

[THE FINANCIAL SECRETARY] **Appropriation Bill—resumption of debate on second reading (14.3.74)**

does not *have* to operate within the disciplines of the market forces operating in the private sector, it would clearly be irresponsible for the Government to ignore the economic realities of the present situation in the labour market and for its pay policy to lead the private sector and, thereby erode the economy's external competitiveness.

I am aware that, at the present time, firms' internally generated funds are growing rather more rapidly than wages (again, as indicated in the Economic Background publication). But this means that additional funds are available for fixed capital investment and such investment is taking place on a substantially increased scale. As a result, productivity has been increasing. At the same time, manufacturers have been seeking out cheaper sources of raw materials (as evidenced by the substantial switching that took place last year from one source to another). Thus, the Hong Kong economy will be ready to take full advantage of a renewed growth of world demand. Then wages will not only increase again at a faster rate than at present but also, as was the case until recently, at a faster rate than firms' internally generated funds. I should make another point: bearing in mind that manufacturers appear determined to increase productivity and contain the upward movement of unit costs and the fact that the labour market is currently rather slack, the Government could, by leading in its pay awards, bring about an increase in unemployment. At the present time, manufacturing employment is at least holding steady and we must keep it that way.

Cost-push inflation

Fourthly, I have heard it said that rapid inflation leads to higher demands for wages which in turn further push up prices leading to yet more wage demands, and so on and so forth. I think this can be dismissed in Hong Kong's case, simply by reference to the figures in the Economic Background publication on wages and prices that I have just cited. Indeed, I would suggest that it is the very fact that this cost-push type of inflation is *not* occurring here that is at the root of the current anxieties about prices and the cost of living that honourable Members have sought to represent. But, of course, if cost-push inflation could and did occur the economy could be seriously endangered and the prospect of renewed growth seriously diminished.

Tax system

Fifthly, there is the tax system. Several honourable Members have suggested that certain of my 1974 revenue proposals could be inflationary. I hotly dispute this. Let me emphasise, once again, that our tax system is non-inflationary, and that my 1972 and 1973 revenue proposals were designed to relieve the cost-price system of tax levies which could be reckoned to be inflationary. Further, my 1973 personal tax reform proposals were also designed to update the system to present day cost/income levels. It should also be remembered at this point that our budgetary policy eschews deficit financing through Government bond issues which are taken up by banks and accepted as eligible liquid assets, and that is a policy we propose to persevere with.

"Profiteering"

Sixthly, and I know this is on the minds of many of my honourable Friends, there is the question of "profiteering". I could easily define this away and say that "profiteering" does not constitute inflation as such. But I have no wish to get involved in a terminological argument. Certainly, at a time when prices are rising rapidly, the scope for "profiteering" becomes greater and, certainly when wages are rising less rapidly than prices, "profiteering", even though it may have always existed, may become that much more noticeable.

Before elaborating on this theme perhaps I should say that, whilst there are certain activities that can be unambiguously *described* as "profiteering", it is, in practice, very difficult to define the term—or, at least, to find a widely acceptable definition on which to base proposals for action.

My honourable Friend Dr S. Y. CHUNG, for example, appears to regard "profiteering" as a situation in which a dealer increases his markup, in absolute terms, by more than the increase in the price at which it is supplied to him. If this definition is generally acceptable then, as he claims, there certainly has been "profiteering" in the case of locally slaughtered pork and beef and live poultry. But is there likely to be general support for such a definition?

Using the official figures tabled by my honourable Friend for what he described as "the worst of these three cases" namely, beef, and taking average prices at the import, wholesale and retail levels for the years 1972 and 1973 it can be shown that, in 1973, import prices increased by 24%, wholesale prices by 28% and retail prices by 20%. From these figures, there can be no doubt that the percentage markup at the

[THE FINANCIAL SECRETARY] **Appropriation Bill—resumption of debate on second reading (14.3.74)**

retail level on both the wholesale and the import price declined. This was also the case in the twelve months to September 1973 as can be seen from the Economic Background publication and, although my honourable Friend appears to take some exception to the relevant table in that excellent publication, I would point out that it is simply designed to show, as paragraph 85 makes clear, that retailers were not increasing their percentage markups.

But, reverting to the question of "profiteering" as such, if my honourable Friend's definition is to be adopted, then, of course, use must be made of absolute increases in margins. In 1973, the import price of beef (by dressed weight) increased by HK\$64 per picul, but the wholesale price (also by dressed weight) increased by HK\$92 per picul implying, on this definition, "profiteering" to the extent of HK\$28 per picul by the wholesaler. The retail price (by saleable weight) increased by HK\$120 per picul implying further "profiteering" of, again, HK\$28 per picul by the retailer. But it could be argued that the wholesaler and the retailer almost certainly incurred additional costs in 1973 and that they were entitled to make allowance for this in their prices. Furthermore, in a period when other people's money incomes are rising, it is reasonable that the trader should be able to increase his absolute, but not his percentage, margin to allow for an increased contribution to his own trading surplus. I can bear my honourable Friend already retorting that accepting this, it nonetheless represents a source—a source—of internally generated inflation.

Well, he may be right but the practical point to be considered is this: has there really been "profiteering" in the case of beef when allowance has been made for these factors? And, incidentally, I am ignoring certain conceptual problems here such as the fact that import and wholesale prices are expressed in relation to dressed weight (which includes bones and so on) whereas the retail prices relate to saleable weight. This fact alone can be expected to result in absolute increases in retail prices being higher than the absolute increases in wholesale prices. However, ignoring this point, as my honourable Friend chose to do, it can be shown that the increase in the absolute margin of the retail price over the wholesale price in 1973 (HK\$28 per picul) amounted to 10.3%. But what of the total contribution to the retailers' overheads and profits in 1973? The Economic Background publication shows that, in the twelve months to September 1973, the consumption of beef declined in quantity terms. There was also a decline for

1973 as a whole (of over 11%). When allowance is made for this, but still ignoring the conceptual point I have already mentioned, it is estimated that the total contribution to retailers' overheads and profits declined by about 2%. We still do not know how much of the total contribution is absorbed by costs, but, of course, on this arithmetic, it could easily be concluded that total retail profits on beef were actually lower in 1973 than in 1972. I do not wish to press this too far because the assumptions are a bit on the tenuous side, but I trust I have demonstrated, using the same figures as my honourable Friend that, whether or not there has been "profiteering" in this instance depends very much on the criteria adopted. I must confess that I would not be prepared myself to level an accusing finger at Hong Kong's beef retailers solely on the basis of these figures. Equally, however, I would be reluctant to argue that the figures I have just quoted are, as they stand, all that conclusive the other way.

So "profiteering" is difficult to define and frequently, in everyday life, we are forced back on subjective judgments which can be very unfair indeed. For example, I am sure my honourable Friend Mr P. C. Woo, and my honourable Friend Mr Oswald CHEUNG and my honourable Friend Mr SZETO Wai would be most upset if I were to describe the outrageous fees they charge for their professional services as containing an element of "profiteering". (*Laughter*).

Control of "profiteering"

What then is "profiteering"? "Profiteering" can, in my view, unambiguously occur in situations where either there is a degree of monopoly power, or consumers are unable effectively to exercise their combined influence on prices as a result of some failure in the market information process.

In the first situation, the Government has a clear obligation to redress the balance, in favour of the consumer if the Government itself has been instrumental in providing any body of persons with the potential power to manipulate prices or supplies to their own advantage.

An obvious example is our privately owned public utility undertakings and here I can assure my honourable Friends that the Government does exercise a great deal of control either on prices or on profits. A less obvious example, however, is that relating to rice. Here, as my honourable Friend, the Director of Commerce and Industry has pointed out, the Government has been mainly concerned to maintain supplies

[THE FINANCIAL SECRETARY] **Appropriation Bill—resumption of debate on second reading (14.3.74)**

and it has achieved this through an import licensing system. Since the end of 1972, however, import prices have been rising whereas earlier they had been falling. As a result there has been some scope for abuse at the expense of the consumer. It is a matter for regret that some traders in this field should recently have been taking advantage of their privileged position, but I hope honourable Members have been reassured by my honourable Friend's determination to ensure that there are adequate safeguards against exploitation of this kind.

I know there have been suggestions for the regulation of other essential and non-perishable commodities, such as cooking oil and flour. But I think it will be obvious that, in the absence of controls on supplies in areas other than rice, the question of Government action does not arise in quite the same way. And let me say a few words on supplies. As I said in this Council on 29th November last, there are no shortages of foodstuffs in Hong Kong in the sense that consumers are unable to obtain them at the going price. It is certainly true that consumption of many foodstuffs, including locally slaughtered pork and beef and fresh vegetables, has been lower in the past year or so than previously and this, too, is shown in the Economic Background publication, but this reflects the fact that prices have advanced rapidly on a broad front and have thereby resulted in some fall in demand.

But although, for example, flour and many other commodities are not in the same category as rice and, therefore, do not call for the same type of supervision, this does not mean that there is no room for action designed to help the consumer to become more effective in dealing with "rapacious" merchants. It is to this second type of situation in which "profiteering" can unambiguously occur that I now turn.

I have already said, Sir, that, whilst it may not be easy to *define* "profiteering", there would seem to be scope for what would generally be described as "profiteering" where consumers lack full market information. Let me take four examples: first, panic buying. This has probably only been of any great significance in the case of rice, and the likelihood of this recurring has been reduced as a result of the various measures outlined by my honourable Friend, the Director of Commerce and Industry. But consumers put themselves at the mercy of retailers when they seek to buy in excess of their needs because they feel they must secure their position for a period of time ahead. If they were better informed as to the true facts of the supply situation they might well refrain from rushing in.

Secondly, unreasonable rounding up of prices by wholesalers and/or retailers following upon increases in landed costs or excise duties: this does happen and has happened very recently. Following upon the budget proposals to increase the duty on spirituous liquors, some dealers have rounded up the additional duty when applying it to their prices. For example, one company which imports, wholesales and retails certain proprietary brands wrote to its customers a letter starting "The Government Excise Tax on all liquor has been very substantially increased as from 28th February 1974" and ending "We genuinely regret this increase in selling price which is brought about by circumstances quite beyond our control". Between these two statements was a list of increases per bottle. For all the increases to the prices for wines and spirits, the extra duty has been rounded up by up to 60 cents to the nearest dollar. For beer, the increase was five to seven times the additional duty. If the reason for this was a coincidental increase in costs the letter should have had the courage to say so, but it did not.

Thirdly, to the extent that individual consumers limit their daily shopping to a few retail outlets, they could tend to be unaware of the level of prices elsewhere (and some retailers doubtless take advantage of this); but easy access to information would improve their purchasing efficiency.

Fourthly, in a period in which prices are rising rapidly and continuously, consumers tend to get into the habit of assuming that they will regularly have to pay more and, are therefore, vulnerable in the sense that merchants, sensing this expectation, respond to this expectation whether or not costs so warrant, thereby confirming the expectation and helping to ensure its continuance.

Last November I introduced a consumer advisory service covering, in addition to rice, several items of fresh foodstuffs (namely, fish, vegetables and pork). These were the items for which retail price increases had made the largest contributions to the increase in food prices as a whole over the last year. The Service provides daily information on both supplies and wholesale prices and forms a basis on which it is possible to assess the adequacy of supplies and the extent to which individual retailers are, in their pricing policies, operating at variance with more general market conditions.

However, this service has not been as well received as I had hoped. Its purpose appears to have been misunderstood: it was never intended, for example, that it should put out recommended retail prices. Equally the media have, at best, simply published the information as it stands

[THE FINANCIAL SECRETARY] **Appropriation Bill—resumption of debate on second reading (14.3.74)**

without attempting to analyse it or provide guiding commentaries. It could be argued, of course, that the Government itself should provide some kind of analysis and commentary and I have been looking into this and other ways of making the service more helpful.

But I have come to the conclusion that something rather more than this is required. Although I do not think that "profiteering" is as widespread as some would imagine, and although I do not believe for one moment that even its total elimination would make any very great difference to the rate at which prices are rising, the fact that it exists at all is a cause for considerable anger and frustration. As I have said, people tend to be more aware of "profiteering" in a situation of rapidly rising prices. Perhaps this is because, in a rather emotional way, they simply identify rapidly rising prices as such with "profiteering". Be that as it may, the very fact that prices are, unfortunately, continuing to rise rapidly has aroused public feelings on "profiteering" which need to be channelled constructively.

Proposed Consumer Council

Given that the public feels so strongly on this matter, it is likely that there would be considerable support for some private initiative. In other places, where support is forthcoming, consumer councils, consumer advisory councils, consumer protection councils—call them what you will—tend to emerge with three objectives; first, the building up and maintenance of a storehouse of information on prices of a selected range of commodities; secondly, acting as a clearing house for complaints and drawing attention to what, by common consent, are clear-cut cases of what might be described as "profiteering"; and thirdly, acting as sounding boards for consumer opinions to arrive at a reasonable idea of what the public, at any one time, regards as an unscrupulous practice.

I think Hong Kong now clearly feels the need for a body of this kind and I am sure that private individuals would have little difficulty in obtaining the support they would need to form one. The Government, for its part, stands ready to help such a body get off the ground with the speed the public mood demands.

Accordingly, the advice of Executive Council is to be sought next week as to how a Consumer Council might be established, what its role should be, how it should operate and what form Government

assistance should take. My own personal and preliminary views are that Your Excellency should appoint a nucleus of a Chairman and a few other members (all, of course, would be Unofficials) whose initial task would be to advise Your Excellency as to further membership, which should, of course, include persons with the necessary expertise as well as others able to represent directly the views of consumers. At the same time, these founder members might wish to advise on whether any Government officers should be appointed on a personal basis, having regard to their official duties and experience. The full Council, having been formed, would then settle down to develop an information service on prices and evolve techniques for identifying and exposing "profiteering".

To this end, the Government would be prepared to make available, on a regular basis, all information on supplies and prices of various commodities collected by the Census and Statistics Department, the Commerce and Industry Department, the Urban Services Department and the Agriculture and Fisheries Department for their own purposes. The Government would also be prepared to seek vote provision for an annual subvention to the Council and, if the Council so desired, to second Government officers to it to enable it to get to work quickly. The Council could act on its conclusions by publicity or by persuasion or by recommending action to the Government. The Government would also be happy to hear any views the Council may develop as to how relations between the public and those distributors of essential commodities who are in a semi-monopolistic position (for example, the oil companies) could be improved.

I am convinced that with vigour and imagination something can be done. But I am sure honourable Members will support me when I say that the Government would be extremely reluctant, to put it very mildly, to accept any recommendations for general price controls or bulk buying arrangements. We have seen the effect of such measures elsewhere: the end result is always confusion and distortion in the market and, furthermore, at a huge cost to public funds.

Conclusion

Sir, this has been an interesting and, to some extent, a rather surprising debate. I hope honourable Members will feel able to support the motion now that I have endeavoured to remove any misunderstanding that may have occurred over some of my revenue proposals. I have tried to do this by being as responsive and as flexible as the Hong Kong economy itself. (*Laughter*) I hope also honourable Members are now satisfied that the Government is concerned with the problem