

1 HONG KONG LEGISLATIVE COUNCIL -- 29 May 1991

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OFFICIAL REPORT OF PROCEEDINGS

Wednesday, 29 May 1991

The Council met at half-past Two o'clock

PRESENT

HIS EXCELLENCY THE GOVERNOR (PRESIDENT)

SIR DAVID CLIVE WILSON, G.C.M.G.

THE CHIEF SECRETARY

THE HONOURABLE SIR DAVID ROBERT FORD, K.B.E., L.V.O., J.P.

THE FINANCIAL SECRETARY

THE HONOURABLE SIR PIERS JACOBS, K.B.E., J.P.

THE ATTORNEY GENERAL

THE HONOURABLE JEREMY FELL MATHEWS, C.M.G., J.P.

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

THE HONOURABLE STEPHEN CHEONG KAM-CHUEN, C.B.E., J.P.

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

THE HONOURABLE MARIA TAM WAI-CHU, C.B.E., J.P.

DR THE HONOURABLE HENRIETTA IP MAN-HING, O.B.E., J.P.

THE HONOURABLE CHAN YING-LUN, O.B.E., J.P.

THE HONOURABLE MRS RITA FAN HSU LAI-TAI, O.B.E., J.P.

THE HONOURABLE PETER POON WING-CHEUNG, O.B.E., J.P.

THE HONOURABLE CHENG HON-KWAN, O.B.E., J.P.

THE HONOURABLE CHUNG PUI-LAM, O.B.E., J.P.

THE HONOURABLE HO SAI-CHU, O.B.E., J.P.

THE HONOURABLE HUI YIN-FAT, O.B.E., J.P.

THE HONOURABLE MARTIN LEE CHU-MING, Q.C., J.P.

THE HONOURABLE DAVID LI KWOK-PO, O.B.E., J.P.

THE HONOURABLE NGAI SHIU-KIT, O.B.E., J.P.

THE HONOURABLE PANG CHUN-HOI, M.B.E.

THE HONOURABLE POON CHI-FAI, J.P.

PROF. THE HONOURABLE POON CHUNG-KWONG, J.P.

THE HONOURABLE SZETO WAH

THE HONOURABLE TAI CHIN-WAH, J.P.

THE HONOURABLE MRS ROSANNA TAM WONG YICK-MING, O.B.E., J.P.

THE HONOURABLE TAM YIU-CHUNG

THE HONOURABLE ANDREW WONG WANG-FAT, O.B.E., J.P.

THE HONOURABLE LAU WONG-FAT, O.B.E., J.P.

THE HONOURABLE GRAHAM BARNES, C.B.E., J.P.
SECRETARY FOR PLANNING, ENVIRONMENT AND LANDS

THE HONOURABLE MICHAEL LEUNG MAN-KIN, J.P.
SECRETARY FOR TRANSPORT

THE HONOURABLE EDWARD HO SING-TIN, J.P.

THE HONOURABLE RONALD JOSEPH ARCULLI, J.P.

THE HONOURABLE MARTIN GILBERT BARROW, O.B.E.

THE HONOURABLE MICHAEL CHENG TAK-KIN, J.P.

THE HONOURABLE DAVID CHEUNG CHI-KONG, J.P.

THE HONOURABLE RONALD CHOW MEI-TAK

THE HONOURABLE MRS NELLIE FONG WONG KUT-MAN, J.P.

THE HONOURABLE MRS PEGGY LAM, M.B.E., J.P.

THE HONOURABLE DANIEL LAM WAI-KEUNG, J.P.

THE HONOURABLE MRS MIRIAM LAU KIN-YEE

THE HONOURABLE LAU WAH-SUM, O.B.E., J.P.

DR THE HONOURABLE LEONG CHE-HUNG

THE HONOURABLE LEUNG WAI-TUNG, J.P.

THE HONOURABLE JAMES DAVID MCGREGOR, O.B.E., I.S.O., J.P.

THE HONOURABLE KINGSLEY SIT HO-YIN

THE HONOURABLE MRS SO CHAU YIM-PING, J.P.

THE HONOURABLE JAMES TIEN PEI-CHUN, J.P.

THE HONOURABLE MRS ELSIE TU, C.B.E.

THE HONOURABLE PETER WONG HONG-YUEN, J.P.

THE HONOURABLE MRS ANSON CHAN, J.P.

SECRETARY FOR ECONOMIC SERVICES

THE HONOURABLE PETER TSAO KWANG-YUNG, C.B.E., C.P.M., J.P.

SECRETARY FOR HOME AFFAIRS

THE HONOURABLE MRS ELIZABETH WONG CHIEN CHI-LIEN, I.S.O., J.P.

SECRETARY FOR HEALTH AND WELFARE

THE HONOURABLE ALISTAIR PETER ASPREY, O.B.E., A.E., J.P.

SECRETARY FOR SECURITY

THE HONOURABLE CHRISTINE CHOW KWAN-TAI, J.P.

SECRETARY FOR EDUCATION AND MANPOWER

ABSENT

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

DR THE HONOURABLE DANIEL TSE, C.B.E., J.P.

THE HONOURABLE PAUL CHENG MING-FUN

IN ATTENDANCE

THE CLERK TO THE LEGISLATIVE COUNCIL
MR LAW KAM-SANG

Papers

The following papers were laid on the table pursuant to Standing Order 14(2):

Subject

Subsidiary Legislation L.N. No.

Hotel and Guesthouse Accommodation (Appeal Board) Regulations 1991.....	203/91
Hotel and Guesthouse Accommodation (Fees) Regulations 1991.....	204/91
Registration of Persons (Application for New (No. 8) Order 1991.....	Identity Cards) 206/91
Museums (Urban Council) Bylaws 1991.....	207/91
Tax Reserve Certificates (Rate of Interest) (No. 2) Notice 1991.....	208/91

Oral answers to questions

Prostitution by underaged girls

1. MRS TAM asked: With reference to the recent crackdown on a prostitution syndicate in which some underaged girls were reportedly involved, will Government inform this Council:

(a) of the extent of the female underaged prostitution problem in Hong Kong; and

(b) whether there is any indication that the involvement of underaged girls in prostitution is increasing and if so, what measures will be taken to tackle this problem?

SECRETARY FOR SECURITY: Sir, we do not have available statistics or other information which indicate the full extent of the problem. Based on the number of cases which come to the notice of the government departments concerned, the involvement of girls under 16 years of age in prostitution has not been increasing in recent years.

First, the number of girls under the age of 16 reported missing who are subsequently found by the police in employment in vice establishments are:

1988	1989	1990	1991 to date
62	27	24	5

Secondly, the number of girls under the age of 18 in respect of whom applications are made to the juvenile court for care and protection orders are:

1988	1989	1990	1991 to date
479	427	288	81

Many, though by no means all, of these applications are made in respect of girls found in employment in vice establishments.

Thirdly, the number of girls under the age of 18 engaged in prostitution who have come to the notice of the Family Welfare Services Branch of the Social Welfare Department has remained constant at approximately 200 in the past three years.

As regards the measures which are being taken to tackle the problem, these

include:

(a) Where young girls are found in employment in vice establishments, and recommended by social workers as in need of care and protection, an application for a care and protection order will be made to the juvenile court. The court may place a juvenile under the supervision of a Social Welfare Officer for a period not exceeding three years. Besides supervision, the Social Welfare Officer will counsel the girl and her parents, assist with schooling and employment, and if necessary arrange for residential care.

(b) Similar assistance may be given to girls who come to the notice of the Family Welfare Services Branch of the Social Welfare Department.

(c) Police school liaison officers regularly visit school and give talks to students which inter alia cover the dangers of involvement with triad members, and of enticement or coercion into prostitution.

(d) School social workers and other non-governmental social work organizations also provide guidance and assistance to young girls who have been involved in prostitution and to their families.

MRS TAM: Sir, can the Secretary for Security inform this Council how the police can ensure that the Family Welfare Services Branch of the Social Welfare Department has enough information about the underaged girls engaging in prostitution? Can automatic referral be made so that these girls can have the necessary help and assistance?

SECRETARY FOR SECURITY: Sir, I think that the figures I have quoted include all those cases which have come to the attention of the Social Welfare Department or have been referred to the Social Welfare Department.

Unleaded petrol

2. MR MARTIN LEE asked: In relation to the introduction of unleaded petrol, will Government inform this Council:

(a) given the fact that only 50% to 60% of consumers are using unleaded petrol -- rather than the 90% originally estimated by the Government -- whether it will lower the duty rates on both types of petrol so as to ensure that the price differential policy for leaded and unleaded petrol remains revenue neutral; and

(b) whether it will take the responsibility to collect and make public data on the level of airborne benzene resulting from the use of unleaded petrol and whether it will take steps to control the level of benzene, a known human carcinogen, contained in unleaded petrol?

SECRETARY FOR PLANNING, ENVIRONMENT AND LANDS: Sir, the differential duty rates of \$3.72/litre for unleaded petrol and \$4.17/litre for leaded petrol came into effect on 1 April this year as a revenue-neutral measure to encourage the use of unleaded petrol. In setting these rates, it was assumed that 90% of petrol consumed in the current financial year would be unleaded. If it turns out that fewer drivers convert to unleaded, there will be some additional revenue, but the amount should not be substantial.

The two rates came into effect just two months ago. Some of us, including myself, hoped for an even quicker change over, but, with over 50% of consumers apparently having already changed to unleaded, we still seem to be doing pretty well, certainly much better than any other developed country which has embarked on a similar exercise. But before we become too jubilant or despondent as the case may be, we should allow ourselves a few more months to see how the consumption settles down. Should it be seen that it has stabilized at a ratio which is worse than the present ratio or seems unlikely to improve further, we will certainly have to look at the whole matter again including the differential duty rates.

Sir, the answer to the second part of the question is a definite "yes". The Environmental Protection Department (EPD) has been carrying out what are known as "monthly benzene in ambient air measurements" as part of their air pollution monitoring programme. The measured levels average around 10 microgrammes per cubic metre, and is not a cause for concern. This is, for example, only about one-tenth of the New York State Ambient Air Standard.

Both unleaded petrol and leaded petrol contain benzene. The oil companies have

agreed to maintain benzene levels in unleaded petrol at the same level as that which leaded petrol contained before the introduction of unleaded petrol -- which ranged from 1% to 3%. The relevant British Standard limit is 5%.

The oil companies will supply the EPD regularly with data on their shipments including the content of benzene in unleaded petrol. The EPD will also carry out spot checks on benzene levels as part of their unleaded petrol enforcement programme.

MR MARTIN LEE: Sir, bearing in mind the recent television programme suggesting that the change to unleaded petrol may have disadvantages and that the advantages are not so great, will Government continue to use its public relations limb to urge our citizens to switch over to unleaded petrol?

SECRETARY FOR PLANNING, ENVIRONMENT AND LANDS: Certainly, Sir. I think that perhaps more public relations is and will continue to be necessary throughout the year. It must be understood that the introduction of unleaded petrol is the first step of a systematic programme for dealing with pollution from petrol-driven vehicles on the road; and that, without it, it will be impossible to move on to the next stage, which is higher design standards for emissions from motor vehicles, in particular the incorporation of catalytic converters in motor vehicles. I think that this is probably less well understood than it needs to be and the Government will make efforts to improve the situation.

MR PETER WONG: Sir, in view of the fact that Hong Kong drivers are no slouches in deciding what a good thing is financially, has the Government carried out any surveys to find out why Hong Kong drivers are willing to pay more for leaded petrol?

SECRETARY FOR PLANNING, ENVIRONMENT AND LANDS: No, Sir, nothing on a systematic basis yet. We will consider such surveys if necessary and in the circumstances I described earlier.

MR MARTIN LEE: Sir, having regard to Government's own figures showing that if only 50% of the petrol users use unleaded petrol, the additional income to the Government

for the year is likely to be \$77 million, does the Government consider this sum to be substantial or not ?

SECRETARY FOR PLANNING, ENVIRONMENT AND LANDS: Sir, we are still hopeful of a higher rate of conversion during the next few months and it was on this basis that I suggested that the additional revenue windfall would not be too substantial.

PROF. POON: Sir, it is mentioned in the third paragraph of the main answer that the level of benzene is around 10 microgrammes per cubic metre. Will the Secretary inform this Council what the total concentration of benzene and benzene derivatives is?

SECRETARY FOR PLANNING, ENVIRONMENT AND LANDS: Sir, I am not adequately briefed to answer that question but I will certainly arrange for a written answer to be sent to Prof. POON. (Annex I)

MR MARTIN LEE: Sir, does the Government have any intention to set the maximum level of benzene at whatever percentage in the foreseeable future?

SECRETARY FOR PLANNING, ENVIRONMENT AND LANDS: Sir, we have no plans for early legislation to this effect. We are at present in the exercise -- bearing in mind that it is a very dynamic one -- of proposing to continue with the arrangements we have with the petroleum supply companies.

Emergency care on ambulances

3. DR IP asked: Since ambulancemen are not trained to give intravenous fluid replacement, will the Government inform this Council how irreversible cardiovascular shock and death can be prevented in cases of traumatic internal bleeding which cannot be stopped with external pressure?

SECRETARY FOR SECURITY: Sir, ambulancemen are at present not trained to give

intravenous fluid replacement. In all cases of suspected internal bleeding, the ambulance will deliver the patient to the Accident and Emergency Department of the nearest hospital as quickly as possible. Ambulancemen are able to give treatment, such as maintaining a free airway, application of oxygen and resuscitation, and cardio-pulmonary resuscitation, if required whilst on the way to hospital. If necessary, the ambulance crew will alert the hospital in advance of arrival so that the hospital can make the necessary arrangements to be ready to treat the patient immediately upon arrival.

An advisory group has been appointed to examine the desirability and feasibility of extending the range of paramedic training given to ambulancemen. Following its recommendations, the use of defibrillators on ambulances was introduced on a pilot basis in January this year. The advisory group has just submitted its recommendations on the need for other paramedical services on ambulances, including intravenous injection, intubation and the administration of drugs, and these are now being considered by the Administration.

DR IP: Sir, since the advisory group mentioned earlier has already recommended the need for intravenous injection by ambulancemen, when can we expect the Administration to make a decision on this matter?

SECRETARY FOR SECURITY: Sir, the recommendation of the advisory group is that ambulancemen should be trained in intravenous injection. It is, first of all, necessary to introduce training for the ambulancemen. This will cover training in taking blood pressure, training in theories and techniques, and also practical training in cannulation in hospitals. After that, further training in intravenous injection will be necessary. We are now considering this recommendation and clearly we have to consider also the detailed training arrangements and the resource implications. But I hope this will be done very shortly.

DR LEONG: Sir, would the Secretary agree that emergency care must begin at the site of injury and not delayed until the patient reaches the Accident and Emergency department? And if so, what measures will be taken to improve on-the-spot emergency care before the recommendations of the so-called advisory group can be implemented?

SECRETARY FOR SECURITY: Sir, ambulancemen are of course trained in the much basic first aid training and, as I have said, we have appointed an advisory group specifically to advise on extending the range of training. We have recently received its recommendations on the extension of training to cover intravenous injection and intubation and I hope that we can take these forward as soon as possible.

MR TAM (in Cantonese): Sir, can the Government inform this Council of the experiences of other countries in extending the range of paramedic services on ambulances?

SECRETARY FOR SECURITY: Sir, that is a very wide question. All I would say is that the advisory group, in considering the whole question of what additional paramedic training might be given to ambulancemen, has looked closely at the practice in other countries and has learnt from the experiences of other countries.

MR CHEUNG YAN-LUNG (in Cantonese): Sir, how many patients died as a result of bleeding on their way to hospital this year? Can the Secretary inform this Council whether there are better ways to prevent this?

SECRETARY FOR SECURITY: Sir, no, I regret that figures on deaths are not available. But what I would say is that following a recent survey it has been found that only one in some 700 patients carried in ambulances was suffering from traumatic internal bleeding.

MR PETER WONG: Sir, in cases where additional expenditure on equipment such as defibrillators can result in lives saved, can the Administration inform this Council how it goes about deciding whether to make this additional expenditure?

SECRETARY FOR SECURITY: Sir, again, that is really a very wide question. Clearly when we received the recommendation on introducing defibrillation equipment and training for ambulancemen, we considered both the capital costs and the training requirements and measured those against the benefits, and we came to the conclusion that defibrillation should be introduced.

MR TAM (in Cantonese): Sir, can the Government inform this Council of the effectiveness of using defibrillators on ambulances after its introduction in January this year?

SECRETARY FOR SECURITY: Sir, we have decided to review the use of defibrillators based on experience gained over the first six months after its introduction. We have not yet conducted that review and I think it would be premature at this stage to try to speculate what the effect will be.

DR IP: Sir, with our traffic jams, sometimes it may take half an hour before a patient arrives in hospital. How long does it take for an adult with a severed large artery to bleed to death?

SECRETARY FOR SECURITY: Sir, I regret that I am not able to answer that question.

DR IP: Sir, would it not be important that the answer to that question be known so that Government can assess whether or not ambulancemen should be trained in intravenous injection?

SECRETARY FOR SECURITY: Sir, I can certainly seek a medical opinion and give a written answer (Annex II). But I do not feel confident to give an answer now. Perhaps what I could say, though in answer to the second part of the question, is that the average time for an ambulance to arrive at the scene of an accident is 10 minutes and thereafter to examine the patient and deliver the patient to hospital normally takes a further 15 minutes.

Written answer to question

Vietnamese boat people

4. MR POON CHI-FAI asked: As at 7 May, a total of 4 319 Vietnamese boat people (VBP) have arrived in Hong Kong this year, representing a 250% increase when compared with the total number of arrivals during the same period last year, or over 600% increase when compared with the number of boat people who returned to Vietnam this year under the voluntary repatriation scheme. It has been pointed out by the Administration that 95% of those fleeing Vietnam are heading for Hong Kong. Will Government inform this Council:

(a) whether there are any measures to deter the continued influx of VBP; whether action will be taken to refuse their entry; and when will the implementation of the mandatory repatriation scheme be resumed?

(b) why Hong Kong, being a victim to the VBP problem and heavily saddled with the expense incurred, has not been given the legitimate right to implement mandatory repatriation on the VBP who have entered the territory illegally; and why Chinese illegal immigrants who have also come to seek a better living, like their counterparts from Vietnam, have been given differential treatment?

SECRETARY FOR SECURITY: We believe that the Comprehensive Plan of Action (CPA) remains the right approach to solve the problem of Vietnamese migrants. It is the failure to implement the CPA in full which has so far prevented a resolution of the problem. We are continuing our efforts to obtain agreement on arrangements for the repatriation of all those screened out as non-refugees. This, we believe, will be the most effective measure to discourage the influx of migrants seeking resettlement. In the meantime, we are co-operating with the UNHCR and the Vietnamese authorities on their publicity in Vietnam which seeks to discourage people from leaving Vietnam clandestinely.

While we are seeking to achieve the full implementation of the CPA, we intend to abide by our obligation under the CPA to give temporary asylum to asylum seekers from Vietnam. At present there are no plans to change this policy.

We intend to resume repatriation of those screened out as non-refugees as soon as we can reach agreement with Vietnam to take back its citizens in accordance with the provisions of the CPA and normal international practice. We are able to return Chinese illegal immigrants because China accepts them back. This is true also for other countries in the region, which accept back their nationals under normal

international arrangements. It is regrettably not yet the case with Vietnamese illegal immigrants.

First Reading of Bills

LAW AMENDMENT AND REFORM (CONSOLIDATION) (AMENDMENT) BILL 1991

ROAD TRAFFIC (AMENDMENT) (NO. 2) BILL 1991

FIXED PENALTY (TRAFFIC CONTRAVENTIONS) (AMENDMENT) BILL 1991

ROAD TUNNELS (GOVERNMENT) (AMENDMENT) BILL 1991

SUPPLEMENTARY MEDICAL PROFESSIONS (AMENDMENT) BILL 1991

Second Reading of Bills

LAW AMENDMENT AND REFORM (CONSOLIDATION) (AMENDMENT) BILL 1991

THE FINANCIAL SECRETARY moved the Second Reading of: "A Bill to amend the Law Amendment and Reform (Consolidation) Ordinance".

He said: Sir, I move that the Law Amendment and Reform (Consolidation) (Amendment) Bill 1991 be read the Second time. This Bill seeks to put beyond doubt the validity of a common practice by banks and other lending institutions to secure loans and credit facilities by taking charges over cash deposits held with them by borrowers or third parties.

In a case concerning Charge Card Services Ltd in the United Kingdom in 1986, the Court held that, whereas a person might take a valid security over a debt due by another, he could not take such a security over a debt due from himself. A bank deposit is a debt due by a bank. The decision suggests that a bank might take a valid security over a deposit held by a third party, say another bank or a subsidiary deposit taking company, but it could not take a mortgage or charge over a deposit pledged by the borrower or a third party with itself.

The Charge Card decision has generated considerable controversy and confusion within the legal and financial communities both in England and Hong Kong. Due to the uncertainty, some local lending institutions have established inconvenient, circuitous and costly arrangements to secure their loans. This is not only detrimental to the institutions and their customers, but also places Hong Kong lending institutions at a considerable disadvantage in relation to those in jurisdictions where there is no doubt as to the validity of security deposits.

This state of uncertainty is highly unsatisfactory. Both the legal and banking communities have been consulted, and they are in support of addressing this problem with a legislative amendment.

Sir, I move that the debate on this motion be now adjourned.

Question on the adjournment proposed, put and agreed to.

ROAD TRAFFIC (AMENDMENT) (NO. 2) BILL 1991

THE SECRETARY FOR TRANSPORT moved the Second Reading of: "A Bill to amend the Road Traffic Ordinance".

He said: Sir, I move that the Road Traffic (Amendment) (No. 2) Bill 1991 be read the Second time.

This Bill has two main objectives. First, it allows for the introduction of more modern equipment for collecting parking fees. Second, it empowers the Commissioner for Transport to determine the fees for using parking spaces within a maximum ceiling set by the Governor in Council.

Some 14 000 on-street parking meters are now in use. These are coin-operated and suffer limitations from user's and management point of view. For example, payment is restricted to coins and coin collection is labour intensive. The amendments now proposed will enable the introduction of electronic parking meters and automatic parking ticket vending machines. Both will accept stored value cards and, in the case of parking ticket vending machines, other modes of payment in addition to coins, thus providing greater convenience to motorists. Upon enactment of the legislation, a series of trials will be conducted to determine the equipment best suited to our needs.

The opportunity is taken to regularize the existing procedure for determining parking charges. Currently, the Commissioner for Transport regulates the use of parking spaces at particular locations through the installation of a mix of meters with varying fee levels and parking durations, as specified in the Second Schedule to the Road Traffic (Parking) Regulations. The Bill provides legal backing for these arrangements, and gives the Commissioner flexibility in setting parking fees so long as these are within the maximum limit prescribed by the Governor in Council.

Sir, I move that the debate on this motion be adjourned.

Question on the adjournment proposed, put and agreed to.

FIXED PENALTY (TRAFFIC CONTRAVENTIONS) (AMENDMENT) BILL 1991

THE SECRETARY FOR TRANSPORT moved the Second Reading of: "A Bill to amend the Fixed Penalty (Traffic Contraventions) Ordinance".

He said: Sir, I move that the Fixed Penalty (Traffic Contraventions) (Amendment) Bill 1991 be read the Second time.

This Bill amends the Fixed Penalty (Traffic Contraventions) Ordinance to make failure to pay for the use of a parking space an offence, when new electronic parking meters or parking ticket vending machines are provided. Anyone who commits the offence will be subject to a fixed penalty of \$200.

Sir, I move that the debate on this motion be now adjourned.

Question on the adjournment proposed, put and agreed to.

ROAD TUNNELS (GOVERNMENT) (AMENDMENT) BILL 1991

THE SECRETARY FOR TRANSPORT moved the Second Reading of: "A Bill to amend the Road Tunnels (Government) Ordinance".

He said: Sir, I move that the Road Tunnels (Government) (Amendment) Bill 1991 be read

the Second time. This Bill seeks to provide for the private management of government tunnels.

At present, Government owns and operates four toll tunnels and one non-toll tunnel. Under the Road Tunnels (Government) Ordinance, the Commissioner for Transport is the sole authority for managing these tunnels, including the control and regulation of vehicular and pedestrian traffic and, where appropriate, the collection of tolls. The Director of Electrical and Mechanical Services is responsible for maintaining the tunnels' electrical and mechanical equipment. During 1989-90, some 470 staff and recurrent provision of about \$100 million were dedicated to these activities.

To achieve better value for money and to provide greater flexibility in meeting changing needs, the Governor in Council gave policy approval in September 1990 to privatize the operation and maintenance of government tunnels under management contracts. As a first step, the management of the Aberdeen Tunnel will be contracted out very soon. Depending on the success of this initiative, we will conduct a review early next year to see how best the management of the other tunnels could be contracted out.

The amendments in this Bill allow for the appointment of private operators to manage government tunnels and provide them with necessary powers. These include the powers to seize and remove any vehicles which cause obstruction. To safeguard public interest, the Commissioner for Transport will be able to give general directions to the operator concerning the performance of functions and the exercise of powers conferred on the operator by the Ordinance. Government will also retain control over the level of tolls.

Sir, I move that the debate on this motion be now adjourned.

Question on the adjournment proposed, put and agreed to.

SUPPLEMENTARY MEDICAL PROFESSIONS (AMENDMENT) BILL 1991

THE SECRETARY FOR HEALTH AND WELFARE moved the Second Reading of: "A Bill to amend the Supplementary Medical Professions Ordinance".

She said: Sir, I move that the Supplementary Medical Professions (Amendment) Bill

1991 be read a Second time.

Following the enactment of the Occupational Therapists (Registration and Disciplinary Procedure) Regulations 1990 and the Medical Laboratory Technologists (Registration and Disciplinary Procedure) Regulations 1990, registration of members of the two professions commenced on 1 October 1990.

Under section 16(1) of the principal Ordinance, a person registered shall not practise a profession in Hong Kong unless he holds a practising certificate which is then in force.

In accordance with section 16(3) of the Ordinance, a person who applies for a practising certificate, will be issued with one valid until the end of the year. Section 16(4), however, states that where a practising certificate is issued pursuant to an application made during the course of a year in respect of the following year, the certificate shall be in force for a period of 12 months commencing on 1 July in the following year. Thus, there could be periods within the year not covered by valid practising certificates, thereby creating an anomalous situation.

The Bill seeks to amend section 16 of the Ordinance to remove this anomaly in the validity periods of practising certificates by providing for all practising certificates to end on the same date, that is 30 June.

Sir, I move that the debate on the Second Reading of the Bill be now adjourned.

Question on the adjournment proposed, put and agreed to.

LOANS (AMENDMENT) BILL 1991

Resumption of debate on Second Reading which was moved on 15 May 1991

Question on the Second Reading of the Bill proposed, put and agreed to.

Bill read the Second time.

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

INLAND REVENUE (AMENDMENT) (NO. 4) BILL 1991

Resumption of debate on Second Reading which was moved on 15 May 1991

Question on the Second Reading of the Bill proposed, put and agreed to.

Bill read the Second time.

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

STAMP DUTY (AMENDMENT) (NO. 2) BILL 1991

Resumption of debate on Second Reading which was moved on 15 May 1991

Question on the Second Reading of the Bill proposed, put and agreed to.

Bill read the Second time.

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

ADMINISTRATION OF JUSTICE (FELONIES AND MISDEMEANOURS) BILL 1991

Resumption of debate on Second Reading which was moved on 15 May 1991

Question on the Second Reading of the Bill proposed, put and agreed to.

Bill read the Second time.

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

HONG KONG WAR MEMORIAL PENSIONS BILL 1991

Resumption of debate on Second Reading which was moved on 15 May 1991

Question on Second Reading proposed.

MR MCGREGOR: Sir, I have never understood why the former Secretary for Social Services, Mr Eric HO, a colleague of mine during my government days and a friend for many years, should ever have taken a position against giving ex-prisoners of war full pension rights. He is recorded as having said that the prisoners in Japanese hands were "a privileged minority." It was an astounding thing for someone like Mr Eric HO to say, a man born in Hong Kong who had himself experienced the terrible privations and fear of life under the Japanese conquerors from 1941 to 1945. I know him to be a kind and caring person whose contribution to Hong Kong has been extensive and sincere. I asked him at one stage why he had made the comment. He told me that he had meant to indicate that many of those outside the camps were even worse off than those inside. It was an off-the-cuff remark which must have haunted him through the years. It would not have represented his true feeling of compassion for the ex-prisoners of war.

When I came to this Council I was determined to do all I could to ensure that the ex-prisoners of war and the war widows would be given the right of a government pension after so many years of denial. I took positive action, as others had done. Taking legal advice from Mr Geoffrey GRIMMETT, whose help I acknowledge today, I prepared the way to submit a Private Member's Bill to establish pensions for these unfortunate people. I found Mrs Elizabeth WONG not only willing to listen but to listen with an open mind. She took the right decision and she has said publicly that she is proud of it. I also have a sense of pride and a feeling of righteousness at having had a part to play. As one who also saw action against the Japanese in World War II, and who witnessed at the end of it the dreadful results on prisoners of incarceration, ill treatment and torture, I am very happy today to see the passage of the Bill.

I am also happy to have heard from Mr Eric HO, soon to retire from public service, that the Bill may have inadvertently missed some old soldiers who deserve to be included. Those are volunteers who were captured during the battle for Hong Kong in December 1941 but who escaped from Japanese custody before 30 December of that year and some of whom continued to fight against the Japanese from bases in China. The British Army Aid Group assisted in some of these escapes and made use of the services of some of the escapees.

Mr Eric HO has raised the point which should be examined so that we can be sure that we have taken care of all those military personnel who suffered through services to Hong Kong in those dark and terrible days. I would not wish to hold up this Bill. I will therefore ask the Council at the next In-House meeting to set up a small ad hoc group to consider Mr HO's proposal. If this is supported, I would be prepared

to move a Private Member's Bill to seek an amendment to this legislation in due course. The possible beneficiaries have waited long enough.

Sir, I wish to take this opportunity of expressing the hope that the Hong Kong War Memorial Association and its brave warriors will recognize that we all say things that we regret for the rest of our lives. Mr Eric HO's compassion and concern for those who faced the ordeal in 1941, including his love for a brother who was killed at that time, should surely now allow the ex-prisoners of war to forgive his remark and join hands in friendship and honour.

Thank you, Sir, I support the Bill.

SECRETARY FOR HEALTH AND WELFARE: Sir, I am indeed grateful to my honourable friend, Mr McGREGOR, for his comments and his support for the Bill. I have noted his concern on the point made by my predecessor, Mr Eric HO, but I can assure him that I am well aware of this question and the matter has already been examined in depth.

Lest it be forgotten, the purpose of the Hong Kong War Memorial Pensions Bill 1991 is to convert discretionary grants to pensions payable to those already eligible under the Hong Kong War Memorial Fund Ordinance, which is to be repealed and replaced, and the Far Eastern Relief Fund which is to be wound up. New applicants will have to apply and fulfil the criteria under the new law before becoming eligible.

Sir, it has now been fifty years since the defence and fall of Hong Kong during the Second World War. Still, many people have strong feelings about the war. Given the controversy over the question of pensions for ex-prisoners of war in the past, there are bound to be, even now, divergent views on this issue. However, I think it to be wrong to hold up passage of this Bill and I am glad Mr McGREGOR did not suggest it. I fear if we were to wander outside the ambit of this Bill, we would be in the woods of ambiguity once more.

Sir, we must do what we believe to be right. Often the wish to do the perfect thing is an excuse for not doing anything at all. Let us not have excuses! Too long have we waited. Let us get on with it.

Sir, I beg to move.

Question on the Second Reading of the Bill put and agreed to.

Bill read the Second time.

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

IMMIGRATION (AMENDMENT) BILL 1991

Resumption of debate on Second Reading which was moved on 24 April 1991

Question on Second Reading proposed.

MRS FAN: Sir, I rise to support the passage of the Immigration (Amendment) Bill 1991 subject to the amendments to be moved by the Secretary for Security at the Committee stage.

The ad hoc group set up to scrutinize this Bill met with the Vietnamese Asylum Seekers Sub-Committee of the Hong Kong Bar Association to hear their representation, and also received a joint submission from the Hong Kong Catholic Youth Council and two other bodies, as well as another submission from a member of the public. The points they raised were discussed at length with the Administration, which responded in writing as well as verbally. The ad hoc group is mindful that the proposals in the Bill have significant effects on the Vietnamese boat people (VBP) under the custody and care of the Hong Kong Government. However, we are also aware that the Hong Kong Government is obliged to abide by international and domestic laws; it also has the responsibility to protect the well-being of the more vulnerable population in the detention centres, and it also has to operate within the constraints placed on Hong Kong by circumstances beyond its control. The ad hoc group balanced these different and sometimes conflicting considerations carefully, and the majority of Members decided to support the proposed Bill except clause 4.

With your indulgence, Sir, I shall briefly summarize the major points considered by the group.

Power of detention (new section 13D(1))

The Bill seeks to provide the Administration with the power to detain VBP arriving

in Hong Kong, whether or not they have requested permission to remain in Hong Kong. The group is concerned that the Administration must not be seen to be withholding from the VBP their choice to continue with their journeys and thereby bringing additional burden on Hong Kong. The Administration has explained that when Vietnamese boats come into the immediate port area of Hong Kong seeking asylum or assistance, the Administration is bound by both local legislation and international maritime law to ensure that the ship is safe to set sail and carry passengers. The relevant local legislation is found in the Shipping and Port Control Ordinance and the Merchant Shipping (Safety) Ordinance. The relevant international law is the International Convention for the Safety of Life at Sea 1974. The Administration assured the group that they do not interfere with Vietnamese boats in transit through outer Hong Kong waters. After reviewing the relevant laws, the group is satisfied that the Administration needs this power to prevent VBP who after landing try to evade the detention policy by requesting to go elsewhere although they do not have the means to do so nor is there any country willing to accept them. However, to avoid misunderstanding by members of the public the group feels that the Administration should use every possible opportunity to explain this to the community.

Reasonableness of length of detention (new section 13D(1A))

The Administration has explained to the group that the intention of this provision is to invite the court to take into consideration the practical constraints under which the policy operates, that is, to have regard to all the circumstances affecting each person's detention, including, but not limited to, the number of persons being detained pending screening and the manpower and resources allocated for the work. One member of our group does not agree that 18 months' detention can be considered reasonable under any circumstances. However the majority of members of the group support this provision because under the present circumstances there is no viable or practical alternative to detention for VBP awaiting screening or who have been screened out, if they choose not to volunteer to go back to Vietnam.

Curtailement of judicial review -- clause 4

The Administration has emphasized to us that the amendment to section 13F(8) is purely to clarify the existing provision, that is, the merit of all decisions of the Refugee Status Review Board including those leading up to the final determination of the status of the Vietnamese should not be subject to review or appeals in any court. This is the spirit of the law, but the Administration feels that the present

format lacks clarity. Members, however, think that while the new provision cannot resist applications for judicial review, it may cause unnecessary misunderstanding that the Administration is attempting to interfere with the judiciary's supervisory jurisdiction over the executive. We therefore request it and the Administration graciously agrees with our view and I understand that the Secretary for Security will move an amendment to withdraw this clause.

Power to transfer between detention centres (new section 13D(5) to (8))

Members accepted that this power of transfer is necessary to ensure order and good management in the VBP centres. The power has been made retrospective as every one of the 50 000 VBP currently detained in Hong Kong has been transferred at least once. Timing for lodging appeal against transfer will be made clearer by the amendments to be moved later. Members are also content that the appeal should be to the head of the relevant disciplinary service which manages the centre from which the transfer originates.

Sir, the group has also considered a number of other points which were answered by the Administration, but I shall not raise them here. Suffice to say, the majority of the ad hoc group, supported by the Legislative In-House meeting, believe that this Bill is necessary under current situation. However, dare I add, I think many of us will be much happier if, instead of passing this amendment Bill, we are asked to repeal Part IIIA of the Immigration Ordinance, that is, the part on Vietnamese refugees because that will signify the resolution and end of the VBP problem -- a day that we shall all look forward to.

Sir, I support the motion.

MR MARTIN LEE: Sir, I am troubled by the new subsections 13D(5), (6) and (7) because it seems to me that it is a form of disguised punishment imposed on individuals for an indefinite period of time and these individuals would be segregated from their families. I am also concerned about the time limit for appeal which is only 48 hours from the time of transfer. When one reads that in the light of the abolition of the right of petition to the Governor under the existing section 53(8), I think the Bar has got a point in saying that this appears to be a very harsh provision in the law. So I shall abstain from voting.

SECRETARY FOR SECURITY: Sir, I am grateful to Mrs FAN and the ad hoc group for their careful consideration of this Bill, and their constructive comments and suggestions.

I would like first to confirm that the inclusion of the phrase "whether or not he has requested permission to remain in Hong Kong" in section 13D(1) of the Ordinance in no way implies that the Government intends to compel any Vietnamese asylum seeker who has the means to leave and wishes to do so to remain in Hong Kong. The present practice is, on arrival at Hong Kong's sea boundary, the occupants of any vessel carrying undocumented residents of Vietnam will be given the option either to travel on at once or to enter Hong Kong and face detention pending a decision whether or not to permit them to remain. This policy is not affected by the Bill and the purpose of the new section 13D(1) is simply to make clear that an asylum seeker who has entered Hong Kong on this basis or who arrives in Hong Kong without the means to go on and in the absence of any other country willing to admit him cannot later seek to challenge the legality of his detention.

Sir, Mrs FAN has raised a number of other points and I shall be moving three amendments to the Bill at the Committee stage which I would like to explain briefly.

Firstly, the proposed section 13D(8), which is added by clause 2(4) of the Bill provides that past transfers of detainees from one place to another were properly authorized. I shall be moving an amendment at the Committee stage to change the date referred to in that section from 23 May 1990 to 31 May 1991. This change will ensure that the provision applies to all transfers before the date on which, with this Council's agreement and your assent, Sir, the amendment Bill will pass into law.

Secondly, clause 3 proposes the introduction of a right of appeal against transfer in the interests of order or good management. It contains in the proposed section 13DA(2) the procedures which will apply to such an appeal. The intention is that an appeal must be made by a detainee within 48 hours of his arrival at the detention centre to which he is transferred. To make this quite clear, I shall move at the Committee stage an amendment to this section.

Thirdly, clause 4 of the Bill proposes a change to section 13F(8), regarding decisions of the Refugee Status Review Board and seeks to extend the protection of such decisions from judicial review. On reconsideration, I agree that this is unnecessary, and I shall move at the Committee stage an amendment to delete clause

4.

Sir, I move that the Immigration (Amendment) Bill now be read a Second time.

Question on the Second Reading of the Bill put and agreed to.

Bill read the Second time.

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

EDUCATION (AMENDMENT) BILL 1991

Resumption of debate on Second Reading which was moved on 15 May 1991

Question on the Second Reading of the Bill proposed, put and agreed to.

Bill read the Second time.

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

EMPLOYEES COMPENSATION ASSISTANCE BILL 1991

Resumption of debate on Second Reading which was moved on 8 May 1991

Question on Second Reading proposed.

MR TAM (in Cantonese): Sir, it is beyond doubt that employees will welcome the enactment of the Employees Compensation Assistance Bill 1991 by Government because it strengthens the protection to injured employees. Yet, there are shortcomings in the legislation.

According to this legislation, the areas of coverage include medical expenses for injured employees, two-thirds of the earnings during the period of injury or sickness and compensation made according to assessment of casualty. This certainly protects injured employees from failure to obtain compensation because of irresponsibility on the part of employers. But since compensation to employees by

the Employees Compensation Assistance Fund is not made in the form of advance payment, injured employees have to experience a long period of proceedings before they can apply for assistance fund. During this interim period, employees may find it difficult to maintain their daily necessities or even be unable to afford medical expenses as a result of employers' failure to pay for medical expenses and two-thirds of employees' earnings during the period of injury or sickness.

Sir, those employees who have been injured or contracted occupational diseases are already unfortunate. It is absolutely unfair to them if they have to busy with or worry about their medical expenses and livelihood. In view of these, I hope that Government can give the Employees Compensation Assistance Fund the power of granting advance payment, particularly in respect of advance payment for medical expenses and two-thirds of the earnings during the period of injury or sickness, in order to meet the urgent needs of injured employees. In addition, the Honourable PANG Chun-hoi has reminded me to press for the preparation of a more detailed information leaflet for distribution by the Labour Department before the relevant legislation is put into effect.

Sir, with these remarks, I support the motion.

SECRETARY FOR EDUCATION AND MANPOWER: Sir, I am grateful to Mr TAM Yiu-chung for supporting the Bill and would like to respond to the comments he has made.

Mr TAM has suggested that the Employees Compensation Assistance Fund should provide immediate relief to employees by paying out the compensation in the first instance. As I said in this Council when introducing the Bill, employers are required under the Employees' Compensation Ordinance to provide a comprehensive range of employment-related compensation to workers. In order to ensure that employers are able to do so, the Ordinance required employers to take out insurance to cover their liabilities. The Ordinance also specifies the time limit within which compensation must be paid. For example, medical expenses must be paid within 21 days. Failure to pay is an offence under the law. In the vast majority of cases, compensation payments are promptly made.

For those who fail to receive compensation after exhausting all existing legal remedies, we now have as a safety net the Employees Compensation Assistance Scheme. This, however, does not alter the fact that the primary responsibility to pay

compensation rests with the employer and action should be targetted at the employer not the Fund for payment in the first instance.

Question on the Second Reading of the Bill put and agreed to.

Bill read the Second time.

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

PENSIONS (SPECIAL PROVISIONS) (VOCATIONAL TRAINING COUNCIL) BILL 1991

Resumption of debate on Second Reading which was moved on 15 May 1991

Question on the Second Reading of the Bill proposed, put and agreed to.

Bill read the Second time.

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

Committee stage of Bills

Council went into Committee.

LOANS (AMENDMENT) BILL 1991

Clauses 1 to 4 were agreed to.

INLAND REVENUE (AMENDMENT) (NO. 4) BILL 1991

Clauses 1 and 2 were agreed to.

STAMP DUTY (AMENDMENT) (NO. 2) BILL 1991

Clauses 1 and 2 were agreed to.

ADMINISTRATION OF JUSTICE (FELONIES AND MISDEMEANOURS) BILL 1991

Clauses 1 to 4 were agreed to.

Schedules 1 to 4

ATTORNEY GENERAL: Sir, I move that schedules 1 to 4 of the Bill be amended as set out under my name in the paper circulated to Members.

Except for those amendments to which I will make particular reference, the proposed amendments are necessary in order to ensure that the provisions of section 89 of the Interpretation and General Clauses Ordinance, which concern the mode of trial of particular classes of offence, will still apply once the distinction between felonies and misdemeanours is removed.

In schedule 1, the proposed amending items (a)(i) and (ii) simply clarify the existing section 89(1)(b) and (2)(b) of the Interpretation and General Clauses Ordinance. Item (e) is consequential upon the amendment to section 86 of the Trade Marks Ordinance enacted on 22 May. Item (i) deals with a reference to "felony" which was omitted when the Bill was prepared.

The proposed amendment to schedule 3 is a drafting change only.

Sir, I beg to move.

Proposed amendments

Schedule 1

That schedule 1 be amended --

(a) In item 1 --

(i) by adding after paragraph (b) --

"(ba) In section 89(1)(b), repeal "appear;" and substitute "or "on indictment" appear; or".";

(ii) by adding after paragraph (d) --

"(da) In section 89(2)(b), add "or "on indictment"" after ""upon indictment"".";

(iii) by deleting paragraph (f) and substituting --

"(f) In section 90(1) --

(i) repeal "a misdemeanor" and substitute "an indictable offence"; and

(ii) repeal "of \$50,000".

(b) In item 2 --

(i) in paragraphs (a) and (b), by adding "indictable" before "offence" wherever it appears";

(ii) in paragraph (d)(ii), by adding "triable summarily" after "misdemeanor" and by adding "triable either summarily or upon indictment" after "offence".

(c) In items 3, 5, 6, 16, and 18, by adding "triable upon indictment" after "offence".

(d) In item 4, by adding "indictable" before "offence".

(e) By deleting item 7.

(f) In item 10, by adding "triable summarily" after "misdemeanor" and by adding "triable either summarily or upon indictment" after "offence".

(g) In item 12, by adding "on conviction on indictment" after "punishable".

(h) In item 14(e), by deleting the passage after "repeal" and substituting ""in every other case of a misdemeanor committed for trial before the court"".

(i) By adding after item 15 --

"15A. Firearms and Ammunition Ordinance (Cap. 238) In item 3 of the Schedule, in the passage opposite the section number 36, repeal "felony" and substitute "an arrestable offence".".

Schedule 2

That schedule 2 be amended --

(a) In the item relating to sections 10 to 17 etc., by adding "triable upon indictment" after "offence".

(b) By deleting the item relating to sections 19, 23 and etc., and substituting --

"Sections 19, 23, 25, 26, 31(1), 35, 39, 47, 50 and 54 Repeal "a misdemeanor" and substitute "an offence triable upon indictment".".

(c) By adding after the item relating to section 24 --

"Section 27(1) Repeal "a misdemeanor" and substitute "an offence".

Section 32(3), 33, 34, 40, 44(1) and (2) and 51 Repeal "a misdemeanor triable summarily" and substitute "an offence triable either summarily or upon indictment".".

(d) In the item relating to section 36, paragraph (b), by adding "triable summarily" after "misdemeanor" and by adding "triable either summarily or upon indictment" after "offence".

(e) In the item relating to section 56, by adding "indictable" before "offence".

(f) In the item relating to section 58, paragraph (a), by deleting "indictable".

Schedule 3

That schedule 3 be amended, in the item relating to section 21, by deleting "triable".

Schedule 4

That schedule 1 be amended, in item 4, by adding "triable upon indictment" after "offence".

Question on the amendments proposed, put and agreed to.

Question on schedules 1 to 4, as amended, proposed, put and agreed to.

HONG KONG WAR MEMORIAL PENSIONS BILL 1991

Clauses 1, 2, 4 to 6, 8 to 12, 14, 16 to 23 were agreed to.

Clauses 3, 7, 13, 15 and 24

SECRETARY FOR HEALTH AND WELFARE: Sir, I move that the clauses specified be amended as set out in the paper circulated to Members.

The purpose of the proposed amendment to clause 7(2)(d) is to include a member of any service specified in the schedule who sustained an injury during such service during the period from 7 December 1941 to 25 December 1941. This is to achieve consistency with the criteria of eligibility for grants under the existing Hong Kong War Memorial Fund.

It has been pointed out to us that the Bowen Road Hospital was also used as a prisoner of war camp before 30 December 1941 and that members of the scheduled services detained there should be included. Hence the proposed amendment to clause 7(2)(d)(ii).

The proposed amendments to the other clauses seek to clarify certain drafting points and to correct a typing error.

Sir, I beg to move.

Proposed amendments

Clause 3(4)

That clause 3(4) be amended, in paragraph (c), by deleting " " where it firstly occurs and substituting " ".

Clause 7(2)

That clause 7(2) be amended --

In paragraph (d) --

(a) by adding "sustained an injury during such service or" before "was captured"; and

(b) in sub-paragraph (ii), by adding "Bowen Road Hospital," after "Street,".

Clause 13(7)

That clause 13(7) be amended, in paragraph (b), by deleting "legally" wherever it occurs and substituting "lawfully".

Clause 15

That clause 15 be amended --

(a) By deleting sub-clause (1) and substituting --

"(1) Before or after the determination of an appeal, the Appeal Board may refer any question of law arising for determination by the Court of Appeal by way of case stated."; and

(b) in sub-clause (2), by adding " " after " " and " " respective

Clause 24

That clause 24 be amended by deleting "paid under section 5 of" and substituting "and additional benefits paid under".

Question on the amendments proposed, put and agreed to.

Question on Clauses 3, 7, 13, 15 and 24, as amended, proposed, put and agreed to.

Schedule was agreed to.

IMMIGRATION (AMENDMENT) BILL 1991

Clauses 1, 5 and 6 were agreed to.

Clauses 2 to 4

SECRETARY FOR SECURITY: Sir, I move that clauses 2 to 4 be amended as set out in the paper circulated to Members.

Proposed amendments

Clause 2(4)

That clause 2(4) be amended, in the proposed section 13D(8), by deleting "25 May 1990" and substituting "31 May 1991".

Clause 3

That clause 3 be amended, in the proposed section 13DA(2), by deleting "from the" and substituting "to that".

Clause 4

That clause 4 be amended by deleting clause 4.

Question on the amendments proposed, put and agreed to.

Question on clauses 2 to 4, as amended, proposed, put and agreed to.

EDUCATION (AMENDMENT) BILL 1991

Clauses 1 and 2 were agreed to.

EMPLOYEES COMPENSATION ASSISTANCE BILL 1991

Clauses 1 to 22, 24 to 27 were agreed to.

Clauses 23

SECRETARY FOR EDUCATION AND MANPOWER: Sir, I move that Clause 23 be amended as set out in the paper circulated to Members.

As it stands, clause 23 restricts the costs payable to an applicant by the Fund Board to costs incurred in making the application. It has been pointed out that this will not enable the Fund Board to pay costs incurred by an applicant in obtaining the court judgement which is a necessary pre-requisite for an application under clause 16.

The amendments ensure that an applicant will be protected in respect of costs incurred by him in bringing the court proceedings which established his entitlement to compensation or damages. The amendments also make it clear that any subsequent legal costs incurred in recovering the compensation or damages will be covered.

Such protection will be limited to costs due under an order of the court as taxed on a party and party scale. The protection is dependent on there being a concurrent claim against the Fund for compensation or damages. No claim can be made against the Fund for such costs in their own right.

Sir, I beg to move.

Proposed amendment

Clause 23

That clause 23 be amended --

(a) In subsection (1) -

(i) by adding "of compensation or damages" after "amounts";

(ii) by deleting the passage after "Fund" where it last occurs and substituting -

--

(a) the costs incurred by the applicant in making the application; and

(b) an amount equal to any costs payable to the applicant pursuant to an order of a court for costs against the employer or the employer's insurer in proceedings claiming the compensation or damages."

(b) In subsection (2), by deleting "subsection (1)" and substituting "subsection (1)(a)".

(c) In subsection (3) -

(i) by deleting "An applicant under section 16" and substituting "The applicant";

(ii) by adding "pursuant to subsection (1)(a)" after "proposes to pay";

(iii) by deleting "of the applicant's bill of costs by the District Court" and substituting "by the District Court of the applicant's bill of costs in respect of his application under section 16".

(d) In subsection (4), by adding "for the purposes of subsection (1)(a)" after "liable".

(e) By adding after subsection (4) -

"(4A) The amount payable by the Board pursuant to subsection (1)(b) in respect of costs ordered by a court shall be only such amount as has been allowed, or would in the opinion of the Board be allowed, on taxation of those costs on a party and party basis.

(4B) Section 37 applies in respect of a payment made from the Fund pursuant to subsection (1)(b) as if such payment were payment of an amount of compensation or damages."

(f) In subsection (9), by deleting "Costs" and substituting "Amounts".

Question on the amendment proposed, put and agreed to.

Question on clause 23, as amended, proposed, put and agreed to.

Schedules 1 to 3 were agreed to.

PENSIONS (SPECIAL PROVISIONS) (VOCATIONAL TRAINING COUNCIL) BILL 1991

Clauses 1 to 5 were agreed to.

Council then resumed.

Third Reading of Bills

THE ATTORNEY GENERAL reported that the

LOANS (AMENDMENT) BILL 1991

INLAND REVENUE (AMENDMENT) (NO. 4) BILL 1991

STAMP DUTY (AMENDMENT) (NO. 2) BILL 1991

EDUCATION (AMENDMENT) BILL 1991 and the

PENSIONS (SPECIAL PROVISIONS) (VOCATIONAL TRAINING COUNCIL) BILL 1991

has passed through Committee without amendment and the

ADMINISTRATION OF JUSTICE (FELONIES AND MISDEMEANOURS) BILL 1991

HONG KONG WAR MEMORIAL PENSIONS BILL 1991

IMMIGRATION (AMENDMENT) BILL 1991 and the

EMPLOYEES COMPENSATION ASSISTANCE BILL 1991

has passed through Committee with amendments. He moved the Third Reading of the Bills.

Question on the Third Reading of the Bills proposed, put and agreed to.

Bills read the Third time and passed.

Member's motion

INFLATION

MR LAU WAH-SUM moved the following motion:

"In view of the persistently high rate of inflation and in particular its rising trend in the past few months, and the growing impact of the problem on our economic development and social stability, this Council urges the Government to take immediate steps, as a matter of great urgency, to reduce the current rate of inflation."

MR LAU WAH-SUM (in Cantonese): Sir, I move a motion debate on the question of inflation. The motion is: "In view of the persistently high rate of inflation and in particular its rising trend in the past few months, and the growing impact of the problem on our economic development and social stability, this Council urges the Government to take, as a matter of great urgency, immediate steps to reduce the current rate of inflation."

Since the mid 1980s, Hong Kong's economy has soared, and the quality of life of people of all strata has improved greatly. The heat in the consumer market has also "risen step by step". However, with the slowing down of the world economy, the growth rate of our Gross Domestic Product (GDP) also fell for three consecutive years. Regrettably, public expenditure still went up rapidly, far above the growth rate of the economy, and added to this is the shortage of labour, which leads to enormous increase in production cost, resulting in a situation of stagflation.

At the same time, there is the worry over imported inflation. Since the Hong Kong dollar is pegged to the US dollar, commodity prices in Hong Kong rise by leaps and bounds with the weakening of the US dollar during the past years. These factors together bring about today's situation in which the rate of inflation has reached double digits.

Inflation has been rising persistently for the past three years. In particular the Consumer Price Index A for April released by the Government only last week has reached 13.9%, which is a significant surge compared with the 12.9% for March. The rate of inflation has notched such an alarming growth in no more than one month that it is worrying, and the situation does not permit us to sit back and idly look on.

Some people may perhaps think that Hong Kong has made the best of its free and open economy without interfering with prices, because inflation would automatically adjust itself in a free market economy system, but is the actual situation as simple as that? We must realize that although Hong Kong has a free and open economic system, it does not mean every trade can compete with absolute freedom. For instance, the various public utilities, suppliers of fuels and so on do not have to reduce their prices to attract business. Even if they go on raising their prices tremendously every year, thus stimulating inflation, the consumers have no choice but to accept them.

However, the automatic adjustment of a market economy system takes a long time to take effect. I am not resorting to sensationalism when I say if we do not take immediate steps to slow down inflation, the rate of inflation will climb up incessantly until production cost rises to a dangerous level, so that trade will recede, unemployment will mount and consumer demands will fall. Even if inflation adjusts itself automatically by that time, we shall have paid a heavy price.

In fact high inflation rate is extremely unfavourable to social development. To

the ordinary people, in particular those in the lower income bracket, the impact is greatest. The lean wages they earn are only just enough to make ends meet, and yet a large chunk of their income is being eroded by inflation. This is a real hardship to suffer. Their hopes of saving money and improving the quality of their life are becoming dimmer every day. It is only natural that their dissatisfaction is growing as time passes, which is tantamount to planting a time bomb that will rock social stability. I do not believe that people with lower income in general would like to wait until they lose their jobs to see a fall in inflation.

We must not forget also that Hong Kong is in a period of stagflation. According to forecasts of economists, it is very likely that the world economy would recover early next year. Therefore, we must lower production cost within a short time to strengthen our competitive edge to meet the arrival of recovery. May I ask when we shall have time to await the automatic adjustment of inflation in the economic system?

Sir, the rate of increase in public expenditure during the past few years has by far outstripped the growth of GDP. To balance the budget, the Government could only resort to raising fees and taxes heavily. What is more serious is that as the Government wished to maintain the proportion between direct and indirect taxes, the Financial Secretary tremendously increased indirect taxes and at the same time reduced direct taxes during the past several years in succession. How is it possible then to prevent the acceleration of inflation?

Personally I am convinced that to strike at inflation, there must be the tripartite efforts by the Government, the industrial and commercial sector, and the labour sector to consult each other and act in co-ordination. As a responsible government and the largest employer in Hong Kong, the Government should lead the way by first containing the growth of public expenditure.

As is well known, the emoluments of civil servants take up a large share in Government's recurrent expenditure. If expenditure is to be reduced, then apart from freezing the growth of manpower and raising the productivity of the Civil Service, the growth of the pay package of civil servants must also be controlled.

As a matter of fact, in the past two or three years, the waves of civil servants of various grades demanding pay increases kept rising and falling, resulting in a range of about 20% on average in the pay increase of the Civil Service. This figure includes salary adjustment, grade adjustment, improvement of fringe benefits, and

so on. To lower the temperature of inflation, the fastest immediate measure is to freeze the emoluments of civil servants for one year. We all know that the range of growth of civil servants' pay is determined with reference to the growth trend of pay in the private sector. However, the hefty increases in civil servants' pay in the past two or three years have far outstripped the private sector, and the latter, in order to keep up its competitiveness in the labour market, has to follow the Government, thus starting a vicious circle. I, therefore, believe that if only the Government will take the lead, a starting point will be found in our endeavour to slow down inflation.

Of course, we understand that freezing civil service pay will affect the morale of civil servants, but the Government must in no way be impeded by this. Since the rate of inflation is 7.5% in the Financial Secretary's medium range forecast, the range of pay increase of the Civil Service this year should be lower than 7.5% in principle. With reference to the situation in 1983, I would propose that the range of pay increase this year be 5%. In the same period, other semi-government organizations, such as tertiary education institutions, subsidized and aided organizations and all allowances and fringe benefits related to government emolument, such as Councillors' allowances should also follow this range in order to show parity overall.

In order to show Government's determination and sincerity, and to take into consideration the burden of people with lower income, I propose that the fees and charges payable to government and semi-government organizations be frozen for one year at the same time. Recently, the Financial Secretary announced to reduce the tax increase on tobacco in order to lower inflation, and I think this is not the most appropriate measure. The best method is to further relax the percentage of rates. I wish to reiterate my proposal made two weeks ago that the authorities should extend rates reliefs implemented this year by another year, that is, the maximum amount of rates paid by rate-payers for the whole of 1992-93 should not be more than one quarter over that in 1990-91, so as to benefit the whole population. As more than half of Hong Kong's population live in public housing estates under the Housing Authority, and since rents of public housing include the rates, the recent large adjustments in rates therefore are not reflected in the rate of inflation of 13.9% announced by the Government last week. When the new rents are determined, this will certainly exert an extra pressure on inflation.

Only if the Government implements a series of measures, can it win the co-

operation of the industrial and commercial sector and the labour sector to control the growth of wages. Only when the growth of wages is under control, will it be possible to suppress the growth of charges of public utilities at a level lower than inflation. I, therefore, consider that we cannot engage in empty talk to control the increase of charges by public utilities without regard to the growth of wages.

Sir, labour shortage has been seen in many trades over the past few years. Fortunately, the labour force available in the Pearl River Delta has helped Hong Kong to a great extent to relieve the strong demand for unskilled labour. In the management level, although we face the problem of outflow through emigration, their vacancies are largely filled by overseas employees. Otherwise the local labour market would have been subjected to even greater pressure, and the range of growth of wages would not have been limited to those in the past few years.

The reasons for labour shortage, if we are to trace them to the roots, are no more than the following:

(1) The economic system of Hong Kong has been gradually changing over the past few years, so that demand for labour in different trades has gone through a radical change. For instance, the rise of the service sector has made it particularly in need of manpower, but it is to be regretted that re-training schemes cannot be effectively implemented to meet such changes.

(2) The increase in educational opportunities for young people has deferred their entry into society, which, although desirable, unfortunately creates a vacuum in the supply of labour.

(3) The persistent fall in the birth rate and the gradual increase of emigration have also contributed to the shortage of labour.

I, therefore, propose that the Government conduct a study in depth to see which trades are most hard pressed by the shortage of hands. Then, on the basis of the outcome of this study, measures to strengthen a systematic re-training scheme of manpower, to adopt a policy of an orderly opening of the labour market, and to import labour on a selective basis will be implemented.

For instance, many building sites are running the risk of contravening the law, but still employ large numbers of "black market" labour from the Mainland. This is

sufficient to prove that Hong Kong's construction industry is suffering a genuine shortage of hands. Consequently, the authorities should relax the import of labour in the construction sector, and conduct recruitment in Shenzhen through service organizations.

Some people are worried that the import of labour would exert pressure on social services. However, as long as this measure helps the economic growth of Hong Kong and can slow down inflation, we can require employers who import labour to pay for part of the expenditure in social services.

In general, the ultimate goal of importing labour selectively is not to reduce wages of local labour, but only with the hope to ensure that Hong Kong will not see a worsening of inflation because of a shortage of labour which pushes up wages tremendously.

Sir, as Hong Kong lacks natural resources, it must rely on imports; so it is very difficult to avoid imported inflation. Since the pegging of the HK dollar to the US dollar in 1983, although the exchange rate of HK dollar has been stabilized, yet the fluctuation of commodity prices has been dictated by the US dollar. In theory, prices of imported commodities in Hong Kong should rise and fall with the US dollar, but is it really so? Honourable Members can easily observe, with but cursory attention to the consumer market, that when the US dollar was weak in the past few years, prices rose closely in step. However, when the US dollar rose again after the Middle East war, prices did not fall correspondingly. This is enough to prove that when the US dollar is strong, we do not reap the benefit, but once it weakens, all Hong Kong people have to suffer greater pressure of inflation.

The pegging of the HK dollar to the US dollar has been in place for a few years already, from which we have obtained the advantage of a stable HK dollar. Now that we are faced with the problem of imported inflation, it is time for us to review the situation. I feel that to peg the HK dollar to the currencies of our major trading partners would be better than pegging it to the US dollar because this measure can neutralize the impact on Hong Kong due to the fluctuation of one single currency, and it may also adjust part of the imported inflation. I, therefore, propose again that the Government set up an ad hoc committee to study whether it would be better to peg the HK dollar to a basket of currencies.

Under the system of pegging to only one currency, it is difficult for us to tighten

the money supply in the market through financial measures. Since the Government has decided to issue bonds of two to three years' maturity to finance infrastructural construction, I propose here that the Government raise the volume of bond issues, and extend the maturity period of the bonds, so as to raise as much funds as possible in the Hong Kong market, and to reduce the inflationary effect on infrastructural programmes. This measure would be more effective than to tighten the money supply in the market by raising interest rates.

Sir, during the heady days when Hong Kong's economy was booming, the people of Hong Kong were used to large pay increases and unrestrained consumer spending. Once austerity has to be exercised, they find it undeniably hard to adapt themselves. I believe that we all remember that during 1982-83, Hong Kong went through a period of gloom. At that time, the Government adjusted the civil service pay increase to as low as 5%, which was lower than the inflation prevailing then. However, in less than a year, the economic development of Hong Kong was back on track, and thereafter maintained a long period of high economic growth. From this we can see that if we can make sacrifices for a short time, bright sunny days will return after the storm.

On the other hand, high inflation rate will aggravate the investment environment. It will hit the overall economic development of Hong Kong, push up production cost and weaken the competitive edge of Hong Kong products in international markets. In tourism, high inflation rate will maintain prices at a high level which will further damage the reputation of Hong Kong as a "shoppers' paradise" and keep tourists away.

No one can escape from the evil effects of high inflation. If people can be patient and go through one year's hard time, better days are just round the corner. In fact, although the world economy has been dull, economists forecast that the upturn of the economy will start again in 1992. If we are prepared to make sacrifices now, we shall be able to lower production cost in time, reduce the erosion of inflation, and strengthen the competitive edge of Hong Kong products in international markets, so that Hong Kong's economy will develop towards the ascending track beginning next year. If this economic uptrend can persist, the high economic growth will certainly see Hong Kong safely through the psychological gate of 1997. The large-scale infrastructural programmes introduced by the Hong Kong Government have the objectives of stimulating confidence and dispel the worries over the 1997 issue. The economic performance of Hong Kong can actually decide the success or failure of these programmes. High inflation rate is bound to raise their cost enormously, and if it is not contained, I am afraid that the cost will be so high as to be beyond the ability

of the Hong Kong Government to support. If the economy flourishes and inflation is under control, these will greatly reduce the pressure on the increase of cost in the infrastructural construction programmes. The vitality and momentum of the community will drive away the shadow of 1997 and most people who cannot leave Hong Kong will benefit.

Finally, I wish to urge the Government once again to take the lead and to fight inflation in co-operation with the industrial and commercial sector, the labour sector and all the people. We must not disregard the overall development of society because of temporary personal gains, thus causing irremediable losses to Hong Kong in the future.

Sir, with these remarks, I beg to move.

HIS EXCELLENCY THE PRESIDENT: I have received notice from Mr Martin LEE to move an amendment to the motion. His amendment has been printed on the Order Paper and circulated to Members. I will call upon him to move the amendment when it comes to this turn to speak.

Question on the motion proposed.

HIS EXCELLENCY THE PRESIDENT: There are a considerable number of Members, I know, who wish to speak on this motion. We also have an amendment. Could I appeal to Members not to let inflationary tendencies get at the length of their speeches? (Laughter)

MR CHEUNG YAN-LUNG (in Cantonese): Sir, with the latest inflation rate running at almost 14%, the debate moved by the Honourable LAU Wah-sum this afternoon is most timely.

Effects of inflation

Inflation erodes the purchasing power of everyone in the community. Persistent price increases deter investment, undermine business confidence and affect public livelihood. As the inflation rate has reached a record level in recent months, it

is crucial that some immediate measures must be taken to cope with the problem. However, in doing so, we should avoid intervening unnecessarily with the operation of market forces; we should remove bottlenecks and barriers which hamper economic growth and cut down domestic consumption without suffocating the concept of free enterprise which has served Hong Kong so well over the past.

Property market

Sir, I must declare interest at this point as I am the director of several real estate companies. Firstly, I propose that serious consideration be given to levying a new tax on property transactions. Household expenses account for a major share of family income: it is not uncommon for an average family to set aside 50% of its disposable income for mortgage payments and other related charges. Property prices thus play an important part in influencing the trend of inflation.

I am glad to see that the Administration has recently reminded the banking sector to exercise prudence in processing property mortgages, and has raised the interest rates by 1% to cool down speculation in the property market. However, I believe more stringent measures should now be taken to tackle the problem. The Administration should impose, as a long-term measure, a capital gain tax on property which changes hand within a very short period of, say, 15 days, after purchase.

Control of public expenditure

Secondly, I would like to urge the Administration to conduct a critical review of the overall structure and efficiency of government and quasi-government bodies.

An increasing number of government services are being hived off to achieve greater management flexibility, better cost-effectiveness and more swift response to demand. The associate costs of these hiving-off exercises, however, are beginning to give rise to concerns about a potential hefty increase in fees and charges. It is also of utmost importance that the Administration should ensure that the public bodies being hived off will not be endowed with monopolistic privileges.

On the part of the Civil Service, although the Administration has pledged to control growth and achieve higher productivity, I would suggest that a zero-based review be conducted on the establishment as well as the role of all government departments with a view to identifying certain "core policy areas" which should be

accorded with priority in resource allocation. Furthermore, I look forward to a greater emphasis on cost savings by controlling officers in presenting their estimates of expenditure to the Finance Committee.

The Labour market

Thirdly, there have been heated debates on whether the rising trend of inflation is caused by the chronic shortage of labour in Hong Kong. Whilst I cannot discount this as a contributing factor, some labour sectors are already suffering from an increasing rate of underemployment or unemployment as we enter a transition period from manufacturing industries to hi-tech and service industries. While importation of foreign labour can help to alleviate the immediate difficulties, the Administration should take immediate steps, either by way of providing vocational training or technological assistance, to prepare our labour force for future industrial developments.

Public utilities

Fourthly, the Administration should be more cautious in scrutinizing fee revisions by public utility companies and in reviewing its own fees and charges. As most of the utility companies are making healthy profits and the Government is expecting a budget surplus, it is not unreasonable for them to exercise more restraints in revising the fees and charges to reduce the burden on the general public.

Control of credit

Finally, I would like to see a tighter control on consumer credit facilities. The proliferation of credit cards with generous limits induces a high propensity to spend. The Administration should consider devising arrangements with credit card companies whereby excessive expansion of credit facilities can be restrained at least temporarily when inflation is severe.

Conclusion

Finally, Sir, inflation is becoming a major threat to our continued economic prosperity that calls for urgent and decisive actions. Although our options are somewhat limited, I believe we can overcome the problem by the co-ordinated efforts of various sectors in the economy. The Administration, on its part, should take a

leading role in this process.

With these remarks, Sir, I support the Honourable LAU Wah-sum's motion.

MISS TAM (in Cantonese): Sir, I support the announcement made yesterday by the Government regarding the adjustment of civil service pay. This year's civil service pay rise will be at 10.43%, which is lower than last year's pay trend in the private sector (that is 13.5%). Both yesterday and today, there were voices of dissatisfaction from civil servants' unions. Such a response is understandable.

It is, in fact, impossible to decide in today's debate whether civil service pay should always follow the pay trend in the private sector. As for the 10.43%, it represents the index in the cost of living arrived at after a meticulous process of analysis to ensure civil service pay is in line with the cost of living. There are also annual increments for a number of middle ranking civil servants. As such, the rise is not simply 10.43%. I want to state clearly in limited time that the fact this year's civil service pay rise does not correspond with the pay trend in the private sector is not directed against civil servants, asking them to shoulder the social responsibility of combating inflation. The idea is that both the Government and the private sector have to unite in the battle against our Number One public enemy.

Two weeks ago, the Government made the precedent of reducing the tobacco tax increase by 100%. It is an obvious effort to clamp down on inflation. I believe the Financial Secretary will do more towards this end today. If the civil service pay and the private sector pay continue chasing each other, government expenditure will continue to worsen from the current share of 63% of the recurrent expenditure; as to the private sector, costs will be higher and Hong Kong will lose some of her competitiveness in the provision of services and production of industrial products. Therefore, setting civil service pay rise this year at 10.43% is one of the important decisions to declare a full battle on inflation. I support this decision and hope the solutions suggested in today's debate will win the support from all sectors.

The Honourable LAU Wah-sum has made quite a comprehensive analysis of inflation and, in his motion, he hopes the Government will take immediate action. Now I wish to make two proposals which are not for immediate purposes as price rises were already introduced by the franchised bus companies and the Kowloon-Canton Railway Corporation (KCRC) in the last two months. Nevertheless, in view of their serious effects on

Consumer Price Index (A), I think I still have to raise them. To curb inflation is not a matter for today or the current month; in short, it is not something to be accomplished overnight.

Food, clothing, housing and transportation are the four basic necessities of life. The daily use of public buses by the people of Hong Kong is estimated to stand at over four million men-times and as such, it is an unavoidable "consumer" item. The two main factors leading to the sharp increase in bus company costs are staff pay rise and increased fuel cost. In the past two years, the pay rises for transport workers were 16% and 13% respectively. As for the fuel cost, the rise was evident following a tax increase of 30% last year and the Gulf war this year. The average family income for the income families of the Consumer Price Index (A) last year rose by 14.6%, whereas the rise in transport fees rose by 13.4%. Indeed, it is an issue that must be faced squarely.

Let me once again point out the need for franchised bus companies to improve their management, operation standards and utilization of resources. The profit control scheme is not a shield to guarantee profit. Residents have come to realize that to reach the level of profits permitted under the control scheme applicable to franchised bus companies, the rise in prices will be at a higher rate than inflation. I must state here that we should not change lightly the profit arrangements for well-run companies which accede to the opinions of the Transport Department and their commuters. However, for companies that are poorly run and are unwilling to make improvement, or those that fail even to reflect in their accounts fares paid by their commuters, they should not be allowed to abuse the franchises or the profit control scheme. I think each and every application for price increases submitted by a franchised bus company should be carefully reviewed, and not each application can be granted with a so-called guaranteed profit.

Another important means of transport is by rail. I do not propose to discuss here the peak hour surcharge applied by Mass Transit Railway Corporation (MTRC) because it has promised to prove with figures that the additional income is used to cover the lower fare charged in non-peak hours.

The KCRC provides heavy and light rail services. In its annual report published last week, the KCRC reports a KCR passenger volume of 179 million men-times and an average daily light rail passenger volume of 235 000 men-times in 1990; representing an increase of 13% over 1989. The Corporation's profit after tax was \$624 million.

Inflation as released in May this year was 13.9% whereas the percentage of fare increase applied for in April was 14.1%. The Government asked the KCRC to reconsider its rate of fare increase, but the results were not too satisfactory.

I do not support the issuance of an administrative directive or order by the Government or the Financial Secretary to a statutory private corporation as to how it should manage its financial affairs, but I want to raise a relatively basic issue. At present, the internal arrangements of the KCRC are that the profit generated from the heavy rail cannot be utilized to off-set the deficit in the light rail. We all know that light rail services will be extended to Tin Shui Wai. The plan that residential flats or housing estates are built in areas along the way or in Tin Shui Wai itself will take years to mature. Does this mean that the deficit suffered in the light rail section can only be borne by light rail passengers and hence continual fare rises in the light rail section? Why is it that since the two services belong to the same corporation, income from the heavy rail cannot be used to facilitate development of the light rail? In all franchised bus companies and ferry companies, there is a machinery for income derived from different routes to be pulled together to cover expenses. Of course, having authorized the KCRC to manage itself, the Government should not interfere with its operation lightly. However, to face squarely the issue of inflation, we need the co-operation from all those who are concerned. I hope mass transit organizations protected by the profit control scheme or endowed with exclusive operation can respond to this debate the next time when they apply for fare increases by cutting the rates of increase and improving the cost effectiveness of their operations.

Sir, taxis may not be a major means of transport, but in view of the recent drop in fuel prices, spokesmen for taxi drivers have suggested reviewing the decision to scrap the fuel surcharge made yesterday by the Executive Council. The same has been reported by the press. Local fuel suppliers should respond to the drop in prices after the Gulf war and make appropriate downward adjustments. Such a move will have direct influence on the overall bid to curb inflation. I hope fuel companies will heed good advice, review oil prices and reduce them.

Sir, with these remarks, I support Mr LAU's motion.

MR CHAN (in Cantonese): Sir, I shall speak on the issue of inflation in today's debate just as I did last week. Speculation in pre-completed flats has shot up property

prices and hit hardest the "sandwiched class" buying flats for their own occupation. The spiraling inflation rate hit hardest the general working public, and even more so retired persons with fixed income and old people living on public assistance.

I suggested banning the sale of pre-completed flats last week as a means to keep flat prices steady in the belief that the move would cool inflation. Today I shall propose other ways to curb inflation.

The Hong Kong Democratic Foundation (HKDF) is of the view that the Government should take the lead and adopt decisive measures to combat inflation. However, there are two things we believe the Government must not do. The first one is to bring in large amount of imported labour and the second one is to change the pegged link between the US dollar and the Hong Kong dollar.

Some people may say that inflation is the result of labour shortage and hence higher wage levels. I think an influx of labour from abroad is not the best way to solve the problem and curb inflation. Because of our high wages, many factory operators have transferred their production processes to mainland China and Southeast Asia. Whilst we have not yet solved the employment problem of local labour, importing more will hit where it hurts. First and foremost is therefore to increase the productivity of Hong Kong people and encourage employers to step up in-service training programmes for their staff. On the part of the Government, efforts should be directed towards improving education and technical standards.

I believe my honourable colleagues will today propose a change in the currency link between the Hong Kong and the US dollars because it has disarmed us of our "weapon" to use interest rate to clamp down on inflation. As regards whether the currency link should be dropped, the HKDF has discussed it in detail. We find that the unstable US dollar in recent years has dragged down the Hong Kong dollar but the link has boosted our confidence in the Hong Kong dollar too. This is very important for Hong Kong in the context of the transitional period. Therefore, it is our opinion that for lack of a better alternative, the link between Hong Kong dollar and US dollar should remain as it is.

Nevertheless, I suggest the Government combat our spiraling inflation rate and protect the well-being of the public by taking the following measures:

First, the Government should have a sensible tax policy. Increases in indirect

taxes have reached a limit. In view of the need to curb inflation, the Government has reduced the increase on tobacco tax by 50%. There is no case whatsoever to increase other indirect taxes on the pretext of losses in tax revenue. No matter whether the Government feels the existing proportion between direct and indirect taxes is appropriate, I must emphasize that it is not the right time to introduce any change to it for the time being. Let me take this opportunity to urge the Financial Secretary designate to abandon all thoughts of introducing the sales tax! If not, high inflation will climb from one peak to another and the heavy blow to the lower classes will become more severe.

Second, government expenditure is immense. If expenditure can be controlled stringently, inflation will be contained. The Government should spend within the limits of its income and there should not be a budget deficit. But how can the Government control expenditure and at the same time improve services? I believe in the circumstances of no additional manpower for the Government, a survey of the workload of each unit in all government departments should be conducted. For an establishment as large as our Civil Service, there must be some uneven distribution of workload. Additional manpower needed for the improvement of services can, therefore, be drawn from units with smaller workload. In this way, workload distribution will be more even and the quality of services will be improved. I call this killing two birds with one stone.

Third, the Government should adopt the cost accounting method to ensure value for money in respect of its expenditure. An independent committee should be set up in the meantime to study the desirability of assigning certain services to private companies on a contract basis.

Besides, this Council is concerned about the issue of overspending on public work projects. In the current spate of inflation, the Government must protect taxpayers, not contractors of public work projects. There is therefore a need to change the current method of contracting out by, for example, introducing fixed price contracts. The idea is at most to share the burden of inflation, not to compensate for the difference in costs solely on the part of Government.

Fourth, this concerns the fees charged for public services. The profit control scheme now in force does not encourage public utilities companies to improve efficiency and cut cost. Instead, it makes the inflationary situation become even worse. I think a better system is to link fare increases to the rate of inflation.

Under the existing profit control scheme, the permitted return rate is calculated after deduction of expenses. A better system of control is to encourage these companies to get higher profits through better efficiency, not to protect their gains by way of the profit control scheme. Also, all fare increases for public services should be co-ordinated and considered comprehensively by the Government. The companies should not be allowed to act on their own policies and compete with each other.

There may well be a lot of causes leading to inflation and the Government alone may not be able to solve the problem. However, it is still possible for the Government to take important steps in this direction. As I have said just now, it is possible to devise a reasonable tax policy with particular emphasis on avoiding further increases in indirect taxes and controlling expenditure. This will set a good example for the private sector to follow and will avoid pushing up inflation rate still further.

Once again, I call on public transport companies to reduce their fares by 50% for elderly people aged 65 or over. I can say it is the best way to help elderly people combat inflation. I fully support the proposal made by my honourable colleague, Mr LAU Wah-sum, to fix the rate of rates increase for the coming year at this year's level.

Sir, I support the motion.

MRS FAN: Sir, Hong Kong is besieged by inflation. It has been coming at us for some time. The Consumer Price Indices (CPI) for the last two years have been persistently high. The signs are clear. But we, should I say the Financial Secretary and those who advise him as well as all of us, have failed to take heed of these warnings. So today, this monster "Inflation" is able to cast its dark shadow over every household and business in town, thanks to our complacency. We can hardly afford to be complacent any more. Perhaps some will argue that they have never been complacent, they have given this issue a lot of hard thinking. The reason why they have not taken any apparent initiative is because they are prudent. To these prudent people, my answer is -- "Do not procrastinate any more; inflation is not about to leave us without some strong prodding."

It has been suggested that inflation is wage-led; so importation of labour will curb inflation. It has also been reasoned that this year's civil service pay

adjustment should be kept lower than the inflation rate to control public expenditure. Others however argued the inflation is caused by the increase in housing expenditure, transport costs, and so on which have resulted from government policies and decisions, directly or indirectly. These assertions are all valid in their own ways. But none tells the full story. The fact is that all these factors and many others are all interrelated. One thing is clear -- nobody wants to lose out; so every group is trying to push the burden of responsibility on some other groups, so that they may suffer less than the others.

Demands for higher wages are usually justified on the ground of maintaining the real value of the wages. But the increases asked for are often more than what is required to maintain that purchasing power. The employers pay and then get it back from their consumers. Again the pricing of goods and services often allow for a wider profit margin than merely recovering costs. As a result, we all pay more for our daily needs. Our pay packages diminish more quickly than expected. We then demand for another increase in wages to catch up with inflation, but not fully realizing that in our own small ways we are all helping to fuel it.

The Government also contributes towards inflation by upholding the principles of recovery of costs and maintaining the real value of the revenue. When applied, this means increases in government fees and charges on an annual basis, and yearly upward revision of a number of indirect taxes. Inflation or no inflation, the belief is that it is far less painful to have small increases over a number of years than to have a sizable increase every few years. The effect this line of action has on inflation has been discounted by some government officials as insignificant. But unfortunately, it is not. It may be insignificant in increasing the CPI, but to the community it sends a very clear message that Government is seen to be leading inflation.

Inflation also gets some help from the financial institutions in the generous manner that mortgages, loans, and instalment plans are offered to property buyers. The latter only have to pay 10% down payment. Speculators' ability to push up the property price is much enhanced, and end-users have to pay more, causing the housing element in the CPI to rise considerably.

Sir, if we are serious about fighting inflation, the Government, the private sector, and the labour unions have to combine forces. The labour unions should consider lowering their salary demands and here I would like to appeal to a civil

service union to accept the 10.43% that is being on offer. This, in my view, is a fair offer and I hope that they will not only consider their own needs but also the well-being of the whole community. The private sector should consider lesser increases on prices for goods and services with financial institutions taking a more conservative approach in lending. In the private sector, I would especially like to appeal to the retailers and the public utility and the transport companies. We have seen and experienced a lot of incidents of price increases purely because they put a bit of profit in addition to the rise in inflation. The Government should take the lead and convince the others of its determination to tackle inflation. Merely telling the private sector to control wages, or the public transport companies to control fare increases, is simply not enough. Action, not words, is required. I am sure the Financial Secretary later on will tell us how to set an example to the private sector. Apart from what has already done on the civil service pay adjustment, I think the Government should also freeze the various fees and charges for a 12-month period. Only a government, which is prepared to take cuts in expenditure and in revenue, can convince the community of its determination and thereby inspire confidence and support from the private sector and the labour unions. Only when the Government freezes charges, such as water charges, can it convincingly resist requests for fare increases by public transport companies. Only when the Government stops revising its fees such as, car parking fees, postage rates and so on for a year, can it start to hope that other independent public bodies, such as the Housing Authority, the municipal councils may also temporarily suspend their annual revision of fees. In so doing, the Government will sacrifice a certain amount of revenue, but in return, the cost of living to the public at large will increase at a slower rate. The purchasing power of the pay package will last longer. A lower increase in salary becomes more tolerable. The wage spiral slows down. The heat of inflation gradually dissipates.

Sir, if we are to stand a chance of breaking the vicious circle of inflation, the Government must take the lead and be seen to take this lead. The private sector looks to the Government, the labour unions look to the Government. Everyone is worried that their group will be made to suffer more than the others. In fact, we all stand to suffer a bit, but it is much more acceptable for everyone to take a little less, than to submit ourselves meekly to the spiral of inflation. We have to be prepared to sacrifice some of our pay rises, some of our projected profits, before we can enjoy the fruits of a reasonable cost of living. If we allow inflation to prevail, Hong Kong will soon be unattractive to visitors and businessmen and we certainly have a call from a visiting community yesterday about the reducing

attractiveness of Hong Kong as a business place. We cannot allow our competitive edge to be blunted because that would mean our ability to generate wealth will depart from us.

Sir, in supporting Mr LAU's motion, may I appeal to everyone in Hong Kong to put aside our differences on this occasion and join forces to fight inflation, with Government clearly in the lead.

MR CHENG HON-KWAN: Sir, both inside this Chamber and outside it, there is general agreement on how serious the problem of inflation has become for all of us. You yourself, Sir, in opening the Council Session back in October, cautioned against complacency on this issue. The Financial Secretary has expressed concern publicly on several occasions, notably in his Budget speech.

Like some other Members, I made clear in this year's Budget debate, as I did also last year, how worried I was by the spiral of rising prices, costs and wages. And recently there have been strong warnings from authoritative voices in the financial sector -- like, for instance, the Chairman and the Chief Economist of a leading bank.

The picture is indeed sombre, with stark figures to illustrate it. Let me cite just two figures: 5.5 and 13.9. The inflation rate as reflected by Consumer Price Index (A) rose from a low of 5.5% in 1987 to a high of 13.9% in April this year.

Yet though there is a consensus on the seriousness of the problem, there have been varying views about its causes -- and about the right remedies. However, expert opinion is divided.

One specialist, for example, will single out the link between the Hong Kong dollar and the US dollar as a chief contributory factor. Another will lay the blame on the growth, over the last four years, of the relative size of the government sector, if measured in terms of the total public expenditure as percentage of GDP.

Equally divergent have been the comments on the recent increases in indirect taxation. The impact, in the assessment of the Hongkong and Shanghai Bank, is likely to be "directly inflationary". The Financial Secretary, as I understand him, maintains the opposite.

These differences incline me towards caution. They also reinforce my conviction

that the problem is a complex one for which there is -- as you, Sir, put it in October -- "no easy cure". Drastic remedies may seem highly attractive, momentarily. But if one thinks them through, they pose threats of side-effects as damaging as the disorder itself.

Yet inaction would be inexcusable. We cannot sit back and hope for a self-correcting process. Such a process sometimes occurs when inflation hits the cost of exports and sets the alarm bells ringing. But because so much of our manufacturing is now done in China, where labour is much cheaper, those alarm bells have not yet sounded. Eventually, of course, they will ring out. In the long run, high inflation is bound to damage our competitiveness.

Despite varying analyses, our present problem can be traced with some certainty to the rapid growth of our service industries in the second half of the 1980s. This led to intense competition for labour in a tight market. The industries competed among themselves; Government was also a competitor. The market is still tight, the competition remains keen.

Against this background, what can Government -- and what can the private sector -- do to combat inflation? As regards Government, I welcome the fact that this year's Budget, for all the controversy about indirect taxes, is likely to prove more counter-inflationary, overall, than its predecessor. But I would urge that over the next few months special attention should be focussed on the following areas:

(1) The labour shortage

There seems to be a need for greater selectivity, as well as flexibility, in authorizing the importation of labour, so as to cater for the sectors most in need, the service industries. No less important, we should step up our efforts to train young people for work in these fields, and to retrain older people -- such as those previously employed in manufacture.

(2) The size of the public service

While welcoming the limits that have been set, I hope that ways can be devised of applying them even more stringently with a view to achieving greater value for money.

(3) Public transport

From now on, I would suggest, Government should set its face against approving any fare increases that are not below the current rate of inflation.

(4) The prime lending rate

Government should exercise its influence, and use the devices available to it, to have interest rates rise rather than fall as necessary. On that account, I welcome the measure taken by the banks last week.

(5) Fiscal measures

Doubts about an undue reliance on indirect taxes have not been allayed, and we must expect public discussion of this issue to continue. I would counsel the incoming Financial Secretary to keep an open mind on the question until he has carefully weighed the arguments for and against.

(6) Property speculation

This regrettable aspect of the inflationary scene should, I believe, be kept under the closest possible scrutiny. I would even suggest that if the situation becomes conspicuously worse, a short-term gains tax on real estate transactions could be considered.

And I turn, though much more briefly, to the private sector. It seems clear that any constraints introduced by this Administration can only have a full beneficial effect if complemented by a widespread public acceptance of the need for restraint over remuneration and prices. Something like a campaign of public education may be called for; and much will doubtless depend on how we, who preach restraint, ourselves practise it as individuals.

Sir, you have frequently pointed out how crucial the element of confidence is to the future of Hong Kong. Inflation is a great destroyer of confidence, inflicting psychological as well as economic damage. The best way of subduing this enemy, it seems to me, is through a war of attrition, conducted on several fronts. It may not be a short or easy war. But it can -- and must -- be won.

Sir, I support Mr LAU's motion.

MR CHUNG (in Cantonese): Sir, recently the rate of inflation has climbed up to 13.9% and there is a general price increases throughout the market. It appears that soaring prices and inflation have led to the formation of a vicious circle. This is most alarming. Now our prosperous economy and stable society are subject to a severe test.

If the inflation rate rises further, it will definitely increase the costs of investment in commerce, industry and the infrastructural projects. Furthermore, it will also weaken the purchasing power of the general public, thus reducing their interest of consumption. Our market activities will then be slowed down. Our economic development will become stagnant or it may give rise to recession, thus bringing adverse effects to the employment and general revenues of the territory.

As a matter of urgency under the present situation, the Administration should take appropriate measures to curb inflation and alleviate its negative effects on our economy and the livelihood of the public.

The fundamental reason for spiralling inflation is that the finance and service industries have been gaining prominence over the manufacturing industries in our economic framework. We need to import large quantity of economic resources and consumer goods. As import exceeds export, it is quite natural that imported inflation has become a major factor contributing to our inflation problem.

Theoretically speaking, increasing the interest rates or tightening the credit services are just stopgap measures to deal with the symptoms of inflation. However, if our interest rates continue to rise, it will not only suppress investment and reduce economic vitality, it will no longer be keeping in line with the linked exchange rate system -- since the interest rates of the United States are on the decline while our interest rates are on the opposite trend.

We should not expect that any revenue proposal will strengthen the fiscal ability of the Administration to tackle the inflation problem. On the contrary, we anticipate that any drastic revenue measures and significant increase in rates will lead to price rises and our revenue will be eroded by inflation.

Cutting down government spending and public expenditure will only lead to a reduction of corresponding services and it will not lower the actual demand of these

services. Hence such measures cannot help solve the problem of inflation at source.

In order to alleviate inflation, suppression of wages might have a certain effect but this is not a solution to the problem because inflation in Hong Kong is propelled by the price increases and the rate of inflation has been used by both the Civil Service and the private sector as an indicator of their pay adjustment.

I believe the Administration can maintain the stability of the Hong Kong dollar without attempting to change the linked exchange rate. Before we come to realize the trend of co-operation among members of the unified system in Europe and the positive and negative effects of this system, we should not consider the suitability of adopting a comprehensive exchange rate policy, that is, linking the Hong Kong dollars to a basket of currencies, replacing the existing system whereby the Hong Kong dollars are pegged to the greenbacks.

The major function of the linked exchange rate system is that it provides a reliable political assurance to the Hong Kong currency during the transitional period. The event of September 1985 has proved that the prevention of "political inflation" is more important than the combat against "economic inflation". In weighing and judging the benefits and disbenefits of the linked exchange rate system between the local currency and the greenback, it is considered worthwhile to adopt this system even at the price of imported inflation at times.

Sir, as a sum-up to the reasons mentioned above, I would like to put forward the following eight points related to the problem of inflation:

Firstly, in the short run, I think apart from curbing the artificial price spiral, there is little room for Hong Kong to adopt compulsory measures to reduce inflation. Of course, there are a few interim measures which are flexible strategies that can be considered for implementation. For instance, on the premise that the overall planning remains unaffected, we can stop injecting money into the Capital Works Reserve Fund so that we can make use of part of the budgetted capital spending as the resource to tackle inflation and make necessary transfers of funds according to their needs and urgency.

Secondly, amendments have to be made to some revenue proposals or plans for fee increases. If it is necessary, government bonds should be issued to finance the provision for spending.

Thirdly, some people have suggested that the government bureaucratic structure should be streamlined. As a matter of fact, the staff establishment of some government departments are now being restructured. The number of staff should be increased or decreased according to the actual needs. At the present stage, as a measure to relieve inflation, we can follow the principle of value for money adopted by the Audit Department and see whether we can make some savings from the emoluments of the Civil Service without lowering the standard of the services provided.

Fourthly, the problem of inflation should be tackled at source. In the course of enhancing productivity and promoting economic development, we have to seek positive measures to combat inflation. Therefore we need to have target-oriented assistance from the Government, including assistance provided to the commercial and industrial sectors with a view to enhancing their productivity and expanding their export markets.

Fifthly, all available resources should be used to improve the relationship and the communication channel between production and consumption of the local market to a reasonable extent. There should be a better balance between supply and demand. I am sure that this is the best method to attain the counter-inflation objective. The importation of labour on restricted conditions is just one concrete example.

Sixthly, Hong Kong does not only require balanced progress in productivity but also favourable conditions for promoting long-term investment and technical reforms in the manufacturing sector. Other feasible measures should also be adopted to attract private capital and commercial financing to the public investment projects. In this respect, the Administration can co-operate with the banking sector so that trust banks can issue investment bonds or set up development funds for both local or international markets on behalf of the organizations they served. On the whole, so long as the private resources can join the market through various channels, and as far as the inflation problem is concerned, the question whether changes should be made to the capital work programme is of no great significance.

Seventhly, all along the Administration has persisted in the implementation of the laissez-faire policy and the principle of non-intervention. However, if we found it necessary to seriously tackle all profiteering activities such as price manipulation or unreasonable increases in fees, and to plug all the legal loopholes in order to protect consumers' interest, then all these measures can help to eliminate

the artificial causes of inflation.

Eighthly, the most simple and effective way to deal with inflation is to work diligently and be thrifty. Do not make wastage but saving. The Government has always emphasized the importance of tapping new resources and trimming down expenditure. In fact, everyone should do the same.

Sir, Hong Kong would have access to unlimited economic resources provided there are equitable protection under the law as well as a stable political environment. The existing inflation problem will no longer trouble us if we can attract private investment, maximize our production potential and strike a balance between the supply and demand in the market. I would like to point out a fact which worth mentioning. There has been a substantive growth in our bank deposits even though the inflation rate is higher than the interest rates. This is a strong evidence on the faith of the stability of the Hong Kong dollars as well as our counter-inflation measures.

Sir, with these remarks, I support the motion.

MR HO SAI-CHU (in Cantonese): Sir, according to the Census and Statistics Department, the rate of increase in the Consumer Price Index (A) have rocketed to 13.9% in April compared with the same period last year, reaching a record high level for the past decade. This situation has caused great public concern.

A slight increase in inflation rate is a normal phenomenon when the economy is buoyant and the general public has more money to spend. Our economy has thrived over the past years, leading to a rapid growth in Gross Domestic Product. Although the inflation rate of last year and the year before last rose by about 10%, the public still enjoyed a higher standard of living. Great inflationary pressures have not been felt. However, with the slowing down of our economic growth over the past two years and the GDP growth rate of a mere 2.5%, the rise in the inflation rate to the present high level has caused fears among the public. Cries for counter inflation measures by the Government have become louder and louder.

As Hong Kong lacks natural resources, the economic conditions of this international financial and trading centre are susceptible to external factors. Since early this year, apart from water and food which can be obtained at a relative stable price from China, we have to pay more for other imports, such as clothing,

footwear, food, domestic appliances as well as raw materials and semi-manufactures for industrial usages. Higher prices of imports and a series of revenue raising measures, announced by the Government in March, have fueled inflation.

As inflation directly affects people's livelihood, the Government should take measures to hold it down. The recent 1% rise in interest rate will temporarily dampen inflationary pressure. However, under the present arrangement of pegging the HK dollar with the US dollar, the interest rate cannot be raised by a big margin so as to avoid serious deviation from the pegged rate. There are thus suggestions to peg the HK dollar with a basket of currency. I do not support this proposal. It is true that this proposal allows greater flexibility in fixing the interest rate of the HK dollars, by which the Government can control inflation by adjusting the interest rate. Yet, the present linked exchange rate system has, over the past years, provided us with a high degree of monetary stability. The pegged rate was adhered to even in times when the US dollar was weak. Now that the US dollar has picked up, any changes are undesirable. As Hong Kong moves into the latter part of the transition period, it is of utmost importance to maintain social and economic stability. Any changes in the linked exchange rate system may shake our society and economy. Should unforeseeable circumstances arise, the consequences may be disastrous. Apart from pushing up the interest rate, the Government can also contain public expenditures to curb inflation. The Government should freeze all increases in revenue or charges during the year to avoid further price rises.

Apart from these measures, I think it is more important to demand for the concerted efforts of the general public to combat inflation. Inflation cannot be successfully stemmed by the sole effort of the Government. Although I do not advocate austerity, we can make some concessions in regard to our interests. At present, a kind of inflationary expectation seems prevailing throughout the territory. In order to avoid being in a disadvantageous position, businessmen raise the prices of their commodities and employees demand for higher salary increases. Inflation is thus viciously pushed up. The economy is adversely affected and most of us have to bear the consequences.

I thus urge people of all trades to actively suppress the price increase trend. As a large proportion of public expenditure is spent on the pay award to civil servants, they should lower their demand for pay rise at a rate lower than the inflation figures. Employees of the private sector should also follow suit. In sectors where there is a shortage of labour, a suitable number of overseas workers should be imported to ease the pressure of wage increases. All public utilities companies should improve

their management and lower their cost of operation. To attain profits by raising fares are unacceptable. If we pool our efforts to combat inflation, I believe that the inflation rate can be lowered to a single digit next year.

Sir, with these remarks, I support the motion.

MR HUI (in Cantonese): Sir, according to statistics recently released by the Census and Statistics Department, the Consumer Price Indices (A) and (B) for April on the 1984-85 basis rose by 13.9% and 13% respectively over the same period last year, the second highest record in Hong Kong since 1981. Without any doubt, inflation has become our economy's common enemy. More worrying still is the serious threat of inflation on the quality of life of our middle and lower classes. In fact, many wage earners have noticed that the quality of their life has not improved along with the growth of the economy in recent years, but has dropped instead. This is particularly so in two of the four basic necessities of life, namely, housing and transport. These people have to pay much more to maintain their basic needs in these two areas.

The reasons for our spiraling inflation rate are plenty and complicated. They include the currency link system with the US dollar, which results in imported inflation; overexpansion of the public sector and overheated internal consumption. The Government taking the lead to increase taxes and prices has sparked off price spirals. I cannot agree with the view of the industrial and commercial sector as well as of the Government that inflation is due to rise in wages and hence increased production costs. It is only a view which takes a piecemeal for the whole picture and is most unfair to the low income groups, especially semi-skilled and unskilled workers. They are not only unable to catch up with the inflationary rate with the wage increase, but are also bound to face the blow of insufficient working hours, changing to another trade or unemployment.

As such, I believe there is no single way to curb inflation. The Government must consider the issue from all angles and devise a set of comprehensive counter measures, and yet the interests of certain groups of the community must not be sacrificed. Under these circumstances, there is in fact a lot the Government can do. The Government with its short-sighted views on people's livelihood cannot ward off the blame for causing higher and higher inflation rates year after year. In times when inflation is pulling the general public into deep water, the indifferent attitude adopted by the Government and the indication that nothing much can be done make me

feel both disappointed and discontented.

According to the 1984-85 basis, weights in housing and transport expenses are 15.31% and 6.79% respectively in the Consumer Price Index (A) and 20.16% and 6.83% respectively in the Consumer Price Index (B). I shall take Consumer Price Index (A) as an example. Although housing and transport do not make up the largest share of expenses for the low income families, their rates of increase in April were 14.3% and 16.3% respectively over the same period last year, higher than the average rates of increase. From this, we can see that the low income families have been forced to cut expenses on other items, such as food and clothing in favour of the necessary expenses on housing and transport. One can rightly describe this as "frugal living".

All in all, I think the Government needs to shoulder full responsibility for the additional housing expenses borne by the lower income class. The Census and Statistics Department explains that a 2.3% rise in CPI(A) in respect of housing for April over that for March is attributed to the rent increases of a number of private housing flats and public housing units run by the Housing Authority and the Housing Society. The increase does not reflect fully the effects of large increases in rates as from April. When the owners of medium- and small-sized flats transfer the increase in rates onto tenants, the pressure of the rise in housing expenses will increase.

It is all the more worrying to learn that the Government is planning to relax and eventually remove rent control in the future and let rental adjust itself by supply and demand. Apparently, this is a full adoption of the principle of a free economic market. However, we all know the Government has always safeguarded its income from the sale of land and the benefits of property developers through the policy of limited supply of land. When at all was there a case of balanced supply and demand or supply outgrowing demand? Furthermore, there are far too many human interferences in the property market where real prices can hardly be decided by supply and demand. Besides, the rents and prices of private housing flats is an important comparative factor for the Housing Authority to fix rents for public housing estates, selling prices of Home Ownership Scheme flats and selling prices of public housing units. As such, removal of rent control will inevitably increase the housing expenses of the lower income class and will further stimulate inflation.

Housing is a basic necessity for every family. No matter how high the prices, residents with some means will always try to meet this necessary expense. As a responsible government, the Government of Hong Kong should not put an extra burden

onto the low income families for the mere sake of increasing its revenue. I think the only way to cut down on the pressure of inflation on housing expenses is to reduce the rate of rates of public housing estates, or to allow the Housing Authority to put off the inclusion of the rates increase into its future rental adjustments until our economy recovers. In the long run, the solution is to increase the supply of public housing units so that these units will have a checking effect on the price of private flats.

On the transport scene, the rise in the index for April was the largest of all. To my mind, the chief culprit is none other than the Government. In the past, the Government took the lead to increase vehicle licence fees and fuel tax. The operating costs of public transport vehicles as a result rose and it became an excuse for future fare increases. On the other hand, the Government tried fervently to protect the permitted profit of mass transit vehicles so that when such organizations reported a profit level below the permitted one, their applications for fare increases were easily approved. The rates of increases were sometimes even higher than the inflation rate. The KCRC and the MTRC are good examples. Although they are financially independent non-government-run establishments, the Government may still influence their policies through the appointment of representatives to sit on their boards of directors. It is a pity that the Government did not seek to exercise this power properly.

Public transport vehicles have formed a part of the daily life of the general public. We need them to go to work and to school and they have an irreplaceable part in the building of social and human relations. Unfortunately, with the Government causing the above-described vicious cycle single-handedly, people simply have no chance to regain their breaths. To suppress the rise in the index of transport expenses, I think the Government should give consideration to the effect of a price rise to inflation when considering adjustments of charges and taxes that may cause a rise in operating costs. For the long term, the Government must review the profit control scheme now applied to franchised companies with particular emphasis on permitted profits. The next thing to do is to appoint more councillors with electoral background to the policy-making level of franchised transport companies so as to strengthen monitoring by the public.

As for the clothing and food items, their rises in the Consumer Price Indices are not as high as for housing and transport. Nevertheless, we cannot deny that the traditional virtue of frugality of the Chinese people is fast vanishing in our

economically prospering society in pursuit of vanity. Many people are not only over-nourished, but also ostentatious to an alarming degree of extravagance. Some tighten their other living expenses in order to pursue a trendy style of attire. In the end, an expensive piece of attire is worn once or twice in the year and then left untouched.

What I have just said is neither meant to interfere with the mode of consumption and the concept of value of the people of Hong Kong nor is it meant to indicate that they have to tighten their belts from now on. It is just that I believe the first and foremost step for them to take in the battle against inflation is to follow the most primitive way -- live a simple life and cut expenses on commodities of relatively low real value or at least avoid going in for extravagance. I think for the Government to promote simple living, there is environmental protection significance and at the same time, this is also a discharge of its social responsibility to change our habits. I hope the authorities concerned will consider this point.

In short, since inflation has become our common enemy, we need the participation of our entire community although the Government is still the one to take the lead. Even if the Government has sufficient reasons and figures to support the suppression of wage rises as the way to combat inflation with the least side-effects, I still think the pay rises for upper-, middle- and lower-ranking civil servants should be handled differently. I mean the pay rise for the lower-ranking ones can be as much as the inflation rate, but for the middle- and upper-ranking ones, the rise should be 1% to 2% and 3% to 4% respectively below the inflation rate. Sir, although we are aware that the Executive Council has proposed a flat rise of 10.43% for all civil servants, in fact the low income officers will be the ones affected most. For an officer with a monthly income of, say, \$50,000, he will have \$5,000 more to spend, but for an officer with a monthly income of, say, \$5,000, he will have only \$500 more. I believe the latter officer has to tighten his belt a great deal in order to survive. I, therefore, urge the Government to give special attention and care for people with low income. Finally, I believe the only way to show sincerity and determination on the part of the Government is to take positive but not flowery actions. In this way, private organizations can be convinced to take corresponding measures.

Sir, with these remarks, I support the motion.

MR MARTIN LEE moved the following amendment to the motion:

That Mr LAU's motion be amended by deleting all the words following the word "stability," and substituting for the words deleted the following:

"this Council calls upon the Government to show leadership and to formulate immediately a comprehensive, active policy programme to counter inflation, which would include the following:

(a) implementing a vigorous science and technology policy that will stimulate investment and increase productivity;

(b) controlling increases in public transportation fares and public utility fees;

(c) reducing regressive indirect taxes; and

(d) controlling excessive speculation in housing prices;

and, further, urges all sectors of the community to come together with a unity of purpose to combat the rising inflationary spiral."

MR MARTIN LEE: Sir, I move that my honourable colleague, Mr LAU Wah-sum's motion be amended as set out on all the papers circulated to the Honourable Members, and though my speeches are normally long, Sir, I shall make sure that this one will not fall victim to the old persuasive inflation which surrounds us; and in that context, Sir, may I inform the Honourable Members that recently, as a result of my following a certain diet, I have been able to tighten my belt by four inches.

Sir, the purpose of my amendments to the motion is to set down on record that this Council backs strong action to counter inflation and is willing to take concrete steps to accomplish this aim. We must do more than just provide our own individual suggestions as to what the Government should do under the umbrella of a motion that leaves initiatives with the Government; rather, we need to detail our proposals in the motion itself and then pass it, thereby making clear the stance of the Council as a whole. Otherwise, we will fail in our duty to provide leadership to our community.

It is in this spirit of providing leadership on the complicated but important

issue of how to combat inflation that the United Democrats of Hong Kong have come up with the series of proposals included in my amendment. We pose this policy programme as an alternative to the limited measures of the Government, which seem to consist almost entirely of measures that will fall hardest on middle and working class families. I hope this Council will support my amendments and thereby send a strong signal to the Government that a comprehensive policy programme is urgently needed and that the current piecemeal approach of the Government is inadequate. For, it is only when the community sees the Government taking leadership and implementing a comprehensive programme that the critical element of confidence in the economy will be restored.

The United Democrats of Hong Kong believe that the Government must act immediately to counter inflation. Long-term inflation at the level that we have been experiencing will seriously erode our ability to compete in the international economy and will cripple our economic growth. High levels of inflation, moreover, erode the incentive to save and invest, and thereby discourage the critical investment needed to improve our productivity.

Inflation, however, is more than just a threat to our long-term economic growth. The very high levels we are experiencing pose an immediate and severe burden on the least privileged members of our community -- the old, the labourers, and those on social assistance. The old see their savings rapidly vanishing as inflation strips the value of the money they have put away in the bank for their retirement. Working class families find it harder and harder to make ends meet with each rise in the price of basic necessities such as food and transportation. And, those on social assistance find their very existence threatened as price rises far outstrip their meagre public benefits.

What then is the Government to do? Clearly, what is needed is an active long-term programme to counter inflation. The centre of this programme must be a sustained effort to improve our productivity, for that is the only way to ensure that our economy will experience real growth and that our workers will experience an improvement in their standard of living.

In order to increase productivity, I urge the Government to adopt a more active science and technology policy through which the Government will promote increased research and development (R&D). This increased R&D is especially necessary in high-technology fields. The economy of the territory has long progressed from

labour-intensive manufacturing to services and high-skilled, technologically advanced production. If we are to succeed in the present decade, we must successfully complete this transformation by remaining at the forefront of high-technology industries and developing the skills of our workforce.

Thus, I call upon the Government to work in partnership with industry to identify areas where intensive research and development can give Hong Kong a technological edge over its competitors. Industry should be given tax advantages to participate in research efforts, and incentives such as increased depreciation allowances should be explored in order to encourage industries to use more automation and advanced equipment. Likewise, the Government must make sure that the new University of Science and Technology is fully funded and enabled to carry out advanced research. And, the Government must devote more effort to provide training for workers so that they can develop the skills necessary to make full use of technologically advanced equipment. Such training is particularly necessary to help industrial workers find new jobs in the expanding service industries.

On a more immediate level, the Government should send a strong signal to the public that it is willing and ready to attack inflation by controlling fare increases in public transportation and fee increases in public utilities. Recently, the Government approved a 20% fare increase for CMB, 15% for KMB, and 14% for light rail, increases that were significantly in excess of inflation. Such an ill-advised approval contributes directly to short-term inflation, and it sends a very poor signal to the community that the Government is not serious in forcing public franchises to tighten their belts. After having seen the success of the bus companies, taxi owners have followed suit in seeking fare rises that are far in excess of inflation. Their requests should be firmly rejected by the Government. Likewise, I call upon the Government to make a public statement of intention that they will not approve in the immediate future any fare increases for public transportation or fee increases for public utilities.

Another important step the Government ought to take is to reduce the proportion of indirect taxes. The Government erred badly in this year's Budget in deciding to place so much emphasis on regressive indirect taxes while leaving untouched the corporate profits tax. Not only did such a decision have an inflationary effect by raising prices immediately, but it also caused a widespread feeling of unfairness among working class people in Hong Kong. The inequity of the Budget has caused them to feel that the Government is not concerned with the impact of inflation among

lower-income families. Hence, I call upon the Government to reconsider this misguided emphasis on regressive indirect taxes in next year's Budget, and instead, to rely more on progressive taxes. Such a statement of intention from the incoming Financial Secretary would be very welcome indeed.

The fourth area where immediate government action is necessary is in controlling excessive speculation in housing prices. We discussed this issue in depth in last week's debate, and I will not take Members' time to reiterate that discussion; yet, I remind the Government of the urgency of this matter and call for urgent action.

The four steps I have outlined above will not in themselves fully solve the problem of inflation, but they are important steps. Clearly, Government on its own cannot defeat inflation. Rather, such an effort will require commitment from every sector of the community with a strong unity of purpose. The Government must take the lead, and the business community must be willing to co-operate with the Government and make sacrifices as well.

To this end, I am distressed by the lack of leadership that the Government and certain sectors of the business community have exhibited up until now. Their approach seems to be to shift the burden of inflation to the working people of Hong Kong. For example, the business community calls for increased importation of labour, yet I have seen little willingness on the part of business leaders to reduce the salary increases of their own employers or refrain from passing on costs to consumers.

I take the example of property development. Despite the spiralling costs of new flats, the property development industry has shown little willingness to exercise leadership and bring these prices under control. Nor have the banks exhibited necessary restraint in reducing the excessive lending that is helping to spur speculation in housing. The Consumer Council has proposed a balloting system in an attempt to prevent violence in queues for flats and cool the overheated selling process. Yet, the response of the industry has been to reject the suggestions of the Consumer Council, while still insisting to adhere to the present practice of queuing in an overcharged atmosphere which leads to the creation of a false market which, in turn, leads to higher prices, higher rental and high rates, and thus adds to inflation even further. Such an attitude is highly unconstructive, and I urge the industry to exhibit more concern towards consumers and the community as a whole.

Furthermore, I am firmly opposed to increasing the importation of labour. Such

an act will serve almost certainly to lower wages for workers at the bottom end of the wage scale, yet the Government has offered little proof of the need for increasing imported labour. The Government has always stated that its policy is to import labour only if local labour is not available. Currently, unemployment is rising and increasing numbers of workers are suffering from underemployment in industries such as textiles. At such a time, I feel that importing more labour will only make things more difficult for our own workers and exacerbate the feelings of inequity they bear towards current government economic policy.

A second area where the Government must show leadership is in the area of civil service pay. Such leadership is plainly lacking in the pay increase package announced yesterday. Senior levels of the Civil Service -- including those in this Chamber today -- ought to be taking the lead by accepting a pay rise that is lower than the one offered to those at the bottom of the wage scale. Dare I suggest a percentage rise for our honourable friends in this Chamber of 9.8 which is a single digit and yet is a lucky figure in Cantonese which bodes well for Hong Kong. Such a step is the more imperative in light of the fact that the pay trend survey indicates that lower-level civil servants deserve a pay increase higher than that of their more senior counterparts. Yet, this is not to be the case. Lower-level civil servants, who are the ones hardest hit by inflation, ought to receive a pay rise that will allow them to keep pace with the increased cost of living.

In sum, we need to come together as a community if we are to harness the inflationary spiral. We must not think negatively or try to shift the burden of inflation on to one particular group or class of people. Rather, we must look at the long-term importance of this issue and realize that if we all make our own demands to the detriment of the public good, we will act only to push inflation ever upwards. We must all be willing to make certain sacrifices in order to work for the long-term prosperity of Hong Kong, for if we work together now, we will all benefit in the long run.

And, most important, we must have the confidence that we as a community have the strength and the ability to tame the inflationary tiger. We know that if we pull together, and if the leaders in our community help set the direction, we will be able to do it. For, perhaps more than anything else, it is this sense of confidence -- this ability to think and act positively -- that will beat inflation.

Sir, I beg to move.

Question on Mr Martin LEE's amendment proposed.

5.14 pm

HIS EXCELLENCY THE PRESIDENT: Once again, as I have done in the last few weeks, I should like to remind Members of the rules, which probably Members are now familiar with. Those who have spoken already may speak again on the amendment but they should confine their remarks to the amendment. Those who have not spoken may speak on the amendment but it will be taken that they are speaking both on the original motion and the amendment, which means that they do not have an opportunity to speak again once the amendment has been disposed of. Perhaps Members who wish to speak would give their names to the Clerk, while the rest of us, whether or not they have reduced their waistline, (laughter) have a short break for tea.

5.51 pm

HIS EXCELLENCY THE PRESIDENT: Council now resumes.

MR LI: Sir, suddenly, the major question mark hanging over Hong Kong is not 1997. It is economic survival in 1992 and 1993.

Hong Kong's real GDP growth rate in 1986 was 11.9% and rising. Its inflation rate was bottoming at 2.8%. Last year, growth rate slumped to 2.4%. Last month, inflation hit 13.9%.

Five years ago, Hong Kong was a vigorous, dynamic, highly competitive economy. Today, we face stagflation -- slow growth and high inflation.

From the beginning, the Government has monitored inflation's march. When the inflation rate rose to 5.5% in 1987, the Government considered this as "fairly moderate by historical standards." The next year, when inflation averaged 7.5%, it decided: "For Hong Kong, this is high."

When inflation hit 10.1% in 1989, the Government heeded its critics, warning that inflation was "a matter of concern". This March, the Government upgraded the alarm to "a matter of great concern."

Sir, inflation can be cyclical. It can be structural. It can also be -- as in Hong Kong's case -- a combination of the two. This last is often extremely vicious and especially difficult to correct. It is definitely something you do not want to face when preparing to launch a major public works programme.

The Government has preferred to treat Hong Kong's inflation as cyclical -- as something that would go away of its own accord. And each year, when the promised light at the end of the tunnel has grown no brighter -- when inflation has not abated -- the Government has found a new "bogeyman" to blame for its failed forecast.

Never, of course, has the Government thought to blame itself. Yet, it has played a significant role in fuelling the wage-price spiral -- through higher indirect taxation, unchecked real increases in Government expenditure, and the steady growth in civil service employment and remuneration.

Since 1986, the Government's share of GDP has jumped by more than two percentage points. This may seem like a small number. But it represents some HK\$12 billion, at current prices. In addition, despite the tight labour market, the number of persons on the Government's payroll has climbed by 12 000.

In other words, the Government itself has been part of the problem.

The Government's expenditure-driven approach to budgeting largely insulates it from inflation. Government departments deal in numbers which allow neither for inflation nor for increases in personal emoluments. As a result, with inflation racing into double-digits, departmental expenditure estimates become virtually meaningless not long after the ink is dry.

Not that this matters to the Government. It has funds squirrelled away. And if need be, it can always raise taxes to support its spending habits and to maintain its purchasing power.

While the Government may be financially insulated from inflation, it cannot escape its responsibility for inflation. Consuming nearly a fifth of the territory's GDP, it cannot pretend that it is a small, anonymous, powerless cog in the Hong Kong economic machine.

As the territory's largest and most important economic entity, the Government exerts far greater influence in the local market than any other institution. Indeed, the larger it grows, the more its every move sends shock waves through the economy.

Recognizing this, one of the Government's main objectives -- for the better part of the past five years -- has been to justify its inaction with a repertoire of stock excuses. These include the overworked "Positive Non-interventionism" litmus test, the "Beware of Hong Kong Dollar Speculation" horror story and the "Limited Economic Leverage of the Government" myth.

The Government claims that its hands are tied. But the truth is that the chains are of the Government's own making. The policy tools needed to fight inflation are at the Government's disposal. The Government is simply unwilling to use them because that would compel it to re-examine its entire approach to monetary and fiscal policy.

Take monetary policy. The Government's credo, "In The Link We Trust", puts currency stability -- or the illusion of currency stability -- above all else. Yet, the only true strength the Hong Kong dollar can ever have arises from the vitality of the Hong Kong economy.

The Government has sacrificed monetary autonomy -- and therefore the ability to use interest rates fully to combat inflation -- for an arbitrary, inflexible link to an often unstable currency. This can only put the Hong Kong economy at risk.

As for fiscal policy, the Government stubbornly claims that the small size of the public sector and the openness of the economy "limit the leverage it can exert through changing tax rates or the level of expenditure."

But this argument will not work any more. The tobacco tax fiasco revealed just how "limited" the Government's economic leverage really is. How can the Government claim to be powerless in the fight against inflation if it can cut the rate by more than half a percentage point simply by halving the increase in one levy?

As long as the Government practices "business as usual" inflation will not be defeated. Yet, if high inflation is allowed to persist, it will continue to erode personal and corporate purchasing power and savings. It will widen social cleavages. It will breed discontent. It will destroy the territory's competitiveness.

Members of my constituency have warned that Hong Kong's high inflation rate is not only deterring new investment, but is also accelerating the shift of existing operations out of the territory.

No government, democratic or otherwise, can function effectively in a high-inflation environment. The longer the Government hesitates, the more difficult and more painful it will be to remedy the situation. Not only that, the longer it takes Government to act, the greater the damage that will be done to the Government's credibility.

The Government must provide the leadership Hong Kong needs. It must convert its "great concern" into action. This will not be easy. There are no "quick fixes". Controls on prices, wages or rents would be disastrous. Any move which -- in effect -- unnaturally deflated property prices would be equally devastating -- not only slashing the personal assets of hundreds of thousands of people, but also severely testing our financial system.

What courses of action does this leave the Government? Is there a solution? Half-way measures will not work. Spurred on, no doubt, by the thought of this debate, the Government has finally come forward with some unco-ordinated proposal for combatting inflation. While it is encouraging the Government has at last been prodded into action, what is required is not piecemeal approach. Remember that Hong Kong's problem is not just high inflation. It is high inflation and slow growth.

What the Hong Kong economy needs is a coherent, comprehensive and continuing monetary and fiscal policy aimed at curbing inflation and promoting economic growth.

That policy should:

- Rein in government capital and recurrent expenditure through fixed-cost or/and "zero-based" budgeting;
- Roll back the recent growth in the cost and size of the Civil Service;
- Increase productivity within the Government through computerization and streamlined procedures;
- Boost private sector productivity by providing tax incentives for companies

to invest in labour-saving techniques and equipment;

-- Develop Hong Kong human resources by placing a higher priority on vocational and professional training, as well as worker retraining;

-- Explore prudent alternatives to the present arbitrary linked rate, which would provide greater monetary policy autonomy;

-- Privatize government operations, as appropriate; and

-- Liberalize the importation of labour on a closely-monitored, non-competitive basis.

Sir, time is important. What is at stake here is not simply the Government's credibility in the economic sphere, but its ability to govern Hong Kong effectively.

What is at risk is not one or two years of poor economic performance. What is at risk is Hong Kong's economic future.

With these remarks, Sir, I support the original motion.

6.00 pm

HIS EXCELLENCY THE PRESIDENT: It is now six o'clock and under Standing Order 8(2) the Council should adjourn.

CHIEF SECRETARY: Sir, with your consent, I move that Standing Order 8(2) should be suspended so as to allow the Council's business this afternoon to be concluded.

Question proposed, put and agreed to.

MR TIEN: Sir, I would like firstly to thank you and other more senior Members for allowing me to speak first. Sir, inflation is like sin -- we may not know what it is, but we all know that it is wrong.

We all know that an uncontrolled inflation is a serious worry for all of us. The Consumer Price Index (A) in April was 1% above that of March. The current figure of 13.9% is the highest point in 10 years.

Having said that however, I believe it possible to point to some aspects of inflation which concern Hong Kong. Like most other countries, there are two aspects: firstly, internal, and secondly, external. To take external first, as we have no natural resources, we depend upon imported raw material and many daily necessities of life. In consequence, as the US dollar was weak the last few years, so our import prices have soared. That resulted in high imported inflation.

Most countries use high interest rate to curb inflation. In general, bank interest rate is about 4% to 5% higher than the rate of inflation.

In Hong Kong's context with a current inflation rate of 14%, logically, our interest rate should be of the order of 18% to 19%. However, such an idea is unimaginable.

Let us remember that our projected growth rate is only 2.5% -- an historically low figure. The end result of a 19% interest rate must surely be negative growth, for Hong Kong a depressing prospect.

Secondly, a 19% interest rate would mean about a 10% difference between US and Hong Kong dollar interest rates. This situation seems to me to be quite untenable.

The alternative is to either de-link or link to a basket of currencies but I can also see powerful reasons against both such moves.

Linking to a basket arrangement would not solve Hong Kong's inflation problem simply because our inflation was still substantially exceeding the average inflation in the countries whose currencies were included in the basket.

On de-linking, totally external political forces beyond our control, such as the June 4 incident in 1989, indicated that the link is essential in maintaining both economic and political stability. The link avoided a possible run on the Hong Kong dollar at that time.

Given that we have this US dollar link, our hands are somewhat tied on this complex and difficult issue. There is no obvious and easy way to cure such imported inflation.

Sir, on the subject of internally created inflation, it was the Financial Secretary himself who helped me confirm certain long-term views which I have on the subject.

In his speech delivered at the Legislative Council sitting held on March 6, 1991, the Financial Secretary said and I quote: "Excessive pay increases carry with them an inflationary penalty. This applies to both the public and private sectors." I am sure that the Financial Secretary here has put his finger on the central issue, namely, where we have full employment, (or a mere 2% unemployment), there is an obvious tendency for scarce labour to price itself as high as possible. In other words, labour will use its monopoly power to escalate wages beyond sense, reason and endurance of the wealth-creating capacity of our economy.

In his subsequent speech of April 17, the Financial Secretary pointed out that, "in the calendar year 1990, wages for manufacturing workers went up by an average of about 12%. Inflation (then) ran at 9.8%."

This is an impossible combination. Both in theory and in practice, it is a recipe for disaster. We now have an inflation rate of just under 14%; does that mean wages have to be increased by 16%? The vicious upward spiral can be further pushed upwards by reports in the press of a further 14% salary increase demanded by public sector employees.

Last year, civil servants received a 15% increase, with an inflation rate of 9.8%. If they were to receive a 14% increase as suggested, this would have cost the rest of the community an extra \$5.6 billion. Government has just announced yesterday that the public service increase will be 10.43% equal to the Consumer Price Index (A) increase of the past 12 months. This 10.43% increase will maintain civil servants' real wage and spending power at last year's level. I fully support the proposed 10.43% increase.

I urge public sector employees to accept this reasonable offer, to set aside their own interest and to take a lead in our fight against inflation. I further urge the business and industrial community to follow suit to support Government's initiative by also increasing wages for their employees at the Consumer Price Index (A) level and no more.

Sir, the private sector is at the mercy of these irresponsible forces too. With the acute labour shortage experienced, what labour we have is tempted to use its political muscle to demand more and more.

In the past three years, for example, while Hong Kong's inflation rate had increased by 30%, wages of manufacturing workers increased by 40%, professionals and executives by 47%, civil servants by the way, awarded themselves a total of 45%.

Another underlying factor is the shift of our economy from the manufacturing to the service sector. Those in finance, wholesale, retail and restaurant trades now total 1.1 million persons, far more than the manufacturing sector. However, service sector, as it implies, provides services. Services are provided mainly by humans not machines although some automation are possible in, say, the finance sector. Service industry, in general, competes for much more labour.

Sir, one of the ways which I have long advocated to control wage-induced inflation is through a careful policy of labour importation, and I notice, with interest that this policy was supported by the Hong Kong Bank's Chief Economist. The position on this front is still in the early stages, but it is a very promising policy. I agree with the Financial Secretary when he says that: "We do wish to remove the constraints that a severe shortage of labour in critical areas is imposing on the productive capacity of the economy". Labour importation must not be "massive or indiscriminate", but it must be concentrated "in those job categories where labour shortages are causing bottlenecks to growth".

Bottlenecks to growth are particular causes of inflation. Job categories which are prone to wage-induced inflation should be allocated priority in importation of labour. I advocate that the labour importation policy is the most effective way of reducing our rocketing inflation. We should bring in up to 30 000 workers inclusive of white collar workers each year, say, in groups of 10 000 every few months. After all, our total workforce is close to three million, so, the figures proposed at 0.1% are relatively small. These imported workers enter on agreed wages, which hold firm for two years with obvious benefit in the battle against inflation.

The labour market is still extremely tight, but, because of this, inflation has developed, and, can only be cured at the source of the problem. Sir, on public sector expenditure, we ought to have a certain sympathy with the Government. On all sides we hear the "gimme disease". All groups shout "gimme", "gimme" and "gimme", and the

pressures for Government to allocate resources are overwhelming. Everybody has an apparent "good cause". We hear that we are an affluent society -- so we can afford more. Government, I believe, must learn more often to say "No". We cannot afford to give everybody what they want at every moment in time -- whether it is over-costed and expensive universities, environmental projects, or excessive wage increases for our civil servants.

It is not as if we had not made huge strides forward. The last five years, (if I may join the Financial Secretary on his "stroll down memory lane"), have seen important advances. He says "increased expenditure in real terms by 52% on social services over the five-year period, 42% on education, and 48% on the infrastructure; from a much lower base, we have increased expenditure on the environmental area by over 400% in real terms". (Paragraph 61 of the Financial Secretary's speech on 17 April 1991).

Sir, we have done all this, but the net result has also unfortunately led to quite unacceptably high levels of inflation. The past five years also saw inflation rise by 41%. I too take pride in all of this except, of course, the inflation figure. I am also seriously worried that this explosion of growth can also "eat into savings and erode the wealth of the community". (Paragraph 66 of the Financial Secretary's speech on 6 March 1991).

So what should we urge our Government to do to stem the inflationary tide? Let me suggest my own list:

Firstly, government expenditure, which after all is taxpayers' money, should be even more rigorously controlled. This applies to both capital and recurrent expenditure which during the last five years went from \$37 billion to \$74 billion this year. It also applies to such matters as transport and public utilities over which Government has a measure of control. Transport cost has risen to unacceptable levels. Since 1989, KMB's fare rates have increased by 57.4%, and CMB's fare rates have increased by 59.2%. These two companies deem it necessary to enjoy 15%-16% in profit. Taxis too have applied to increase fares by 26.5% recently.

Secondly, all public works projects, including the PADS project, should be undertaken in the most economic way possible. Consultants, contractors and workers should be reminded that waste and inefficiency should be ruthlessly eliminated. Checks should be mounted to ensure that efficiency guidelines are invariably adhered

to. We will not foot the bill for "mistakes" made in public works projects.

Thirdly, the importation of limited amounts of labour fades out accordingly under the safeguards set out by the Financial Secretary should continue.

Sir, I conclude by remarking that, in the case of inflation, we should clearly indicate not only what Hong Kong's Government should do, but what it should not do. Finally, Mr LAU Wah-sum's motion and the contents of his speech are both acceptable to me while Mr Martin LEE's amendment and the speech, especially parts (c) and (d), are unacceptable. With these remarks, Sir, I support Mr LAU's original motion and do not support Mr LEE's amendment.

MR NGAI (in Cantonese): Sir, inflation has become the major problem of our economy. While the Financial Secretary and our colleagues are giving an incisive exposition on some of the many socio-economic factors leading to the existing high rate of inflation, I would like to attempt a more general analysis on a point that has often been ignored as a contributing factor to inflation and put forth some proposals for the consideration of the authorities concerned.

Sir, I would particularly like to draw your attention to the self-inflating effects engendered by the wage-price spirals. The revealing tobacco tax incident has provided us with a clear picture of such self-inflating effects and is worth our careful consideration.

As we are all aware, inflation has aroused further public concern since the Consumer Price Index (CPI) figures for March were issued. The CPI(A) as an indicator of the rate of inflation has risen by 12.4% comparing with that for the corresponding period last year. The recently announced CPI(A) for April is as high as 13.9%, showing that the situation deteriorates and inflation has spiralled to a record high. The general wage earners, including civil servants, will naturally refer to these figures when they demand salary adjustments and maintain that the salary increases this year should not be lower than the rise of the CPI figures announced by the Government or else the loss in real terms in their purchasing power as a result of inflation cannot be offset and their quality of living will degenerate. While we agree that inflation puts the livelihood of the general public under threat, we have to be objective and find out whether the actual rate of inflation is equivalent to the rise of the CPI. The Financial Secretary told us in his concluding Budget speech

that the increase in tobacco tax would raise CPI by about 1.5%. However, if we look at the consequence of the huge increase in tobacco tax, I wonder how many people in Hong Kong are actually affected by the resultant 1.5% rise in commodity prices.

My colleague, the Honourable Dr LEONG Che-hung, tells us that 87% of the people in Hong Kong do not smoke and the Financial Secretary also points out that those who smoke only make up about one-sixth of the adult population. Turnover in retail sale roughly shows that only 30% of the smokers buy tobacco on which duty has been collected. Thus we come to know that increase in tobacco tax only affects the quality of living of a small group of people. Though the actual impact of the resultant 1.5% rise in CPI is very limited, it can easily push up the rate of inflation throughout. People in various trades will demand adjustments to their charges and wage earners will ask for wage increases on the basis of this new rate which is in fact inflated for no good reasons. We shall find prices and wages keep swelling by themselves. Such wage-price spirals will fuel inflation, thus creating a vicious cycle that will have detrimental effects on our economic development, social stability and quality of living.

Sir, if the Government fails to take the lead to introduce immediate and effective measure to curb inflation, the vicious cycle is bound to continue, and the consequences would be disastrous. As the biggest employer in Hong Kong, the Government is using a substantial share of the resources. It should therefore adopt a prudent approach in considering the scale of pay rise for civil servants and the possible economic consequences it may bring about. However, it seems that the Government has no intention to draw up a financial strategy to rectify the prevailing situation by introducing stringent measures to curtail public expenditure immediately, including the effective control over growth of capital expenditure to avoid fuelling the prevailing problem of galloping inflation. On the contrary, the Government tends to rely on indirect taxation to meet the ever-increasing public expenses, thereby intensifying the vicious cycle of inflation. The Government ought to review its policy of financial management.

On the other hand, the almost laissez-faire attitude of the Government towards unreasonable market prices in certain sectors of our economy has led to an upsurge in price hikes in every corner of our society and a spate of unfavourable chain reactions which intensify inflation. Sir, the thrust of inflation mostly felt by the people of Hong Kong comes from the costs of housing and transportation. This warrants an in-depth study. Broadly speaking, clothing and food are two consumer

items that are truly competitive. Everyone may make their choice to suit their taste, either to go thrifty or extravagance. So the problem does not lie here. For housing and transportation, however, the markets are monopolized by the operators and franchised corporations. The fact that consumers have almost no say on pricing matters has helped shape unreasonable market prices. In the face of the pressure of inflation brought about by unreasonable pricing, wage earners cannot but drive a hard bargain over the scale of pay adjustment. This is quite understandable. The wage-price spiral will develop an impregnable vicious cycle of inflation. We need a government that has the vision and the courage to initiate bold measures to break this cycle. The financial authorities, which have deviated from the line of prudent financial management, should now take up the responsibility to formulate a comprehensive and long-term strategy to rectify the situation.

Sir, under the persistent impact of inflation, there is an urgent need for manufacturers to redress the pressure brought about by sharp rise in wages. I recall that in April 1989 when nine trade unions of Hong Kong submitted a detailed report to the Government, pointing out that industrial and commercial sectors in Hong Kong were plagued by serious labour shortage, they urged the authorities concerned to improve the situation, otherwise inflation would be pushed up and economic development would be hampered. It is regrettable that, as the present situation reflects, the Government has not taken timely measures to tackle the problem effectively, resulting in stagflation that affects us today. The Hong Kong-based manufacturers have to pay the price of persistently high rate of inflation. Our competitiveness has been greatly reduced by soaring prices and the pressure of wage increase. Besides, we are confronted with all kinds of challenges in the international market. We are indeed under attack from all sides, I must point out particularly that a high inflation rate would have grave effects on foreign investment, for never would there be a pragmatic investor to invest in a place with spiralling inflation.

Sir, in view of the rate of inflation running wild, the Government has to take decisive measures at this critical moment to break the vicious cycle. Apart from giving support to the several measures suggested by the Honourable LAU Wah-sum a moment ago, I also call for the immediate establishment of a Committee on Emergency Measures against Inflation comprising representatives from the Administration, the employers and the labour sector. This committee is to formulate co-ordinating policies and measures to meet the urgent need of restraining the current rate of inflation. For example, the Administration may take the lead to withhold all kinds

of tax and charge increase so as to provide immediate relief of inflationary pressure. Besides, it may exercise reasonable control over pay increase for civil servants at all levels, taking into consideration their entitled living standards, and put public expenditure under restraints. A temporary freeze in these two areas may even be introduced on a particular level. Coupled with government efforts, the private sector may also play their role by taking corresponding steps to extirpate the vicious cycle of wage-price spirals. I believe the current high rate of inflation will gradually dissipate within a year under the concerted efforts of all sectors of the community.

Sir, with these proposals raised on the basis of my observations, I support the motion. The specific counter inflation measures proposed by Mr Martin LEE in his amendment are what I appreciate though there are points which I find it hard to agree to. Nevertheless, it is precisely because the measures are too specific and their scope too wide that I decide to vote against Mr LEE's amendment motion as they may hinder the Government from taking the necessary steps in its all-out fight against inflation. Sir, I support the Honourable LAU Wah-sum's motion.

MR PANG (in Cantonese): Sir, I pointed out during this year's Budget debate that as the Financial Secretary neither made all-out efforts to devise effective measures to suppress inflation nor gave consideration to improving the quality of life of our residents, but instead he proposed large increases in indirect taxes to add to their burden and leave them in deep water, I voted against the Budget proposals.

Regarding your policy address last year, Sir, I pointed out at that time that the Government and capitalists joined hands to suppress the wages of workers and that apart from interfering with wages, the Government was powerless to do anything. I sounded a warning a long time ago that it was no news to learn of the serious effects of inflation on our livelihood. Unfortunately, the policy makers under your leadership, Sir, turned a deaf ear to my warning. On the contrary, they kept emphasizing that labour shortage had resulted in excessive rises in wages. They therefore stepped up the import of cheap labour as a means to curb inflation. Recently, I have heard people suggest freezing pay rises.

Sir, I think such a move is putting the cart before the horse and is most ridiculous too. The blame for high inflation rate is on the Government. Whether we have a sunset government or a sunrise one, a responsible government cannot shirk its

responsibilities. On the question of whether wages will push up inflation, I would like here to cite an example. In Taiwan, the rise in wages in the last 10 years was 175%, but the national consumer price index rose only by 35% whereas the inflation rate for this year was reported to stand at 3.76%. There is a great increase in the buying power of the workforce and hence considerable improvement of their livelihood. In China, the rate of wage increase was very low, but prices shot up. This illustrates that the rise in wages does not necessarily lead to inflation. In fact, to curb inflation, the Government should first reduce tax rates, control government expenditure and increase the interest rate. The Government you lead, Sir, ran to the opposite direction by frantically increasing indirect taxes. The rate of rates went up by 25% and last year's public expenditure by 32.7%.

To lump together wage freeze and suppression of inflation in order to cut wages in the private and public sectors is unfair. It only gives the Government an excuse to suppress pay adjustments for civil servants. Personally, I feel today's debate is being taken advantage of.

The pressure of inflation does not fall on capitalists, nor does it fall on the so-called high-ranking officers receiving high pay. The average man is always the victim. Sir, I do not understand why after taking the lead in increasing taxes and fees to worsen inflation, the Government is now proposing to restrict wage adjustments. In face of the pressure of inflation, the Government is in fact doing something the average man is forbidden to do. Wage earners' meager income is now subjected to suppression. They feel the pinch of low income, high prices and heavy expenses. If they cannot earn enough to meet their expenses, their livelihood will go from bad to worse. The prosperity of Hong Kong today has not been the work of investors and capitalists alone; each petty resident works and toils in return for it. If eight hours work is not good enough, he puts in 12 hours. If one job does not pay enough, he does part-time jobs. The aim of course is to improve the quality of livelihood. Should he not enjoy the fruit of prosperity? In fact, the workers here are the best, compared with their counterparts in other countries of the world. Our workers' unions have always been co-operative. They have never caused troubles. A local newspaper magnate, a Mr CHA, admitted frankly during an interview with a weekly magazine claiming to be the No. 1 magazine in Hong Kong that his success was attributable to his staff. It would, indeed, be going too far if growth of wages is suppressed in order to curb inflation.

As for labour shortage, I do not think that it is the cause leading to the rise

in wages and hence inflation. Our unemployment rate for April this year rose by 2.1% and the number of people unemployed or underemployed stood at 110 000. It is an indication that our economy has slowed down. For the production trades, our factories are importing labour on the one hand and moving their production lines north to the Mainland on the other hand. As a result, there is just not enough work around and a reduction of available jobs. In the first quarter of this year, over 3 000 workers applied to the Protection of Wages on Insolvency Fund for advance payment of wages and severance pay because of the closure of their factories. It represents a 40% increase over the same period last year. If the Trade Descriptions (Amendment) Bill is unfortunately passed, some 25 000 more knitting workers will be driven out of their employment.

Therefore, I strongly urge the Government to stop importing foreign labour immediately so as to protect the labouring class, whilst taking effective measures to curb inflation.

Sir, with these remarks, I support Mr Martin LEE's motion for amendment.

MR POON CHI-FAI (in Cantonese): Sir, the inflation problem has become out of hand and adversely affected the daily life of the people of Hong Kong since the Financial Secretary announced the package of tax and charge increases in his Budget in April. Such a problem is no doubt the top priority for the Government's attention. However, there is no sign that the measures introduced by the Government are effective in combating the problem under these drastic circumstances. The substantial increase in indirect tax, rate charge and transport fares has contributed to the alarming inflation rate which has mounted up to the highest level over the past 10 years.

The Hong Kong Government has all along been adopting the non-control policy in the face of inflation and always expect the adjustment mechanism of the free economy to remedy the situation. However, the enormous increase in public expenditure, the growth rate of civil servants far exceeding the actual requirement of workforce and the considerable resources and manpower required for the massive projects of the port and airport development scheme may further aggravate the inflation problem. The living standard of Hong Kong people has been greatly lowered under the inflationary impact and their confidence in the future of the territory has been further undermined by the dim prospect of political development. When there is an economic depression or once the general public explode their strong feelings suppressed for a long time,

stability of the society may be ruined. This may directly vitiate the confidence in the Government.

Sir, if the Government is determined to maintain an effective administration of Hong Kong during the transitional period, it should focus attention on tackling internal problems so that the prosperity and stability of Hong Kong may sustain and the people here may lead a contented life. The Hong Kong Government, being confronted by the drastic inflation problem, should not just depend on the automatic adjustment of the economy but should take some measures which are more positive and effective in curbing the inflationary pressure. Similarly, neither should it expect the problem to be resolved just by urging on the public the need to control wage increase or to prepare for difficult time. The Administration should step up to control public expenditure and shelve or abandon the projects which are not imperative or of no urgent need. Reassessment should be made on necessary projects in terms of their urgency and priority should be set for these projects according to the financial position. Expenditure projected for consultancy studies and the Vietnamese boat people issue regarding items of insignificant implications should be ruled out. While members of the community are suffering from the economic depression, the Government should not be too lavish with financial assistance for overseas countries. Donations in this respect should therefore be limited and prudently considered. Sir, only when the Government take action to trim the public expenditure, reduce the increase in duty, fees and charges, enhance the effectiveness of productivity of Hong Kong and effectively control irregular and speculative activities that the inflation problem may be alleviated and the people here may live and work in peace and contentment. Sir, we certainly do not want to see a high rate of pay rise for civil servants, but neither do we want to see a frozen pay or an unreasonable level of wage increase imposed only on civil servants or low income earners who are also suffering from high cost of living. The uniform rate of wage increase announced yesterday is not only unfair to the lower and middle ranking civil servants, it also reveals how uncaring and inconsiderate our Government can be. Such a measure is neither a pragmatic nor a fair one and will have great impact on the livelihood of those civil servants with lower income. This may easily provoke civil servants and the working class to take industrial acts which will further strike a blow upon the economic development of the society.

Sir, the amendment by the Honourable Martin LEE is basically acceptable though, to my dismay, it confines itself to only a few points. In fact, the causes of inflation and its counter measures are diverse and complex and, in this respect, the

Honourable LAU Wah-sum's motion, the scope of which is wider, appears to be more appropriate. At the same time, point (a) of Mr LEE's amendment relates to stimulating investment and increasing productivity which somewhat runs contrary to the fight against inflation. With these remarks and for the reasons mentioned above, I support Mr LAU Wah-sum's motion.

MR EDWARD HO: Sir, in my speeches during the debates in this Council on the Appropriation Bill in the past year, I have voiced my concern over the problem of inflation, and the inability of Government to effectively tackle the problem; noticeably, the inability to control public expenditure and to effect accountable and performance related public services.

I will only say, on this occasion, that the really effective means to curb inflation is the combined will of the Government, the public utilities and public transport organizations, the private sector employers and the ordinary citizens. Wage levels must be controlled to below consumer price indices, otherwise inflation will be self-fulfilling, like the proverbial dog chasing its tail.

Wages in the private sector will largely be determined by market forces, that is, the supply and demand of manpower, and the level that it can afford to pay in order for it to remain a viable economic concern. For Government, large publicly-listed companies and public utilities, where costs are passed on to taxpayers, anonymous shareholders and consumers, as the case may be, we must urge for their self-restraints in the interest of the community.

For those on the receiving end, they must realize that it is primarily to their interest that they should not contribute to the upward spiralling of inflation. They are the ones that should be concerned that the purchasing power of the pay package will not be eroded. If their pay package equals or exceeds the consumer price index, they are giving legitimacy to the rise in the rate of inflation and the resultant gain in their pay will be reduced to nothing.

We must agree that what we are trying to achieve today in this debate is to at least preserve, if not enhance, the value of the hard earned income of the wage earners.

The consumer price index serves as an indication of the cost of living but it has been wrongly used by many organizations. The recent increased duty on tobacco is a good example that showed up the anomaly of the index. The index was purported

to have increased by more than 1.5% due to the original increase. Surely, this increase in the index should only affect those who smoke, and not generally across the board. But the fact is the index is used as a reference point for all kinds of price and wage increases, and real corresponding inflation occurred as a result.

To a certain extent, the market force is the best means to adjust the rate of inflation. If the consumer is not willing to pay for a product, the seller of the product will have to adjust the price if he wants to remain in business.

The problem we are facing is the product of our success. The phenomenal growth of our economy and hence the income of our citizens have given the opportunity to retailers to arbitrarily increase their prices to exploit the defenceless consumers. A review of the prices in supermarkets and other major retailers will reveal that their prices on selective products have gone up possibly beyond the inflation rate. Similarly, rising prices in restaurants have not deterred the unsatiable appetites of our citizens.

To counter this sort of exploitation, we must encourage our citizens to restraint on their purchasing pattern, especially on non-essential items. They must give a clear message by their action to retailers that they cannot tolerate indiscriminate price rises.

Although this kind of consumer restraint cannot by itself counter the serious inflation that we are experiencing, I would object most strongly to any sort of Government-imposed price control for the private sector, which I think is the motive behind some of Mr Martin LEE's proposals in his motion. On the other hand, I do agree with him and some of my colleagues that there are areas where prices are not entirely influenced by the market, and the Government can influence the rate of inflation.

I have spoken on previous occasions of the vital importance of controlling public expenditure and the need for a productive Civil Service. As for the cost of housing which is a subject very much debated upon, we should be aware that land costs in Hong Kong form a large portion of the actual cost of the product. Thus, the perennial inadequacy of land supply has a direct bearing on housing costs. Last year, Government has put out much less building land than the year before, and I urge that it should release more land for residential development in the coming year as there seems to be no lack of interest from property developers.

Public transportation and public utility are given franchises so that they operate under some sort of monopoly. Their performance and costs must be closely monitored within the framework of their respective schemes of control. Any approval for increases must be regarded with the greatest caution.

The importation of labour has drawn understandably much criticism from our friends in the labour and the social welfare services. But, if the shortage of the right kind of labour in certain industries is contributory to the high inflation which directly affects the purchasing power and hence the quality of living of our wage earners, I cannot see why importation of manpower to selective trades should not be one of the positive and effective tools in reducing inflation. After all, inflation should be the common concern of management and labour.

In conclusion, Sir, to combat effectively our inflation problem, we need the united effort and will of the Government, the private sector companies, large and small, and the private citizens.

I congratulate Mr Martin LEE on his success in reducing his waistline by four inches, no doubt due to his self-restraint, and not due to external compulsion by either his caring wife or his party. For the same reason, I am unable to support the motion put forward by Mr Martin LEE as I fear his proposal regarding housing prices was to tamper with the free market force which is the cornerstone of our vibrant economy.

In addition, Mr Martin LEE's proposed deletion from Mr LAU Wah-sum's motion in urging "the Government to take immediate steps, as a matter of urgency, to reduce the current rate of inflation" and substituting it with some rather long-term solutions as in his point (a) is not acceptable to me.

With these words, Sir, I object to Mr Martin LEE's proposed amendment, and support Mr LAU Wah-sum's original motion.

MR SIT (in Cantonese): Sir, thank you for allowing me to speak ahead of my turn. I had originally prepared a speech of some 20 pages, but having heard the views expressed by each of the Honourable Members, I felt that I could put aside my speech of some 20 pages, because many of the points have now become cliché. If I were to repeat them, Members might feel bored.

In the meeting today, I suddenly found that the Financial Secretary had become a hedgehog with darts all over his body, because many Honourable Members who spoke aimed at the Financial Secretary, and attributed the cause of inflation to the Government. However, I doubt whether the responsibility should all be borne by the Government; whether the Government should be solely responsible for the high inflation we have today; and whether such criticisms are fair. After careful consideration, I think the Government has its share of the blame for the high inflation today, but should the authorities headed by the Financial Secretary accept all the censure alone? With my three years' experience in the Legislative Council, I have come to appreciate one point, that is, we know only how to blame the Financial Secretary and the Hong Kong Government, and I feel this is an irresponsible behaviour. Members may have read in the press that the Government has to submit to this Council every year the Budget, that is the so-called "Appropriation Bill", but every year it is passed, and is bound to be passed.

When each of the proposals, namely, increase of tobacco tax by 200%, rates by 25%, vehicle transfer fees from \$50 to \$1,000 was submitted to us for scrutiny, this Council could be said to have "followed most readily what purported to be good", and let the Government implement the increases. Viewed from this angle, would such practices of the Legislative Council have allowed the Government "to emerge big and strong"? In our childhood, we heard from teachers the story of one "who stole needles when being a child and gold when being an adult". Have we, by passing every one of the Government's tax proposal Bills submitted for scrutiny before this Council, allowed the Financial Secretary's heart "to emerge big and strong"? Once the proposal to increase tobacco tax by 200% was passed, would there be another increase? As Members of this Council, do we have the duty to study carefully whether the Government's expenditure is reasonable? If it is found to be reasonable, then it should be passed; but if it is found to be unreasonable, should we reduce it? Should we carefully consider proposals to increase tax, instead of proposing a motion debate only when problems arise? Even if the motion for debate is passed, then what?

In fact, what is the supreme power of Members of the Legislative Council? My personal view is that our greatest power, and our most effective weapon to confront the Government, is to raise objection when the Government presents the tax increase Bills. Only in this way may we suppress the tax increase proposals, and even if we were not successful, we would still sound a warning to the Government. Yet we have never done this -- every time we passed them as a ritual. Since "debates" have no

legally binding force, when scores of Council Members meet to debate, it is not legally binding on the Government, except that it only exerts a kind of pressure. We seem to have become a sort of pressure group. As a matter of fact, the Legislative Council could have played a role which is not that of a pressure group. We may actually help the Government improve its image, instead of asking the Government to take whatever action when the rate of inflation reaches 13.9%. We should search our souls to find out, as representatives of the people of Hong Kong, what Members of the Legislative Council can do. The effects of motion debates are limited.

Another question to which we should address ourselves is the proposal to increase the salaries of civil servants. Of course, some may think that an increase of over 10% is not a small one, but we have to think that the rate of inflation is now 13.9%. How can the lower income group cope with such a situation?

We should not forget the Hong Kong Housing Authority. Here, I feel that I also have erred in that the Legislative Council has granted such excessive powers to the Housing Authority that the latter can do whatever it wishes. Also, the same applies to the Kowloon-Canton Railway Corporation. The law has given it such extensive powers that it can increase its fares without going through the Legislative Council, and that it only need to have same recorded with the Executive Council. In view of this, I feel that we, as Members of the Legislative Council, have the duty to consider appropriately withdrawing some of the powers so as to apply a check and balance on public utilities, instead of allowing them to raise their charges whenever they like, because increases in public utilities charges actually affect the large number of people of the lower income group.

When I was shopping in a supermarket recently, I found a strange phenomenon in that sale of instant noodles was very brisk lately. I asked one of the supermarket staff why, and he told me that as prices kept rising these days, eating out was very expensive; so the choice was instant noodles. From this we could see how the community is faring. Recently, my son asked me, "Daddy, lately, you come home for dinner most of the time. Why are you so good suddenly?" The fact is that I dared not tell him the truth, because eating out was really very expensive. Also for this reason most people go home for dinner these days because first, one may save money and, secondly, one may be full of grumbles because of inflation. However, when I came to think about it more, this could be considered a benefit brought by inflation. Many people reduce eating out, and enjoy the pleasure of the family by going home and eat instant noodles together. If this presumption is correct, then it may be

regarded as a good deed by the Financial Secretary to the people of Hong Kong.

Sir, with these remarks, I support the motion by the Honourable LAU Wah-sum.

MR SZETO (in Cantonese): Sir, the word "robber" is a derogatory term, but I cannot refrain from using such derogatory term as metaphor during today's motion debate on inflation.

"A robber yells out others to catch another robber". The Government has on the one hand prattles that inflation is our public enemy No.1, but on the other hand, it takes the lead to fuel inflation: it never fails to approve every application of fare increase put up by the public transportation and utilities companies; it imposes drastic increase on rates and indirect taxes; it turns a blind eye to property speculation activities; instead, the Government pegs the sales price of public rental flats and Home Ownership Scheme flats with that of private buildings. The Budget of this year is the one which takes the lead for inflation. Not surprisingly, after it was delivered, the inflation rate escalated to 12.9% and 13.9% for March and April respectively. This is akin to a robber who has stolen something, yells out others to "chase the robber" while he is escaping, he poses as the one who chases after the robber in order to disguise his real identity, misleading others that he is the victim or plain clothes policeman and let him go free.

"Mobilizing the troops after the robbers have fled". As the Budget which has fuelled the inflation had been passed, the runaway inflation was activated. Would it be effective if we launch a large-scale programme and debate bombastically on the measures to combat inflation now? Could I ask Members of the votes they cast on such an inflationary Budget? Why did they not examine it in detail before release and subsequent approval of this year's Budget? This is akin to sounding the alarm and sending out the forces after the robber has escaped out of sight. There is a Chinese saying that "robbers pass by but troops sweep by" which means that should we mobilize the troops after the robbers fled away, not only would it be useless in chasing the robber, on the other hand, it would cause a more disastrous aftermath for the common populace. Some people are now demanding for the importation of more foreign workers and the freeze of wages under the pretext of curbing inflation, this will make the general working class suffer more hardship amidst rampant inflation.

"Capturing the thieves while setting the bandits free". In the face of strong

social pressure, the Government cannot but reduce the hefty tobacco tax proposed in the Budget, from 200% to 100%. This is certainly welcome. But the Government has turned a deaf ear to other suggested counter-inflation measures, for example, the reduction of rate charges and airport tax; the introduction of value-added tax for properties; and the increase of profits tax and so on. This is similar to treating the Hong Kong people with leniency -- setting free several bandits after a thief was arrested -- the Government is just finishing its job perfunctorily to show others that its responsibilities had been discharged.

"Framing up others with stolen property". Some people attributed the spiralling inflation to the shortage of labour and pay rises so as to import more foreign workers and suppress wages. In the first quarter of this year, 3 000 workers have already applied to the Protection of Wages on Insolvency Fund for providing ex-gratia payments of wages in arrears and severance pay, representing an increase of 40% over the same period last year. From February to April this year, the rate of unemployment and under-employment rose for 2.1%, representing that more than 110 000 workers were unemployed or under-employed. Is this the trend of labour shortage? According to the pay trend survey on private sector which was conducted by the Standing Commission on Civil Service Salaries and Conditions of Service, the pay rise was less than the inflation rate of 13.9% in April. With a pay increase of less than the inflation rate, it is tantamount to a wage reduction. Why should we suppress the wages and lower the quality of living of the low pay workers, and let them bear the consequences of inflation alone? This is akin to framing up the wage earners with the "stolen property" of inflation. Thus, an illusive phenomenon is formed and the public eye-sight is blurred, the Government may then do away the innocent people as it likes.

Yesterday, the Government proposed a 10.43% across-the-board pay rise for civil servants this year, which is about 3.5% lower than the inflation rate. This is in fact a wage reduction by 3.5%. As the absolute majority of the teachers in Hong Kong are employees of subvented sectors, whose pay scales are pegged to that of the civil servants, I cannot refrain myself from protesting strongly on their behalf. The Administration fails to revise the salaries according to the results of pay trend survey, nor does it follow the inflation rate. The Government is again breaching the long-standing agreement reached with the civil servants, how can the morale of the civil servants be maintained in this second half of transitional period? To the high income earners, a 3.5% increase may not even be enough to pay for a dinner, but for the low pay workers, it may serve as the main dish for each meal. What is the rationale for giving an across-the-board increase, regardless of the ranking?

The Government is the largest employer in Hong Kong. The people should not only focus upon the top ranking officials, the absolute majority of the civil servants are low wage earners. Suppressing the wages for the absolute majority of low pay civil servants would certainly mean the suppression of wages for the absolute majority of those low wage earners in Hong Kong. Their relationship is as close as flesh and blood. We have to be cautious and never be hoodwinked by such alienating plot.

The labour sector has always raised objections against the importation of foreign workers not only for their own well-being but also for the interests of the economic development of Hong Kong as a whole. With the importation of foreign workers, it would certainly hamper the development of a labour intensive economy to a technology and capital intensive economy. As the industrial and commercial sectors have little confidence in the future of Hong Kong, they curtailed their investment and attempted to maintain the existing labour intensive mode of production by means of importation of foreign workers and suppression of wages, thereby resisting the inevitable trend of economic development. This is tantamount to drinking poison to quench one's thirst. This is a foolish and short-sighted method.

Regarding the amended motion of the Honourable Martin LEE, his first point is to "implement a vigorous science and technology policy that would stimulate investment and increase productivity". Apparently, this point is irrelevant to the measures of combating inflation, yet in reality, this is a very significant point. If the shortage of labour and wage increase are really the causes of inflation, the first point of the Honourable Martin LEE's motion would serve as an effective measure.

His second point is to "control increases in public transport fares and public utility fees", I must add that the freeze period should at least last for two years. As most of the applications for fare increase were already approved, should we freeze the fares for one year which would be increased again next year, it will in fact mean no freeze at all. That will be another example of "mobilizing the troops after the robbers have fled". Any further assurances would become empty promise, and would be highly deceptive.

In the midst of the calls for combating inflation, did those who advocate the importation of more foreign workers and the suppression of wages think about that such measures would be taken at the expense of the interests of the wage earners at large? What commitments and efforts would they make in this respect? We should weather the bad times together but not alone. Never should we shirk the hardship

and burden onto others.

Sir, with these remarks, I support the motion of the Honourable Martin LEE.

MR TAI: Inflation is the number one enemy to the economy of Hong Kong. This is an issue that we must tackle by deeds and not by words. If the inflation rate continues to rise, it is likely that we shall be faced with a recession very soon.

Despite the principle of a free market economy, I must say that the Administration is partially responsible for creating an inflationary environment in Hong Kong today. Through endorsing the increase of transport charges, wage claims in the Civil Service and various fiscal measures, inflation has been fuelled to a serious extent.

However, this is no time to apportion fault. The Government, the business sectors and all of us must join together to combat the problem of inflation.

Personally I think the recent upsurge in property price fuels inflation. As we have debated last week, the sudden upsurge in property value is largely due to speculation. This can be abated by various measures to be taken by the financial institutions and the Government to tackle the sale of uncompleted flats. An increase in interest rate would certainly help, but it is not the best way to deal with the problem. As I see it, it has a number of drawbacks:

(a) Firstly, it may have an effect on the linked exchange rate. We fix it at HK\$7.8 to US\$1 but now it is being traded at open market at HK\$7.73 to US\$1, not to mention the fact that other countries are now predicting to have a lower interest rate.

(b) Secondly, an increase of interest rate affects mortgage payment which will affect the Consumer Price Index. This again pushes up the rate of inflation and leads to wage increase. The argument that whether the recent increase in mortgage rate has a deflationary effect in the short term is debatable.

Another point I want to mention is about annual pay adjustment in the Civil Service and in the private sector. To a certain extent the private sector looks to the annual pay adjustment for civil servants in deciding salary increment for their own staff. The claim is that the results of inflationary trend are based on pay increase in the

private sector in the preceding years; so it goes on in a cycle. In dealing with the problem of inflation, pay increase in particular, we must unite and stand and act together in order to tackle the problem. Sacrifice to some extent at some time is inevitable.

The other step we can take to tackle inflation is to take a serious look at whether we can selectively import foreign labour in certain sectors such as service and construction industries because shortage of labour gives rise to excessive wage increase. This is particularly serious in the construction industries and as a result, infrastructural and building costs are being pushed up. To demonstrate our sincerity and take a leading role in combating inflation, I suggest the honorarium for members of the district boards, the two municipal councils and this Council be frozen for an appropriate period and that the pay adjustment for directors of Civil Service be set at a level well below the rate of inflation.

Regarding the two motions that we have before this Council today, Sir, I think Mr LEE's suggestion to have an amendment is a good one, but it takes time to bear fruit. We must act and the Government must do something to bring the rate of inflation down within a period of months, and I think Mr LAU's motion is general in character and not too restrictive, and in this respect, I support Mr LAU's motion.

MRS TAM (in Cantonese): Sir, I speak in support of the motion moved by the Honourable LAU Wah-sum. Inflation is the most immediate threat to livelihood. Our recent spiraling inflation rate does not only affect the quality of life of the general public, but also erodes the wealth of our society as a whole in the long run.

In the past five years, our GDP growth continued to slow down, dropping from double digit to a single digit. Inflation has taken on a different turn, climbing from one digit to two digits. In the last few months, we heard time and again that inflation had broken the 10 years old record. No matter whether the increase in the Consumer Price Index released recently adequately reflects the real inflation level, it is an undeniable fact that residents are hit hard by the aggravating inflationary situation. When housewives go shopping at supermarkets, or when the whole family eat out, seek entertainment or buy clothing, they feel the pinch of price rises and deflated money on all aspects of life, including clothing, food, housing and transport. One can see the heavy burdens the general public have to shoulder.

Experience tells us that many measures to combat the worsening inflation are not necessarily popular ones. However, to allow the present spiraling trend of inflation to continue and in the end damage our economic development would be to leave it to our residents to bear the bitter consequences. I think it is time for the Government to show determination to solve the problem. Seeking remedies to check the worsening inflation should not be the first and foremost task of the Government alone, but of the private sector too.

The factors leading to the persistent high inflation rate in Hong Kong are varied. I have noticed the concern of members of the community on this and the opinions voiced. Objectively, the tax increases proposed in this year's Budget should take some of the blame, to a certain extent, for stimulating inflation. Imported inflation probably is a price to pay for the US dollar peg. Furthermore, the rise in wages fueled by the consistently tight labour market, the fee increase by public utilities companies, the sky-rocketing property prices and so on form a vicious cycle and add fuel to the flames. We cannot brush aside the existence of bad elements profiteering in the property market as another fuel for inflation.

Sir, I remember the Financial Secretary sounding warnings in his recent Budget speech on inflation. Unfortunately, up till now we have not seen any clear and effective method to curb the worsening inflation. I therefore call on the Government to take the lead and prescribe the right remedy. A working group to study the problem should be set up immediately to study a series of strategic measures against inflation with a view to devising a long-term anti-inflation policy. Most important of all, joint efforts and co-ordination of private sector employers and the labour sector should be sought to work towards the goal of curbing inflation, maintaining the prosperity and overall economic development of Hong Kong and avoiding making only one or some sectors of the community suffer.

On the part of the Government, an obvious way to lower inflation is to control stringently the increase in public expenditure. Under the principle of maintaining high efficiency, the authorities concerned should see that the rate of increase in public expenditure compares reasonably with the growth rate of the GDP. I also suggest that the Government should, wherever possible, consider temporarily freezing various fee increases in order to show that it is doing what is within its power to take the lead in the battle against inflation. Moreover, assessing carefully the demand and supply situation of the local labour market with particular regard to certain trades suffering the worst labour shortage and making corresponding

adjustments to the labour importation policy will, I believe, go some way towards alleviating the pressure of inflation.

As to the private sector, including public utilities companies, especially those providing public transport services, they, as part of the local economy, should have a role to play in the battle against inflation by seeking ways to help alleviate the pressure of inflation. Reducing the rate of fare increases of their services should be considered.

On the other hand, as I pointed out in last year's Budget debate, we must avoid the endless cycle of wages and inflation pushing each other up. It was announced yesterday by the Government that the proposed civil service pay rise for this year would be 10.43%. I think that although it is somewhat below the findings of the pay trend survey, given the local economic slowdown, consideration for the benefits of our civil servants and the need to curb inflation, such a percentage is both reasonable and acceptable.

In fact, employers should not attract employees solely by increasing wages, or else they would push up inflation and in the end the gain would outgrow the loss for the employees. As a positive long-term measure, both the Government and the private sector should concentrate on training, improvement of terms of employment, better quality, efficiency and productivity to ensure our economic development and maintain our outstanding competitiveness.

Sir, in Mr Martin LEE's motion for amendment, there are some concrete opinions. As they involve policy changes, we need more time to study them. Besides, his proposals are too general and lack logical clarity too. I think although such opinions are worth further studies, the Government should come up with a set of detailed anti-inflation strategies for immediate adoption. In this way the spiraling inflation rate we are now facing will probably come down. I am, therefore, inclined to support the motion by the Honourable LAU Wah-sum; and I believe that, through a joint endeavour by all parties concerned to incessantly combat inflation, the day when our inflation rate will come down is just round the corner.

Sir, with these remarks, I support Mr LAU's motion.

DR LEONG: Sir, our inflation rate is higher than any of our regional competitors.

It has affected adversely the life of Hong Kong people and has to date, become the biggest public concern. High inflation has indeed eaten into savings and eroded the wealth of our community.

There have been skilful rhetorics that the Number One culprit of spiralling inflation is wage rises. Arguments seemed to have built up and formed a seemingly formidable accusation force. This, of course, I do not agree.

While this year's civil service pay rise is imminent, a lower pay rise or a wage freeze to civil servants is seen by many as a panacea to curb inflation.

However, Hong Kong people should not be spoofed into believing just that. The crux of the king-size problem, unfortunately, reached far beyond civil service pay rises, and similarly, to a even larger extent, private sector pay rises.

The ordinary men-in-the-street, private employees and civil servants alike, are the bulk of victims hard hit by the spiralling inflation. Unreasonably low wage rises therefore will only widen the crevasse between the rich and the poor.

Sir, tagging the inflation problem to wage rises is like shooting the pianist for disliking a piece of music. It simply will not work.

More disastrously, grassroots people, while enjoying no real increase in wages, will be penalized by high inflation, higher prices and lower standard of living. It would then be a "double loss" to this group of people who constitute the biggest number of our population.

If the pay rises of both civil servants and private sector employees can be sacrificed under the pretext of checking inflation, the same can be applied to the profits made by property and private companies, and franchised companies in Hong Kong.

Let me caution here that by zeroing in on suffocating pay rises, one can expect to foresee the advent of the go-go days of labour unrest ahead at every corner of the territory.

This, if not handled cautiously, would only sweep off the pedestals of friendly co-operation between the employers and the employees which has traditionally built

up in Hong Kong.

The kick-back in the Civil Service would also be detrimental. We simply cannot afford to have the Administration and an army of fidgety civil servants locked in never-ending recriminations in this hyper-sensitive political juncture.

Sir, there is no magic formula to solve the inflation problem.

Dejectedly enough, Government has only very recently recognized inflation as a serious problem. Alas, it is but too late.

Inflation averaged 8.8% over the four years to last year and soared up to 10% as this year started.

In this dangerous inflationary situation the Honourable Financial Secretary introduced a budget that by its sharp increases in indirect taxes was bound to increase the inflation rate still further.

The budget measures alone added almost 2% to the Hang Seng CPI.

It is true that inflation cannot be remedied only by Government. The tight labour market (which is, to a large extent, something to do with the brain drain syndrome) and the peg with the US dollar limit Government's room for any form of manoeuvre.

However, Government is not impotent in the fight against inflation. There are important steps that it must take to reduce inflationary pressure.

Firstly, Government must recognize that inflation is a priority that must be addressed. There are signs that Government is belatedly acknowledging this. The effect of government actions on the inflation rate must be considered when policy decisions are made.

The following are some proposals of the Hong Kong Democratic Foundation on practical steps that Government can take to combat inflation:

Taxation policy

Further increases in indirect taxation should be avoided. While technically

such increases are "one-off" measures which drop out of the inflation statistics after a year, in practice they have a heavy psychological impact on employee expectation as to wage rises and can contribute to an inflationary spiral. The same should apply to sales tax.

Government should aim not to spend more than it raises through taxation and other revenue sources. A large deficit at this stage would be inflationary.
Government spending

During Sir Piers JACOB's term of office, from 1986-87 to 1991-92, consolidated public sector expenditure rose from 11% of gross domestic product (GDP) to a forecast 19%. This massive shift in the allocation of resources within the economy has had inflationary effects.

Government has financed its spending by taxation rather than by borrowing. Although spending does not automatically lead to inflation, yet, in Hong Kong's circumstances there is an inflationary effect. While the private sector saves a substantial proportion of its earnings -- in some years in excess of 30% -- Government tends to spend most of what it earns. Government's higher marginal propensity to spend as compared with the private sector means that the recent increase in Government's share of GDP is inflationary. Government should therefore not increase its spending as a proportion of GDP until current inflationary conditions abate.

Measures to contain government spending, at a time when the demand for services is increasing, should include the following:

- * Restraint on recruitment. Civil service numbers should rise by no more than the growth in the labour force. Staffing levels should be rigorously reviewed. At the same time, greater flexibility is needed in allocating staff between different departments to meet changing workloads.

- * The system of setting civil service pay by reference to private sector pay of previous year should be abolished. Where pay settlements are on a declining trend this has an inflationary effect on expectations.

- * The Audit Commission should be strengthened and a proper system of cost accounting introduced to ensure that value for money is being obtained.

* An Independent Commission should be set up to consider what activities currently undertaken by Government could be performed more efficiently by the private sector. This should not result in higher charges to the public but to better value for money being obtained.

* The pricing of government contracts with allowance for inflation should be reviewed. Fixed price contracts or some sharing of cost increases by the contractor should be considered. This measure is important in view of the massive infrastructure spending planned for the 1990s.

The pricing of utilities

The pricing of utilities, public transport and other services provided by Government or under government schemes of control should be reviewed.

The present schemes of control are frequently inefficient in that they guarantee the company providing the service a certain rate of return after deduction of its costs. The company therefore has no incentive to control its costs as it knows very well that it may pass these costs on to the consumer. This system is both inflationary and inefficient.

A preferable system would be to fix the permitted price increase each year, say, at the rate of inflation minus a certain factor. This is the system followed in the United Kingdom. Alternatively, the current rate of return regime could be maintained but with the rate of return being calculated before, rather than after, deduction of the utility's costs. A higher rate of return would obviously be needed than under the present system.

Both of the above methods would result in lower prices for the consumer. The more efficient utility companies could also make higher profits, despite the lower prices.

Productivity improvements

Ultimately, the only answer to the labour shortage is improvement in productivity. This requires investment which business is to some extent reluctant to make in Hong Kong's current circumstances. However improvements in productivity are also possible through retraining and reallocation of workers from less to more productive

occupations. There is scope for Government to do more to encourage employers to upgrade training programmes and to educate the working population as to opportunities available in growing sectors of the economy.

Government is currently expanding the education sector. More attention is needed here as the education level of the Hong Kong workforce lags behind that of several of our regional competitors.

Sir, we think these measures will set the lead by the Government for the private sector and help break the spiral of inflationary expectations, and help lull the frustration of the public.

Sir, while I respect the Honourable Martin LEE on taking a lead by curbing inflation through tightening his belt and not his purse string, I have to remind Members of this Council that we are facing spiralling inflation which we need to curb as a matter of urgency. Mr LEE's suggestion in implementing a vigorous science and technology approach to attract investment and increase productivity only helps in the long-term future. Alas, water from afar cannot extinguish the fire in front of us. His other amendments are but some suggestions for Government to curb inflation that most Members of this Council have already proposed.

With these remarks, I support the Honourable LAU Wah-sum's motion.

MR TAM (in Cantonese): Sir, inflation has become an intolerable problem these days. The Consumer Price Indices A for April has gone up by about 14%, a record high over the past decade. On top of the economic hardship and rocketing prices, runaway inflation has posed a heavy burden on the general public. As a matter of fact, the soaring inflation rate has lowered the standard of living of the Hong Kong people. It has also caused widespread anxieties and affected our social stability. Therefore the Government must take effective actions to curb inflation before the situation deteriorates.

There are views that wage increase and labour shortage have fuelled inflation. This, in fact, is tantamount to putting the blame on the general public. Such views are unreasonable and unfair. They definitely cannot offer an effective solution to the problem of inflation.

The economic success of Hong Kong, to a large extent, attributes to our hardworking labour force. Unfortunately, local workers cannot share the fruits of economic prosperity and their rights are not duly respected. They do not have the right to bargain collectively with employers. Their wages and benefits are unilaterally decided and controlled by the latter. Whenever there are economic difficulties, workers are always the first to be sacrificed. As a matter of fact, for the past 10 years, wage increases have often lagged behind gross domestic product (GDP) growth. Last year, our GDP growth rate was 2.8% while wage increase in real terms in various sectors was only 2.5%. In 1988, the growth rate of GDP and wage of workers were 5.5% and 2.4% respectively. Obviously, wage increases for local workers cannot catch up with the GDP growth and their wages have been deliberately suppressed. As wage increase has been trailing behind GDP growth, how can we say that it is the major cause for inflation?

There are argument that labour shortage has caused price spiral and fuelled inflation. Therefore foreign workers should be imported to curb wage increase and hence inflation. I am doubtful of the validity of such view. First of all, is our labour supply really that strained? The unemployment rate has risen from 1.8% to 2.1% while underemployment rate has also gone up from 1.5% to 2.1%. This shows that in face of economic downturn, more and more local workers will be jobless or underemployed and the demand on local labour market has loosen up. Besides, is Hong Kong really short of manpower in all sectors? Earlier this year, the Government invited application for the importation of 12 600 foreign workers. Despite the fact that the deadline for application has been repeatedly extended, only about 10 400 applications were received by end of April and more than 2 000 places in the quota remained unclaimed. This indicates that Hong Kong is in fact not so desperately in need of foreign labour. Besides, many employers withdrew their applications when they learned that the median wages set by the Government for foreign workers was higher than expected. Therefore, I believe that employers request the importation of foreign workers not because they are short of manpower but because they hope to have cheap labour. This poses a threat to local workers who may be dismissed or underemployed because of the influx of foreign workers. Judging from the complaint cases received by the trade unions recently, their worries are not unfounded. In face of rocketing prices, workers are already under economic strain. They will be driven to a state of despair when their livelihood is threatened by the importation of foreign workers.

I am puzzled as to why the Government asks the workers alone to bear the

consequence of inflation when it is aware that inflation has such a serious impact on the livelihood of our citizens and the economic development of Hong Kong. The Government has drastically increased indirect taxes and other fees and allow public utility companies to raise their charges by a rate higher than our inflation rate even though these companies are making hefty profits all the time. For example, the two bus companies were allowed to raise their fares by about 20% while the MTR, LRT and KCRC also increase their charges. It is most ironic that according to statistics, inflation rate for April reached 13.9% mainly because there were increases in tobacco duty and public transport expenses. The Government is self-contradictory as it claims to curb inflation on one hand and takes the lead in fuelling inflation on the other.

If the Government imposes the task of fighting inflation on the general public, asking them to make sacrifice and yet at the same time drastically increases taxes and allows public utilities to reap huge profits, the problem of inflation cannot be solved. Instead, it will jeopardize the relationship between the Administration and the public. The latter will increasingly distrust the Government, considering it a champion to the rich but a robber to the poor. This will eventually lead to social discontent and make the administration of the Government much more difficult.

We should be aware that the ultimate aim of curbing inflation is to protect the livelihood of the people. It will be like putting the cart before the horse if we have to fight inflation at the expense of the living standard of the public.

Therefore, I urge the Government not to solve the problem of inflation by suppressing the wage of workers and importing foreign labour. I suggest the Government should immediately review its tax policy and step up monitoring measures on the profit of public utility companies. Only in this way can it effectively curb inflation on the major premise of protecting the livelihood of the people.

Sir, I see no conflict between Mr LAU Wah-sum's motion and Mr Martin LEE's amendment motion. Basically I support both of them but would be deeply disappointed if today's debate were to be taken as an excuse for further importation of labour. The ensuing social unrest and strong reactions from the labour sector, if any, will entirely be the responsibility of the Government.

MR LAU WONG-FAT (in Cantonese): Sir, to curb inflation in Hong Kong has become a task

which necessitates immediate attention indeed. The Consume Price Index (A) published last week sets a new record of the highest rate of increase for the past decade. It clearly indicates the seriousness of inflation. Unless we can take effective counter-measures rapidly, the Hong Kong society as a whole will be given a heavy blow whether in terms of people's livelihood or the competitiveness of Hong Kong products and its investment attractiveness. Moreover, if inflation cannot be contained in a lower level, it will bring more adverse factors to the new airport project. This will not only increase the construction cost of the new airport, but will also make the project fuel the high inflation rate and aggravate the problem.

There is a variety of factors that leads to serious inflation in Hong Kong. But obviously, the Government has to shoulder some responsibilities. At least it is not sensitive enough. Instead of addressing to the problem seriously at an early stage and formulating counter-measures, it has fuelled inflation by making hefty increases in a number of indirect taxes.

Early this month, some practical actions were taken to ease inflation. For example, the original 200% increase in tobacco duty is cut by half and the interest rate is increased by 1%. These measures by Government give people an impression that they are latecomers in bad shape. Besides, their effectiveness is questionable. Yet the intention of fighting inflation warrants a welcome. The inflationary spiral will have extensive and far-reaching implications on the society. It is the public enemy number one indeed. In order to fight inflation effectively, the Government has to take a firm lead to implement some effective approaches while the private sector as well as the wage earners at large have to give their support and co-operation.

As many of my colleagues have pointed out, the control of public expenditure is the urgent task for the Government. Over the years Hong Kong has basically adopted a balance or even surplus budget in its fiscal policy. Because of this, the expenditure of the public sector continues to grow by a large percentage. This will lead to a rather substantial increase in taxes and charges. An increase in taxes and charges will in turn accelerate inflation. Since the Hong Kong Government continues the linked exchange system, it will not have much room to utilize interest rate to combat inflation. By contrast, to control the expenditure of the public sector is more handy. It is also the right approach which will have a certain effect on curbing inflation.

The control over public expenditure has to be supported with a efficient civil

service framework and operation, otherwise it will be difficult to ensure the availability of quality services for the public. In this respect, efforts should be doubled to make government departments more modest and efficient in order to meet the needs of the society.

Sir, the private sector was urged earlier on to give careful consideration to wage increase in order not to stimulate inflation. It is undoubtedly a timely advice. Being the biggest employer in Hong Kong, however, the Government should set a good example by taking similar cautious and responsible attitude when formulating pay rise for the Civil Service. I consider the pay rise for the Civil Service announced yesterday as reasonable.

The Government should also take a closer examination of the application for fare increase by public utilities companies. The Legislative Council needs to step up monitoring of these institutions, particularly in urging them to increase financial transparency.

Moreover, I think that the present practice of giving adequate safeguard to the permitted return of franchised institutions under all circumstances has to be reviewed. When Hong Kong is in prosperity, there is no cause for much criticism if franchised companies demand that their permitted return should be fully met. But in adversity or when under such circumstance as the present high inflation, they should be contented with a relatively low return. This is more impartial to the public at large as well as the society as a whole.

Sir, the Government should be able to take measures, administrative or otherwise, to effectively curb inflation. After careful study of the motion and amendment motion, I consider the motion by Mr LAU Wah-sum, which imports a wider and more comprehensive perspective, to be more acceptable.

Sir, with these remarks, I support the motion by the Honourable LAU Wah-sum.

MR ANDREW WONG (in Cantonese): Sir, in the meeting of this Council on 22 May, I said that the debate on the motion of the Honourable LEUNG Wai-tung and the amendment of the Honourable Kingsley SIT Ho-yin would have been most suitably conducted by way of an adjournment debate. The motion debate today would also be most suitable as an adjournment debate, and even more suitable as an adjournment debate on urgent and

important public affairs without time limit under Standing Order 9(2) and (3). This is because everyone considers this matter very important, and also very urgent.

Sir, I like the latter part of the amendment of the Honourable Martin LEE, that is "and, further, urges all sectors of the community to come together with a unity of purpose to combat the rising inflationary spiral", but I do not like the first part of his amendment, that is "..... which would include the following: (a)..... (not quoted); (b) (not quoted); (c) (not quoted); (d) (not quoted)." I had once considered invoking Standing Order 21 and requesting you, Sir, to exempt me from giving advance notice, and allow me to move another amendment to the amendment of Mr Martin LEE, that is, an amendment to an amendment, to delete the words in the first part of his amendment which I referred to just now.

Sir and Honourable Members, please do not be scared. I have now decided not to make this request. The debates before this Council, in particular today's debate, have been inflating the sitting time and I have no intention to be the chief culprit to inflate the time further. However, since I originally had the intention to move an amendment, I naturally cannot support the amendment of Mr Martin LEE. Of course, I could have supported the motion of the Honourable LAU Wah-sum and abstained from voting on the amendment of Mr Martin LEE. However, this is inconsistent with my usual style of "saying yes to what is right, and no to what is wrong". Therefore, I am now speaking to oppose Mr Martin LEE's amendment.

Sir, I have just said that I like the latter part of Mr Martin LEE's amendment. If I have not misunderstood him, he seemed to be saying that it would not be sufficient to rely on the public sector alone, but it would also need to rely on the co-operation of the private sector. Furthermore, it would not be sufficient to rely on the co-operation of the public and the private sectors alone, but also on the efforts of individual residents. I fully agree with this point. In his speech, the Honourable CHUNG Pui-lam also mentioned this point, while the Honourable Edward HO Sing-tin also dealt with this point thoroughly. I think if the problem of inflation is really to be solved, it will require every one (at least the absolute majority), through the so-called public learning or social learning, to be able to know that when inflation runs high his own economic behaviour and economic activities should be counter-inflationary. He must distinguish clearly what need is, and what greed is. He must not speculate in property, nor follow the trend. It would be effective only if everyone tightens his belt, by four inches as Mr Martin LEE said. This statement seems very ideal, but in fact what the Government could do is to adopt

counter-cyclical or anti-cyclical measures. According to two most distinguished economists, John Maynard KEYNES and Milton FRIEDMAN, what the Government could do is to cut back on one thing or another in time of high inflation. KEYNES suggested cutting back on public expenditure, while FRIEDMAN proposed to cut back on money supply. But in time of economic depression and recession the above practices should be reversed. KEYNES suggested increasing public expenditure and FRIEDMAN proposed to increase money supply. Such practices might look like "drinking poison to quench the thirst", and whether there is already some stagflation now, one cannot tell. The nice part of Mr Martin LEE's amendment could perhaps be put like this "It is everyone's duty to combat inflation".

Sir, I have also said just now that I do not like the first part of Mr Martin LEE's amendment. The words he used are "..... which would include the following:" and then followed by items (a), (b), (c) and (d). Such items are not exhaustive, and more could have been added. Sir, however, just as the Honourable CHENG Hon-kwan said, expert opinions were divided. Is the problem of inflation cyclical, or structural as the Honourable David LI Kwok-po said? Or it is related to problems of money supply, public expenditure, interest rates, wages, high taxes, rising prices, and so on? Perhaps at the end of the day, it is the problem of the linked rate of exchange as suggested by Mr LAM Hang-chi of the Hong Kong Economic Journal. Many Honourable Members have already touched upon the problems. The experts have become even more divided than us non-experts. The analysis of the experts is right to the point, but to us non-experts, it diffuses into all kinds and shapes of anti-inflationary proposals in the style of "the fairies strewing flower petals".

Sir, although I do not intend to move any amendment, there is no guarantee that Honourable Members in their subsequent speeches will not move other amendments, by adding to Mr Martin LEE's four items of (a), (b), (c) and (d), another four items of (e), (f), (g) and (h), also four or eight more items of (i), (j), (k), (l), or (m), (n), (o), (p) and so on ad infinitum.

Sir, I trust you must have savoured "chop suey" in the United Kingdom, which is delicious indeed. But its origin could be just cold rice and left-overs, which were fried or mixed into one dish, somewhat like the "signboard rice" or "signboard fried noodles" of some Hong Kong eating establishments. But, Sir, mixing good-tasting foods together does not necessarily produce good results. Sir, I trust that you have never tasted, either in the United Kingdom or in Hong Kong, dog meat. The so-called dog meat is quite delicious, as the saying goes "when dog meat is boiled, even the

fairy could not hold steady". But, of course, we have to counter the heat and to lower the temperature. The temperature today is very high, and green bean soup is capable of countering the heat, being so cool it may lower the temperature. However, according to a folk saying of Guangdong, "to drink green bean soup after eating dog meat" would result in death through inflation (die of inflation of the stomach). We must not by any means administer medicine which would inflate Hong Kong into death.

Sir, I regret very much that the amendment of Mr Martin LEE contains the words in the first part which I cannot accept, and for this reason I object to the present amendment. I hope we shall all heed the meaning which is really in Mr Martin LEE's mind, and that is the message "It is everyone's duty to combat inflation". Let us make an effort to put it into practice.

MR ARCULLI: Sir, it is always a hard act to follow my honourable friend, Mr Andrew WONG. I shall be just dull and boring.

I will deal firstly with the amendment proposed by the Honourable Martin LEE although I must confess that I find some difficulty in following his general purport. It sets out in some detail some of the areas which he feels the Government must tackle in order to counter inflation. Secondly he uses wonderfully emotive words like "immediately", "active", "vigorous", "regressive" and "excessive". These words, in my view, simply add to the difficulty of supporting his amendment. If we are to persuade the Administration to take the lead and the community to join in the fight against inflation it is only sensible to support the Honourable LAU Wah-sum's motion rather than to deal with specifics as set out in the amendment. I say this because those who favour a fight against inflation can be at liberty to set out whatever measures they prefer rather than to have to vote against the amendment should they disagree with any one of the four measures that Honourable Martin LEE has set out. Members of this Council are aware that I do not agree with the fourth measure set out in the amendment, namely, that the Government should exercise control over excessive speculation in housing prices. So I will not dwell on it except to ask the Honourable Martin LEE two questions: first, whether he wants the Government to change its open and free market economy policy, for that will in effect be the result; second, what his answer is to the statistics quoted by two international estate agencies when they put the price increase in property for the first quarter this year in Hong Kong at between 5% and 9%. As I do not believe in such a policy change, nothing that my colleagues who support the amendment have said here has persuaded me that

this suggestion will work.

The second point concerns his vigorous science and technology policy. I do not understand how this relates to our present high inflation rate. Perhaps in the future this may bring about a change in our economy by having an industrial and manufacturing mix different from that which exists today. However, our problem is now not just in the distant future.

As regards his references to indirect taxes, the Honourable Martin LEE seems to feel that the solution lies in increasing corporate tax whilst reducing indirect taxes. Yet he also called for the business sector to exercise restraint when it comes to wage increases. What an admirable solution to compensate the employer for paying more taxes by reducing his overheads. I will have to work out the ramifications of this suggestion but in the meanwhile I find I am unable to support the amendment.

Sir, I will now turn to deal briefly with the original motion. I venture to suggest that a variety of factors have brought about the current inflation rate. One may well be that our past economic success is catching up with us; another could be that our economy has not yet been able to adjust to the fundamental structural change that has taken place in our manufacturing, industrial and service sectors. We may well be at fault for not anticipating these and other factors or we may even be guilty of a pious hope that if we ignored them long enough they would disappear. Well, they have not and we have to deal with them but in a calm and rational way. We do not want the cure to be worse than the disease.

My honourable colleagues have put forward a variety of reasons for our present predicament as well as measures that could help reduce our current inflation rate. I agree with some of them and I disagree with others. For my part I believe we should consider measures that will take some of the purchasing power out of the market. The message to our community is simple: save more and spend less. The issuing of bonds by the Government not only in large denominations but in amounts that the man in the street and small businesses can buy could be helpful. Sir, in the short term we can fiddle here and there but what we need is not just a short-term solution; we need a long-term strategy.

This will not be simple but we must try to develop such a strategy. The problem, Sir, is further complicated by our economic interdependence with our neighbours in China, particularly in the Pearl River Delta.

However, short-term measures would be needed but we need to be careful not to do the wrong thing or to send the wrong message as this can also be quite damaging. From the comments I have heard and indeed from my own understanding of the situation, the recent 1% increase in our prime rate may be such an example. We know we cannot maintain too large an interest rate differential between the Hong Kong and US dollars without putting some strain on the peg. The question is no longer whether we have the tools to reduce our present high inflation rate. The question is: do we have the resolve?

Sir, with these remarks, I support the Honourable LAU Wah-sum's motion.

MR BARROW: Sir, I welcome the initiative of the Honourable LAU Wah-sum in proposing this debate. I endorse most of his remarks including his concerns about the effects of inflation on the tourism industry.

Let me comment on one action which should not be taken. Some have suggested a change to the US dollar link, possibly through a currency basket mechanism. Clearly the link does limit the Government's ability to conduct an independent monetary policy, but for the past eight years the link has provided a bedrock of stability against political and economic uncertainties. What Hong Kong needs most at the moment is predictability and this is well supported through the current system. If the rate was now moved, Hong Kong would inevitably be subject to speculative attacks on the currency everytime there were changing economic or political circumstances.

Local inflation has continued to rise much faster than export prices and retained import prices have risen only marginally -- evidence that inflation is domestically-driven.

I will cover the immediate priorities in a moment, but first let me refer to the medium-term actions which continue to need to be part of government policy:

Firstly, increases in fees and charges should only reflect genuine costs of genuine services. Although we must avoid the danger of the Government subsidizing the provision of services, we can avoid this only if we can increase productivity so that the same service can be provided at real cost. Increased efficiency resulting in the need for only modest price increases will set the right example for the

utilities and others.

Secondly, overall government expenditure must be contained so that it grows no faster than GDP and that it matches revenue. This is, of course, a tall order in the light of infrastructure development plans, but on the latter, for example, perhaps the Government can be more cost effective in implementation through contracting out services.

This leads again to the issue of efficiency, or "supply-side" economics related to productivity, de-regulation, and the elimination of bottlenecks. This was a central issue in my policy debate speech last October, when I made a number of specific proposals related to government efficiency and the elimination of red tape. I urge the Government to treat the campaign against bureaucracy as a major priority.

Thirdly, the growth rate of the Civil Service should be lower than the growth in the total labour force.

And lastly, the Financial Secretary-designate should leave the wholesale tax in the difficult basket which he will inherit from his predecessor. Nothing would do more harm to the tourism industry than such a tax, quite aside from the overall inflationary effect.

Let me turn now to the immediate priorities for tackling inflation. They are, Sir, labour supply and pay increases.

I have mentioned that imported inflation is not the reason for the current predicament and one can only conclude that it is primarily the result of salary and benefit costs which have far exceeded inflation in recent years. I say "salary and benefit costs" rather than "wages" as the latter often does not take into account the full costs to an employer and may understate the annual increase in costs. The Government was alerted to the problems of labour shortage four years ago, but it is really only in the past year that any resolute action has been taken to improve the situation.

We must, of course, continue to protect the position of local workers. Both you, Sir, and the Financial Secretary have said there should be no indiscriminate importation of unskilled labour. However, we do need continued flexibility, particularly in the service sector where shortages continue. It must be remembered

that the very people who gained from high wage increases a short time ago are now the ones suffering, along with everybody else, from the high rate of inflation. We must remember that maintaining growth in the economy, which can only be achieved with a reasonable supply of labour, will bring benefits to all including those who feel they may suffer from a policy that recognizes this.

Nobody is suggesting that this is a long-term solution, which must be related to productivity and efficiency improvements. Nevertheless further flexibility and non-bureaucratic procedures will continue to be essential ingredients of action to be taken in the short term.

Our labour importation schemes have worked well. Of course there have been a few hiccups and delays in implementation but the conduct of the private sector has generally been responsible. If there are any malpractices they should be firmly stamped on by the Labour Department, and I would urge the private sector to be conscientious in their approach to the employment of imported labour. Despite the slowdown in the economy the shortages are likely to continue. We have a service economy which in many areas is necessarily labour intensive. A high rate of emigration, a low birth rate and a lower labour participation rate, together with the structural changes in our economy, all indicate that the problem will persist.

The other issue which has been addressed by many Members is the civil service pay award. I am surprised that in the media reports this morning there was hardly any mention of the fact that almost 60% of those on the Master Pay Scale receive a 4% to 5% increment on top of the 10.43%. I urge the Government to re-examine the basis of calculating the increases and to present the total picture to the public.

Another element of policy which needs review is the inflexibility of the pay structure itself. Instead of treating the Civil Service as one monolithic body, a more market-driven approach for different sectors should be considered.

Sir, some civil servants may feel that "civil servant bashing" has become a popular sport in this Council. Therefore, let me place on record my admiration for the hard work and dedication of the Hong Kong Civil Service. Although I speak frequently about bureaucratic red tape, I am happy to acknowledge that we suffer less in this respect than in many other parts of the world; let us aim to preserve our pre-eminence.

Sir, also as a member of the Standing Committee on the Disciplined Services, I must also pay tribute to the professionalism and commitment of those services.

Although private sector attempts to hold down wage increases in the past six months have met with some modest success, there is no doubt that it is leadership by the Government which will really bring the dividends in terms of future increases in the private sector.

Sir, in conclusion, these specific actions may appear to be a bitter pill for both the Civil Service and those who are worried about the importation of labour. Nevertheless they are essential ingredients of immediate actions that must be taken. Hopefully, there can be understanding of these priorities at a time when we must be building the Hong Kong economy, building the confidence of not only the people of Hong Kong but foreign investors and others who will ensure the strength of our economy into the next century.

Regarding Mr Martin LEE's amended motion, I find that some of his specific proposals are likely to encourage over-regulation and another bundle of new legislation of which we have more than enough at present. Sir, I therefore support Mr LAU Wah-sum's original motion.

8.06 pm

HIS EXCELLENCY THE PRESIDENT: I still have the names of 12 Members who wish to speak on the amendment and two Members who wish to speak on the main motion. Members might like to take a short break at this point. I gather for those who are unable to eat out, there is food available in the building. I suggest we break for a relatively short period of time so that we can also conclude relatively early.

8.34 pm

HIS EXCELLENCY THE PRESIDENT: Council will resume. I hope Members will follow the principle that the longer the debate goes on, the shorter the speeches will become.

MR MICHAEL CHENG (in Cantonese): Sir, when I spoke in this year's Budget debate in March, I pointed out the Budget would further shoot up prices and spark off inflation.

I therefore voted against it. Later, on 15 May, I voted against the proposals in the amendment Bills in respect of a number of indirect taxes. My aim was to suppress the increase in indirect taxes and to curb inflation. However, this Government did not attach importance to such opinions. The rate of inflation has recently risen to 14%, which is the highest in 10 years.

Hong Kong is now facing an economic slowdown, but the Government is still introducing large increases in indirect taxes on such items as tobacco and alcohol, automobile and rates. I think this is one of the main factors leading to inflation. With this Government taking the lead in increasing taxes and prices, prices soar and people's spending power is being eroded. In the end the quality of life will plunge. People of the lower and middle income groups are most affected. As for those with low income, their livelihood will become all the more difficult in face of the double blow dealt by economic slowdown and high inflation. Rise in costs as a result of inflation will also strip gradually the competitive edge of the Hong Kong products and affect our economic development. The Government should consider reducing the rates of indirect taxes as a means to curb inflation.

Besides, by permitting a large number of public utilities companies to keep increasing their fares and charges, this Government is directly adding to the burden of the community at large and making their life even harder. They are now asking for stepped-up supervision of public services and a change of the profit control scheme. I think the Government should review the level of fees charged by various public utilities companies, improve their supervision and restrict the rates of increases in fees and charges with a set of more stringent standards.

In recent years, the growth rate of public expenditure has far surpassed our GDP growth. To curb inflation effectively, the Government must exercise strict control on public expenditure, avoid any waste of manpower or resources as far as possible and improve the efficiency of work and productivity of various departments. To achieve this, our current complicated work procedures should be simplified, cumbersome paper work reduced and bureaucratic red tape dropped. If we can remove such undesirable practices soon, public expenditure will be greatly reduced and the goal of cutting expenses will be reached.

Our current high inflation rate means that wage earners have to tighten their belts. If the Government resorts to suppression of wages as a means to solve inflation, or accede to the suggestion of some Councillors by freezing pay rises for

civil servants and subvented organizations for a year, wage earners will be further hard hit. The livelihood of the low income group will be most seriously affected. Suppression of wages will not affect too seriously the high income group, but for those with low income, high inflation and low wages will not only lower their quality of life, but also result in their incapability to make ends meet and pay for their basic necessities. While the Government is taking the lead in aggravating inflation, it is unfair to leave it to the low income people to deal with their problems resulting from inflation. Therefore, I think it is absolutely wrong to suppress wages or freeze pay rises. On the contrary, I hope the Government can adopt special measures to care for the low income people and help them tide over their hardship caused by inflation.

Although there is the belief that importing labour will help cut down inflation, we must note that labour shortage is not the only factor leading to our present high inflation rate. In fact, workers of the production and construction trades are now suffering from underemployment, and the total number of workers suffering from unemployment and inadequate work is already over 110 000. If the Government decides to further import labour, stronger dissatisfaction from the labour sector can be expected. Their disgruntlement may stir them into taking drastic actions, which will result in social unrest. Should this happen, we can foresee social unrest thrown straight into our laps before the problem of inflation is solved. This again will affect the stability of Hong Kong. What we have gained from the move cannot offset the loss we will suffer.

Sir, the continued high inflation has eroded the wealth of our society. The Government has in the past ignored the severity of inflation, so much so that the situation has worsened into general disgruntlement. I hope the Government will adopt timely and immediate measures that will not have adverse effects on the general public and at the same time will push down our inflation rate.

Sir, I am in support of Mr LAU's motion because it is worded to contain a variety of opinions on how to combat inflation. Although I agree with most of the suggestions made in the Honourable Martin LEE's motion for amendment and some of the contents of his motion coincide with what I have just said, I feel his motion is one that gives his personal views in detail on how to curb inflation and those of the party to which he belongs. Today, we will have more than 30 Members of this Council to speak on the issue. They will speak on their different stands and opinions. Does it mean that each and every Member has to propose an amendment just as what Mr LEE did? If we maintain and dwell on our own personal views, when will the meeting be adjourned?

To name a few, there are views in support of countering inflation by suppressing wages, importing labour, cutting down public expenditure, changing the link between the US dollar and HK dollar, and so on, but there are also others who object strongly to such measures or have other proposals. If we persist in our individual views and propose different amendments, this will go against the spirit of sincerity and co-operation towards the solution of the problem of inflation. In any case, Mr LEE's motion for amendment is far from comprehensive. He only gives the views of his own and those of his party, in which he is interested, and then seeks the endorsement from other people. It is not as comprehensive as the original motion by Mr LAU because the latter allows representatives from different circles to give their opinions. Sir, I support the original motion and will vote against the amendment.

MR DAVID CHEUNG: Sir, inflation savages everyone; it has become the major concern of us all. It cannot be allowed to continue unchecked; neither can we nor should we just pay lip service to the issue.

The entire Hong Kong will focus on this Council's debate this afternoon. I do not believe that quick solutions are easy to come by. Neither do I believe that Government and Government alone can solve the problem.

To tackle inflation, the entire community must put their efforts together, wholeheartedly and sincerely, and sacrificing when and where possible. Self-interest has no place in important issues like this one on which I would like to make a few comments.

First, Government must control public expenditure and freeze increases in various charges. The cut in public expenditure may cause some inconvenience to the public but it cannot be helped and everyone must tolerate. Individual citizens should also control their own spending. Hong Kong as a whole can afford to reduce the lavishness of its style of living and enter into greater frugality. This ties in with the decision of the Executive Council yesterday on civil servants' pay adjustment. While I accept in principle a 10.43% increase, I do not support that all get the same rate. In my view, the more senior civil servants should set an example by accepting a lower percentage increase of, say, 8%. The proposed 2% less will not hurt the senior staff in any significant sense but will be much more convincing and acceptable to both the junior civil servants and the public. To quote the Sunday editorial of the South China Morning Post on inflation, it said, "Good administration is about leadership which

means making sacrifices and setting examples in austerity."

Second, the private sector must also take positive steps to help Government combat the problem. For example, the business sector should review their profit margins and seriously consider lowering prices if at all possible. The public utility and public service companies should contribute their part by freezing further price increases. Neither should Government condone to any such requests. This will then be seen as a concerted effort of all sectors of the community to tackle inflation.

Third, I wonder whether it is time for Government to take a closer look at its policy on the linked exchange rate to see whether it is a contributory factor to inflation and, if so, to explore suitable measures to deal with the problem.

Finally, while higher interest rates and importation of labour may help reduce inflation to some extent, Sir, I do not think that such devices should be used frequently or relied upon too heavily in view of their impact on our economy and the local work force.

Let us all work together and do what we can, however small these contributions may be, to tackle and hopefully solve the problem of inflation.

Regarding the two motions, Sir, Mr LAU's motion is original and embraces a general and wider perspective of the issue while that of Mr LEE involves the technicality of tackling inflation. In Members' speeches, many of Mr LEE's points have already been incorporated. I therefore support Mr LAU's motion.

MR CHOW (in Cantonese): Sir, to say that "inflation is more ferocious than the tiger" will be the most appropriate description of the 13.9% inflation rate that has recently made its appearance in Hong Kong. According to the Consumer Price Index (A) for April, the rise in prices of tobacco and alcohol is the greatest, followed only by the rise in prices of clothing and transport items. The rises were respectively 6.7% and 4.5% over those for March. It is clear from these figures that the Government by sharply increasing the tobacco tax and permitting public transport companies, including the three railway companies and the bus companies, to raise their fares has caused immediately the adverse consequences of inflation.

Who is to blame for the worsening inflation? This is a question of concern to

the general public. We cannot but admit that the chief culprit for high inflation is none other than the "invisible hand" so often put up by the Government. The Government has all along adopted the policy of non-intervention towards the economy, the excuse being that it is an important factor leading to Hong Kong's economic prosperity. On the other hand, the Government, being deluded by the low inflation rates over the past few years, has unscrupulously engaged in the expansion of the public sector, thus making it become too cumbersome to be effective. As a result, it has sown the seed of an evil consequence -- the high inflation rate we have these days. The general public is made to bear the loss that is caused by the Government's improper administration.

From the early 1980s up to the end of the decade, a sharp rise in Hong Kong's labour productivity provided the material condition for mass consumption and high profits. At the same time, the public's "mass consumption" provided a market for the greatly increased products. Thus, Hong Kong's economy grew rapidly during this period.

Recently, the increasing difficulty for labour productivity to be raised further has widened the contradiction between the norm of production and that of consumption and has finally led to the so-called Fordism Crisis advocated by the regulatory school of economists. We are faced with two major economic crises in Hong Kong today, one being the difficulty of increasing the surplus value created by the continuous expansion of capital, and the other being the fact that, while the technological level required of by the world market is rising, a production slowdown and a situation of stagflation have resulted in Hong Kong from the lack of competitive edge of technology and technological development.

At the same time, the Government's failure to make any change at all in its taxation policy is also a chief culprit for stimulating inflation. For many years, under the pretext that raising the profit tax rate by one or two percentage points will affect investors' desire to invest in Hong Kong, the Government has often refused to increase the corporate profit tax. However, in order to meet public expenditure, the Government has no hesitation in shifting the burden on to the general public by greatly increasing indirect taxes. It appears that, by doing so, the Government is able to meet the expenditure for all the public and social services. However, from the viewpoint of the public, such a practice will only make the poor become poorer, and the rich richer. If the Government continues to adopt such a criterion for estimating revenue in its Budget for the coming year, I believe that the only result

will be greater social disorder, continuing economic slowdown, sustained high inflation and so forth. I therefore hope that the Government will take a proper view of the impact of indirect taxes on inflation. The only long-term cure for Hong Kong's inflation is to adjust the bearing of direct and indirect taxes on government expenditure and to conduct an overall review on Hong Kong's taxation system.

Sir, in your policy address last year, you promised that you would abate the scourge of inflation caused by rising prices. Do you, Sir, know that your promise has reminded me of the folk story entitled "Zhou Chu gets rid of three scourges"? According to the story, the greatest scourge, as Zhou Chu puts it, is none other than Zhou Chu himself. In other words, the Government itself is the chief culprit causing the scourge of inflation. This is because the great increase in indirect taxes by the Government is the main cause stimulating the rise in prices.

In addition, to the other public utilities companies applying for fare or charge increases, the Government always acts like Wong Tai Sin, the god who grants all requests by worshippers. Almost all requests for fare or charge increases have been approved. It is no exaggeration to call 1991 the year of price increases. The cost of transport, for instance, was 4.5% up, as shown in the Consumer Price Index for April. The reason for the rise is that all public transport companies applied for fare increases at different times early this year, with the rates of increase generally exceeding the rate of inflation. As a result, the public have to pay higher fares as their everyday expenses. This has directly accelerated the rate of inflation. In recent years, public transport companies' applications for fare increases have become their annual "routine work". The reason, if one wishes to search for it, is primarily that the Government has been indulgent to the public transport companies. This, together with the fact that the Government seldom rejects the fare increase applications by the three railway companies, has caused the situation to get out of control. If the Government still declines to exercise its supervisory power, all public utilities companies will keep applying for fare or charge increases every year on inadequate grounds, with only the excuse of maintaining their permitted profits. This will then stimulate all prices to rise. Although the Government has taken the step to gradually grant franchises to other public utilities companies in a bid to step up competition among themselves and improve the standard of services, this does not apply to the three railways companies in any way. The Kowloon-Canton Railway Corporation, for instance, made a net profit of \$624 million in 1990. It still applied for a fare rise. This makes people feel doubtful about the sincerity of the Government to supervise operation of public utilities companies

and its willingness to consider the impact of fare increases on prices.

In fact, the Government has been inconsistent in its way to deal with public utilities companies. On the one hand, it guarantees a 16% or 15% permitted profit for public transport companies. On the other, it considers that the 7% returns for the Water Supplies Department is reasonable and that to raise it to 15% will greatly affect the livelihood of people. As the Government considers the 7% returns reasonable for the Water Supplies Department, why then must it specify a 16% or 15% profit for the other public utilities companies? Is this a case of double standards on the part of the Government? If the Government continues to adhere to the profit control scheme, I believe that the fight against inflation will be none other than a bad cheque. Thus, the Government must step up its supervision on public utilities companies and review its virtually out-dated profit control scheme in a bid to contain inflation.

Opinions have been expressed that the civil service pay rise is the direct cause of inflation, and suggestions have consequently been made to freeze the civil service pay for one year in a bid to contain inflation. I think that such suggestions are in fact absolutely unfair to the 170 000 civil servants of Hong Kong. With the exception of 1990, the civil service pay rise has been in the region of 2.5% to 3.9% over the past few years. In addition, the civil service pay rise has been slightly less than that in the private sector for the past three years. To make the civil servants bear the brunt of the fight to contain inflation is really unfair to the majority of the civil servants receiving low pay. However, I think that, in order to demonstrate Government's determination and sincerity in fighting inflation, it will be more reasonable for the pay rise for directorate officers to be fixed at half of the rate of inflation or frozen for one year. As for officers below directorate level, their pay rise should be closely in line with the inflation rate. Such a move will help to show that the Government, as a responsible government, is determined to fight inflation, while at the same time a wave of industrial actions due to civil service discontent, which would exacerbate social unrest and contradiction, can be averted.

Sir, the Executive Council recommended yesterday a uniform 10.43% pay rise for this year in a bid to contain inflation. I do not agree to the arrangement, the reason being that it is very unfair to the low- and middle-level civil servants.

As far as susceptibility to inflationary pressure is concerned, the middle- and

low-level civil servants are in fact not much different from the general public. A 10.43% pay rise for directorate officers is a considerable amount. Where higher-level civil servants are concerned, the Government is gilding the lilies. However, where middle- and low-level civil servants are concerned, the Government is not helping those in dire need. So I think the Government should reconsider its civil service pay increase arrangement for this year. Instead of a uniform rate, the Government should adopt a "double standard" rate by lowering the adjustment for directorate officers so as to demonstrate its determination to fight inflation and its accountability to the majority of the middle- and low-level civil servants.

In addition, it has been suggested that the major cause of the current high inflation rate is the shortage of labour and the consequent pay rises and that, therefore, the amount of foreign labour to be imported must be greatly increased. Such an analysis is in fact nothing more than the Government's wishful thinking. The shortage of labour began in 1987-88. The Government at first hoped that the shortage of labour would be eased through the industrial transformation whereby machines are used in place of manual workers to increase productivity, and through the move of encouraging more housewives to join the production force. Unfortunately, before such an arrangement materialized, the Government acted in a hurry to ease the restriction for the importation of foreign labour, in order to cause a fait accompli situation in the hope that pay increases would be kept under control. However, if we look back at how foreign labour was imported during the past two years, we will find further proof that the government decision is untenable. Every time, after a quota for imported labour was approved, the Government was unable to receive enough applications before the deadline for applications. Though the Government gave various reasons in justification of the importation of foreign labour in terms of long-term impact on Hong Kong's economy, the manufacturers reacted with indifference. Is this not the best proof of the failure of the scheme?

Most recently, the Government once more associated the importation of foreign labour with the solution of the problem of inflation. I wonder what the Government is up to. Every time when the importation of foreign labour is relaxed, it takes the Government a great deal of efforts to fill the quota. This shows that the importation of foreign labour simply has no sure bearing on Hong Kong's manufacturing industries and its economy. Besides, to import foreign labour now not only will fail to ease the problem of labour shortage but also will worsen the plight of the workers who become unemployed as a result of the structural change. Why did Government not find a way out for the laid-off local workers, such as the ivory workers, the garment

workers and the skilled workers of the Telecommunications Company in the first instance instead of resorting to the importation of foreign labour? Would this not be a practice of putting the cart before the horse?

Therefore, at the present stage, the Government must stop the importation of foreign labour pending a review of the plan. It must identify those industries where the labour situation is tight and devise solutions, such as by helping the workers who have become unemployed as a result of the structural change to transfer to industries where labour is in great demand. In addition, the approved quota for the importation of foreign labour should be redistributed but not filled in an unwarranted manner at all cost. As everybody knows, Hong Kong's production industries are switching from manufacturing to service industries. However, applications for importing foreign labour can only be filed by the manufacturing and construction industries. The result of this is that the importation of foreign labour has not been able to solve the existing core problem. The Government should continue to train local people and improve conditions of service in an attempt to keep manufacturing workers from switching to the service industries. It must also speed up the research into industrial technology, to permit the use of machines in place of manual workers in work processes and to enable resources to be more effectively distributed.

As to whether or not pay increases will cause inflationary pressure, I think that this is just an undesirable consequence of Government's improper policy for dealing with the problem. If the Government had not greatly increased indirect taxes, had not indulgently permitted the public utilities companies to increase their fares and charges, and had not operated along the principle of "letting the users pay" or "letting those who have the means pay", the spendings of the public sector would not have risen so sharply. This can be shown by the fact that last year's personal spendings on consumption items increased by only 3%. Thus, in my final analysis, I think that the importation of foreign labour is definitely not an effective way of solving the problem of inflation. A wage freeze will cause a further reduction of the real income of the low-income group of the public, and it will not help in the fight against inflation.

In foreign countries, the most effective way of fighting inflation is naturally through adjustments to the fiscal policy or through the central bank's intervention in the interest rate and the money supply. It is a pity that Hong Kong does not have an institution similar in function to a central bank and has not strict rules governing the money supply. This, plus the hampering effect of the pegged exchange rate, limits

the freedom of the Government to solve the problem of inflation. Sir, changing the pegged exchange rate system by replacing it with one pegged to a basket of currencies is a move in response to the prevailing situation. This is because using interest rate alone to tighten the money supply is only a temporary expedient and cannot be a long-term strategy.

At present, because the difference between Hong Kong's prime lending rate, after being raised, and that of the United States is only 2%, the situation is not yet quite serious. Still, I believe that it is absolutely impossible for the Government to contain inflation by raising the interest rate in the near future. Raising the interest rate will bring about a massive influx of hot money, to the detriment of Hong Kong's economy.

In addition, raising the interest rate will have a negative effect. To some intending property buyers this will be the last straw. Although raising the interest rate may cool down the property market and stop the wave of speculation, it will naturally add to the burden of the low-income or sandwiched groups who have bought their homes with borrowed money.

Sir, pegging the Hong Kong dollar to a basket of currencies in place of the current pegged exchange rate system will not only reduce the impact of the US dollar on Hong Kong's economy but also strengthen the ties between Hong Kong and other countries which are its trading partners. Consequently, this will reduce the risk. Hong Kong now faces three ferocious tigers. The first is inflation. The second is the stalemate in the Sino-British talks in respect of the new airport. The third is whether China will continue to enjoy the most favoured nation status. The Government, of course, hopes that steadfastness will prevail over change. Although whether China will continue to enjoy the MFN status or not is beyond their control, the people of Hong Kong have done everything within their power and can now only quietly wait for the announcement to be made at the end of this week. Concerning the former two issues, namely, inflation and the construction of the new airport, the Government must not stand idly by. As long as the airport issue remains unsettled, investors will have no confidence in Hong Kong and the Hong Kong dollar will lack support. However, if the Government is to depoliticize the airport issue and disclose details of the talks to the people of Hong Kong, the latter will be able to act sooner to find a solution for the problem. Then the value of the Hong Kong dollar will not drop sharply when the pegged exchange rate system is replaced by the pegging to a basket of currencies, and the problem of imported inflation will naturally be solved with ease.

Concerning the control of money, because Hong Kong does not have an institution similar in function to a central bank for controlling Hong Kong's money supply, the Government has got no teeth to control inflation. Therefore, the Government may wish to consider establishing an office for monetary control and making the management of money the responsibility of individuals or groups who are without conflicts of interest. The Government may thus be able to restrain inflation through money supply -- to tighten the money supply when necessary. The control of the money supply applies not only specifically to the money in circulation but also generally to credit money. In this way, consumption will be controlled.

Sir, the Financial Secretary said openly the other day that there was really not much that the Government could do to fight inflation. I think that he was merely finding an excuse for the Government to shirk its responsibility! In recent years, the Government talked often about retrenchment, computerization and the enhancement of efficiency in government departments as ways of restraining public expenditure. The Government has issued a post-dated cheque, but one can only "hear the foot-steps without seeing anyone walking downstairs". The Budget proposals for this year shows that the increase in the overall public expenditure will still exceed the real growth of gross domestic product. This shows that the Government is simply unable to reduce the expenditure of its various departments and must raise its charges to make up for the deficit. If the Budget for the coming year is also drawn up in this manner, then inflation control will only be lip service. The Government must immediately take measures to reduce public spendings.

Sir, I hope that, over the issue of fighting inflation, the Government will not merely say that it is concerned, while failing to take concrete actions or putting the blame on the market economy. This will indeed be an irresponsible practice.

However, I do not agree that the problem of inflation is to be solved by piecemeal policy actions either. This is because doing so will bring about a policy that is neither comprehensive nor forward-looking. I suggest that the Government set up a working group expressly for the purpose of fighting inflation. It will have the overall responsibility of planning and recommending measures for fighting inflation. Only in so doing will the fight against inflation not degenerate into an empty quixotic dream of Members of this Council.

With these remarks, I support Mr Martin LEE's motion for amendment.

MRS LAM (in Cantonese): Sir, I am not only a Member of this Council, but also a housewife. I often go shopping at markets and supermarkets. Recently, every time when I go to the market, I find changes in the prices of household items such as foods, detergents, toilet paper, soft drinks, ice-creams, and so on. The prices are different every time. Sometimes, there are several price tags on a single item, each carrying a higher price than the previous ones. One cannot but believe that inflation is consumers' Number One Enemy and that getting rid of inflation is really Government's top priority.

Last week, this Council held a motion debate on stemming the tide of speculation in property. This week, we debate the control of inflation. The two debates are very closely related indeed.

Because of the high inflation rate, Hong Kong has for a long time been in an abnormal state of having in real terms a negative interest rate. The thriving activities of speculation in property, it is believed, have a lot to do with this negative interest rate. As a saying has it, "Inflation is more ferocious than the tiger." Nothing more needs to be said about the harm of inflation. To the man in the street, runaway inflation adds to the burden of livelihood. Although a person gets a pay rise, if the rise is less than the rate of inflation, he will have a decline in his real income. In times of hardship, this will result in social unrest. To an investor, inflation may cause his investment plan to go awry. To the economy as a whole, a sustained high inflation rate is bound to weaken the competitiveness of Hong Kong's exports. A negative interest rate in real terms does not only bring about an inflation of credits, but also encourages speculation, to the detriment of Hong Kong as a whole.

To deal with inflation, one must first recognize that the following causes are responsible for inflation in Hong Kong:

(1) Asset inflation is the first cause -- The value of property, which is an important component of the asset structure in Hong Kong, has been generally in an upward trend since 1984. The rise in property prices and expansion of bank credits have fueled each other thus widely affecting the mode of consumption and investment and keeping inflation at a high level.

(2) The sharp rise in indirect taxes is the second cause -- For instance, Hong

Kong's inflation rate in April this year was as high as 13.9%. The rise is closely associated with the Budget proposals which provide for a sharp rise in indirect taxes. In this connection, one cannot but say that the Financial Secretary's taking the initiative of cutting the increase in the tobacco tax by half is a good indication of Government's mindfulness of the people's feelings and its determination to contain inflation.

(3) The rise in public expenditure is the third cause -- The rate of growth of public expenditure is far above the rate of growth of gross domestic product. When construction of the new airport commences, the inflationary situation will worsen as a result of domestic demand.

(4) Pay rise is the fourth cause -- Hong Kong's economy has been growing for many years. The demand for labour resources has outstripped the supply. The labour market has become ever tighter. The pressure on wages has been increasing steadily. Although the rate of economic growth has now declined sharply, inflationary pressure remains.

(5) Imported inflation is the fifth cause -- During the second part of last year, the value of the US dollar declined by 15% against the Japanese yen. The value of the Hong Kong dollar declined correspondingly. Because the Japanese yen is the currency used by Hong Kong's largest import suppliers of everyday consumer items, there has been an effect of imported inflation on Hong Kong's economy. Although the US dollar has been on an upturn since the Gulf war, the effect of imported inflation has not yet been completely eliminated.

In view of the above causes of inflation in Hong Kong, some people have tried to link inflation to both the civil service pay rise and the pegged exchange rate. On those two suggestions, I have the following comments to make.

A survey on the pay trend in the private sector indicates that the index for this year's pay trend is about 12%. I think that most employees in the private sector have already had their pay adjusted. Because of this and of the fact that most prices and charges were raised in the period from March to May, it will be quite unreasonable to freeze the civil service pay rise alone at this time.

However, since the overriding objective is to fight inflation and protect Hong Kong's overall economic interests, I am in favour of keeping the civil service pay

rise this year within the rate of inflation so as not to worsen the inflationary situation. The 10.43% increase announced by the Secretary for the Civil Service yesterday is a reasonable one. The only comment that I wish to make is that, in my opinion, the percentages should be slightly different between the pay rises for high-pay and low-pay civil servants, so that the latter will not have to suffer a drop in their living standard when prices soar. In fact, if inflation continues to get worse, a nominal pay rise will not help. I think that people of all sectors of the community, including civil servants, should make some sacrifice in the interest of the community to fight inflation. For instance, Councillors should take the lead in proposing a freezing of their allowances.

Concerning the pegged exchange rate, this system can provide us with a high degree of monetary stability in case of any unknown destabilizing factors emerging or in case of any impact caused by events that occur outside Hong Kong. Implementation of the pegged exchange rate has shown that it did play an important role in Hong Kong when several events hit the community during the past. Undoubtedly, the overriding objective of Hong Kong's financial management continues to be the maintenance of the stability of the local currency under the pegged exchange rate system.

What are the ways, then, for containing inflation?

Last week, the Government decided to adopt the emergency measure of raising the interest rate to bring inflation down. It is generally thought that raising the interest rate by 1% will make the interest rates between Hong Kong and US banks differ by 2%, and that this will put pressure on the existing pegged exchange rate. I think that raising the interest rate is only a way of controlling the supply and demand of the Hong Kong dollar and, to a certain extent, can help keep more Hong Kong dollars in banks. Although this can cool down the property market and reduce credit and loans in the short run, it does not play a decisive role in the overall economic situation of Hong Kong in the long run. Also, among the causes of Hong Kong's inflation are domestic consumption and imported inflation. Therefore, unless the interest rate is raised to such a level that consumers feel that it is much to their advantage to save money, a rise in the interest rate will not have a significant real effect as a way of cooling down consumption and fighting inflation. On the contrary, I am concerned that raising the interest rate may in the short run cause an influx of hot money, which will buffet the pegged exchange rate, and, in the long run, hurt the small businesses and long-term investments, thus putting Hong Kong's economy in a lasting state of high inflation and low growth.

I wish to make the following proposals to contain inflation:

(1) Effective measures should be taken to stop property prices from rising sharply. Last week, this Council held a debate on this issue. Today, I do not want to repeat what I said. Stopping property prices from rising sharply is not only an effective way to fight inflation but also a means to protect the overall interests of the general public. In addition, there will be no need to sacrifice wage growth for employees of the private sector or civil servants.

(2) The Government should begin by controlling public expenditure and should at the same time freeze all increases in charges and taxes for at least 12 months, so as to set an example for others to follow. Besides, the Government should control the fare rises for public transport services, including the two bus companies, public light buses and taxis. The Kowloon-Canton Railway Corporation recently applied for a fare rise despite its having earned enough profits to pay a dividend of over \$100 million to the Government, and was subsequently granted approval. This is really contrary to Government's policy to contain inflation. Therefore, I suggest that the three railway companies take the lead in cutting their fares so as to keep in line with Government's policy to fight inflation. The rises in charges of the other public utilities companies, such as water, electricity, gas, rates and telephone, must also be controlled so as to avoid an acceleration of price increases.

(3) The Government should work hard to create an environment conducive to the training of manpower and investment in equipment. We must continuously improve the quality of our labour force and the degree of automation and mechanization in production, thus easing the pressure of labour shortage and slowing down pay rises.

(4) The existing interest agreement among local banks should be abolished. The interest agreement among banks was a measure taken during the 1960s to cope with the malicious competition among banks at the time. The measure has been in force for more than 20 years. Now is the time for a review. Because of the worsening inflation, the loans issued by the banking system have also been inflated rapidly. Clearly, the rate of growth of the demand for credit and loans has outstripped the rate of growth of the overall economy. Because of the interest agreement among banks, the individual banks are unable to cope with the problem of credit inflation by adopting appropriate interest policies of their own. The problem is that high inflation and evergrowing credit and loans are the cause and effect of each other. Abolishing the

interest agreement will enable the financial system to cope with inflation more flexibly.

Sir, I think that the problem of inflation, which is now in a very serious stage, must be solved soon, or it will lead to economic recession, social instability and hard times in Hong Kong. Because the causes of inflation are mixed, we cannot depend on any single policy or measure to solve the problem or successfully fight inflation. On the contrary, this must be done through the concerted efforts of all the people of Hong Kong. The Government should take the lead in combating inflation by controlling public expenditure. Private sector employers, too, must do their best to keep the demand for pay rises in check. For their part, employees should remain patient where the overriding objective is to fight inflation. Only through wholehearted co-operation among these three parties can inflation be fully fought and controlled and can Hong Kong return to the economic boom of low inflation and high growth of the past.

Sir, the Honourable LAU Wah-sum has moved a motion which urges the Government to take immediate steps to reduce the rate of inflation. He wants it to be brought down at once. Today, all my colleagues in this Council have shouted in chorus, "Fight inflation." The public, too, think that inflation has run wild to such a degree that it is hurting their livelihood. We have got no time to hesitate any longer. Thus, there is a need to take steps at once to bring inflation down. This is in line with what I have in mind. In contrast, the motion for amendment presented by the Honourable Martin LEE, though listing a number of points in detail, unfortunately has deleted the important words "at once" from Mr LAU's motion, which means that it does away with the spirit of taking actions at once. Mr LEE has replaced the spirit with the making of policies. This gives people a notion of something in the remote future. Therefore, with these remarks, I support Mr LAU's motion.

MR LAM (in Cantonese): Sir, at a time when the rate of inflation has reached its record high in 10 years, this Council's motion debate today on the problem of sustained high inflation with a view to finding measures to contain it is, indeed, an act of social responsibility.

Taxes have been increased, and so have charges. Before taking these steps, the Government had failed to take an overall look, to make a general plan or to consider the chain reaction. The inflation rate for April was as high as 13.9%. Only then

did the Government notice the seriousness of the problem. That was not timely. The interest rate increase, which took effect from Monday this week, is merely an example of "treating the head when the head aches, and treating the foot when the foot hurts". It is nowhere near prescribing the right medicine for the diagnosed disease. Surely, one cannot hope that the ailment will disappear as soon as the medicine is applied.

Sir, as a matter of fact, the loss of balance of Hong Kong's domestic economic structure, the sustained high inflation rate and the transformation of the economy are all at loggerheads with one another. Hong Kong's businessmen have transferred most of their work processes to China. The move northwards is mainly driven by the policy of high land price and high land rent. As a result, transport services have become the most prosperous industry in Hong Kong. The fares for transport services have naturally floated with the tides. During the period from 1987 to 1990, when the two bus companies applied for fare increases, their explanation was that 60% of the increase was to meet the pay increases. In the past three years, the inflation rate kept standing at a double-digit level. The Government wants to raise taxes and charges. Public utilities companies want to increase their fares and charges. All trades want to increase their prices. Everybody can cite a reason for such a chain reaction. Naturally, the blame falls on the Government.

Sir, the Housing Authority is a public body. It now wants to sell Home Ownership Scheme flats at prices that are linked to market prices, without paying any attention to its responsibility of social security. Government departments are characterized by overstaffing and overstructuring. As the saying goes, "The temple is small, but with numerous gods and goddesses inside." Public money is wasted and few people care. Habits that have been formed over the years cannot easily be kicked. The public suffers as a result.

The Government has too large a share of local productive resources. Investors naturally are not attracted. Also, because the Government has too large a share of local productive resources, public expenditure is bound to increase. It is easier to relax policies than to tighten them. Therefore, we are finding ourselves today in a situation where it is not only difficult to find ways of making money but also difficult to find ways of saving money. At present, the easier measure for containing inflation is to merge those government departments with similar work nature but with different policies, to step up their supervision, to improve efficiency, to stop the further expansion of the public sector, and to place more emphasis on saving money than on finding ways of making more money. The civil service pay rise should be

properly regulated. Adjustments of allowances payable to Councillors should be suspended for the time being. Everybody should be in the same boat during these hard times and strive together for social stability.

Sir, with these remarks, and in view of the appropriateness of Mr Martin LEE's motion for amendment, I support what he has moved.

MRS LAU (in Cantonese): Sir, the inflation rate, which has been on the increase for the past few years, is now posing a serious threat to the livelihood of the general public. It is undeniable that inflation has become the public enemy number one in Hong Kong and to curb inflation is the urgent task for the Government.

Inflation in Hong Kong arises out of excessive domestic demand and the public expenditure which has been accounting for a large proportion of the Gross Domestic Product over the years is a major cause of inflation. To curb inflation, the Government must make use of fiscal policies and take the lead to reduce public expenditure progressively. Though the Government has attempted to trim public expenditure gradually, it will find it easier said than done to make substantial reduction in the short run because of the over expansion in public expenditure in the past, especially in the area of some items like medical services, education, welfare and housing where reduction is limited indeed in terms of expenditure. Therefore, if the Government is to speedily and effectively reduce public expenditure, it cannot avoid starting with the pay of the Civil Service. Civil service pay accounts for as much as 60% of the overall recurrent public expenditure. To curb pay rise of the Civil Service will be the most effective means to contain the growth of public expenditure.

Sir, though I am of the view that the average pay rise for the Civil Service for this year should be less than 10%, the 10.43% increase approved yesterday by the Executive Council is still acceptable despite the fact that, in my view, it is still a bit on the high side. The proposed increase is less than the present rate of inflation by more than three percentage points but is, as a matter of fact, in line with the rise of the price index of last year. I understand that any drastic or marked decrease in the rate of pay rises may put some low income civil servants in a difficult position. But I believe the Administration need not have adopted a uniform rise. As the low income earners are more vulnerable to inflation, it will only be fair if their rate of pay increase is higher than that of their senior counterparts in the

Civil Service.

However, it is unfair indeed to ask the Civil Service alone to tighten their belts to fight against inflation. The Government needs to advise the private sector to co-operate and to adopt similar wage increase policy. As a matter of fact, while the Government often refers to the wage increases of the industrial and commercial sectors in considering the pay rise for the Civil Service, the private sector also bases its decision concerning wage increase on the inflation rate and civil service pay rise. Such bilateral reference has become a game of merry-go-round and has resulted in a vicious circle. For the past few years, pay rises for both the Civil Service and the private sector have gone beyond inflation rate and have been a major cause of inflation. In order to curb inflation, the Government and the private sector must take concerted actions to adjust the overall wage increase in Hong Kong to a level lower than the inflation rate.

Sir, although a tight control over pay rise can effectively stem inflation, the measure must be coupled with ways to curb price increase in order to achieve the expected result. As the inflation rate stands high, salary earners have already felt the increasing pressure in addition to a deteriorating standard of living. If the pay rise is below the inflation rate, people's livelihood will get even worse. Thus, in curbing pay rise, the Government and the private sector must also take corresponding action against price spiral. I am of the view that the Government should take the lead to freeze government fees and charges for at least one year. This can directly alleviate the economic burden of the public and ease their inflationary pressure on the one hand, and encourage the private sector to follow suit to maintain prices at a stable level on the other.

Sir, in these difficult times, the private sector should take up its own social responsibility. Adjustment on various fees and charges should base not only on profits but also on consideration of the implications on people's livelihood. However, the actual situation is that some merchants who are profiteering have taken advantage of the persistent high inflation rate and used it as an excuse to keep on adjusting prices of various goods. I believe that this is strongly felt by ordinary housewives who always find that prices of commodities have increased each time they go shopping in the supermarket. Are the prices of commodities really rise so frequently? In the face of such situation one cannot help wondering if there are people who take the opportunity to reap exorbitant profits. We must not forget that the private sector has enjoyed the fruit of economic growth in times of economic prosperity. In times of a economic downturn, they should have the responsibility

to work with the society in finding a solution to the economic difficulties.

For the private sector, public transport fares have significant implications on people's livelihood. Recently, the two bus companies are given a fare increase far exceeding inflation rate. As travel expenses are essential in the daily life of the public and public transport is a social service, consideration must be given to people's livelihood when a fare increase is made. The Government must also take into account the burden of the public at large when considering approving any increase in public transport fare. Though under the profit control scheme franchised bus companies are entitled to a permitted return, I believe that a permitted return is not tantamount to a guaranteed return and that it should only be regarded as a ceiling on the permitted return. As the inflation rate stands high and the economy is slowing down in this period, franchised bus companies should give consideration to the hardships of the people rather than persistently requesting that fare should be set in accordance with the permitted return. If the Government is willing to take the lead in freezing charges, any attempt to require a franchised bus company, upon application for fare increase, to keep the rate of increase at a level more acceptable to the public will be much more convincing. Though the Mass Transit Railway, the Kowloon-Canton Railway and the Light Rail Transit System are not monitored by the Government, their fares should not be formulated by merely looking at the so-called prudential commercial principles without regarding to the affordability of the general public. I believe that if the Government takes the lead to contain civil service pay rise and to freeze for a certain period of time any government charges, the three railway companies will appreciate its efforts and will take into account the livelihood of the public when fixing the new fares. I think that all fare increases for public transport should not be higher than the inflation rate, otherwise the vicious circle of inflation rate will continue. In my opinion, the Government should consider offering more opportunities for constructive competition in the provision of various transport methods. Given that there is competition, I am sure that those companies concerned will set their fares at more reasonable levels to appeal to passengers. Sir, I believe that only with the concerted efforts of the Government, the private sector, the Civil Service and the public can the problem of inflation that we are facing be effectively resolved.

Sir, another contributory cause to the high inflation rate in recent years is closely related to labour shortage in Hong Kong. I agree that in a suitable time in future, the Government should increase the importation of an adequate number of foreign labour in order to curb the hefty increase in wages. However, as there seems

to be signs of decrease in the demand for labour, it is not necessarily the right time to import more foreign labour. Nevertheless, the Government should closely monitor the situation and take actions accordingly.

Sir, inflation is more devastating than a tiger. If it cannot be effectively controlled, the public at large, especially those in the lower and middle strata, will be under the pressure of a lowering income in real terms and their life will be more difficult. In the long run, the competitiveness of Hong Kong with the world will definitely be undermined. This is a problem that we must address to. I call on the Government to take effective measures as soon as possible so as to contain inflation.

As to Mr Martin LEE's amendment motion, I do not consider the terms in which it is couched more forthright than those of the original motion. In fact, on the point of urgency, Mr LEE's amendment packs a lesser punch. Mr LAU Wah-sum in his motion urges the Government to take immediate steps as a matter of urgency to reduce the rate of inflation. Mr LEE, however, presses for an immediate formulation of policy programmes to counter inflation. But we must not forget that it takes time to implement policies even after formulation. The inflation we are now experiencing, however, is approaching crisis proportions. At present, immediate counter inflation measures are being called for. In this respect, Mr LAU's motion seems to be meeting a pressing need.

On the other hand, Mr LEE basically proposes to add to the original motion four measures which he considers specific in nature. Unfortunately, some of the terms he employs in the amendment are vague and ambiguous. What is "regressive" taxation? How are we to define excessive speculation? As a matter of fact, different people may have different interpretations of the terms especially when they are viewed from different angles. So even if the amendment is passed, the Administration will be at a loss as to what actions it should take to implement the proposals.

As to the regulation of charges for public transport and public utility services, I have mentioned that, in my view, charges for public transport, which is a service to the public, should not be set in such a way that the only consideration taken into account is the commercial principle. I believe that if the Government takes the lead in freezing charges, the companies concerned, under the encouragement of the Government and the pressure from the public, will no doubt give consideration to the people's livelihood when deciding on fare increases.

Sir, the free economy of Hong Kong is the key to its success. We should therefore be careful in order to avoid imposing arbitrary control of any kind. In the case of public transport, the Government's responsibility is to ensure that commuters will be provided with a service which is highly efficient and of good standard. At the same time, public transport operators must be guaranteed a fair and reasonable return. As to the supervision of public transport corporations which are not directly under the control of the Government, the question is in fact very complex as it may lead to a re-examination of our present transport policies. All along, it is our policy to allow public transport corporations to operate freely, without government subsidy or intervention, but based only on prudential commercial principles. It is evident that these corporations are running smoothly and the public have been provided with an efficient service. In these circumstances, should we change our transport policies in order to tighten supervision over these corporations including the control of fare rises? We must be careful in handling this matter. As a matter of fact, this has long before been a matter of concern to the OMELCO Transport Panel and is going to be a subject for discussion in a meeting on 12 June. I welcome Mr Martin LEE and all others who are interested to attend the meeting for discussion.

Sir, Mrs Selina CHOW is now in London but she has Hong Kong on her mind. She is very concerned about the implication of inflation on Hong Kong and has asked me to express her views on this issue on her behalf in this debate.

According to Mrs CHOW, the rate of inflation presently threatening Hong Kong is alarming. If something is not done quickly, it can lead to all kinds of undesirable social and economic consequences.

Mrs CHOW is of the view that inflation is a problem that requires all of Hong Kong to co-operate -- the Government, the private sector and all individuals. Government must take the lead. It must formulate policies to curb public expenditure. It must devise ways to weed out bureaucratic inefficiency. It must resolutely put a stop to the wage spiral. The pay trend survey has given rise to the vicious circle. Government claims it is led by the private sector through the findings of the survey, while private sector claims it faces difficulties in wage adjustments and staff retention as a result of levels set by Government. She believes an urgent examination of the pay trend survey is called for to establish a more acceptable reference for civil service pay.

Mrs CHOW understands that last year the Civil Service was awarded pay increases that averaged over 20%, if the new scales and increments are taken into consideration together with the pay review of 15%. She thinks that the Finance Committee of this Council should study the relevant figures with a view to assessing this year's proposals based on full information.

Sir, with these remarks, I support the Honourable LAU Wah-sum's motion.

MISS LEUNG (in Cantonese): Sir, as is well known to all, inflation in Hong Kong is running more and more rampant, with the rate of inflation rising incessantly. During the past few months, both the public and the Government have been deeply conscious that inflation has become our greatest enemy and also the most difficult to deal with.

To contain as soon as possible and furthermore to lower the rate of inflation have become the common aspiration of all trades and professions in Hong Kong. Therefore when the Honourable LAU Wah-sum proposed the motion debate on inflation today, there would surely be no controversy, which is quite different from the obviously controversial motion debate on speculative activities in pre-completed flats which I proposed last Wednesday. However the problems involved in the two motion debates are closely related to each other, and, to a certain extent, they interact as both cause and effect; speculation in pre-completed flats and property is the most important direct cause of inflation running more and more rampant in Hong Kong, which in turn encourages speculation in pre-completed flats and property.

Sir, in order to contain as soon as possible and furthermore to lower the rate of inflation, we must first identify the principal reasons which directly or indirectly cause inflation. Only in this way can we prescribe the right medicine for the disease.

Just as I mentioned when I proposed the motion debate on speculative activities in pre-completed flats last Wednesday, "In the past few months, especially in March and April this year, the speculative activities evidently became frenetic again. Thus, prices of the ordinary residential flats have shot up dramatically, rising by over 20%, far exceeding the affordability of the general public. This has aroused deep concern of and protests from the public." Basically, the reason why such activities of speculation heated up was because property development companies systematically and methodically created a speculative environment to induce

speculative buying and selling. The banks, in order to expand their housing mortgage business, indiscriminately relaxed credit. Property agency companies, even the triads, took the advantage and directly engaged in speculative activities, which fuelled speculative buying and selling, and yet the authorities concerned did not seem prepared to intervene.

Of course, the fact that Hong Kong's interest rates for a long time were lower than the rate of inflation was enough to encourage some people to take part actively in various so-called speculative, investment and consumer activities, particularly activities of speculating in pre-completed flats and property. Property development companies, banks, property agency companies and even the triads, which were selfish and only cared for profits, played the role of helping the wicked perpetuate wicked deeds, and stirred up trouble under the banner of free market economy. All these accelerated inflation.

The reason Hong Kong's interest rates have been lower than the rate of inflation for a long time is mainly the Government's insistence since 1983 on the linkage between the Hong Kong dollar and the US dollar. There is little doubt about this. The United States in recent years has maintained a low interest rate policy, and against other strong major currencies, the exchange rate of the US dollar has dropped substantially. Yet Hong Kong has remained in a state of high inflation all the time. Consequently, the system of linked exchange rate must have necessarily contributed to inflation in Hong Kong.

There are also quite a number of other reasons which contributed to inflation. Current public expenditure, including remuneration of the public sector, taxation and levying of fees, public transport charges, remunerations in the private sector and so on have been mounting in recent years, motivating the rapid rise of consumption. These are all the more conspicuous reasons.

Sir, inflation is an economic phenomenon, and also an economic problem which is very complicated and is difficult to solve. When considering measures to contain and furthermore to lower the rate of inflation, we must, apart from economic consideration, also include political and social considerations.

I believe that measures whereby the Government on its initiative takes direct and somewhat interventionist measures to contain, or even to lower, the rate of inflation are all acceptable. Although some people may think that the authorities

concerned should not intervene in the matter of inflation in any form and to any extent, and are convinced that the free market machinery of Hong Kong will make appropriate adjustments, I think that only timely and limited intervention by the Government will lead to success in the present capitalist social system.

Sir, in the past, the authorities concerned obviously did take some limited measures to curb the ever rising rate of inflation. Just in the past few days, the intervention by the Government clearly showed its determination to curb inflation which is running more and more rampant. Last Friday, the Hong Kong Association of Banks seemed to ignore market laws and announced that the prime rate and rates on all deposits would be raised by 1% from Monday. I earnestly hope that this is the first step taken by the authorities concerned in a series of systematic measures to contain, or even to lower, the rate of inflation and to suppress activities of speculation in pre-completed flats and property, but not a hasty, stopgap expedient. The Executive Council also decided yesterday that salary increases for civil servants this year would be 10.43% across the board.

Sir, I believe that the Government will certainly take more effective measures, for example a further rise in interest rates, and adopt the measures to suppress activities of speculation in pre-completed flats and property as mentioned by the Secretary for Planning, Environment and Lands last Wednesday when he responded to my motion on speculative activities in pre-completed flats.

As to the rather controversial question of linked rate of exchange, as the United States is bound to continue the low interest rate policy in order to stimulate her economic development, as a result, it is impossible for Hong Kong to adopt the means of higher interest rates to curb inflation. I think the authorities concerned should consider selecting two or three more strong currencies which have close relationship with the Hong Kong dollar, such as the Japanese Yen and the German Mark, and peg the Hong Kong dollar to them at a certain rate of exchange, so as to reduce the effects of imported inflation on Hong Kong.

In respect of salary increase for civil servants, as is well known, emoluments for civil servants take up a very substantial share of the recurrent expenditure of the public sector, and appropriate control of civil service pay would help control inflation. Apart from streamlining the establishment and raising the efficiency of civil servants, we should also properly control the growth of civil service pay. On the uniform increase of 10.43% for civil servants this year announced by the Executive

Council yesterday, I think it will be acceptable to the lower paid civil servants, but to the middle and senior civil servants, I think this will be too high in view of the current need to control inflation. Therefore, the latter should get a lower percentage rise. For officials in the directorate ranks or above, salary increase may even be limited to no higher than 5%.

On whether to support the motion or amendment motion before us today, I should say that I prefer the motion by the Honourable LAU Wah-sum. Mr LAU's motion "urges the Government to take immediate steps, as a matter of great urgency, to reduce the current rate of inflation". The amendment by the Honourable Martin LEE has deleted this sentence. As we all know, to fight inflation is a pressing matter of the moment, and we need immediate measures. The motion which we debate today must clearly show this point.

Members who spoke before me proposed many ways to combat inflation, more than the four points raised by Mr Martin LEE and yet not all quite the same. Those who supported Mr LEE must have implied that they at least accepted these four points in full, and that these four points were more important, or otherwise why should Mr LEE have singled them out? Furthermore, just as pointed out by those Members who spoke before me, the amendment by Mr Martin LEE narrowed down too much the scope of the counter measures, which could easily constrain the Government when it draws up the relevant policies.

I do not intend to discuss in detail the four measures to fight inflation listed in Mr Martin LEE's motion. I only wish to deal briefly with the method under item (a), that is, "implementing a vigorous science and technology policy that will stimulate investment and increase productivity." Some Members already indicated that this could not have an immediate effect in curbing inflation. Therefore, if one looks upon it as a counter measure which can produce immediate results, one will surely be disappointed. However, I like the last part of Mr Martin LEE's amendment, that is, "and, further, urge all sectors of the community to come together with a unity of purpose to combat the rising inflationary spiral". I would also make the same appeal here. I wish to point out further that my not supporting the amendment by Mr Martin LEE does not mean that I do not agree with the four measures listed in it. Yet, by and large, I am inclined to support the motion by Mr LAU Wah-sum.

I once again urge the Government to take immediate measures to lower the current rate of inflation.

MR MCGREGOR: Sir, there really must be a better way of debating important issues in this Council. We should either be restricted to less than 10 minutes each, or we should start at 10 o'clock in the morning or we should be able to table our speeches perhaps and speak for five minutes above them. After seven hours of debate and speeches, I feel quite deflated myself.

Much of what needs to be said about the problem of inflation in Hong Kong and the possible remedies has been said already by Councillors more competent than I to speak on the subject. I will therefore speak briefly on only a few points.

The first is that we must not become too alarmed at the problem of inflation itself. It is a problem to be dealt with sensibly, and as far as we can reasonably deal with it, with the mechanisms available to us, but it is not, I think, a problem of disastrous proportions, requiring immediate and radical changes in our economic, fiscal, monetary and administrative philosophy and policies. Ours is an economy which has its own in-built correctional mechanism for dealing with inflation. We have faced the problem many times in the past and our admirable economic system has adjusted readily over a period of time to reduce inflation to acceptable levels without serious structural damage. I believe that apart from imported inflation which is, generally speaking, outside our control, inflation created internally is largely due to our immense success in working with South China in terms of investment, production, and trade. Our economy has had to adjust to a situation of more than full employment for many years. Much of the pressure in the employment market has come from China-related business. For example, we employ over 700 000 industrial workers in Hong Kong. Yet we employ over two million industrial workers in China. Almost all the production of these two million workers is exported, most of it through Hong Kong. It does not need a genius to work out that there have been some major consequences of this huge change in the structure and operation of the Hong Kong economic system.

In the manufacturing field, the use of a very large number of Chinese workers in China at lower wages than those of their counterparts in Hong Kong has kept increases in industrial labour wages in Hong Kong at relatively unattractive levels. There has been little or no upward movement of wages in real terms in this sector of our economy, that is manufacturing, for several years. The result is that labour in this sector has tended to seek alternative employment. However, the construction industry for obvious reasons and the clothing industry for quota control reasons

cannot move out of Hong Kong and have had to compete for scarce labour. Wages in these two sectors have moved upwards much faster than in other industrial sectors.

In the services sector, there has been very substantial improvements in real wages for several years. Quite apart from the natural diversification which every industrial economy experiences at a certain point in its development, our Hong Kong service industries have been hugely encouraged by the Chinese related economic co-operation I mentioned earlier. So much so that we have had a persistent and substantial overall labour shortage for several years. The restriction on immigration of labour from China has exacerbated this position and will continue to do so. The demand for labour in Hong Kong has certainly created the conditions for wage related inflation in the service sector of our economy. That is one price we have had to pay for fast economic expansion and growth.

In such conditions, we have also seen considerable speculation, a normal characteristic of an expanding economy chasing desirable products which are in short supply. I can say with some confidence that speculation in the private property sector has been a marked feature of this particular market over a long long period of time. Once again, this is caused by demand far outstripping supply, a condition which is the result of economic and to some extent social success. The only real answer here would be to increase the supply but, once again, such a solution would have to contend with a labour shortage in the construction industry. For well defined reasons, the Government seems hardly likely to change its policy towards the immigration of labour from China, although I note that the Financial Secretary does appear to acknowledge that the restrictions on immigrant workers do encourage inflation.

I make the point again that most people in Hong Kong, that is most families, are enjoying in fact a real increase in earnings and take home pay every year. Inflation has not entirely removed this advantage because each year the real movement of wages has been at a faster pace than inflation, as measured by the Consumer Price Indices. Only in the last year has this equation begun to change towards a more balanced situation. I make the point in passing that savings in monetary terms have tended to attract interest rate close to inflation that results in real losses.

We have heard much about curbing public sector expenditure and in particular about increasing government efficiency and productivity whilst at the same time reducing in real terms government salaries and allowances. However we in this Council also

demand that the Government should expand its services, improve its care for the young, the handicapped, the unemployed and the aged, provide better schooling, more university places, more and better housing and so on and so forth.

We cannot really have it all ways. The Government is put in an impossible position. It can alienate its employees by restricting wage increases to below the inflation level, it can cut expenditure on various allegedly essential services and projects and it can apply a no growth public service policy. Sir John BREMRIGE did just that and Sir Piers JACOBS paid for it later. My point is that, whilst the Government is screwing itself down, the private sector is still competing for labour and still speculating as hard as it can go. Employers cannot or will not work together in a tight labour market and each will do what is necessary in the company's interest. Anybody who believes otherwise must be a little touched in my view. That means of course an inflationary wages trend.

There is no doubt that the tight labour market with resultant excessive wage settlements for scarce workers has contributed materially to inflation in recent years. Somehow the trend must be stopped or even reversed. The Government should give the lead in accepting that overall expenditure on salaries, incremental payments and other financial emoluments must be held down to a growth figure less than that of inflation. Within the overall cap on expenditure, the Government can adjust salaries and other payments as best it can. I am not suggesting a salaries freeze for one moment but simply that, if inflation is around, say, 14%, then overall government expenditure on salaries and allowances should not exceed, say, 10% growth. With this restriction, the lowest salaries could receive a higher percentage growth than the higher salaries. Many private sector companies operate on this basis.

What else can be done apart from moaning about government inefficiency, overmanning and overpayment? Not a lot, since I assume we are not going to adopt any form of private sector price or wage control, nor place any limitation on speculation in the property market, nor modify our present labour immigration policy, except perhaps in regard to the construction of our new airport, if and when it is ever approved.

Among our few options, what remains? Mr David LI's proposal remains; I think that we should examine constructively the question of changing the present Hong Kong dollar link to the US dollar to become a link with a basket of the world's leading, freely convertible currencies, the proportionate construction of the link to be

calculated on the basis of Hong Kong's established performance in the use of these currencies. I do not suggest for one moment that we should do it but we should examine whether it can be done and what the benefit would be. We placed our faith in the US dollar link at a crucial point in our economic and financial history. It has done all that we could have asked of it. But the US dollar itself, and the US economy from which it draws its strength has undergone severe structural pressure in recent years. Its rate against other major currencies has fluctuated substantially and, of course, the Hong Kong dollar has ridden along with it. So we have had to absorb some of the shocks caused by completely extraneous events far beyond our control or influence.

It would seem to me that we cannot take the risk of removing the link between the Hong Kong dollar and a major currency altogether. The US dollar has been rather volatile and somewhat unstable although I believe its inherent strength on a long-term basis is unassailable. I suggest therefore that the Financial Secretary should enter into a professional study of the merits and demerits of linking the Hong Kong dollar to a basket of currencies. He must have done so to some extent already, possibly using the government think tank. But why not seek a much wider professionally based opinion and advice before reaching a conclusion.

The Hong Kong Bank's Chief Economist Allan McLEAN recently suggested that our problem of inflation will be substantially reduced by this time next year without drastic measures being taken. I agree with him and commend to you the old saying "The darkest hour is the one before the dawn." And the way we are going at the moment, the dawn will be here quite soon.

Above all, good people, do not panic. The ship is sound and the captain is on the bridge. The storm will soon be over.

Sir, although I agree that there is much of substance in the Honourable Martin LEE's amendment motion, some of his solutions are, for my liking, too long-term in nature and will not provide what he seeks, namely, an early return to an acceptable rate of inflation. I must respectfully therefore decline to support his amended motion. Thank you.

MRS SO (in Cantonese): Sir, during the Budget debate, many Legislative Councillors spoke on measures to control inflation. However, in his speech concluding the debate, the Financial Secretary hinted that their view "needs to be put in context". He also

said that "the effect of the Budget this year is not inflationary". Nevertheless, in less than two months' time, the Administration turns to believe that the problem of inflation is serious and urges the Hong Kong Association of Banks to increase interest rate by 1% to curb inflation.

Now Hong Kong has entered a "high inflation and low growth" phase, the soaring inflation rate has gradually lowered the standard of living of the general public. If prompt action is not taken by the Government, stability and prosperity of Hong Kong in the second half of the transitional period will be seriously affected.

Undeniably, the local inflation rate has stricken a record high over the past 10 years. One of the major causes is that the Government has drastically increased indirect taxes and given the public utility companies a free hand to raise their charges. If such situation is not changed, it will not be easy to curb inflation.

Sir, as I have pointed out in the Budget debate, "it cannot help solve the problem by merely identifying labour shortage and imported inflation under the linked exchange rate system as factors contributing to inflation". Hong Kong Bank's Chief Economist also indicated that imported inflation only had a limited effect recently. To solve the problem, we should start with the internal factors.

During the Budget debate, I have made a few proposals on the control of inflation. I would like to reiterate the following:

Firstly, the Government should exercise control over the growth in public expenditure, in particular the salary increase level of the Civil Service, where rivalries in pay rise with the private sector should no longer be allowed.

The salary of the Civil Service has taken up a major portion of our public expenditure. However, while measures are taken to control public expenditure, the quality and quantity of services provided by government departments must not be overlooked. A stable Civil Service is vital to the maintenance of the highly efficient operation of the Government. To curb inflation, concerted efforts by all sectors are essential. The Civil Service should by no means be an exception. I believe the 10.43% pay rise for civil servants as announced by the Government yesterday is reasonable in view of the fact that most civil servants enjoy an annual increment and the total salary increase for them will be higher than the inflation rate. However, the adoption of an across-the-board rate of increase is open to

question. Actually, pay rise for senior civil servants could be a little bit less, say, about 9% while the savings in turn should be added to the salary adjustment for junior staff.

Secondly, public corporations and public utility companies should not be allowed to take the lead in raising fares and charges. There are some public utility companies which, under a scheme of control agreed upon with the Government, can increase charges when the permitted level of return is not achieved. The Government can do nothing about this. It can only step up monitoring measures and press these companies to improve their operation and management. However, for those public utilities not covered by the scheme of control, the Government can definitely use its influence to set a limit to their fare increases. For example, the Kowloon-Canton Railway Corporation has made a profit and managed to offer, for the first time, a sum of more than \$100 million to the Government as bonus. And yet the company still asked for a drastic fare increase. It is difficult for us to comprehend.

Recently, the Housing Authority announced that starting from 1 September, the rent for certain public housing estates will go up by 12% to 26%. At the same time, taxi operators also applied for a fare increase by more than 20%. The rate of increase is higher than our inflation rate. The Government's ability to properly tackle these applications for fare increase is put to the test. If public utilities are allowed to raise charges, operators in other sectors will follow suit. As a result, there will be a price spiral which, in turn, fuels inflation.

Thirdly, the Government should not neglect the impact of increases in indirect taxes on inflation. The tax and fee increases proposed by the Budget this year have pushed up the Consumer Price Indices by 2%. Although the rate of increase in tobacco duty was subsequently reduced from 200% to 100%, it still has a great impact on inflation. I suggest the Government and the two municipal councils should refrain from any further fee increase in this financial year and the rates for the next fiscal year must be frozen at this year's level.

Finally, I would like to talk about the linked exchange rate system. Recently, there are suggestions that the linked exchange rate system has an adverse effect on inflation and that Hong Kong dollars should be pegged to a basket of foreign currencies. Such views actually overlook the political and economic realities in Hong Kong. Since 1983, the territory has experienced a number of political and economic crises. The linked exchange rate system has played an important role in our successful efforts

to overcome these crises. It also helps to enhance the confidence of the general public as well as the overseas citizens in Hong Kong. Therefore, the linked exchange rate system should not be rashly changed.

Sir, with these remarks, I support the Honourable LAU Wah-sum's motion.

MRS TU: Sir, I appreciate those colleagues who, like you, Sir, and other officials, have sat through today's long ordeal. To reduce the ordeal a little, I will mention only the beginning and end of my short speech.

My speech draws attention to the impact of inflation on the lower income groups, that is, the 38% of the workforce who earn between \$2,000 to \$5,000 a month, as well as those who have to depend upon Public Assistance and are receiving about \$1,000 a month.

Before the Government takes any steps that would encourage inflation affecting the lower income groups by further increasing indirect taxation, I would urge them to forget the examples they quote of modern trends in the United States and the United Kingdom. The Vice-President of the Resources Institute in Washington recently reported that there are 5.5 million children under the age of 12 in the United States who suffer from hunger, and a further 6 million who are in danger of going hungry. Those children are undernourished because of inflation, unemployment, and the protection of the rich at the expense of the poor. The situation in Britain seems to be going in the same direction.

In Hong Kong we can be proud to see our children getting bigger and stronger than children were 30 years ago. The Government of Hong Kong should not only look at economic trends but also at social trends, and especially at the reasons for riots in London recently and in Washington even more recently.

In my opinion we can help reduce inflation by avoiding indirect taxes that affect the lower income groups.

Sir, I am more concerned with action on inflation than with the wording of the motion. But on balance, I would support the amendment.

MR PETER WONG: Sir, it is interesting that the March 1991 indices showed CPI(A) rising higher than CPI(B) which in turn was higher than the Hang Seng Consumer Price Index. This was a reverse from the norm which had the inflation rate higher for the higher income groups. It also showed the regressive nature of indirect taxation on items which hit the lower paid hard. Let that be a lesson to us all and I trust that our incoming Financial Secretary will take great care before contemplating similar action again.

For most people in Hong Kong, the rise in their wages was the result of genuine increases in productivity, and the shift of low-tech-high-labour jobs to southern China. We profited from our position of comparative advantage in infrastructure, communications and high technology in making the shift and managed to maintain and enhance our markets. This means that the people of Hong Kong had more money to spend, and as a result, prices of services are being driven up. However there are those who regrettably cannot get on this bandwagon and are left in low paying jobs in sunset industries. They are then caught in this inflationary spiral without their wages matching the inflation rate. It is this big low income sector hardest hit by inflation that desperately needs redress.

What can we do about this?

Dollar linkage

The Financial Secretary had in the past said that there is very little the Hong Kong Government can do because the public sector takes up only some 18% to 20% of the GDP of Hong Kong. He said government action alone cannot make much impact on the total economy of Hong Kong.

However, the pegged exchange rate against the US dollar dictates that we closely follow interest rates of the United States and any independent movement on the part of Hong Kong will be normally doomed to failure because of our freedom from exchange controls. Thus, the 1% rise in interest rate last week would only have a marginal effect on property speculation in Hong Kong and it will have very minor effect on the big companies because it is relatively simple for those companies to borrow in US dollars.

As we are denied the most potent anti-inflation tool to curb demand by manipulating the interest rate, there has also been considerable talk about delinking

the HK dollar from the \$7.80 peg to the US dollar into a basket of currencies, probably in accordance with the trade mix between Hong Kong and its partners. However, Mr John GREENWOOD, the author of our peg, has made a very eloquent plea in the May-June issue of Asian Monetary Monitor against upsetting this peg, reiterating that the US dollar is the right currency for the HK dollar to be pegged to. On balance, I am persuaded that repegging would not be fruitful at this stage, and it will be somewhat of a long shot if we were to depart from the safe-shore of this fixed single currency link which does magically stabilize our currency.

Possible solutions

What is the solution?

Our salvation lies in pulling our weight. We have to remove that complacent smug grin, born of many years of economic success. We have to get our best brains together to thoroughly research the inflation problem and brainstorm for a Hong Kong solution. Long term, we must establish where we want to be in five, 10 and 25 years' time. Then we draw up road maps of how to get there and anticipate the problems that we will face. We cannot leave our future to the whims of fortune.

We must do everything we can to help those who cannot altogether help themselves as we march onwards. We have to work to lift those who have been under-rewarded up to a level where their remuneration is back on a par after adjustment for inflation. We have to devise ways so that those in under-productive and unrewarding jobs are either retrained or retrenched into more efficient employment. Businesses will have to upgrade or close up. Funds have to be spent to facilitate these structural changes.

Importation of labour is not a long-term solution because in time, new arrivals will acquire all the Hong Kong habits and rightly demand the same benefits of Hong Kong residents. There is a case for the temporary import of labour to fill those vacancies that cannot be filled by Hong Kong labour at almost any price. If indeed we have to import labour on an increased scale, then there must be regulations to ensure that the imports are only temporary, otherwise much of the economic progress made in the past decade will be reversed. The Administration should also examine their inflationary policy of permitting those offering the highest wages to get the first bite at the imported labour.

Attack baseline

In the short term, there is one urgent task in hand. We have to attack the baseline to ensure that both the Civil Service and the private sector are as efficient as they can be. The Government must set an example and I can only interpret the rise in the interest rate by 1% and the lower-than-expected pay rise for the civil servants as clear signals from the authorities that it means business to combat inflation. The Financial Secretary was right when he said that there is a lot of psychology involved in dealing with inflation. The psychology is that Hong Kong people look upon the Government for leadership. In providing that leadership, the Government must be absolutely sure of what it is doing and convince everyone that it knows what it is doing. I look forward to and expect the Chief Secretary and the Financial Secretary to give us those convincing proofs that this Administration is not just muddling along with inflation. This Administration certainly has the goodwill of the Liberal Democratic Federation to put away this Public Enemy Number One. The people of Hong Kong certainly wants the Administration to succeed.

The escalating cost for providing Hong Kong's increasing health and hospital services gives strong proof that our public expenditure is falling out of step with public income. Somehow, as responsible legislators, we need to devise measures to contain the growth of public services. In the short term, we must examine every facet of our Civil Service and satisfy ourselves that it really is lean. One effective way is to impose an arbitrary cut and then leave it to the controlling officers to decide those services with the least priority that can be cut. Department heads acting as managers not only must ensure cost efficiency, but must also make saving wherever possible in the delivery of service. We must also revamp the methodology of civil service pay rises because it is flawed in including merit increases of the private sector across the board to civil servants regardless of performance.

A very easy way to see what is a department's bottom line is to look at the regular expenditure from April to December. In the new year, the department head looks at his budget and in February/March, he spends up to the limit of his budget on what I call luxury items. We can cut those luxuries now. Hong Kong has never been afraid of long hours and hard work. We now have to demonstrate that we are earning our lunch. That must apply to the private sector as well as to the Government. Since mandatory cuts are unlikely to work for the private sector, the Government must set the norm and lead by example. And I agree with some of my colleagues that we legislators should do our bit by denying ourselves the pay rise we have been expecting.

I expect to hear plenty of pleas for special cases from my colleagues if there are to be cuts. I fully appreciate the difficulty in trimming recurrent expenditure of existing service since there is already a 15% reduction in certain departmental posts. It is a pity that we do not have a ministerial system in Hong Kong because that would enable an outsider to scrutinize government expenditure to see if it really is necessary or that the service is being delivered in the most efficient way. I would like to propose that a select committee be formed to oversee the efficient management and structure within the Civil Service as well as the activities of the Public Sector Reform Committee. It must be a committee that is totally non-politicized and have continuity of policies whichever party may hold the majority. It will be a real test for politicians to see whether they put sectoral interests above that for Hong Kong as a whole.

Corporatization/privatization

Lastly, we must also look at the corporatization/privatization programme of the Government which promises to promote economic efficiency and improve the quality of service. There are many items that are worth exploring of which the following are some examples:

- Control and operation of waste collection vehicles servicing particular housing estates;
- Maintenance of particular public parks;
- Maintenance of fire engines and ambulances;
- GIS shops selling government publications;
- Operation of post office shops;
- Collection of rates, driving licence fees, car registrations and so on;
- Flotation of KCRC and MTRC.

These examples are calculated to raise the hackles of civil servants in the relevant departments. Corporatization/privatization, whatever appropriate, to be launched step by step not only improves productivity of civil servants through

competition, but will also put the personnel and staff remuneration policies of the public sector on a par with the private sector. But we have to be watchful that it will not lead to monopolies of public utilities and services.

As for the Honourable Martin LEE's amendment motion, I have no problem when he calls for leadership from the Government in unity of purpose to combat inflation. However when one analysed his four points in the light of his speech, I would say that the purpose of the amendment must have been to set us all arguing against each other. I do not support Mr LEE's amendment.

With these remarks, Sir, I support Mr LAU Wah-sum's motion.

MR CHEONG: Sir, first of all may I thank you for allowing me to participate in this debate at this late hour.

Inflation is understandably a matter of tremendous concern to any community and Hong Kong is no different. The success that we have chalked up in the past five years has been fuelling inflation to a great extent. But from the experience that the rest of the world has had in dealing with inflation, I think it is a myth to suppose that Government alone can tackle the problem and it is this myth that we should break. There is no government anywhere in the world capable of combatting inflation all on its own. Inflation arises from a certain state of economic activities of the whole community of which Government is but a part. If we are going to combat inflation, we need the co-operative spirit of the whole community. We do not need divisive speeches that purport to separate the so-called "poor" from the so-called "rich"; we do not need speeches that say the lower-ranking civil servants deserve a much higher rate of pay increase than the higher-ranking civil servants. It is because the very nature of such speeches tends to mislead our community into thinking that Hong Kong is a totally unfair, unjust and uncaring society. That is not so. Therefore I plead that if we are concerned about inflation, we -- Government, business and union leaders, academics and political notables who are making their presence felt in this time of political change -- should make a concerted effort to contain it.

Sir, I would like to make a few comments on a couple of points some have made which purport to prescribe a panacea against inflation. One point argues for a difference in percentages of pay rises between senior and junior civil servants. It has been suggested that senior civil servants should take a lower percentage pay rise.

All I can say is that we will be passing, hopefully, in this Chamber next week the Bill of Rights. Within this Bill of Rights it is recognized that the senior civil servants have the same rights as junior civil servants. A civil servant's entitlement to pay award is through his/her work and unless a particular civil servant, whatever his/her rank, is proven to be inefficient, ineffective or in breach of Civil Service Regulations, he/she should be entitled to a fair percentage of pay rise. In any case, if we should look at the practical effects of the pyramidal structure of the Civil Service, how many D4 to D8 people do we have? If they take an 8% or 2% cut, what will it do to the total pay bill? If the percentage cut being suggested for the senior civil servants is to be applied to the lower-ranking civil servants, what will the total bill be? Let us assume that the average pay rise is going to be 10.43% with the D4 and above people being given a 8.43% rise and people below D4 being given a 12.43% rise, what is the total bill going to be? I wonder whether those people advocating this have ever worked out the practical implications. Here I would like to plead with my colleagues that in future when they are performing public service, it is imperative that they should work out the implications for the whole community, not just for the sake of sloganizing.

The second point I would like to comment on relates to the linked exchange rate of the HK dollar. It has been suggested that if we should switch our linked rate to peg it to a basket of currencies, the adverse effects of inflation will dissipate. That is simply not true. It is only a time factor that is at work when the US dollar is fluctuating against the major currencies that we are trading in. And given the proximity of Hong Kong to China, given the increase of trade between Hong Kong and China, are we to include Renmenbi as part of the basket of currencies? If not, then it is not going to mitigate against the inflation rate. The linked rate was established for the purpose of stabilizing our monetary system. During the transition period when misunderstandings and mistrusts seem to be the norm and so many things can go wrong, we need the linked rate and the best linked rate we should have is the simplest one that people can understand. If one asks the man-in-the-street how is the HK dollar linked to the US dollar, the man-in-the-street understands. But if we are linked to a basket of currencies that would change from time to time, how can the common people understand? How are they to get information -- sometimes confidential -- of currency prices from the bank? That is the problem.

Sir, lastly I would like to reiterate that inflation is not something that simple or short-term measures can effectively combat. We need long-term strategies. I would suggest that Government consider setting up an inflation controlling committee

composed of economists, business and union leaders and some aspiring, responsible politicians from this Chamber. We should review the problems, we should devise long-term strategies and we should study the experiences of other governments as to how they combatted this problem. I was once told a story by someone whom all in this Chamber know. The story told of an experience from a discussion with an ex-Israeli prime minister on how to combat inflation that was crippling Israel. The ex-prime minister said he got all his ministers together and the country's business and union leaders, locked them all up in a room and held discussion there for 36 hours. They would not come out unless and until a certain percentage cut in the proposed budget had been agreed on and achieved. That proves that to combat inflation effectively, the co-operation, the understanding and the working spirit of the whole community are needed. A motion that requires the Government to do certain things is not going to work.

Sir, I would urge the Government to think about this problem, set up a committee and seek to combat inflation in a most effective way.

Sir, with these remarks, I support Mr LAU's motion.

HIS EXCELLENCY THE PRESIDENT: That concludes my list of speakers who wanted to speak to the amendment. We will now deal then with the amendment.

Question on Mr Martin LEE's amendment put and negatived.

HIS EXCELLENCY THE PRESIDENT: Since Mr Martin LEE's amendment has been negatived, we then resume the debate on Mr W S LAU's original motion. Does any Member who has spoken neither to Mr W S LAU's original motion nor to Mr Martin LEE's amendment now wish to speak. Would those who wish to speak so indicate? Thank you.

CHIEF SECRETARY: Sir, Mr Peter WONG demanded that we should earn our lunch. I think we are not only earning our lunch, we are earning our dinner; and if we go on at this rate, we will be earning our breakfast as well (Laughter). I will therefore limit my remarks to a few words on two subjects: the importation of labour and the cost of the Civil Service.

Importation of labour

Many observers have pointed to the shortage of labour in Hong Kong as the chief culprit for the continuing high level of inflation. And, indeed there are strong economic arguments that more labour is needed to enable our economy to grow. But it is important that we put these arguments in context. Labour is not simply a factor of production. People provide labour and the people who have helped build Hong Kong into one of the world's most dynamic and successful economies have a right to share in the fruits of that success.

The shortage of labour is not evenly spread through the economy. White collar and service workers are in short supply. So are the technically skilled. The Government has attempted to alleviate this shortage through its limited scheme for the importation of labour. It is a targetted scheme, aimed at relieving proven shortages. It is targetted in this way because we believe it would be wrong to allow wholesale importation of labour. Wrong because it would artificially depress wages. Wrong because it would discourage investment in machinery and equipment needed to save labour and increase productive efficiency.

Sir, in 1990, we introduced a scheme to import 10 000 workers at the operative level. The current scheme for the importation of labour is also aimed at relieving clearly identified sectoral shortages. Importation is limited to a quota of 10 000 skilled operatives, and 2 700 skilled workers at the technician, craftsman and supervisory levels. The Government is currently reviewing the importation of labour scheme. Over 82% of the quota has been taken up and the remaining quota re-distributed. I think employers have found the scheme useful, particularly in helping to increase the level of productivity and production. The incidence of abuse has been low so far. Trade unions have pointed out that there are difficulties in policing the scheme. We will certainly take these factors into account and look for ways to improve the way the scheme operates.

Despite recent signs of easing in the labour market, serious shortages still persist in some areas. While the unemployment rate has increased from 1.4% at the end of last year to 1.8% in the first quarter of this year, vacancies still abound, particularly in the service industries and specific categories of skilled and semi-skilled manufacturing workers.

Sir, the Government is currently reviewing the scheme. We have yet to decide whether there is a case for providing for a further quota this year. If we do extend

the scheme, we will ensure that it remains targetted at areas of proven shortage. So the main factors we will factor into the review are the identification of shortages in specific areas and the evidence now emerging of some softening in the labour market as a whole.

Cost of the Civil Service

Sir, I turn now to the Civil Service.

The Government is often accused of leading inflation through its annual pay awards. Yesterday we announced an increase of 10.43%. This is below the figure indicated in the most recent pay trend surveys, but, against the background of slower economic growth and higher inflation, we believe it is a fair award and one which will maintain real value of civil service salaries.

Some Members have called for a lower pay increase for better paid civil servants. While the award is across the board, I think it worth pointing out that the reference point which led us to the figure of 10.43 is the movement of the CPI (A) over the past year. Movement in the Hang Seng Consumer Price Index, which measures changes in the cost of living for those with larger household expenditure, has been substantially greater at 11.6%. So the pay award for those on higher salaries does not fully reflect increases in their cost of living. And to this extent the better paid are not benefitting to the same extent as the lower paid civil servants. This is only right because those with larger disposable incomes clearly have more flexibility in adjusting their expenditure.

The award also sets down a marker. It is a challenge to the private sector to keep the level of its awards within inflation and therefore to help bring to an end the perception of an endless spiral which was referred to by many Members. In this context, I note the claims by some in the private sector that they have allowed only 8% for the increase in the cost of living. This is an interesting claim but I suggest a little disingenuous. It is the total package which impacts on inflation, not the individual components. The 8% excludes merit pay and other additional payments which bring the overall increase to over 12%, as reflected in the results of the pay trend survey and a similar survey conducted by the Hong Kong Institute of Personnel Management. And even these figures often do not include annual bonuses which are in many cases very substantial.

Sir, I am not trying to score debating points, but simply to highlight the need for a joint public and private sector stand towards this problem. I know that many managers in the private sector are doing their best to limit pay increases but, as I have explained, the Pay Trend Surveys show quite clearly that the packages awarded by the private sector overall still exceed the rate of inflation. And there are some people who do not seem to have got the message. For example, it seems the principle of equal misery is not being extended to corporate directors whose fees, according to a casual survey we have conducted, increased by no less than an average of over 25% last year.

Restricting government pay awards is not the only way in which the Government can contribute to curbing inflation. In a tight labour market situation, it is essential that Government does everything in its power to restrain growth of the Civil Service and increase its productivity. This is no easy task, as most of the jobs the Government has to do tend to be labour intensive. The Government is Hong Kong's largest single employer. We employ 7% of the total workforce and the civil service salaries account for about 5% of Gross Domestic Product.

Control of the size of the Civil Service is a key element in the control of public expenditure. Civil service pay accounts for about 38% of our recurrent expenditure or 27% of total government expenditure. So we are determined to continue our efforts to restrain the growth of the service. We are continuing our policy of "zero growth". Let me just say a few words on how we have gone about this.

The measures we have taken to control the size of the Civil Service date back to 1989:

-- in that year we deleted all vacant posts in the establishment of the Civil Service and halted the creation of a number of posts already agreed in the estimates for that year;

-- in 1990 we again reduced baseline expenditure by cutting the growth rate and by imposing zero growth or less on more than half of government departments and agencies;

We are continuing this attack on the baseline through the Star Chamber to which the Financial Secretary referred in his Budget speech earlier this year.

It is also worth remembering that the Government cannot normally provide new services without incurring new expenditure and recruiting new staff. A policy of zero growth is therefore a severe discipline and one which demands a highly selective approach to aspirations. Particularly when new schools, new housing estates, and new hospitals and the like come on stream, staff must be recruited to man them. Clearly our civil service managers are going to have to find ways of cutting back on existing services if we are to meet the aspirations of the community, strongly endorsed, I might say, by Members of this Council, for new services.

Nonetheless, we have succeeded by these measures in progressively reducing the growth in the establishment of the Civil Service from 3.29% in 1988-89 to 1.49% in 1990-91, to about 0.8% in the current year.

Sir, I hope that all I have said demonstrates very clearly that we are determined to set a good example to the community in trying to tackle the problem of inflation. But we cannot win this battle on our own, and we look to the private sector to follow our lead. In fixing prices and controlling staff costs managers have a key role to play. For the sake of the community as a whole we look to them to respond to the challenges of inflation with the same determination which we are demonstrating.

Sir, I support the motion.

FINANCIAL SECRETARY: Sir, everything that has been said this afternoon and this evening clearly reflects the deep public concern over the rising cost of living. The motion before this Council urges the Government to take immediate steps, as a matter of great urgency, to reduce the current rate of inflation. The Administration recognizes the extent of public concern, and we have no hesitation in supporting the motion. In so doing, however, we must examine what has given rise to the inflationary pressures in order that we can judge whether the measures we intend to take are likely to be effective in tackling the problem. We must recognize that some courses of action, whilst superficially attractive, can have negative effects in the longer term. We would be doing a disservice to this community if for the sake of short-term gains we were to inflict long-term damage on the economy. So first, let me explain what I perceive to be the principal causes of the present high inflation rate from which we are suffering.

Quite simply the current high inflation rate is largely the result of overall

demand outstripping supply. As we all remember, during the latter part of the 1980s, Hong Kong enjoyed several years of exceptionally rapid economic growth. This in its turn gave rise to mounting pressures on our productive capacity. The labour market tightened, and by 1987 the unemployment rate fell to below 2%. The inflation rate responded to these pressures but with a time lag. The Consumer Price Index (A), as a popular inflation indicator in Hong Kong, actually showed a smaller increase in 1986 as compared to 1985 but rose rapidly thereafter. Because of the lagged effect the inflation rate continued to rise while the growth rate of the gross domestic product (GDP) moderated. What we are now facing is the price tag for the period of rapid economic growth. Inflation did ease slightly after the middle of 1989, following the slowdown in economic growth. This adjustment was, however, offset by the oil price hike brought about by the Gulf crisis so that, for 1990 as a whole, the CPI(A) rose by 9.8% even though the GDP grew by only 2.4%.

I have often referred to the adjustment in the economy. In fact, the economy has been adjusting to the pressure of demand on its own capacity, but only very slowly. The reason for this is largely because of the fact that the economy itself has been undergoing a process of continuous structural change as it becomes more service oriented. This process necessitates a redistribution of resources during a period when those resources, particularly labour, are already in short supply. Five years ago, the service sector in Hong Kong was catering for manufacturing which employed around 860 000 workers and other economic activities in Hong Kong. Now it has to serve a much expanded production base across the border. As many as 2.5 million workers are now working there for Hong Kong companies. That gives rise to additional inflationary pressures.

In this connection, there are a number of additional factors that are relevant. First, the growth in outward processing activities in Guangdong has greatly expanded Hong Kong's productive capacity whilst helping manufacturers keep costs down. Consequently, adjustment in the local economy has tended to work more slowly than before in dampening demand. Export prices are kept low even though the local inflation rate is high.

Secondly, in line with Hong Kong's development as a major regional centre in trading, finance and business services, there has been a significant shift in labour resources from manufacturing to the service sectors. This shift has been facilitated in part by the relocation of the more labour-intensive manufacturing processes across the border. The result of this structural change in the economy is that as the labour

market remains tight, employers have had to put up wages and salaries in order to induce workers to change jobs. Competitive wage bidding amongst employers has a direct impact on inflation.

Thirdly, in the building and construction industry, a consistently high level of activity has led to construction wages increasing much faster than wages in many other sectors over the past few years.

The situation has been aggravated by a slow and declining growth rate for the local workforce. In 1989 and 1990, there was virtually no increase in the local labour supply. Moreover, some of the skilled manpower was lost through emigration. The limited availability of labour has not only kept wage inflation high but also acted as a brake on economic growth. If we analyse the components of the consumer price indices what we see suggests that the most rapid price increases are often associated with items having a heavy local labour content, such as meals at restaurants, internal transport and services for households and individuals.

Turning to the recent situation, the spate of increases in property prices and public transport fares has added to the inflationary pressures and reinforced people's perception that further price increases are yet to come.

What I want to do is to change that perception. The inflation rate will not rise indefinitely. First, demand will shrink as higher prices prompt individuals and households to review their spending habits. Secondly, there are a number of factors that will contribute to a moderation of inflation in due course. These include the recent strengthening of the US dollar, lower oil product prices after the end of the Gulf war, stable world commodity prices, lower inflation rates in the economies of our trading partners, and a generally less rapid increase in local wages and salaries.

The problem we face is that we are now locked into a state of mind that feeds upon itself. And so we must take some steps to dampen the inflationary expectations from which we are suffering. For the longer term, increases in labour supply and labour productivity will remain the crucial determinants of non-inflationary growth for the economy.

Before I describe any specific measures, let me respond to the criticisms that our budgetary and monetary systems are inherently inflationary. They are not. In fact, in national account or resource consumption terms, the public sector as a whole

represents only about 12% of the GDP. In terms of consolidated public sector expenditure, the corresponding ratio is about 19.3% in 1991-92 (up from 16.6% in 1987-88, not from 11% as some may have suggested). Moreover, for a number of years the Government has achieved fiscal surpluses, and for this financial year I have again budgetted for a surplus, albeit a relatively small one. It is important to note that a fiscal surplus represents a net withdrawal of purchasing power from the economy. Our budgetary strategy and guidelines are geared to exercising tight controls on all aspects of the public finances. The effect of any increases in indirect taxation is essentially one-off as I explained in the Budget debate. Overall, the impact of the Budgets in recent years has not been inflationary.

Then on the monetary side, under the linked exchange rate system, a weaker US dollar will lead to a greater amount of imported inflation but equally a stronger US dollar will help to reduce it. During the latter part of last year the US dollar depreciated considerably, resulting in faster increases in the prices of our imports towards the end of the year. In recent months, the US dollar has recovered most of the lost ground, and this will help to stabilize import prices. As a matter of fact, since the Hong Kong dollar was first linked to the US dollar in October 1983, the exchange rate of the Hong Kong dollar has appreciated by nearly 13% on a trade-weighted basis. This appreciation can hardly be construed as having added to the inflationary pressures. Let me stress that the current inflation gives no reason whatsoever for modifying our linked exchange rate system or the present rate.

Some have suggested that the Hong Kong dollar should be linked to a basket of currencies rather than to the US dollar, as a cure for inflation. Let me say that we have examined this possibility and indeed other possibilities in considerable detail and we carried out our examination with professional assistance both here and overseas. Let me point out that had the Hong Kong dollar been linked in 1983 to a basket reflecting the composition of our trade, the exchange rate of the Hong Kong dollar against the US dollar at this point in time would be around 8.80 instead of 7.80. And inflation would have been even higher than it is today. No one should be under any illusion that in our circumstances a basket would provide the cure for the current inflation. It would not.

Because of widespread comment on this matter I would like to expand upon it further. First, switching to a basket would mean giving up stability in our exchange rate against the US dollar, a currency that is extensively used in external trade, well accepted and readily understood by members of the public. There can be no basket

of currencies into which Hong Kong dollar banknotes could be conveniently converted. The convertibility of Hong Kong dollar banknotes into a well accepted currency like the US dollar is an important feature of our linked exchange rate system. We would have to give up this important feature if the Hong Kong dollar were instead linked to a basket. That would also mean adopting a much weaker form of fixed exchange rate system in which exchange rate stability against something intangible and invisible like a basket would have to rely on day-to-day intervention. Someone put it well the other day when he pointed out that moving to a basket would make our system subject to bureaucratic discretion. Surely we do not want that. We want the certainty that our present system provides. To coin a phrase, there is no certainty in a basket. The Hong Kong dollar exchange rate against the US dollar and indeed against all currencies would fluctuate all the time. I doubt very much if this would be welcomed by our exporters, or the majority of those in Hong Kong who do business with the rest of the world. I am also firmly of the view that it would not be conducive to the maintenance of stability and prosperity in Hong Kong.

Recently, interest rates have been pushed higher. I welcome the move by the Hong Kong Association of Banks last week which coincided with my instruction given to the Office of the Exchange Fund to withdraw liquidity from the interbank market. Higher interest rates should have the psychological effect of dampening inflationary expectation and help to change public perception about current inflation in Hong Kong. They should also have the effect of slowing down the rate of credit expansion.

Doubts have been expressed as to whether or not keeping interest rates for the Hong Kong dollar at levels higher than those for the US dollar represents a departure from our monetary policy of maintaining exchange rate stability within the framework of the linked exchange rate system. Let me say in no uncertain terms that there is no such departure. The exchange rate has strengthened somewhat away from 7.80 under the influence of higher Hong Kong dollar interest rates, but for as long as the deviation from 7.80 can be explained by the temporary interest rate gap, this is acceptable. There was the same deviation in June 1989 as a result of events in China and in the second quarter of 1990 as a result of similar deliberate effort to slow down credit expansion in Hong Kong.

As long as the exchange rate is broadly stable, I am not averse to using interest rates judiciously to create an environment conducive to fighting inflation. It is interesting to note that although the spot exchange rate has strengthened to 7.73, the forward rate, say, for six months has remained in the past few days at around

7.80. Should the exchange rate deviate from 7.80 under the influence of speculation, as was the case at the end of 1987 when the exchange rate strengthened despite very low interest rates, the Office of the Exchange Fund will act decisively to deal with it.

In relation to inflation generally, to reinforce our efforts, we are pursuing several further measures. First, the Commissioner of Banking has drawn the attention of the banks and authorized institutions to the substantial increase in mortgage lending in recent months and stressed that the banks and deposit-taking companies should remain vigilant in ensuring that their customers have the ability to repay loans and that collateral is realistically valued. This measure should help to curtail property speculation, about which Members have voiced considerable concern in an earlier debate.

Secondly, the one dollar fuel surcharge in taxi fares will be removed on 2 June 1991. This will help to alleviate the burden on transport costs.

Thirdly, the Government will freeze for the next nine months all planned increases in departmental fees and charges which have not been announced by 1 June. These fees and charges will thus be maintained at their existing levels up to the next Budget. They include charges for out-patient services at government clinics and hospitals, charges for in-patient services, and immigration-related fees, to name just a few examples. They do not include, however, increases which have already been announced and which are due to take effect some time this year (for example, tuition fees, which are usually announced over a year in advance). The cost to revenue for deferring these planned increases in departmental fees and charges is about \$270 million in 1991-92.

With regard to housing, the most significant element in the CPI index is not the price of property, but rentals. By far the largest component on our rental market is of course public housing. I fully accept that public housing rentals are a matter for the Housing Authority and I know that the Authority is conscious of the need to ensure that rental levels are affordable to its tenants. I am sure that given the high level of inflation which the community is currently experiencing, the Authority will consider carefully the inflationary impact of any new rent reviews which will be considered during the course of this year.

As a result of the cutback in the earlier increase in tobacco duty, which will

cost the revenue some \$700 million, and the moratorium on departmental fees and charges, the surplus budgetted for this financial year will be almost absorbed. But I intend to restore the net deflationary impact of the earlier budgetted surplus through the programme of government borrowing, which is now under active preparation. I have already explained in the Budget debate the relevance of this programme in terms of fighting inflation.

Sir, lastly, and most importantly, in order to alleviate the constraints on labour resources which have been identified as constituting both a bottleneck on economic growth and an important source of inflation, we are, as the Chief Secretary has said, considering the possibility of admitting more imported workers.

The measures which I have described taken together will feed through the Consumer Price Index and help to address the problem of inflation. I must stress, however, that we should not expect results overnight. We have undertaken a course of action that will take some time to bear fruit. Let me also stress that it is not just the Government that is involved. If we are to attack inflation successfully over the remainder of this year, the community as a whole has a very considerable role to play. Everyone is involved, whether they be retailers, providers of services, employers and indeed employees. Self restraint can do much to help. I welcome the support of many Members who have spoken in the same vein. We have forecast that the rate of inflation will reduce in the latter part of the year in any event. We can accelerate that process. The Administration through its restraint is pointing the way. With the community response that I am calling for, I have no doubt that we should be looking at a happier situation by the time of the next Budget. The Government is determined to play its part. Although we are largely affected by external circumstances beyond our control, in terms of restraint, there is still much that we can do to help ourselves. Let us do so.

Sir, with these remarks, I support Mr LAU's motion.

MR LAU WAH-SUM (in Cantonese): Sir, I am glad that Members responded so enthusiastically to this motion. Although the views I expressed may not wholly correspond with those of other Members, yet there is a commonality of thinking underlying it all, and that is that the Hong Kong Government, as an efficient government, shall lead the industrial, business and labour sectors as well as people of the various strata of society in a joint endeavour to combat inflation. I hope

the Hong Kong Government will rise to the occasion and take immediate action to respond to the requests or demands made by Members.

Thank you, Sir.

Question on Mr LAU Wah-sum's motion put and agreed to.

HIS EXCELLENCY THE PRESIDENT: It is almost 10.55 pm. I congratulate and sympathize with those who have sat through the long dark hours to the nearest to the dawn that I hope this Council will get. In accordance with Standing Orders I now adjourn the sitting until Wednesday, 5 June 1991.

Adjourned accordingly at six minutes to Eleven o'clock.

Note: The short titles of the Bills/motions listed in the Hansard, with the exception of the Administration of Justice (Felonies and Misdemeanours) Bill 1991, Hong Kong War Memorial Pensions Bill 1991, Employees Compensation Assistance Bill 1991 and the Pensions (Special Provisions) (Vocational Training Council) Bill 1991, have been translated into Chinese for information and guidance only; they do not have authoritative effect in Chinese.