighbours in the region. Government policies, with private sector support, have gone a long way towards achieving these objectives—although much still remains to be done—but two current factors could play an important part in the future course of these events.

First, the influx of refugees and immigrants generally. Quite apart from the serious overall social and economic implications, this could have a significant cost impact on the public sector which has not been allowed for in the 1979-80 budget. Furthermore it seems likely to become an increasing problem in the forthcoming year: so it must be a priority to try to contain the arrivals of refugees in particular and to relocate those who are here as soon as possible. Notwithstanding the undoubted humanitarian considerations, it should be made clear both in Hong Kong and internationally that, with one of the highest population densities in the world, it is unrealistic to expect Hong Kong to absorb new residents in these numbers.

Secondly, the current visit of HE the Governor to China at the invitation of the Chinese Authorities, which reflects the excellent state of the important triangular relationship between London, Peking and Hong Kong. It is also most encouraging that the Governor's term of office had been extended at this critical stage in our development. These factors are grounds for optimism in the context of the effect on our economy alone.

It was tempting while listening to the Financial Secretary to speculate on whether the rationale for linking the licence fees on taxis to their occupancy of road space would lead to a head tax on the Community Chest's walks for a million. But taking the key issues, however, I consider the budget to be realistic and its objectives sensible. But together with a number of other Honourable Members I consider that it may be necessary, if the Financial Secretary's objectives are to be met, for him to introduce further measures later in the year. I have pleasure in supporting the motion.

MR CHEUNG:—Honourable Members have voiced grave concern over the trade deficit and inflation. I would like to join them.

I fully support the suggestions that have been made for the creation of an industrial/development finance corporation, with loans for industrial and trade development projects, at preferential rates of interest, out of our fiscal resources. I would urge also that higher priority be given to diversification, and a reassessment of the role that Government can play in encouraging a broadening and upgrading of our industrial base. And like Mr TIEN, Mr CHEN, and Mr Allen LEE, I am perturbed at the dragging of feet over the introduction of the industrial training scheme. These are areas where the Government can take practical measures to reduce the trade deficit, for which all Members would wish the Administration would show more enthusiasm.

Various views and various estimates have been made of the likely rates of inflation in the coming year. On its cause I think it might be valid to take a different view from those which have so far been expressed in this debate. I ask, has the high cost of land and rates ever been taken sufficiently into account in making these estimates of inflation and in determining its cost?

I would venture to think not. I think that if our various indices had been properly constructed over the years, fully reflecting this factor, they would show that we have been experiencing double digit inflation for the past 25 years.

I therefore ask myself:

Is this budget likely to bring relief from high land costs and thereby reduce inflation?

I beg Honourable Members to remember that the production of land—land that can be used—requires a number of things to be done and to be done in time:

It has to be identified, surveyed, planned, and, where it is in private hands, money provided for resumption;

mountains have to be moved, sea walls built and soil dumped into the space thereby created;

services—water, drainage, sewerage, electricity, telephones and transport—have to be laid on;

there must be smooth and convenient access to land.

Our most valuable asset, we have been told, is our people.

Cramp their movements, increase their frustrations over transport, and you would have to write down the value of those assets and that also goes for cutting back on public housing.

What do I find in this Budget?

In *Head 71*: \$1 million out of the \$65 million for double tracking the railway from Tai Po Market to Lo Wu.

\$10 million out of \$373 million required for the Hong Kong Island Eastern Corridor.

Nothing towards the commitment of \$22 million for the Road through Aberdeen, a most useful, if small, industrial zone.

Nothing for Princess Margaret Road flyover.

A token \$100,000 out of \$28 million the dual carriageway from Yuen Long to Au Tau crossroads.

\$4½ million out of \$493 million, less than 1%, for the Trunk Road from Sha Tin to Tai Po.

Nothing for Tai Po Road from Tai Po to Lam Kam Road.

\$6.3 million out of \$101 million for controlled refuse tipping at Junk Bay.

In *Head 69*: Nothing is provided for outstanding commitments in the New Territories, amounting to \$194 million, for compensation for surrenders and resumptions.

The dismal list can be multiplied. Each item I have singled out, as examples, I regret to say, does not stand alone, each is a vital piece in planned and agreed schemes.

And I find it very hard to accept the protestations of concern over inflation when savage cuts are made to projects which lead directly to the production of land and the totally inadequate measures are taken towards a reduction of the grossest inflator of them all, the high cost of land which is also the most serious menace to our competitiveness in international trade.

It is said, we must take the heat out of demand by cutting public capital expenditure. Some of the private building sector would, of course, welcome it: less competition from Government would mean lower tender prices.

Is there no other way?

One of the admitted causes of high prices is high wages in a labour intensive industry. But what encouragement does Government give to converting it to a capital intensive industry? I acknowledge a small measure of relief towards depreciation. But is the Government ready to lend the surplus funds to building contractors to enable them to buy labour saving capital equipment? I would urge it is one industry which an industrial/development finance corporation can upgrade. What attractions can be given to well-equipped contractors from overseas to come here, with machinery that will bring right down the labour content in building? I suggest these are more fertile fields to cultivate than the arid one of simply knifing items out of the Public Works Programme.

Honourable Members will remember that in the course of HE's Address last autumn, His Excellency said:

'It is apparent, that shortage of land, and particularly shortage of land for industry and to some extent for private development could deter investment and stifle economic growth. Consequently production of land is one of the Government's highest priorities.'

Let me recall to Members' memory, another passage:

'The spreading out of the City and its population into new areas with access to new land is essential if it is to achieve not only better living standards but new investment, new industries and new economic flexibility.'

But of course the roads, the railways and the tunnels are only the start; one must add to them everything from drains to swimming complexes, water supply and sewage plants.'

No Honourable Member, Official or Unofficial, that I recall, failed to support that Motion of Thanks. It would be inconsistent, in my view, having endorsed those policies then, to support a budget which places those policies in grave jeopardy, and indeed strangles them, in two years with huge surpluses, and I for one, Sir, have no intention of being inconsistent.

Motion made. That the debate on the second reading of the Bill be adjourned—THE ATTORNEY GENERAL.

Question put and agreed to.

Adjournment and next sitting

HIS EXCELLENCY THE PRESIDENT:—In accordance with Standing Orders I now adjourn the Council until 2.30pm on Wednesday, 11 April.

Adjourned accordingly at twenty minutes past four o'clock.