

**OFFICIAL REPORT OF PROCEEDINGS****Thursday, 14 April 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  
SIR CHARLES PHILIP HADDON-CAVE, K.B.E., C.M.G., 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 THE SECRETARY FOR HOME AFFAIRS (*Acting*)  
SECRETARY FOR DISTRICT ADMINISTRATION  
MR. DAVID AKERS-JONES, C.M.G., J.P.

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

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

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

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

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

THE HONOURABLE LYDIA DUNN, 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

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

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 ANDREW SO KWOK-WING, J.P.

THE HONOURABLE HU FA-KUANG, J.P.

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

DR. 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 COLVYN HUGH HAYE, J.P.  
DIRECTOR OF EDUCATION

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

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

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

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

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

**ABSENT**

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

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

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

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

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

DR. THE HONOURABLE HENRIETTA IP MAN-HING

**IN ATTENDANCE**

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

**Government business****Second reading of bills****APPROPRIATION BILL 1983****Resumption of debate on second reading (13 April 1983)***Question proposed.*

SECRETARY FOR THE CIVIL SERVICE:—Sir, while the Unofficial Members who spoke earlier in this debate concentrated naturally on the financial aspects of the Budget, there were numerous references to the staffing of the civil service. This is entirely proper, for once the legislature has voted funds for public expenditure, the way these funds are applied and the degree to which they achieve their intended purpose is largely in the hands of the civil service.

Some of the points raised by Unofficials concerned the activities of particular departments. By the end of this afternoon my Official Colleagues will have responded to all of these, some of them being covered by the Financial Secretary in his closing speech. It falls to me to respond to Unofficial Members on those matters affecting the staffing of the civil service generally.

Dr. FANG referred to the growing awareness of the need to groom the upper middle echelon of civil servants for greater responsibilities, and acknowledged the steps that we are taking to help prepare them for this, particularly through the new ‘Command and Management Course’. I would just like to make the point that this new course is being mounted on a trial basis, so that it will be without prejudice to longer term arrangements for senior management training generally.

Miss BENNETT and Mr. CHEN spoke in their usually robust terms about the need for greater efficiency and productivity and I shall revert to this theme later in my speech at some length.

Mr. YEUNG made a plea for greater flexibility in the allocation of staff resources between departments, so that staff may be made available where they are most needed. Our present arrangements are designed to facilitate this and I do believe that they are generally effective, but I will look into the particular cases he mentioned.

Both Dr. Ho and Mr. WONG Po-yan stressed the need for thrift as an aid to improving efficiency and productivity, and urged us to take positive measures to achieve these objectives, for example through value for money studies and staff training. I confirm that we are doing just that.

There is one particular point I should like to make in response to Mr. WONG Po-yan’s remarks about staff establishment ceilings for the coming year. The creation of posts up to these ceilings is not automatic: each and every post will

have to be justified to the hilt before the Departmental Establishment Committee may create it.

Mr. Stephen CHEONG remarked that civil servants are not normally subject to the discipline of cost-effective expenditure control. He is right in the sense that only a small part of the civil service is engaged on work which is susceptible to the discipline of the profit and loss account. But I rebut any suggestion that civil servants are not subject to cost controls of one sort or another. We all are, and we accept them: the question is how to make them more effective.

I should then like to thank Dr. IP for her words of encouragement on the civil service. She spoke of civil servants acting responsibly and impartially. She is right in thinking that this is not always easy, but we do strive to attain these crucially important goals.

Sir, in their various references to the staffing of the civil service Unofficials focused on three main objectives:

- (i) economy of recurrent expenditure (the greater part of which is, of course, staff-based);
- (ii) improved efficiency and productivity;
- (iii) minimum growth of staff numbers, the staff for new and expanded services being found as far as possible by redeployment of existing resources.

I am sure that my Official Colleagues would endorse these objectives, and indeed the draft estimates of expenditure for the coming year reflect numerous measures that have already been taken in this direction.

Civil Service Branch must clearly set an example and we have sought no increase in staff for the coming year; this despite the fact that the service which we are responsible for managing is continuing to grow. We are moreover expanding many of our activities, notably those concerned with the promotion of service-wide efficiency and productivity.

I would like to draw Members' attention to just one simple set of figures culled from the draft Estimates of Expenditure for 1983-84. Of the total of 60 Government departments and agencies, no less than 35 (58 per cent) are scheduled to experience zero or close-to-zero growth in staff during the year ahead. In defining close-to-zero growth I have taken any department or agency which expects to have an increase in staff next year of nine or less people. Since their workloads are unlikely to decrease, the consequence should be increased efficiency and productivity.

Sir, because productivity as a concept was originally associated with production processes, such as motor vehicle assembly and coal mining, there is a tendency to think that it is not generally applicable to public service type of work. Certainly it is difficult to devise meaningful measures of productivity in such fields as Law and Order or District Administration. Moreover, some of the things we do have the effect of reducing productivity, as when we open branch

offices in new towns and housing estates for the convenience of the public, or when we improve standards of service in response to rising public expectations. But the fact that the work of the civil service is often qualitative and cannot easily be measured does not mean that productivity cannot be improved, or that benchmarks should not be established against which such improvements can be measured. Indeed it can be argued that precisely because the *output* of the civil service is not generally susceptible to measures of productivity, so it is more than ever necessary to subject the *processes* within the public service to the discipline of productivity measures. I believe myself that we have here an aspect of corporate management which we do need to explore with renewed vigour and with an eye to innovation.

At the centre, productivity within the civil service is the joint responsibility of Finance Branch and Civil Service Branch. Finance Branch approaches the subject through financial controls, establishment reviews and value-for-money studies. Civil Service Branch approaches it through staff selection, training and staff management. The two approaches are complementary, and the two branches in effect operate in tandem.

However, given the size and the diversity of the civil service, it is not possible to achieve improved productivity by edict from the centre. It is within departments that the action lies, and it is the individual Head of Department who plays the key role. He is in the best position to judge what proportion of his resources he should apply to his various programmes at any given time, and to devise the most cost effective ways of achieving his objectives. If the policy is to restrain deliberately the growth of departments, then it is the individual Head of Department who is in the best position to judge how to redeploy existing resources to meet new tasks. Steps to improve efficiency and productivity are unlikely to achieve worthwhile results unless they are drawn up in consultation with the staff who will be affected, and again it is the Head of Department alone who is in a position to do this. Civil Service Branch can of course assist by providing guidelines, advice and technical support. This we are doing through our daily contacts with management and staff, through the training courses and seminars we are organizing, and through our frequent meetings with staff associations.

Just as improved productivity cannot be achieved by edict from the centre, so it cannot be achieved in an organization as big as the Hong Kong Civil Service without a great deal of preparatory groundwork aimed at improving the management of the service in all its aspects. It is, I submit, important to view what we are now doing in historical perspective, because any success that attends our efforts in time future will flow from measures taken in time past.

Perhaps the key step we took was the setting up in 1979 of the Standing Commission on Civil Service Salaries and Conditions of Service. The advice contained in the succession of Standing Commission reports since then has given the service a grade structure which is now facilitating moves towards

greater efficiency and productivity. We really are indebted to the Standing Commission for the work they have done.

In 1980 we embarked on a programme of strengthening the administrative structures of departments to better enable them to discharge their management functions. This has been paralleled by the several major Government reorganizations referred to by the Chief Secretary in his speeches in this Chamber.

1981 was the year in which we embarked, with the advice of the Standing Commission, on service-wide improvements to staff consultation and to our arrangements for handling staff relations generally. This has paid good dividends and if we are now in a better position to tackle questions of productivity it is because of the new relationships that have been established between management and staff throughout the service.

During 1982 we placed particular emphasis on the development of training programmes aimed at staff engaged in supervisory roles and in staff management work. This too equips us better to tackle productivity.

For 1983 we concluded that the time had come to lay stress on productivity and quality at the point of delivery of services to the public. We are at this moment engaged in a number of practical studies and we have received very full co-operation not only from the staff themselves but also from those members of the public who are assisting us in their role as clients.

I believe that the Hong Kong Civil Service has already attained levels of productivity not generally achieved by civil services elsewhere, but we must move forward. We have laid the groundwork: we have the support of Unofficials, of management, and of the individual civil servant; and provided we persevere and are not afraid to innovate, I am confident that we shall raise the efficiency of our service to a new plateau.

Sir, I support the motion.

SECRETARY FOR TRADE AND INDUSTRY:—No fewer than eight of my Unofficial Colleagues, Mr. Lo, Mr. TIEN, Mr. S. L. CHEN, Dr. HU, Mr. YEUNG, Mr. LEE, Mr. WONG Po-yan and Mr. CHEONG, touched on Hong Kong's exports or on international trade, and several of them referred, directly or indirectly, to protectionism in this vital area affecting our community's very livelihood. Accordingly, in response to Mr. TIEN's concluding remarks, I acknowledge that all of us working within this programme area have an onerous task in securing and maintaining Hong Kong's access rights to the world markets for our goods in accordance with our rights and obligations under the General Agreement on Tariffs and Trade (G.A.T.T.).

It would be wrong of me not to stress that with the disappointing outcome to the Ministerial Meeting of the G.A.T.T. in Geneva last November, and the significant and increasing number of measures being taken outside its provisions, the international trading system is probably in its most critical position

since the 1930's when it began to dawn on all thinking people that begging thy neighbour does not really bring real improvements to ones own community. This is because protectionism not only distorts the flow of goods and services between trading partners, it also involves the transfer of income and resources between different groups of people within the territory of the protectionist itself, retarding the growth of dynamic new industries therein and reduces the size of the entire economic cake thus resulting in reduced shares for *all*.

Hong Kong has always relied on the observance of the G.A.T.T. which—lest anyone should forget—is a contractual arrangement between the Contracting Parties. It is the very fabric of international law governing the conduct of the Contracting Parties in international trade. It is our hope and belief that as the international community recoils from the abyss towards which we seem to be heading there will be general recognition that the hope for the future for everyone—the giants as well as the midgets among trading communities—lies in respect for and observance of the G.A.T.T. And revival of the world economy will naturally assist in the realization of this hope.

In regard to our trading problems with France, the underlying strength of our case lies in our total and unreserved fulfilment of our obligations under the G.A.T.T. It is my hope that the G.A.T.T. Panel currently examining the consistency with the G.A.T.T. of the restrictions placed on certain imports from Hong Kong by France will soon make a recommendation which will lead to the elimination of all discriminatory treatment against us in that market.

#### *Support for manufacturing industry*

In the Government's plans to upgrade our manufacturing industrial base, where Mr. S. L. CHEN, Dr. HU, Mr. LEE and Mr. WONG Po-yan have all in turn urged us to make greater efforts, I have to stress that we must not indulge in what can be interpreted as export subsidies. I need hardly say that any infringement by us of the G.A.T.T. Code on Subsidies and Countervailing Duties will not only undermine our moral as well as legal standing in the G.A.T.T., we might also invite countervailing action against our products in our overseas markets in future.

On the maintenance of industry's competitive position, the Government's role is thus in providing the basic industrial infrastructure and various support services, including industrial investment promotion efforts and other activities, but the real responsibility lies in our industrialists' innovation, resourcefulness and willingness to partake in the continual development of Hong Kong.

Subject to these basic points, the Government is certainly providing more assistance and support to industry than hitherto. In many areas, as identified by the Advisory Committee on Diversification, the Government has, as far as resources permit, implemented or is in the process of implementing the Committee's recommendations. The Industrial Development Board set up in 1980 to plan, monitor and advise on various programmes in the field of industrial development has commissioned a number of studies including:

- (a) a consultancy study on testing laboratories services and accreditation of testing laboratories in Hong Kong—to examine ways of establishing a system of accreditation of testing laboratories, to assess the competence of these laboratories, and to undertake various types of tests so that test certificates issued by them are accepted internationally;
- (b) a technology transfer study to assess the requirements of industry in respect of technology transfer; to identify the services and facilities available and to consider how and to what extent existing services and facilities meet the requirements; and to consider what other services are required and propose how these services could be provided;
- (c) techno-economic studies of the electronics and metal and light engineering industries.

The Board has also embarked on three research and development projects, these are:—

- (a) a project on fabrication and analysis of integrated circuits (I.C.) which aims to develop various techniques of failure analysis and reliability studies of I.C. structures and to provide basic technical support of I.C. processing technologies;
- (b) a project on equipment and manpower for the development and research of I.C. technology and semi-conductor devices—which aims to meet industry's needs in the development of single-chip systems and I.C. fabrication manufacturing facilities;
- (c) a project on computer-aided design of electronic systems—which aims to promote computer-aided design and computer-aided manufacture in the local production of circuit chips and computer systems.

Other major projects being implemented or planned include:—

- (a) the formation of a Working Party on Computer Software Industry: its primary objective is to carry out a series of specific studies computer software in Hong Kong with a view to formulating a rational and effective strategy for its future development in Hong Kong;
- (b) a proposal on development and implementation of computer-aided design and computer-aided manufacture systems for the Hong Kong manufacturing industries;
- (c) a proposal to establish a research and development facility for radio frequency interference suppression;
- (d) the possible establishment of a product innovation and design unit in conjunction with the Hong Kong Trade Development Council;
- (e) a proposal for the establishment of an automation unit within the Hong Kong Productivity Centre.

The Hong Kong Government Standards and Calibration Laboratory will be opened for business in about a year. A major portion of the calibration equipment has been ordered. The Laboratory will focus initially on electrical and electronics standards measurement.



As recently announced the Industry Department has reorganized its Science and Technology Division as part of the ongoing process to ensure that all these activities are properly managed, controlled and monitored and that in particular the Department has the necessary professional expertise. It is envisaged that the benefits of this reorganization combined with the implementation of the Industrial Development Board sponsored projects would result in the provision for Hong Kong of a broader base for diversification in keeping with world market trends.

#### *Industrial Investment Promotion*

Industrial investment promotion is, of course, recognized as an integral part of the whole process of industrial development and diversification. The Industry Department therefore encourages industrialists to invest and reinvest in industry including updating of plant and machinery and improve production processes. A One-Stop Unit has been established within the Department and four industrial promotion offices have been opened overseas with specialist officers knowledgeable in industrial matters to stimulate and facilitate such interest. The One-Stop Unit, among other things, approach local industrialists direct, hold industrial promotion seminars, or through other forum seek to encourage them to consider ways and means of improving their production capabilities through new technology or technical skills, innovative product designs, or by means of industrial cooperation with overseas investors in joint venture, subcontracting or licensing arrangements. At the same time, the Department's overseas industrial promotion offices in London, Tokyo, Stuttgart and San Francisco publicize the advantages of Hong Kong as a manufacturing base for their operations in this part of the world and the opportunities for industrial cooperation with local industrialists.

Emphasis is placed on direct person to person contact with potential investors, and the organization of seminars, participation in technology fairs, the placing of advertisement in trade media, all increase contacts and open channels of communications with potential investors. In addition, what one might call a match-maker service to stimulate investment interest and to facilitate the marriage of willing local and overseas investors for the furtherance of industrial development and diversification is also maintained. Towards these ends, missions of industrialists to America and Japan have been conducted, and missions to Sweden and Germany in May are at the moment being organized. A full programme of overseas promotion activities for the remainder of the financial year has been agreed with the Industrial Promotion Committee of the Industry Advisory Board.

#### *Productivity*

As regards Mr. WONG Po-yan's observations on the decline in growth of labour productivity, I can only say that the Hong Kong Productivity Centre's estimates do indicate an erratic pattern for the period 1976 to 1980.

Labour productivity is related to investment in plant and machinery and skills of workers and a decline in the growth rate in the last couple of years was not unexpected. There has been an increase in recent years of unskilled labour through immigration and a decline in investment of plant and machinery as a result of changing economic circumstances including diversion of investment into the financial and real estate sectors, together with a downturn in world market demands.

I agree there is a need to increase labour productivity through greater automation and increased manpower training. Industrial investment promotion, Industrial Development Board projects, and the Hong Kong Productivity Centre's efforts all help to encourage and assist industry to invest further in plant and machinery and adopt improved processes of production.

*Exhibition Centre*

Finally, as regards the Exhibition Centre, the Stage II Consultants submitted their report to the Non-Statutory Board in February 1983. At the Board's request, the consultants made certain amplifications to their financial estimates. It is envisaged that the Non-Statutory Board will submit its recommendations on this Report to Your Excellency very shortly. A decision on the future of this project will have to await consideration of those recommendations by Your Excellency in Council.

SECRETARY FOR SECURITY:—Sir, I would like to touch briefly on three issues raised in this debate:

The growth and deployment of the Police Force  
Delinquents and criminals  
Vietnamese refugees

*The growth and deployment of the Police Force*

My honourable Friend Mr. Peter C. WONG was concerned that, at a time when serious crime is on the increase, the Estimates of Expenditure allowed for a growth of only 4% in the Police Force. He compared this growth unfavourably with the 5% overall limit on the growth of the Civil Service as a whole for 1983-84. He suggested some reconsideration might be in order.

Much as I am in sympathy with Mr. WONG's argument, I would not wish to press for more on behalf of the Force. It is true that 1982 saw a continuation of the steady increase in crime. I would forecast that, unless the economy perks up and unemployment starts to diminish, the trend will continue this year. But in terms of increasing the size of the Force in a manner commensurate with the possible growth in crime, we are up against the syndrome of size. The fact of the matter is that the Police's 4% means 1 000 new posts out of a total of 6 700 for the whole of the Civil Service. Unless the trend in the increase in crime changes dramatically for the worse, I think this will honestly have to do.

My honourable Friend Dr. Ho was worried in particular about the inadequacies in the growth planned for the Police in the New Territories. He quoted figures to show how, in terms of every 1 000 of Hong Kong's population, the growth for the New Territories will not be up to that for Hong Kong Island and Kowloon. I have since had quantities of statistics thrown at me to show that it isn't all quite as bad as my honourable Friend thought. Nevertheless, his point is basically valid in that the Police strength in the New Territories per 1 000 of the population has fallen marginally in the past two years. But I do not think that the citizens of the New Territories have that much cause for worry with the strength per 1 000 in the New Territories still higher than it is in Kowloon.

A much more important measure, I think is the deployment of the Force in terms of crimes committed. Again I would sleep much more easily in the New Territories than I would in Kowloon. And the fact that the deployment for Hong Kong Island in these terms is marginally more favourable than that for the New Territories simply reflects the concentration of commercial and banking activity and activities involving crowd control, on the Island. I have set out a summary of the statistics involved for all three Regions in the Appendix to the copy of my speech which you have not got. (*laughter*)

All this said, I can assure my honourable Friend that the problems of the growing New Territories as far as the Police are concerned are well recognized within the Government. My honourable Friend mentioned Sha Tin, Tai Po and Tuen Mun and asked that particular attention be given to the level of Police coverage in these three new towns. As indications of our progress in this direction, the former Police Divisions at Sha Tin and Tuen Mun were upgraded to Districts on 1 April, and planning has reached an advanced stage for the establishment of a new District to replace the existing Division at Tai Po.

As regards the future I can assure my honourable Friend that there are plans under constant development by those parts of the Government involved, to make sure that the Force in the New Territories is adequate in size and in organization to meet the demands placed upon it by the growing population there. As for Kowloon, because of the size of its population and the heavy incidence of crime, our plans there are to divide it into two regions and to strengthen the Police presence there as soon as we possibly can.

#### *Delinquents and criminals*

In her search for ways of cutting out extravagance my honourable Friend Miss BENNETT referred to the overlap between the responsibilities of the Correctional Services Department, the Social Welfare Department and the Education Department in dealing with juvenile offenders and potential juvenile offenders. In particular, she pointed to the need for a better system for assessing how best to deal with each case using effectively the psychologists in each of the three departments.

My honourable Friend has touched on this problem before in this Chamber. On 27 October last year, she suggested that the correctional institutions of the

Social Welfare Department be placed under the Correctional Services Department. The position is certainly untidy. The Social Welfare Department has a variety of facilities catering for offenders aged from 7 to 21. The Correctional Services Department has institutions and other facilities for offenders aged 14 and over. We gave a lot of thought to Miss BENNETT's idea of tidying it all up. But we concluded that there were psychological and practical advantages in retaining the overlap between the two departments. It gives more varied scope for particular treatment to suit particular offenders, with a view to weaning them away from crime altogether.

It is this weaning away from crime that is so important. And in this context, as my honourable Friend has intimated in this current debate, we have also to bring in those who have not yet committed crimes but have leanings in that direction. The Social Welfare Department has an important role in dealing with these potential young offenders and so, of course, does the Education Department.

Sir, I could go on building up this picture to show how many other departments in the Government are involved in the effort to reduce crime at *all* ages. The Police Force, the Narcotics Commission, the District Administration, the Information Services Department, the Medical and Health Department, the Customs and Excise Department, the Legal Department and so on and so on. All I will say at the moment in answer to Miss BENNETT's general point on the need for better co-ordination, is that we have been and are giving considerable thought to the implications of having so many departments involved.

As regards my honourable Friend's specific point on the more effective use of psychologists, the Director of Social Welfare, the Director of Correctional Services, the Director of Education and I are all agreed that it is absolutely valid, but how we achieve it will depend on what emerges from our consideration of the wider scenario I have just outlined.

#### *Vietnamese Refugees*

Turning now to Father MCGOVERN's idea that we should put the Vietnamese refugees now in closed camps to tilling the fields, I am afraid I must raise the objection the editor of one of Hong Kong's English language dailies said we would, even at the risk of a breach of copyright, that is to say:

'Give them work and job security and it will make Hong Kong seem a more desirable goal for Vietnam's malcontents who will head their boats north in increasing numbers'.

Sir, I think this is something we simply can *not* allow to happen. We still have a most acute and worrying problem in the context of Vietnamese refugees and a distinct shortage of solutions.

At 31 March 1983, we had 12 162 Vietnamese refugees in open and closed camps, only 469 less than on 1 January this year but 2 185 *more* than on 31 March 1982. The fact of the matter is that, understandably but regrettably, the major resettlement countries feel they can no longer worsen their grave

unemployment problems by accepting refugees for resettlement from Hong Kong on anything like the scale they have done in the past. For this reason, only 810 refugees left Hong Kong in the first quarter of 1983 compared with 5 076 in the first quarter of 1982. The 1983 figure so far is in fact appreciably higher than we expected, thanks to generous gestures by some resettlement countries.

These acts of generosity have been towards those refugees who have been here a long time. The brutal fact is that the resettlement prospects for new arrivals are now extremely bad. And over-crowded Hong Kong, having already absorbed as many as 14 000 from Vietnam into its own community (per head of our population an outstanding contribution in world terms), can *not* itself be expected to resettle any more. Thus the *only* sensible course we can adopt in our own interests is to discourage the refugees from coming. In fact the prospects for resettlement are now so bad that discouragement is the only humanitarian and responsible attitude Hong Kong can adopt in the interests of the Vietnamese themselves.

Sir, closed centres were introduced to discourage. In terms of our own interests and those of the Vietnamese, it would be quite wrong for the Hong Kong Government to do anything in respect of closed centres that might possibly mislead the people in Vietnam to think that if they came to Hong Kong their prospects for resettlement were better than the hopeless prospects they in fact are.

Sir, I support the motion.

#### APPENDIX

<i>Region</i>	<i>Police officers involved in maintenance of law and order per 1 000 of the population (1982-3 Estimates and population projection as at 31 March 1983)</i>	<i>Police officers involved in maintenance of law and order per 1 000 of the population (1983-4 Estimates and population projection as at 31 March 1983)</i>	<i>Total Crime per 1 000 of the population (1982)</i>	<i>Deployment of Police officers per 100 crimes (1982)</i>
New Territories	2.62 officers	2.5 officers	14.66 crimes	14.85 officers
Hong Kong	2.86 officers	2.89 officers	14.63 crimes	15.75 officers
Kowloon	2.4 officers	2.48 officers	18.5 crimes	10.35 officers

SECRETARY FOR LANDS AND WORKS:—Sir, the Government attaches great importance to the increasing role played by Unofficials on boards and committees of all kinds and values very highly their contributions to the activities of these bodies. I am very conscious, in my own field, of the considerable effort and wise counsel forthcoming from Unofficial Members in the Public Works Sub-Committee, the Special Committee on Land Supply, and the Town Planning Board, among others.

In his speech in support of the motion Mr. BROWN suggested that further benefit could be derived from direct input by Unofficial Members of Council in the activities of the Project Steering Group. However, the suggestion would seem to be based on the belief that the Steering Group has a wider field of

responsibility than it has in fact. It does not monitor the progress of all public works projects through the entire system. Its main functions are to set start dates for new projects not included in development programmes which have been given subheads in the Estimates and to monitor expenditure to ensure as far as possible its containment within the expenditure guideline. It can, therefore, be seen that the Project Steering Group deals only with projects in Category A of the Public Works Programme or in Category AB but selected for upgrading to Category A all of which have already been scrutinized by Unofficial Members.

Sir, perhaps at this stage I might remind Members of the administrative arrangements established for the processing of projects into and through the Public Works Programme. The Public Works Vetting Committee, under the chairmanship of the Deputy Financial Secretary, is charged with the responsibility of examining all submissions for new projects made by departments and ensuring that sufficient justification exists for the inclusion of items in Category C. Members will be aware that inclusion in Category C entails no more than acceptance into the Programme but does not permit any work to be carried out on such projects.

Requests for upgrading of projects from Category C to Category B are made to the Public Works Priorities Committee which is comprised of the Secretaries for Lands and Works, Housing, Transport, District Administration and the Deputy Financial Secretary under the chairmanship of the Chief Secretary. Policy branch Secretaries concerned with such requests attend meetings of the Committee to discuss their submissions and advise on project priorities within their own policy spheres. The Committee is not concerned with purely financial issues but takes a broader view of overall needs, commitments and planning resources and is guided in its deliberations by the advice tendered by policy branches. However, the upgrading of items to Category B simply means that they may be planned in outline form only to enable their scope to be more accurately determined.

Inclusion in Category C and upgrading to Category B are, therefore, administrative steps designed to sift the formless mass of information submitted by departments and to ensure that justification for each project exists and that its scope is clearly established before submission for further upgrading to the Public Works Sub-Committee, whose membership is, of course, largely Unofficial. It seems doubtful whether any useful purpose would be served by Unofficial participation in either the Public Works Vetting Committee or the Public Works Priorities Committee.

In Mr. CHAN Kam-chuen's address he suggested that we should consider the possibility of forming a 75 square kilometre reclamation to the east of Hong Kong Island to provide both a site for a replacement airport and an extensive land bank.

Such a reclamation would be a massive undertaking, in both engineering and financial terms. It would be appropriate, therefore, to consider whether the broad concept has sufficient merit to justify diverting resources so that it can be studied in greater detail.

Some aspects which would have to be carefully investigated, such as possible flight path configurations, noise polluting problems and existing shipping lanes, were mentioned by Mr. CHAN. I do not propose to pursue these matters today but it would obviously be necessary to establish that Mr. CHAN's favourable preliminary conclusions about them are justified.

An initial examination of the broad concept has concentrated instead on the engineering aspects and I regret to say that the conclusions are far from favourable.

The reclamation proposed would be in waters which are about 30 to 34 metres deep, somewhat more than the ten fathoms, or 20 metres, estimated by Mr. CHAN and considerably more than the four to five metres depth at Chek Lap Kok. Very substantial protection and a high formation level would be needed for the reclamation because of its exposure to the vast ocean reach to the south-east.

But even allowing for a normal reclamation level of say eight metres above Principal Datum as at Chek Lap Kok the reclamation for the airport alone would require about 1 620 million cubic metres of fill as compared with the 77 million cubic metres required for Chek Lap Kok. The proposed three kilometre band of land linking the airport with Hong Kong Island would require a further 2 170 million cubic metres of fill. I might add that Mr. CHAN's suggested source of fill i.e. the Po Toi Island group could generate approximately 500 million cubic metres of fill or about 1/8th of the requirement.

A very rough and conservative estimate of the cost of the whole reclamation is \$206 billion. In addition, a \$2.4 billion highway scheme would be required at the eastern end of Hong Kong Island to provide access to the airport.

Given the immensity of the engineering task involved, the vast quantities of filling material required and the multi-billion dollar price tag, I think we must conclude that Mr. CHAN's bold concept is not one to which we could give further consideration, either as a potential site for a replacement airport or as a land bank.

Sir, it would perhaps be appropriate to mention here the range of regional and sub-regional studies which have been underway since 1980 to systematically identify our main future development options and to reconcile the demands of housing, industry, domestic and international transport and environmental factors in a long term development strategy within the limits of available resources.

The sub-regions which have been or are being studied are the North-West New Territories, the North-East New Territories, Junk Bay/Sai Kung, North-East Lantau and the Harbour Area. The preliminary results of these studies indicate that the territory has more than sufficient development potential to meet its needs well beyond this century and far more cost effectively than is likely to be possible with the type of reclamation scheme envisaged by Mr. CHAN.

As has been stated several times in recent months, and most recently in the Financial Secretary's Budget Speech, the work that has gone into these studies over the past 2½ years or so should bear fruit later this year when we will be able to assess our development priorities and consider new programmes.

In response to the question posed by Mr. CHEUNG Yan-lung, I am pleased to say that Government has, in the present depressed state of the property market, considered buying rather than building accommodation. This is evidenced by the purchase of Police rank and file married quarters and non-departmental quarters at Lai Chi Kok and Sha Tin in recent months and the possibility that premises for the Printing Department may also be purchased rather than being specially constructed.

Under procedures recently established, the Accommodation Policy Group, comprising senior officials from Councils and Administration, Finance, Economic Services and Civil Service Branches of the Secretariat together with the Commissioner for Rating and Valuation, the Director of Lands and the Director of Building Development, determines whether justified accommodation requirements can best be met by purchase or construction. In coming to a decision, they must obviously take into consideration whether or not suitable premises are on offer, the terms and conditions of sale which can be negotiated and the availability of funds to complete the purchase given other Government commitments. Each individual case must be considered on its merits and no broad generalization is possible. However, I can assure Members that the Government is very conscious of the advantages which purchase can offer, not least the fact that the premises will be available for occupation at a much earlier date than if built from scratch by Government. If suitable opportunities arise in the future, the procedures already established will ensure that due consideration is given to the advantages of purchase as an alternative to building Government accommodation.

Sir, I support the motion.

THE FINANCIAL SECRETARY:—

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Sir, you will, I am sure, agree that your first budget debate has been interesting and lively. For my part I am grateful for Members' general support of the Government's policies, and particularly for that of the Senior Member, Mr. LOBO. In broad terms all speakers except Mr. Peter WONG accepted the need for the Government to raise about \$3 billion in additional taxation in order to moderate the otherwise expected deficit of \$6.2 billion in 1983-84. As, however, inadvertently Mr. WONG based his arguments on aberrant reserve figures I think he will agree that his unique conclusion can be set on one side. The hard truth is that on 1 April 1983 Hong Kong will have free fiscal reserves—that is to say a surplus after proper provision for contingencies—of about \$11.5 billion<sup>(1)</sup>. Dependent on actual revenue yields the expected deficit in this new financial year might conceivably be up to \$1 billion larger than forecast. Consequently without increased taxation Hong Kong could face an uncertain 1984-85 with free fiscal reserves reduced to about \$4.3 billion. This would clearly be dangerously low. I thus maintain firmly the need to increase taxation by about \$3 billion<sup>(2)</sup>. It is also important that we should be seen to be resorting to present self help and not to be taking the easy way out by shortsightedly living on our past successes. Moreover we must have room for manoeuvre—with regard to possible borrowing in particular.

2. All Members who spoke supported the motion: only Dr. Rayson HUANG found fault generally though gently with the considerable increases which I have of necessity proposed in indirect taxation. Nevertheless several Members with civility and fairness have criticized details of individual measures or have proposed higher profits or salaries tax. Not unexpectedly no one advanced entirely new sources of revenue. I say not unexpectedly for I know well how difficult it is.

3. A general and understandable source of dissatisfaction has been the drastic nature of the increases in the light of our long-term policy of consistency and moderation in fiscal matters. This is fair criticism indeed. It is a fact that usually we raise taxes for fiscal and not for social engineering or other purposes. In

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(1) *Budget Speech paragraph 49.*

(2) *B.S. paragraph 85.*

steady circumstances the taxpayer might thus expect regular, gentle increases in indirect taxation, and not as has happened a relative standstill for several years and then a horrible day of awakening. But awaken we must to the fact that the honeyed years of windfall revenue from land sales contributing to large budget surpluses—helpful to the taxpayer while they lasted—also perforce shielded us from the changing situation, because taxes could remain deceptively constant. Our fiscal policies were right. But times have changed and we must change with them. Let us be grateful that we face the future without debt and with satisfactory fiscal reserves. We should thank those responsible for this situation. It is not a general experience in today's world.

4. With this general background I will now bring you up to date on the latest state of the Government's finances together with comments on the 1983 Economic Prospects. I will then explain my reasoning to those Members who have criticized the various tax propositions.

#### *Revised Estimates 1982-83*

5. In the budget speech I gave the revised estimates of revenue and expenditure for 1982-83 as \$30.9 billion and \$34.7 billion respectively, thus producing a deficit of \$3.8 billion. These figures have been updated having regard to performance over the past three months, and our assessment of total expenditure is now slightly lower at \$34.5 billion, while total revenue is now expected to be marginally higher at \$31 billion. Because of this slightly improved situation, I have taken the opportunity of transferring a further \$300 million to the Capital Works Reserve Fund. The overall deficit for 1982-83 will thus remain at \$3.8 billion as previously estimated<sup>(3)</sup>. The additional \$300 million transferred to the Capital Works Reserve Fund will make available a total of \$10.6 billion in that Fund for 1983-84 against estimated expenditure of \$9.3 billion, so there could be a useful balance of \$1.3 billion in the Fund at the end of 1983-84.

#### *1983 Economic Prospects*

6. As regards the economy, in my speech opening this debate I said 'that should the world economy, and particularly the U.S. economy, pick up faster

(3)	<i>Revised Estimates 1982-83</i>			
	<i>Printed Revised Estimates (\$mn)</i>	<i>Updated Revised Estimates (\$mn)</i>	<i>Printed Revised Estimates (\$mn)</i>	<i>Updated Revised Estimates (\$mn)</i>
<i>Recurrent Account:</i>				
<i>Revenue</i>	25,210	24,845	—	—
<i>Expenditure</i>	20,799	20,657	4,411	4,188
<i>Capital Account:</i>				
<i>Revenue</i>	5,690	6,127	—	—
<i>Expenditure</i>	<u>13,977</u>	<u>14,143</u>	<u>-8,287</u>	<u>-8,016</u>
<i>Overall deficit</i>			-3,876	-3,828

than I have assumed, 4% (as the growth rate of G.D.P. for 1983) could well turn out to be conservative<sup>(4)</sup>. The recent signs of recovery in the U.S.A., which have led to a number of upward revisions in forecasts for that economy, plus the fall in the price of crude oil have made it more likely that my forecast will eventually turn out to have been conservative.

7. It is, however, still early days and there have been false dawns before in respect of the world economic recovery. Consequently I stand by my original forecast, although with some optimism that the outcome may be better. The right time to think of making formal revisions will be in my mid-year review.

#### *Criticism of Budget Proposals*

8. I turn now to the actual course of the budget debate. There were three distinct areas on which critics focussed: direct versus indirect taxation leading to proposals for increased profits or salaries tax; measures affecting tourism; separate taxation for women. In addition there were several individual, not to say individualistic comments. I shall endeavour to cover them all. This is what a good debate requires. If inadvertently I omit reference to someone's brain child, I apologize. (*laughter*)

(3)	<i>Revised Estimates 1982-83 (Contd.)</i>	<i>Printed Revised Estimates (\$mn)</i>	<i>Updated Revised Estimates (\$mn)</i>
<i>Component</i>			
<i>Personal Emoluments</i>		7,542	7,510
<i>Personnel Related Expenses</i>			
<i>Pensions</i>		730	750
<i>Other</i>		850	838
<i>Departmental Expenses</i>		2,810	2,687
<i>Other Charges</i>			
<i>Defence Costs Agreement</i>		973	1,067
<i>Other</i>		2,525	2,500
<i>Subventions</i>		<u>5,369</u>	<u>5,305</u>
<i>Total Recurrent Expenditure</i>		<u>20,799</u>	<u>20,657</u>
<i>Plant, Equipment and Works</i>			
<i>Defence Costs Agreement</i>		73	70
<i>Other</i>		718	687
<i>Other Non-Recurrent</i>		338	330
<i>Subventions</i>		393	303
<i>Transfers to Funds</i>			
<i>Capital Works Reserve Fund</i>		10,500	10,800
<i>Development Loan Fund</i>		1,850	1,850
<i>Student Loan Fund</i>		<u>105</u>	<u>103</u>
<i>Total Capital Expenditure</i>		<u>13,977</u>	<u>14,143</u>

(4) B.S. paragraph 159.

9. It is as well to make the position clear. I do not intend to change any of my carefully considered proposals. This firmness of stand does not reflect obstinacy or an arrogant belief that I am right and my critics wrong. I dislike increasing taxation and having to pay higher taxes as much as any Member of this Council. But as I have said it is essential that we raise \$3 billion. I believe that my proposals will do so in the least unattractive and burdensome way that is possible<sup>(5)</sup>. They also do not impede the imperative encouragement of an export led recovery. Without a successful export trade and the resultant income there will be little in Hong Kong to tax. It is the job of the Government to make unpleasant decisions in difficult times while carrying on calmly and steadily with agreed programmes. I know that many of the new taxes or increases in existing taxes are unpopular. I submit only that the possible alternatives are worse.

#### *Increased Profits Tax*

10. A group consisting of Fr. MCGOVERN, Mr. WONG Lam, Dr. Rayson HUANG, Mr. SO and Mr. Y. L. CHEUNG advocated increased profits tax. With great respect I suggest that their experience has generally been in fields other than those of industry, commerce or financial affairs. It is true that a 1% increase in profits tax might yield over \$400 million. Nevertheless my overall concern must remain the encouragement of confidence in our economy, about which Mr. LO's comments were much to the point. Without confidence investment and reinvestment will falter. Unemployment will also grow. I thought that I had made my views clear in the budget speech<sup>(6)</sup>. If anything, they have subsequently hardened. An increase in profits tax at this particular juncture would in my frank opinion certainly be irresponsible and probably foolish in the extreme.

11. This does not mean that in other circumstances in future years I rule out a moderate increase. Indeed it is arguable that only the windfall revenue from land sales in the past six years has prevented such increases before now. But if an increase becomes necessary, it certainly will not fall more heavily on those who make larger profits<sup>(7)</sup>.

12. Nor in any case are we talking about the profits of a handful of large companies. About 22 000 limited liability companies plus 17 500 unincorporated businesses will pay profits tax next financial year. I estimate that 31 000 people are involved in payments by the unincorporated businesses. In addition an estimated 55 000 people will elect to transfer their business profits for

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(5) *B.S. paragraph 86.*

(6) *B.S. paragraph 87.*

(7) *A further surcharge on super profits would be an open invitation to the tax avoidance specialists, unless we undertook extensive anti-avoidance measures. I can envisage any number of arrangements which would render a differential tax rate on high profits a farce—profits would be moved around within groups to ensure that no group member exceeded the profit ceiling, there would be a proliferation of subsidiaries, high interest bearing loans from directors and shareholders would replace equity capital, off-shore avoidance schemes would be the order of the day; and so on and so on.*

personal assessment. Thus in addition to limited companies a further 86 000 people are involved. They are the entrepreneurial driving force of Hong Kong, contributing to the creation of community wealth and providing employment for the labour force. Not just the large companies but every little restaurant, every backyard workshop and even many fixed stand hawkers are involved. Already they pay 64% of total direct taxation.

### *Higher Salaries Tax*

13. I turn now to the arguments for a higher salaries tax. This was suggested in well meaning fashion by Dr. Rayson HUANG and has been echoed shrilly in the usual quarters outside this Chamber. Setting aside essential questions of maintenance of confidence and of likely ripple effects, and accepting that a moderate increase may be indicated in later years, I scorn perverse accusations that I now propose the raising of taxes on the poor in the interests of the rich. This is rubbish. The logic behind the various increases proposed in indirect taxation owed nothing to capriciousness. Quite to the contrary given the overall situation I set out to limit the burdens of the less well paid as much as possible<sup>(8)</sup>. To this end I tried to give people a choice. I regret that some critics do not appreciate free choices. It is also a major concern that our dependence on direct taxes has become so pronounced at a time when profits and salaries are not buoyant<sup>(9)</sup>. This trend must be changed, and I do not accept Dr. HUANG's views. The guideline ratios are most helpful, if not dogma.

14. Let us look at the facts, which are interesting. Facts often are. In the coming fiscal year there will be about 2.4 million people who will be earning wages and salaries. Of these only about 315 000 will pay any salaries tax at all. 22 000 or 7% of the latter will pay 50% of the total tax. This seems clear evidence that not only are the poor not over-taxed but in fact are not directly taxed at all. I remind you that a typical Hong Kong family of man, wife and two children pays no salaries tax below an income of \$5,790 a month—hardly a definition of the lowly paid poor.

15. May I also underline the constantly overlooked fact that the Government now provides housing on a subsidized basis to some 43% of the population—a figure that will grow progressively in the coming years. This is a rough form of negative income tax. In brief nearly half our population is housed below cost, i.e. partly at other taxpayers' expense, and a large majority also pays no direct tax.

16. The picture therefore is not one of excess taxation of the lowly paid, for clearly the few carry the many. This is not inappropriate. Those who advocate higher salaries tax should also not forget that the really rich in Hong Kong are generally not salaried.

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(8) *B.S. paragraph 88.*

(9) *B.S. paragraph 89.*

17. I thought that it would be of interest for Members to know what would happen if following approximately along the lines of Dr. HUANG's thinking I had suggested only a \$1.5 billion increase in indirect taxation and had proposed to raise the additional necessary \$1.5 billion by increased salaries tax. It is important to remember that cries of 'soak the rich' not only tend to evidence malice and envy but also ignore the realities. If I set out appreciably to increase the return on salaries tax I would need to attack both ends of the tax spectrum. The rich would pay more but the middle classes would also face additional burdens and large numbers of the less well paid who now are untaxed would perforce enter the net as allowances were reduced. We simply cannot secure all that we need from the higher paid alone for there are not enough of them: such an approach anyway would lack balance, smell of social engineering, and destroy incentives.

18. I do not know what level of increase would be regarded as acceptable as a surcharge on the 'rich', but for example I shall assume a 25% increase, or say 4 percentage points to 19% on salaries tax standard rate cases. Such an increase would yield no more than \$400 million at the most and possibly less. Thus I should be obliged to cast the net wide to produce the remaining \$1.1 billion. It would be necessary to reduce our tax thresholds to something like the levels prevailing in 1979-80, removing in effect the very considerable concessions made to the lower and middle income groups in the Budgets for 1980-81, 1981-82 and 1982-83. Not only would such a move increase considerably the tax burden of all who are presently in the net, but it would also bring in not less than a quarter of a million, and perhaps as many as 300 000, new taxpayers—all of whom would be from the lower income group who now pay nothing. And I should be forced to exempt the Commissioner of Inland Revenue from the present constraints on Civil Service growth, for this move would involve virtually doubling the size of his Salaries Tax Unit.

19. If I had indeed in this budget proposed to tax directly 250/300 000 people who now pay nothing and to lay heavier tax burdens on the middle class, it is at least arguable that Dr. HUANG and others would have fulminated against such action being taken against the poor. Indeed I should rightly have been told to increase indirect taxes further instead.

#### *Tax Bands*

20. Dr. HUANG has also again commented on the tax bands. The present bands do not in fact generally cause a reduction in after-tax take home pay because of the effects of inflation. And Dr. HUANG's argument seems open to serious question, for in both the examples he cites wrong percentages for the effective tax rates in 1978. His married couple with an income of \$70,000 would have had an effective rate of 10.7% in 1978 compared to only 9.6% at present; and the single person, with an income of \$40,000, an effective rate of 7.5% in 1978 as against a minimal increase to 7.95% today. Unfortunately he has overlooked the effects of the clawback mechanism. The truth remains that, with the exception of some single people within a fairly narrow income range who

have lost a fractional amount, the vast majority of taxpayers enjoy effective rates than they did five years ago, unless of course, as fortunately is not uncommon, their increments to income have outstripped the rate of inflation. I am also not sure what point Dr. HUANG sought to make. His other comments adverted to raising salaries tax, but in this particular case he suggested some reduction. He is, I submit with respect, open to charges of ambivalence.

*Effects of Increases on Tourism etc.*

21. I turn now to the comments of those who have not unreasonably expressed their doubts about the effect on tourism of increased hotel tax, a new airport tax and a small lowering of the H.K.T.A. subvention. Mr. Peter WONG, Mr. BROWN, Mr. CHAN, Mr. Y. L. CHEUNG and Dr. HUANG have all spoken persuasively in this vein. When we had abundant surpluses there was no pressing need to propose such measures. The picture has now changed. Failing heavenly materialization I seek additional revenue by placing new burdens on those who can best afford them. While thus I share some of the concern of these Members, I also need to restrain public sector expenditure and to raise additional taxation. My proposals will yield about \$245 million in the next financial year and appreciably more thereafter.

*H.K.T.A. Subvention*

22. At a time when Government is taking an austere approach to expenditure it must be right to approach in similar fashion the subventions of the T.D.C. and H.K.T.A.—both competent organizations. The former's real income from trade declarations will be lower in 1983-84 as a result of last year's fall in exports. The T.D.C. is entirely so subvented, though the situation will bear watching. The H.K.T.A. is financed differently. I do not propose to cut it back in monetary terms; only to ensure that continuing growth in income is restrained in the light of our new economic situation<sup>(10)</sup>. A deduction of just one percentage point spread over four years is if anything too lenient. We all know Parkinson's law. Expenditure will inevitably always rise to match income. Thus it is necessary to control the latter. I propose to do so. The H.K.T.A.'s up-market efforts to secure not so much more tourists as more heavily spending tourists will continue, although no doubt they will be accompanied by a fuller realization of the need for frugality.

23. While I acknowledge also the value of tourism as an export industry unconstrained by protectionism and as a useful employer of labour, it is unwise of the interests involved to overstate their case. Tourism indeed earned about \$9 billion last year, but these are gross earnings which do not measure the industry's contribution to the G.D.P. The best estimate we have of the latter is about 4% as compared, for example, with 25% and 26% respectively for the manufacturing and the financial and allied services sectors. Thus tourism's contribution is about 1/6th of that of each of the two major sectors.

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(10) *B.S. paragraph 110.*

24. Even if approached in terms of export earnings, there is need in making comparisons to determine the net contribution in value added terms. This includes taking proper account of the local value added content of the purchases from the other industries incorporated in the export items involved. In brief tourism is valuable, but it is by no means our most important export industry. It is therefore now sensible to cut it loose from direct assistance by all taxpayers.

#### *Hotel Tax*

25. I am unmoved by the complaints about a 25% increase in hotel tax. This is a vivid description of the actual one percentage point increase, the first since 1976<sup>(11)</sup>. Moreover it is collected by hotels on their bills and will go entirely to support the H.K.T.A., whose marketing efforts clearly supplement if not supplant those that the hotels should be making. It seems moderate enough to me. This is even more the case when comparison is made with practice elsewhere in the world. How about 5% in Macau, 7.5% in Los Angeles, 8% in Vancouver and New York, 10% in South Korea, Japan, the Philippines, Jakarta and Malaysia, 11% in Bali, 15% in the U.K. and no less than 16.5% in Bangkok? I stand on the record. We must not also forget V.A.T. or sales or specific taxes on the more expensive restaurant meals, which are applied in many places. Such a specific tax is incidentally one of the many ideas that I considered and dismissed for Hong Kong—at least for the time being. (*laughter*)

26. As for complaints about forward bookings, I am surprised that all contract notes do not include an exclusion clause to cover the possibility of increased Government taxes. Higher salaries or profits taxes or taxes on restaurant meals would all hit the hotel industry far harder. And anyway if taxes were reduced who would benefit: the hotel or the guest? I acknowledge that some careless managements may face moderate difficulty with forward business, but a one percentage point increase (say \$4 per head per day) is really not too bad. They must take the rough with the smooth. Moreover any concession on timing of implementation would necessarily now come out of the H.K.T.A.'s subvention. (*laughter*)

#### *Airport Departure Tax*

27. The proposed airport departure tax of \$100 will fall only on those who can afford to fly. In many cases it is less than the discount given by airlines or their agents on published fares. New legislation will be required and, subject to Executive Council advice, will be brought before this Council as soon as possible<sup>(12)</sup>.

28. Some comparisons will again be of interest. Airport tax is about \$118 in Sydney and Melbourne. It is roughly \$104 in Papua New Guinea; \$70 in the Seychelles; \$67 in India; \$49 in Tokyo; \$36 in Singapore and \$34 in Shanghai.

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(11) B.S. paragraphs 109-110.

(12) B.S. paragraph 129.



The principle is clearly well established. The tax proposed for Hong Kong is higher than average, but we clearly now need the revenue. Where else is it to come from?

29. Some have suggested alternatives such as increased or new taxes on Macau passengers or on those leaving by sea or land—mainly of course to China. Others have suggested a variable airport tax based on distance or fare.

30. I considered all these alternatives before presenting the budget. At present a charge of \$8 is levied on ferry passengers to Macau. The economy of Macau benefits greatly from the contribution made by travellers from Hong Kong. Any increased tax on the latter could be interpreted as a direct impost on Macau, a place which is far less rich than Hong Kong. In any case an increase of as much as 50%, which would I believe be strongly resented, would yield only about \$16 million. It would thus I believe not be worth the candle—at present anyway.

31. I think that the suggestion that all those going to China should pay a departure tax is open to many objections even if commonsense were totally ignored. (*laughter*) I have proposed an airport departure tax, not a generalized departure tax, because I do not wish either to impede people's freedom to leave Hong Kong or to lay financial burdens on those travellers of whom the majority is clearly not well off. I believe that such a general departure tax would be singularly inappropriate.

32. With my advisers I considered carefully the pros and cons of flexing the airport tax by distance or fare. The sector net fare is not known to the many passengers travelling on multi-stop tickets with pro-rated segments accompanied by all sorts of discounts and rebates. There would be endless argument. As for distance, this too is not the simple yardstick one might believe. We must keep the tax simple. There is an obvious problem with the short flight to Canton. It would be administratively very difficult to make special arrangements for short routes and to define them. Moreover, a choice exists. If the airport tax is burdensome, the alternatives of train or hoverferry are available. I acknowledge that these services are crowded at peak periods, and that the facilities for passengers are not yet as good as we would like them to be; but the alternatives are there. The same response to protests about the possible forward booking problems of agents and tour operators apply as in the case of hotels.

33. Let me be clear about this. I would not now propose to abolish the present \$20 services charge and introduce an airport tax as high as \$100 if I could fairly secure matching revenue from other sources. The tax itself nevertheless has attractive features. Members may reflect that such a tax is but one aspect of the available market mechanisms which may prolong the existence of an adequate airport at Kai Tak and thus enable us for example to maintain the present Public Housing Programme.

*Increased Taxes on Vehicles and Hydrocarbon Oils*

34. It is appropriate now to consider the issues of increased taxes on hydrocarbon oils and vehicle licences<sup>(13)</sup>. I excluded franchised buses from the increased oil tax<sup>(14)</sup>. I cannot extend the same benefit to P.L.B.s, taxis and others for the pragmatic reasons that it would be impossible to segregate the necessary fuel pumps. The considerable additional yield from this package of taxes will be no less than about \$840 million next financial year. Fr. MCGOVERN, Dr. HUANG, Mr. CHAN and Miss TAM have all spoken disparagingly about this widely unpopular proposals. From what I have said already they will not be surprised to hear that I sympathize with their views. But despite Miss TAM's trenchant comments I promise her and all other Members that these increases are motivated purely and simply by fiscal needs. Again quite briefly, from what other sources can I secure \$840 million? Hong Kong is getting richer and I fully support aspirations to car ownership. Members may, however, agree that on most definitions these increased taxes will not lie heavily on the poor. After all 80% of the population perforce use public transport at all times. It may anyway be possible in a few years' time through Electronic Road Pricing to advance the policy of taxing vehicle usage rather than ownership. I am well aware of the deep feeling of unfairness borne by a car owner who uses it sparingly at weekends for family outings. At present there is no way around this problem, though I must observe that by European standards the increased petrol price in Hong Kong is not unusual.

*Taxation of Married Women*

35. When in the budget speech I put to this Council my new proposal for the voluntary separate assessment of married women, I said that I intended to observe the course of the subsequent debate and would proceed with amending legislation only if there was a clear consensus in favour. It was therefore disappointing that of the 23 Unofficials who spoke in the ensuing debate, no less than 19 had no comment to make on this allegedly burning issue (*laughter*), I shall take it that silence means acquiescence. Of those who did speak, Mr. Peter WONG gave tacit support in a passing reference, Miss TAM welcomed the measure, Dr. FANG warned that, having conceded a social principle, I should accept the inevitability of full separate taxation eventually and Dr. IP not only made it clear that she regarded separate taxation as inevitable but demanded its implementation now. Apart from many other arguments she has failed to persuade me of the equity of a system which would require the single breadwinner to pay more tax than the working couple in similar financial circumstances. I was unmoved also by her old argument that some may be compelled to live in sin in order to avoid our moderate taxes.

36. I am well aware that the advantages of separate taxation are available in some other countries—but against a back-drop of high tax rates. In my opinion

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(13) B.S. paragraphs 99 and 101.

(14) B.S. paragraph 99.

full separate taxation is not suitable in Hong Kong's fiscal and social climate. Moreover we simply cannot afford such a total reversal of long existing policies at the present time. I received representations recently from a senior group of ladies, who admitted that what they really wanted was only to pay less tax. There was no question of principle (*laughter*). The estimated cost to revenue of separate taxation would be of the order of \$285 million in the year of implementation. Since I can certainly not forego that sum I should be obliged to recoup it elsewhere. Were I to do so from other salaries taxpayers, the effect would be an across the board increase in tax bills of some 13%.

37. With this background and subject to Executive Council advice I intend to introduce into this Council the reform measures, I repeat, the reform measures I proposed in the budget speech. There is no hurry. The drafting will be difficult. (*laughter*)

*Individual Points*

38. Having explained the reasons behind the main points of dissent, I turn now to Members' individual points or rather to those which have not already been answered by my other Official Colleagues. I cannot unfortunately underline the wisdom of all those who agreed with me. (*laughter*)

39. But I do agree very much with Mr. CHEN's comments on the need to develop continually in the civil service value for money awareness. Much has already been done. No doubt more is necessary. But civil servants, like their fellows in the private sector, are generally motivated to do their best. Mr. CHEN also suggested that the total contingency provision of \$1.5 billion in the budget may be excessive. He has misunderstood the position. On Capital Account I am seeking \$200 million for contingencies, substantially less than the \$700 million approved for this purpose for 1982-83. On Recurrent Account I am seeking \$1.3 billion, but I have said that the cost of the 1983 salary adjustment must be found from this. The salary adjustment recently approved has necessitated setting aside about \$700 million for this purpose, leaving only \$600 million for all other possible contingencies—the same amount as approved for this purpose for 1982-83. Remember that in 1982-83 total recurrent expenditure on General Revenue Account will exceed the approved provision by some \$1.3 billion entirely and only because of the unprovided 1982 salary adjustment. In 1983-84 I intend that the approved provision will not be exceeded.

40. Dr. Henry HU has again spoken about interest tax issues. Having with subsequent success removed the tax on foreign currency deposits only a year ago, I certainly do not intend to levy such a tax again this year even on a reduced basis. It would result in a huge outflow. There may be a case in theory for lowering further or even removing the tax on Hong Kong dollar deposits. There is, however, certainly no case fiscally for reasons which I explained in the budget speech<sup>(15)</sup>. I note also, and to some extent share, Dr. HU's views on possible Government borrowing. I will bear them in mind.

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(15) *B.S. paragraph 145.*

41. I am not surprised that Mr. WONG Lam and Mr. Y. L. CHEUNG were concerned with increased rates. So am I. In fact I found this the most unattractive feature of my proposals. But however unpalatable, the situation must be realized. From 1977-78 to 1981-82 the yield from the General Rate increased by only 1.5 times, compared with a three-fold increase in all other recurrent revenue. In 1982-83 the yield even in money terms from the General Rate will be slightly less than the 1977-78 level. The proposed increases in the General Rate percentages for 1983-84 will raise the yield only marginally above the 1981-82 level, but it will still be below in real terms. We are doing no more than stand still, if that, for the proportionate contribution made by rates to recurrent revenue has dropped steadily from about 9% in 1977-78 to about 3% in 1982-83. It will be about 4% in 1983-84 with the proposed increases to the percentage.

42. My sole purpose in further increasing the dependent parents allowance by \$2,000 was to make special provision for those who accommodate their parents in their own households<sup>(16)</sup>. I cannot therefore accept Mr. WONG Lam's generous suggestion that it should apply to parents living elsewhere, who already attract the basic allowance which was itself increased only last year.

43. I remind Dr. HUANG, who complained about the increased cost of driving licences, that this is cost related—the last revision being as long ago as 1973, since when costs have risen sharply. His comments on the annual pay increase exercise for civil servants were overtaken by events on the day on which he spoke. In my opinion what has finally been decided is both fair in itself and just acceptable in budgetary terms.

44. Much of what Dr. Ho said about supervision of public expenditure is very helpful. In particular he was perceptive in stressing the importance of an 'ongoing mechanism whereby departments are constantly reviewing their expenditure'. To assist Controlling Officers in this task progress has been made in the introduction of a computerized financial information system. Moreover the transfer a year ago of management services staff to the Finance Branch has provided the necessary resources to enable a co-ordinated programme of value for money studies to be introduced. The need to be ever mindful of cost-effectiveness is not new, and has always been an important factor in the role of the Finance Branch. I should explain also that follow-up action is taken on the reports of the Public Accounts Committee and the Director of Audit, aimed at ensuring that there is no repetition of the alleged shortcomings that give rise to comment. This is a continuing exercise, and not as Dr. Ho has assumed a matter of historical interest. I think, also, that Dr. Ho has perhaps over-emphasized the value of the cost reduction committees set up in the early 1970's—the impact of such committees is lost if they are given a routine role as distinct from specific targets in special circumstances.

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(16) *B.S. paragraph 134.*

45. As Members will know I share Mr. Allen LEE's sound views on the need constantly to fight inflation. I am sorry that he did not comment that there was a reduction of 33% last year and that there should be a further 10% drop in the next financial year despite the mild inflationary impact of my tax packages. No doubt he in turn will agree that inflation will not be beaten by pleas for subsidy for the public utilities or for various industries. This would merely come through in excessive public sector expenditure. But we must continue to seek higher productivity and greater efficiency in our effort to contain rising costs.

46. Well intentioned Mr. So has again brought forward his views on the need for some form of deposit insurance scheme. I have, however, nothing to add to the full answer which I gave in this Chamber as recently as 9 March when he raised the same issue. Our policy will not change. He and others will, however, be pleased to know that drafting instructions have already been given for amendments designed to tighten up the Banking and D.T.C. Ordinances. Subject to the consultative process and to the advice of the Executive Council, I hope to present amendment bills to this Council well before the end of this session. Consistent updating is essential—not least in the light of recent excesses, which I deplore<sup>(17)</sup>.

47. Mr. BROWN in his sensible speech has suggested a one-line vote for the Council for the Performing Arts. This will be considered, but I should point out that the major share of subventions for cultural activities is ear-marked for such specific organizations as the Academy for Performing Arts, the Hong Kong Arts Festival Society and the Hong Kong Philharmonic Society. Flexibility in the distribution of available funds in such circumstances is more apparent than real. Subventions to cultural activities of a more general nature are limited, unlike social welfare subventions which are made available through the Social Welfare Advisory Committee to a very large number of voluntary agencies.

48. With hindsight I share his views on the narrowing of the salaries tax net last year; on the need continually to adjust to our fast changing economy; and on the unlikelihood in the light of our clear social needs that we can drop significantly below the present 24% slice of G.D.P. for Government expenditure. All will depend on what we can afford; but have no doubt that the growth of public sector expenditure requires constant control and that I will do my best to make sure that there is no absolute growth beyond 24%<sup>(18)</sup>. He has produced two apt quotations. For my part I am fortified by BURKE:

‘To tax and to please, no more than to love and be wise, is not given to men’.  
(*laughter*)

49. Members will therefore not be surprised to hear that I also entirely agree with Mr. CHEONG's pertinent views on public sector, budgetary and expenditure control. My agreement is of course in principle and not necessarily in detail. But

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(17) *B.S. paragraph 118.*

(18) *B.S. paragraph 35.*

he is certainly right about the need not to let the public crowd out the private sector. Room must be left to allow the growth of exports.

50. Miss TAM, in the course of her good speech, suggested that we should ‘trace the income of companies registered in Hong Kong and obtain proper contributions to our taxation income’. I think I can reassure her. There is in the Inland Revenue Department an active Investigations Unit with a complement of some 70 professional officers dedicated to the detection and punishment of tax evaders. This Unit tackles about 300 such cases annually. Additionally Assessors of Inland Revenue in general are constantly on their guard against spurious claims that profits are derived off-shore. It would be idle to suggest that all who cheat are caught, but many are and a good deal of investigative effort takes place on a daily basis throughout the Department.

51. I am grateful for Dr. HU’s and Mr. LOBO’s acceptance of the wisdom of postponing budget day by a month<sup>(19)</sup>. There are quite difficult issues involved. The necessary processes will now commence. It is too early yet to say whether such a postponement can be implemented successfully, but I am reasonably hopeful.

52. Members will be interested to have rough comparisons of the present cost of cigarettes and alcohol in some other countries. I have not got a full list, but whisky in Hong Kong is still cheaper than, for example, it is in the U.K., Switzerland or the U.S.A. Manufactured cigarettes, and even more so those manufactured locally, are still cheaper here than in the U.K., Belgium, France, Germany, Holland, Switzerland and the U.S.A. I suspect that this is true of many other countries also. If tax revenue has to be increased as it must, the indirect taxation of alcohol and tobacco to me seems less unattractive than other measures. I do not claim that it is palatable. But at least most would agree that alcohol and tobacco are not the staff of life.

### *Conclusion*

53. And so we come to the end of another vigorous budget debate. I share with Members of this Council and indeed of the public a sense of their shock at sharply increased indirect taxes, duties and fees, but I believe that the tough budget which I have put before this Council is balanced and logical. Some will continue to criticize it generally for soft reasons the effect of whose adoption can generally be seen elsewhere in the shape of inflation, high public expenditure, excessive taxation, industrial decay and mass unemployment. Most will agree that it is necessary at this moment in our history. Indeed we have no other easy options. I conclude by repeating again the following words from my budget speech<sup>(20)</sup>: ‘In our position we have no sensible alternative but to promote actual export not theoretical equity; solvency not soft-heartedness; incentives not ideology—while still remaining compassionate and caring particularly in the case of individual inadequacies and suffering.’

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(19) *B.S. paragraph 40.*

(20) *B.S. paragraph 16.*

54. As Members will know I have been greatly assisted, if not supported, in the past two years by an admirable Deputy Financial Secretary, Mr. Henry CHING. He is now moving to become Secretary for Health and Welfare where I fear that his pronounced sense of equity may combine with his equally profound expertise to the detriment of his old branch (*laughter*), where he has spent seven years as D.F.S. and no less than 17 years in all. My predecessor joins me in thanking him for all that he has done for both of us, and in wishing him well for the future.

55. Sir, I beg to move.

*Question put and agreed to.*

Bill read the second time.

*Bill committed to a committee of the whole Council pursuant to Standing Order 43(1).*

### **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, 27 April 1983.

*Adjourned accordingly at eighteen minutes past four o'clock.*