

OFFICIAL REPORT TO PROCEEDINGS.**Meeting of 24th February, 1960.**

PRESENT:HIS EXCELLENCY THE GOVERNOR (*PRESIDENT*)

SIR ROBERT BROWN BLACK, K.C.M.G., O.B.E.

HIS EXCELLENCY THE COMMANDER BRITISH FORCES

LIEUTENANT-GENERAL SIR EDRIC MONTAGUE BASTYAN, K.B.E., C.B.

THE HONOURABLE THE COLONIAL SECRETARY

MR. CLAUDE BRAMALL BURGESS, C.M.G., O.B.E.

THE HONOURABLE THE ATTORNEY GENERAL

MR. ARTHUR HOOTON, Q.C. (*Acting*).

THE HONOURABLE THE SECRETARY FOR CHINESE AFFAIRS

MR. PATRICK CARDINALL MASON SEDGWICK (*Acting*).

THE HONOURABLE THE FINANCIAL SECRETARY

MR. ARTHUR GRENFELL CLARKE, C.M.G.

THE HONOURABLE ALLAN INGLIS

(Director of Public Works).

DR. THE HONPURABLE DAVID JAMES MASTERTON MACKENZIE, C.M.G., O.B.E.

(Director of Medical and Health Services).

THE HONOURABLE COLIN GEORGE MERVYN MORRISON

(Director of Urban Services).

THE HONOURABLE KENNETH STRATHMORE KINGHORN

(Commissioner of Labour).

THE HONOURABLE NGAN SHING-KWAN, O.B.E.

THE HONOURABLE KWOK CHAN, O.B.E.

THE HONOURABLE JOHN DOUGLAS CLAGUE, C.B.E., M.C., T.D.

THE HONOURABLE HUGH DAVID MACWEN BARTON, M.B.E.

THE HONOURABLE DHUN JEHANGIR RUTTONJEE, O.B.E.

THE HONOURABLE FUNG PING FAN, O.B.E.

THE HONOURABLE KWAN CHO YIU, O.B.E.

MR. ANDREW McDONALD CHAPMAN (*Deputy Clerk of Councils*).**ABSENT:**

THE HONOURABLE RICHARD CHARLES LEE, O.B.E.

MINUTES.

The Minutes of the meeting of the Council held on 24th February, 1960 were confirmed.

PAPERS.

THE COLONIAL SECRETARY, by Command of His Excellency the Governor, laid upon the table the following papers: —

<i>Subject.</i>	<i>G.N. No.</i>
Sessional Paper, 1960: —	
No. 4—Annual Report by the Director of Agriculture, Fisheries and Forestry for the year 1958/59.	
Draft Estimates of Revenue and Expenditure for the year ending 31st March, 1960.	
Memorandum on the Estimates, 1960/61.	
Report of the Sub-committee of Finance Committee on the Public Works Programme for the year 1959/60.	
Hong Kong Annual Report, 1959.	
Telecommunication Ordinance.	
Radiocommunication (Exemption) Order, 1960	A. 7.
Education Ordinance, 1952.	
Education (Amendment) Regulations, 1960	A. 8.
Stamp Ordinance.	
Stamping and Denoting of Documents (Amendment) Regulations, 1960	A. 9.

ADDRESS BY HIS EXCELLENCY THE GOVERNOR.

Honourable Members, last year I described 1958 as being a year of storms which we rode out successfully, and I expressed confidence that we would meet the challenge of the coming year. Well, throughout this year, we have kept the weather gauge and stood to the windward of opposing forces, and, indeed, the wind has backed round the compass sufficiently to enable us to sail into marked prosperity.

In making my review this year, in the midst of the ever widening field of our many activities, I have tried to keep within a reasonable period for its telling by selecting only a number of features from our undertakings and to speak only about the major of the many problems we face. The heart of the matter, of course, is our swollen population

which compels us to provide the opportunity for work, houses, schools and medical care for the people who regard Hong Kong as their home, whether they be those whose forbears lived here or those who have come for shelter, particularly in the last decade. The bill of costs for all this, and the Financial Secretary has issued his warning year after year, mounts higher and higher. Clearly we must exercise economy where we can; clearly, on the other hand, we cannot avoid the inevitability of extended services and growing maintenance costs.

In connexion with our massive housing responsibilities I wish to comment on two developments. The latest count of squatters, disclosed by a survey undertaken during the year, shews that previous estimates were too low. There are still some 500,000 on the ground; to that number we must add 70,000 squatting on roof tops. This sharpens the outline of the stark fact that we have to continue our resettlement work at full pressure for some years to come, and, indeed, hasten the rate of construction. The Director of Public Works believes he can maintain an average output of over 40 blocks of resettlement type housing in a year to meet a commitment of resettling eventually about 100,000 persons a year over the next 5 years.

The second development relates to the conclusion of the Special Committee on Housing that more than 50% of the urban population are still living in overcrowded or slum conditions and with incomes of less than \$300 a month. We have, therefore, launched a programme for the housing of these people. The Public Works Department has designed a new type of low-cost housing based on an improved resettlement model, giving more living space and better kitchen and lavatory facilities, and it is selecting sites in the hope of being able to house about 20,000 persons a year at inclusive rents not exceeding \$40 a month. The intention is that the Resettlement Department should take over the administration of this type of housing, for which Government proposes to give priority to families whom it has been necessary to dispossess because of the demolition of buildings which are either in a dangerous condition or have to be cleared for public purposes. There appears to be no satisfactory alternative to the adoption of this course. It is a not unnatural circumstance of private building operations that some of the oldest and worst tenement areas do not attract the builder in his search for sites suitable for re-development, and such buildings, which have deteriorated over the years to the point of danger, became the focus of attention after the heavy rains both in 1957 and 1959.

I turn now to education. The number of pupils in schools and colleges of all kinds is nearing half a million, or one-sixth of our estimated population. The year has seen the provision of 67,000 more school places and, according to the data in our possession, which, of course the Census Report may alter, we are within sight of having a place in school for every child of primary school age. And where

does this bring us? While the population grows, we shall obviously need more schools. The immediate problem is that the rising tide of primary enrolment is now overflowing into the secondary schools, and it is to the solution of this that our interest must move. Granted that we cannot provide secondary education for all, we still must consider the growing number of children who have the ability to profit by such education and of whose trained intelligence the community will stand in need. How are we to preserve an even ratio between primary and secondary school places, and how do we vary the types of secondary education? Well, our plans contemplate, in addition to the traditional grammar school, the possibility of providing secondary modern and technical schools, the former with a 3-year course related directly to the immediate needs of employment in home, office or factory, while the latter, the technical schools, would offer full five-year courses leading to the Hong Kong School Certificate and, like the existing schools of their kind, be linked to the Technical College and other institutions giving advanced training in technical subjects. The financial implications, however, as you will realize, are very serious.

I believe that the most significant step in education taken last year was Government's decision to enhance the status of our post-secondary Chinese colleges, and to support certain of them from public funds, in the hope that they may ultimately become members of a second University in which the Chinese language would be the principal medium of instruction. When a grant-aided college is ready to support claims for recognition as being of university status, we shall appoint a Commission to examine these claims. If it reports favourably, Government will introduce legislation to set up this second University in Hong Kong, and our hope would be that other colleges could soon thereafter establish their claims to become members of this new University. I see no threat in these plans to the University of Hong Kong; on the contrary, I believe that the establishment of a second University in the Chinese language gives promise that Hong Kong, uniquely placed as it is, may play its part at a high academic level in bringing still closer the cultures of the West and of China. The new University would be complementary to what we now possess; it would extend the benefits of a university education, based on Commonwealth standards, to many of our middle school students, who at present are prevented from enjoying it. In default of local provision for them, these students are forced to seek higher education elsewhere, frequently to our disadvantage as to theirs, and by that I mean that very often the lure of scholarships or low tuition fees attracts students who eventually obtain degrees which are of little value in seeking local employment.

The University of Hong Kong has made new plans which will provide for development at a capital cost of about \$25 millions over the next 7 years. These plans take account of expansion in existing

faculties, the absorption of schemes not completed under the previous 5-year plan, and the addition of certain new courses, notably a School of Dentistry, with an eventual expansion of the number of students to 1,800. Taken together with our fine Technical College, it is fair to say that Hong Kong is trying to meet, in a realistic way, the aspirations for higher education amongst our young people.

On the subject of health services, it is striking that Hong Kong, despite our overcrowding, still remains remarkably free from major outbreaks of epidemic disease. This does not mean that there is no risk, but it does show that we are making progress in the prevention of disease. Improved water supplies, extensive rehousing, locality health and quarantine services have most certainly contributed, and we are developing these as rapidly as the money, the material and staff resources permit.

The communicable diseases of diphtheria, typhoid and tuberculosis are still the most serious for us, and, once more, I appeal to the public to make the fullest use of the means which Government offers for protection against diphtheria and typhoid, with their quite unnecessary toll of sickness and death. In the case of tuberculosis, it is, alas, true that 2% of the population suffer from it in an active form, but we should look at this figure against the background of an unprecedented influx of people; it is more to the point to draw attention to what has already been done. In 1959, just under 60% of the new born babies were given the protection of B.C.G. vaccination; there were over 20,000 cases of active tuberculosis under continuous treatment as out-patients at the Government chest clinics alone; there are now 1,800 beds set aside for the treatment of tuberculosis in hospitals which Government, the Hong Kong Anti-Tuberculosis Association and other charitable and missionary agencies maintain; the death rate from tuberculosis has fallen from 208 in 100,000 in the year 1951 to 76.6 in 100,000 in 1959. It has been within our own resources that we have achieved this, but we have never shut our eyes to a hard, realistic assessment of the urgency and the size of the task still to be undertaken. We are not complacent—there is no room for smugness—but let us take encouragement from the progress which we are making, progress I believe we can speed up with the greatly increased means for treatment which should materialize during the next three years.

I think we can claim that the programme for the building of clinics and hospitals is really beginning to take shape, and I do not consider it necessary, nor indeed do I have the time, to enlarge on this now, but there is one other aspect of the health of our population to which I wish to make reference. Drug addiction has long been a problem in Hong Kong, as elsewhere in the Far East, but, in recent years, heroin, an extremely pernicious drug, has largely taken the place of opium, and the effect of heroin smoking on the social and economic

life of Hong Kong has been causing us great concern. Last November, after Government had carried out a careful study of the problem and of practical counter measures, it announced, by means of a White Paper, its determination to use all means at its disposal to suppress drug addiction and trafficking. The White Paper marked the beginning of a co-ordinated and intensive drive against narcotics. Public support for this campaign has been very encouraging and an indication of its initial success lies in the fact that we have made increased seizures of illicit drugs—and invoked the law of demand and supply; heroin prices have risen. We are planning further measures. If the departments concerned can sustain their efforts and can rely on the continued support of the public, I hope that, within a reasonable time, we shall greatly improve the situation.

Incidentally, the reports of the Commissioner of Prisons on the part which the prison for convicted drug addicts at Tai Lam Chung is playing are favourable. At this prison we direct our efforts to giving the prisoners hospital treatment and then rehabilitation in open air conditions—for instance, forestry work. It looks as if we are getting somewhere in this.

Our problem of people forces us to look beyond the existing centres of population for areas into which population can overflow, find employment and settle down, and we have reviewed the pros and cons of expansion into the New Territories with the minimum disturbance of existing areas of land used for agriculture. After studying reports prepared by the consulting engineers, Messrs. Scott & Wilson, Kirkpatrick & Partners, on several possible sites, we have decided to proceed with a large central reclamation scheme at Gin Drinker's Bay and Tsuen Wan, now to be called Kwai Chung, with the object of creating new land for development in conjunction with the areas formed in the neighbouring hills. We hope to provide 400 acres of new land. It will take 5 years to do this and we have commissioned the consulting engineers to prepare detailed plans for its execution. The advantages which influenced us in making the decision were, notably, nearness to Kowloon, good (and improving) communications with that city, and the fact that in Tsuen Wan we already have an existing centre of population and industry capable of expansion and with direct access to the sea. On available data, our planning suggests that, by expanding our existing urban areas, and including New Kowloon and Tsuen Wan, we could have new land to house an additional 1½ million people, with sites for industry to give them employment.

Looming large among the problems of the development planners is that of water. The Tai Lam Chung scheme is virtually complete and there is steady progress at Shek Pik. We are going ahead with site investigations, including boring and drilling works for the proposal to

convert Plover Cove into a fresh water lake, a scheme, which if we can carry it out, should provide an additional 55 million gallons of water a day in from seven to nine years. We are also examining a feasibility report on a similar but smaller scheme for Hebe Haven. Moreover, I should add that the Hong Kong Government has read with interest of official statements about the construction of a new reservoir on the Sham Chun River in the neighbourhood of Huang Pei Ling, from which, I understand, there would be supplies of water surplus to the requirements of the local population there. We are anxious to obtain additional supplies of water as soon as possible, and I very much hope, therefore, that we can come to an arrangement with the Chinese Authorities whereby supplies from this source can be made available to Hong Kong.

People naturally ask whether we are ever going to be able to catch up with the demand for water for industrial as well as for domestic use. The answer is that it is possible but very expensive and that it would take time. Government has been following the latest developments for producing fresh water from the sea coupled with the generation of electric power. It is true that, elsewhere, authorities are distilling sea water, but I am informed that the largest plant in the world now under construction is designed to provide only 2½ million gallons a day. We are looking for 50 million gallons more a day. It would also appear that it would take a number of years to build an atomic plant, while present costs are still appallingly high. Government, therefore, in the face of an urgent problem whose solution brooks no delay and because of the comparative bills of cost, believes that it must press ahead with conventional schemes.

During the last nine months our problems have caught the attention of the world through World Refugee Year and we are very grateful for the most generous donations already made in certain quarters. Although it is one of the declared aims of World Refugee Year to try to solve refugee problems entirely, wherever possible, the movement, of course, could never hope to achieve such a result in Hong Kong in the short space of one year. We have to try to make recent immigrants an integral part of the social fabric of Hong Kong and we do not, therefore, attempt to distinguish in any way between refugees and other residents. None the less, World Refugee Year has given us an opportunity to hasten a number of solid social advantages, which would not otherwise have been possible so soon—and, in deciding how to make the best use of this wonderful opportunity, we have taken account of things peculiar to Hong Kong and of other matters arising from the nature of the World Refugee Year Movement itself. Clearly we should not spend the money on ephemeral projects, nor should we spend it on projects to which Government is already committed. Although we do not distinguish between refugees and others, we accept that the World

Refugee Year programme should help recent immigrants as far as possible. Again, we have to keep a sense of proportion; let us do what is practicable, noting what our resources of land and skill can bear and the risks attendant on the mounting recurrent expenditure which must follow new projects—expenditure which the taxpayer will have to bear. We must plan, as far as the Government is concerned, within the limits of what we can afford. These were the factors which guided us in presenting to prospective donors the programme to which we have given publicity.

The most important single project during the year to which the Social Welfare Department has directed its efforts, in co-operation with a number of voluntary organizations, is the setting up of the first Community Centre in a resettlement estate. You can see rising rapidly at Wong Tai Sin a building similar to a 24-classroom school. It will cost \$1,150,000 and we are indebted to the generosity of the United States Government for this money. When we have completed it, in the summer, it will contain a mothers' club, a recreation centre for children and a family casework centre; there will be vocational and trade training classes, a day nursery and a play centre, libraries, clubs for the blind and deaf, and facilities for the basic training of social workers. The Social Welfare Department will manage the Centre and share with voluntary agencies the running of the various activities. The purpose of this is not to create a convenient point of assembly for welfare services under one roof, but to provide a medium, experimental of course, for the development of a community spirit amongst those who are living in Wong Tai Sin. We know from experience elsewhere that buildings filled with people do not amount to a community; but, if we provide services which the residents will want and come to value, then we may win good citizens for Hong Kong. Government is planning, as you will have seen from recent press announcements, a second Community Centre at Tsuen Wan, and the funds for this come from the United Kingdom's World Refugee Year Committee.

Generally speaking the past year has been one of steady development for the Social Welfare Department, with an expansion of services which has revealed disturbingly how woefully short we are of trained social workers for the new tasks. Government is fortunate in the close co-operation prevailing between the official and voluntary bodies, and I record here my appreciation of the work of the latter and notably of the direction which the Hong Kong Council of Social Service is giving. It has doubled its activities in a variety of directions in recent months, and one particularly imaginative scheme is that which they have produced to deal with beggars. If the public (and, indeed, tourists) will co-operate, we can lead beggars to relief centres for proper investigation and help, and, by doing so, find an alternative to the indiscriminate almsgiving which is the vested interest of professional mendicants.

It is appropriate now, I think, to dwell for a short time on some aspects of our economic problems. 1959 has certainly been a very significant year in our economic growth, and it has also been a successful one for our merchants and industrialists. Total exports were up by 9.7%. The total value of imports, exports and re-exports represents an increase of 8.5% over the figures for 1958. Revised classification of the trade statistics to separate exports of domestic products from re-exports shows that re-exports accounted for only 30% of the total figure for exports. That the produce and manufactures of Hong Kong represent as much as 70% of our export trade is a most striking disclosure, and I shall speak about some of the consequences in a few moments. The value of these domestic exports is \$2,300 millions. Imports remain greater than our total exports by \$1,700 millions, but we must take into account the increases in our invisible earnings, particularly from tourism.

Prices have remained stable, wages have increased, and order-books, particularly in the textile mills, have been full.

As I have said, we are enjoying prosperity, and I go so far as to add that some enjoyment of this prosperity has penetrated deeper into the community than hitherto. At Chinese New Year I saw more well-being among more people in Hong Kong than I have seen before. People were out in their best clothes, and any visitor might well have wondered whether all the stories they had heard about refugees and poverty in Hong Kong were true. That impression is, of course, a festival one and superficial, but not completely inaccurate, because I believe that it does reflect the higher wages and increased earnings of the past year among those who are fortunate enough to be fully employed. I am confident that 1960 will be at least as prosperous as 1959 has been, but this tempo of development is a challenging one, and we are finding that the more we increase our sales overseas the more unpopular we seem to become. You are all familiar with the pressure on us to limit certain of our exports. I do not think this is the place to embark on a detailed exposition, but I do wish to underline the necessity for studying this problem in its proper context. Hong Kong is now one of the manufacturing centres of the Far East. Until the 1930's, when Japan began exporting in volume to the West, the East had been a buyer of the manufactured goods of the West. During the last 30 years, and particularly during the last 15, there has been a fundamental change in this pattern. With the capital equipment which the West has supplied, sometimes in the form of aid, Eastern countries have set up their own manufacturing industries, and they are selling what they manufacture in increasing quantities to the West. Hong Kong's industrial expansion has come later and faster than that of some of the countries in this area, but we are right in the centre of the controversy which has arisen. I doubt very much whether we could

hope to avoid controversy in view of the remarkable changes which have taken place. Because of the lower wages in the East our products are cheaper, and this is true even in Hong Kong where our manufacturers have to import practically all their raw materials. We must, furthermore, manufacture and export our goods in increasing quantities if we are to find employment for our teeming population. But, however popular our inexpensive products may be with consumers in the West, some of these products are taking away business from the old-established industries in western countries in their own home markets, and I repeat this, in their own home markets. It is hardly to be expected that the Governments of these countries will continue to permit the import of our manufactures without limit if the effect is ever likely to be that these industries will suffer and that their workers are going to be thrown out of employment. We can only solve the problems which arise if the East and the West recognize each other's problems and accept the necessity to adjust themselves to changes in the pattern of world trade in a spirit of mutual trust and understanding. I expect this problem to assume even greater significance in the next year or two, and I would ask all sections of the community to examine it in the context which I have just described, and to exercise patience while we are all trying to find the answer. It is bound to be a gradual process; it will take time; it will undoubtedly call for sacrifices on both sides.

I believe that we are all now fully alive to the need to diversify our products and to find new markets. The industrial climate this year has been good, and there are many encouraging signs of investment in new fields. The attitude of the banks on this question is most commendable; they have given a lead in this, in an effective approach to the solution of our long-term problems.

Once more, I must repeat what I have said on several occasions publicly; it is this: let us have a unanimous voice in industry, speaking firmly and with authority on behalf of its members. If we do not have it, we are at a grave disadvantage in meeting economic pressures and opposition from elsewhere. I am glad to learn that the Working Party of the Federation of Industries has completed its deliberations, and I trust that it will only be a matter of a few weeks before a Federation of Hong Kong Industries is a fact. I congratulate the Working Party on their hard work, their patience and their imaginative approach to the difficult task confronting them. They have pushed this matter ahead under the able leadership of Dr. the Honourable S. N. Chan, with a clear realization of what is at stake. I hope that all industrialists will give the Federation their full support when it comes into being, and that we shall then have a representative organization of international standard.

You will recollect that earlier I spoke about our invisible earnings and the increasing contribution to these from tourism. According to some provisional estimates, which we cannot as yet verify, it would appear that, during 1959, 270,000 tourists visited Hong Kong (including about 130,000 United States servicemen) and that they have spent roughly \$500 millions. This is about one-third more than was spent in 1958. If correct, this sum represents 15% of our total visible exports in 1959. The Hong Kong Tourist Association, established in 1957, has now increased to about 200 members and associate members. There are good opportunities in this field.

The marine fishing industry continues to make an important contribution to our economy. The number of mechanized vessels in our fleet of over 9,400 increased to 2,642, and a larger quantity of fish was marketed over the previous year. This is a very fine record for a year which opened, as you will recall, rather dubiously; in the meantime, Government is giving further assistance to the industry in the form of a revolving loan fund amounting to \$2 millions to help the switch over to mechanization for deep-sea fishing, in conformity with our aim to expand and improve our deep-sea fishing fleet. While we are on the subject of primary production, it is encouraging to find that farm production in the New Territories continues to increase both in amount and in value, thanks to improved methods, seeds and fertilizers. It is clear that the Department responsible has done excellent work in co-operation with the farmers and with the help of the Kadoorie Agricultural Aid Association and the J. E. Joseph Trust Fund. It is expected that the value of livestock and agricultural produce will exceed \$226 millions this year.

I have spoken this afternoon only about certain features in the record of performance and in the tally of needs, but this will have been sufficient to draw attention to the implications of what the Financial Secretary will shortly be describing in his detailed review of the Budget for the next financial year. The press of people in Hong Kong commits us not only to heavy capital expenditure, but to a steadily rising annually recurrent one, which must impose an increasing strain on our resources. We all realize that we cannot afford to mark time; our aim is to move ahead and keep ahead of the commitments which are mounting from year to year. It is a matter of great regret that there are still so many people outside Hong Kong who do not, or will not, understand the nature and extent of our difficulties. Hong Kong, however, has every reason to be proud of what it has done. Hong Kong has made it, and as we progress with our diversification of industry, we can also claim as a slogan "Hong Kong can make it". Because of our record and because of my belief in the courage and ingenuity of our people I am very confident that we can maintain our present prosperity and grapple successfully with the problems our expanding economy

presents. In its task Government has been fortunate in the assistance which so many prominent citizens have rendered, on the Urban Council, on the Trade and Industry Advisory Board, and on many public bodies and committees, and, notably of course, those who serve on Executive and Legislative Councils. These contributions add up to a sum of effort which has been of great value to us all.

In conclusion, there were two events in the last twelve months of special note. His Royal Highness, The Prince Philip, Duke of Edinburgh, visited us briefly in March and carried through a highly concentrated and heavy programme in a wonderful way. He won our hearts and brought great joy and encouragement, as well as honour, to Hong Kong. Secondly, on the 19th of this month, Her Majesty The Queen gave us a new Prince, a memorable occasion for great happiness and rejoicing, which we loyally and gladly share with the Royal Family. (*Applause*).

RESOLUTION REGARDING THE DRAFT ESTIMATES OF REVENUE AND EXPENDITURE FOR 1960-61.

THE FINANCIAL SECRETARY moved the following resolution: —

Resolved that the draft Estimates of Revenue and Expenditure for 1960-61 be referred to a Select Committee composed of the Colonial Secretary (*Chairman*), the Financial Secretary and all the Unofficial Members.

He said: It was twelve months ago, Sir, that I introduced the Estimates for the present financial year in this Council and gave the revised figures for the financial year 1958/59. Since then the final figures for that year have been published. As was anticipated, revenue proved to be a record and many of the various heads and sub-heads were also records. The most reliable index to our prosperity, Earnings and Profits Tax, produced \$123 millions as against the previous best of \$114½ millions recorded four years earlier; and I might add that this figure of \$114½ millions in 1953/54 included a considerable proportion of arrears, as at that time the Inland Revenue Department was just getting into its stride. Land sales at \$31 millions beat the previous record of \$26¼ millions realized in 1957/58. Duties at \$111 millions beat the previous record by over \$5 millions. With all the redevelopment that is going on, we expect the yield from Rates to go up year by year, and last year the figure of \$74½ millions surpassed the previous year's record by over \$9 millions.

Total revenue exceeded \$629 millions. This figure was more than \$75 millions over the approved estimate, but of the excess, more than half was attributable to two items; \$23 millions to Earnings and Profits Tax, and \$15 millions to Land Sales.

Expenditure at just under \$590 millions turned out at \$58 millions under the approved estimate. Expenditure on Public Works Non-recurrent fell short of the estimate by \$44 millions, and there was a saving of \$10½ millions by the Stores Department. This department was estimated to cost us approximately \$10 millions during the last financial year, but the actual outcome was that, instead of costing us anything, it contributed to revenue almost half a million dollars. I hardly need remind honourable Members that the reason for this was disposal of some of the large stocks of steel which we had accumulated at the time of the Middle East crisis.

If we compare actual figures for the financial years 1957/58 and 1958/59, revenue increased by \$45 millions or roughly 8%. Expenditure went up by \$58 millions or roughly 11%, but of this \$58 millions, \$25 millions, it will be recollected, represented a special contribution to the Development Loan Fund, so that the growth in expenditure is not quite as alarming as would appear. Without this \$25 millions, the increase would have been roughly 6%.

The result of the financial year was thus a surplus of just over \$39 millions. In addition, revaluation of our investments at middle market prices on the 31st March last disclosed that they had appreciated by just over \$20 millions. The net result of the year's working, therefore, was that our General Revenue Balance increased by \$59½ millions. At the commencement of the present financial year therefore our uncommitted reserves totalled—here, Sir, for the record I shall give the exact figures—\$598,925,857.87, made up of a General Revenue Balance of \$461,011,096.93 and a Revenue Equalization Fund of \$137,914,760.94. Of this total, just under \$500 millions were invested, and our investment income for the year, added to interest on bank deposits and other balances, came to \$27¾ millions, a record figure, a figure far in excess of the revenue from Stamp Duties of all kinds, and not far short of the revenue from duties on hydrocarbon oils.

When I refer to the reserves as being uncommitted, I am perhaps talking in somewhat technical terms. The fact of the matter is that it is because of these reserves that we are able to commit ourselves to our large public works programme in the knowledge that if the cost cannot be met out of revenue, as is very likely, then it can be met from the reserves without our having to borrow at a time which might be inopportune. In that sense Sir, they are not uncommitted; they are very much committed.

During last year the Colony's public debt increased by some \$7¼ millions, again due to our drawing on the interest-free airport loan from Her Majesty's Government. The total of public debt at the commencement of the present financial year stood at just over \$92 millions, which is not on the whole an excessive figure in the light of our annual revenue. The sinking fund stood at just over \$16 millions.

During the year 1958 the bank note issue increased by a further \$17 millions, and on the 31st December, 1958, the total of our Certificates of Indebtedness held by the three note-issuing banks stood at \$706,141,173.59; the assets of the Exchange Fund covered this liability to the extent of over 121%. This increase of \$17 millions in the note issue followed an increase of \$24 millions the year before, and was followed in the year 1959 by a further increase of \$65 millions. A possible explanation of this continued increase in the note issue is to be found in the Colony's expanding economy, and also in the increased wages which are now a feature of industry. I understand that in the textile industry the rise in labour costs during the past year or eighteen months is in excess of 20%.

During the period between the 1st January last and Chinese New Year the bank note issue increased by a further \$104 millions. The demand for cash prior to the festival was on a scale completely unprecedented. It is not yet clear how much of this increase will be permanent; but certainly some of it will be.

Additional evidence of the healthy state of our economy is to be found in the banking statistics, which are now published at regular intervals. During the two years 1958 and 1959 bank deposits rose by 45%, from \$1,412 millions to approximately \$2,050 millions. During the same period bank advances rose by 57% from \$865 millions to approximately \$1,360 millions. I say approximately, Sir, because the latest figures are subject to final check. Part of these increases, but only a part, is due to widening of the statistical field, and part is due to the extension of banking facilities through the establishment of branches in Kowloon and elsewhere, but the general picture is most reassuring. There appears to be no shortage of money.

I mentioned last year that our dollar note is to be replaced by a dollar coin. The order for the coins has been placed with the Royal Mint and work is in hand, but it is most unlikely that it will be possible to put the coin into circulation until the end of this year. Meanwhile we must do the best we can with our notes. We had a further loss on the Dollar Note Security Fund for the year ending the 31st March, 1959—in this case a little over \$162,000—but the accumulated deficit on the Fund was reduced by reason of a substantial appreciation in the value of the Fund's investments when they were revalued at the end of the year. We burned 23 million used notes in 1959.

The Operating Accounts of the Waterworks are shown at Appendix "F" to the memorandum on page 234 and it will be seen there that the hope I expressed last year that successive annual deficits on the Waterworks Accounts would not persist has been fulfilled. The accounts show a profit of just over half a million dollars for the year. This was in part due to our being able to sell more water and in part due

to the increased yield from the water rate. But the future does not look good. It appears that we may have another deficit this year, and we shall certainly have one next year. We have sunk \$145 millions in capital investment in water since the 1st April, 1952, and we are spending freely on more large and very expensive schemes. I am afraid that the time has now come to increase water charges, and it is proposed to raise the price from 80 cents per thousand gallons to one dollar per thousand gallons. The effect on the domestic consumer will be slight. Taking an average consumption of 20 gallons per head per day the monthly cost to an individual rises from 48 cents to 60 cents. For a family of four consuming 80 gallons a day, the additional monthly cost to the family is thus 48 cents a month. A factory which uses 100,000 gallons a day will naturally have to pay accordingly, the increase in the monthly bill being \$600 a month, but this, we hope, Sir, will have the effect of inducing those concerned to be more careful in their use of water—to use less water. Indeed, consideration has been given to the possibility of imposing a much greater increase in price with a view to reducing consumption and discouraging waste, but I feel on the whole that there is not a great deal of waste, and that those who do waste water are not going to be deterred even by a rise of 100% in the charges. Nevertheless we hope that the increase in price now proposed may have the effect of making most people more careful.

At the same time as the increase for the ordinary consumer is put into effect, the charge for water used for construction or shipping purposes will be raised from two dollars per thousand gallons to three dollars. The increase in revenue expected as a result of these measures is \$3½ millions for a full year.

Sometimes one hears people who have a particular interest in some aspect of Government work who look at budget figures and then say: "Why does not the Government devote a larger part of its budget to this, or to that or to the other?" Usually it is education, but sometimes it is medical services, or social services. Before I leave the 1958/59 accounts, I would like to draw attention to pages 231 to 233 of the Estimates, where actual expenditure on education, on medical and health services, and on security, for that year, are given, and are related to total spending. It will be seen that in 1958/59 education accounted for just over 17% of our recurrent expenditure. Medical and health measures took 19% and security took 14.5%. Making comparisons in relation to the budget as a whole can be completely misleading, for our budget comprises very considerable sums for capital expenditure. If we take all expenditure on education, capital and recurrent, we find that it only makes 13% of gross expenditure, but here again the figure is misleading because it takes no account of loans to schools from Development Loan Fund monies. I think probably it is

soundest to take as an index the actual figure of recurrent expenditure on education as a percentage of total recurrent expenditure, and the figure of 17% is not a low one by any standards.

During the last financial year the assets of the Development Loan Fund increased from \$159 millions to just over \$200 millions. A considerable amount of this increase was due to an appropriation of \$25 millions from General Revenue. During the same period the amount of Development Loan Fund money tied up in loans and advances increased by \$41 millions to \$121 millions. Loans for housing increased from \$66 millions to \$104.6 millions and at the 31st March, last, this figure was distributed as to \$47.4 millions to the Housing Authority, \$21.4 millions to the Hong Kong Housing Society, and \$35.8 millions to local Government Servants' Co-operative Societies. These figures are net after allowing for repayments. The success of the scheme for financing local Government Servants' Co-operative Societies has been remarkable, but the amount of money tied up is very considerable.

During the nine months to the end of December a further net sum of \$28½ millions went out from the Fund to be tied up in long-term loans. The net figure for housing loans went up by \$20 millions. Educational loans, that is, loans to private non-profit-making bodies who wish to construct or to rebuild schools, increased from \$10.5 millions to \$17 millions. Medical loans increased from \$4.8 millions to \$5.7 millions, this being due to the loan for rebuilding of the Canossa Hospital. It is very difficult to deny money for projects such as housing, schools, hospitals, or even fishermen, but it does seem to be the case that the Development Loan Fund is now passing through a very critical period. Your Excellency, after consulting your unofficial advisers, and with the approval of the Secretary of State, proposes to direct the Administrator of Japanese Property to pay to the Fund the greater part of the proceeds of disposal of the former Japanese assets. The sum involved is in the region of \$10 millions, but even with such a windfall it is not unlikely that before the end of the next financial year the Fund will run out of cash. I mentioned earlier that our so-called uncommitted reserves were very much committed; here too they are going to be of the utmost value for temporary financing of the Fund.

The position can readily be seen from the fact that on the 31st March, last, the total of cash and investments available to the Fund was just over \$74 millions. By the end of December, last, this sum had been reduced to \$55 millions, and the figure to-day is below \$50 millions. It is true that repayments of earlier loans are now beginning to come in in fair volume, but it does not look as if they will be anything like adequate to meet the demands being made on the Fund for some time to come. The demands for cash from the Fund, coupled with the cash demands of ordinary expenditure, especially the additional

expenditure necessitated by acceptance of the Salaries Commission Report, have indeed been so heavy as to give us some cause for concern, and have necessitated the withdrawal of some of our local bank deposits.

The feature of the present financial year so far as revenue is concerned is a most unwelcome one. It is the fact that the estimate of revenue from Earnings and Profits Tax has now been reduced to \$116 millions from the \$120 millions which I announced twelve months ago. We expect to collect \$4 millions less than I originally hoped, and more than \$7 millions less than the previous year. The reason for this is largely due to the fact that in 1958, the base year for assessment of profits tax, shipping had a very bad time, with the result that tax payable by shipping companies has been reduced to practically nothing. It also seems to be the case that profits generally during that year were on nothing like so large a scale as previously. Even the yield from salaries tax is expected to be less, because with reduced profits, reduced bonuses were paid to salaried staff.

On the other hand most of the other heads and sub-heads of revenue show increases, and this is particularly the case with tobacco duty. It will be remembered that the year 1958/59 was rather a disappointing one in that the yield from this source did not increase by as much as we expected. This year is making up very well for the previous disappointment, for the yield from tobacco duty has been running at an average of over a million dollars a week so far. The revised estimate of yield is now \$54 millions as against the original \$49 millions. Revenue from all kinds of duties has been most buoyant; the revised figure of \$120 millions is in excess of the revised figure for Earnings and Profits Tax.

Thanks to the heavy rains during the year, which kept the reservoirs filled for so long, the estimate of revenue from water has been revised upwards, and once again the expectation is that proceeds from land sales will be in excess of the estimate. Similarly the yield from interest on investments and bank deposits is expected to touch \$28 millions as against the original figure of \$25 millions.

The revised estimate of total revenue now stands at \$634³/₄ millions as against the original \$600.6 millions. I trust that this revised figure is conservative, but I cannot persuade the revenue collecting departments to be in any way optimistic about this. For the first 45 weeks of the financial year revenue actually received was \$22 millions in excess of the corresponding figure for last year, and I am not without hope that the position will be maintained until the 31st March next. If it is, the figure for revenue should exceed \$650 millions.

On the other side, the estimate of expenditure has also been revised upwards from \$693 millions to \$721 millions, an increase of \$28 millions. Of this \$28 millions, approximately \$21 millions are due to

the increased salaries which have been paid since the 1st July last; the amount paid out in January as arrears of salary for the six months from July to December last amounted to just over \$14 millions.

The figure for Public Works Recurrent has gone up by eleven millions, thanks to the damage caused by heavy rainstorms during the summer, and my honourable Friend, the Director of Public Works, expects to spend on Public Works Non-recurrent almost the full amount provided for him.

The revised deficit for the present year is therefore \$86.2 millions as against the budgetted \$92.4 millions.

It is possible that things may not be quite as bad as this. For the nine months to the end of December last we had a surplus of \$18.1 millions. If therefore the revised deficit figure is to be realized, we shall, during the three months of January to March of this year, have to spend \$104.3 millions more than we take in. Even allowing for increased salaries, and for the fact that we paid out \$14 millions in back pay in January, and for the fact that March is always a month of heavy spending, I do not think we shall make quite such a bad showing as the figures indicate. One of the problems of estimating in this place is the fact that conditions keep changing so rapidly; nothing seems to be static. Revenue is still coming in fairly well, and on the other side much depends on whether the Public Works Department will be able to spend what it has said it can. If indeed it does succeed in disbursing \$178.4 millions on Public Works during the year, then we must accept a big deficit, and we must congratulate the department on doing so well. This year, there are many uncertain factors, and only one thing seems to be sure; it is that after twelve successive years of surpluses, we are, in this thirteenth year, going to have a deficit. The final amount of that deficit, Sir, I will not even venture to predict.

I now pass on to the outlook for next year which is set forth in the volume before honourable Members, and in doing so, I would like Council to know that Mr. E. P. Ho has once again undertaken the task of getting these Estimates ready for to-day; and I would take this opportunity of expressing my appreciation of the work done by him and his staff.

The form of the estimates for the forthcoming year may puzzle Members a little. Formerly we had Heads of Revenue and Heads of Expenditure each starting at 1. This time Heads 1 to 14 are Heads of Revenue and Heads 21 on are Heads of Expenditure. This is a development which is necessitated by the introduction of mechanical accounting. Consecutive numbering, and the abolition of all lettering, are apparently essential if these machines are to work properly, and this is also the reason for the disappearance of divisions. In the past

Defence, for example, was one head and the various branches of Defence constituted separate divisions. Now all the various Defence Services are separate heads. The same applies to the Urban Services Department and its Housing Division. The Secretary for Chinese Affairs used to have a separate division for the District Watch Force; this has been incorporated into the department. I apologize for these changes, but they are necessitated by the march of progress.

There is a new head of revenue which is balanced by a new head of expenditure; both are entitled World Refugee Year Schemes. Honourable Members are, I think, well aware of the World Refugee Year grants that we have received for specific purposes, and we thought it best to show revenue and expenditure for these projects separately. These heads will doubtless disappear within the next year or so.

Speaking generally, revenue for all heads has been estimated at a much higher figure for the forthcoming year. The most noticeable increase is in the estimate for Land Sales which has been put at the record figure of \$35½ millions. This is because it is hoped to sell part of Murray Parade Ground, and also the site at the corner of Hennessy Road and Arsenal Street which used to be occupied by Rediffusion. I understand that the demand for land, and the price of land, is increasing and we hope that this record estimate of \$35½ millions may be exceeded.

The total figure for revenue is estimated at \$668¾ Millions.

I think that even a casual glance through the expenditure estimates will convey very forcibly the impression of continued expansion. The rapid development of the Colony, and the increasing prosperity which has been so evident recently, coupled with the continued development of industry, is throwing increasing pressure on the Government machine, and practically every department of Government has to expand its activities and its staff to meet the demands being made upon it. Probably the expansion of the Fire Brigade is the most noticeable. We have had many fires during the last couple of years and we are providing more fire stations, fire appliances, rescue appliances, and so on, in an endeavour to keep down the number of disasters. The Post Office has similarly been under heavy pressure. The bill for the New Territories Administration is up, and it would have been up far more if it had not been decided to transfer the responsibility for sanitary services and beaches in the New Territories to the Urban Services Department. The provision for such services has now been removed from Head 51 to a new Head 80.

We take expansion of the Education Department, the Medical and Health Department, and the Police Force, as an inevitable consequence of the Colony's continued growth. This time there is also a considerable

increase in the Judiciary, which next year will occupy two additional buildings for magistrates courts. Prisons necessarily follow; the institutions at Stanley and Chi Ma Wan are overcrowded, and we have to provide more.

I might perhaps instance one typical example of the increasing pressure on the Government machine. For the first nine months of the present financial year requisitions for stamping presented to the Stamp Office increased by 30% over the previous year, and the average number of requisitions presented daily was, by the end of December, over a thousand. Since then matters have got worse and new records are being achieved, the number of requisitions now being presented daily being in excess of 1,300. In this office on one day there were 1,403 payments in five working hours; that is, 280 per hour or one every 12 seconds. It was, Sir, at this stage that we decided that a second cash register, and an operator, must be provided as a matter of urgency.

Departmental estimates of expenditure are necessarily up because of the reasons I have mentioned—overall expansion of the governmental machine. But there is another reason. For the present financial year the overall increase in establishment, it will be recollected, was 5,111. For the next financial year the estimates provide for a further increase of 4,681, which represents a slight slowing down in the rate of increase of the service. This time the Urban Services Department comes only second in the race for more staff, with an additional 680 posts; the Medical and Health Department wins handsomely with 796. But it will be noticed that the bill for personal emoluments has risen out of all proportion to the increase in staff. The estimate for personal emoluments, including pensions, for next year stands at \$324.7 millions as compared with \$244 millions for the present year, an increase of 33%.

I do not think honourable Members need be told that this is due largely to acceptance of the Report of the Salaries Commission. We all expected a substantial rise in the bill for salaries; the Commission forecast \$21 millions, but the increase shown in the Estimates is over eighty millions. I have gone into the figures with some care, and I am convinced that the provision is excessive. I mentioned earlier that the bill for salaries revision six months back pay was \$14 millions, so that the true cost of the salaries revision is \$28 millions annually. The estimate of the Commission was wrong. But equally the departmental figures are excessive. The actual amount paid out for personal emoluments in January of this year, the first normal month on the new salaries, was \$21 millions, giving the figure of \$252 millions for a full year. This does not include pensions, so that if we add on \$18 millions for pensions, we obtain a figure of \$270 millions. Even allowing for increments in salary during the year, and for the addition of 4,681 to

the staff, I do not see how the figure really can exceed \$300 millions, which represents an increase of \$56 millions on the figure for this year, and an increase of \$95 millions on the actual figure for 1958/59.

There are two particular provisions to which I should, I think, draw the attention of honourable Members. One is \$8 millions for coins, mainly for the new dollar coins; this we trust will be worthwhile expenditure, for the introduction of these coins will put an end to our annual loss on one dollar notes. The other is the provision of \$50 millions under Head 75 for grants and subsidies to aided schools. This is an increase of \$13 millions on the figure for the current year, the increase being due not only to an increase in the number of aided schools, but also to the increased salaries being paid to their teachers, in line with the increased salaries being paid to Government servants.

There is one new head of expenditure other than World Refugee Year schemes. It is the Census Department, which should also disappear after a year or so.

The main cause of the great increase in the estimate of expenditure is Public Works Non-recurrent, the bill for which, as Members will see, is \$290 millions as compared with the original estimate for the current year of \$182 millions. The Head is made up from the Report of the Public Works Sub-committee, which has been laid on the table to-day, and comprises all the "A" items in the recommended programme, together with a number of "B" items for which funds are required.

By far the greatest proportion of the total provision is devoted to water supplies of one sort or another, and the bill is \$84 millions. \$50 millions are required for work on the Shek Pik scheme, which is well in hand, and a further \$10 millions for the Tai Lam Chung scheme which is approaching completion. I hope that this will be the last year in which we shall have heavy expenditure on Tai Lam Chung.

Roads and bridges require almost \$45 millions, of which \$16 millions go to the Admiralty as the first instalment on the naval lands agreement.

Almost \$40 millions are provided for the resettlement programme. This is a programme for which money is not being denied. The squatter problem is still a serious one, and we aim at resettling 80,000 squatters during the forthcoming financial year.

The medical programme requires close on \$17 millions. \$7½ millions are for the Mental Hospital which should be completed next year, and \$6½ millions are provided for work on the Queen Elizabeth Hospital.

\$9 millions are provided for the City Hall.

The bill for Public Works brings the estimate of total expenditure for the year up to almost \$936 millions. The prospective deficit, therefore, is \$266.8 millions, a somewhat alarming figure.

It might well be higher, because no provision has been made in the estimates for a number of items, particularly of Public Works, which we have decided in principle to initiate, but which are not yet sufficiently concrete to justify inclusion. One of them is the large reclamation at Gin Drinker's Bay referred to in the report of the Public Works Sub-committee. This will ultimately cost in the region of \$100 millions.

On the other hand perhaps the position is not quite so bad as would appear. I have already indicated that I think the bill for personal emoluments for next year is over-estimated. For the year 1957/58 actual total expenditure was 5% under the estimate and for 1958/59 it was 9%. If, Sir, we could only hope that the actual expenditure for next year would be 5% under the estimate, the deficit would be reduced by \$46 millions.

On the other side, the revenue side, I am not convinced that the revenue to be derived from Earnings and Profits Tax is going to be as low as \$118 millions. On all hands I hear that the year 1959 has been a very good year for Hong Kong; I have even heard people say that they have never had it so good. The record revenue from Earnings and Profits Tax is \$123 millions, and I am not unhopeful that this record may be beaten. Similarly, with increasing profits, salaries and wages, I think it is not unreasonable to expect an increase in the yield from luxury taxation, such as duties, entertainments tax, or even betting tax, the last-mentioned particularly, as I understand that the Jockey Club will soon demolish its public stand and rebuild it on a much larger scale. Generally speaking I think that the estimate of revenue is conservative and that the figure that is shown may be regarded as a minimum. If the actual result should exceed the estimate by as much as 10%, the deficit would be reduced by a further \$67 millions, which added to the possible \$46 millions saving on the expenditure side, would leave us with a deficit of \$154 millions.

But this figure is still an alarming one, especially after a deficit for the present year. In past years we have been able to budget for deficits, which could be met from our reserves, in the expectation that the Public Works Department was unlikely to spend all the money allocated to them, but this year it is clear that this expectation applies no longer and that the Public Works Programme is going ahead at speed. We have built up our reserves because of this failure of the Department to keep up with its programme, and it is not unreasonable that we should use these surplus balances now for the public works which should have been done in the past. Our surplus balances on

the 31st March last, were just under \$600 millions, but I do not think we should consider drawing on them in one year to the extent of \$267 millions, or even \$154 millions. The rate of drawing on the reserves must be limited to a reasonable level, and either we shall have to slow down our spending, or we shall have to increase our revenue.

I propose to do something of both. We shall clearly have to have a re-examination of the Public Works Programme. Up to the present, money has not been denied for essentials, particularly water, resettlement, and schools. I think the time has now come when we shall have to look at schemes, both existing and projected, with a view to considering whether they really are essential or whether they are merely desirable. The Public Works Sub-committee took the view that we were trying to go far too fast with things like markets, and I am afraid that a similar close scrutiny will have to be applied to many other projects. We also propose, in the light of the remarks in the Report of the Sub-committee, to give less work to private architects. I propose further, within the next few months, to carry out a close examination of departmental spending, and to reintroduce a number of curbs which have been out of fashion for some years.

It will be observed that revenue covers all expenditure apart from Public Works Non-recurrent and leaves a small balance of \$23 millions over; that is, revenue meets less than 8% of the bill for public works. I think that this percentage is too small and that we ought to aim at meeting 20% of our bill for Public Works from revenue, leaving the other 80% to be met from our surplus balances. 20% of the bill for Public Works is \$58 millions, so that on this basis we should raise another \$35 millions by additional taxation.

Your Excellency yesterday signed two orders made under the Public Revenue Protection Ordinance, bringing into effect as from two o'clock this afternoon, changes in taxation which will realize this aim.

Last year I suggested an order of priority for possible taxation increases. One of the Orders published this morning raises the duty on petrol from the present 80 cents per gallon to \$1.25 a gallon. The 80 cents duty per gallon has remained unchanged since 1941, and in the United Kingdom the rate now is 2/6d. per gallon.

This increase, apart from providing additional revenue, will be welcomed by the Police Traffic Department for another reason, in that it will make the operation of illegal taxis, the so-called "pak pai" cars, much less economic. The increase should not affect buses, which are diesel powered, and need only affect the taxi companies to a minor degree as they are increasingly going in for dieselisation. No change is at present proposed for hydrocarbon oils other than petrol.

The additional revenue to be expected from this change is \$7 millions annually.

The other Order published to-day covers the second item on my priority list of twelve months ago—tobacco, the rates of duty on which have remained almost unchanged since January, 1949. The percentage increase proposed varies according to the type of tobacco; it cannot be equal in all cases because our obligations under the General Agreement on Tariffs and Trade preclude us from increasing the preferential margins. Taking the particular instance of English cigarettes, the present duty of \$5.30 per lb. is increased to \$7.20; the duty on a packet of 20 cigarettes will go up by roughly 9½ cents, so that a packet of 20 now costing 90 cents will probably retail in future at \$1. Out of this one dollar, 36 cents will be duty. I do not think that this increase is unreasonable in the light of the price of cigarettes in other countries; this form of taxation, and I speak as a smoker myself, is really a luxury tax. (*Laughter*).

The increase in revenue to be expected from the changes in tobacco duty is \$25 millions, and the total increase to be expected from the two changes is therefore \$32 millions as against the \$35 millions which I put forward as a desirable aim. The difference of \$3 millions will be more than made up by the increase in the price of water to which I have already referred.

If these proposals prove acceptable to Council the revenue estimate can be stepped up by \$35½ millions and the prospective deficit will be reduced to \$231 millions. Should the hope for a more favourable outcome that I expressed a few moments ago be fulfilled, we shall have to find \$118 millions, rather than \$154 millions, from our reserves. Even this figure, which, if the Public Works Department carries out its full programme, is about the best we can hope for, is not a small one, and if we go on at this rate it is clear that our reserves will disappear within five years.

I trust that honourable Members will give most careful consideration to the facts and figures that I have given. We have, I think, come to a turning point in our financial history. Our expenditure is rising and must keep on rising steadily if we are to meet the demands that are being made on us. Our revenue is rising and, I think, must keep on rising so long as our population continues to increase, so long as our trade and industry continue to develop, so long as our standards of living continue to improve. So far, the increase in revenue has kept pace with the increase in expenditure, but it seems now fairly clear that, due to the increase in establishment, and to good progress on public works, this position no longer obtains, with the result that we face a deficit this year and a much bigger one next year. It is

possible that the rate of increase in revenue may improve sufficiently to keep pace with the growth of expenditure, but, for so long as we are faced with such heavy capital commitments, I doubt it.

It is logical to say that if the short-fall between expenditure and revenue is due to our capital commitments, then we should meet the difference, or most of the difference, either from our reserves or by borrowing. But on what terms could we borrow money at present? I fear they would be prohibitive. It is for this reason that I have recommended to Your Excellency that we should meet 80% of the cost of our Public Works Programme for next year from our reserves; and that we should make up the difference by increases in indirect taxation which should not cause any great hardship.

This will carry us through next year, but what then? Are we to go on running deficits each year and running down our reserves until there is nothing left? Are we to borrow on the best terms we can? Or are we to step up the rates of tax?

I am hopeful that the position may not be as gloomy as it seems.

So far, our deficits are entirely due to our heavy Public Works Programme, but we must always have some public works. Many of them are utterly unremunerative. We are building hospitals and schools and we are building a City Hall. We are putting in drainage schemes and we are building resettlement blocks, but none of these show any commercial return, and in fact many of them, particularly hospitals, are merely adding to our recurrent burden. They are unfortunately things that we must do. But, among the items of Public Works there are a number of projects which can be remunerative. Among them are, for example, the naval lands settlement; the reclamation at Kwun Tong, which is costing us a great deal now; the central reclamation; and several other reclamation projects. The estimates indeed provide a specific example of this in that we hope next year to get back some of the cost of the Murray Barracks settlement with the Army by the sale of part of Murray Parade Ground. Until we are in a position to sell off the sites that we are acquiring, or reclaiming, there is a steady drain on our cash, but I think it is sound that we should meet at least the cost of this sort of development from our reserves, in the expectation that they shall be fully, and I hope more than fully, restored in the years to come.

Then, too, although we have a fair idea, from the figures before us, of how expenditure is going to increase, we cannot really know the extent to which revenue is going to surpass our expectations until we can find out just how good profits have been during the past year. I hear conflicting stories about this.

Finally, there is the possibility of new sources of revenue: here I need perhaps only remind honourable Members of the possibility of football pools being established here.

There are, indeed, many uncertainties about the future. It may be even gloomier than I have forecast; but it may be much brighter. The uncertainties are such that I am sure we would be wise to hasten slowly. For the present I think we would do well not to panic; we would do well to delay an increase in our direct taxation rate, the low level of which is such an incentive to our expanding economy, on which in turn we depend for increasing revenue.

Twelve months ago, in this Council, I touched on the question of our standing in the East, and in the world. I said that our people have dealt with their problems with little help from others and often with little sympathy from outside, and I said that Hong Kong had become an object of admiration and indeed of envy.

I think that this was true twelve months ago; I think it is true now. We are still admired; we are still envied. But I would now add something more. We are now feared; the negative lack of sympathy from outside has in some cases developed into a positive dislike.

The reason for this is simple. It is the fact that the products of our factories are underselling the products of factories in other countries, not only in the export markets of those countries but, as Your Excellency has pointed out, in their own home markets. It is not to be expected that the industries of the countries affected, or the governments of those countries, will allow such a situation to develop too far, and many countries have already taken steps to discourage the entry of our goods. The methods which have been adopted vary, but all have the same object. For example, the Central African Federation, and more recently, Kenya and Uganda, have adopted the device of superimposing a specific duty on the *ad valorem* tariff for our enamelware. This has had the effect of raising the effective *ad valorem* rate on our low priced products from 20% to as much as 500% in some cases. And the result has been that our exports of enamelware to these countries have practically ceased. South Africa has adopted the same device for enamelware and for certain types of garments and printed cottons.

The United States adopted another device in respect of rubber shoes. Their customs duty now is based, not on the import price, but on the domestic sale value.

The Benelux countries, by quota, and by licensing controls, have restricted the entry of certain types of Hong Kong manufactured gloves.

South Africa, together with the Belgian Congo and the Central African Federation, has struck at us by altering the definition of origin rules to require a high one-country content, the effect of which is to discriminate against any country—Hong Kong is the perfect example—which has to import its raw materials, and which has relatively low labour costs.

France has simply laid down that her liberalization measures in respect of certain imports from O.E.E.C. countries shall not apply to Hong Kong.

The United Kingdom has succeeded in limiting imports of our cotton goods by obtaining a voluntary agreement from our industry.

Some of these measures are perfectly legitimate and contravene no international agreements. Some of them do. But even where they do, the basic weakness of all international agreements is that there is no effective sanction which can be applied to any country acting in breach of such agreement, other than the weight of world opinion. The crux of the problem is that there is no weight of world opinion against the countries who are taking action against us. The fear of our competition by countries who either have their own industries, or are trying to develop their own industries, is far too widespread. We must expect that as our exports increase, so must more countries range themselves against us; so must more restrictions be imposed. We know that in not one case, but in a number of cases, they are being considered now.

What, Sir, can we do against this threat to our economy?

We have no weapons with which we can fight. We cannot take reprisals by way of tariffs or quotas; our local market is so small that any such step would affect the position hardly at all. Worse still, it would hurt us infinitely more than the country against which it was used.

There seem to be two courses we can follow. We can carry on as we are doing. We can continue to allow our industry to expand; to continue to increase our exports to promising markets year by year, and month by month, with our manufacturers competing against each other, cutting their prices, cutting their profit margins, until those markets are closed, or partially closed, to us, with the disruption to our economy that must follow. Or we can do something to plan our economy. We can see to it that for the future we do not advance past the point where markets have to be closed to us because we are selling too much, too quickly, too cheaply. This means that we would have to abandon our traditional policy of *laissez faire* at least as far as exports are concerned. We would have to guide and direct; we would have to regulate and control.

Which course should we adopt? By doing nothing at all, of course, we choose the first; that is the easy way. I would ask, Sir, honourable Members to consider the problem, in full knowledge of how our future may be affected by their answer. (*Applause*).

THE COLONIAL SECRETARY seconded.

The question was put and agreed to.

LEGAL OFFICERS (AMENDMENT) BILL, 1960.

THE ATTORNEY GENERAL moved the First reading of a Bill intituled "An Ordinance to amend the Legal Officers Ordinance, Chapter 87."

He said: Sir, the Legal Officers Ordinance grants to barristers and solicitors serving in certain official posts, the rights of barristers and solicitors duly admitted to practice in the Courts of the Colony. The Bill proposes an amendment to the list of those posts to include the post now designated "Principal Crown Counsel".

THE COLONIAL SECRETARY seconded.

The question was put and agreed to.

The Bill was read a First time.

Objects and Reasons.

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

Government's acceptance of the recommendations of the Salaries Commission, 1959, has rendered it necessary to add the new post of Principal Crown Counsel to the Schedule to the Legal Officers Ordinance, Chapter 87, with retrospective effect to the date on which the posts were created.

POST SECONDARY COLLEGES BILL, 1960.

THE ATTORNEY GENERAL moved the First reading of a Bill intituled "An Ordinance to provide for the registration and control of certain Post Secondary Colleges and their consequent exemption from provisions of the Education Ordinance and for other matters connected therewith."

He said: Sir, the purpose of this Bill is to provide special legislation for the control of approved post-secondary colleges. It will be recalled that in June last year Government announced its intention of

encouraging these colleges to reach improved standards, and of enabling certain of them to aspire to full university college status within the framework of a new Chinese University.

As a first step towards these ends, it is proposed to place under this measure all post-secondary colleges which can meet its requirements, and thus remove them from the control of the Education Ordinance, 1952, which was framed for schools.

This Bill, Sir, which has received the general approval of the Board of Education provides for the registration of post-secondary colleges which satisfy the Director of Education regarding certain requirements, as approved post-secondary colleges. With certain regulations there-under, it includes reasonable controls to ensure the satisfactory conduct of the colleges, but concedes the colleges a greater measure of autonomy than they now enjoy under the Education Ordinance. Thus, there are no specific penalties for infringement of the Ordinance, other than the ultimate sanction of cancellation of registration as a post-secondary college. A college, the registration of which was cancelled would be forced to seek registration under the Education Ordinance and would then be subject to the controls and penalties of that Ordinance.

It should be emphasized that this Bill does not empower any college registered under it to employ the title of "University", or an equivalent in Chinese, nor does it give authority for the award of degrees.

THE COLONIAL SECRETARY seconded.

The question was put and agreed to.

The Bill was read a First time.

Objects and Reasons.

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

The object of this Bill is to give statutory recognition to certain Post Secondary Colleges, whose status approaches, but does not attain, that of a university institution.

2. To become an Approved Post Secondary College, the title given to these Colleges by clause 2, it is necessary for the Post Secondary College to satisfy the Director of Education concerning the matters specified in clause 4. (In addition the Governor in Council may by regulation prescribe what provisions shall be inserted into the College's constitution (clause 12)). If successful in this the College is registered under the provisions of clause 3, and thereafter so long as it remains on the register is exempt from the provisions of the Education Ordinance, 1952 (clause 5).

3. Clause 6 empowers the Director of Education to cancel the registration of any College where he becomes dissatisfied concerning any of the matters specified in clause 4. Against such a cancellation or against a refusal to register in the first instance a Post Secondary College may appeal to the Governor in Council.

ADJOURNMENT.

H. E. THE GOVERNOR: —Well, gentlemen, that concludes the business for today. When is it your pleasure that we should meet again.

ATTORNEY GENERAL: —Sir, may I suggest this day three weeks.

H. E. THE GOVERNOR: —Council stands adjourned until this day three weeks.