

OFFICIAL REPORT OF PROCEEDINGS**Thursday, 24 March 1983****The Council met at half past two o'clock****PRESENT**

HIS EXCELLENCY THE GOVERNOR (*PRESIDENT*)
SIR EDWARD YOUDE, G.C.M.G., M.B.E.

THE HONOURABLE THE CHIEF SECRETARY (*Acting*)
THE HONOURABLE THE SECRETARY FOR HOME AFFAIRS
MR. DENIS CAMPBELL BRAY, C.M.G., C.V.O., J.P.

THE HONOURABLE THE FINANCIAL SECRETARY
MR. JOHN HENRY BREMRIDGE, O.B.E.

THE HONOURABLE THE ATTORNEY GENERAL
MR. JOHN CALVERT GRIFFITHS, Q.C.

THE HONOURABLE ROGERIO HYNDMAN LOBO, C.B.E., J.P.

THE HONOURABLE DAVID AKERS-JONES, C.M.G., J.P.
SECRETARY FOR DISTRICT ADMINISTRATION

THE HONOURABLE DAVID WYLIE McDONALD, C.M.G., J.P.
SECRETARY FOR LANDS AND WORKS

DR. THE HONOURABLE HARRY FANG SIN-YANG, C.B.E., J.P.

THE HONOURABLE LO TAK-SHING, C.B.E., J.P.

THE HONOURABLE FRANCIS YUAN-HAO TIEN, O.B.E., J.P.

THE HONOURABLE KENNETH WALLIS JOSEPH TOPLEY, C.M.G., J.P.
SECRETARY FOR EDUCATION AND MANPOWER

THE REVD. THE HONOURABLE JOYCE MARY BENNETT, O.B.E., J.P.

THE HONOURABLE CHEN SHOU-LUM, O.B.E., J.P.

DR. THE HONOURABLE HENRY HU HUNG-LICK, O.B.E., J.P.

THE REVD. THE HONOURABLE PATRICK TERENCE McGOVERN, O.B.E., S.J., J.P.

THE HONOURABLE ALAN JAMES SCOTT, C.B.E., J.P.
SECRETARY FOR TRANSPORT

THE HONOURABLE PETER C. WONG, O.B.E., J.P.

THE HONOURABLE WONG LAM, O.B.E., J.P.

DR. THE HONOURABLE THONG KAH-LEONG, C.B.E., J.P.
DIRECTOR OF MEDICAL AND HEALTH SERVICES

DR. THE HONOURABLE RAYSON LISUNG HUANG, C.B.E., J.P.

THE HONOURABLE CHARLES YEUNG SIU-CHO, O.B.E., J.P.

THE HONOURABLE JOHN MARTIN ROWLANDS, C.B.E., J.P.
SECRETARY FOR THE CIVIL SERVICE

THE HONOURABLE JAMES NEIL HENDERSON, O.B.E., J.P.
COMMISSIONER FOR LABOUR

DR. THE HONOURABLE HO KAM-FAI, O.B.E., J.P.

THE HONOURABLE ALLEN LEE PENG-FEI, O.B.E., J.P.

THE HONOURABLE ANDREW SO KWOK-WING, J.P.

THE HONOURABLE GERALD PAUL NAZARETH, O.B.E., Q.C., J.P.
LAW DRAFTSMAN

THE HONOURABLE HU FA-KUANG, J.P.

THE HONOURABLE WONG PO-YAN, O.B.E., J.P.

THE HONOURABLE JOHN MORRISON RIDDELL-SWAN, O.B.E., J.P.
DIRECTOR OF AGRICULTURE AND FISHERIES

THE HONOURABLE DONALD LIAO POON-HUAI, C.B.E., J.P.
SECRETARY FOR HOUSING

THE HONOURABLE GRAHAM BARNES, J.P.
REGIONAL SECRETARY (HONG KONG AND KOWLOON), CITY AND NEW TERRITORIES
ADMINISTRATION

THE HONOURABLE WILLIAM CHARLES LANGDON BROWN, O.B.E., J.P.

THE HONOURABLE CHAN KAM-CHUEN, J.P.

THE HONOURABLE STEPHEN CHEONG KAM-CHUEN, J.P.

THE HONOURABLE CHEUNG YAN-LUNG, M.B.E., J.P.

THE HONOURABLE IAN FRANCIS CLUNY MACPHERSON, O.B.E., J.P.
REGIONAL SECRETARY (NEW TERRITORIES), CITY AND NEW TERRITORIES
ADMINISTRATION

THE HONOURABLE MARIA TAM WAI-CHU, J.P.

DR. THE HONOURABLE HENRIETTA IP MAN-HING

THE HONOURABLE PIERS JACOBS, O.B.E., J.P.
SECRETARY FOR ECONOMIC SERVICES

THE HONOURABLE DAVID GREGORY JEAFFRESON, C.B.E., J.P.
SECRETARY FOR SECURITY

THE HONOURABLE GEOFFREY THOMAS BARNES, J.P.
SECRETARY FOR HEALTH AND WELFARE

THE HONOURABLE JOHN WALTER CHAMBERS, J.P.
DIRECTOR OF SOCIAL WELFARE

THE HONOURABLE MICHAEL LEUNG MAN-KIN, J.P.
DIRECTOR OF EDUCATION (*Acting*)

ABSENT

THE HONOURABLE ALEX WU SHU-CHIH, C.B.E., J.P.

THE HONOURABLE LYDIA DUNN, O.B.E., J.P.

THE HONOURABLE ERIC PETER HO, C.B.E., J.P.
SECRETARY FOR TRADE AND INDUSTRY

THE HONOURABLE JOHN JOSEPH SWAINE, O.B.E., Q.C., J.P.

THE HONOURABLE MRS. SELINA CHOW LIANG SHUK-YEE, J.P.

IN ATTENDANCE

THE CLERK TO THE LEGISLATIVE COUNCIL
MRS. JENNIE CHOK PANG YUEN-YEE

Second reading of bill

APPROPRIATION BILL 1983

Resumption of debate on second reading (23 March 1983)

MR. ALLEN LEE:—Sir, Hong Kong has experienced a period of almost uninterrupted economic growth in the past two decades. Characteristics during this period were the relatively high growth rate of productivity and a relatively high rate of capital formation. The rate of economic growth began to decline in the past two years because Hong Kong could not remain immune to the world's worst recession since the 1930s. However, the recession does provide the overheated Hong Kong economy with a cooling off period to permit local downward adjustment of the internal cost/price structure. As we look into 1983 and the future, we cannot automatically assume that the future will be a simple extension of the past two decades. There may be rapid changes in the world economy. Protectionism is not going to disappear, increased competition for markets is inevitable. The question is how to meet the challenges of the changing world and what should we do to enhance our competitive edge.

It is encouraging to note what the U.S. Secretary of the Treasury said in his testimony before the Joint Economic Committee of U.S. Congress on January 26 this year. I quote, 'The worst is over in the sense that signs such as housing, inventories and real income show the economy is poised for recovery,' unquote. He also warned that 'we must not repeat the errors of the past and return to an inflationary economy. That's been our past experience and it only leads to an even more severe adjustment at some time in the future.' Sir, at a time when the rest of the world is fighting inflation, we, in Hong Kong, do not appear to be doing the same. For example, our rate of inflation for 1982 is 10.6% compared with that of 3.9% of the United States. I feel that our Government must take the lead in fighting inflation. Policies must be formed and vigorously pursued to clamp down on inflation. Finally, if I may borrow Mr. David NEWBIGGING's words: 'Inflation is public enemy number one.' For a number of years there has been little improvement with regard to inflation. We cannot control imported inflation. On the other hand, Hong Kong is facing increases at regular intervals for such essential services as public utilities and transportation. Needless to say, if this trend continues, the cost push effect will weaken our ability to compete as we will price ourselves out of the market. I realize that the transition to a non-inflationary environment is difficult but let me stress again that our Government must take the lead in all fronts.

Since our economy is heavily dependent on our ability to export, therefore, we must take positive steps to preserve and to increase our competitiveness. The Financial Secretary keeps saying, 'there is no free lunch,' I do not believe that Hong Kong industrialists are asking for free lunches. We do not have to look very far at our competitors as near us, almost every government is doing

everything possible in support of industrial development. I am not saying that our Government is insensible towards industrial development, however, it is my opinion that our Government can do much more. For instance, in the area of technology, I believe we are falling behind our competitors by a wide margin. I realize that the Hong Kong Productivity Centre is in the process of conducting a research project on technology transfer but it is a question of timing.

Along the same line, computers are commonly used these days. We should move swiftly to introduce computer courses in the secondary schools. I know that we have done so last year by introducing computer courses into 30 secondary schools in Hong Kong. However, in the case of the United Kingdom, it took the government only one year to introduce computer courses into all secondary schools. As I understand it, the United Kingdom now has plans to introduce these courses into primary schools. Our experimental stage of introducing computer courses in secondary schools is far behind the need which we will experience in the future of the requirement of knowledgeable computer operators. I urge the Government to take another look at this policy. I believe we can succeed as other governments in raising the standards of our high school graduates.

Sir, it is my belief that success in most businesses today requires an organizational commitment in cost control in order to compete in the market place over the long run by offering superior products at competitive prices. It should not be different for our Government. Therefore, I am in full support of the Financial Secretary in the control of public expenditure. The product offered by any government is its services to its people. I think the best yard-stick of measurement of the efficiency of the Civil Service is the amount of public outcry. The public may not understand all of the Government's policies but I feel it is the duty of the Government to do its best to close this communication gap.

With these remarks, Sir, I support the motion.

MR. SO delivered his speech in Cantonese:—

督憲閣下：本港有一個強健的金融體系，這是個不可置疑的事實。但是，最近由於有數間財務公司出現問題，便有人歸咎政府對它們監督不力。行政立法兩局非官守議員辦事處及部份議員亦接到此類的投訴。香港應否設立存款保險制度這個問題亦引起了不大不小的辯論。在一九八三年三月九日的本局會議席上，本人就政府於一九七八年接受存款公司（修訂）法案三讀時所作考慮設立存款保險基金之承諾，提出問題，財政司予以答覆時認為金融機構主管人為了向存戶負責，必要審慎經營，而存款保險並非最有效的方法。不過，財政司答應諮詢他的「親近顧問」以求改善目前情況。故本人趁這次辯論的機會，實行「毛遂自薦」，就這事提供一點意見。

任何的保險祇不過是管理風險和預防損失的方法之一，但它對審慎經營和加強信心方面有很大的作用。一如防火或防盜保險，投買前和後，均要確保投保者有防火或防盜的措施，並要把措施加強。沒有此等措施的客戶，保險公司是不會接納它們購買保險的。同樣地，經營不善的金融機構是不可能獲得存款保險的。換句話說，政府一旦設有存款保險制度

，對金融業的監管必要更趨嚴格。風險管理和預防損失是管理上不可或缺的一環，這一個原則，適用於任何事業，金融事業更應重視，不論其規模龐大與否。規模和實力愈強大，風險亦隨而增加，不幸遇上損失，影響亦愈深。本人同意，香港作為一個金融中心，必要具有彈性和競爭力，我們不可能把其他國家的存款保險制度，完全不變的搬到香港，但我們應該深入研究這個制度的可行性，向其他國家的制度借鏡，去蕪存菁，建立一個適合本港的審慎監察制度，以保障全體市民的利益。其實存款保險制度並不一定由政府負責，在本港創立存款保險公司的工業，或由金融機構合力自設一個穩定制度，在任何一個成員機構遇上困難時，提供貸款、經管、收呆帳、合併、清盤和在清盤進行中重新組織等服務亦未嘗不可。

督憲閣下，還有一項保險計劃，政府雖然已決定停止鑽研，但本人仍然不提不快——那就是供款式的社會保障計劃，它最主要的好處就是加強普羅大眾對香港的歸屬感。所以本人再三懇請政府重新考慮它。我們的稅制着重吸引投資者，以目前的經濟和政治氣候而言，相信是一個正確的政策。不過，為長遠計，維持香港繁榮和穩定的責任極需要向以香港為家的普羅大眾承擔，因此，一個預算案的好壞，不在有盈餘或赤字，而在普羅大眾是否獲得長遠的益處。為了這種長遠的益處，本人認為政府可考慮增加公司溢利稅，和把市區的公屋售給有經濟能力的住戶，或把它們以類似合作城的形式去經營和管理，使政府有額外的資源在香港建設，為香港人提供最佳的房屋、教育、醫療和社會保障等基本服務。

督憲閣下，本人謹此陳辭，支持動議。

(The following is the interpretation of what Mr. SO said.)

Your Excellency, it is an undeniable fact that Hong Kong has a sound monetary system. But recently, a few finance companies ran into difficulties and some people blamed the Government for insufficient supervision. A number of U.M.E.L.C.O. Members have also received such complaints. The question of whether or not Hong Kong should set up a deposit insurance system has aroused some public debate. At the last Council meeting on 9.3.83, I questioned the Government on its promise to consider setting up a deposit insurance fund, which was made when the Deposit-taking Companies (Amendment) Bill 1978 was passed. In his reply, the Financial Secretary said that operators of financial institutions should run their business prudently and be responsible to their clients, he considered that deposit insurance was not the most effective way to offer protection to the public. However, the Financial Secretary promised to consult his 'closest advisors' on how to improve the current situation. And I would like to take this opportunity to volunteer my opinions.

Insurance, be it of any kind, is only a method of risk management and loss prevention but it helps a lot towards ensuring prudent management and boosting confidence. As in the case of fire and theft insurance, the insurance company has to be assured, both before and after an insurance policy is taken out, that the client has taken and will continue to take fire prevention or anti-burglary measures. An insurance company will not accept the application of any client who has not taken such measures. Similarly, a financial institution which is not soundly managed will not be able to obtain a deposit insurance.

In other words, if a deposit insurance system were set up, the Government would need to exercise even stricter control over the monetary sector. Risk management and loss prevention are essential aspects of business management. This applies to any business and, in particular, to the monetary business, irrespective of the size of the institution. The larger the operation of the institution, the greater will be the risk. If it suffers loss, the repercussions will also be great. I agree that, as a financial centre, Hong Kong has to remain flexible and competitive. We cannot copy the deposit insurance systems of other countries without any modifications. However, we should make an in-depth study of the feasibility of such a scheme, learn from the systems of other countries and set up a prudent supervisory system congruous to Hong Kong to protect the interests of the whole community. In fact, it is not absolutely necessary for the Government to be responsible for such a system. A 'deposit insurance corporation' may be established in Hong Kong, or the financial institutions themselves may devise a stabilization system to provide such services as loan grants, financial management, collection of bad debts, amalgamation, liquidation and reorganization for their members who may have financial difficulties.

There is also one other insurance scheme which I would like to mention though it has been shelved by the Government—the contributory social security scheme. Its most important merit is that it would boost the people's sense of belonging to Hong Kong. That is why I have repeatedly entreated the Government to reconsider it. Our taxation policy, aimed at attracting investors, is a correct one in the light of the present economic and political climate. But in the long run, the responsibility of maintaining the prosperity and stability of Hong Kong will have to be shouldered by the people who have always lived in Hong Kong. Therefore, whether a budget is a good one or not depends not on its being in the black or in the red, but on whether the people will receive long-term benefits. It is for such long-term benefits that I also suggest the Government should consider options like increasing corporation tax, selling public housing units in the urban areas to tenants who can afford them, or manage them like a co-op city. By so doing, the Government could generate more resources for improvements in basic services in the fields of housing, education, medical care and social security.

Sir, with these remarks, I support the motion.

MR. F. K. HU:—Sir, the budget presented by the Financial Secretary is, generally speaking, well received by the public as emphasis on revenue increase is on indirect tax which would not have direct impact on them. I fully appreciate the Financial Secretary's remarks that we get no financial support or subsidy from outside and that Government funds are the people's funds, which demand prudent handling. The Financial Secretary also pointed out that we would certainly face deficits for two years, i.e. 1982-83 and 1983-84, and he decided to

cover the potential deficit of \$6.2 billion for 1983-84 equally between increased taxation and use of reserves. One positive way of reducing deficit without sacrificing the quality and extent of services provided by the Government is to study every possible ways and means of finding alternatives or arrangements which will achieve the original objectives at reduced cost.

I notice that under the Government's flatted factory programme, the provisions in 1983-84 for construction of flatted factory units, to be financed by loans from the Development Loan Fund, is \$107 million excluding land cost. The flatted factory construction programme for the reprovisioning of factories and workshops displaced by clearance was restarted in 1978 as there was a substantial demand for relatively small factory units by many squatter workshop operators wishing to continue operation after clearance. The supply of such units since then has been considerably more than the actual demand. With abundant supply of small factory units in the private sector at present and declining demand on public ones, there is really no need for Government to proceed with the construction of flatted factories, which will not only incur capital expenditure but also further increase the recurrent operation deficit of the Housing Department. Plans not yet started should be stopped forthright and projects in fairly early stages should also be terminated. It will be far better to write off abortive work and utilize the sites for other useful purposes than to continue to supply, at great cost, a service which is not needed. Consideration should also be given to relax the criteria for assessing eligibility for such units in order to reduce vacancies and the recurrent deficit.

The estimated expenditure for Home Ownership Scheme in 1983-84 is \$998 million and the proceeds from the sale of flats are estimated to be \$1,601 million. The aim of the Government's Home Ownership Scheme is to enable families whose income is below a specified limit to purchase their own accommodation at a price they can afford. I believe that this worthwhile aim can be achieved and additional revenue can be generated if the Private Sector Participation Scheme were further expanded as the developers are committed to supply the accommodation at pre-determined prices and to pay for the ancillary commercial facilities. I wish to reiterate my suggestion given in this Council in previous years that the ratio of home ownership units to rental units should be increased gradually to 50%, or even 70%, in future. Priority should be given to encourage existing tenants in public housing estates to take up home ownership units in order to create an equivalent number of vacant rental units for new allocation, so that the total number of rental units will not be reduced because of the Home Ownership Scheme. Many public housing estate tenants now spend \$20,000 or more in decorating their units, this sum could easily cover the initial down payment of home ownership units.

The payments to public transport operators under the Student Travel Scheme enabling students to travel by public transport at concessionary fares will cost Government \$224 million in 1983-84. It is a scheme worthy of support in our

overall education plan. However, the assessment of payment has not taken into consideration a number of valid factors which have considerable bearing on the real cost incurred and consequently might achieve some saving in this Scheme. The Scheme should aim at assisting students going to school from home and returning home from school during normal school days and I query whether their travel for other purposes, e.g., sightseeing, leisure pursuit, visiting friends, should be subsidized by public funds. There could be many students who are in possession of Student Travel Cards but for various reasons never or seldom utilize them. On the other hand, students who use P.L.B., maxicab or certain ferry services such as those from Tai Koo Shing to Central on normal school days do not enjoy any concessionary fares. Consideration could be given to grant direct subsidy to students through their schools upon their applications, based on the expenditure on travelling the students should have incurred. The public transport operators will then receive the full fares from students without the necessity of survey, checking or even arbitration. The administrative cost of the Student Travel Office could be drastically reduced and that could more or less compensate the additional administrative cost in running the direct subsidy scheme.

I would like to congratulate the Government for having implemented successfully the new system of social welfare subvention. In the new system, voluntary agencies no longer suffer from the 'seesaw effect' of their fund raising efforts or Community Chest allocations. Essential welfare services, particularly those in areas where standard costs have been worked out and agreed, are fully financed by subventions. This is right and proper, as we are given to know that about two-thirds of direct welfare services in Hong Kong are provided by the voluntary sector and voluntary agencies should therefore be free from worrying about resources and concentrate on improving their service.

However, there are some services which are still classified as Category II and presumably considered less important. These services only receive either a fixed percentage subvention determined on the average level of financial support previously given or a lump sum grant arrived at arbitrarily. Such arrangements which may perhaps be interim are already causing financial and administrative difficulties to agencies providing services classified as Category II. Examples are agencies which run social centres and multi-service centres for the elderly. Many are faced with insufficient funds to maintain existing centres or accept commitments to open new centres. The original concept of establishing such centres is to encourage 'care in the community' so that old people can remain in their own community for as long as possible without having to seek institutional care. I hope Government will reconsider the measures of subventing such services so that the development of these useful provisions for the elderly will not be jeopardized.

Another area where voluntary welfare agencies are being hit financially is subvention granted towards administrative expenses. Central administration

is also considered as Category II service and therefore receives only partial subvention. As we know, many agencies have grown in size and complexity as their services increase and expand over the years and proper management of such agencies is essential if we want to ensure that their services are effectively provided and their centres efficiently run. It is also not desirable to expect them to use professional staff's time on management, accounting and administrative duties as social work manpower is scarce.

A more liberal and generous policy on subventing these two services will go a long way in achieving more positive results of our most admirable new subvention system on which we are ready to spend over \$350 million in 1983-84. A little more money allocated in these areas will be money well spent.

Sir, with these remarks, I have the pleasure to support the motion before the Council.

MR. WONG PO-YAN:—Your Excellency, after years of continuous economic growth and expansion, our economy has entered a phase of adjustment. Our G.D.P. growth rate, for the first time in six years, has been reduced to a single digit figure of 2.4%.

This unusual performance of our economy is attributable, as conceded by our Financial Secretary, to two main factors. *First*, weak market demand in our major export markets; domestic exports having declined by 3% while re-exports registered zero growth in real terms in 1982. *Second*, and perhaps of more profound effect, the down-turn of the property market: revenue from land sales has inevitably suffered and the estimate has been revised to \$4.55 billion, that is \$7.9 billion less than originally envisaged. Consequently, the revised estimates of revenue and expenditure for 1982-83 will be a deficit of \$3.8 billion, compared with the original estimated surplus of \$2.8 billion.

Confronted with such adverse circumstances, I am glad that our Financial Secretary has acceded to these changed conditions and adopted a realistic approach in presenting an acceptable budget for 1983-84. Acceptable, because it will cause the minimum inconvenience and disturbance to the majority; and acceptable, because the belt tightening revenue proposals will not cause undue hardship to the majority.

For the coming year, the Financial Secretary intends 'to confront budgetary deficits by a balanced combination of use of fiscal reserves, increased taxation (11 tax proposals to raise \$3 billion), and more tightly restrained public sector expenditure.' Sir, as I said in this Council in October last year, drastic times call for drastic action, and I endorse the Financial Secretary's budgetary strategy with the following observations.

Industry

First, the manufacturing sector, our acknowledged lifeblood and support. I am heartened by the initiative of the various financial institutions in providing special credit line and facilities for small and medium sized industrial undertakings. Although this short term measure to bail 'the small men' out in times of exceptional difficulties is clearly no long term cure to our economic ills, this does present an opportunity for them to recoup, consolidate, and adjust to meet future challenges. In this manner, we should accept that the current recession is a time for retrenchment, for restructuring. We should also accept this as an opportunity to review, to strengthen and to map out a direction for the future development of our industries.

The key to our past economic success and trade competitiveness lies in our ability to adapt continuously to change—whether that change is triggered off externally by the progress of other nations or generated internally by our efforts to raise productivity.

Talking of productivity, I am saddened that our growth rate of labour productivity should have declined from 9% in 1977 to 2-3% in 1980, with a slight improvement to 3.5% in 1981, but only to decline to a disappointing 2% in 1982. Now, productivity relates directly to the plant and machinery used, the time devoted to productive work and the skills of the workers. Last year, I spoke of the increased depreciation allowance for new capital equipment and plant and industrial buildings as but small steps in the right direction. It turned out that the expenditure on plant and machinery, in fact, registered a decrease of 6% in 1982-83. Granted that it could be argued that without these concessions, the actual percentage could have been even more discouraging, I have serious doubts on the effectiveness of the proposed exemption of patent rights payments from profits tax assessments in upgrading existing technology.

While it is certainly true that such measures would provide the incentive and encouragement for technological progress, they are unlikely to be of any practical inducement to the small and medium sized industrial undertakings which must have accounted for a significant proportion of our manufacturing sector. This is because these 'small men' have little or no capacity, nor the resources, for product research and development. Now, we are all aware that advanced technology industries are dramatically changing the patterns of world production and trade; and we all know that these new technologies offer enormous opportunities for our local industries. But to be able to take advantage of such opportunities, we must have a work force that is competent and capable of accepting such challenges. I therefore consider that it would be of more direct relevance to upgrade the skill and efficiency of the workers.

I hasten to add that I am aware that the Government, as part of its 'pronounced and growing support for the basic infrastructure needed to support our changing economy', has undertaken to improve manpower training by providing, amongst other things, vocational, technical and tertiary

education; an intelligent approach to research funds; and industrial investment promotion and training schemes. I also note that \$5.7 billion has been included in 1983-84 for education, including \$1.3 billion on the two universities, the Baptist College and the Polytechnic.

Thus, on the one hand, the Vocational Training Council, established in February 1982, aims to double the capacity of the technical institutes by the end of the decade and to devise a comprehensive system of technical education and industrial training to meet the needs of industry and commerce; on the other hand, the Technical Education and Industrial Training Department was set up in April 1982 to assist the Vocational Training Council in the implementation of its policy.

Meanwhile, the Planning Committee for the second polytechnic was established in June 1982, and responsibilities for the formulation of education and manpower development policies were merged in February this year.

The full impact of all these organizations are yet to be felt and their effectiveness gauged. But right now, let me point out that it is vital that their activities be effectively co-ordinated and integrated in order to exploit fully their potential, to maximize the utilization of the resources allocated, to ensure a constructive and participative dialogue between the industries and the institutions in course design, and to achieve a proper balance between these entities. The need to allocate sensibly resources among these many sections and departments can thus never be over emphasized.

Moreover, the functions of these institutions should not be restricted to that of the imparting of knowledge on training. Staff members should be encouraged and given the necessary support so that they can anticipate and respond to the needs of trade and industry, and to initiate research programmes based on local conditions and particularities. In this way, we can improve on imported technology while making optimum use of our own resources.

Towards this, Sir, it is reassuring that our Financial Secretary has found cause to 'promote concentration again on the manufacturing and other export oriented sectors', but if the manufacturing industries are to fulfill the role that the Financial Secretary has ascribed to it, a more aggressive approach to improve our technology is essential.

Public Sector Expenditure

I now turn to my next topic: Public Sector Expenditure. Let me begin by restating the Government's declared intention that 'growth rate in real terms in public sector expenditure on consolidated account should be down to the growth rate in G.D.P.'

For the year just ending, while the growth of the G.D.P. has been reduced to 2.4%, public sector expenditure has been revised to \$38 billion, an astounding 17% increase in real terms including civil service pay adjustment. Of this, \$14.9 billion, or 39% of total public sector expenditure is capital expenditure and \$23.1 billion, or 61% is recurrent expenditure.

A further analysis of the recurrent expenditure on General Revenue Account reveals that \$9.1 billion or 44% of the Revised Estimates 1982-83 is personal emolument and personnel related expenses, representing an even more astounding increase of \$2.3 billion or 33% over the actual expenditure for 1981-82.

For the coming year, total public sector expenditure is estimated at \$42.5 billion, representing a growth of 11.7% in money terms. In real terms, growth rate in public sector expenditure increase by 3% over the preceding financial period. *Capital expenditure* is envisaged at \$15.8 billion or 37% of total public sector expenditure. Further, the estimated expenditure from the Capital Works Reserve Fund on the Public Works Programme in 1983-84 is \$7.6 billion, an increase of \$355 million or 5% over the revised estimate for 1982-83. Here, I must stress that it is important to give priority to projects which would exert a strong gravitational pull on other economic activities; and I am glad that priority has been accorded to land production, transport and housing projects.

I wish also to refer to the Financial Secretary's speech that 'the estimated total expenditure on transport, roads, civil engineering, and land is \$7 billion, which represents 16.3% of total consolidated account expenditure.' I wish to commend on his efforts to accommodate these items in the programme of works for 1983-84, as these infrastructures are not only vital for the improvement of the quality of life of the population but also indispensable to our economic growth and increase in productivity. I am particularly heartened by Government's determination in keeping the momentum for the construction of public housing projects. For the coming year, \$3.7 billion will be spent on the actual construction of housing, while for the coming four years, a total of 164 228 flats, an average of 41 000 flats a year will be completed under the various public housing programmes and schemes.

I am disappointed, however, that no announcement has yet been made on the long awaited exhibition centre. As the proposed project has an important part to play in the promotion of Hong Kong as a trade centre and stage II of the consultation's report has been submitted in February this year, I should like to know the progress of this project.

Turning to *recurrent expenditure*, the total for the coming financial year is estimated at \$23.8 billion, an increase of \$3 billion in money terms or an increase of 14.5% on the revised estimates for 1982-83. Personal emolument, excluding provision for salary adjustment, is estimated at \$8.2 billion or 36% of

total recurrent expenditure, an increase of \$0.7 billion over 1982. Personnel related expenses are estimated at \$1.9 billion accounting for 8.6% of recurrent expenditure, an increase of \$0.3 billion over 1982.

Now, we were told that the approved establishment of civil service posts shown in the draft estimates is 144 503, exclusive of 29 160 posts in the Urban Services and Housing Departments. We were also told that the Government has made 'conscious effort during the year to restrain the growth of the Civil Service Establishment', that 6 665 new posts were created during 1982-83 out of a provision for 16 500. However, although 'this constraint will continue in 1983-84', we can expect a further increase of 6 700 posts in 1983-84.

I accept that expansion of Government activities and projects necessitates a proportionate increase in staff manpower, but I do not think anyone in this Chamber today would dispute that the Civil Service could be improved in terms of efficiency and productivity. Further, improvements in these areas could lead to staff savings.

In exceptionally bad times when Government is compelled to trim its expenditure, it should logically examine areas of possible savings; and should the situation justifies it, the size of the Civil Service should not only be contained, but frozen.

Finally, on staff management, I am aware that Heads of Departments do go to considerable lengths to appraise the performance of civil servants against a well developed system of disciplinary penalties and other sanctions for use where officers misconduct themselves or do not perform their jobs to an adequate standard.

However, penalties and sanction are negative approaches and are certainly not reformative. More positive measures should be adopted. I am pleased to note, therefore, that the Finance Branch and Civil Service Branch have decided to establish a joint co-ordination machinery to oversee those aspects of productivity which particularly affect the management of the Civil Service and that a workshop titled 'Conference on Staff Management in the Civil Service' was held in February this year to motivate subordinates and to solve real problems and increase productivity. These are indeed indications to be welcomed and I should like to see more consistent and persistent efforts in this direction.

With this observations, Sir, I support the motion.

MR. BROWN:—Sir, I think it was the author Thomas HUXLEY who observed that next to being right in this world, the best of all things is to be clearly and definitely wrong.

Our Financial Secretary is to be congratulated on two counts; firstly for his honesty in accepting where he got it clearly and definitely wrong last year, and secondly for probably having got it right this time. The crystal ball is a little less opaque today than when the budget was being prepared, and cautious optimism suggests we should, if anything, do better than forecast.

We have been reminded that one of the basic tenets of our budgetary policy is that public sector expenditure must be held in check, and the Budget Speech suggests that the high growth rate in recent years has been encouraged by buoyant revenues. Whilst this is undoubtedly true, I believe the ability to finance public sector expenditure has obscured, at least partially, the simple fact that Hong Kong's socio-economic structure has undergone significant changes in recent years. It is no longer appropriate to base our budgets on what one commentator recently described as 'making ends meet with as little trouble as possible'. Life is now more complicated and I agree with my Colleague, Dr. Harry FANG, that it is necessary to take into account long term trends and our budgetary policies must be based on careful planning for our long term future.

In illustration of these fundamental changes we can see that the portion of gross domestic product corresponding to the value added by the manufacturing sector, notwithstanding its key importance to our export-led economy, has grown more slowly compared with those sectors which provide services to the economy and invest in its productive assets, viz. sectors such as the wholesale/retail and catering trades, transport and communications, construction, or financing and real estate. This relative decline in the manufacturing sector is not a sudden fall during a period of recession, but rather a steady decline from its 30.9% of G.D.P. in 1970 to 25.1% in 1980 (which is the latest estimate available).

These changes are not ones necessarily to cause concern for they reflect the maturing of our community as our standard of living rises, which is well illustrated in the increased amount of income available to be spent on non-essential items—a supporting argument incidentally in favour of increased indirect taxation. The proportion of private consumption expenditure spent on food, for example, fell from 44% in 1966 to 23% in 1981. To state the obvious a larger middle class has emerged, and this has been accompanied by an increase in the ownership of fixed assets such as cars and homes.

The demand for more and better services in keeping with a higher living standard overall, and the need to safeguard that rising standard in years to come, makes it inevitable that the role of Government must increase in relative terms. The sprawl of urbanised areas into the New Territories with the necessary, costly infrastructure of transport, land and civil engineering and water is only one element in this equation. As a proportion of G.D.P. the latter group of community services increased from 4.5% in 1973-74 to the 6.9% projected in the current budget. Likewise the cost of security services as a proportion of G.D.P. has risen from 1.6% to 2.9%, and the cost of social services from 5.8% to 9.4% over the same decade.

In summary I find it difficult to see how this trend can be changed and the reality of the situation is that the growth of public sector expenditure from 14.9% of G.D.P. in 1973-74 to the budgetted 24.1% in 1983-84 has reached a level which in my view we are going to have to live with as we walk the tightrope of being progressive in social policy whilst remaining prudent in fiscal policy.

Happily the opposite side of the coin is that the tax bill, or the proportion of total purchasing power transferred to Government's hands, has increased correspondingly. It is perhaps a testimony to the effectiveness of our system of low earnings and profits tax rates that it has proved equal to the task of generating revenue at a rate higher than the G.D.P. growth rate. In the ten years up to 1982-83, whereas G.D.P. grew at an average rate of 19.8% p.a. in value terms, revenue from earnings and profits tax increased at the considerably higher level of 27.2%. Those who believe that direct taxes should be increased may wish to ponder on these statistics.

Returning to the need for careful planning, budget speeches always give much food for thought, and when it comes to expenditure nothing concentrates the mind more than having an empty pocket. The Financial Secretary draws attention, and he draws it correctly, to the fact that nothing would be less calculated to promote Hong Kong's long term growth than overspending or wrong priorities.

He goes on to say that we must now ask ourselves where the proper priorities lie, and what are the sensible alternatives. By 'we' one assumes he means members of the Administration, for he goes on modestly to admit that it would be foolish to pretend Government always gets the balance of priorities right.

Perhaps then, this is the time when there should be more Unofficial participation in the setting of priorities, and in so far as the Public Works Programme is concerned it is for consideration whether the Project Steering Group, which currently has a membership of ten senior Government officials under the Chairmanship of the Deputy Financial Secretary, could benefit from some direct input from Unofficial Members of this Council.

This Council controls projects in the Public Works Programme in the sense that no project can be placed in Category A—and thus proceed to tender and construction—without the approval of Finance Committee. Prior to this control is exercised through the Public Works Sub-Committee in respect of approvals to place projects in Category AB, and thus enable site investigation, design and the tender documents to proceed.

The fact of the matter is, however, that unless a project gets approval to be placed in Category C (by the Public Works Vetting Committee) or into Category B (by the Public Works Priority Committee) it cannot receive any formal consideration by Unofficial Members of this Council for both the Vetting Committee and the Priorities Committee have only official membership.

Progress of all projects through the entire system is monitored by the Project Steering Group and some Unofficial participation at this level would be consistent with the role of the Unofficials as perceived by yourself, Sir, in your address to this Council at the opening of the current session. It would perhaps also assist the Financial Secretary in his efforts 'to do his best' to quote him, probably unfairly, but in context.

Sir, in the absence from this Chamber today of my Unofficial Colleague Mr. Alex S. C. WU, I would now like to make a few comments regarding subventions to the performing arts which I know would receive his endorsement as Chairman of the Council for the Performing Arts. Perhaps I should first declare my interest as also being a Council Member.

The budget estimates include provision for a number of subventions to the performing arts and it is for consideration whether the system of subventions should be reviewed with the formation of the Council for the Performing Arts. The Government is generous in its support of cultural activities in Hong Kong. It is essential, however, that such public funds are used to their maximum effect, and as the Council has been formed to vet applications for subventions it seems only logical that it should be given a one line vote to administer in a similar manner as the Social Welfare Advisory Committee does for social welfare services. A one-line vote would enable those best qualified to judge to distribute available funds to deserving projects, including perhaps some less prominent art forms which the Council nonetheless considers worthy of encouragement. It would also incidentally make it easier to support the Hong Kong Arts Festival, which receives support on an annual subvented basis, notwithstanding the fact that logistics demand it plans its activities and presentations several years in advance of the actual performances.

Other speakers have covered in detail the specific proposals to increase indirect taxation. It is pointless being critical of individual items unless one can suggest better alternatives—and I cannot. However, I do have some sympathy for those who believe departure tax should be applied to sea departures as well as those by air. With some four million people a year visiting Macau the inclusion of that sea destination alone would attract substantial revenue, and perhaps permit the amount of this tax to be reduced to a lower level.

As I commenced these observations with a quotation I will finish with one, and I quote:

—

'The Budget should be balanced, the Treasury refilled, public debt should be reduced and the arrogance of officialdom should be tempered and controlled.'

To save Members time in looking up Hansard I would confirm that this is not taken from one of our earlier budget debates but rather from the Roman Orator Marcus Tullius Cicero, who made these comments two thousand years ago just

before the birth of Christ. If he were present here today listening to Unofficials' comments he would be comforted by the thought that, at least in Hong Kong, times have not changed.

Sir, I support the motion.

MR. CHAN KAM-CHUEN:—Sir, the Financial Secretary's budget has generally been well received by the public. Nevertheless, I wish to comment on some points.

The recovery of the U.S. economy has finally come about, although not too sure-footed like a patient after a long sickness. As confidence breeds confidence, the world economy is steadily pulling itself out of a long recession.

A decade has just passed since the oil crisis ravaged the world in 1973, and by now oil prices are yielding to the simple but time-tested rule of 'demand-and-supply'. This is good news for the manufacturing sector and to a smaller extent to the man-in-the-street who will find the choking noose of inflation loosening slowly around his neck.

Only recently, an intellectual bragged to me about oil finds which are still under the sea, but I cautioned him that not many oil producing countries benefit socially and financially from that pot of black gold at the end of the rainbow. The grandiose plans of some oil producing countries have left them with hundreds of billion dollars of debts, while other countries spent their days biting their fingers trying to sort out the size of the missing revenue, not to mention retrieving them. Yet others spent them on expensive fireworks. In the final analysis, people in any territory can only reap permanent benefit through hardwork, a sound education system and prudent administration. People in financial circles should be aware of the international tail winds if oil prices drop too drastically in the unwinding process. Locally, the sudden decline in the property and speculative markets are also headaches of the same magnitude.

Hong Kong can now make its damage report on this long recession and we should be glad about it. Biased unemployment figures which aim at magnifying our unemployment problem and creating political capital for unrest did not work. Suffice it to say that if unemployment problems could be bartered, I am sure that there would be a long queue of representatives from other countries outside this building, all only too willing to do the exchange.

Turning to the 11 proposals to raise additional revenue to minimize the deficit, I support the principle that indirect tax is voluntary and that direct taxation is compulsory. If one has any argument over this, one simply need to compare the faces, smiling or otherwise, of people queueing to pay betting tax and salaries tax.

Duties on liquor, tobacco, betting tax will affect the man of small means, but if he chooses to save on these taxes, he would be rewarded with better health and a happier family life. There may be some arguments on rates increases which are now mostly borne by the tenant, but the increase is not too steep.

Increases in driving licence fees, vehicle licence fees and hydrocarbon oils taxes would affect the sandwiched class and businessmen. In a lean year it is a little unpleasant contribution which we could make to the community to which we all owe so much.

Buoy fees, business registration fees, company registration fees, and bank licence fees are for the business community, and as they have not grumbled, I shall pass without comments.

However, hotel accommodation tax and airport tax would directly affect our tourist industry and export of our products without shipping because they all carry them. As regards airport tax, the increase will make us the second highest in the Far East, after Japan. I think we should reduce the airport tax to HK\$50 per person, but, like some other countries, extend it to cover departures not only by air, but also by sea and on land, which will increase our revenue. This is because all departures have to use either our airport, ocean terminal or railway terminal facilities. Those who travel by air are not all millionaires, and those by ship or land transport are not always the underprivileged. But here is a word of caution: please do not hire another Government servant to do the job; a \$50 stamp put on the passport and dated by the Immigration Officer on the border will do.

Replacement Airport

I now turn to the important subject of the replacement airport.

One may have heard of stories about the lost treasures of the pirate Cheung Po Chai hidden in one of the islands of Hong Kong. I am not suggesting that Government should try to find it to reduce our deficit in the budget of the coming year, but we already have a Treasure Island in Chek Lap Kok. After spending years and \$185 million of consultancy fees etc. to study and to plan the project, to shelf it would be tantamount to buying two tonnes of gold at today's prices and bury it there. We must try to salvage whatever residual value from this expensive report which may contain many good points.

However, the decision against building a replacement airport at Chek Lap Kok on financial grounds is a prudent one, for one should not live beyond one's means. But Kai Tak is a 'down town' airport: noise pollution is intolerable to residents under its flight paths and when tourists land there, their first impression of Hong Kong is definitely not the 'fragrant harbour' which our Chinese name suggests. So far, with advanced electronic equipment, good management and alertness of air and ground personnel, we have not had too

serious mishaps there. But we shall never forgive ourselves should a plane crash into the densely populated neighbourhood. We must keep on looking for an alternative site.

Since the whole idea of creating a replacement airport is now back to the melting pot and a more viable solution is needed, I have laid my hands on a copy of the Consultants' Final Report to the Director of Civil Aviation in January 1980 and have again spent some time on map watching.

Due to the mountainous terrain of Hong Kong, even the chosen site of Chek Lap Kok is far from perfect. It is restricted in airspace and flight paths to the north, east and south and will also cause noise pollution to neighbouring areas. The bonus of developing the mountainous land in northern Lantau is now discounted by current prices of land in New Territories. If we are going to spend an astronomical sum of 11 figures to build an airport, we should demand for something which is as near to perfection as possible.

The constraint of minimum land reclamation meant that the consultant had to look for sites on existing land. Of the 8.4 sq km of land required for the airport, Chek Lap Kok and Lam Chau could only provide 3.1 sq km, and 5.3 sq km has to be reclaimed from the sea.

In my opinion, the ideal location, as far as unrestricted flight paths and noise pollution are concerned, would be on an island more than ten km east of Cape D'Aguilar, but this is only a dream as no island exists on the ten fathom deep sea there.

However, I read an article in the Chinese press regarding Japan's man-made islands outside Tokyo, Kobe and Osaka. One such island is five km off the shore of Osaka with an area of 12.3 sq km of which 9.3 sq km has been reclaimed and in use. Another one in the planning stage would be some ten km off the shore. These man-made islands serve various purposes, such as international airport, container and ocean terminals, industrial estates, recreation areas, and for anti-pollution reasons, power stations and coal storage.

If it is technically possible in Hong Kong, we should look into the possibility of wrangling from the sea sufficient land, not only for the replacement airport and associated industries, but also to form a bank of flat land. Depending on how we make use of this scarce commodity, it may help to make the new airport project viable.

To capitalize on an adverse situation, we should take account of our assets. We have lower labour costs and less violent earthquakes than Japan; we still have granite and other filling materials from the Po Toi and neighbouring island groups; and we have more than ten years of time for reclaiming land at relatively lower cost. When our economy rebounds, we can build the airport proper.

The huge crash programme of reclamation I am talking about is a 3 km band of land bound in the north by Tai Tau Chau (大頭洲) and in the south by Kau Pei Chau (狗髀洲) on the east of Hong Kong Island extended straight out to the eastern limits of our territorial waters which is about 25 km away, thus creating one man made peninsula (which is safer and more convenient than a man made island) of flat land of about 75 sq km. The replacement airport will then be at its eastern tip. It should be circular in shape to allow unrestricted orientation of the three runways of about 5.6 km. One may ask whether this would block our shipping lanes, but I have checked that about 90% of our shipping go through the East Lamma Channel. Only a small percentage of shipping go through Lei Yue Mun. They will find that the suggested reclamation will still leave a ten fathom sea lane at Tathong Point, which is wider than Lei Yue Mun. The effect of sea current will have to be studied, using models. As this reclaimed area is not near the Pearl River estuary, it should not have the serious silt problem as Chek Lap Kok.

If the conditions of the sea permits, and this reclamation possible, it would boost by 74½% of the 100.64 sq km of built-up area (by town planning definition as at 31.12.82) of the whole of Hong Kong achieved over 140 years. This investment for the future would go a long way to meeting the requirements of our increase in population and industrial growth in the next century.

I hope my honourable Friends would agree with me that the correct translation for the Chinese saying (有土斯有財) should be 'Have land, will prosper'.

As I was reading paragraph 13 of the Budget Speech, the word 'folly' reminded me of something, with a more optimistic note. It was the 'Nathan's folly' in the sedan and buggy days. For decades after its completion, Nathan Road has been the main artery of Kowloon and it is now referred to with respect as the 'Golden Mile', perhaps more appropriately as the 'Golden Miles', as the second mile is now full of banking and commercial centres. My honourable Friends will agree that he who conceived the idea of building this road certainly had vision beyond his time.

With these observations, Sir, I support the motion.

MR. STEPHEN CHEONG:—Your Excellency, for Hong Kong, 1982 was arguably one of the worst in recent memory. The world recession has hit us hard. Our export performance suffered negative growth in real terms. There were signs that most sectors of the economy were under strain. Unnecessarily nervous speculation over our future did not help to maintain confidence on which so many of our investment decisions depend.

In the circumstances it is surprising that the Government's estimated deficit for 1982-83 is not substantially larger than was announced. The Financial Secretary deserves our thanks not only for his handling of the economy in a year

of great strain but also for his determination in keeping expenditure under tight control. I refer, in particular, to his success in arresting the growth in the size of the civil service.

I would also like to congratulate the Financial Secretary on his budget for the coming year. Not only has he made good his promise that growth on Consolidated Account expenditure would be kept in line with the forecast growth rate of the G.D.P., but his overall budgetary approach is also admirably suited to our present and immediately foreseeable circumstances.

Suited to our present circumstances: because we have to face the fact that looming deficit has to be financed. There may well have been equally forceful arguments for or against either methods of raising revenue—that is, through increases in direct or indirect taxation—but on macro-economic grounds especially in the context of our externally-oriented economy and the fact that we are still in a world recessionary atmosphere, the choice of raising revenue through indirect taxation would definitely have less damaging effects on our ability to recover. We must all accept that we can ill afford to be too short sighted in our approach in dealing with the present problems of our economy.

Suited to our immediately foreseeable circumstances: because, given the current instability of the world financial system precipitated by huge troubled Third World loans, the Financial Secretary has prudently planned ahead to position ourselves favourably if and when we have to resort to borrowings in future. Can anyone of us in Hong Kong seriously dispute these words of pragmatic wisdom when he said, 'It is one thing to borrow when you still have money in the bank. It is another when you do not.' (Paragraph 85 of the Budget Speech)

Sir, reading carefully through the 1983-84 economic forecast, one might get the feeling that the final forecast of 4% G.D.P. Growth for 1983-84 is on the conservative side. Many might feel that the worst is behind us; manufacturers are beginning to find signs of buying support in the U.S.; order books are lengthening; property sector seems to show signs of coming out of a coma; foreign institutional money has been helping to arrest the collapse of our stock markets. Whilst all these signs are no more than first glimmers of hope, I would agree fully with the Financial Secretary that we are not yet out of the woods. (Paragraph 156 of the Budget Speech) For this reason I would like to raise several points on the subject of public sector budgetary and expenditure control.

The allowance in the 1983-84 draft Estimates of Expenditure for an overall growth rate of 10% in money terms implies, by comparison with previous years, a considerable degree of slowing down in the growth rate of overall expenditure. But an examination of the Table (5) of the Budget Speech suggests that the degree of belt-tightening involved is perhaps not as adequate as present and foreseeable circumstances justify. On Recurrent Account, a growth rate of 14% in money terms on the 1982-83 revised estimates is arguably still too high.

One recognizes the difficulties involved in trying to slow down the growth rate of recurrent expenditure, but a growth rate of 14% is clearly not as effective as the small growth rate of 4.4% on Capital Account expenditure. After all, it is Recurrent expenditure and not Capital expenditure that represents on-going commitments. The fact that it is capital, or non-salary related, expenditure that has been savaged this year raises the important question of the need for more effective control on recurrent expenditure.

Sir, the impression one gets from meeting with Controlling Officers in the annual examination of the draft Estimates by Finance Committee and in the work of the Public Accounts Committee suggests that Heads of Departments, unlike senior managers in the private sector, are relatively less conscious of the need to exercise a tight rein over expenditure.

One recognizes that Heads of Departments, unlike senior managers in the private sector, have issues and worries extending well beyond basic considerations of profit, but the necessary discipline required to ensure that adequate control is continually exercised over resource allocation and expenditure is nevertheless important. Unofficials of this Chamber have always been reminded of the limited resources of our community and that we should attempt to propose areas of savings in order to meet funding requirements for those proposals of increased services in our pet areas of interest. By and large, I accept that such criticisms are fair and we should always bear this important point in mind. Yet, it must also be accepted that the determination of priorities in the provisions of various services must lie with the administration and the efficient allocation of resources to meet those priorities within each Department lies squarely on the shoulders of the Controlling Officer. Therefore, I wonder whether the Government is satisfied that, in a period of belt-tightening, Heads of Departments take nearly as much trouble to appraise critically the relative importance as between various types of services. Is the Government satisfied that Heads of Departments have not taken the soft and easy option of slashing growth evenly across-the-board, regardless of the fact that some services are more important than others? Is the Government satisfied that the scope for obtaining maximum value for money has been thoroughly examined? I hasten to add that I am not advocating zero-based budgeting; the draft Estimates process probably does not allow sufficient time for that to be carried out meaningfully. Yet, it does appear to me that a tighter discipline needs to be instilled into officers making expenditure forecasts, so as to ensure that all proposed expenditures are unavoidable, and therefore that the overall growth in expenditure is being kept to the essential minimum. It may be that both the Finance Branch and the Controlling Officers require modern management tools and systems, and the competent staff to operate them, before they could achieve a greater degree of control over resource allocation and expenditure. Under the present control system, it has not been possible or practicable to establish patterns of spending on any subhead. Hence the system merely succeeds in placing an upper limit on to each subhead but cannot successfully monitor whether the money spent has been sensibly used or not.

In this connection, I am very much impressed and encouraged by Finance Branch's conscious effort in the development of the Financial Information System (L.A.F.I.S.). I would be interested to know what progress has been made. I would also urge that necessary steps be taken quickly to ensure that the system would be effectively applied, hopefully in the not too distant future.

Sir, the points I have made about Controlling Officers in relation to expenditure control over Government departments apply with equal validity to Controlling Officers responsible for subvented organizations. It must be generally recognized that the role of subvented organizations has changed over time. Many years ago the Government provided subventions to encourage charitable works by members of the community through various voluntary agencies. The concept of such agencies being part of the public sector simply did not arise. Nowadays, however, subvented agencies become an integral part of the public sector.

Total expenditure on subventions will in the year 1983-84 account for 25% of estimated expenditure on Recurrent Account. There are more aided schools than Government schools, and the number of beds in Government subvented hospitals constitutes a large proportion of the total number of hospital beds in the public sector. Thus the subvented sector has become so large that it has now virtually become an extension of the Government in the provision of social and other services under well-established programmes. Subvented agencies, however, are not subject to the same degree or even the kind of control as a Controlling Officer could exercise over his Department. I believe, therefore, that the time has come to review the basic concept of subvention, the rules governing the administration of subventions, and the adequacy or otherwise of the means now available to Controlling Officers to ensure that subvented agencies are subjected to a similar degree of financial discipline.

Sir, in two successive years, the Financial Secretary has taken pains to deliver a message to us—that Hong Kong is not a poor place but it is not a rich one either. He further stated in Paragraph 37 of his concluding speech on the 1982 budget debate that in view of our externally-oriented economy we could not pretend to be masters of our economic fate. I agree. But, in the area of expenditure control, we are masters of, and entirely responsible for, our own destiny. If we do not consciously and continually seek to exercise adequate control over expenditure the public sector would tend to crowd out the private sector in their competition for resources, with all that which entails for recovery and the long term health of the economy. We have seen this happening elsewhere, in one form or another. We should do more than merely hoping that it would not happen here. In a period of belt-tightening, the discipline of cost-effective expenditure control can logically be expected to make itself felt; but as civil servants are not normally subject to this discipline I feel that this message needs to be reinforced.

With these remarks, Sir, I support the motion.

MR. CHEUNG YAN-LUNG:—Sir, part of what I have to say today has already been said by my learned Senior Colleagues yesterday. It is nice to see that ‘great minds think alike’. I congratulate my honourable Friend, the Financial Secretary, on his courageous and well-defined Budget. Forecasting economic trends is never easy, even under normal circumstances—spare a kind thought for the man who must brave the worst global recession since the 1930s, *and* a dormant property market.

In bad times, people look for signs of confidence and reassurance from the leadership. It is positively cheering to note that major building projects, especially those in the New Territories, are moving ahead as planned. This is in line with Government policy to encourage population growth in our so-called rural areas.

Is it timely therefore, to review rateable values in the New Territories at this stage of development? It is statutory that the occupant and not the owner must pay the rates. As it is, the General Rate percentage for the N.T. will be increased by 2½% (from 11% to 13½%) with effect from 1 April this year. On top of which rent may soon be further decontrolled, thus reducing or even removing that little protection there is for ‘tenants’. In addition, rates are to be calculated on new rateable values as from April 1984.

It should be remembered that most newly-settled N.T. residents commute to the urban areas daily for work. Due to inadequate public transportation, not a few of them drive, and this too is now more expensive, adding to their own budgeting. Whether these factors will discourage people from settling down in the N.T. remains to be seen, but they do appear to run contrary to the Government objective of moving people away from urban centres.

By world standards, Hong Kong has achieved wonders in housing millions of people. We have been getting the job done for years now, building at least 35 000 units annually. About 30 000 of these units fall into the category of low cost public housing, the remainder being Home Ownership Scheme flats. Is this a realistic ratio? Should low cost public housing for rental remain at the top of our list of priorities?

When was the last time we took a critical look at exactly who is living in our public housing units, and in our temporary housing units for that matter? Do the truly needy get in? Do the honest and deserving get in?

It is said that an Englishman’s home is his castle, but I think this is a universal truth. In Hong Kong, where many are transient, I believe it is vital to foster a sense of belonging. To own a home, however humble, is to belong somewhere. It is a source of achievement, of pride, and most important, a source of security and commitment. To the best of our abilities, we must try to ensure that no one who contributes to the prosperity of Hong Kong is denied the right, not the privilege but the right, of owning a home. I refer in particular to that sector of the population so well described by my honourable Friend, Mr. LOBO, as the

‘sandwiched society’. These are the people who are *neither rich nor poor*, but I venture to say, they are indeed taxed. Are their needs fulfilled by the present Home Ownership Scheme? If we were to expand the Home Ownership programme, from personal knowledge, being N.T. born, and having been involved on the board of the K.C.R.C., I would say there is no shortage of land in the N.T., conveniently close to the newly-electrified railway, suitable for building low-density, affordable homes. To be within the reach of the sandwiched society, such units would have to be sold at prices they can afford after they have paid income tax, rates, utilities, transportation costs, medical and dental bills, school fees, and household and living expenses. Sadly but truly, the best things in life are not free for all. The time may well have come for a complete reevaluation of our housing priorities, with the provision of more home ownership opportunities for more people, and less emphasis on low cost, rental units.

In the area of Government accommodation, I note that the draft estimates allocate \$680 million for office rents and rates. I wonder if the Government has ever considered buying back office buildings from the private sector at this stage of ‘low’ property market?

The Budget assures our short-term cash needs, thanks to drinkers, smokers and drivers, among others caught in the new, indirect taxation net. It is true that if one wishes to avoid paying these taxes, one can always stop drinking, or smoking or driving. But surely there are other revenue-raising alternatives? If revenue must come from somewhere, why not from corporate profits tax for example? Why not increase the rate of profits tax chargeable on corporations whose annual turnover exceeds a set sum? This revised estimate for corporate profits tax 1982-83, calculated at a rate of 16½ percent, comes to \$7.1 billion. An across-the-board increase of 1 percent would yield roughly \$430 million.

It is encouraging to know that foreign currency deposits in our banks have increased during the year, contrary to rumours. In this area, Hong Kong’s third largest source of foreign exchange is in fact, tourism, which is a ‘\$9 billion industry’. However this sizeable contribution to our economy is less obvious than a bank-deposit because tourism earnings are invisible earnings, benefiting not just the banks or D.T.C.s, but other sectors of the community.

Is it wise then to penalize our 2.6 million visitors by increases in hotel accommodation tax and airport tax? This raises the overall cost of their stay, further decreases their spending power, and reduces the competitive edge of Hong Kong in the Region.

The increased airport tax is also a blow to outbound travellers, especially those on economy tours, who must now pay quite a bit more percentage-wise. Rather than an across-the-board increase in airport tax, has the Government considered a sliding scale of increases based on the value of the airline ticket? It does not seem reasonable that short haul travellers should have to pay such a large percentage increase in airport tax, since their air tickets are relatively

inexpensive compared to the cost of long haul journeys. As the former Chairman of a leading airline and of the Hong Kong Tourist Association, my honourable Friend, the Financial Secretary is no doubt aware that these particular tax increases must be negative factors for the tourism and travel industry.

Finally, I have just one query regarding the timing of the increased duty rates on motor spirits, and that is, 'Mr. BREMRIDGE, are you psychic?' Incidentally, I for one fully support the idea of putting back budget day until the end of March. My Colleagues who have spoken before me in these two days' debate, whilst supporting the motion, make comments and recommendations, and have reservations; no doubt their views will be closely considered.

With these remarks, Sir, I support the motion.

3.55 p.m.

HIS EXCELLENCY THE PRESIDENT:—At this point, Council might like a short break.

4.10 p.m.

HIS EXCELLENCY THE PRESIDENT:—Council will resume.

MISS TAM:—Sir, whilst tax evasion is illegal, tax avoidance is a fine art which wins for its practitioner much admiration from those who fail to understand the workings of the Inland Revenue Ordinance, or those who are busy making ends meet and have no time to save money by avoiding tax. I note from the Financial Secretary's speech that 270 000 of us pay salaries tax in Hong Kong. In another well written and thought out article entitled 'The Constitution of Hong Kong, The Hub of the Wheels of State' at P.1 of the 1983 Hong Kong Annual Report the learned author says 'There were only about 218 000 persons liable to salary tax; and of these 13 000 paid over half the total receipts.' Whether it is 270 000 or 218 000 of us paying salaries tax, it seems clear there are a lot more ingenious people in Hong Kong who manage to avoid tax and become totally invisible to the Revenue Department, and they are not necessarily 'poor'. It seems that while the Financial Secretary in performing his task of narrowing the gap between the rich and the poor, 'by improving the lot of the poor, not by squeezing the rich,' the real pressure is put on the shoulders of the 'middle income' families i.e. those who cannot enjoy the benefit of any public or Home Ownership Housing Scheme and apparently earning less than \$13,000 per month.

Increase in Fees for Vehicle Licences and Hydrocarbon Oils

Not very long ago, on the 2nd of June 1982, the Government introduced the Motor Vehicles (First Registration Tax) (Amendment) Bill 1982, and amidst protest and qualified support the Bill was passed and the First Registration Tax

for vehicles went up by 200% for 'transport reasons'. For a small car of up to 1500 c.c. the First Registration Tax has increased from \$600 in April 1982 to \$2,300 in March 1983. In spite of the explanation that the present increase of 80% on the 1979 fees restores the real tax value of the fee it will be very difficult to convince car owners that this is not part and parcel of a total package to restrain car ownership (as opposed to restraining the use of vehicles), and to deny aspiration of ownership step by step by fiscal measures.

Personally I support the introduction of restraint measures on the growth rate of private cars down to the target rates of 5%, but it is quite a different matter when in May 1982 the Secretary for Transport says 'it is considered undesirable to deny aspiration of ownership completely, and Government considers, therefore, that other measures should be tested before direct restraint on ownership is resorted to', and subsequently informs us that the fiscal restraints have been effective, and yet in March 1983 the Government introduces further increases in vehicle registration fees. I am unconvinced that we can really distinguish the real motive behind the increases in May 1982 and March 1983 and I cannot support the fiscal measures now imposed.

Likewise the increase in the duty on hydrocarbon oil. The Honourable Alex WU pointed out on the 2nd of June 1982 that the then Financial Secretary spoke on the subject thus during the presentation of the 1981-82 budget 'I do not wish to be drawn into arguments about which of the three imposts borne by private motorists, namely, First Registration Tax, annual licence fees for vehicles and drivers and excise duty on hydrocarbon oil, would be the weapon most likely to be effective in any attempt to ensure that available road space is used as effectively as possible as our public transport services are diversified and improved, or, indeed, into any argument as to whether any of these weapons should be used'. Looking at this passage it is difficult to accept that the fiscal measures now effected to increase the duty rates on motor spirit (from \$1.20 to \$2 a litre) and on diesel oil (from 35¢ to \$1 a litre) have no ulterior purpose as a means of further restraining ownership of vehicles by fiscal measures. While the May 1982 increases remain an effective deterrent, I think it is fiscally inequitable to impose further increases and I cannot support such measures. Also, if the Government intends to fire a gun with double barrels we should be told before hand so that members of the public may better assess their ability to keep a private car, and the Unofficials better placed to read its implications.

The increase in goods vehicle licenses and diesel oil duty will probably lead to increases in freight transportation costs and taxi fares. The middle income families are those who will have to give up the idea of owning a car or cut down on their taxi trips in order to spend their savings on a mortgage for a home.

Separate Taxation for married women (which I also read as an issue relevant to the tax burden of the middle income families.)

The issue of separate taxation for married women has always been described as a 'women's issue' in that it is the women's quest for recognition of their own

identity. This is, in fact, a narrow interpretation of the logic and reasons behind the request for reform in our Inland Revenue Ordinance Cap. 112 which says, under s. 15B

‘For the purpose of this part a wife not being a wife living apart from her husband shall be deemed to be one and the same person as her husband.’ (for profit Tax)

and under s. 10 (for salaries Tax)

‘The income of a wife not being a wife living apart from her husband shall, for the purposes of this part, be deemed to be the income of the husband and shall be chargeable accordingly in his name.’

There are three main reasons why a married woman takes employment: either that the family needs the wage packet she earns; or that she has the ability to work so as to fulfil her aspirations; or both. Probably it is for exactly the same reasons that her husband takes employment. Hence there is no reason to deny her the recognition of her identity as an individual and her contribution to the family or social economy by ‘deeming her to be the same person as her husband’ in any legislation, on taxation or otherwise.

A broader view of the significance of separate taxation for married women is that when she can elect to be taxed as an individual, the family or the husband can usually gain a tax saving advantage which benefits the whole family. A simple example following the U.K. pattern can illustrate this, where the husband’s income is \$8,000 per month and the wife’s \$5,000 per month. I have worked out that under our present joint assessment scheme, the family will have to pay as tax \$16,625. But if we can have separate assessment for the husband and let him claim allowance for the first child, assuming there are two in the family, his tax liability will be \$10,000; and if she can claim the tax allowance for the second child and herself, her tax liability would be \$2,475. The saving is \$4,150 for the whole family. (See footnote for detailed calculation.)

Footnote

	<i>Joint Assessment</i>	<i>Separate Assessment</i>	<i>Separate Assessment</i>
	\$ 156,000 p.a.	\$ 96,000 p.a.	\$ 60,000
personal allowance for		\$	
less Husband	\$ 28,000	less \$ 28,000	less \$ 28,000
Wife	\$ 28,000		
1st child	\$ 8,000	\$ 8,000	
2nd child	<u>\$ 5,500</u>		2nd child <u>\$ 5,500</u>
taxable income	\$ 86,500	\$ 60,000	\$ 26,500
Tax payable		Tax payable	
1st \$10,000@ 5%	= \$ 500	\$ 500	\$ 500
2nd \$10,000@10%	= \$ 1,000	\$ 1,000	\$ 1,000
3rd \$10,000@ 15%	= \$ 1,500	\$ 1,500	<u>\$ 975</u>
4th \$10,000@20%	= \$ 2,000	\$ 2,000	\$ 2,475
5th to 9th \$10,000@25%	= \$ 11,625	\$ 5,000	
Tax	\$ 16,625	\$ 10,000	total\$ 12,475

Now this difference to the family, in saving this \$4,150.00 in taxation, is very attractive to many Chinese families and to them, this is the strongest argument in favour of separate taxation. Also, if the wife had not made use of her talent or knowledge and joined the pool of workers or professionals, and made her due contribution to our economy, the family would not have attracted this amount of tax.

Hence, the proposals in paragraph 140 of the Financial Secretary's speech are welcomed by the many educated and westernized Chinese couples in our community, although some of them have reservations that the more traditionally-minded Chinese families will not bother to press for or even favour separate assessment without the tax savings. I have also heard comments that it could lead to family disputes. The general social development trend, however, is that young couples are more and more westernized in their life style and thinking and that they are more likely to appreciate that separate assessment as proposed is an option and not a restriction. Also, family disputes, which we hope will never occur, but if they do occur, it is not likely that they are because of separate tax assessment.

In order to move with the times and give credit where it is due the amendments to be proposed to the Inland Revenue Ordinance are timely and the reform is welcomed.

Bringing in the invisible man

In footnote no. (42) under paragraph 106 of the budget speech the Financial Secretary gives examples where some companies registered in Hong Kong pay little tax 'because our limited territorial source criterion excludes a substantial part of their profits charge to tax.' Others are able to 'reduce their basic liabilities via tax loss companies and so on.' As a result 'many people who carry on Business have made little or no other contribution to the exchequer.' I can understand that it may be virtually impossible to assess the tax on the income of a hawker or free-lancing electrician, short of shifting the burden of proof of their actual income on the shoulders of these individuals, for example, by giving them an estimate of their income or profit tax liability which can be rebutted by evidence. We should, however be able to trace the income of companies registered in Hong Kong and obtain proper contributions to our taxation income in Hong Kong. I think this latter possibility should be seriously explored in order to promote solvency, not soft-heartedness.

Sir, the Financial Secretary pointed out that the Government has no sensible alternative but to promote actual export not theoretical equity, incentive not ideology, while still remaining compassionate and caring particularly in the case of individual inadequacies and suffering. In examining his budget proposals I think the Financial Secretary has achieved those objectives, and I support the motion.

DR. IP:—Sir, I must first begin by congratulating the Financial Secretary on his budget speech. In spite of hard times and the need to tighten our belts it reflects sympathy towards the reasonable requirements of the disadvantaged and the poor and a balanced approach to the additional taxation necessary to protect their interests.

He has commented in his speech, and to me personally on more occasions than one: ‘Complaints about Government policies and criticisms of apparent meanness are plentiful in our free society but are rarely accompanied by an suggestions of how to get from the community the additional revenues usually involved.’ I wish to set his mind at ease. I shall avoid the former and aim to provide the latter.

My theme is the unrealistic scale of charges imposed for medical services. I am in no way deterred by Tuesday’s leak and yesterday’s press release to the effect that nominal increases, which escaped the Financial Secretary’s attention only two weeks ago, will come into force in one week’s time. My anxieties are not eased by an extra dollar for a bandage or five dollars for the price of a *hospital* bed. Rather, I am concerned with the extent to which private patients with private resources are subsidized in their use of public services by further substantial public funds. And I am equally concerned at an apparent failure to update charges even when recosting exercises show them to be seriously incorrect. There are many cases where charges fixed a decade ago are still being applied even though updated figures have been available for the past two years.

In the draft revenue estimates for 1983-84, I noted that, firstly, the Government expects to collect only \$55.4 million in fees and charges for services provided by the Medical and Health Department and to credit the amount to the General Revenue Account. Secondly, that this represents only 3.1% of the total estimated expenditure for the Department in the coming year. And lastly, that this ratio has fallen gradually from 6.3% in 1979 by an average annual decrease of 0.8 to the modest 3.1% for 1983-84. These points prompted me to make an analysis of the Fees and Charges Review System of the Medical and Health Department Revenue Register, based on a computer print out dated the 15th of March 1983.

The analysis brings to light that 80% of the Fees and Charges were last reviewed before 1974, 14% between 1975 and 1979 and only 6% in the 1980s. Given the annual increases in the Consumer Price Index, little wonder the dramatic fall in revenue percentage.

I will quote some examples of *undercosted services*. They happen also to be comparatively *well patronized by the private sector* because our comprehensive Medical and Health Services either excel in them or provide them exclusively in Hong Kong. They are \$55 for virus isolation, \$100 for a subsequent course of radiotherapy, \$500 for a subsequent course of Chemotherapy and \$300 for cardiac catheterization. Those in the medical field will know how expensive such services really are. By comparison the Government’s charges are ludicrously low.

A costing exercise in itself is time consuming and cannot be done more than once every few years. However, all of us must surely agree that the *more up-to-date our costings the less will Government lose out financially* in providing services to patients who, because they can afford it, are being charged the so-called full rate. Furthermore, there is no excuse not to review the charges after a costing exercise has been done, except where, as a matter of policy, it is not the Government's intention to charge the full rate. To expand on my earlier point; I have found 25 examples in which the fees charged today are based on 1972 costings, despite the fact that the services were recosted as recently as 1981. The majority are in the category of *laboratory investigations*, which in passing happen to be the 'profit centres' in private hospitals. I cite an example of Thin Paper Amino Acid Chromatography, costed to be \$339 per test in 1981. The Medical and Health Department is still in March of 1983, charging the 1972 rate of \$45 per test, a difference of \$294. Surely we must review the charges as soon as possible after a costing exercise. And costing exercises must take place more frequently than every ten years!

Entrusted medical colleagues, (themselves civil servants who care about how the taxpayer's money is spent) have told me that some expensive investigations and treatments which, with advances in medicine have mushroomed these last ten years, have not been costed at all. They are therefore either not charged or charged negligibly under the category of 'miscellaneous tests'.

My analysis exposed other defects in the system. They range from discrepancies when some services are costed to be zero—a fact difficult to believe—to a cumbersome system so overburdened with detail as to deter frequent review.

A system, easy to review, practical to implement, and financially rewarding in the outcome must be worked out between senior and junior doctors, administrators and economists.

The Fees and Charges of the Medical and Health Department have already been underestimated. Please don't underestimate the potential revenue until a realistic recosting exercise has been completed.

In passing, I would like to prescribe some avenues for thought. Should we *subvent 40% of the cost of medical services for second class private patients*? Does Government make known to the public, and to the casualty officers who admit patients all too lightly, that it is charging the public only \$5—soon to be \$10—when the Department *expends an average of \$500 per bed per day* in acute Government hospitals? Will the lack of incentive—namely, that the increase in revenue of the Department does not increase its budget—fail to encourage the providers of medical care to seek out *more cost-effective measures*? Are we distinguishing the important difference between 'trying to economize by purely cutting costs'; and 'seeking out the *most cost-effective policies* to meet particular objectives but not at the expense of a less effective outcome'? Are we giving

enough consideration to the timing of costs, particularly in preventive measures, which incur large immediate expenditures but bring benefits spread over many years, for example, the prevention of handicap in the neonatal period, and School Dental Clinics, the expansion of which have been stalled for at least four years?

To conclude this topic, one more question. Although the provision of medical facilities for *the poor and underprivileged would remain Government's FIRST priority*, can the increase of beds in private wards, oversubscribed in Government hospitals, help to make the Medical and Health Services, more cost-effective, so that it can in return meet its deficiencies in serving the poor and the underprivileged *without bringing on greater demand for additional tax revenue?*

Our Medical and Health Department has expanded so rapidly in the last ten years that it is beginning to show '*evidence of public expenditure running out of control*'. I therefore firmly believe that it is time to consolidate our thoughts on how the Medical and Health Services can operate in such a way that it *in part funds itself, not by economising at the expense of the poor but by realistically charging those with the ability to pay.*

Turning now to *separate taxation for married women*. The Financial Secretary has discussed clearly the pros and cons for the four basic routes that we might, in theory, take in dealing with this matter. I have great respect for the logical way in which he deals with issues and this is only but one example. However, if I can be so bold as to supplement a few sentences to his second option and also to his final analysis of why he chose the third, I hope that I can convince him to change his mind. I express the following opinion for reasons which, if kindhearted, are certainly not shortsighted or self-interested.

'We might adopt a system of separate taxation by voluntary election, that would be to give some taxpayers *the best of all worlds*'. This is in keeping with how we treat our taxpayers (except for married women), in that any individual (except for married women) can opt for personal assessment by the application of the aggregation principle, if it is to their benefit.

'The system is not unknown elsewhere, but is generally to be found in territories where marginal tax rates are very high indeed, bordering to confiscatory.' Although Hong Kong does not suffer from high tax rates, the lack of separate taxation for married women does result in some families bearing a significant marginal rate of tax based on their earnings. In many cases, it can amount to a few thousand dollars and collectively, this spirals to \$180 million in a full year. Yet again, this effect is *borne in bulk by the sandwiched class*, who are not eligible for most social benefits.

Separate taxation for married women will in some minds bring '*inequity as between similar families with similar total incomes*', only because they discard the vital difference between one family where only *one member needs to work*,

and another family where both husband and wife *have to work to make ends meet*. In the latter, we have two contributory individuals to society's work force and the family's possible *human resources are already maximized to the full, with no further potential* to obtain other channels for financial reward.

'The adoption of a system of completely separate taxation for husbands and wives would represent a radical departure from our traditional concept of the family unit as the fiscal unit of charge', only in the eyes of some units within the Inland Revenue Department, but not for Unit 3 which deals with estate duty and stamp duty. However such a system *will not change the traditional concept of the family unit per se, in the eyes of the community*, which is what matters. On the contrary, the present tax system which may compel some to choose cohabitation instead of formal marriage, does indeed, 'succeed in giving greater offence to the community at large'.

'Whether mandatory or by way of election, it would be expensive on grounds of cost alone, separate taxation is simply not possible.' But on grounds of a far more important nature, namely EQUITY and the SOCIAL PRINCIPLE that married women should be granted their RIGHTFUL LEGAL IDENTITY, *nothing* should be impossible. Any individual, *even a married woman* (and here I am comparing like with like), should be given the *right to elect for separate taxation*.

With these supplements, it is to me logical to allow married women to elect voluntarily for separate taxation. I therefore propose that option 2 should be implemented in April 1984 instead of option 3, to avoid unnecessary drafting and redrafting of legislation. If the United Kingdom, United States, Canada, Australia and Sweden allow married women separate taxation as an individual, I can't see *how Hong Kong can escape it eventually*. Why, therefore, continue to defer the inevitable?

In the next financial year, no less than \$600 million will be spent on rehabilitation services. This is equivalent to 20% of the total expenditure for the medical and health programme. If medicine succeeds more in the *prevention of handicap*, it would seem we are hitting the egg with a hammar. Much less money need be spent on rehabilitation. This brings me to question whether we are putting enough emphasis on prevention (as well as assessment and provision of direct service for the handicapped).

From the proposed budget, the only mention of the word 'prevention' under the topic of rehabilitation is in the early detection of abnormalities through the Comprehensive Observation Scheme. However, there is *one major FORGOTTEN step which PRECEDES such 'prevention by detection'*. It is in the *PREVENTION OF HANDICAP ITSELF* by providing better medical care during the obstetrical and neonatal period when most mental handicap occurs—figures of which I quoted in this Council last October. Ample stress must also be put on the prevention of accidents, middle ear disease and environmental stress as causes of physical handicap, deafness and mental illness respectively.

I would like to see Government give a breakdown of the money spent in the three major areas namely, *prevention of, assessment in,* and the *provision for the handicapped,* so that we can be satisfied that money is spent effectively.

I cannot accept that money spent on the medical prevention of handicap cannot be dissociated from the money spent on medical care per se. If this is the reason given for the inability to provide such a breakdown, I suggest that any *additional improvement in capital or recurrent expenditure* on aspects of medical care aimed specifically at the prevention of handicap could be taken *as spent on prevention in the rehabilitation package.* The same applies to accident prevention and the like.

Furthermore, a comparison between the shortfalls/incidences of the various handicaps, and the actual amount of money spent on the respective fields would also be extremely helpful in gauging whether we are balanced in our approach to rehabilitation.

Regarding the application of funds by Education Department and subvented agencies, I would like to stress that the accepted nine years free education must extend to special education, *not only in principle but also in practice.* While we improve the quality of education for normal children, we don't have enough schools places for the handicapped children.

In this budget, only \$15 million is estimated to be spent on capital expenditure to increase the number of such subvented school places in 1983-84, out of an unspent approved commitment of \$122 million. It means therefore that if Government is successful in achieving its plans for this year, it would only have fulfilled 12% of what it considers necessary.

The shortfall is *not insignificant,* if I were to quote figures for the mentally handicapped. Based on the estimated number of mentally handicapped school children and the provisions available at the end of March 1982, the Rehabilitation Programme Plan Review done that year, gives the shortfall to be over 6 000 school places in 1983-84. However, the estimated expansion this year is only 308, that is meeting the shortfall for the mentally handicapped by only 5%. If nothing more is done about it, we will still have an *estimated 6 000 mentally handicapped children without a school place by the end of March 1984.*

The explanation given for the slower than anticipated rate of progress in subvented capital projects for special schools 'to be often engineering or geotechnical problems, unexpected price increases and frequent changes in architectural plans at the requests of the sponsors' is incomplete unless Government takes up its *initiatives to assist voluntary agencies in progressing through* no fewer than 23 cumbersome stages before a special school can finally be in operation. And lastly, when all fails, the story should end only with Government meeting a commitment according to its own policy by building and operating special schools itself.

However, I note that Government has no such plans! Does it mean that Government sees the responsibility to be with the voluntary agencies? Should not the voluntary agencies be seen as assisting Government in meeting its objectives? Does not the *final responsibility to provide education for the handicapped lie with Government?*

An ANSWER must be given as to when Government intends to put all handicapped children in school!

Lastly, let me turn to the subject of the civil service. I can't agree more with the Financial Secretary that the production and implementation of his well thought budget depends on a competent and loyal civil service. We have to look after our civil servants well, because it is through them that we safeguard the community to which we all belong. They have a difficult task in guiding the Finance Committee in the use of public funds. The task becomes even more difficult when they are expected to be impartial in situations where there is vested interest, such as with the private dental scheme for civil servants, home purchase allowances payable to civil servants and the like.

I see the relationship between *civil servants and the public to be like a mother and her child*. We place as much importance on the care of the mother as we do on her child, because it is through her that the child gets care and protection. *A responsible mother puts her child's needs first and often suffers for his benefit*. The responsible civil servant does likewise for the public. *The day has come when our civil servants hold our people's good at heart*. Here I wish them every success in following through Government's initiatives and in cultivating their own to ensure that, particularly in these difficult times, Hong Kong receives *good value from its hard-earned resources*.

With these remarks, Sir, I join my Colleagues in supporting the motion.

MR. LOBO:—Your Excellency, I am sure the Financial Secretary would be more surprised than any of us—and not a little worried—if his budget proposals passed uncriticized or unchallenged.

It had been said and thought by some people, last year that he was trying to forestall all criticism by suggesting that Members of this Council and the public should not criticize unless they had better suggestions to make. That would not really be fair, I know my Friend the Financial Secretary as a fair person; and also because I know he is only too well aware that, as we are constituted, it is for the Government to propose and it is our duty to question and, if necessary, to object.

It has also been said that in his budget address this year the Financial Secretary did not warn us off directly, although I must admit I was somewhat alarmed by a caption under his photograph in one newspaper which cautioned 'criticism by fools irritates him'. My Colleagues who have spoken before me have had much to say and made many suggestions and specific proposals, I am not sure how irritated our Financial Secretary must be at this stage.

However, since he was also quoted as saying: 'I don't mind intelligent criticism', I will assume that all our comments are under this category. (*laughter*)

Without further ado, and without any reservation, I would like to say that I found his account of our economic situation lucid and realistic and the philosophy of his fiscal measures sound and appropriate, and I compliment him on his lucid account of our financial situation.

Sir, there never was a time so important for people to appreciate the facts of Hong Kong life, and particularly the economic facts of Hong Kong life.

We are not, as the Financial Secretary said, a rich community. We get no subsidies and we can only have what we can pay for: no free lunches and no passengers.

These are the facts of life to which all our economic and social ambitions must be related and greater efforts must be made to have them well understood.

As it is, public confidence is confused by rumour, by the vagaries of our yo-yo stock market, and on the antics of speculators. It is hard for the ordinary people to know what matters and what is irrelevant. It is the duty of Government and all people of influence to provide clear guidance.

It is a shame that in his budget address the Financial Secretary should have had to devote so much attention to the regulation of activities which contribute little to Hong Kong's economic health. To me the most important thing he had to say was relegated to a foot-note which many may have missed altogether, although some of my Colleagues have touched on it in part.

Because it is so important I will read it. The Financial Secretary said, and I quote 'I reiterate my commitment to pronounced and growing Government support for the basic infrastructure that is needed to support our changing economy.' He added in his foot-note: 'for example, vocational, technical and tertiary education; an intelligent approach to research funds; industrial investment promotion and training schemes; Government institutions designed to facilitate diversification; all the support that the Government can give in trade relations and trade facilitation; transport including road, rail, airport and harbour; land formation; telecommunications; production of public housing; oversight of markets; and not least promotion of wise monetary policies.'

These are commitments of value, and the importance of this budget is the assurance it provides that in spite of hard times our principal public programmes are being maintained and in some cases increased.

I was also pleased to hear the Financial Secretary say, 'The Government will carry on calmly and steadily with its long-term policies, and we will remain always sympathetic to the reasonable requirements of the disadvantaged and the poor'.

Sir, it has not been easy for the Financial Secretary to make ten tax concessions in one year and to propose eleven revenue increases (and only two concessions) the following year, and I join my Unofficial Colleagues in supporting the Financial Secretary's sensible proposal to reschedule Budget day.

A later Budget day will allow for revised estimates to be calculated more accurately and in turn provide a more realistic and reliable base for forward planning.

Finally, Sir, perhaps I would like to use this concluding slot to place on record a note on the work done by my Unofficial Colleagues supported by the U.M.E.L.C.O. Office in the examination of the Draft Estimates of Expenditure.

To facilitate the examination work the Unofficials formed four groups to look into different areas: Law and Order; Economic and Community Services; Social Services and General Services.

After a series of meetings at which each and every one of the 71 Heads of Expenditure was critically examined. Members formally raised a total of some 366 points of query. These points were either answered in writing or clarified by the Controlling Officers concerned at the four special Finance Committee meetings which were convened for this purpose. A total of 25 Controlling Officers appeared before the Committee and were questioned closely by Members.

While fully appreciative of the prompt and full replies provided by the Administration, there inevitably were a number of points where Members remained uneasy. Many of these have been covered in the observations of my Colleagues on the budget but we will continue to maintain a close watch over expenditure to ensure that the Government gets full value for every dollar of public money it spends. My Colleagues who have spoken before me in these two days' debate, while supporting the motion, made comments and suggestions and voiced reservations. No doubt their views will be very closely considered.

Sir, with these remarks, I support the motion.

Motion made. That the debate on the second reading of the Bill be adjourned—THE CHIEF SECRETARY.

Question put and agreed to.

Adjournment and next sitting

HIS EXCELLENCY THE PRESIDENT:—In accordance with Standing Orders I now adjourn the Council until 2.30 p.m. on Wednesday, 13 April 1983.

Adjourned accordingly at five minutes to five o'clock.