

OFFICIAL REPORT OF PROCEEDINGS.**Meeting of 1st March, 1961.**

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 RODERICK WILLIAM McLEOD, K.C.B., C.B.E.

THE HONOURABLE THE COLONIAL SECRETARY,

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

THE HONOURABLE THE ATTORNEY GENERAL,

MR. ARTHUR RIDEHALQH, Q.C.

THE HONOURABLE THE SECRETARY FOR CHINESE AFFAIRS,

MR. JOHN CRICHTON McDOUALL

THE HONOURABLE THE FINANCIAL SECRETARY,

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

THE HONOURABLE PATRICK CARDINALL MASON SEDGWICK

(Commissioner of Labour)

DR. THE HONOURABLE DAVID JAMES MASTERTON MacKENZIE, C.M.G., O.B.E.

(Director of Medical and Health Services)

THE HONOURABLE HECTOR WILLIAM FORSYTH

(Acting Director of Public Works)

THE HONOURABLE KENNETH STRATHMORE KINGHORN

(Director of Urban Services)

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

THE HONOURABLE KWOK CHAN, O.B.E.

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

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

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

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

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

THE HONOURABLE GEORGE MACDONALD GOLDSACK

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

MINUTES.

The minutes of the meeting of the Council held on 8th February, 1961, 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, 1961: —	
No. 6—Annual Report by the Registrar General for the year 1959/60.	
Draft Estimates of Revenue and Expenditure for the year ending 31st March, 1962.	
Memorandum on the Estimates, 1961/62.	
Report of the Sub-committee of Finance Committee on the Public Works Programme for the year 1960/61.	
Hong Kong Annual Report, 1960.	
Merchant Shipping Ordinance, 1953.	
Merchant Shipping (Life Saving Appliances) Regulations, 1961.	A. 14.
Census Ordinance, 1960.	
Census (No. 1) Order, 1961	A. 15.
Census Ordinance, 1960.	
Census (No. 2) Order, 1961	A. 16.
Registration of Persons Ordinance, 1960.	
Registration of Persons (Re-registration) (No. 2) Order, 1961.	A. 17.
Public Health and Urban Services Ordinance, 1960.	
Declaration that Public Cemeteries be closed	A. 18.
Pearl Culture (Control) Ordinance, 1958.	
Pearl Culture (Control) (Amendment) Regulations, 1961	A. 20.
Pilots Ordinance.	
Pilots (Remuneration of Examiners) Regulations, 1961	A. 21.

ADDRESS BY HIS EXCELLENCY THE GOVERNOR.

Honourable Members of Council, the great variety of life, the diversity of pursuits and interests, and the absorption in finding solutions for so many problems would require an enormous canvas if I were to attempt to depict it at all. I intend, therefore, to adopt an

impressionistic role and I hope, thereby, to give you the general tone and effect of Hong Kong's landscape without elaborate detail. Although there must be sombre colours amongst the pigments used, it would be wrong to see the picture as a whole in other than good strong colours; for courage and fortitude deserve to shine, prosperity must be vivid, and, surely, the vitality of our teeming millions appears in colours which are exciting. I would not wish the viewer to move away from the picture thinking that all was well in the best of all possible worlds; I prefer that he should leave, reflecting on an achievement which finds its inspiration in intrepid human endeavour, in a recognition of individual personality, and in a realistic acceptance of the monumental task we face, for we mean to sustain the economy and society of Hong Kong and to meet, as best we can, the spiritual, cultural and physical needs of the people whose home this is.

1960 has unquestionably been another successful year for the majority of our industrialists and merchants, bestowing a general benefit on the community at all levels, since each one of us, whatever the size of his purse, depends for survival on the health and vigour of our industry and commerce. The total value of our exports was \$3,938 millions, 20% higher than in 1959. Domestic exports of our products were 73% of our total exports and alone amounted to \$2,867 millions, 26% higher than last year. Imports have risen in comparison with 1959 by 18% and have exceeded total exports by \$1,926 millions. A high proportion of our bill for imports we have incurred on food for the people and on capital equipment for industry, and we need not view with alarm the adverse balance in our visible trade, because this is a recurring feature reflecting largely our invisible earnings from banking, insurance, shipping, tourism and the diverse services which a great commercial centre and a seaport offer. The confidence which I expressed last year was not mistaken; 1960 has turned out to be at least as prosperous as 1959. It has, indeed, been a record year; but none of us should let this record blind us to the fact that we have already had to move down a little from the high ridge along which we have been moving—we can see the threat of less favourable weather, and we have to prospect carefully for the route which we should follow, rather than yield to the heady excitement of the heights.

Last year, I referred to certain clouds on our economic horizon, pressures to limit our exports of manufactured goods, particularly from old-established industrial countries, whose industries felt the effect of competition from younger rivals ourselves and elsewhere in the East. While there may appear to have been less clamour in the last twelve months, it would be a grave error to suppose that the pressures are any less persistent. On the other hand, we may take some comfort from the fact that discussion of what is now called "market disruption"

has moved to an international working party, sitting in Geneva under the auspices of GATT, where it can be considered, to some degree at least, dispassionately. In spite of the need to devise one, it is unfortunate that no solution has yet come up, and we may have to make some adjustments in our trading if we are to retain the goodwill of those foreign markets which are so vital to us.

Important and far-reaching changes are taking place in the trade relations of Western Europe, as the Common Market and the European Free Trade Association get into their stride. As you know, the Common Market countries intend not only to remove all tariffs on trade between themselves, but also to bring in a common tariff against imports into all of them from the rest of the world. The countries of the Free Trade Association will also allow duty-free entry to each others' manufactures, but each member country will retain its own system of tariffs against third parties. So far, the formation of these organizations has had little adverse effect, but, as the gradual adjustment of tariffs takes place and accelerates, our exports must encounter serious obstacles. It is true that, as the individual members of the Common Market bring their own customs duties closer to the average which would be the common tariff, duties in France and Italy will generally fall. We have, however, been selling more to Germany and the Benelux countries, and these now find themselves obliged to raise their tariffs in order to bring them into line.

Concurrently with these alliances in Europe, the principal trading countries of the world are, at present, engaged in Geneva on a round of negotiations aimed at a general reduction of tariffs. One effect of the United Kingdom grant of duty-free entry to Commonwealth goods is that any reduction in her general duties lowers the preference which the Commonwealth enjoys in the United Kingdom market. But it is in Hong Kong's interest, as well as in that of the United Kingdom, that there should be a general lowering in world tariffs, and so the loss of a part of our preference may be a worth-while sacrifice, if it helps to achieve this. The United Kingdom itself is deeply concerned over the danger of a split in Europe between the Common Market and the Free Trade Association, and, as you know, she is anxiously seeking some way to bridge the gap, while taking into account the interests of her partners in the Commonwealth, as well as in the Free Trade Association. It would be idle to attempt to forecast the outcome, but you will see the inherent dangers for Hong Kong, since our interests differ from those of so many other Commonwealth territories, which are primary producers, exporting tropical and other foodstuffs, raw materials and minerals. We could, conceivably, find ourselves on the wrong side of tariff walls, walls higher than those which now confront us. I do not say that these things are immediate, or even that they are necessarily going to happen; but we must, all of us, try to understand

what is going on and forestall, so far as we can, any ill effects that may arise. We must also try to make people elsewhere understand our problems, so that our case does not go by default. Government is keeping a careful watch on what is going on, and it is in close touch with the United Kingdom Government. Developments of this kind are ominous; of course they are ominous, but they present a challenge to our manufacturers and merchants, which, knowing them as I do, I believe they can meet. Their adaptability, resilience and resource have enabled us to surmount difficulties in the past. Nevertheless, the Federation of Hong Kong Industries has come into being none too soon, and I know that the Federation, in company with the General Chamber of Commerce, is directing attention to all these issues. We may have little influence on the big decisions which will vitally affect our trading, but we must be flexible enough in our trading practices to mitigate any ill effects and to seize advantage of new opportunities.

I have not the time to dwell on the work of the Commerce and Industry Department, but our publicity efforts on behalf of Hong Kong continue. We have directed these in recent years particularly to countries which are, at present, lesser markets, and we have done this in support of our policy of diversification. In all our work, we have benefited much from the wise counsel of the Trade and Industry Advisory Board, and I should like to add that our industrialists are shewing a praiseworthy readiness to branch out into new lines of production. I also welcome the capital and expertise from abroad with which we can expect new skills and fresh energy to spread the range of our activities over a yet wider field.

In recent years, we have all had much to say about that important adjunct to our economic existence as well as to our domestic comfort, namely, water. During the year we received a most welcome addition to our supplies from our near neighbours. The final phases of the Tai Lam Chung scheme are nearing completion, and, on Lantau Island, the new dam and its associated tunnels, the catchments and the pumping station are well advanced in construction; and I hope we shall have in our hands, later this year, the consultants' report on the economics and feasibility of converting Plover Cove and Hebe Haven into fresh water reservoirs. I shall not say more about water, this afternoon, but I wish to speak, at greater length, on the subject of land. There has been some comment about the increased and increasing price of land and there have been suggestions of one sort or another that Government should do something about it. Out of these suggestions two points emerge. One is that we should make more land available for sale so that the law of supply and demand can operate, and then the price will fall. The other is, in effect, that we should grant land by private treaty to selected applicants, who should not have to compete with other applicants at public auction.

Let us take up the first of these points. The fact of the matter is that we have done and we are doing our utmost to make more land available. There are the reclamation projects at Cheung Sha Wan, Kwai Chung, Kwun Tong and on our door-step, so to speak, in the area between the Star Ferry and Yau Ma Tei Ferry piers. We are speeding up sales of the old airport land at San Po Kong.

Last year, we introduced the policy of selling land by public auction in accordance with published programmes and without necessarily waiting for formal applications. At Kwun Tong we have sold 28 industrial sites, totalling 624,575 sq. ft., and 14 non-industrial sites, totalling 96,424 sq. ft. Elsewhere in the Colony, excluding the New Territories, we have sold 18 industrial sites, totalling 230,929 sq. ft., and 17 non-industrial sites, totalling 264,280 sq. ft. I think Honourable Members will agree that this is an impressive record.

What has been the result?

Far from prices coming down because of these areas of land being put on the market, they have gone up; they have gone up to record levels, and are still going up. The supply, the increased supply, simply cannot keep pace with the demand, a demand which the steady flow into Hong Kong of capital seeking investment is constantly stimulating. The increased supply, indeed, seems, paradoxically, to have had the effect of creating a demand, and I am inclined to fix the responsibility for the increased demand on our publicity about the availability of sites, and, particularly, industrial sites. A specific example is Murray Parade Ground. We advertised it abroad, and it brought in foreign capital. This capital comes here because of our free economy, our stable currency; it comes here because of the law and order we maintain, and because Hong Kong is a tourist centre; and we have got to face the fact that, for so long as we keep to our policy of the minimum of restriction in a part of the world where other countries are control-minded, that so long as law and order prevail, for so long will capital continue to flow in, for so long will the demand for land increase and go on increasing.

The second point, you will recollect, was that Government should sell sites by private treaty to selected applicants. Now Government does sell land by private treaty, provided it is satisfied that the land is not going to be used for private profit. It sells land by private treaty for schools, hospitals, clinics, housing, even for housing the staffs of profit-making organizations, provided it is assured that these organizations are not going to make a profit out of housing their employees. But Government does not sell land privately to profit-making organizations, nor does it propose to do so. If people are willing to pay the present high price for choice land in the expectation of making a profit, yet more in the expectation of recovering their

capital in two or three years, is there any good reason why Government should step in and say that this is wrong? Is there any good reason why Government should sell the land to somebody at less than the price which would be obtainable at an auction? Land is the only capital asset we have. Why, then, should we deprive the taxpayer of this valuable asset so that some fortunate individual might make a bigger profit from the use of that asset than he otherwise would have done? The effect would be the same as that from the sale of land at Kwun Tong by instalments; it would stimulate demand and force prices up yet higher. So much for land.

Now let me turn from this subject to certain medical and health matters. The two major problems are the high incidence of infectious diseases, especially tuberculosis, and the insufficiency of hospital beds. The incidence of tuberculosis is one effect of the over-crowded conditions in which so many are forced to live, and the measures we take must include the provision, as and when we can, of more housing. For medical remedy, we continue our programme of B.C.G. inoculation. About 80% of new-born babies are receiving this injection, and my medical advisers report a striking reduction in cases of tuberculosis in the younger age groups. They believe that they can see the results of the expanded scheme of treatment, together with close examination of contacts, in the steady drop in mortality from the disease. In 1951 the mortality was 208 in one hundred thousand people; in 1960 it fell to 70. These figures are certainly encouraging.

The number of hospital beds for in-patients is seriously inadequate. The position is particularly unsatisfactory in Kowloon, where the population has increased at a greater rate than on the Island. In the Colony as a whole the total number of beds has risen, since 1951, from 4,600 to 8,090. At first sight this may seem satisfactory; but, if you set these figures against the estimated population figures, you find that the proportion of beds for each thousand persons has risen only from 2.2 to 2.5. It is disturbing to be told that, even to maintain this inadequate ratio for our growing population, we must provide at least 250 new beds each year; and, frankly, I can see no great relief until 1963 when the Queen Elizabeth and the new Kwong Wah hospitals should be functioning fully. During the year, we have added 68 beds to the capacity of the Kowloon Hospital and we are taking steps to provide at least 134 extra beds by April. These are expedient measures. In 1960 the total increase in hospital beds in private and Government hospitals has been 388, part of which has been accounted for by the partial opening of the Castle Peak Mental Hospital. This institution, which I shall be opening formally later this month, will provide a total of 1,000 beds, including 120 for the treatment of drug addicts. Planning is continuing for hospitals projected in the New Territories, Lai Chi Kok and Shau Kei Wan, but we must be careful

about advancing the dates of building operations, since, until the Queen Elizabeth Hospital itself is a going concern, we shall not be able to train sufficient nursing staff. In the meantime, however, we have in hand work to modernize and extend the Queen Mary Hospital, and we hope to add there about 170 beds, and to provide more adequate operating theatres with better facilities for the X-Ray Department and for the training of medical students.

Fortunately, our means for treating out-patients are better, and the Director estimates that, with clinics built this year and others planned and projected, there should be an adequate service for the Colony by 1965.

The year 1960 was an import one in terms of medical legislation. The Midwives Ordinance improved control of the practice of that profession. The Mental Health Ordinance introduced a number of liberal ideas more in keeping with progress in psychiatry during recent years. The Drug Addicts Treatment and Rehabilitation Ordinance is designed to treat and help drug addicts. It provides for the establishment of centres in which addicts can receive treatment on a voluntary basis. The first centre, of 120 beds, is in the new mental hospital at Castle Peak to which I have already referred.

In my Budget address last year, I drew attention to the flow into the secondary school stream of the rising tide of primary school enrolment, and to what we proposed to do. This year will be the last in the seven-year primary school expansion programme, and, already our 1954 objective lies far behind. The programme called for 215,000 additional places in seven years. After six years, the net increase in primary school places is 254,840; by the end of the coming financial year, we anticipate a further 91,000 places, and then the primary school population will have reached a figure of over half a million. The Census Report should tell us how closely we are approaching the goal of primary school education for all of primary school age.

And that brings me to the secondary schools. Ten additional secondary schools have been opened or greatly extended, including two secondary modern schools, which, at present in temporary premises, will shortly move into permanent and specially designed buildings. These latter schools, the first of their kind in Hong Kong, provide for pupils who merit a secondary education but have an aptitude for practical rather than academic subjects. The curricula contain a high proportion of vocational training—in metalwork, woodwork, commercial and domestic subjects—which should assist pupils to obtain employment; the results of this training should also be of benefit to commerce and industry.

We have finished planning for a new boys' secondary technical school in Kowloon as well as for additions to the Ho Tung Technical School for Girls, and construction will be starting shortly.

Bound up with the need for more secondary school places is that of making the best use of those we already possess. During the year, Government helped 1,100 pupils to enter private secondary schools by the full or partial payment of their fees, and, at the same time, it subsidized the salaries of qualified teachers in many of the non-profit-making private secondary schools. Honourable Members will now be asked to consider a further form of aid to private schools, namely, grants payable on a classroom basis. The Director believes that, in this way, we can do much to improve the standard of these schools and to make them accessible to a wider range of pupils.

When we come to higher education I can report that the expansion of the Technical College continues, both in the number of courses offered and in the number of students enrolled. Honourable Members will know of a recent gift to provide a library for the College, and I wish to express my appreciation of the support which firms in Hong Kong are giving, notably in the form of donations; these have enabled the College to complete workshops and laboratories. I consider that the degree to which the College is already integrated in the complex of commerce and industry in Hong Kong is good. The College's academic record reflects the greatest credit, furthermore, on those who have been charged with its administration. Our Technical College now occupies a unique position in the East.

Last week, I took part in a ceremony for the Chung Chi, New Asia, and United Colleges for the award of the first Joint Diplomas to their successful graduates. I hope that the efforts which the governing bodies of these Colleges are making and the assistance which Government is giving will soon bring to fruition our plans for a University, teaching in the medium of Chinese, to stand alongside the University of Hong Kong.

The latter University, this year, is celebrating its Golden Jubilee. The number of undergraduates, under the plans for expansion already approved, has risen to 1,200 and the student population now exceeds 1,400. It may prove necessary, as the 1959 seven-year plan progresses, to make some adjustments, but I hope the plan will evolve substantially on the lines proposed. With the expansion of its basic activities, the University hopes also to participate in community activities, and the development of these is the main object of a Golden Jubilee Appeal for funds. Having successfully devoted its efforts in the post-war period to achieving full Commonwealth recognition of its disciplines, the University now turns to give more attention to the development of its

regional character, and this should redound not only to its benefit, but to that of Hong Kong.

Honourable Members will have read that the Census Commissioner, on the basis of two sample surveys, has made a tentative estimate of 3,190,000 for our population, and you will also have seen that the excess of registered births over registered deaths for 1960 was 91,521. These figures remind us of our housing commitments.

We continue to give first priority to resettlement, and, during the year, the total population of the multi-storey resettlement estates and cottage areas increased by over 46,000, to give us a total of 357,340. Alas, the squatter population of the urban areas is mounting, not, it would appear, through the construction of new squatter huts, but by the natural increase amongst existing squatters and by the infiltration of new squatters into existing tolerated huts. Latest estimates shew an increase over those which I gave last year, and the total number of squatters is now said to be in the region of 600,000. I am afraid that we have no choice but to continue at full pressure for some years our resettlement programme.

Building activity in Hong Kong remains intense. We estimate that, in 1960, private enterprise spent \$394 millions on new property. \$256½ millions of this was predominantly, but not entirely, for domestic buildings. Now this represents a large contribution to housing in established urban areas but, of course, it is predominantly better-class housing. It is true that private employers are continuing housing programmes, in some cases large ones, for their own employees and their families, but, generally speaking, there is clearly no attraction to private enterprise in building low-rental types of housing. The greater part of our population, therefore, living congested in the poorer tenements, can look only to Government for help, and that is why Government has decided that the obligation to provide low-cost housing must rest on it as a priority second only to the resettlement of squatters. You will recollect that, last year, I explained our plans to design a low-cost housing unit which would be an improvement on the resettlement type, although falling well short of the standard which the Housing Authority builds. We have now selected the sites for the first four estates for these and have tentatively reserved other sites. One of the sites chosen is the area which the squatter fire recently devastated at Hung Hom, and we have started site formation there.

As you know, it was originally proposed to use this special type of accommodation, in the first instance, to rehouse the occupants of tenements—tenements that were condemned as unsafe. We have reconsidered this and embodied in a bill, which recently had its first reading, an alternative scheme to provide that the victims of tenement disasters will receive compensation from their landlords to enable them

to find their own alternative accommodation, and we shall allocate the projected housing units to the general category of families, with incomes of \$300 a month or less, who are living in unsatisfactory tenement accommodation.

The Hong Kong Housing Society, during the year, built more than one thousand new flats. It manages them efficiently and keeps them in good condition. The Housing Authority has very impressive schemes under way to So Uk, at Ma Tau Wei and at Choi Hung, and its estimate is that, by the middle of 1964, it should have completed 17,600 flats to house more than 105,000 people, for a capital investment of \$165 millions. In addition to these building activities and projects, there are 164 Co-operative Building Societies to which Government so far has lent \$92 millions, and their record is the completion of 1,486 flats.

In 1960 World Refugee Year activities spotlighted our social welfare programme. The first Community Centre at Wong Tai Sin, which owes its existence to generous United States aid, has started off successfully. A large and increasing number of the 60,000 and more people who live in that estate are making use of its facilities, and what is encouraging is that the people themselves are beginning to come forward, not merely as "consumers", but with ideas and initiative of their own. It is early days yet, but this Community Centre and its fellows to be may prove, in some degree, to be the dynamic which those who live in these great new towns so badly need if they are to become self-reliant citizens.

The year has seen marked development in the activities of the Hong Kong Council of Social Service and of the other voluntary organizations—about one hundred of them—who give devoted service to our less fortunate fellow citizens, who carry such a great proportion of the heavy burden of meeting Hong Kong's social needs. The whole community, indeed, stands heavily in their debt.

One thing that our social welfare problems and our efforts to solve them has made clear is the acute shortage of trained social workers. We were fortunate to have a visit last year from that eminent authority on social workers' training, Dr. Eileen YOUNGHUSBAND. She has advised us on how to set about expanding our training facilities.

At the recent Agricultural Show, the largest and most impressive I have yet seen here, I had the chance of speaking about the achievements of our farmers, and I shall not add anything today; but I wish to draw attention to the lot of our fishermen. They have had a far from easy year, owing to typhoons and stormy weather in the summer months. Typhoon Mary struck mortal blows at the community and caused great damage to the fleet. It says much for the resource and

courage of the fishermen that they were down to the sea again so soon and so effectively in their ships. The public's generosity, through the Community Typhoon Relief Fund, was an important element in this recovery. Rehabilitation grants amounting to well over \$215,000 helped the fishermen who had lost their vessels. In the event, over the year, landings at the wholesale markets were only slightly lower than those of the previous year's record total.

During the year Government set up a single authority for the direction of all marine fishery activities, including the University's Fisheries Research Unit, in the newly designated Co-operative Development and Fisheries Department—rather a tongue-tying title. Only pond fisheries, which are closely connected with land utilization, were excluded from this new supervision.

Because of the very real difficulties which our inshore fishermen face, we are concentrating our help mainly on efforts to build up the middle-distance and deep-water fleet.

Before I close, I wish to say something about how we regard the refugees who have come to Hong Kong. We have accepted them. It is important that those who wish to know about Hong Kong, and, I would hope, wish to give us help, should see our problem as one of refugee integration, not just one of refugee relief. We are no staging-post on a great migration; we are a terminus and a goal. We cannot let ourselves be transformed into a camp with all its nomadic and temporary implications, the object of fleeting charity, a soup-kitchen-queue for those less fortunate than we are, as they pause waiting to know whither they can go. We are a community who have had some measure of success, the fruits of resource and enduring efforts; and we accept those who have come here as people who may share our amenities and our opportunities to win an independent livelihood with a dignity and self-respect which should go with that. This is our problem. We see the people who have come to Hong Kong as people seeking shelter here, people who wish to go no further afield but would remain amongst neighbours of their own race, who speak their dialects and follow their traditional customs, albeit adapted to a modern economy, an economy, in turn, which is geared to that of a free port, and which seeks to acquire the industrial character which will give it assurance for continuing existence. We have offered shelter and we have offered it in the form of integration. It speaks well for the humanity of the people of Hong Kong that they have done this, and it deserves fuller recognition abroad, both of the nature of our problems and of the form of the aid which we have given. Our hope is to make this integration successful, not just for Hong Kong as a community, but for every soul who lives here, that he or she may enjoy freedom from want. Our eyes are not closed to the great human misery that

the tourist can see in our back streets; we are not callous, calculating capitalists who deny the rights of those still living in our slums to better housing. Our calculations we direct, we hope in a realistic and unsentimental way, to discovering how to fulfil our humanitarian role within the boundaries of this small geographical location, and within the limits which its size and lack of natural wealth impose on our capacity. We can only do what we have set out to do if we remain a going concern, and, to ensure this in our peculiar conditions, we depend on our ability to maintain confidence, to attract capital to our midst, to exercise the minimum of interference in legitimate economic enterprise, and to find and keep markets abroad for the goods which we make in the factories which give employment and a livelihood to the people. We hope that our critics will come to understand better what is at stake in Hong Kong.

You will hear shortly from the Financial Secretary what the bills amount to, what cash and credit we have and how we hope to meet our capital and our ever-mounting recurrent expenditure, made necessary by providing for our large and growing family. There are things we must do to keep our economy as buoyant as it is today—and we have work to do on housing, schools, hospitals and clinics, communications and water supplies, which are essential elements in what, at the beginning, I described as our monumental task.

Government has been fortunate in the support which it has enjoyed from so many members of the public, giving freely of their time, serving on boards and committees, on the Urban Council, on this Legislative Council and on Executive Council. It is fortunate in the devoted work which is done by so many voluntary social welfare agencies, in the private bodies running hospitals and schools, in the Kaifongs and in the work of the missionary societies. To them all I pay tribute and express our thanks. The support is an encouragement to Government and an expression of the fine spirit of the people which has produced for Hong Kong its high reputation as a thriving, vital and courageous Colony. (*Applause*).

RESOLUTION REGARDING THE DRAFT ESTIMATES OF REVENUE AND EXPENDITURE FOR 1961-62.

THE FINANCIAL SECRETARY moved the following resolution: —

Resolved that the draft Estimates of Revenue and Expenditure for 1961-62 be referred to a Select Committee composed of the Colonial Secretary (Chairman), the Financial Secretary and all the Unofficial Members.

He said: Sir, I propose, as usual, to introduce the Estimates by reference to the accounts for the financial year 1959-60, which have

been in the hands of honourable Members for some little time. With them I shall have to be brief, for I have many other things to talk about, things of much more immediate importance, and I do not wish to take up too much of the afternoon.

We ended last financial year with a deficit of \$45 millions. We had budgetted for a deficit of \$92 millions, so that we did not do so badly, more especially as the budgetted figure did not—could not—allow for the verdict of the Salaries Commission. Revenue exceeded the estimate by \$64 millions—a little over 10%, and for the first time for many a long year actual expenditure exceeded the estimate—this again being wholly due to the heavy and unbudgetted cost of accepting the recommendations of the Salaries Commission.

I shall not spend time drawing attention to specific points of interest, with one exception. Many records were, once again, broken, but the record most worthy of attention is the figure of \$171½ millions spent on Public Works Non-Recurrent. This figure was very close to the estimate, and I think my Honourable Friend is deserving of congratulations for the work done by his department. I have to tender him my apologies for having refused for a long time to believe that he could do it: he demonstrated what he could do by presenting to the Treasury in the month of March—the last month of the financial year—bills for public works totalling almost \$43 millions. I have to confess, Sir, that my lack of faith in his department at the time was such that I was hard put to it to find cash to meet the bills. (*Laughter*).

The deficit was met from our General Revenue Balance which was thereby reduced to \$415½ millions. Revaluation of our investments on the 31st March last reduced it by a further \$9 millions. At the beginning of the present financial year our reserves comprised a General Revenue Balance and here, Sir, I give the exact figures for the record, a General Revenue Balance of \$406,679,644.73, and a Revenue Equalization Fund of \$138,014,760.94, the two together totalling \$544,694,405.67.

I give the balance sheet figure as I have given it each year in the past, as prescribed by our accounting rules, but I do want to point out that our true reserve is in excess of the balance sheet figure, provided we are not so recklessly improvident as to have to sell our securities unnecessarily before maturity. All our securities are dated, and our accounts show that whereas the book value of our investments held for account of surplus balances is \$474½ millions, their redemption value is over \$536 millions—Statement 6 on page 65 of the Accountant-General's Report. Maturity dates are well spread, and we can count on at least two million pounds sterling maturing annually from now on. We have, for example, over three million pounds of 2½% Funding Loan maturing next month.

Our public debt increased slightly during the year to a little under \$94 millions, still a small figure relative to our revenue. The Sinking Fund being built up for ultimate redemption of the Rehabilitation Loan stands at nearly \$17 millions—book value. The redemption value is almost \$22 millions.

At the beginning of the present financial year we drew the final instalment of the £ 3,000,000 loan from Her Majesty's Government for construction of the airport. We have to repay in fifteen annual instalments of £ 200,000, and the first payment, for which provision is made in Head 58 of the draft Estimates, falls due on the 1st October, 1961, subsequent instalments falling due on the same date each year. Originally we were requested to pay on the 1st April, but Her Majesty's Government accepted our suggestion that the payment might be made half way through the financial year, and not on its opening day.

During the year 1959 the bank note issue increased by approximately \$50 millions, and in 1960 it increased by a further \$74 millions. At the end of 1959, the total of Certificates of Indebtedness held by the three note-issuing banks stood at \$769,451,496.87; the assets of the Exchange Fund covered this liability to the extent of 125%.

During the year 1960, bank deposits rose from \$2,055 millions to \$2,683 millions, an increase of 30%. Included in these totals, savings deposits increased from \$368 millions to \$538 millions, a rise of 45%. During the same period bank advances rose by 25%, from \$1,372 millions to \$1,720 millions. The year has been one of great expansion and great prosperity.

The position of the Dollar Note Security Fund deteriorated further during the financial year 1959/60, when the accumulated loss increased from \$1,713,000 to \$2,245,000. This was due partly to writing down of investments, and partly to the heavy cost of maintaining a reasonably clean note issue. During the calendar year 1960, for example, we burned a further 26 million dirty one-dollar notes—half a million each week on average. This problem will disappear with the replacement of notes by coins, and we hope gradually to offset the loss on the notes by a profit on the coins. The new coins were first issued on the 12th December last, when we still had a stock of eighteen million notes, and we decided to continue to supply notes on demand until the stock ran out. By Chinese New Year the stock had fallen to two millions.

I might remark Sir, in passing, that on the occasion of Chinese New Year last month, in addition to the usual demand for dollars, there was an almost unprecedented demand for ten-cent coins, and we issued twenty three million coins in the fortnight preceding the festival, almost exhausting our stock. I have no idea of the reason for this extraordinary rash; we must just put it down to the general unpredictability

of events in this place, but we have, Sir, already placed another large order for ten-cent coins with the Royal Mint.

The accounts of our water undertaking are to be found on pages 250-255 of the draft Estimates, and it will be noted that for last financial year there was an operating loss of almost \$2 millions. The increase in the price of water last April was made none too soon. I foresee that further increases will be necessary in the future, for the capital costs of obtaining additional supplies are increasing, and the recurrent costs of pumping, staff salaries and wages, and so on, are going up.

The accounts of the Development Loan Fund are included in the annual report of the Accountant General and perhaps I may say a word or two about them.

On the 31st March, 1959, the Fund had advanced a total of \$121 millions in long term loans and still had available the sum of \$74 millions to meet additional commitments. A year later on the 31st March, 1960, the amount advanced in long term loans had increased to \$163 millions, and was going up by three to four millions a month, and the amount of ready cash available for further commitments had fallen to \$57 millions, despite a windfall of \$13 millions from the Administrator of Japanese Property. The Fund has additional commitments to the Hong Kong Housing Authority and the Hong Kong Housing Society alone, of \$158 millions, and it seemed necessary that a reappraisal should be made of Fund policy.

Of the \$163 millions which had been advanced on the 31st March, 1960, these two housing organizations accounted for \$85 millions, and Government Servants Co-operative Societies for a further \$54 millions. The methods of financing these three organizations are all different. In the case of the Authority the advance is in the nature of a revolving fund, which constitutes in effect the permanent capital of the Authority, and the limit now imposed is \$156 millions. The Authority may draw up to this limit but pays interest only on its actual indebtedness to us. For the Housing Society, which is entirely independent of Government control, there is a specific loan for each project, and each loan is repayable over a period of forty years. That is, we have the position where the Housing Society is already repaying its indebtedness on its earlier completed schemes while it is still drawing money from us to finance its later schemes. The total gross amount which it may borrow from us is roughly \$90 millions.

In both these cases, the initial loans were granted at 3½%, but later loans were at 5%, and although the loan to the Housing Authority is in the nature of a revolving fund, it is a condition of the grant of these generous credit facilities that the Authority will, like the older body,

amortize its total capital expenditure over not more than forty years. That is to say, if the Authority should not commence any further building schemes which would absorb its cash, the indebtedness to Government could be repaid within forty years from the time it abandoned further development.

So far as Government Servants Co-operatives are concerned, the original terms were that each co-operative borrowed for its own scheme at 3½% and repaid the loan over twenty years, that is, half the period accorded to the Authority and the Society.

As I have said, the somewhat less happy financial position with which we have been faced has led us to review the whole position. We felt that we owed it to our own servants to give them as much help as possible in their housing problem, and we have decided that for the present, the lending of money for Government Servants Co-operatives should continue, but that, whilst the repayment period of twenty years should remain, the rate of interest on new schemes inaugurated from August last year should be raised to 5%.

The decision has also been taken that no funds additional to those shown in Appendix I to the draft Estimates, can be made available for the Housing Authority and the Housing Society. Neither of these two organizations has done very much to provide for the housing needs of families with an income of less than \$300 a month, although the Society has done most valuable pioneer work in this field. Because of this, because of the fact that this section of our population is most in need of rehousing, and is not adequately catered for by private enterprise, it has been necessary for Government itself to enter this sphere directly. Provision is made in the draft Estimates for work on two low-cost housing schemes which, it is estimated, will cost in the neighbourhood of eighteen million dollars. This is only the start; token provisions are made for two more schemes, and yet more sites are being investigated. This type of low-cost housing will be something better than the very austere resettlement type, but not so good as the type of housing which has been provided by the Housing Authority and the Housing Society, and should, we hope, be within the means of that section of the population which we have most in mind. It is Government's view that the need of this section of the population is paramount. Money is not unlimited, and any funds left over after meeting resettlement commitments will be devoted to low-cost housing. There is at present, therefore, little prospect of funds additional to those shown in Appendix I to the draft Estimates being made available to the Authority or to the Society, but, with these funds, they will be able to carry on for some years with the schemes to which they are committed.

I might perhaps add that both these organizations have power to borrow from sources other than the public purse, but I am afraid that if they do try to borrow, they will not get terms as generous as those which we have given them for so long.

I now, Sir, pass on to ordinary Revenue and Expenditure for the current financial year.

The prospect looked somewhat gloomy when I presented the Estimates twelve months ago, but I did say at the time, that I felt that matters would turn out better than the figures seemed to show, and I did counsel Honourable Members not to panic. I am glad to say, Sir, that my hopes have been realized.

I mentioned that I proposed to apply the brakes to expenditure. This was done. Heads of departments were forbidden to spend more than one half of their voted provision during the first six months of the year unless with specific permission. They were requested to save 10% of their recurrent provision. They were prohibited from spending any money or even committing any votes for Special Expenditure without prior approval in each individual case. In every case where approval was sought, full justification for the expenditure had to be supplied, and it had to be shown that the proposals were not extravagant. These restrictions, onerous as they were, were, in general, loyally accepted by departments. The results have been reasonably satisfactory. Total expenditure will, therefore, be less than estimated.

On the revenue side, all departments were circularized with a view to stepping up revenue wherever possible by reviewing fees and charges. The response has been good. So far, results are not very apparent, but many proposals have been undergoing close examination in the course of the past few months and I think we can expect a general increase in revenue from these sources before very long.

The revised estimate of Revenue, in round figures, is \$826½ millions. This represents an increase of \$114 millions on the original estimate, and an increase of \$162 millions on the actual revenue figure for last financial year.

These figures, Sir, are startling; they mean that Revenue has increased by 24% in one year. Nothing like this has happened since 1952, and then the increase was due to an increase in the standard rate of tax on Earnings and Profits, and to strong reinforcement of the staff of the Inland Revenue Department.

The increase in revenue is spread over all Heads and practically all Sub-heads. The only disappointing feature is duty on tobacco. The yield is up on last year because the rate of duty was increased,

but the estimate, which I thought was a perfectly reasonable one, is not going to be reached. It seems that the increase in duty has stimulated smuggling and has apparently reduced consumption, and we expect to fall short by about \$4 millions.

Perhaps a few examples of individual increases may illustrate what has been happening, and I take these examples from Sub-heads where there has been no change in the rate of tax.

The duty on intoxicating liquor, Head 1, Sub-head 2, is expected to yield \$23 millions as against actual receipts last year of \$17½ millions, an increase of 31%. Liquor manufactured locally is expected to yield \$15¾ millions as against \$12.9 millions, an increase of 22%. Rates will produce \$100.3 millions as against \$85.3 millions, an increase of 18%; and I may add that this is the first year for the yield from rates to exceed the one hundred million mark. Earnings and profits tax will produce \$149 millions as against \$123.2 millions, a difference of 21%. Perhaps the most dramatic increase of all is under Stamp Duties, which are now expected to yield \$38 millions as against \$28 millions last year, an increase of 36%.

Of the reasons for this very large increase in revenue, I think Sir, I need say very little. Honourable Members are well aware that during the year we have been having a boom such as Hong Kong has never before experienced. There has been a general increase in salaries and wages, triggered by Government's acceptance of the report of the Salaries Commission, and this increase in salaries and wages has been a real increase in that the Retail Price Index has varied hardly at all since the changes in income came about. The increased amount of money available in the hands of workers necessarily has had its effect on revenue generally.

Standing out on its own is the revenue from land sales. In the last financial year we took in \$22.3 millions from land sales. This year we expect to take in at least \$56 millions. This is in part due to the greatly increased prices which people are now prepared to pay for land, but it is also due to the fact that the Public Works Department has been able to put up very many more sites for sale. I would add further that this \$56 millions does not take account of sales of land at Kwun Tong. Honourable Members will remember that the reclamation at Kwun Tong was financed by the Development Loan Fund, and that sales of land in that area accrue to the Development Loan Fund and not to general revenue. This makes the figure for land sales even more impressive.

On the other side of the account, the estimate for expenditure has now been revised to \$881.3 millions, a drop of \$57 millions from the original figure. Set against the revised estimate of revenue, this leaves us with a deficit for the year estimated at \$54.8 millions.

I may say Sir, that I consider this figure unduly pessimistic in the light of the latest returns since the Estimates were finalized and sent to the printers.

The financial year did not start off particularly well, and in the first few months we feared that our worst expectations were going to be realized. It was only in September that the position began to change. In September, which is not normally a good month for revenue, we took in \$72 millions. In October the record monthly collection was broken when we took in almost \$91 millions, of which one quarter's rates amounted to over \$23 millions. In November, which again is not usually a particularly good month, we had a revenue of over \$70 millions; and in December the figure was over \$73 millions. All records were once again broken in January when the total reached almost \$100 millions, and the indications are that February, too, will be a good month. In the light of these returns, I am inclined to think that the revised estimate of revenue which is in the papers before Honourable Members, is probably somewhat too low and we may well expect that it will be exceeded by \$20 to \$30 millions, or even more.

As to expenditure, I am convinced that the departments, on whom I have to depend for the figures, have again been too pessimistic, or optimistic, according to the point of view. Of the reduction of \$57 millions from the original estimate, \$35.7 millions are accounted for by a reduction in the estimate for Public Works Non-Recurrent, leaving a reduction of under \$22 millions on all other Heads. I am sure that the reduction, particularly when we have no exceptional commitment, such as heavy arrears of salaries, is too low, and that the final figure for expenditure will be well below the revised estimate.

For these reasons, I am convinced that the deficit for the year will be less than the \$55 millions shown, and I shall not be surprised if, in fact, the year turns out with a small surplus. I would hazard the guess—it is Sir, only a guess—that it will be in the region of five million dollars.

Last year, in the course of the debate on the Estimates, my Honourable Friend, Mr. FUNG, stated that he had every confidence that we would be able to balance the budget at the end of the fiscal year. I thought at the time that he spoke in jest, but now I am not so sure. He has been more far-seeing than any of us.

I now Sir, pass to the prospects for the forthcoming year. The draft Estimates are before Honourable Members, and I would like, once again, on behalf of them, I am sure, as well as for myself, to express my appreciation of the work of Mr. E. P. Ho and his staff in getting them ready for today.

Total revenue is estimated at \$878 millions, which is approximately \$52 millions more than the revised estimate for the present year. Honourable Members will be able to see the differences on page 6.

The estimates of expenditure show but few changes of form in comparison with those for the present year. One Head has disappeared—the Quartering Office. The functions of the Quartering Authority have been divided between the Rating and Valuation Department and the Colonial Secretariat. Two small Heads, the Directorate of Manpower, and Essential Services, have been amalgamated into one.

As against these deletions, there are three new Heads. One is the Immigration Department, which is to be hived off from the Police and will become an independent unit. Another is the New Territories Division of the Urban Services Department, which has taken over from the District Commissioner responsibility for sanitation in the New Territories. The third is the Public Enquiry Service.

The increases on the various Heads are less in many cases than might have been expected. A more realistic policy has been adopted on staff, for which the overall increase is 2,889, as against 4,887 this year. For example, although the policy on expansion of the Police Force remains unchanged, the increase in the estimate is comparatively small. It has been found that it has just not been possible to fill all the posts that have been provided in the past, and accordingly only 176 new posts are added for next year as against 659 this year.

Under the Stores Department there is a substantial reduction in staff. This is the result of an investigation of the cost of making our own furniture, which disclosed that it was far cheaper to put the making of new furniture out to contract. Accordingly, the furniture workshop has been reduced to little more than a care and maintenance level, with a reduction of 62 posts. Similarly, the introduction of mechanized accounting has not only averted a further increase in clerical staff, but has brought about a reduction of six in the existing clerical establishment.

An effort to contain the expenditure on Public Works has been directed along two lines. One decision has been that private architects will no longer be engaged for Government work, and that the programme must be limited by the capacity of the staff of the Public Works Department. The other decision, taken in advance of preparation of the Estimates, was that no additional posts of architect or of engineer should be approved. The establishment in these grades for next year is the same as that for the present year, although additional ancillary posts have been allowed. But for these decisions, the total estimate for next year would undoubtedly be much higher.

The bill for Public Works Non-Recurrent is once again a record. The programme of work during the year is based on the report of the Public Works Sub-Committee, which is tabled today. The total provision is over \$352 millions, \$62 millions more than that for the present year.

The programme is of very great interest and will, I trust, be studied with care by Honourable Members. It will be seen that expenditure on improvement of our water supplies is estimated at \$105 millions, of which \$65 millions are for the Shek Pik Scheme, and \$19 millions for what is called the Integrated Scheme, including Plover Cove. Resettlement and Low Cost Housing together account for \$55 millions. Among the individual items, the Queen Elizabeth Hospital will require \$7½ millions, the City Hall \$10 millions, and the Airport Terminal Building \$12½ millions.

I might perhaps draw attention to the programme of roads and bridges. The heavy bill under this heading is over and above the ordinary bill for maintenance of roads, which is provided under another Head, and two new items are perhaps of particular interest to motorists. One is Sub-head 201, which is described as Lion Rock Tunnel. It is necessary under the Plover Cove Scheme for a tunnel to be driven through Lion Rock to carry three large pipes through which filtered water will flow from Sha Tin. It occurred to us that as we had to drive the tunnel in any case, it might be worth while making it big enough ultimately to take a road. The estimate of \$5½ millions shown is simply the cost of driving through Lion Rock a tunnel large enough to carry both water pipes and a road capable of taking double decker buses. It is the estimated cost so to speak of making the hole, without pipes, or road surface, or ventilation, or lighting; without any trimmings of that kind. It will be some years before the road materializes, but when it does, it will provide a route to Sha Tin alternative to that now in use along Nathan Road and round Kowloon Reservoir. The route from the Star Ferry, for example, would be along Chatham Road, the new Nairn Road, and Waterloo Road, thence into the tunnel. It is proposed, Sir, to charge a toll. The provision of this alternative route will probably save us a considerable sum of money in improving and widening the existing route, to which we now do not propose to do very much.

The other item, for which the estimate is \$780,000, is to be found under Sub-head 177. This involves turning Deep Water Bay Road from Wong Nei Chong Gap to Shouson Hill into a motor road. This should considerably ease the congestion of traffic on Repulse Bay Road.

The total estimate of expenditure comes to \$1,072 millions, which is \$191 millions more than the revised estimate for the present year.

With revenue estimated at \$878 millions and expenditure at \$1,072 millions, the estimated deficit for next year is therefore \$194 millions.

This deficit is very much less than the deficit which we originally budgeted for during the present financial year; it is \$32 millions less. With the probable results of the present financial year in mind, I have no doubt that Honourable Members will tend to take the optimistic view and will feel that, as we budgeted for a deficit of \$226 millions during the present year and now look like having a surplus, then if we budget for a much smaller deficit during the next financial year, it is to be expected that we shall have another surplus, and a bigger one.

I would, Sir, most earnestly counsel Honourable Members against falling into this error.

When I touched on the revised Revenue Estimates for the present financial year, I said that, in my view, the excellent results were the result of a boom such as has never been experienced before in the history of Hong Kong. During this time, we have had an expansion of industry on an unparalleled scale. I am sure that never before in the hundred odd years of Hong Kong's history have we seen so many advertisements in the press inviting labour. But within the past few months this situation has changed. The garment industry is not doing so well; plastics and particularly plastic flowers, are suffering; and the weaving industry is passing through a lean period. When a factory now is short of labour, it does not have to advertise in the papers; it merely posts a notice outside the gate. It is perhaps not true to say that we are starting on a recession, but I think it is true to say that the rate of expansion which was so rapid during 1960, is slowing down, and that the curve is levelling off. It is possible that it may even start to go downwards.

In the circumstances, I think it would be rash to count on a similar expansion, and on a similar growth of revenue, during the forthcoming year. We have been reasonably generous in our revenue estimates for next year. In fact, in my view, we have taken some risks on certain Heads and Sub-heads, although I am confident that the total figure is reasonable in so far as we can see ahead.

On the other hand, I think that there is no question but that expenditure is going to increase. I have touched on the heavy programme of Public Works. I think it is undesirable to slow up the programme which has been approved by the Public Works Sub-Committee: their judgment as to the works which should be proceeded with, should, I feel, be accepted. If the worst comes to the worst, we could hold up or delay a number of items, but it would be a mistake.

We are trying to take stock of the position. Last year, my Honourable Friend, Mr. Barton, gave us a six-year forecast, showing an overall deficit of \$1,200 millions. We did a five-year forecast which showed an overall deficit of \$1,528 millions. Neither of us dreamed that we should have such a startling increase in Revenue this year, and it is now clear that we were both very wrong. We have to make another try if we want to borrow money, but pending the results of this new survey, one thing is clear. It is that if we are going to go ahead with our programme of development and expansion, we shall have to find more money. The forecast that we prepared took account only of the capital programme as it stood at that time. Many more items have since been added, and many more will have to be added. It has been said on many occasions in the past that it is wrong to meet our whole programme of capital expenditure out of current revenue. It has been said that we should pass on some of the burden to future generations by borrowing. There is every justification for this view, but in present day circumstances, it is not quite so easy to put into practice. I have been giving a great deal of thought to the problem during the past twelve months and I have been in communication with the Colonial Office on the matter.

But, before I go on to talk about borrowing, and about raising additional money by taxation, I ought to mention that we have in mind raising money by a method that has been suggested by some Honourable Members in the past. I refer to a Government lottery. A good deal of consideration has been given to the possibility of raising money by this means, and the Secretary of State has told us that, provided Honourable Members are in agreement, he will approve. Draft legislation is now being prepared for their consideration. We are breaking new ground here and we are not quite sure how things will go, but what we have in mind, if this Council should approve the principle, is an experimental lottery to be drawn some time in August. The Royal Hong Kong Jockey Club will place its facilities at our disposal, and we would propose to sell lottery tickets at \$2, the same price as for Jockey Club sweeps. It would depend on the result of this experimental lottery whether we should continue by this means, using the facilities of the Jockey Club, or whether we should set up our own organization and have regular monthly or quarterly lotteries. Lotteries are already common and popular in other parts of the Commonwealth.

May I apologize for this digression, and go back to the question of borrowing.

We, in fact, started borrowing in a very small way some years ago when we introduced tax reserve certificates. At first the response of the public to this facility was not very good, but a little publicity helped, and the net total amount in tax reserve certificates held by prospective

tax payers averages over a million dollars. Until last December, these certificates were available only for payment of salaries tax, and tax levied on personal assessment, and the rate of interest was 3%. We then revised the conditions to provide that these certificates could be accepted in payment of any form of tax levied under the Inland Revenue Ordinance and we stepped up the rate of interest to 3.6% following on the increase in the rate of interest on savings accounts. It is as yet a little early to judge whether the greater scope for these certificates, and the increased rate of interest, will have any great effect, but I rather think that the total of such certificates will gradually increase. Even so, the amount held is not likely to be a significant factor in our calculations.

I would like first to deal with the problem of borrowing locally.

Some months ago preliminary arrangements were made for an issue of Treasury Bills, common in other financial centres, and indeed in other Colonies and former Colonies, but we did not pursue the matter because of the improvement in our cash position occasioned by the dramatic rise in revenue receipts from September on. We already have power to issue these bills under Chapter 74 of our Laws, but in actual fact, no Treasury Bills have ever been issued here. I believe that banks and certain other institutions frequently have surplus funds available which they would be prepared to invest for periods of three to six months. The Treasury Bill would suit this form of investment, and I propose at a suitable opportunity to initiate the system of inviting tenders for Treasury Bills payable in three months and possibly longer. It is impossible to say just how much money would be forthcoming in this way, but I shall, Sir, seek the authority of this Council to borrow up to a prescribed maximum by this means.

Before I go on to the development which should follow Treasury Bills, I should mention that the question of premium bonds has been considered. These have been very successful in the United Kingdom and elsewhere, and there seems every possibility that they might be equally successful here, but I am a little doubtful whether it would be desirable, or even practicable, to have premium bonds and lotteries at the same time. This is a matter which I have had to leave to my successor.

A possibility of short term borrowing which I have rejected is a Post Office Savings Bank. The banks are already providing a most efficient service to the saving public with the wide extension of branch banking. I have already mentioned the rapid and steady rise in bank savings deposits, and I think it would be most unfortunate if Government were to set up its own savings bank in competition with the established commercial institutions.

So much for short term borrowing. But short term borrowing in itself is not enough. We would propose, as soon as the Treasury Bill issue becomes established, to proceed further to the medium term loan. I think we must recognize quite frankly that a long term loan is out of the question in Hong Kong, at least under present circumstances. The local investor is not interested in long term fixed interest securities. But I think there is a possibility of some money being forthcoming for a loan maturing in say five to seven years provided the terms are right. There are some trustee funds available and I should hope that banks and insurance houses might feel it appropriate to carry some of their funds in the shape of local investments. The raising of even a loan of five to seven years is still a little way ahead.

There is a point arising from these proposals to borrow locally which I think it appropriate I should mention. It is, I think, fairly clear that if we are to borrow successfully, then we must provide for a reasonably active market; even in the case of Treasury Bills we must provide rediscount facilities. In the absence of a central bank the creation of this market, and the provision of rediscount facilities, must fall on Government in some form or other. When, therefore, we come to invite tenders for Treasury Bills, we shall have to undertake to rediscount these bills, and for this purpose we shall have to announce our discount rate from time to time. It has been suggested to us that it would be appropriate for this purpose to use a proportion of the assets of the Exchange Fund, now held entirely in sterling. The suggestion really means that part of the Exchange Fund should be invested locally in a Government loan or in Treasury Bills. The suggestion is one to which Government, with the advice of the Exchange Fund Advisory Committee, must give very careful consideration. Whereas it seems absolutely right that our funds should be utilized for the benefit of Hong Kong to the widest possible extent, it is of vital importance that confidence in our currency, both here and abroad, should be maintained, and should not be impaired by any step which could even be represented as not being in accordance with a thoroughly sound monetary policy. The Hong Kong dollar is the most trusted currency in the East, and we want it to stay that way. (*Hear, hear*).

Now for our prospects of borrowing abroad.

We have been told, and this I must say straight away, that we cannot hope to raise any money on the London Market at present. This leaves two possible sources of external credit.

One is the International Bank.

We have had a visit from a senior official of the Bank, with whom we exchanged a great deal of useful information. It is perhaps premature to be too optimistic about what may happen, but I do not think

I am going too far when I say that there is a possibility of funds becoming available from the Bank either for some of our water schemes or for our reclamation schemes, or perhaps both. There is a somewhat elaborate procedure that has to be gone through before any funds can be made available, and we have taken the first step in asking the Secretary of State to make an official request to the Bank for a mission to come here.

A second possible source of external finance is the system of Exchequer Loans. These are loans provided by Her Majesty's Government for Colonial Territories under the Colonial Development and Welfare Acts to help finance their development programmes. The present Colonial Development and Welfare five-year period ends in March 1964, and it is unlikely that any substantial amount of money could be made available for us under the present Act. We have been assured that if we can show need for external loan finance, our need will be taken into account when fresh Colonial Development and Welfare legislation is under consideration, but we must bear in mind that the total amount available for lending to Colonies in this way is bound to be limited and that we shall have to compete for a share with other territories which, generally speaking, have advanced much less economically and socially than has Hong Kong.

There are a number of other funds, national and international, which lend money for development, but none of these is likely to be available for us, as they are either tied to purchases from the lending country or are granted only to territories which are much less sound financially and economically than is Hong Kong.

From whatever external source we seek to borrow, there is one stipulation that any possible lender is certain to make as a condition precedent to a loan. That is that we must take steps to mobilize our own local financial resources, either by taxation, or by internal borrowing, or both, to the maximum extent possible without causing damage to our continued economic growth. This, in the case of Hong Kong, is not at all unreasonable in view of our very small public debt and our generally low level of taxation. The exact point at which increased taxation commences to inhibit economic growth is difficult to determine and I have little doubt that opinions will vary within very wide limits on the point.

If, therefore, before we can borrow, we must satisfy any possible lenders that we have done our best by way of increased taxation, and by local borrowing, it would seem that we must show our willingness by doing something now, even though, at the moment, our resources are sufficiently large to carry us over the next three years. We propose, as I have said, to commence borrowing on Treasury Bills as a first step. I also propose to raise some extra revenue by additional charges and

taxation. I will allay the misgivings of honourable Members at once by saying now that my proposals do not include an increase in the standard rate of tax. Some of them are necessary, in any event, for reasons other than financial.

I propose that the price of sand ex-depot should be raised by one dollar per cubic yard as from tomorrow. That is, the price will now be \$10—the same price as ruled during the greater part of 1956 and the whole of 1957. Honourable Members will recollect that we re-organized the sand distribution system at the end of last year. We discontinued the system of direct deliveries, which consisted largely of unwashed and unscreened sand, and provided depots at convenient points where screened and washed sand could be collected and paid for at the price of \$9 per cubic yard. The further increase from \$9 to \$10 is frankly a revenue measure, and with sales averaging 90,000 cubic yards a month, I estimate that this increase in price will bring in an additional million dollars annually. The total increase of two dollars means that the cost of building goes up by, at most, one half of one per cent.

I propose to raise a further \$3 millions—and perhaps rather more—by raising the rate of betting duty from 5% to 7½. Under the present system, out of every \$100 invested on the totalizator, Government takes \$5, the Jockey Club takes \$9.50, and the balance is distributed to investors. I understand that with Government taking \$7.50 instead of \$5, the Jockey Club proposes to reduce its share from \$9.50 to \$7.50, and this must mean that the amount available to the Club for charitable donations will necessarily be reduced. Perhaps I should make it clear that the increased duty applies only to money invested on the totalizator. The tax on sweepstakes is already 25%, and I do not suggest any change here.

I propose to raise a certain amount of revenue by altering the Schedule to the Stamp Ordinance.

Head 3 of the Schedule prescribes a duty of one dollar on every agreement under hand, not subject to duty under another Head. I propose that this duty shall be increased to three dollars, which is the same figure as that for a statutory declaration. Hire purchase agreements will be removed from this general classification and will bear duty at five dollars each. They are now becoming very common.

I propose also that for contract notes, that is to say, for bought and sold notes in respect of shares, the present stamp duty of 10 cents for every \$100 or part thereof shall be increased to 20 cents.

I estimate the additional revenue from these changes to be \$2½ millions in a full year. Legislation is necessary, and the bill is being drafted.

A year ago we raised the duty on petrol by 45 cents a gallon. Even though the new rate is lower, I believe, than in any country in Europe or in the East, the volume of grumbling at that time was such that one might have expected a sharp reduction in the number of cars on the road; many people, all anonymous, announced they could not afford to run a car with petrol at the new price. It is remarkable, Sir, that, on the contrary, the rate of increase in the total of car registrations has never been higher. (*Laughter*).

At the beginning of 1960 the number of private cars registered was 26,587. At the beginning of this year the number had risen to 31,057. Motor cycles similarly increased from 2,813 to 3,396. This increase is all too apparent in the crowded state of our roads and streets, and the situation is getting worse daily. And yet the position is that there is only one private car to every hundred of the population or thereabouts. In the United States there is, I believe, one car to every three people. In Western Europe, there is one car to every ten people. If we should rise to American standards, we would have a car population of a million; if we aspired merely to European standards, we would have 300,000 private cars within our small area. I might add that we would also have 100,000 motor cycles.

Now this cannot happen. It cannot happen, because long before the total of cars reached the figure of 300,000, traffic conditions would have reached the state where nothing could move on the roads. It would be necessary for us to limit the number of car licences, and to face the rackets, and the black market, and the inducement to corruption, that any such restriction must inevitably bring in its train. It is necessary to face squarely up to our problem now. We must recognize the fact that we already have a very high population density in relation to roads; we have a rapidly rising population; the standard of living of our people is going up rapidly. These facts, Sir, point to one conclusion; the number of private cars is going to increase and to go on increasing, all the more because hire-purchase has now become so easy.

We, therefore, propose to take steps now to discourage the increase in private cars; we propose to make it more costly to own a car. We propose a form of purchase tax. This will not be on the lines common in other countries; we shall apply it in the same way as Commonwealth Preference Tax is applied at present, by a once-for-all charge on the occasion of first registration. Initially it is proposed that the tax for a private car should be 10% on the value, the full value, including tyres and spares. There will be no charge for a goods vehicle, because any such charge must necessarily have an adverse effect on our economy and might well cause an increase in the cost of living, and I shall, in a few moments, Sir, indicate that they will have to bear increased costs of another kind. There will be no charge for buses and taxis, for I think

that if we are to embark on a policy of discouraging private transport, we cannot extend that policy to public transport unless we are going to force people to walk. But all other mechanically propelled vehicles, including motor cycles and scooters, will bear the tax.

A bill has been drafted to give effect to these proposals. It is, I think, obvious, that unless action is taken at once, there will be an immediate rush to license every vehicle in Hong Kong, and perhaps some vehicles not yet in Hong Kong, not already registered for the road. Accordingly, Your Excellency has, by a proclamation under the Public Revenue Protection Ordinance, given the bill the force of law as from 3 p.m. today, pending its passage into law, or its rejection, in the usual way. The licensing office closed, or should have closed, for the day at that hour, in order to give the staff an opportunity to acquaint themselves with the new legislation, and applications received before 3 p.m. will not have to bear the tax.

I estimate the revenue from this tax at \$5 millions annually, even allowing for some slowing down in the rate of new registrations.

By this means we would increase the cost of acquiring a car. I propose also to increase the cost of running a car, by raising the duty on petrol by 25 cents, from the present \$1.25 per gallon to \$1.50. At this rate, the duty will still be less than in the United Kingdom, and the price of petrol will still be less than in any European country, except possibly one, and, I imagine, less than any country in the East. In fact, there seems to be plenty of room for further increases if private car registrations continue to increase.

I estimate this change also to produce \$5 millions in a full year.

When the duty on petrol was raised substantially a year ago, the duty on diesel fuel was left unchanged. For the past twelve months the duty on petrol has been \$1.25 a gallon, and that on diesel fuel 40 cents a gallon. The effect has been to encourage the use of diesel driven cars and trucks. I have to admit that I was a little surprised to learn during the year that not only was diesel fuel cheaper at the existing rates of duty, but that even if the rates of duty were to be the same, as they are in the United Kingdom, diesel fuel would still be cheaper. Yet more, I am told that diesel fuel gives more miles to the gallon for the same power, and that maintenance and repairs, and tyre wear, are substantially less for a diesel engined vehicle than for a petrol driven vehicle. We have, seemingly, been unduly lenient to users of diesel vehicles. I have given thought to raising the duty on diesel fuel to the same level as that of petrol, but it has been represented to me that such a steep increase all at once is undesirable. I accordingly propose to raise the duty from the existing 40 cents a gallon, only to one dollar a gallon on this occasion. The further step of raising the duty to \$1.50 can be taken later.

This increase in duty will apply only to diesel fuel for automotive use; diesel fuel for other uses will still remain at 10 cents per gallon. I understand that there is already some evasion of duty, though not on any significant scale, by the cheaper diesel fuel being used in cars, and we hope to make provision in the regulations in due course for diesel fuel supplied at the 10 cents per gallon rate of duty to have an additive which will provide identification. Any car or truck which thereafter is found to have in its tanks diesel fuel containing this additive will be treated as using dutiable fuel and the driver or owner will be subject to the usual penalties.

I propose that there should be an exception for the two bus companies which operate under exclusive concessions and pay substantial royalties to Government; the Kowloon Motor Bus Company monthly payment, for example, now exceeds a million dollars, and if it, or the China Motor Bus Company, were to be compelled to bear the full increase in duty, then, either royalty payments would have to be reduced, or fares would have to go up. For them the rate of duty on the diesel fuel they use will be 50 cents per gallon, an increase of 25%.

The increase in revenue to be expected from this change in duty is estimated at \$2 millions. Most of this additional revenue will be contributed by the lorry operating concerns and by the taxi companies. There should, in my view, be no justification whatever for any increase in taxi fares. These taxi companies have a very privileged position in being protected against competition by limitation of the number of taxi licences, and their profits over the past few years have been very substantial indeed. They were substantial even when they depended on petrol driven vehicles. They pay no royalties other than small charges for parking stands.

This increase in revenue will be partially offset by a concession which I propose. When the duties on petrol were raised a year ago, there were many complaints from certain industries which use petrol in their manufacturing processes, and particularly from the rubber factories. Consideration has been given to various ways and means of helping these manufacturers in their difficulties, and I think that a solution has been found. Although they have been using petrol, it is equally practicable for them to use certain other light oils which are not suitable for use in motor engines. Accordingly, whereas up to the present all light oils, regardless of whether they can be used in motor engines or not, have borne duty at \$1.25 a gallon, I propose that in future the \$1.50 duty rate shall only be applied to motor spirit, that is, petrol suitable for use in motor engines. The duties on other light oils which are unsuitable for use in motor engines, will be reduced to 10 cents per gallon. This concession will not benefit the manufacturers to the full extent of the difference between \$1.25 and 10 cents, because, if we leave duty out

of account, the light oil solvents concerned are more costly than petrol; but at the new rate of duty proposed, they will be quite a little cheaper. It is difficult to estimate what will be the real cost of this concession, but I propose to allow a million dollars annually. It may well cost us more.

I should, I think, make it clear that this concession does not represent a subsidy to industry. Industries such as paint manufacturers, who use duty paid oils, are entitled to drawback; that is, they are entitled to a refund of the duty paid on the oil contained in any paint which they export. Rubber manufacturers would similarly be eligible but for the fact that rubber footwear is dry; the oil disappears in the manufacturing process. In the United Kingdom they get over the problem by calculating how much oil has been used in manufacturing a pair of rubber shoes, and by refunding to the exporter, in respect of every pair of shoes exported, a sum equal to the duty on that oil. Here we propose a much simpler, and much less generous, solution.

As is usual in cases where duties are altered, all these changes have been brought into effect as from two o'clock this afternoon, by a proclamation under the Public Revenue Protection Ordinance.

I think I should take this opportunity to warn private car owners that the days of cheap motoring in Hong Kong are going. We have been very lucky so far. Purchase Tax on cars in Britain is still 50%: in Australia it was reduced from 40% to 30% only last week. Here we propose only 10%. But we propose also a revision of car licence fees with a view particularly to increasing the charge for large cars; we propose a wide extension of metered parking, perhaps at higher rates. Car park charges will have to be looked at: possibly honourable Members may not have realized that the rent of a space in a public car park is less than the rent of a cubicle, of much smaller area in a tenement. Is there, Sir, perhaps something wrong with our sense of values?

On a number of occasions during the past few years I have been approached on the subject of Property Tax. It is provided in section 5 of the Inland Revenue Ordinance that for so long as rents are restricted under the Landlord and Tenant Ordinance, Property Tax shall be charged at half the standard rate.

The reason for this exceptional treatment for property owners was stated by my predecessor in this Council on the 24th April, 1947, to be as follows: —

"Before the Bill was referred to the Committee, Government had received certain representations from property owners who felt that some concession should be granted to them in respect of the Property Tax in view of the fact that owing to rent

restriction legislation they had not been able to recoup themselves in regard to their war losses in the same way as members of the business community. The Committee was therefore particularly requested to consider whether the tax, if imposed at the full rate, would cause hardship. They came to the conclusion that some degree of hardship would be caused and they recommended that only half the standard rate should be charged during such time as rents continue to be restricted to December 1941 levels. The Committee also expressed the view that the allowance for repairs should be increased from ten to twenty per cent."

Sir, this was stated by my predecessor in this Council 14 years ago.

Now, this was a very long while ago. At that time the number of tenements not subject to control under the Landlord and Tenant Ordinance was very small, and there was some justification for special treatment for property owners who were unable to achieve the prosperity which was being enjoyed by their brethren in the commercial and industrial worlds. Today the position is very different, for I am advised that less than 25% of all tenants in the urban areas in fact enjoy the benefit of a rent restricted by law.

Consideration was therefore given once again to a proposal to charge Property Tax at the standard rate. As a general proposition, this proposal was rejected.

The reason was the special position of the owner-occupier, who wrongly, but perhaps pardonably, looks on Property Tax as just an increase in the rate. The Inland Revenue Ordinance levies a tax on earnings and profits. Property Tax as applied to the owner of a property who occupies the property himself does not seem really to be a tax on earnings and profits; it is arguable whether a man can earn money from himself, or make a profit out of himself. It seems rather to be a tax on capital, the capital that the owner-occupier has paid for his flat or for his house.

There have been several reasons prompting the demand that Property Tax should be charged at the standard rate. I will not go at length into them, and before I give two examples, which in Government's view, make an overwhelming case for taking some action, I want to make it clear that so far as a corporation carrying on business is concerned, so long as that corporation is operating at a profit, it does not matter in the slightest what is the rate of Property Tax, for the Property Tax paid is ultimately set off against the Profits Tax assessed. It could be the standard rate, or half that rate, and it makes no difference. The only people affected by a change would be individuals and partnerships.

There is a large—quite a large—multi-storey block in the urban area which is let out for shops and offices. The rents of the offices on the upper floors are the usual \$1.20 per square foot per month or thereabouts. The building is owned by three partners, who are not incorporated and who cannot be taxed on their profits—their very handsome profits—from the letting of the building, because they are not running a business under the law as it stands. All they have to pay is Property Tax, at half the Profits Tax rate, on the rateable valuation, less an allowance of 20% for repairs and outgoings. This means, in effect, that they pay 50% on the rateable valuation. If they were foolish enough to incorporate themselves, and so render themselves liable to tax at 12½% on actual profits, my guess is that they would probably pay in Profits Tax three times as much.

Another example of the manner in which the present concession on the Property Tax rate can be exploited to the detriment of the revenue was provided by a company which built and, for some little while, managed, several blocks of modern flats. The members of this company were only five in number, and they rightly came to the conclusion that they were being very foolish paying tax on the basis of profits derived from the lettings. They liquidated the company. The shareholders received back their investment in the form of flats in the buildings, and the result now is that the former shareholders pay Property Tax on the rateable valuation of their flats at 5%, instead of paying Profits Tax at 12½% on the profits which they earn. The loss of revenue has been very considerable, so, considerable that Property Tax at the full rate would still be less than tax on profits.

These are but two examples, but they are, I think, sufficient to demonstrate that something must be done to see that the incidence of tax is made a little more equitable.

I propose, therefore, that as from the 1st April next, Property Tax should be levied at the full standard rate on all tenements which are not subject to control under the Landlord and Tenant Ordinance: that controlled tenements should continue to be charged only the half-rate: and that tenements wholly occupied—I would emphasize, wholly occupied—by their owners, for residential purposes, should be relieved of Property Tax completely. I do not propose that the 20% allowance for repairs and outgoings should be reduced.

It will be administratively simple to send out assessments at differing rates to controlled and uncontrolled properties, but anybody who thinks he is wrongly treated as uncontrolled will have the ordinary right of appeal; he can, if he wishes, apply to a Tenancy Tribunal for a determination. Administratively, it may be necessary for everybody to be assessed and to pay, but the owner-occupier may apply for a

refund, much as an owner can obtain a refund of rates on vacant premises.

It has been represented to me that doubling of the rate of Property Tax for uncontrolled properties may cause hardship to many people of small means who have invested their capital in property and whose sole income is the rent derived from perhaps one house, or even one floor. If there are any such cases, the remedy is simple. Personal assessment can be applied for: this is already a common, and an increasingly common, practice.

The additional revenue to be expected from this change is estimated at \$18 millions; the necessary legislation is being drafted.

These, Sir, are all the changes proposed, and the additional annual revenue they will produce is estimated conservatively at \$35½ millions annually.

This will bring the budgeted deficit down to about \$160 millions, and I propose to allow that to stand for the present. That figure represents less than half our estimated bill for Public Works, and I would not propose to cover this by additional taxation until it is quite clear that we cannot raise money by borrowing; or by a lottery; or until it is clear that it would be unwise to draw so heavily on our reserves.

Much will depend on how things go during the next six months.

I want, Sir, if I may, to go back to the subject of taxation of earnings and profits. I think I ought to say something about our present system of direct taxation, which was enacted in 1947, and subjected to extensive revision in 1955 and 1956. Last year one Honourable Member asked me for an assurance that there was no evasion of tax, and I told him that I was quite unable to give any such assurance. On the contrary, there is evasion, and there will be evasion; and with any increase in the rate of tax the incentive to evade will be increased.

The Committee appointed to revise the law which reported in 1954 included in its report the following paragraph: —

“ . . . we are unanimous that the present system of taxation of earnings and profits is inherently an inequitable one, and is acceptable only on the assumption that the rate of tax remains sufficiently low to make the inequities tolerable.”

The proposal to revise the incidence of Property Tax will smooth out, but will not eliminate, one inequity, but there are many others.

For example, when a salaried person receives free or subsidized living accommodation from his employer, his liability to tax in respect

of this benefit is limited to 7½% of his other income. Perhaps an example would illustrate the point. A man who receives a salary of \$3,000 a month pays tax on \$3,000 even though he has to rent living accommodation for \$1,000 a month. He receives no allowance for that. But if his employer pays him only \$2,000 a month, and gives him a thousand dollar a month flat rent-free, then he is taxed only on \$2,150 a month—that is, the \$2,000 salary, plus 7½% of \$2,000. What is more, the employer claims the \$1,000 rent as a legitimate deduction from his profits. The problem is a wide one, covering both Government and non-Government servants, and is particularly serious with some private companies, the members of which pay themselves salaries below the taxable limit, but give themselves free houses, free servants, free transport, large expense accounts, and pay no salaries tax at all. As against this, the professional man or the business man who is unincorporated, gets no allowance for the expense of his living accommodation, and receives a flat allowance of \$7,000 on the profits of his business, regardless of whether he and his partners have wives and children or not. He has a counterbalancing advantage in being able to charge to expenses many items that the salaried man would not be allowed, but the whole situation is clearly thoroughly inequitable.

Since the extensive revision of the Inland Revenue Ordinance in 1956, many new loopholes have been discovered by ingenious tax payers. The Commissioner of Inland Revenue has described the Ordinance to me as "a piece of horse and buggy legislation in a jet age". He has submitted a long list of amendments to plug up loopholes and to smooth out inequities, but he admits that, even if they are all accepted, they are only palliatives, and that avoidance and evasion, probably widespread avoidance and evasion, and inequities, will continue. His judgment, reached after much consideration, is that only a full income tax can possibly set the matter right, because it is only by relating tax to individual income that fair treatment can be achieved. Our legislation does not and cannot relate tax to individual income except in the case of the salary earner who has no income other than his salary. It is quite useless to tell us as some people do that some particular individual is a very wealthy man; that he has three or four expensive motor cars; that he has a couple of houses; that it is well known that he is cheating the revenue. It is quite useless because the Inland Revenue have no right to make that man disclose his income. They can make him disclose his salary if he has one—often he hasn't—but that is all. So far as his other sources of income are concerned, their authority stops short at the corporation or at the partnership or the business; it does not extend to the individual. Until it is so extended we can, in the view of the Commissioner, do nothing in such cases. And even if it is so extended, we are still little better off unless we also relate tax payable to individual income.

For this reason I have rejected the Commissioner's request for patching up the Ordinance. I have instead recommended to Your Excellency that immediate consideration be given rather to the replacement of our present thoroughly unsatisfactory system of direct taxation by a full income tax. The Inland Revenue Department has drafted an outline scheme, and I have suggested that it should be subjected to close independent examination to ensure that it is suited to local conditions, and should thereafter be submitted for approval by Government and by this Council.

The question is even more important because I foresee that the rate of tax will have to go up in the not too distant future. The inequities will then be magnified. I may say, indeed, that when the question of raising the standard rate of tax was being considered, one of the arguments that swayed the balance was this very point.

I want once again to emphasize, as strongly as I can, that under our present law, the safeguards against evasion and avoidance are quite inadequate. I particularly want to emphasize it because a bad case of deliberate evasion, involving concealment of something like eight millions in profits, is currently under investigation. The evasion has, I gather, been going on for some years. It is very probable that if the Inland Revenue Department, instead of being limited to scrutiny of the profits of the company, had also had the authority to investigate the incomes of the people, whoever they are, who were sharing these undisclosed profits, and to relate these incomes to the company's accounts, then the fraud might have come to light at a much earlier stage. I may say too, Sir, that this case is only one of a number of evasion cases which are under investigation.

I am afraid that our failure to raise the rate of Salaries Tax will be a great disappointment to the Society of Friends, (*Laughter*) but I have advised Your Excellency that the standard rate of Salaries Tax should not be raised unless the Profits Tax rate is also raised. The payer of Salaries Tax is the one contributor to the revenue who can get away, legally, with practically nothing, and if the standard rate of tax is to be different for different classes of tax payers, then I consider that Corporation Profits Tax should be increased first. Indeed, I should, as I have indicated, far prefer that the introduction of a full income tax system should precede any adjustments in the rate of tax, and I leave the suggestion with Honourable Members, and with my successor.

This, Sir, is the last time for me to present the annual Estimates to this Council, and I am sorry that on this occasion—my tenth—I have had to talk at such great length. During my period of office, Hong

Kong has grown out of all recognition. There have been one or two occasions when things have not been so good, and there was at least one occasion when things for a while looked very, very black. I seem to remember, indeed, an article which appeared at the time in a popular American magazine: it was titled "The Last Days of Hong Kong". It was a very interesting article.

But this place seems to have a remarkable resilience: a setback seems merely to provide the incentive for, if I may borrow an expression from our great neighbour, a greater leap forward. My belief is that this growth, punctuated as it has been by occasional setbacks, is what is naturally to be expected in a free economy, with a free people. I see no reason for believing that the little setback which is now affecting us is anything outside the normal pattern, and I expect that our growth will continue and will increase.

For the year 1930, when I arrived here first, the figure for Revenue was \$27,818,474, and that for Expenditure was \$28,119,646, showing a deficit, a most alarming deficit, of over \$300,000.

Just before I assumed my present post, in 1949/50, our Revenue was \$264 millions. Last year, ten years later, it was \$665 millions. Ten years ago, our Expenditure was \$182 millions: last year it was \$710 millions. Ten years ago our expenditure on public works was \$17½ millions: last year it was \$171 millions. These figures are, I think, pretty good indications of the growth of Hong Kong and of its economy; as our economy expands, so must our revenue and our expenditure increase. Expenditure next year is estimated for the first time to exceed \$1,000 millions; I expect that in much less than ten years from now it will exceed \$2,000 millions. I expect that, when that time comes, my successor will have just the same problem that I have always had—where to turn to find the money. And, Sir, I expect, too, that my successor will make exactly the same mistake that I have always made. He will underestimate revenue. He will underestimate his revenue, because, like me, like so many of us, he will never be able to comprehend how new and successful industries can be created overnight out of nothing, in the face of every possible handicap; how new trade can suddenly start up in some way that has never been thought of before; he, like me, will never be able to comprehend how on earth our enterprising, ingenious, hardworking people can ever manage to accomplish so much with so little. (*Applause*).

THE COLONIAL SECRETARY seconded.

The question was put and agreed to.

**ROAD TRAFFIC (PUBLIC OMNIBUS AND PUBLIC CAR)
REGULATIONS, 1961.**

THE ATTORNEY GENERAL moved the following resolution: —

Resolved, pursuant to section 5A of the Road Traffic Ordinance, 1957, that the Road Traffic (Public Omnibus and Public Car) Regulations, 1961, made by the Governor in Council on the 7th day of February, 1961, under sections 3, 5, and 5A of the Road Traffic Ordinance, 1957, be approved.

He said: Sir, under the Road Traffic Ordinance, 1957, the Governor in Council may by regulation provide that, in any proceedings for an offence against any regulation made under the Ordinance, facts may be presumed until the contrary is proved, but any such regulation requires the approval of this Council before it becomes effective, and the object of this resolution is to seek such approval in relation to paragraph (7) of regulation 20 of the Regulations mentioned in the resolution.

Sir, paragraph (1) of regulation 20 enables a bus operator, with the permission of the Commissioner of Police, to designate bus stops by means of signs approved by the Commissioner, and paragraph (7) of that regulation provides that a sign which purports to indicate that the place is a bus stop shall be presumed to have been erected in accordance with the provisions of paragraph (1) unless the contrary is proved. If this were not so, Sir, it would be necessary, in every prosecution for an offence relating to a bus stop, to call evidence to prove that the sign had been lawfully erected. It is submitted that there is justification for this presumption, and I therefore beg to move.

THE COLONIAL SECRETARY seconded.

The question was put and agreed to.

**VICTORIA PARK SWIMMING POOL (AMENDMENT)
BY-LAWS, 1961.**

MR. K. S. KINGHORN moved the following resolution: —

Resolved that the Victoria Park Swimming Pool (Amendment) By-laws, 1961, made by the Urban Council on the 7th day of February, 1961, under section 42 of the Public Health and Urban Services Ordinance, 1960, be approved.

He said: Sir, recently, the Urban Council agreed that small increases should be made in the fees charged for admission to the Victoria Park Swimming Pool as from 1st April this year. The fee for persons who are 14 years old or more will be raised from 50 to 70 cents and

the fee for those under 14 years from 30 to 40 cents. The By-laws now before Council for approval will provide the necessary statutory authority for these increases.

THE COLONIAL SECRETARY seconded.

The question was put and agreed to.

COMMERCIAL BATHHOUSES BY-LAWS, 1961.

MR. K. S. KINGHORN moved the following resolution: —

Resolved that the Commercial Bathhouses By-laws, 1961, made by the Urban Council on the 7th day of February, 1961, under section 35 of the Public Health and Urban Services Ordinance, 1960, be approved.

He said: Sir, the Commercial Bathhouses By-laws, 1961, replace, and substantially follow, the Public Bath-House By-laws, 1951. They are designed to ensure proper health conditions, as well as privacy and decency, in commercial bathhouses, and they include a safeguard to prevent unauthorized structural alterations to a bathhouse once it has been licensed.

THE COLONIAL SECRETARY seconded.

The question was put and agreed to.

PUBLIC CONVENIENCES (CONDUCT AND BEHAVIOUR) BY-LAWS, 1961.

MR. K. S. KINGHORN moved the following resolution: —

Resolved that the Public Conveniences (Conduct and Behaviour) By-laws, 1961, made by the Urban Council on the 7th day of February, 1961, under section 35 of the Public Health and Urban Services Ordinance, 1960, be approved.

He said: Sir, the Public Conveniences (Conduct and Behaviour) By-laws, 1961, are based on model by-laws issued to local authorities in the United Kingdom by the Ministry of Housing and Local Government. They are designed, *inter alia*, to enable control to be exercised over the behaviour of persons using public conveniences managed by the Urban Council, which include bathhouses or wash houses. It is made an offence for anyone who is suffering from any communicable disease to use a public bathhouse or wash house.

THE COLONIAL SECRETARY seconded.

The question was put and agreed to.

LAUNDRIES BY-LAWS, 1961.

MR. K. S. KINGHORN moved the following resolution: —

Resolved that the Laundries By-laws, 1961, made by the Urban Council on the 7th day of February, 1961, under section 40 of the Public Health and Urban Services Ordinance, 1960, be approved.

He said: Sir, the Laundries By-laws, 1961, replace the existing Laundries By-laws. Their main effect is to introduce a more realistic system of licensing and registration, but they also include several measures designed to improve hygienic conditions in commercial laundries.

THE COLONIAL SECRETARY seconded.

The question was put and agreed to.

BASEMENIN BY-LAWS, 1961.

MR. K. S. KINGHORN moved the following resolution: —

Resolved that the Basements By-laws, 1961, made by the Urban Council on the 7th day of February, 1961, under section 88 of the Public Health and Urban Services Ordinance, 1960, be approved.

He said: Sir, the Basements By-laws, 1961, replace section 50 of the repealed Public Health (Sanitation) Ordinance, 1935. The main difference is that there is now no provision for the issue of permits for the use of basements for purposes other than garaging or storage. Under the new By-laws, if any basement is unfit for human habitation, or if a basement built under the Buildings Ordinance, 1935, for purposes other than human habitation is used for residential purposes, then the Urban Council can seek a court order for its closure.

THE COLONIAL SECRETARY seconded.

The question was put and agreed to.

SWIMMING POOLS BY-LAWS, 1961.

MR. K. S. KINGHORN moved the following resolution: —

Resolved that the Swimming Pools By-laws, 1961, made by the Urban Council on the 7th day of February, 1961, under section 42 of the Public Health and Urban Services Ordinance, 1960, be approved.

He said: Sir, the Swimming Pools By-laws, 1961, replace, with amendment, the Swimming Pools By-laws contained in Schedule A to the repealed Public Health (Sanitation) Ordinance, 1935. They cover

the method of application for the grant of a licence by the Urban Council for a swimming pool to which the public has access or which belongs to any club, etc., and the conditions which have to be met before and after a licence is granted. The principal object has been to simplify the licensing procedure and to prevent the construction of unsatisfactory swimming pools.

THE COLONIAL SECRETARY seconded.

The question was put and agreed to.

CITY HALL BILL, 1961.

MR. K. S. KINGHORN moved the First reading of a Bill intituled "An Ordinance to make provision for the management of the City Hall."

He said: Sir, the purpose of the Bill is explained very concisely in the Objects and Reasons. It vests the management of the City Hall formally in the Urban Council and gives the Council authority to make any necessary regulations, subject to the submission of such regulations to Your Excellency and to their receiving the approval of this Council. It also prescribes that no person shall use any part of the City Hall for the purpose of any public meeting without having obtained the prior consent in writing of the Colonial Secretary.

Through the City Hall (Policy) Select Committee, the Urban Council has contributed substantially to the preparation of this measure.

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: —

The purpose of this measure is to make provision for the proper management and use in the public interest of the city hall now under construction in Hong Kong.

ADJOURNMENT.

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

THE ATTORNEY GENERAL: —May I suggest this day three weeks, Sir?

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