

12th October, 1939.

PRESENT:—

HIS EXCELLENCY THE GOVERNOR (SIR G. A. S. NORTHCOTE, K.C.M.G.).

HIS EXCELLENCY THE GENERAL OFFICER COMMANDING THE TROOPS, (MAJOR GENERAL A. E. GRASETT, D.S.O., M.C.).

THE COLONIAL SECRETARY (HON. MR. N. L. SMITH, C.M.G.).

THE ATTORNEY GENERAL (HON. MR. C. G. ALABASTER, O.B.E., K.C.).

THE SECRETARY FOR CHINESE AFFAIRS (HON. MR. R. A. C. NORTH).

THE FINANCIAL SECRETARY (HON. MR. S. CAINE).

HON. COMMANDER G. F. HOLE, R.N. (Retired), (Harbour Master).

HON. DR. P. S. SELWYN-CLARKE, M.C., (Director of Medical Services).

HON. MR. C. G. PERDUE (Commissioner of Police, *Acting*).

HON. MR. A. B. PURVES (Director of Public Works).

HON. SIR HENRY POLLOCK, KT., K.C., LL.D.

HON. MR. S. H. DODWELL.

HON. MR. CHAU TSUN-NIN, C.B.E.

HON. MR. LO MAN-KAM.

HON. MR. LEO D'ALMADA E CASTRO, JNR.

HON. MR. A. L. SHIELDS.

HON. MR. T. E. PEARCE.

HON. MR. LI TSE-FONG.

MR. C. B. BURGESS (Deputy Clerk of Councils).

MINUTES.

The Minutes of the previous meeting of the Council were confirmed.

PRESIDENT'S ADDRESS.

H.E. THE GOVERNOR.—Honourable Members,—It had been my intention to present a short address to you on this occasion more or less on the lines of that which last year endeavoured to review the salient facts of the preceding twelve months and the more important schemes under Government's consideration. I regret very much that the rush of work caused by Herr Hitler's intromissions has prevented that intention from being fulfilled, and all the more because there has been good progress in many administrative activities and social services which is deserving of record.

I propose, accordingly, to confine my remarks on this occasion to the financial policy and intentions of the Government and I conceive that these will be more rightly appreciated if I first invite attention to the declared policy of His Majesty's Government in this regard. If one were to compare the manner in which this war is being faced by the Government of Great Britain with that of 1914 a fundamental difference would at once be observed. Then, armies, administrative departments and war organizations and requirements of all kinds had to be hastily improvised and the national finances were left to be carried on along normal peace lines; to-day the situation at home presents entirely the contrary picture. The likelihood of the outbreak of a major war between Great Britain and Germany had long been foreseen, plans had been laid to meet the emergency and the appropriate economic policy had been thought out and made ready.

It will be generally agreed, I think, that the outstanding feature of the economic plans of His Majesty's Government, as disclosed in the speech of the Chancellor of the Exchequer on September 27th when he introduced his first war emergency budget, was his insistence upon the importance of paying for the war from revenue as far as that was possible. The inevitability of having also to raise war-loans was clearly recognized but the immediate step taken was the imposition of heavy additional taxation: at the same time he urged most strongly that it was the duty of the private citizen and of the public institution to avoid all unnecessary expenditure in order that savings might accrue for subsequent investment in war loan. It is an inspiring fact that the British taxpayer has readily, not to say cheerfully, accepted the unprecedented burdens laid upon him.

So much for the way in which the taxpayer at home is facing his duty: what of the duty which lies before us in this small unit of the British Empire? I hope and believe that there will be universal acceptance here of the fundamental principle that our responsibilities in Hong Kong towards Great Britain are in no way less than those of British subjects resident in the United Kingdom: and that just

as they are prepared to bear whatever burden the successful conduct of the war may impose upon them, so we also must leave nothing undone that we can do towards that end. In other words, this is every whit as much our war as it is Britain's.

It is in accordance with that principle that the financial proposals that will be placed before you at this session have been framed and I take this early opportunity of saying that they are not to be looked upon as the maximum demand that may be made on the local taxpayer before victory crowns our arms: They are, however, all that we can wisely do at the moment. With this object in view it is Government's intention to replace the budget which is formally before you to-day by two separate budgets: the former will provide for the normal expenditure of Government departments, the latter is designed to fulfil our obligations as a member of the British Empire while engaged in a major war.

It may surprise you that what I will describe as the ordinary budget does not shew greater reductions in expenditure. The estimates, of course, were fairly well advanced when war broke out and early in September we were in the act of considering the extent to which they should be cut down when I received from the Secretary of State some very valuable guidance. In effect Mr. MacDonald's counsel was that, subject to two provisos of which I will make mention later, there should be as little disturbance as possible with the Colony's current activities and developmental schemes, so long as revenue to finance them would be forthcoming. In particular the desire was expressed that existing social services and approved plans for their extension should continue as far as was possible; furthermore any marked retrenchment in the Civil Service was deprecated unless and until we were advised by him so to act.

It will be agreed, I think, that this confident policy, which unquestionably reflects that of His Majesty's Government, is very enheartening at such a time as the present.

The Secretary of State's two provisos, which I mentioned just now as being conditions to be observed in framing the estimates, dealt with the following points. Firstly, the great importance of conserving the exchange resources of Great Britain through control over the purchase and export of foreign currencies and of those British currencies which are not on a sterling footing. Hong Kong's procedure in this respect, it was found, could not be quite "on all fours" with that of other British Colonies because of the predominating importance of our entrepot trade, and special treatment of the problem was therefore permitted to us. I have asked the Honourable the Financial Secretary to give the Council a connected account of the measures taken by Government with this end in view, and I myself shall have a further word to say on this subject when speaking of the revenue estimates. The second point on which the Secretary of State expressed a proviso was the avoidance of expenditure which, by creating a demand for

unessential goods would deflect men, materials and shipping from war purposes. In this connexion I may say that I had already given orders that work on my successor's new house should be stopped before this wise advice was received!

So much for the expenditure estimates in the ordinary budget, which will be more fully explained by the Honourable the Financial Secretary in his speech this afternoon and in the memorandum prepared by him. On the Revenue side there are considerable alterations to be made, but these do not appear in the printed volume. The most important of them are the increases in duties on petrol and alcoholic liquors which have a dual purpose, *viz.*, to raise more revenue and to effectuate the policy of conserving sterling exchange: the other implement certain recommendations of the Taxation Committee and I will leave it to my Honourable friend to state their nature.

The estimated financial outcome of what I have called the ordinary budget is a small surplus. That expectation is due partly to the additional revenue from the sources just mentioned and partly to the transfer of certain appropriate expenses to the defence budget. If, however, during the fifteen month period which the estimates cover it appears that a deficit is probable it should not be difficult to curtail expenditure, and especially capital expenditure, sufficiently to avoid that result.

I come now to the defence budget, by means of which Hong Kong will make its contribution towards the prosecution of the war against Germany. That contribution may take one of two forms, the first being the meeting from our own pockets of such additional local expenditure as the situation may demand for volunteer naval, military and air defences and other war services; the other, free gifts in cash or in kind to His Majesty's Government towards its aim *viz.* the defeat of the enemy. The former of these has its natural limitations and not wide ones at that: but I trust that not only every member of this House but also every citizen of this Colony will agree that there should be no limit upon the aid that we should give to His Majesty's Government other than our ultimate ability to pay. Quite obviously in this lightly taxed community that limit lies at a great distance and could not be reached through existing revenue channels. It is therefore necessary to create new means and Government has decided that an Income Tax is by far the most suitable. Steps will therefore be taken at once to draft the necessary legislation and to bring into being the necessary machinery. My hope is that within six months that machinery will be at work. Plans are not far enough advanced as yet for any detailed description, but in order to prevent unnecessary alarm I will say that it is not intended at the initial stage to prescribe very high rates of tax.

Attention has also been given to the question of taxing Excess Profits. There may plainly be justification for such a measure in due course, but I feel—and I know that my Honourable friend agrees

with me—that we had better tackle the Income Tax problem first and, when that has been done, take up again the matter of Excess Profits Duty.

Honourable Members,—This address is, of course, intended to do no more than outline the principles in accordance with which this Colony's financial policy for the near future is being framed and the Honourable the Financial Secretary will, this afternoon, explain the Government's proposals in ampler measure. I have tried to put before you the twofold duty which rests upon this Legislature at this juncture. On the one hand we are responsible for the proper care, a phrase which includes improvement, of this small but important part of His Majesty's Empire and it is especially incumbent upon us to maintain and, as far as we can extend, the Colony's social services, particularly public health and education: you will find increased provision in the ordinary budget under both those heads. On the other hand it is our duty as well as in our interest to give all that we can to help His Majesty's Government in the great struggle in which the Empire is engaged. The task of this Government is to find the right balance between these two duties and I confidently hope that you will find yourselves able to endorse the proposals that are now about to come before you. I do not wish to be thought to make light of the burden which they will lay upon the shoulders of the taxpayers of Hong Kong. The Income Tax, even at the relatively low basic rate of two shillings in the pound, must inevitably give a shock to the social and commercial structures of the Colony, and considerable adjustment will be necessary in order to absorb that shock. Nevertheless I am fully confident that they will no more shirk their duty where their money is concerned than they have in offering their services, and if necessary their lives, in Britain's cause.

I now commend the business of the meeting to your consideration. (Applause).

PAPERS.

The Colonial Secretary, by command of H.E. The Governor, laid upon the table the following papers:—

Amendment made by the Governor in Council under section 3 (1) of the Pensions Ordinance, 1932, Ordinance No. 21 of 1932, to Pension Regulations C, dated 11th September, 1939.

Regulations made by the Governor in Council under the Pleasure Grounds and Bathing Places Regulation Ordinance, 1936, Ordinance No. 29 of 1936, dated 15th September, 1939.

Order made by the Chief Justice under section 74 of the Probates Ordinance, 1897, Ordinance No. 2 of 1897, dated 13th September, 1939.

Order made by the Governor under regulation 3A of the Defence (Finance) Regulations, 1939, restricting transaction on securities of certain foreign currencies, dated 15th September, 1939.

Amendments made by the Governor under the Emergency Powers (Defence) Act, 1939, as extended to the Colony by the Emergency Powers (Colonial Defence) Order in Council, 1939, to the Defence (Finance) Regulations, 1939, dated 15th September, 1939.

Banks authorized by the Governor under the Defence (Finance) Regulations, 1939, to deal in foreign currency, dated 15th September, 1939.

Additional Defence Regulations made by the Governor under the Emergency Powers (Colonial Defence) Order in Council, 1939, dated 16th September, 1939.

Order made by the Governor under sub-section (2) of section 3 of the Trading with the Enemy Ordinance, 1914, Ordinance No. 25 of 1914, directing that Reuter, Broeckelmann and Company, Shanghai, Canton, Tientsin, Tsingtao and Peiping shall be deemed to be enemies for the purposes of the said Ordinance, dated 15th September, 1939.

Amendment Regulations, 1939, made by the Governor under section 1 (2) (d) of the Emergency Powers (Defence) Act, 1939, as applied to this Colony by the Emergency Powers (Colonial Defence) Order in Council, 1939, to the Trading with the Enemy Ordinance, 1914, dated 19th September, 1939.

Amendment made by the Governor in Council under Section 2 of the Lighting Control Ordinance, 1936, Ordinance No. 55 of 1936, to the regulations, dated 19th September, 1939.

Direction made by the Governor in Council under the Lighting Control Ordinance, 1936, Ordinance No. 55 of 1936, appointing Friday, the 22nd September, 1939, as an occasion for experiment or practice in lighting control, dated 19th September, 1939.

Ships (Names, tonnage and sailing dates) Regulations, 1939, made by the Governor under the Emergency Powers (Defence) Act, 1939, as extended to the Colony by the Emergency Powers (Colonial Defence) Order in Council, 1939, dated 20th September, 1939.

Amendments made by the Governor in Council under Section 7 (2) (a) of the Telecommunication Ordinance, 1936, Ordinance No. 18 of 1936, dated 21st September, 1939.

Hong Kong Defence Reserve Regulations made by the Governor in Council under sub-section (6) of section 11 of the Compulsory Service Ordinance, 1939, Ordinance No. 32 of 1939, dated 21st September, 1939.

Amendment made by the Governor under section 1 (2) (d) of the Emergency Powers (Defence) Act, 1939, as applied to this Colony by the Emergency Powers (Colonial Defence) Order in Council, 1939, to the Compulsory Service Ordinance, 1939, Ordinance No. 32 of 1939, dated 23rd September, 1939.

Additional Defence (Finance) Regulations made by the Governor under the Emergency Powers (Defence) Act, 1939, as extended to the Colony by the Emergency Powers (Colonial Defence) Order in Council, 1939, dated 25th September, 1939.

Order made by the Governor under Regulation 3B (4) of the Defence (Finance) Regulations, 1939, designating certain foreign currency as being applicable under the said Regulations, dated 25th September, 1939.

Order made by the Controller of Food under the Defence Regulations, 1939, with the consent of the Governor, fixing the maximum retail prices of sugar, dated 22nd September, 1939.

Amendment made by the Governor in Council under sections 3 and 4 of the Pleasure Grounds and Bathing Places Regulation Ordinance, 1936, Ordinance No. 29 of 1936, to the First Schedule to the said Ordinance, dated 20th September, 1939.

Order made by the Governor in Council under section 49 (2) of the Rating Ordinance, 1901, Ordinance No. 6 of 1901, as enacted by the Rating Amendment Ordinance, 1935, Ordinance No. 10 of 1935, declaring portion of the New Territories locally known as Tsun Wan and its vicinity to be an urban area, dated 25th September, 1939.

Regulation made by the Governor in Council under sub-section (6) of section 11 of the Compulsory Service Ordinance, 1939, Ordinance No. 32 of 1939, dated 27th September, 1939.

Order made by the Controller of Food under the Defence Regulations, 1939, with the consent of the Governor, fixing the price of food, dated 5th October, 1939.

Amendment made by the General Officer Commanding the Troops under section 10 of the Volunteer Ordinance, 1933, Ordinance No. 10 of 1933, with the approval of the Governor after consultation with the Commandant of the Hong Kong Volunteer Defence Corps, rescinding paragraph (4) of regulation 3 in the Regulations, dated 30th September, 1939.

Proclamation No. 13.—The Regulations of Hong Kong (1937 Edition), Volume II, 1901-1914, to come into operation.

Proclamation No. 14.—The Royal Naval Reserves, or such part of them as the Lords Commissioners of the Admiralty may direct, called into actual service.

Proclamation No. 15.—Crown Rents (Apportionment) Ordinance, 1936, Ordinance No. 4 of 1936, to come into operation as regards certain lots on 6th October, 1939.

Administration Reports, 1938:—

part II.—Law and Order:—

Report on the New Territories, District Office, North.

Part IV.—Education:—

Report of the Director of Education.

FINANCE COMMITTEE'S REPORT.

THE COLONIAL SECRETARY, by command of H.E. The Governor, moved that the Report of the Finance Committee (No. 7), dated 14th September, 1939, be adopted.

THE FINANCIAL SECRETARY seconded, and this was agreed to.

MOTION.

THE ATTORNEY GENERAL moved.—That the Order dated 28th day of September, 1939, made by the Chief Justice under section 32 of the Supreme Court Ordinance, 1873, Ordinance No. 3 of 1873, be approved.

He said: The effect of His Honour's Order is to rescind, retrospectively as from and including 2nd September, 1938, a part of the Supreme Court Fees order in the Regulations of Hong Kong dealing with commission to be paid to the Official Administrator. The reason for rescinding this order is that in the first volume of the Ordinances, section 24, Ordinance No. 2 of 1897, the question of commission is regulated by a scale. In the corresponding volume of the regulations, it is regulated in a different manner under the Supreme Court Fees Order.

THE COLONIAL SECRETARY seconded, and the Order was approved.

VOLUNTEER (NO. 2) AMENDMENT BILL, 1939.

THE ATTORNEY GENERAL moved the first reading of a Bill intituled "An Ordinance to amend further the Volunteer Ordinance,

1933." He said: The effect of this Bill, as explained in the memorandum of objects and reasons, is to place members of the Volunteer Defence Corps on the same footing as members of the Compulsory Service groups who are assigned to that Corps, and to prevent them from leaving the Colony without the previous sanction of Your Excellency.

THE COLONIAL SECRETARY seconded, and the Bill was read a first time.

Objects and Reasons.

The "Objects and Reasons" for the Bill were stated as follows:—

1. Section 5 of the Volunteer Ordinance, 1933, permits volunteers to quit the corps, on complying with certain formalities, except when on actual military service.
2. Under section 11 (7) of the Compulsory Service Ordinance, (No. 32 of 1939) members of the Hong Kong Defence Reserve may quit the same only with the previous sanction of the Governor.
3. The object of this Bill is to require similar permission in the case of volunteers who may desire to quit the corps, during the war, if not called out for actual military service under section 11 of the principal Ordinance. Provision is also made, in accordance with the existing practice, for the granting to such volunteers of leave of absence from the Colony, not involving quitting the corps, by the Commandant in his discretion.

ESSENTIAL COMMODITIES RESERVES BILL, 1939.

THE ATTORNEY GENERAL moved the first reading of a Bill intituled "An Ordinance to provide for the maintenance of reserve stocks of commodities which would be essential for the vital needs of the community during war or other public emergency; for the registration of importers of such commodities and for purposes incidental to or connected with the matters aforesaid."

He said: The long title of this Bill explains very fully its effects. It enables Your Excellency-in-Council to schedule any essential commodities, to provide stocks of these commodities with licensed importers, and to issue import permits. The Bill will apply in the first instance to rice and this restriction will be explained by the Financial Secretary, who is seconding this motion.

THE FINANCIAL SECRETARY.—As the Attorney General has explained, it is proposed immediately to apply this Ordinance to rice. As soon as the Bill is passed applications will be invited from all importers of rice stating the quantities which they desire to be authorized to import, and the minimum stock which is regarded as

satisfactory will then be allocated *pro rata* among the individual importers. The scheme has been fully discussed with representatives of the rice trade and we believe it is workable. It is hoped to bring it into operation very soon after the applications have been received and considered because there need be no delay in the acquisition of the necessary stocks.

Government has itself purchased during the last few months almost the whole quantity which it regarded as necessary, and the Government stocks will be turned over to the licensed importers and not placed on the open market. As it was essential to preserve secrecy in the acquisition of this stock it was not thought possible to come to this Council for funds and the transaction has been financed by means of bank advances. If the ultimate costs including storage charges are not covered by the sale price of the rice when transferred to licensed importers it will be necessary to ask this Council to approve expenditure to cover the deficit but I am hopeful that there will in fact be no deficit at all.

The Bill was read a first time.

Objects and Reasons.

The "Objects and Reasons" for the Bill were stated as follows:—

1. It is considered essential that during war and on other occasions of public emergency provision should be made for the maintenance of reserve stocks of commodities which are essential for the vital needs of the community.

2. This Bill, which follows generally the lines of the Ceylon Essential Commodities Reserves Ordinance, No. 5 of 1939, with such modifications as are considered necessary to adapt it to local circumstances, will apply in the first instance to rice; but provision is made for the scheduling of other essential commodities as occasion may require.

3. The Bill will implement, as it does not repeal, the provisions of the Rice Ordinance, No. 20 of 1919.

THE BUDGET.

THE FINANCIAL SECRETARY moved "That the draft estimates of expenditure for 1940-41 be approved." He said: Your Excellency, —You have indicated in their main outlines the financial intentions of Government in the new conditions which exist to-day. Circumstances have unfortunately compelled the Government to put those intentions before Council and the Colony which that Council represents in two stages. There has been no time since the outbreak of war to reach finality in our proposals for wartime measures and then to reprint the estimates in accordance with our decisions: on the other hand,

in view of the approaching end of the financial year, it was inadvisable to defer presentation until the estimates could be recast in print so as to conform with those later proposals. The only possible course, therefore, was to lay the estimates as printed before the Council, to state when doing so that they would undergo a considerable metamorphosis and lastly in Select Committee to recast them in their new form, or rather forms, for there will be two budgets for the duration of the war where one used to grow in peace time.

I am very sorry for any confusion that this way of handling the subject may have caused but in the circumstances I fear that that was inevitable. But so far as the ordinary estimates of expenditure are concerned the changes to be made are of a "paper" rather than a practical nature: it is the defence budget where most of the innovations come.

We propose, as Your Excellency has said, to have two budgets; the ordinary one which will strongly resemble the budgets of previous years, and a defence budget which will be quite new and I hope a feature of only a year or two.

After that general explanation I have to ask honourable members to turn their attention back to the original estimates of expenditure for 1940/41 which have been in their hands for 10 days. As a memorandum explaining the principal matters of novelty contained in them was circulated at the same time I do not propose to deal with those estimates at any great length. I fear that the innovation, for which I was responsible, of permitting the Press to see the printed estimates with the Council's Order of Business has led some of the papers to misinterpret them and the statement of Government's full proposals may be disappointing to those who read some of the more sensational deductions published yesterday afternoon. The Press have also given due prominence to one fact shown by the print, that is that we already have the forty million budget which I spoke of as a possibility of the more distant future twelve months ago. Expenditure and, fortunately, revenue as well have continued to increase automatically with the increase of population. On a peace basis an approximate balance was expected but the war is likely to increase expenditure in many directions without correspondingly increasing revenue from existing sources.

The estimates as printed contain no innovations in revenue apart from the re-arrangement of the heads in more convenient form. As to expenditure the procedure of examination by a select committee of this Council which will be followed this year as before will afford full opportunity for honourable members to make any comments which they desire and elucidate any obscurities in the details. Those details were mainly settled before the outbreak of war, but no necessity is seen at present to alter them at all considerably. In preparing the final draft, a number of items of new expenditure which it had originally been desired to include were deleted in order to avoid

budgeting for any substantial deficit in the uncertain circumstances which lie before us; but the Government have very definitely refrained from economising at the expense either of social services or of measures of economic development. Your Excellency has made clear that there is no intention to curtail those services in order to provide funds for the new calls which the war must make upon our resources.

I venture indeed to say that, large as the expenditure must appear, all of it is either essential or extremely desirable in order to maintain the public services of this Colony and to enable the Government to discharge its obligations to the community. Honourable members will find that much of the increase in recurrent charges is directly due to our increased population, e.g. the increases in the Police and Sanitary Departments. The programme of Public Works Extraordinary includes many items of a capital nature which are essential to carry on the economic development of the Colony. Evidence of the intention to continue the development of social services is given by the provision for the commencement of a new Queen's College, a new Infectious Diseases Hospital and new Health Centres, as well as a new Volunteer Headquarters. The actual amounts expected to be spent on any of those building next year are small but their inclusion will give approval for proceeding definitely with plans for them and concluding a contract for the work.

Nonetheless, we must not be wholly unprepared for financial difficulties and the programme of public works extraordinary and also the many items of special expenditure appearing in the individual heads of estimates, although they may be approved by this Council and the Secretary of State, will not be automatically carried out if the revenue position does not justify the expenditure. All such items require the individual authority of Government before expenditure is incurred on them and that approval will be withheld if necessary. In addition it is proposed to draw up a schedule of additional posts provided for in the estimates the filling of which will similarly be subject to special approval. That procedure will enable Government to proceed with these appointments if the financial position does not deteriorate but ensures a continuous control in the light of current financial circumstances.

There is only one other point to which I want to refer in the estimates as printed. The change in the system of calculating the Colony's ordinary Defence Contribution has necessitated a change, essentially of a bookkeeping nature, in the accounts of the waterworks undertaking. Briefly instead of charging against the waterworks a 20% of its gross revenue less debt charges as under the old routine that charge has been deleted and, to compensate, the part of the general rates credited in the accounts to the waterworks undertaking has been reduced from 2% to 1%. The net effect on the waterworks finances is a difference of only a thousand or so dollars.

I turn now to the effects on the estimates as printed of the war and the new financial proposals outlined by Your Excellency. Let

me take the war budget first. To it will be credited the whole proceeds of income tax. Those proceeds will be used, first, to meet the costs of collection of income tax; secondly, to pay for the expenditure on local defence now appearing in Heads 6A, 6B and 6C, that is, the Volunteer Defence Corps, the Naval Volunteer Force and the Air Raid Precautions Department; thirdly to meet the additional expenses in various directions necessitated by new services created to meet war time necessities, e.g. maintenance of German internees, censorship services, etc. The whole balance of the proceeds will be made available as a special war contribution to His Majesty's Government, to be spent as they think fit, locally or at home. This will be entirely additional to the ordinary Defence Contribution of \$6,000,000 per annum which will continue to be a charge on the ordinary budget. The new expenditure on the Income Tax Department and on special war expenditure will of course be duly authorized by this Council and estimates for those purposes will be submitted as soon as they can be prepared. Members will naturally want to know how this is expected to work out in figures. We are proposing a standard rate of Income Tax of 10%, with a possible surtax on very high incomes. I will explain later more of the detail, but the yield at 10% was put by the Taxation Committee at about \$10,000,000 per annum. I can at present give no reliable estimate of the costs of administration but they are likely to be only a small percentage. The local defence and war expenses are not likely to aggregate more than \$2,000,000 per annum and the balance payable to His Majesty's Government should be of the order of \$7,000,000 or \$8,000,000. I do beg, however, that nobody will hold these figures against me if they turn out wrong. There are no statistics whatever of total incomes in the Colony and we are compelled to do a lot of guesswork at this stage.

Turning to the ordinary budget, we must reckon with increases in expenditure in many services not directly connected with the war. All supplies, for instance, are likely to cost more; unfortunately as we are so dependent on imports we can do very little to prevent prices rising. Revenue on the other hand, is likely to suffer by the reduction in our swollen population which has recently begun and which is so welcome on general grounds, and by the reduction of luxury expenditure which Your Excellency has urged and to which the payment of income tax will itself contribute. Accordingly, even if there had been no intention to make any special contribution to His Majesty's Government I should have proposed some increase of taxation in order to provide ourselves with some margin of reserve. That margin is secured by the proposals Your Excellency has described, the effect of which is as follows.

On the expenditure side the ordinary budget will be relieved of the costs of the Volunteer forces and Air Raid Precautions, estimated in the printed volume at about \$1,800,000 for 1940/41. On the revenue side the ordinary budget will benefit by receipts from other new taxation referred to by Your Excellency, principally the imposition of additional duties on petrol and liquor. These proposals are not

put forward mainly with a view to increasing the revenue but for purposes connected with foreign exchange policy which I will explain more fully in a few minutes. The additional taxes are designed deliberately to check consumption and cannot be expected to produce a proportional amount of revenue.

The revenue will also benefit a little by steps which have been taken or are in contemplation to implement certain minor recommendations of the Taxation Committee. School fees are being increased as from the 1st January, fees for maintenance in hospitals are being revised, especially for Government servants; and discussions are in train with the object of securing the payment of royalties by certain public utility companies as recommended by the Committee. In all the additional revenue, mainly of course from the petrol and liquor duties, should be not less than \$1,000,000 per annum.

The revised ordinary budget should therefore show a nominal surplus of some \$2,000,000, but since it is not proposed to make any specific amendments to allow for declines in other items of revenue and increases in costs of supplies, etc. that nominal surplus will be rather a reserve than a true expectation of excess of revenue.

I promised a few minutes ago to give some further details of the Income Tax proposals; but the figures I shall quote must be taken as provisional only. Although Government is convinced of the necessity of such a measure in principle there is no intention to thrust upon the Council a scheme cut and dried in all its details and all the personal and other allowances will be open to full discussion in this Council or in any special committee which may be set up to consider the details. Honourable members and the public will, however, wish to have some idea of what is in Government's mind on those points.

The standard rate of 10% will be charged on all company profits, payments of interest, etc., and on all income in respect of which the recipient has made no claim to personal and family allowances; but the man who makes such a claim will pay at 10% only on the balance of his income after deducting his allowances and after paying at half rate, 5%, on the first part of his taxable income.

The allowances Government has provisionally in mind are earned income allowance, one-tenth of earned income up to \$15,000; personal allowance, \$1,800 for a single man plus \$1,350 for a wife; children, \$1,000 for the first child and \$600 for each subsequent child. The 5% rate would be charged on the first \$3,000 after deducting allowances.

Under this scheme, the exemption limit would be \$1,800 per annum for unearned income and \$2,000 for earned income; and a married man with two children would be exempt up to \$5,280 per annum and would only pay the full rate of 10% on income in excess of \$8,600 per annum. The following are random examples of the

tax payable by such a man on various incomes, ignoring a possible surtax on the highest incomes, a matter which is still receiving the consideration of Government:

£400 per annum	\$50
£750 per annum	\$455
£1,250 per annum	\$1,225

Before leaving this subject of income tax I would say a word about its administration. The Taxation Committee recommended that there should be a preliminary expert investigation of the administrative difficulties; but circumstances now render it impossible to secure the services of an expert and Government had to decide either to go ahead at once or to wait until after the war, when of course the urgent need would have vanished. It is equally impossible to get an expert from home even to help start the Department and we must do it with our own resources. Government is only too well aware that that is a formidable undertaking and I most earnestly crave the patience and indulgence of this Council if in order to make this new departure a success in the short time at our disposal we have to ask in the beginning for what may seem an extravagant temporary establishment. I also crave the patience of the public who will have to put up with the mistakes and delays which we can hardly avoid in the early stages. I can only promise that we will do our best and express a hope that we may receive helpful co-operation from the public.

I come finally to the measures of exchange control and other steps to safeguard our foreign exchange resources which have been taken, or are in contemplation, on which Your Excellency has desired me to make a statement for the information of honourable members. It will be necessary for the home Government to make very large purchases for war purposes from non-sterling countries including Canada, the United States and the neutral European countries. They will need all the resources they can obtain in the currencies of those countries. The first objective of exchange control measures is therefore to secure as far as possible that foreign exchange which may be held or may be acquired in the future by residents in the United Kingdom and the other parts of the Empire whose currencies are on a sterling basis should be made available to the Government. In their full form the necessary measures include the taking over by Government of all sums held in foreign currencies by residents in the countries concerned and the surrender to Government of all sums subsequently acquired by such residents whether as interest on overseas investments or as the result of the export of goods to foreign countries. To control the surrender of the proceeds of exports a system is introduced by which exports are only permitted by licence which requires such surrender as one of its conditions. Having got control of all the available foreign exchanges resources the Government then secures that they are used only for purposes which are considered essential or desirable by limiting

purchases of foreign currencies by the public to authorized dealers who are instructed by the central authority as to the purposes for which exchange may be sold. This again is backed by a system of import licensing which requires the approval of some Government authority before any imports can be admitted. As yet a further measure, direct steps are taken to prohibit absolutely the import of commodities which are regarded entirely as luxuries. The circumstances of Hong Kong and particularly the great entrepot trade and financial business upon the Colony lives render impossible or at least highly dangerous the adoption here of the full measures of control adopted as above in the home country and elsewhere in the British Colonies. The measures we have taken are, therefore, only as follows. First we have limited purchases by the public of foreign exchange generally to authorized dealers, who include all the larger banks, both British and foreign, in the Colony. Those authorized dealers act on instructions from Government as to the purposes for which exchange may be sold and speculative transactions and transfers of capital are absolutely forbidden. Secondly, Government has required the surrender of foreign exchange holdings but this requirement has been limited to British subjects because of the difficulty of applying it more generally in this international community of ours. Such exchange transferred to Government is of course paid for in Hong Kong dollars or sterling. We have taken power also to require any British subject to surrender to Government any foreign exchange which he may subsequently acquire but it is not the intention to apply that to exchange acquired in the ordinary course of business. Such exchange is normally sold to one of the authorized dealers and through the control of sales of exchange it thereby remains within the control of the sterling system provided that we have the full co-operation of the banks concerned. I should like to take this opportunity to state my belief that we shall get that co-operation from all the banks operating in this Colony and my gratitude to those banks for the help they have given to Government so far and the patience with which they have borne with our somewhat fumbling first attempts in this unfamiliar field of control.

Because of our peculiar circumstances we have had to make certain exceptions even in the field of sale of exchange. Both exports of Hong Kong and Chinese bank notes and remittances of small sums to the interior of China are either completely free or subjected to only a loose control. In view of that the authorities at home have felt obliged to refuse absolutely unrestricted dealings between London and Hong Kong lest there should be a leakage of funds from London through Hong Kong. We have however been assured that the authorities in London will provide exchange for all legitimate purposes and sterling transactions in Hong Kong itself are completely unrestricted.

The Secretary of State for the Colonies has also agreed that it would be unwise to impose in Hong Kong a full system of licensing of imports and exports. Search has therefore been made for other means of checking undesirable imports, that is, imports which are

undesirable because they use up exchange resources. The conclusion has been reached that this can best be done in two ways, first by the imposition of taxation with the deliberate object of checking consumption. With that end we propose to double the tax on petrol and foreign wines and spirits and, since consumption of luxuries, even from sterling sources, is to be discouraged, Government proposes to increase the duties on Empire wines and spirits by 25%. These increases have been given effect to by an order signed by Your Excellency this afternoon in pursuance of your powers under the Public Revenue Protection Ordinance of 1927. There was no time to give you notice of the resolution to be introduced in this Council, but that Ordinance empowers Your Excellency to bring into application immediately in advance of the introduction of this formal resolution when you have approved of such introduction. The necessary resolution will be duly moved at the next meeting.

In considering the petrol taxation I hope that members will keep prominently in mind that the authorities in the United Kingdom have taken the very much more drastic step of direct rationing of private users, granting them sufficient supplies for a mileage of 2,000 miles a year. The measures we propose are very mild compared with that, just as in everything else, taxation and control, the Hong Kong citizen is being treated less severely than the United Kingdom resident. It is not desired that the increased tax on petrol should hit the commercial users, that is the buses and lorries; therefore the tax on diesel oil used by the buses and some lorries will not be increased and, as some offset to the additional burden on petrol-driven lorries, the annual licence fee on such lorries will be reduced to a nominal charge of \$5 representing in most cases a saving of from \$85 to \$115 per annum. Vehicles which have already paid licence fees for this year will be eligible for proportionate refund as from the 1st October. No similar concession will be made to taxis but the additional burden of the petrol tax in their case may be regarded as a substitute for the special taxation of the taxi operators which was suggested by the Taxation Committee but which the Government does not now intend to pursue. The second action which it is proposed to take to limit exports which are undesirable from the exchange point of view is the enactment of legislation enabling the Government to prohibit the import of specified articles except under licence. It is proposed that licences should be issued freely when the importer is able to give guarantees that the articles will be sold only for re-export but very sparingly in other cases; and the application of this system will be limited to articles which can conveniently be controlled in such a way. The bill of an ordinance to provide for such a system will be introduced as early as possible.

I now move formally the Resolution standing in my name, that the draft estimates for 1940/41 be approved; but in doing so I give formal notice that amendments on the lines just indicated will be proposed in the Select Committee to which the Resolution will presumably be referred. (Applause).

THE COLONIAL SECRETARY seconded.

HON. SIR HENRY POLLOCK.—Your Excellency,—As Senior Unofficial Member I beg leave to move, as an amendment to the resolution, that the Draft Estimates be referred for consideration in detail to a Select Committee consisting of the Colonial Secretary, the Financial Secretary and all Unofficial Members.

Whilst thanking Your Excellency and the Hon. Financial Secretary for the explanation which you have given at this meeting of the Council, I feel it would be premature for me to address any remarks now upon the Budget, or perhaps I should say upon the Budgets, which have been laid before us. I therefore do not propose to say anything upon either of these Budgets on the present occasion but simply to move the amendment which I have mentioned and which will be seconded by my Hon. Friend, Mr. Dodwell.

HON. MR. S. H. DODWELL.—I beg to second that.

The amendment was put and carried.

H.E. THE GOVERNOR.—That concludes the business of the meeting but before adjourning I should like publicly to inform Hon. Members at this stage of the effect of the legislation which I have enacted by a stroke of the pen just before the meeting of this Council. I have the new duties and I now ask the Financial Secretary just to mention them.

THE FINANCIAL SECRETARY.—The new duties are:

On petrol, duties on light oils increased to 60 cents per gallon;

On liquor, duties on liqueur, champagne and other sparkling wine increased to \$16.25 per gallon (British produce) and \$26 per gallon (foreign);

On brandy, duties increased to \$6.25 per gallon (British produce) and \$20 (foreign);

On gin, whisky and other spirituous liquors duties increased to \$12.50 per gallon (British produce) and \$20 (foreign);

On port, sherry and madeira, duties increased to \$7.50 per gallon (British produce) and \$12 (foreign);

On all other still wines duties increased to \$6.25 per gallon (British produce) and \$10 (foreign);

Duties on beer and all Chinese and Japanese type liquor have not been altered.

ADJOURNMENT.

H.E. THE GOVERNOR.—Council stands adjourned *sine die*.