

OFFICIAL REPORT OF PROCEEDINGS**Meetings of 10th and 11th March 1966****PRESENT**

HIS EXCELLENCY THE GOVERNOR (*PRESIDENT*)
SIR DAVID CLIVE CROSBIE TRENCH, KCMG, MC
THE HONOURABLE MICHAEL DAVID IRVING GASS, CMG
COLONIAL SECRETARY
THE HONOURABLE MAURICE HEENAN, CMG, QC,
ATTORNEY GENERAL
THE HONOURABLE JOHN CRICHTON McDOUALL, CMG
SECRETARY FOR CHINESE AFFAIRS
THE HONOURABLE JOHN JAMES COWPERTHWAITTE, CMG, OBE
FINANCIAL SECRETARY
THE HONOURABLE KENNETH STRATHMORE KINGHORN
DIRECTOR OF URBAN SERVICES
THE HONOURABLE ALEC MICHAEL JOHN WRIGHT
DIRECTOR OF PUBLIC WORKS
DR THE HONOURABLE TENG PIN-HUI, OBE
DIRECTOR OF MEDICAL AND HEALTH SERVICES
THE HONOURABLE WILLIAM DAVID GREGG
DIRECTOR OF EDUCATION
THE HONOURABLE JOHN PHILIP ASERAPPA
DISTRICT COMMISSIONER, NEW TERRITORIES
THE HONOURABLE DAVID WHINFIELD BARCLAY BARON
DIRECTOR OF SOCIAL WELFARE
THE HONOURABLE JAMES TINKER WAKEFIELD
COMMISSIONER OF LABOUR
THE HONOURABLE DHUN JEHANGIR RUTTONJEE, CBE
THE HONOURABLE KWAN CHO-YIU, OBE
THE HONOURABLE KAN YUET-KEUNG, OBE
THE HONOURABLE SIDNEY SAMUEL GORDON, OBE
THE HONOURABLE LI FOOK-SHU, OBE
THE HONOURABLE FUNG HON-CHU, OBE
THE HONOURABLE TANG PING-YUAN
THE HONOURABLE TSE YU-CHUEN, OBE
THE HONOURABLE KENNETH ALBERT WATSON, OBE
THE HONOURABLE GEORGE RONALD ROSS
THE HONOURABLE SZETO WAI
THE HONOURABLE WILFRED WONG SIEN-BING
MR ANDREW McDONALD CHAPMAN (*Deputy Clerk of Councils*)

ABSENT

THE HONOURABLE DAVID RONALD HOLMES, CBE, MC, ED
DIRECTOR OF COMMERCE AND INDUSTRY
THE HONOURABLE WOO PAK-CHUEN, OBE

MINUTES

The Minutes of the meeting of the Council held on 24th February 1966, were confirmed.

PAPERS

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

<i>Subject</i>	<i>LN No</i>
Report of the Select Committee on the Draft Estimates of Revenue and Expenditure for 1966-67.	
Road Traffic Ordinance 1957.	
Road Traffic (Registration and Licensing of Vehicles) (Amendment) Regulations 1966	14
Supreme Court Ordinance.	
Code of Civil Procedure (Amendment) (No 3) Rules 1966	15
Dangerous Goods Ordinance 1956	
Dangerous Goods (Classification) (Amendment) Regulations 1966	16
Dangerous Goods Ordinance 1956.	
Dangerous Goods (General) (Amendment) Regulations 1966	17
Road Traffic Ordinance 1957.	
Road Traffic (Registration and Licensing of Vehicles) (Amendment) (No 2) Regulations 1966	18

MERCHANT SHIPPING (RECRUITING OF SEAMEN) BILL 1966

THE COLONIAL SECRETARY moved the Second reading of a Bill intituled "An Ordinance to regulate the recruitment of seamen for service in foreign-going ships, to make provision in respect of allotments and remittances made by seamen supplied for service in foreign-going ships by companies licensed thereunder and in respect of the payment of advances of wages to seamen supplied for such service by any such company, and to provide for matters ancillary to or connected with the purposes aforesaid."

THE ATTORNEY GENERAL seconded.

The question was put and agreed to.

The Bill was read a Second time.

Council then went into Committee to consider the Bill clause by clause.

Clauses 1 to 25 were agreed to.

Clause 26.

THE COLONIAL SECRETARY: —Sir, I rise to move that Clause 26 be amended as set forth in the paper before honourable Members.

Proposed Amendment.

Clause

26. In paragraph (d) of subclause (1), after the semicolon at the end thereof, insert the word "or".

Clause 26, as amended, was agreed to.

Clauses 27 and 28 were agreed to.

Clause 29.

THE COLONIAL SECRETARY: —Sir, I rise to move that Clause 29 be amended as set forth in the paper before honourable Members.

Proposed Amendment.

Clause

29. (1) In paragraph (d) of subclause (1), after the semicolon at the end thereof, insert the word "or".

(2) In paragraph (b) of subclause (4), leave out the word and figures "section 29" and substitute therefor the following—
"this section".

Clause 29, as amended, was agreed to.

Clauses 30 to 44 were agreed to.

Clause 45.

THE COLONIAL SECRETARY: —Sir, I rise to move that Clause 45 be amended as set forth in the paper before honourable Members.

Proposed Amendment.

Clause

45. In paragraph (a) of subclause (5), leave out the words "agent of the owner" and substitute therefor the following—
"agent of the master, owner".

Clause 45, as amended, was agreed to.

Clause 46.

THE COLONIAL SECRETARY: —Sir, I rise to move that Clause 46 be amended as set forth in the paper before honourable Members.

Proposed Amendment.

Clause

46. In subclause (1), leave out the words "form prescribed by the Authority" and substitute therefor the following—
"prescribed form".

Clause 46, as amended, was agreed to.

Clauses 47 to 86 were agreed to.

Clause 87.

THE COLONIAL SECRETARY: —Sir, I rise to move that Clause 87 be amended as set forth in the paper before honourable Members.

Proposed Amendment.

Clause

87. In subclause (2), leave out the words "by the Authority" and substitute therefor the following—
"by the Superintendent".

Clause 87, as amended, was agreed to.

Clauses 88 to 91 and the Schedule were agreed to.

Council then resumed.

THE COLONIAL SECRETARY reported that the Merchant Shipping (Recruiting of Seamen) Bill 1966 had passed through Committee with certain amendments and moved the Third reading.

THE ATTORNEY GENERAL seconded.

The question was put and agreed to.

The Bill was read a Third time and passed into law.

MINING (AMENDMENT) BILL 1966

MR J. T. WAKEFIELD moved the Second reading of a Bill intituled "An Ordinance further to amend the Mining Ordinance 1954."

THE COLONIAL SECRETARY seconded.

The question was put and agreed to.

The Bill was read a Second time.

Council then went into Committee to consider the Bill clause by clause.

Clauses 1 and 2 were agreed to.

Council then resumed.

MR J. T. WAKEFIELD reported that the Mining (Amendment) Bill 1966 had passed through Committee without amendment and moved the Third reading.

THE COLONIAL SECRETARY seconded.

The question was put and agreed to.

The Bill was read a Third time and passed into law.

DUTIABLE COMMODITIES ORDINANCE 1963

THE FINANCIAL SECRETARY moved the following resolution: —

Resolved, in exercise of the power conferred by section 4 of the Dutiable Commodities Ordinance 1963, as follows: —

THAT the Resolution of the Legislative Council published as Legal Notification No 39 in the *Gazette* of 20th March, 1964, which imposed duties on tobacco, be revoked with effect from 2 o'clock in the afternoon on Thursday, the 24th day of February, 1966, and that thereafter duty shall be payable on tobacco at the following rates per pound—

A. —on *UNMANUFACTURED TOBACCO*—

(1) unstripped tobacco containing—

(a) 10 per cent or more of moisture by weight—

(i) tobacco of Commonwealth origin \$7.70

(ii) other tobacco 8.00

(b) less than 10 per cent of moisture by weight—

(i) tobacco of Commonwealth origin 7.73

(ii) other tobacco 8.03

(2) stripped tobacco containing—	
(a) 10 per cent or more of moisture by weight—	
(i) tobacco of Commonwealth origin	\$7.85
(ii) other tobacco	8.15
(b) less than 10 per cent of moisture by weight—	
(i) tobacco of Commonwealth origin	8.00
(ii) other tobacco	8.30
<i>B. —on MANUFACTURED TOBACCO—</i>	
(1) Cigars—	
(i) of Commonwealth origin and manufacture	8.75
(ii) of Commonwealth manufacture only	9.50
(iii) other cigars	11.25
(2) Cigarettes—	
(i) of Commonwealth origin and manufacture	9.40
(ii) of Commonwealth manufacture only	10.00
(iii) other cigarettes	10.90
(3) Other manufactured tobacco including snuff and cigar cuttings—	
(i) of Commonwealth origin and manufacture	7.45
(ii) of Commonwealth manufacture only	8.05
(iii) Chinese prepared tobacco	2.50
(iv) other varieties	8.95

THE COLONIAL SECRETARY seconded.

The question was put and agreed to.

DUTIABLE COMMODITIES ORDINANCE 1963

THE FINANCIAL SECRETARY moved the following resolution: —

Resolved, in exercise of the power conferred by section 4 of the
Dutiable Commodities Ordinance 1963, as follows: —

THAT, with effect from 2 o'clock in the afternoon on Thursday, the 24th day of February, 1966, the duty of \$1.50 per gallon, imposed on motor spirit by subparagraph (i) of paragraph (a) of the part of the Resolution of the Legislative Council published as Legal Notification No. 123 in the *Gazette* of 11th October, 1963, that imposed duties on hydrocarbon oils, be increased to \$1.80 per gallon, and the duty of \$1.00 per gallon, imposed on diesel oil by sub-paragraph (ii) of paragraph (b) of the same part of the aforesaid Resolution, be increased to \$1.30 per gallon.

THE COLONIAL SECRETARY seconded.

The question was put and agreed to.

LOTTERIES FUND

THE FINANCIAL SECRETARY moved the following resolution: —

RESOLVED that in pursuance of a resolution passed by Legislative Council on the 30th day of June, 1965, the sum of \$2,026,540 shall be appropriated from general revenue and transferred to the credit of the Fund.

He said: —Your Excellency, on the 30th July, 1965, this Council created the Lotteries Fund by Resolution and appropriated to that Fund an amount of \$7.4 million from general revenue. This sum represented the net proceeds of the Government Lotteries which had been held from 1962 to 1964 less certain special expenditure incurred in that period on welfare projects which were properly a charge on the Fund.

The Resolution now before Council similarly appropriates from general revenue the net proceeds of the 1965 Government Lotteries again adjusted to take into account certain social welfare subventions paid in this financial year.

An amendment to the Government Lotteries Ordinance to enable net proceeds of Lotteries to be credited direct to the Fund is in train. Until the amendment is made, however, transfers require the authority of a Resolution of this Council.

THE COLONIAL SECRETARY seconded.

MR KAN YUET-KEUNG: —Sir, may I ask one question arising out of the motion? My friend mentioned that these represent the net proceeds. Has any interest accrued to this fund and, if so, is it being credited to this fund?

THE FINANCIAL SECRETARY: —I am not certain of the purport of my honourable Friend's question. Interest accrued to the fund? I think he means does interest accrue to the monies which are to be appropriated to the fund while in general revenue?

MR KAN YUET-KEUNG: —Yes, Sir.

THE FINANCIAL SECRETARY: —That is a difficult question to answer, because the proceeds of the lottery is merged in the general revenue of the Colony and to determine what, if any, interest has accrued on these funds is a matter of difficult interpretation.

The question was put and agreed to.

RESOLUTION REGARDING THE REPORT OF THE SELECT COMMITTEE ON THE ESTIMATES FOR 1966-67

THE COLONIAL SECRETARY moved the following resolution: —

RESOLVED that the Report of the Select Committee, to which was referred the draft Estimates of Revenue and Expenditure for 1966-67, be adopted.

THE FINANCIAL SECRETARY seconded.

MR DHUN J. RUTTONJEE: —Your Excellency, your comprehensive review of the year's activities and your look into the year ahead, display the confidence you feel in Hong Kong and you infect us with your confidence. 1965 was undoubtedly a difficult year for Hong Kong but your analysis of the cause of our difficulties helps us to understand that basically Hong Kong's economy and position remain unshakable. Under your leadership, Sir, we know that we shall ride out any storms that may lie ahead in the same confident way that we have come through the last year, and we fear nothing.

Since your review, Sir, we have had the delightful pleasure of welcoming Her Royal Highness the Princess Margaret and the Earl of Snowdon. Our Royal visitors charmed everyone with their friendliness and genuine interest in us and our affairs and they have done much to cement the British Crown and Hong Kong together. I think the spontaneity and warmth of the reactions of our people to the royal visitors is indicative of the closeness to Britain that they feel. The demonstrations are all the more telling when we remember that our people are not generally demonstrative and I think therefore it would be a very good thing if we could have more such visits to Hong Kong. Sir, I have been requested by my Unofficial Colleagues to invite you to convey to Her Royal Highness and

Lord Snowdon the very sincere appreciation of the people of Hong Kong for their graciousness in visiting the Colony and this I do with the utmost pleasure. We hope they will return to Hong Kong.

I am not sure whether I am doing the right thing in bracketing Her Royal Highness and Lord Snowdon with my honourable Friend the Financial Secretary, but all three in their particular ways have left a recent mark on us. My honourable Friend's is a rather more painful one and therefore somewhat less welcome, but I must admit that I cannot find much to grumble about in his budget proposals. He has demonstrated that he is only human in that he prefers to stick to what he terms "old favourites" rather than take the more difficult alternative of seeking new forms of taxation. He did try flying a couple of kites, but I think these will have to be pretty quickly pulled back. His payroll taxation kite in particular, indeed, I would say that the string to this one should be cut very smartly and the kite allowed to fly off, never to return. This particular kite ignores the fact that 25% of our population is at school and will very rapidly be coming on to the labour market, and although, in the long term, higher labour productivity may be our aim, in Hong Kong's special circumstances there must be greater emphasis in the years immediately ahead on the improved productivity of capital and material resources rather than on labour resources. A payroll tax also has the effect of inhibiting wage increases and this certainly is not in keeping with declared policy.

My honourable Friend made special reference to the rising cost of the administrative service. In most countries of the world salaries in the administrative service usually lag behind those paid in commerce and industry but in Hong Kong, Government tends to set the pace with the private sector following, although in the menial and lower grades, the reverse has generally been true. I am not one of those who are against providing additional amenities for expatriate staff. My view is that if we must have expatriate staff we must offer them terms and conditions which are attractive and which adequately compensate overseas officers for having to transplant themselves and their families into a foreign environment. But the question is, to what extent do we really need expatriate staff? The disintegration or enlightened evolution, call it what you will, the disintegration of the Colonial Empire over the past 20 years is a fact. The extraordinary thing is that it has been so rapid and so widespread that this Colony is now numerically the largest dependent territory in the Commonwealth. On all sides we are praised, and sometimes feared, for our ingenuity and ability in the industrial field, assets which demand a good measure of skill, energy and administrative ability as well as business sense. And yet, in terms of staffing our Government administrative machine, we are still very much tied to past practice, a practice which permits the upper echelons of Government to be staffed by that rapidly

fading anachronism, the Colonial Service. Do not misunderstand me. In the past, and in the circumstances of the past, we have been extraordinarily well served by our "vital imports". But is it not time that we looked, not just increasingly, but wherever practicable, completely to our own community for the staffing of our Civil Service? And here I do not mean just direct recruitment at the bottom of the ladder or to the middle reaches of the Service, but also to the most senior posts. In the main, I would expect that most, if not all, senior posts could be filled by promotion from within our own Service, and here let me say that I do not accept that local officers are not prepared or are unable to accept responsibility. Coupled with job opportunities must be a continuous programme of training, not only at the more junior levels but right through the Service to the very top. If, however, on occasion it is desirable to introduce new blood in the most senior posts, could we not fill these also from our able community? Let us face it—the chances in the future of our obtaining senior officials from the Colonial Service with the background and experience to enable them to cope with the complex problems of this thriving business community are slim indeed. Gone are the days when, because Hong Kong's pattern of Government was similar to that of other territories, it was not unreasonable to expect the transferred officer quickly to assimilate the local background and become a positive asset.

Perhaps some people may doubt my proposition. To them I would say this—the story of Hong Kong's remarkable economic development over the past decade amply proves the existence in our midst of men and women who can be successful entrepreneurs and managers in the most demanding of circumstances. If we do no more than take a look at the number of registered and recorded factories in Hong Kong we can see that in 1955 there were just under 3,000 whereas last year the figure was about 10,000. In a space of 10 years then, we have produced from within our midst about 7,000 industrial managers who are planners, developers and decision makers.

Bearing in mind the fact that the day may be fast approaching when there will be no such thing as a Colonial Service it behoves us to plan for a localisation programme with set targets for each department to be headed and staffed completely with local officers. Some departments should be able to achieve localisation within five years; others it may take as long as ten or even more. The main thing is to have a target and work towards it. With career prospects which do not stop at the third or fourth step from the top, I am confident that we shall be able to attract into and from within the service, the right men for the job. As I see it, certain departments cry out for localisation—the Social Welfare Department, the Secretariat for Chinese Affairs, the Labour Department, the New Territories Administration to name just four, and a programme for these departments to be fully staffed by locally recruited officers within a five year period should be feasible.

Still in the domestic area, Sir, I refer to your statements on the possible future role of local authorities. These statements are most welcome. The establishment of local authorities, largely administered by the people in the locality, will give a measure of satisfaction to the communities concerned in the development of their districts and will, I believe, make for greater efficiency of service. With the rapid growth of our new townships and the projected plans for further satellite towns, I think the question merits early consideration and a first step might be the setting up as soon as possible of two local authorities—one for Hong Kong and another for Kowloon—to be followed by local authorities for Tsuen Wan and Yuen Long.

While we are thinking about local authorities, it might not be amiss if we thought of ways and means of streamlining the work of this Council. To begin with we ought to have a look at our Standing Orders if we can find them—they appear to have been written in the time of Captain Elliott and some are apparently buried with him. You Sir, have very aptly indicated on more than one occasion, to Hong Kong having moved into the first league. This position is one not limited to world trade but domestically, the complexity of the subjects with which Government has to deal and the very dimensions of the projects and problems that we have to face, put us among the major cities of the world. The responsibility for solving these problems and planning these projects should rest on both officials and unofficials alike—and I use these terms in their broadest sense and do not limit them in any way to members of this Council. The burden has, hitherto, been carried by too few people and I am of the opinion that the load must be spread among a greater number. Insofar as the work of this Council is concerned, I believe it would make for more effective planning and service if each Unofficial Member concentrated his interests on a smaller range of subjects and developed a more specific knowledge of them. This, in itself, will not facilitate the spreading of the burden of responsibility. This objective can, I think, best be achieved by the formation of special committees, chaired by an Unofficial Member of this Council, responsible to it, and composed of both officials and unofficials, not necessarily members of Legislative Council. What I am in effect saying is that Unofficial Members of Legislative Council should play a more direct role in the administration of our affairs.

I envisage these Boards or Committees being specialist bodies and acting as advisers to the relevant Government department. An outstanding example of what I have in mind is the Public Transport Advisory Board of which my honourable Friend, Mr Y. K. KAN is Chairman. The good work of his Board is common knowledge and has been the subject of much justified commendation. There are a number of other precedents of Unofficials serving as Chairmen of Advisory Boards and I would like to see this made the rule. I therefore, advocate Sir, that all current and future Boards and Committees should have Unofficial

Chairmen—the Trade and Industry Advisory Board, the Labour Advisory Board, the Cotton Advisory Board, the Medical Advisory Board, the Education Board, the projected Export Promotion Council, the projected Productivity Council, to name just a few. I think each Unofficial Member of Council should be Chairman of at least one of these Boards or Committees and he should have the responsibility of making himself thoroughly familiar with the problems with which his Board is concerned and for advising the relevant department on appropriate courses of action. Such a system would, I believe, give our people a feeling of a greater share in the conduct of their affairs since the Boards and Committees would have a number of members of the general public serving on them, and would go a long way to answering the criticism of civil servants being responsible to civil servants instead of to the public.

Turning for a moment to my favourite subject, the Colony's medical services, I note from the estimates before Council that the Tung Wah Group of Hospitals is to receive the very substantial subvention of \$24 million to meet practically the total bill for recurrent expenditure. I do not wish to anticipate the findings of the Tung Wah Hospital Working Party which has just been set up and which is now in session, but having regard to the size of the subvention, I feel bound to submit a few observations. While the constitution of the group states that the hospitals should be administered chiefly as free hospitals, I think every effort must be made to encourage the hospitals to be more revenue producing. For as long as Medical Social Workers see all patients and ensure that those who are truly needy receive free treatment, patients should be charged according to their means. I note that from the 1st January, 1966, a category of fee paying patients at \$3 a day has been introduced. Considering that dry rations for each patient cost about \$1.85 a day, this fee can hardly be said to cover costs. I am not advocating that patients should be charged on a cost recovering basis, but I do think that those who can afford to pay should be required to pay within their means. This principle should be followed throughout our medical services—free for those who are really poor and all others according to their means.

I am pleased to note that on the initiative of the Director of Medical and Health Services a Casualty Unit staffed by officers of the Medical and Health Department has been set up in the Kwong Wah Hospital. This move is a welcome one. With 300 to 400 patients attending the Casualty Department at the Queen Elizabeth Hospital every day, it was apparent that additional services were urgently required. I would like to suggest that my honourable Friend, the Director of Medical and Health Services, should give consideration to requiring all hospitals which are in receipt of subventions, to offer casualty services to the general public and, indeed, they should be required to share the burden generally of offering medical treatment to the public and not merely to private patients. As matters stand at present, there are a large number of beds in voluntary hospitals

which are not occupied, whereas in Government hospitals, beds are at a premium. Voluntary medical institutions in receipt of Government subventions should be subsidized on the principle of daily bed occupancy.

Returning to the subject of casualties, I feel that the time has come to take a good hard look at the present system of death certification and institute enquiries into cases which have medico-legal significance. I understand that the Chief Justice has recently set up a committee to look into Coroners' powers. With the recent unfortunate case in mind, I would like to make an earnest plea for the setting up of proper Coroners' Courts and these should incorporate a system whereby medical assessors are present at Coroners' enquiries. Before leaving the subject of our medical and health services I would like to congratulate my honourable Friend the Director of Medical and Health Services and his staff on the effectiveness of the preventive service in producing a "No Cholera" year. A no mean feat.

From matters domestic to matters external, if I were to say that the party most interested in Hong Kong's present and future prosperity is Hong Kong itself, I should be accused, quite rightly, of stating the obvious. It would similarly be obvious to say that this prosperity depends largely, overwhelmingly, on our ability to trade competitively with and in the rest of the world. Logically, then, it should obviously follow that these very substantial and vitally important overseas trading interests should be the direct concern of Hong Kong. But this is where the obvious breaks down for, as we know, the conduct of our external affairs is the responsibility of Britain.

Before I am misunderstood, let me allay any fears that I am about to ask for Independence! That would be foolhardy and not in Hong Kong's interests. I am, however, suggesting that in the vital field of external trade it is important and becoming increasingly important, that we should have some measure of autonomy.

Let us examine the position. Over the past fifteen years Hong Kong has very rapidly become a force to be reckoned with in the world of trade, but our official trade relations with countries other than Britain are dealt with by British posts in those countries or, in the case of international bodies such as GATT and the United Nations, by British delegations. It has been our very good fortune that requests made of these British representatives have been, in the main, most willingly and competently met. Indeed, I am aware that frequently British trade representatives have shown spontaneous concern for our interest where situations have developed of which we have not been directly aware. But let us be realistic about this. Our interests cannot be as clearly understood by British commercial officers as are those of Britain, and any help given must necessarily be within the limits set by their primary responsibility for Britain's own trade. Now this situation would be

advantageous to us, and certainly less expensive, if those officers in the countries with which our major trade is done had sufficient time to cope with our growingly complex problems and, indeed, did not at times find themselves in conflict with British interests. But we know that this is not the case. Our interests and those of Britain must at times be in conflict for, by and large, we tend to deal with similar types of manufactured goods and this situation is likely to intensify. Take, for example, the United States of America where, as we all know, we have our principal market. Our trading efforts there have been so successful that our exports to the U.S. are now about one quarter of the total British exports to that market. I am aware that we have been and are being extremely well served by British Commercial Officers in the United States. But, realistically, how reasonable is it for us to expect this situation to continue?

I am aware also that in practice Hong Kong representatives often act independently as, for instance, in the cotton textile negotiations. But this does not detract from the fact that such representatives do so under powers that are the prerogative of Her Majesty's Government. I have mentioned the United States, but clearly there are many other overseas interests, for with Hong Kong's extraordinary ability to expand rapidly and to penetrate the markets of the world, trade problems have arisen, are arising now and will undoubtedly intensify, demanding increasing activity at the official level. As an aside here, Sir, may I make a point which I have often made in the past, a point which, alas, is too easily overlooked and that is that the need to protect a market is at least as great as the need to promote trade in it.

An exceptionally good job of trade promotion is being done by the representative in the United States of the Hong Kong General Chamber of Commerce and the Federation of Hong Kong Industries as I found to my pleasure when I visited that country recently. I am also sure that export promotion will be vigorously encouraged by the projected Export Development Council. But I have serious fears lest, in our enthusiasm to support this new organization, due emphasis will not be given to protecting our trading interests. Even minor changes in commercial policy in our main markets can have a drastic effect on our trade and could easily cancel out gains accruing from energetic trade promotion efforts. Official representation on the spot could not, of course, be a guarantee that such policy would be influenced, but at the very least we would be made aware at any early date of the facts and their significance and thus be in a position to move quickly and possibly in time to be effective instead of, as too often happens now, our being informed too late to take action.

To sum up—I propose that we should seek delegated authority from Her Majesty's Government to conduct trade negotiations and arrangements with other countries subject, of course, in each case to the need to safeguard the responsibility which the United Kingdom Government

must have in International Law. This authority includes the right to appoint trade representatives in foreign countries willing to receive them and where practicable the right to acquire membership of international organizations. I appreciate that initially and for some years to come, it will only be possible to man official posts in our more important markets; we should of course still have to continue to rely heavily on British commercial officers in other markets.

Finally, and in talking of this enlightened age, may I ask Sir, with all due respect, what consideration, if any, has been given to my proposals of last year when I suggested that certain lines of enquiry might be made to reorganize and modernize our system of Government so that we may move from the 19th Century into the 20th . . . before that, too, is finished!

Sir, I beg to support the motion before Council.

MR C. Y. KWAN: —Your Excellency, your suggestion to establish local authorities in order to enable more members of the community to participate in the management of purely local affairs is most welcome. It is a forward step in the right direction. Having regard to the somewhat special circumstances of Hong Kong, to the importance of the step to be taken and to the public interest involved I respectfully share Your Excellency's view that we should hasten reasonably slowly in this matter, in order to give every section of the public sufficient time to consider the proposal and to make suggestions regarding such local authorities. Apart from the various practical questions referred to by you, there must be a clearly defined constitution, laying down, *inter alia*, the jurisdiction and the nature of the functions and powers of such local authorities.

Sir, I now turn to the Budget before us. The Budget so ably presented by my honourable Friend, the Financial Secretary, is not an unreasonable one and should in my submission receive the approval of this Council. Having regard to the extent of our deficit his proposal to increase the standard rate of taxation from 12½% to 15% is in my opinion not excessive. It is gratifying to learn from his speech that my honourable Friend is aware of the danger of damage to our economy which a high rate of taxation will cause. This danger is a very real one and must be constantly kept in sight, since what is most attractive to our foreign investors who invest in the Colony is our low rate of taxation, apart from the very important factor that we do not have the same system of income tax as is obtaining in countries which, unlike Hong Kong, possess raw materials and other natural resources as well as a sizable home market for their own products, and do not, to the same extent as we do, depend upon foreign capital. In order to keep our taxation within a reasonable limit so as to retain our attractiveness, it is of course necessary that we must cut our coat according to our cloth, so far as our expenditure is concerned.

My honourable Friend's efforts to balance the Budget have not been made the easier by the Salaries Commission's Report which has recommended an increase in pay for our civil service to the extent of the huge sum of about 90 million dollars a year—or rather about 125 million dollars a year according to the Financial Secretary—over and above the 1959 level. We must take heed of his warning that the staffing costs of our public services are disproportionately high in relation to our means. I urge Government to consider all feasible measures to economize not only in its staffing costs but also in its general administrative expenditure. I am inclined to think that some degree of mechanization and streamlining of some of the Government procedures to cut the number of people required to handle a matter will help to reduce Government's operating cost. I venture to propose that Government will investigate these possibilities. With regard to the Salaries Commission's final report I suggest that before accepting it Government should examine, in the light of the normal practice among business firms, the existing leave terms of the whole service in general, and more particularly with reference to the provision for sea voyages, for which about 2 months are allowed for each leave without being counted as part of the leave, and to the qualification for a 1st-class air passage. With the present progress in air travel and the value of time no employer in the commercial world would to-day entertain the idea that his employees should be granted a sea voyage of about 2 months for each leave without counting the time during such voyage as part of the period of his leave. With regard to leave passage I understand that in the case of commercial organizations first-class air passage is allowed only to the very senior executives in the highest echelon of the organization. It seems to me that if the civil servant's pay is to be revised upwards in order to render it comparable with the pay of his counterpart in business organizations, it is only consistent and reasonable that his leave terms should also be revised to make them comparable with those of his counterpart outside the service.

If we must have an expensive civil service, I think the tax-payer is entitled to be assured that he is not called upon to pay for dead wood in the service. The dead wood should be got rid of as soon as possible, though I fully appreciate that under the existing Colonial Regulations the Government cannot do what a business firm can to get rid of its inefficient employees. Perhaps the Colonial Regulations should be reviewed, so as to give our Government here greater freedom of action in such matter. Let me say at once that there are many very efficient and hard working officers in our civil service, but that, I maintain, is not a reason against the need to weed out the dead wood, which is called for not only in the interest of general efficiency and economy but also for the sake of the good name of the service as a whole.

The danger of inflating wage and salary costs is, as the Financial Secretary has rightly pointed out, that it may necessitate either a slowing

down of the expansion of public services or the imposition of excessive taxation or both.

Sir, I now wish to address you on the subject of certain rules of law, principally relating to conveyancing matters, which owe their origin to English law and which are still obtaining in the Colony, although they have been modified in England for many decades now. For example, we do not have such English legislation as the Law of Property Act 1925, whereby it is provided, *inter alia*, that where a corporation aggregate is authorized under a power of attorney to convey any interest in property in the name or on behalf of any other person or another corporation, an officer appointed for that purpose by the Board of Directors or other governing body of the corporation by a resolution or otherwise, may execute the deed or other instrument in the name of such other person or corporation. This particular provision in the Law of Property Act 1925 was designed to meet the increasingly frequent cases in which powers of attorney were given to trust corporations, banks, etc. Except through the agency of an officer appointed under this provision in the law, it would be impossible for a corporation to sign on behalf of the person or corporation conferring the power to convey, as it can only execute the deed under its own seal. Since the English legislation of 1925 does not apply to Hong Kong our legal position in such matter is, therefore, governed by the same law as existed in England prior to the 1925 legislation, that is to say, a corporation aggregate, which is authorized under a power of attorney to convey any interest in property in the name of any person or corporation, is unable to exercise such power, because it can only execute a deed under its own seal, and there is no statutory provision similar to the Law of Property Act 1925 to authorize it to appoint an officer to execute the deed such as I have just mentioned. Accordingly we need similar legislation to that provided in the Law of Property Act 1925, to enable a corporation to exercise such power through an officer. I do not propose to occupy the time of the Council by quoting more examples, but suffice it for me to say that the Law Society has recently made representation to Government requesting legislation to deal with a variety of subjects, including the case I have just quoted, which call for early legislative measures. I do urge that Government will give early effect to the representation of the Law Society by introducing the necessary bills into this Council as soon as possible. I may perhaps add that most, if not all, of the enactments asked for by the Law Society are to be found in the English statutes, so that the task of the legal draftsman will be much facilitated.

Sir, I would like to mention once more the desirability of amending Section 8 of the Landlord and Tenant Ordinance (Cap. 255) by making it lawful for the landlord and tenant to agree to the payment of compensation for the surrender or termination of a tenancy in a pre-war building. As the law now stands it is unlawful for the landlord and tenant to enter

into such an agreement, but it is an open secret that the landlord and tenant do frequently enter into such an agreement. Any legislation that will legalize such agreement will be an advantage to both the landlord and tenant, for it will obviate the uncertainty, expense and delay entailed by the present law, which makes it illegal for the tenant to receive any compensation from the landlord for the surrender or termination of tenancy by mutual agreement and the tenant is liable within a certain period of time to refund to the landlord any compensation received by him under such agreement, if the payment is not the subject of an order of the Governor in Council. Of course, it is not suggested that the tenant must enter into such agreement with the landlord, if he does not want it. His right to go before a tribunal for the determination of the amount of compensation payable to him is to be reserved, so that he will have an option either to go before a tenancy tribunal for a recommendation to the Governor in Council under the Landlord and Tenant Ordinance or to settle his claim with his landlord by mutual agreement in order to obtain immediate payment, without having to wait for a considerable time to have the case dealt with by a Tenancy Tribunal and the Governor in Council.

I may also refer to Section 9D of the Buildings Ordinance 1955 which provides that where any dispute arises as to (i) whether compensation is payable under that section (ii) the amount of any such compensation, or (iii) the person to whom it is payable, the same shall be determined by arbitration. I have been given to understand that the reference to arbitration for the determination of these issues has caused hardship to the tenant. It has been suggested to me that these issues should be referred to a tenancy tribunal to be appointed by the Chief Justice, such as is provided by the Demolished Buildings (Re-Development of Sites) Ordinance of 1963. May I ask that this suggestion be examined by Government?

In my speech in this Council about this time last year I mentioned the unsatisfactory state of affairs regarding the registration fee payable to the District Office in the New Territories and the stamp duty payable to the Stamp Collector in Hong Kong, in the case of a mortgage deed which comprised partly property in the New Territories and partly property in Hong Kong or Kowloon. At the same time I also mentioned the inequity of the mortgagor having to pay in the New Territories a registration fee at the rate of 20 cents per \$100 on the amount secured, on a collateral security, whereas the stamp duty of only \$20 was payable on the same kind of collateral security, if it comprised property in Hong Kong or Kowloon only. I requested Government to introduce legislation to put this matter right. In his reply my honourable Friend, the Attorney General, said that he was informed that drafting instructions would shortly be issued for amendments to be made to the Stamp Duty Ordinance and the Land Office (New Territories) Fees Rules, and that he or his department would see whether the points raised by me about these Rules

could be attended to at the same time. The unsatisfactory situation complained of still remains with us. May I know the justification for the continuance of such a situation?

I may perhaps also point out that during the course of the Budget Debate in 1963 I asked for the amendment of the Stamp Duty Ordinance relating to the stamp duty payable on a deed of exchange of property. My honourable Friend, the Financial Secretary, then accepted my request. No such amendment having been made, my honourable Friend said in his last year's budget speech that the drafting instructions were ready and that he hoped that the amendment to the Stamp Duty Ordinance would be proceeded with very soon. May I remind him that the law still remains unamended. Cannot something be done more expeditiously, as it is now two years since my request for the amendment in question was accepted?

Sir, with the above observations I have much pleasure in supporting the motion before Council.

MR KAN YUET-KEUNG: —Your Excellency, I shall be very brief as I find myself in agreement with all three of the Financial Secretary's proposals for tax increase. They came as no surprise to me. Most of us rather expected it. With public expenditure mounting up year after year, the day of reckoning is bound to come sooner or later. The Financial Secretary has in fact warned us four years ago when he introduced his first budget. The pity is that the blow has to be struck in the wake of our recent financial upheaval the after effect of which is still felt by many sections of the community, particularly the building industry. I would myself have liked to see the axe falling a little later but it is clear that this is not to be.

My honourable Friend the Financial Secretary has traced the causes of this financial upheaval to "bad banking practices" of certain banks and to "over-rapid expansion of credit . . . , over-investment in real estate development and over-speculation in stocks and shares". I have too great a respect for him to suggest that he speaks from hindsight; consequently, the following points come to my mind. How long before the storm finally broke had this state of affairs existed to Government's knowledge? Could not some effective steps have been taken to remedy the situation before it got out of hand? Did not Government's land policy, if there was one, to some extent encourage the public, particularly the real estate developers and their financiers, to believe that the land boom would continue indefinitely? I refer to Government's manipulation (I use this word advisedly) of land available for sale, the charging of high premium for the renewal of expired leases and modification of lease conditions and the exacting of so-called penalty on any and every conceivable pretext in circumstances which, had it been a private landlord, would have been condemned outright as unconscionable.

In my opinion the abortive sale of the Dockyard land was not due to lack of interest or the bank run or the "slump" in the property market which followed it. I personally know of at least one powerful financial group which was most interested in the scheme but eventually withdrew on account solely of the conditions attached to the sale which it regarded as totally unrealistic and unacceptable. It was no surprise therefore that in the final result there was only one bid and that was obviously a mere try-on. But for the loss of this sale we might not be called upon to foot the heavy bill as we are asked to do today. The Dockyard fiasco was a case of the proverbial last straw that broke the camel's back.

I should like now to say a few words in connexion with the proposed increase on motor spirit and diesel. Honourable Members will recollect that at last year's Budget Debate I made a similar proposal but only against the background of a discussion on bus royalties. I maintained then that royalties are a tax on bus-users, a point which my honourable Friend rather reluctantly and only to a limited extent agreed. I advocated the abolition of bus royalties in order that the much needed improvement in the service could be carried out and I proposed the increase in duties on petrol and diesel to make up for the consequent loss of revenue. My honourable Friend, it would seem, has taken up one part of my proposal literally without at the same time giving effect to the other part, which was the abolition of bus royalties. He of course asserts that duties on petrol and diesel are not a tax on motorists but a tax on consumption. With due respect to him I think he is hair-splitting. Motorists as a group are by far the biggest consumers of motor spirit. Whatever we may care to call it the resultant burden of the tax falls mainly on them. One wonders what tax would have been produced from this source to make it worth my honourable Friend's while if it were confined merely to petrol and diesel used other than by road vehicles.

The point I made was that bus users are much more heavily taxed than other road users because of royalty payments. The effect of the increased tax on motor fuels is to increase taxation of road users as a class but to reduce, though not abolish, the difference between taxes on bus users and other road users. For the second feature I am grateful though I am sorry it is considered necessary to reduce the difference by raising taxation on the relatively more lightly taxed car and lorry users rather than by reducing tax on the more heavily taxed bus users. I welcome the statement that the semi-public nature of taxis and public cars can possibly justify some slight claim to preferential treatment. I take this to mean that buses have a more substantial claim—a claim which cannot be met by a concession on fuel tax more than off set by the levy of royalty.

My honourable Friend proposed increased motor licence fees saying that as the cost to the community of providing for traffic control, traffic aids, etc., is growing rapidly there is a good case for increasing the fee.

The proposal is included in a paragraph dealing with charges in the nature of fees for services rendered. This raises two questions. What is the total cost of the services and the total revenue? Are the different fees related to differences in the cost of providing the services? The second question is especially important if costs exceed or fall short of revenue, for in that case there is a subsidy or a tax to share out.

The whole question of charges made by Government on transport and services provided for transport seems to me to require a good deal of clarification. In thinking about improving transport facilities as I have to with the Transport Advisory Committee it would be a great help to have the views of the Financial Secretary on sources of funds he considers may legitimately be used for such facilities and what guide lines he uses in determining the net contribution to general revenue he requires from transport.

The question of bus royalties has become even more urgent since I spoke last and we must reach a definite decision soon especially as any changes would require legislative sanction.

Sir, while we are on the subject of public transport, I should like to say that I am most grateful to my honourable Friend Mr RUTTONJEE for his kind remarks concerning the work of the Transport Advisory Committee as it is now called. At the risk of turning this debate into a mutual admiration society, may I give a better example in support of the point he was making by referring to the success of the Establishment Sub-Committee under his able Chairmanship. This Committee, I may add, is responsible for recommending the spending of about one-third of the Colony's revenue.

Sir, as you may have noticed, there have been reactions to the important matter which you have raised concerning local authorities. This divergence stems from different standpoints. Some see, in your remarks the indication of the expansion of the Urban Council, others, as an attempt to supercede the functions which they have long performed. Yet still others, the more cynical I might say, looked upon it as a sop to those clamouring for constitutional changes. Personally I support your idea whole-heartedly if only for the reason that it will afford yet a further opportunity for wider participation by members of the community in the administration of public affairs. In whatever form the idea may eventually develop, it is, I think, generally agreed that the functions of local authorities are and must be confined to the management of purely local affairs. They are not intended to be debating societies or public platforms for political gambits. There are other places to indulge in this type of past-time. We might for instance create a Hyde Park Corner. A suitable site might well be the Hong Kong Cricket ground, that is, if the Advisory Committee on Private Recreational Leases, which you have just appointed, can find no better use for it than is at present used.

Sir, I shall not be here when Council votes on the motion but I have earlier on indicated that the motion has my support.

MR S. S. GORDON: —Your Excellency, increased taxes can never be palatable to those who have to bear them and it is indeed a tribute to the clarity and realism of my honourable Friend Mr COWPERTHWAITÉ'S lengthy exposition that his extra \$90 million has raised hardly more than a murmur of protest. Opinions vary as to his proposed means of raising this sum and my impression is that a form of dividend tax would have been better received than hitting the present sitting targets with an increase in the standard rate of tax.

There is no doubt that on the basis of the estimates produced some action was necessary, particularly with the implications of the cost of further implementation of the Salaries Commission Report still hanging over us. Mr COWPERTHWAITÉ mentioned a figure of \$79 million as the additional cost for 1965-66 and 1966-67 of acceptance of the Recommendations as they stand, including the additional amounts required for subvented organizations. In addition, there is the question of the review of Teachers' Salaries which presumably is now taking place behind the scenes and which is most unlikely to produce any reduction in our costs.

The question must now arise are we getting value for money from our Civil Service? I remain firmly of the opinion that, even on the proposed new scales, senior and professional staff are by no means overpaid having regard to conditions prevailing in Hong Kong and, with the rest of the Service, I doubt if it can be argued convincingly that any of the individual salaries are very much more than they should be—in some cases quite the reverse. However this does not necessarily mean that we are getting value for money. Fortunately there is a sufficient number of dedicated and hardworking officers to keep us going at a reasonable pace, but I am by no means satisfied that a large proportion of the Service realizes that the taxpayer is entitled to expect a fair day's work for a fair day's pay. It may well be that outmoded and cumbersome Government procedures dictate the volume of useful work and I would be most surprised if the present staff could not be used to much better advantage. It has been suggested in the Press recently that it is proportionately cheaper to run a large concern than a small one; this is only true where operations are kept under constant scrutiny and changes are made in the light of current conditions. I suspect that many Government procedures have their origins in the days of sailing ships when communications were slow and uncertain and rigid control was necessary to safeguard the Queen's revenue. This suspicion is supported by my honourable Friend's explanation that the well-secured loans to the Canton Trust and Ming Tak Banks must, by Government accounting practices, be recorded

as expenditure and their repayment as revenue. The time has come for a long hard look at all Government internal practices followed by a ruthless weeding out of the outmoded, outdated and unnecessary. I realize that there is a competent Organizational Surveys Unit in existence but this is much too small to make any real impact on the problem; I am sure that the cost of expanding this section would be amply recouped by savings throughout Government, perhaps even in the Secretariat itself.

Two other matters require examination in connexion with the Salaries Commission Report. The first is the excessive leave to which both expatriate and local staff are entitled. As my honourable Friend Mr C. Y. KWAN has said, few, if any, manufacturing or commercial houses can afford to be so generous in the present era of keen competition, and I fail to see why Government considers it can stand aloof and live in the past. I certainly will not be prepared to vote for further salary increases unless accompanied by a realistic revision of leave terms. The second matter relates to retiring age. Here again Hong Kong is living in the past and I cannot see how we can afford to have people retiring at the age of 55 or even 50 when in other countries the normal age varies from 60 to 70 and is frequently set at 65. I appreciate that the question of retiring age is bound up with pension rights but I submit that a thorough and positive examination should be made of this subject at an early date.

To sum up, my opinion is that our Civil Service is not overpaid but at the same time the taxpayer is not getting value for money.

To revert to the Budget, my honourable Friend very properly pointed out that the true revised deficit for 1965-66 is \$122 million. I would mention in passing that the shortfall in land sales exceeds this figure by \$4 million. As we still have the land for sale at a later date it seems to me that our so-called deficit is at worst represented by a fixed asset; as Government trades in land it could even be argued that this is a current asset so that there is no real deficit. In view of other factors, I will not press this point.

It is noted that the biggest increase in Revenue for 1965-66 is in Rates where the revised estimate is \$53 million over last year's actual revenue. The 1966-67 estimate shows a further increase of \$22 million to the very high figure of \$242¾ million. Part of this must be attributed to the fact that Government "doesn't have time" to make a new valuation for the coming year so that rateable values will remain at the figure set when rents were at a peak over a year ago. I would remind my honourable Friend that even at that time I took issue with him on the policy of setting the rateable value at a figure higher than the rent agreed by free negotiation between landlord and tenant on an arm's length basis. In his reply on 23rd December, 1964 Mr COWPERTHWAITTE stated, and I quote, "The Commissioner of Rating and Valuation has a statutory

duty to assess the rateable value of tenements and rateable value is defined in the Rating Ordinance as the rent at which any tenement might reasonably be expected to let at the time of valuation, from year to year." He stressed that the phrase "at the time of valuation, from year to year" is important. What has happened to the statutory duty now? Is it seriously argued that "the rent at which any tenement might reasonably be expected to let" is the same now as it was at the end of 1964? In spite of academic theories which might apply elsewhere, in Hong Kong Rates are a thinly disguised form of general taxation which fluctuates in amount, invariably upwards, and is outside the effective control of this Council. This can only be supportable when the policy is applied equitably and I consider it essential that the Rating and Valuation Department find time to re-assess values in all cases where it is known that these values are lower than previously assessed. It is not good enough to sit back and wait for ratepayers to exercise their right of appeal to the Courts which I believe must be done by 25th March. This can only lead to inequities.

To come back to forms of taxation which are within the control of this Council, I whole-heartedly agree with my honourable Friend on the need to keep the standard rate of tax as low as possible. There may well be good arguments against indirect taxation on the grounds of social equity, but I am afraid that I personally am more concerned with the practical approach, and what is best for the Colony as a whole. I consider that our first priority is to provide employment for all and to do so it is essential that we remain competitive and attract foreign manufacturers to assist in the diversification of the products we can offer. To remain competitive is not easy with our geographical location in relation to our sources of raw materials and to our main markets and Hong Kong is no longer the automatic first choice of foreign manufacturers who weigh us in the balance with such countries as Taiwan and Korea. The incidence of direct taxation has a strong bearing not only on foreign industrialists but also on the inflow of funds from Overseas Chinese for investment in the Colony. In developed and settled communities there is no doubt that a full income tax is the fairest method of raising revenue. In the unique situation of Hong Kong the fair approach is not always the right one. My Chinese friends, with one notable exception, assure me that a full income tax would not only seriously reduce the flow of funds to the Colony for investment here, but would also be strongly resented by the local community who, even now, frequently prefer to settle a doubtful assessment rather than have their private affairs disclosed to the Board of Review. In fact, instead of bringing so-called evasion to light, it might well stimulate investment of funds outside the jurisdiction of the Inland Revenue Department. We hear a lot of loose talk of widespread evasion of Profits Tax, particularly of businessmen signing contracts in Macao. I am afraid that it is not as easy as that and I personally do not accept that there

is widespread evasion. In fact, my experience is that many substantial taxpayers are paying tax in the Colony that could legally be avoided if they cared to arrange their affairs differently. Perhaps I should mention that even the proposed, apparently modest, increase in the standard rate makes appeals and avoidance measures potentially 20% more attractive. It will be interesting to see whether there is an increase in appeals in the next year or two.

In passing I would repeat what has been said in this Council many times in the past that one of the best and cheapest methods of attracting and retaining funds here is to abolish Estate Duty or at least to reduce the rates which are high in relation to our other taxes.

The most fundamental objection I have heard raised against my honourable Friend's economic theories relates to his apparent total disagreement with those who advocate the institution of Government borrowing to supply a local outlet for the liquid assets of banks. Figures I have been given indicate that deposits in the banking system rose by approximately \$683 million during the calendar year 1965, while balances held by banks abroad rose by approximately \$947 million. At the end of December 1965 the total deposits of banks in Hong Kong are given at \$7,251 million against which \$2,912 million or 40% was held in banks outside Hong Kong. I would not argue with Mr COWPERTHWAIT'S erudite exposition of his economic theories—in fact I largely agree with him—but I would stress that the absence of a local outlet for specified liquid assets and the assets of Trust Funds, may well have an effect detrimental to the further expansion of the economy.

My honourable Friend objects to raising, or guaranteeing, loans which could count as specified liquid assets of banks as this would involve an obligation to discount or repurchase these loans on demand. Surely this would only occur if banks ran out of other liquidity and the support would be of a temporary nature to allow time for less liquid assets of the banks to be realized.

The Financial Secretary envisages Government Reserves being run down by 1970, largely as a result of our policy of financing capital projects out of revenue. If this is the case, an alternative method of financing some of our capital costs must be given more serious consideration. Is it not important to maintain our Reserves as intact as possible to meet any temporary emergency assistance such as the economy needed last year? My honourable Friend has not explained how such emergencies will be met when the Reserves have been exhausted on Capital works. I think also that he exaggerates the dangers of a Government borrowing short for fairly long-term Capital projects. With a series of loans and staggered repayment dates, ample warning should be available of any drying up of the flow of capital which might necessitate either curtailment of the project or expensive re-financing.

My honourable Friend Mr Y. K. KAN, has mentioned royalties. Last year I spoke at some length on the question of re-examining the effects of all royalties, with particular relevance to the Kowloon Motor Bus Company where the royalty is calculated on Gross Receipts. In his reply my honourable Friend the Financial Secretary said that he agreed that greater flexibility in royalty arrangements was now desirable. May I inquire if any real progress has been made in the intervening twelve months in attaining this greater flexibility?

Nothing visible has appeared in relation to the inequitable application of Commonwealth Preference to Motor Vehicles but I believe the wheels are grinding behind the scenes and I trust that this subject can be packed away before the next budget debate. It is of interest to note that local sales of Canadian cars have fallen from 286 units in 1963 to 140 units in 1965 and it is anticipated that the figure will be even lower in 1966. This cannot be helping our textile negotiations with the Canadian Authorities.

My honourable Friend, Mr C. Y. KWAN, has commented on certain aspects of the Stamp Ordinance. Two years ago attention was drawn to re-organizations being held up on account of heavy stamp duty and to the submission of the Association of Chartered Accountants in September 1959 that ad *valorem* duty should not be payable on the transfer of assets between two companies in the same group where there is no change in the beneficial interest. I believe that legislation to this effect was enacted in UK in 1938. In his reply the Financial Secretary said that "action to produce new drafting instructions for a major amending bill began about a year ago but it is again proving a particularly intractable problem". As three years have now elapsed since action began, may I inquire what progress has been made? Perhaps the answer lies in another interim measure covering the less intractable amendments.

To turn to matters raised with me by the Unofficial Justices of the Peace, the one which stands most clearly at the top of the list is the School Medical Scheme. The number of children participating in this scheme has dropped quite substantially this year as compared to last and a number of suggestions have been made for restoring this situation. Let me assure my honourable Friend, Dr TENG, at the outset that I consider the scheme to be a good one and worthy of support. The fee of \$7 per annum, including medicines supplied, is modest and is less than would be charged by an average outside clinic for a single consultation and medicines.

The criticism usually relates to factors outside the present scope of the scheme, dental and optical care, the difficulty of receiving attention at Government Clinics when the child is referred there for more specialist attention, and, so far as King George V School is concerned, the impracticability of designating for children living on the Island, a doctor

who carries out routine medical inspections in Kowloon between 5.30 and 6.30 p.m. This last point seems to me to be one of administration which could easily be rectified but I understand that, in spite of representations from the Principal of the School and from parents, the Board could not see its way to designate a doctor on Hong Kong Island to take care of pupils living there. I realize that there may be difficulties in having two doctors for this and other schools, but surely these could, and should, be overcome particularly as I understand that there is no shortage of doctors willing to participate in the scheme. I cannot accept that a really sick child can be expected to travel from, say, Pok Fu Lam to Kowloon to see a doctor, nor can I accept that a child who leaves home on Hong Kong Island at around 7.30 a.m. can be expected to remain in Kowloon until at least 5.30 p.m. when feeling unwell in order to see a doctor. May I suggest that this question of designation of doctors be re-examined.

As to Optical and Dental care, Your Excellency observed in a speech recently that poor eyesight and decayed teeth stand out as major health faults in school-age children. Accordingly, it seems essential that these problems be tackled with a minimum of delay. It has been suggested to me that a number of reliable optical companies should be approached with a view to coming to an arrangement whereby refraction and the supply of spectacles can be done for participants in the Medical Scheme for an agreed standard fee. I understand that this is being done privately for one school for as low as \$6 per student.

Dental care poses a much greater problem. My honourable Friend Dr TENG will recall that during the Budget debate two years ago, I raised the question of a Dental School, pointing out that our ratio of dentists to the population was then 1:8,650 as against 1:6,000 in 1952. In his reply Dr TENG advised that as the school would be very costly both to build and to run, it must take its proper place in the list of priorities. He also advised that there was no indication that the training facilities available for dentists overseas was likely to diminish and pointed out that if the earlier estimated cost of a Dental School of \$8.5 million were invested at say 7%, it would allow us to maintain overseas a total of 87 students, or in other words that approximately 17 students could be sent abroad each year.

This was accepted as being sound common sense; but what is the situation today. According to my information the ratio of dentists to population is now 1:9,000. The number of scholarships awarded in the intervening period was nil in 1964, 3 in 1965 and 3 in 1966. A total of 71 students has been sent since the scheme was inaugurated, an increase of 7 over the 1964 figure, and 35 have returned, an increase of 10. In terms of ratio of dentists to population we are losing ground and I believe that in fact we are losing dentists. The reasons given to

me for this indicate that we are working ourselves into one of those classic vicious circles which we seem to get ourselves into in Hong Kong. Under the Dental Scholarship Scheme, when the student returns, he must practice in Hong Kong for 4 years of which 2 may be with Government at Government's option. However the Government dental service only covers monthly-paid Government officers and their families, with a limited treatment programme for in-patients of Government hospitals, prisoners and inmates of training centres. It also provides emergency treatment for the general public at certain clinics which means extractions in cases of pain. Government employs 58 dentists which is enough to cover the present programme and accordingly cannot offer jobs to the scholars when they return qualified. Meanwhile there are few assistantships in Hong Kong for economic reasons and the only outlet is to set up practice. This I understand calls for a substantial capital outlay. I have heard a figure of \$40,000 mentioned, to say nothing of the overheads while the practice is being built up. Recipients of scholarships do not have this kind of money. So the wheel is complete. We don't need to grant any more scholarships because there are no jobs for the scholars when they qualify and we cannot give dental care under the School Medical Scheme because there are insufficient dentists.

In fact the situation is even worse than it would appear to be. Last week's *Government Gazette* published a list of persons permitted to practice dentistry in the Colony on 1st January, 1966. This totals 430 of whom I see that no less than 265 are registered under section 7 (d) of the old Dentists Registration Ordinance (Cap. 156). In effect this means that over 60% of the names on the Register represent unqualified men who were admitted to the Register when it was introduced in 1940. Let me emphasize that I am in no way belittling these unqualified dentists who are experienced men doing a very good and necessary job, but it will be seen that the great majority of them must have passed their fiftieth birthday. From this it follows that we must expect a very high retirement rate over the next ten to fifteen years and the hope of introducing dental care to our School Medical Scheme will be even more remote.

Obviously something must be done and the Medical and Health Department must re-examine its priorities. As dental decay and poor attention has been found to be the worst offender in children examined under the School Medical Scheme, it seems logical that the treatment of this defect must stand high in the list. This does not mean that I am advocating a Dental Hospital again so long as overseas facilities are adequate, but it is quite obvious that treatment for school-children cannot be introduced with our existing or probable future supply of dentists. I have learned that New Zealand faced this problem some 40 years ago and solved it by training dental ancillaries known as Dental Nurses. New Zealand's example was followed in Malaysia, Singapore and Ceylon and Dental Nurses are being introduced under an experimental scheme

in UK. The training period for Dental Nurses is about two years, and thereafter they are permitted to work on children up to the age of 18 under the supervision of a qualified dentist in a Public Clinic. This last point is important as I understand that legally private practitioners cannot employ Dental Nurses.

It has been suggested to me from two or three sources, that there is a real need for the establishment of a Dental Nurse Training School in Hong Kong. The girls, when trained, would then operate in simply-equipped multi-chair clinics under the supervision of a qualified dental officer.

As we have some 830,000 children of school age, it is clear that, even with a Dental Nurse scheme, it will take a very long time for us to be in a position to give all of them proper dental care, but we must start somewhere and the fact that any dental scheme cannot be comprehensive is not a good reason for having no dental scheme at all. Perhaps the initial answer lies in only taking children aged 6 or in the first class at school and following them through to, say, the age of eleven. Not very satisfactory, but better than nothing and meanwhile the Dental Nurses School would be training more girls and the scheme could be gradually extended. As tooth decay is at the root of many medical conditions, it is possible that, in time, some strain might be taken off our Medical Clinics.

One final point for my honourable Friend, Dr TENG. Concern has been expressed to me on the brief reference in Your Excellency's address to the possibility of establishing a central nursing school being under investigation. The concern centres around the importance of developing a loyalty to and pride in one's training school and the need for a close working relationship between doctors and nurses in hospitals. In Hong Kong we have a number of Missionary and other hospitals with a long record of service to the community and girls are attracted to them in the first instance by religious or historical family ties. It is feared that all this might well be lost if there is only one central nursing school. I should have thought that, where standards are in question, these could be maintained by a common level in the examinations which could be applied from a central source. Perhaps my honourable Friend, Dr TENG, will care to elaborate on Your Excellency's brief comment with a view to allaying unnecessary misgivings.

We had a full debate on education in this Council a few months ago and as a result it is not proposed to discuss this subject at any length today. There are, however, one or two points I would mention very briefly. I recently received a copy of a letter addressed to my honourable Friend the Director of Education containing suggestions for the fuller utilization of existing places in Day Primary Schools, with particular reference to the reported 2,000 available places in Wong Tai Sin area alone, and a similar number of children without schooling. The same

letter questions whether there is justification for allowing children of school age to enter evening schools when there are vacancies in day schools in the area. This automatically raises the further question of whether we should take a bold step towards compulsory, primary day school education, thus freeing the evening schools for adolescents who have been unable to complete a Primary School course, and for others who may need extra tuition.

Another correspondent is concerned as to the possible relationship between the lack of proper type of schooling and juvenile delinquency and considers that it is essential to produce some statistics on these offenders to show the educational pattern of children involved in juvenile crimes. This could teach us many lessons. It may well be that the figures will show that the real need is not for more schooling, but for the urgent expansion of our woefully inadequate PT facilities for children and perhaps even the insistence on regular PT periods in all schools.

I have also received a number of representations on the teacher/class ratio of 1.1 to the effect that this allows such a small margin that it is not possible to prepare lessons or teach effectively. It is suggested that the ratio be increased to 1.2 as soon as possible.

Perhaps my honourable Friend, Mr GREGG, would care to comment on these points, and meanwhile may I congratulate him on the speed with which the approved policy is being implemented.

The proposal that an Ombudsman system be introduced in Hong Kong seems to be gaining some support. It will be recalled that in raising this matter during the Budget debate in 1964, I suggested that consideration be deferred for a year or two. Since then we have seen the further development of the Umelco Office and the recent introduction of the Ward System by Urban Council. So far as the Umeleo Office is concerned, I can say that when investigating cases, that office has received the fullest assistance from all Government departments concerned and its inquiries have never been frustrated by lack of co-operation. In point of fact the number of justifiable complaints has been relatively small, but this seems to follow the usual pattern. During a debate at the Commonwealth Parliamentary Conference held in New Zealand in December last, the Honourable J. R. MARSHALL, deputy Prime Minister of New Zealand, quoted some figures to delegates showing that the percentage of justifiable cases during the previous three years had been less than 9%.

One of the difficulties of an Ombudsman appears to be the old question of lack of properly qualified staff. This is particularly so where, to do justice to the complainant, expert advice is involved which is often only available in the department being investigated. Accordingly, if an Ombudsman is to be expected to carry out independent investigations, he needs a large and probably expensive organization. In view of my

earlier remarks on the cost of our Public Service, I would view this with some trepidation. As is well known, it is proposed to introduce a limited form of the Ombudsman system in UK in the fairly near future. A recent report noted that the cost of this limited experiment would be not less than £ 200,000 per annum, i.e., HK\$3,200,000.

It must also be borne in mind that there is a constitutional difficulty here in that an Ombudsman is normally appointed by Parliament and is independent of the Government. This could probably be overcome somehow, but it is another minus when considering this whole question. Also, in Hong Kong, we have a fairly extensive system of Advisory Committees and in at least two cases their jurisdiction seems to extend beyond the Public Service which is the normal working area of an Ombudsman.

On balance, it seems to me that, as yet, there is no need for an Ombudsman system in Hong Kong. So long as the Umelco office continues to receive the full co-operation it has enjoyed in the past I doubt if an Ombudsman could produce any better results. There may be a case, however, for widening the powers of Advisory Committees where necessary, to enable them to deal with complaints falling within their terms of reference.

A final small irritation. Why should our Observatory be allowed to get away with bulldozing us into the use of this curious Celsius nonsense. Visitors from America and Britain don't know what we are talking about. Surely if the Observatory boys wish to demonstrate to their counterparts abroad just how modern their thinking is, they can use Celsius, but is there any good reason why the more conservative members of the community like myself cannot have the old-fashioned Fahrenheit as well? I must give full marks to the Japan Air Line sponsored weather reports on Rediffusion where they refuse to be dominated, and I hope that Radio Hong Kong will follow this excellent example ere long.

Sir, I support the motion.

MR LI FOOK-SHU: —Your Excellency, this year's Budget presented by the Honourable the Financial Secretary gives us a very different picture of our public finances from that which we have been accustomed to expect on these annual occasions. However, in one respect, I am bound to say that there has been no change, for my honourable Friend has presented his analysis of our finances with his usual skill which we have come to expect from him. His Budget speech was once again characterized by an extremely competent marshalling of a comprehensive array of facts; the clarity of the deductions which he drew from them has left us in no doubt as to the arguments by which he defended and justified his proposals, and I should like to congratulate him in this respect. In my first Budget

speech, delivered here three years ago, I remarked on the fact that for a number of years the estimated Budget deficits had been converted into surpluses by some magician's wand and I asked what would happen if the magician's wand failed to work and the Honourable the Financial Secretary were confronted with a real deficit. Well Sir, it seems that this year my honourable Friend's hand has lost its old-time skill on waving the magic wand which had up to now enabled him to conjure surpluses out of deficits. I hope this weakness is only temporary. Meanwhile, it appears that we must now face the economic facts of life and adjust ourselves to the unaccustomed idea that a deficit really is a deficit.

The anticipated deficit for the year 1966-67 is estimated, on the basis of existing sources of revenue, to be \$186 millions and my honourable Friend has imposed new taxation estimated to yield \$90 millions thus leaving an estimated deficit of \$96 millions. If these figures truly represent our financial position for the coming year, I feel they call for a few general comments from me as one "FS" to another "Honourable FS."

First, I think that the fact of increasing expenditure must be accepted. Our population is increasing rapidly. According to the Government Annual Report just published, the over-all increase of population in the year 1965 amounted to over 103,000. This figure is a minimum, for it does not include illegal immigration the extent of which cannot of course be accurately determined. And when it is remembered that well over 40% of our people are aged 15 or under it is clear that there can be no pause in our mounting expenditure. The supply of schools, houses, clinics, hospital beds, social amenities and welfare services must be kept in step with our needs, for these are basic necessities. Private effort can and does do much to meet these needs, but the over-all responsibility for their provision must lie with our Government.

My honourable Friend has suggested increasing the standard rate of direct taxation by 20% that is from 12½% to 15%. I support this proposal. However, I must express my regret at the unfortunate timing of this increased taxation which has come just as the local stock market and the real estate market were showing signs of a revival. My main criticism is that his proposals in regard to direct taxation do not contain any suggestions for a change in the existing form of our tax structure. In my Budget speech last year, I made the point that our public revenue depended excessively on indirect taxation, and my honourable Friend in his reply to my remarks stated, rather guardedly, that he was inclined to agree with me, and thought that if future taxation were imposed, the emphasis should be on direct taxation "up to a point". I am glad to see that his proposals this year go some way towards meeting the point I raised. Last year I also advocated the introduction of a full income tax, but I am sorry that my honourable Friend has not seen his way clear to adopt it.

I should like once more to renew my plea for a full income tax to replace the Salaries Tax and other direct taxes collected by the Inland Revenue Department. For many years there has been dissatisfaction, even in official circles, with the existing system of direct taxation. My honourable Friend's predecessor, in his last Budget speech five years ago, quoted the then Commissioner of Inland Revenue as saying that the Inland Revenue Ordinance was "a piece of horse and buggy legislation in a jet age" and went on to say that he had recommended "the replacement of our present thoroughly unsatisfactory system of direct taxation by a full income tax". Dissatisfaction with the system of separate taxes on salaries and profits goes back at least to 1954 when a Committee appointed to enquire into the working of the Inland Revenue Ordinance said in its Report "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".

My honourable Friend himself in his first Budget speech threatened us with a full income tax as the only substantial source of revenue to which we could look in order to finance that expansion of public services which public policies demanded. On that same occasion, he gave it as his opinion that if an increase in the standard rate of tax were made, it would be very much better that it should be preceded by the introduction of a full income tax. Only last year, my honourable Friend repeated this view saying that "if we have to increase our standard rate of tax, equity demands that we introduce some kind of full income tax".

I do not think that I need labour the point further. I am advocating the introduction of a full income tax and it is clear that in doing so I am in good company. The thing that surprises me is that in spite of the weight of official opinion in its favour, up to the present no steps have been taken to implement the change. My honourable Friend has stated that the imposition of a full income tax would be regarded with disfavour amongst Members of this Council and I have to admit that my Unofficial colleagues generally do not agree with my views. Opinion on this subject is far from being unanimous, and even my professional brother accountant, the Honourable S. S. GORDON, has expressed to me an entirely opposite view to the one I hold. But perhaps it would be too optimistic to expect identity of views from two Members of the same profession. Much would depend on what exactly is meant by the term "full income tax". This could assume a variety of forms and the important issues involved would need considerable thought. Briefly and as a first step, I would like to see the present Inland Revenue Ordinance amended so as to permit the call for a return of total income from whatever source. The difficulty concerning income arising from overseas could be met by the negotiation of double taxation relief agreements as is done in the United Kingdom and elsewhere.

I think the arguments in favour of a full income tax are weighty as well as immediately relevant to our present financial situation, and may be briefly summed up as follows. First, a series of separate taxes on different sources of income allows too much scope for tax avoidance and tax evasion and makes the closing of loop-holes more difficult. Secondly, it is the most equitable form of taxation because it directly relates payment of tax with ability to pay, and thirdly it would spread the tax net wider and I should not be surprised if a reduction in the standard rate might not be the first result after its introduction.

I am concerned that the present proposal to raise the standard rate of tax without some fundamental change in its existing form might encourage more extensive tax evasion and tax avoidance than that which admittedly exists at present. I urge that cases of deliberate evasion which come to light should be met by more stringent and deterrent penalties. In addition, the Honourable Financial Secretary will need no urging from me to take all possible steps, legislative and administrative, to limit the opportunities for tax avoidance.

I wish to make it clear that, in advocating the introduction of a full income tax, my sole aim is to advocate such means of raising public revenue as shall be both efficient and equitable. I think that Hong Kong should retain its basis of free enterprise which has contributed so much to its prosperity in the past. I am not advocating a system of confiscatory taxation leading to a socialist economy. I do not think that in the circumstances of Hong Kong, taxation should be used as an instrument of social change. My argument is a simple one based on the purely practical consideration of how best to raise the revenue necessary for maintaining those services essential to the well-being of our community. One difficulty is that the per capital income is at present small, thus throwing the burden of taxation on relatively few shoulders. I agree with my honourable Friend that this means that some charge should be made for the public service we provide, subject as he says, to exemption for those unable to pay. Our main aim must be to assist in the gradual rise of living standards of our people who provide the labour force on which our prosperity depends. This policy is desirable in itself and its success may well bring more people within the tax net.

I am glad to see that my honourable Friend has made very desirable concessions in his proposed imposition of an extra 20% in direct taxation. The full 20% increase in the standard rate is to be paid only by those in the higher income brackets, for those in the lower tax groups the increase is only 10%. I strongly support this concession. Indeed, I should like to see tax scales with even steeper percentage increases in the higher income groups.

My honourable Friend has told us that he did consider the possibility of introducing new forms of direct taxation in his anxiety to keep the

standard rate of Profits Tax as low as possible for economic reasons. In this connection he has told us that he considered imposing a tax on dividends which would, of course, have been additional to the present Corporation Profits Tax. He pointed out some of the difficulties, for example the discrimination against Corporation Profits Tax as against other business profits and also the difficulties in regard to non-residents. I think he was wise to drop this particular tax for this year, although he indicated that his proposal might be worthwhile pursuing. In reply, I should like to state at once that I should be opposed to any tax on dividends on the ground that the income of commercial corporations is already subject to tax, and a dividend tax would constitute a case of double taxation which I regard as most objectionable.

I have little comment to make on the remaining proposals for tax increases; I understand that my Unofficial colleague, the Honourable P. Y. TANG, is going to say something about the pay-roll tax. The Honourable Financial Secretary took care to point out that the motorist was being additionally taxed on the assumption that he could well afford an extra contribution to the general revenue, and not on account of any special contribution to the cost of the roads and traffic control. I think we must agree with him that, broadly, this is true, though many will feel that he might have had in the back of his mind the possibility that the new impositions might have a discouraging effect on the licensing of new vehicles and so assist in relieving road congestion.

Many will, no doubt, feel that expenditure should be curtailed as a preferable alternative to increasing taxation. In this connection, the growth in the number employed in the Public Service has aroused unfavourable comment. I notice that for the coming year, the increase in the number of civil servants is estimated at 3.5% in the number of posts, and the increased cost is 14% over last year. But half the new posts are in the Police Force, and this must be expected in view of the steady growth of population and the need for security. I should like to point out that as a matter of broad principle, if we want efficient Government services, and I personally believe this is imperative, we must be prepared to pay for it. My honourable Friend has informed us that he had suggested that the increase in the number of new posts over last year should be limited to 3%. On this matter, I should like to ask if the arrangements for scrutinizing the Departmental demands for increases in the number of established posts are working satisfactorily and whether the Establishment Sub-Committee is armed with sufficient power to make its views effective, or whether my honourable Friend exercises a kind of veto over its decisions. However, on the matter of salaries and conditions of service, I must say that I feel that these should be such as to attract and retain the highest calibre of public servant, whether local or expatriate.

It has been suggested that our expenditure on large capital projects like reclamation, housing and water should be financed by loans. My

honourable Friend has argued strongly against this course. His main objection is that to borrow over the relatively short term for projects such as housing, in which repayments are spread over a period of forty years, would be an imprudent course since we would be at the mercy of the quite unpredictable financial and economic conditions prevailing at the repayment date. In addition, a loan, if raised locally, would certainly call for interest rates higher than those earned by our reserve funds in London. My honourable Friend also has pointed out the very large savings in interest charges which have resulted from our past sacrifices in meeting heavy capital charges out of current revenue. I admit these are powerful arguments. Nevertheless, I still think that the question of a loan under favourable conditions might be worth looking into, and not just ruled out on grounds of deviation from the path of financial virtue. I think the World Bank might again be approached and the question of our heavy financial burden placed before it. This burden has arisen mainly because of the phenomenal growth of our population over the last twenty years due to refugee immigration. In addition, in Hong Kong we have to overcome the limitations imposed on us by geography. For example, land has to be won from the sea, hills levelled or removed and water brought from long distances. The result is that site formation and other preparatory construction work are more costly here than is normal elsewhere. In view of the vast capital projects such as the proposed new towns in Tsuen Wan, Castle Peak and Sha Tin for example, the World Bank might well revise its previous judgment and think us not only worthy of credit but as needing it. If we could borrow from the World Bank at say 5% for selected projects which yield appreciably more in revenue, the incentive might be sufficient to justify us facing the contingency of having to renew the loan on less favourable terms, should that be forced upon us by adverse economic or other conditions at the renewal date. My honourable Friend has told us he is hopeful of receiving a small Economic Mission from the World Bank in the summer: if that visit materializes, as I hope it will, I trust he will not allow his financial orthodoxy to stand in the way of a full examination of the possibilities of negotiating a loan on advantageous terms. Our post-war record is such that we need have no sense of shame or false modesty in seeking outside financial help.

On the subject of the size and function of our reserves, I strongly support the views expressed by the Honourable the Financial Secretary. They must be held outside the Colony if they are to be useful in a time of crisis. This is normal central banking practice, and prudence demands that it should be followed here. However, the published Draft Estimates are not re-assuring on the amount of our reserves and appear to show that they are being run down at an alarming rate. They show that as at 31st March 1965, they stood at nearly \$823 millions. At 31st March this year, they are expected to be just over \$633 millions and at the same time next year to be little over \$448 millions. This is a reduction, over

two years, of approximately \$375 millions or nearly 48%. This is clearly a matter of concern and I think every one will agree with me that the size of our reserves should be kept at a level commensurate with the growth of our economy.

One further point I want to make takes me back again to the revenue side of the Estimates and concerns the revenue from Land. The original estimate from this source for the year 1965-66 which was \$191½ millions, has now been pared to \$65½ millions, a reduction of \$126 millions. The estimate from this source for the year 1966-67 is \$67½ millions. This disappointing return is partly accounted for by the recent Government policy of restricting the supply of land because of the fall of real estate values due to over-development. But to lose the \$126 millions of anticipated revenue in one year is not only highly unsatisfactory but faces the Financial Secretary with a difficult problem of Annual Budgeting. Indeed, if land revenue is to be subject to such wide variation, then budgeting for this item might well be something of a lottery. In my first Budget speech, I suggested that revenue from a most vital and diminishing capital asset like land should not be regarded as ordinary recurrent revenue but should be placed in a capital fund earmarked for capital projects. I cannot but feel that the whole question of land revenue needs re-examination. I feel that the system of a single capital premium coupled with moderate annual crown rents is extremely unsatisfactory. Indeed, in many cases, Government has had to make concessions and allow the capital sum to be paid by instalments over a number of years. This has the great advantage that such revenue at least can be counted on. I should like to see these arrangements extended. Indeed I would go further and suggest that if crown rents were made the subject of the auction rather than the payment of a single premium, as is the case now, revenue from land would be more calculable and more truly recurrent. In addition, it would allow developers with limited financial resources to join in the auction and help defeat the rigging of the bidding at public auctions.

Last year I made a number of observations on our Banking system, in which I am pleased to see a welcome recovery. The new Banking Ordinance has, of course, done much to ensure the general adoption of sound banking practice. I feel that the appointment of a Commissioner of Banking has been an important factor in the smooth working of the Ordinance, and that the decision to make such an appointment has been more than justified. The personal supervision and advice which he has been able to give have done much to restore public confidence in our banks, and I believe that the banking crisis is now no more than a chapter in our history.

With these few remarks, Sir, I beg to support the Motion now laid before this Council.

Mr FUNG HON-CHU: —Your Excellency, there is much satisfaction to be derived from the fact that, despite the bank runs which occurred last February and the repercussions that followed, we can still point to another year of steady growth in our economy. This demonstrates that our economy, which derives its strength from a good administration and a hard working people, is basically sound and highly resilient.

The fact that we have run into a deficit for the first time in many years does not detract from the achievements of the year under review. Both our domestic exports and re-exports have risen, as has the revenue to Government, which is the more creditable when one considers the huge fall-off in the building industry and land sales during this period. The deficit merely reflects that our revenue, though still growing, has not quite kept pace with the rate of expansion of our public services. Being amenable to corrective measures, our economy has none of the malignancies that usually characterize such a situation. Negatively, we can either curtail some of the less essential services or lower their standard, both of which ought to be avoided, and against which I have spoken in no uncertain terms in the past. The positive way is to augment our revenue to meet the increasing demands. The proposal for increased taxation, both direct and indirect, as outlined by the Honourable Financial Secretary may not be palatable, but is necessary and one with which few can find serious quarrel. Since the increases will only affect those who can afford to pay, these measures are not likely to have an inflationary effect on our economy, as some might fear. Government will no doubt ensure that the strictest economy is exercised in the use of public funds, thereby dispelling any misgivings that may exist in the public mind. Both the Honourable Financial Secretary and myself had forecast a deficit for the present year, and with the uncertainties still hanging over us on decisions to be taken on the Salaries Commission Report and a number of educational policy matters, the possibility of another deficit for the coming year looms large, even assuming that the yield from increased taxation will be of the order envisaged. For this reason and also because, as the Honourable Financial Secretary himself has said, the present tax system tends to become increasingly inequitable as the rate of tax rises, I would urge Government not only to consider revising our present system so as to produce a greater incidence of tax, though not necessarily going as far as an orthodox full income tax, but also to tighten up the collection machinery and plug any leaks that may exist in the present system. There is no denying that there must be many many cases of tax evasion, and it is likely that these cases will increase as the tax burden increases. My honourable Friend, Mr F. S. LI, has also emphasized on the importance of this point.

Turning now for a moment to trade, while the figures for this financial year have continued to show a healthy increase over the previous year, I do not agree it necessarily follows that the industries are in the same

buoyant shape. Some factories are undoubtedly working on marginal profits, others perhaps at a loss and the overall picture is very likely one of considerably reduced profits. The importance of industry to the prosperity of Hong Kong is recognized and Government will no doubt do all it can to ensure its healthy development. It is gratifying to note that as evidence of Government's awareness of the important roles of trade and industry, it has done much to translate the blueprints designed for their development into reality. I refer to the progress being made on the establishment of the Export Development Council, the Export Credit Guarantee Organization, the Productivity Council and Centre and lately, the Industrial Training scheme which is being actively studied by an Advisory Committee as to its feasibility. However, much more remains to be done and Government is strongly urged to do all it can to hasten the day when they will be in full operation. These investments are sound and necessary and this fact will become more and more apparent as greater external pressures are brought to bear on our exports. It therefore behoves us to spare neither effort nor money in bringing these plans to early fruition. The Industrial Training scheme is still in its embryonic stage and naturally no decision will be taken until after the Advisory Committee has submitted its findings. As man-power is our only natural resource it stands to reason that we must develop and train it to the limit of our ability. In the U.K., industrial training is financed by compulsory levies on all firms in a particular industry plus Government subventions. In Hong Kong a system of levy could also be imposed on all firms in an industry requiring training, but it would have to be according to that particular industry's ability to pay and it may well be that Government will have to bear a substantial part of the cost in the form of subventions. The philosophy behind this is that industrial training is as important to the survival of Hong Kong as teaching a child to read and write and if a school deserves Government aid, I can see no reason why industrial training should not be similarly favoured. It may be argued that it is wrong to use public funds for helping individual industries which are profit making as opposed to schools which are not. Whatever the difference in this respect, in the final analysis we cannot escape the conclusion that because of the overriding importance of industrial training to the future of Hong Kong it deserves to receive the same financial assistance as schools, and that in Hong Kong's circumstances, this is one way to get the scheme off the ground. The granting of free land alone is not likely to produce the desired effect of getting industries to do their own training. Not only are most of them unable to bear the entire cost without pricing themselves out of the market, there is also an understandable disinclination on the part of our industrialists to invest substantially in a scheme which cannot guarantee that the skills that their money provides will be available to them. We all know too well the popular practice of "body snatching".

Also in the area of industrial training, we must consider product designing and packaging. Hong Kong has developed its industries on a contractor basis, on the basis of manufacturing to meet buyer's specifications. This has been a very useful method of commencing industrialization, but it is fraught with danger, for the buyer dictates the design, quality and often the price of the product. For as long as we remain a "price" market, we must recognize that there will always be people who can produce at a lower price, both domestically, so upsetting all price structures, and externally, and herein lies the immediate long term danger. Once sources of cheaper products can be found, those buyers who buy on price alone will not hesitate to forsake Hong Kong and buy where prices are lower. We have already lost some of our markets to neighbouring lower-cost producers and we are in grave danger of losing others. The countries to whom we are losing these markets have lower labour costs, have equally good labour, have equally new machinery and they also have a number of advantages which Hong Kong lacks. In some fields we may have a two-or three years edge in our industrial development over such countries, but they are fast catching up and the gap is rapidly narrowing. Since we are already producing almost the whole range of light consumer products it seems possible to produce, I doubt whether there are any new fields of manufacturing we can enter and we must therefore concentrate on trading-up. It seems to me that we can maintain our current margin and hopefully widen it still over our lower-priced competitors, only if we can produce better designed, more consumer appealing products, for it is apparent that we can no longer rely on price to sell. I am glad to learn from Your Excellency that a start has been made in the setting up at the Technical College of courses in industrial and commercial design. I would urge that we tie in with these courses, the establishment of a design centre, and I feel so strongly that our ability to maintain our markets will depend so much on our ability to produce better designed products that I would suggest that the teaching staff at the College be permitted to act as design consultants to industry. We know very well that few of our industrial establishments are of sufficient size to be able to maintain their own designers, and until it becomes an economic feasibility for design consultants to operate commercially, Government should provide this service. Since such a service can be costed, it need not be a charge on the public purse, yet it will be a public service of the first order. Good design in products and packaging is a matter of urgency, indeed it is almost a matter of life and death for us.

On a slightly different tack but still in the same area. I have noted with some considerable consternation the campaigning overseas that there has been against some of our products. Some of the accusations against our manufacturers are trivial and some positively malicious. I know that the Department of Commerce and Industry and the Federation of Hong Kong Industries have done very good work in checking up on

all of these reports, seeking the source of the offending products and in analysing them. My information is that in the one or two cases, where there might be some basis for the reports, quick remedial action has been taken.

I have already said that Hong Kong is largely a contractors' market and for as long as we remain so, there will always be products which are price products rather than quality products. Our manufacturers are capable of producing to the highest qualities and of maintaining consistent standards, but we must recognise that manufacturing to buyers' specifications leaves us wide open to abuses. I know it is difficult, if not impossible, for our manufacturers to dig their toes in and insist on manufacturing to minimum standards unless there is a statutory requirement, and yet our freedom from controls is something we greatly prize and wish to preserve. Somewhere, however, there will have to be a marrying of these two requirements and I hope Government will give the industrial and trade associations which have this matter under consideration, every assistance and support. I do not wish to anticipate the recommendations of the associations, but it might well be that we should concentrate initially on those products where health and safety are involved.

Contrary to popular belief, the people of Hong Kong generally are not as apathetic to public affairs as they appear to be. There is no doubt that the wind of change is blowing and those who see in the poor turn out at Urban Council elections a sign of public indifference are using the wrong criteria, so drawing the wrong conclusions. The direction in which the wind is blowing is also clear. It is towards a greater say and participation by the people in the management of public affairs. The fact that the wind blows gently and not with the force of a typhoon merely indicates that the majority recognize our vulnerability to extraneous influences, are aware of the pitfalls inherent in major constitutional changes and that their seeming acquiescence with the present constitution stems from the belief that in Hong Kong's special circumstances it is best to make haste slowly and that the status quo may still be the safest bet. But those who think that changes are unnecessary just because the wind is blowing gently have misread the temper of our times. It is, therefore, incumbent on us to examine how best we can go about the task of introducing some changes into our system that are best suited to the needs of our people, a system that will allow our people a greater measure of participation in the management of public affairs and yet be free from attendant dangers.

The answer to this may lie in the enlargement of the responsibilities of the Urban Council. To prevent it from becoming too unwieldy and complicated at the beginning, the additional functions and powers should be phased over a period of time, and, to enable it to operate effectively,

there should be some assured source of revenue which it might collect and expend as it sees fit. Other local authorities perhaps in the form of district councils with similar powers might be set up in the new townships which would enjoy complete independence from the Urban Council, both financially and administratively.

In the face of the increasing importance of our new towns as industrial centres and the rapid rise in population, the existing administrative machinery is fast becoming inadequate and the setting up of these local authorities appear to me to be a step in the right direction. But the pace of this evolution should be tempered with caution, the transition to be achieved over a period, with one town at a time, so that results may be assessed and mistakes avoided. We could at the moment start with, say, Tsuen Wan. Their primary income may come from rates and it may be that in future certain districts would be less affluent than the others and a grant-in-aid from Government might become necessary, but basically the Urban and District Councils will be responsible largely for their own upkeep.

Some controversy is bound to arise over the relative merits of nominated and elected seats in these local authorities. As long as the electorate cannot yet be very substantially widened, a combination of elected and nominated membership would appear to be most suitable. This system possesses proven advantages, not least being its ability to keep things in proper balance. The critics might say that the nominated members are no more than a collection of rubber stamps to be used to give assent to everything and anything the Government proposes. But do the records bear this out? The frankness with which nominated members speak in committee and in public debates and the opposition they put up to proposals which they consider wrong give the lie to these accusations. Your Excellency is in the best position to judge the quality of your nominated members. They are citizens who have been for years leading an active public life in Hong Kong and are acquainted with the problems, requirements and aspirations of the people.

The system of local Government as practised elsewhere may not be suitable for Hong Kong on account of our geographical limitations and our cosmopolitan culture, nor does the opinion of a vociferous few represent the genuine wishes of the people.

In any case, it is time that we gave all these problems our serious thought. We must find out soon what ought to be done and I urge the Government to appoint a Committee to study this complex question of constitutional change in depth. It is unfortunate that because of the lack of social research and organized information, we are unable to determine the needs of our people with any degree of accuracy. If this task is within the scope of the Honourable Secretary for Chinese Affairs and the Honourable District Commissioner of the New Territories, no

doubt they will ensure that the existing machinery is organized in such a way as to provide the right information relating to the true needs and wishes of the people.

Incidentally, may I venture to comment on the titles given to some of the Government Departments. I think the title of S.C.A. is outdated. The population being predominantly Chinese, all Government Departments could well be called Department for Chinese Affairs, since all of them deal principally with Chinese people. The title of Colonial Secretariat also tends to convey a wrong image of Hong Kong. I suggest that both these titles might be dropped in favour of something more descriptive and in line with our present circumstances. Lest my motive be misconstrued, I hasten to add that my remarks are not intended as an affront to my honourable Friends in these two departments, for whom I have the highest esteem and whose records of service are a shining example.

There is another matter which I would like to raise for the urgent consideration of Government and that is the "Brains drain" that is apparently affecting Hong Kong. The impression one gets is that there is a steadily increasing number of Hong Kong youngsters who do not come back at the conclusion of their studies abroad. One also hears increasingly of able local people migrating elsewhere in search of greater opportunities. I wonder if Government has made any assessment of these problems and of the likely effects of such loss of trained talent on our future economic growth and development. We need all the talent we can get and if there is a "brains drain" measures to remedy it should be adopted without delay.

There are of course many reasons why Hong Kong people settle abroad. In some instances there is probably nothing we can do to deter them but in others there would appear positive measures that we can take. For example, I know of cases where Hong Kong people are forced to stay abroad because they have become over-specialized in their studies and there are no suitable job openings for them in Hong Kong. Some of this can be avoided, if students can go to some organization for advice as to what are the likely skills needed and employable in Hong Kong at the present stage of development. If a person were so advised, he might well embark on a line of studies which would be of more immediate benefit to Hong Kong. To be able to offer sound advice implies the availability of organized information and the ability to determine reasonably the general directions of our development. I should be interested to know whether Government has made assessments of our man-power needs at all levels and whether it is in a position to offer career advice to our young people.

Another reason why able people migrate may be that they feel that Hong Kong does not offer enough opportunities for satisfactory careers.

It occurs to me that a comprehensive programme for localization may open up more opportunities. In Malaysia, the Government requires foreign business firms to localize their top posts within given time limits. In Hong Kong we need not go so far at the moment but Government, as the largest employer, can and should take the lead.

My honourable Friend, Mr Dhun RUTTONJEE, has spoken at some length on localization in the Public Service. I fully support his views, and Government is urged to give this matter the consideration it deserves.

In referring to localization, I should make it clear that I am not thinking along narrow racial lines. Hong Kong is a cosmopolitan city and there is no thought in my mind of chasing out people who are not Chinese. What I mean by a "local" is a person who stakes his future with Hong Kong, whatever his race. We need talent from wherever we can find it and if an Englishman, for example, wishes to be identified with Hong Kong and to share a common future, then he is as welcome as a "local".

These are some of the measures which can be taken to stem the "brains drain" and no doubt Government can think of many others. With the liberalization of the immigration laws in certain countries, I think the temptation to migrate will increase among people in search of greater opportunities for advancement. If Government does not devote immediate attention to this problem, I think our future development will be seriously and adversely affected.

Sir, I have pleasure in supporting the motion before Council.

THE COLONIAL SECRETARY: —Your Excellency, I beg to move that the debate on the resolution before Council be adjourned until 2.30 tomorrow afternoon.

THE FINANCIAL SECRETARY seconded.

The question was put and agreed to.

HIS EXCELLENCY THE GOVERNOR: —I now suspend the sitting of Council until 2.30 tomorrow afternoon.

* * *

11th March 1966

Council resumed at 2.30 p.m.

HIS EXCELLENCY THE GOVERNOR: —Council is resumed. The question is that the Report of the Select Committee on the Estimates be adopted. The debate may now resume.

MR P. Y. TANG: —Your Excellency, having followed with close attention the address which Your Excellency delivered at the recent session of the Council, surely no one could be so steeped in gloom as to fail to be heartened by the guarded optimism in the forecast of economic prospects for the coming year.

Nor could anyone, it seems to me, fail to grasp the significance of your warning concerning the heavy costs of fast-expanding public services.

It is a reminder that the acid test of how far and how fast Hong Kong may expand these services is whether the means to pay for them could be raised without retarding economic growth. The prime objective of government policy would logically be to foster and stimulate the growth of Hong Kong's economy, so as to build up a productive potential with a base broad enough and strong enough to meet calls from expanding services.

In the light of this general objective, I welcome the opportunity of offering some points on the penetrating analysis of the state of finances by my honourable Friend the Financial Secretary, and on the measures with which he proposed to cope with the changing financial situation.

Insofar as the policy decisions behind these measures may affect the course of industrial development, I would hope that my observations could contribute towards resolving a number of issues which are crucial to the continuance of economic growth. These issues, which I propose to discuss, range from labour relations to deficit financing, and touch upon questions on the administration of affairs in commerce and industry.

I would believe that the satisfactory handling of these issues will go a long way towards meeting an important challenge with which the economy of Hong Kong is being faced.

The fact is Hong Kong's economy has expanded with hardly a pause. So it could be in a way accepted as a matter of course that the challenge should have arisen. For over a span of barely two decades, an obscure trading port on the China coast has thrust itself onto the world scene. Externally—in overseas trade and industrial circles—, this near-miracle has created wide-spread amazement, and in some cases a good deal of apprehension, because of the competitive potential offered by the range, volume and quality of Hong Kong products. Internally, —within our own economic structure—the sheer rapidity of industrial transformation has also generated strong forces of stress and tension.

The challenge, if stated in simple terms, is how to make secure and stabilize our economy on this present high plateau without letting it recede, and so to prepare it for a new climb to even greater heights.

I would submit, Sir, that we should courageously accept this challenge. For not only the continuation of our prosperity but our very economic survival depend upon the way we meet this challenge.

It is not suggested that one should become immediately apprehensive when trade and employment figures are still breaking records. But it is the part of prudence to exercise caution in good times, even before economic expansion starts to falter.

In this context I shall attempt to identify what appears to me to be the principal areas of strength that have contributed to Hong Kong's past achievement and present prosperity. By the same token, these same areas could become especially sensitive and vulnerable if the weather starts to turn foul.

Firstly, the existence of harmonious management-labour relations in Hong Kong industry is a matter that merits special attention.

By and large, the maintenance of this harmony in industrial plants has been based on a mutuality of interest. On the one hand, productivity has held up well due to the industriousness and self-restraint of the workers. On the other hand, pay scales have all along been adjusted upwards and the list of amenities has lengthened. There has consequently been little occasion for resort to costly strikes over pay scales or work conditions. Thus in the year 1964-65 only a handful of 13 strikes were recorded in a total number of 8,500 registered industrial undertakings, and none of the thirteen strikes occurred in a plant of major size.

The climate of industrial peace has been a dominant influence in building up general confidence in the placing of extensive investments in Hong Kong. This all-important contributing factor to Hong Kong's industrial development should be appreciated.

Another prominent factor that has exerted a powerful pull on investment funds and on much risk capital from neighbouring regions to Hong Kong is the recognition of the fact that Hong Kong has a stable and freely convertible currency. The confidence based on this recognition has sustained the inflow of overseas funds and thereby further helped the balance of payments. I should think that credit on this score must be given to the record of sound fiscal management as reflected in the consistent showing of budget surpluses in the past. In the interest of Hong Kong's uninterrupted economic development this image should be kept untarnished.

Aside from harmonious industrial labour relations in the background of a sound currency, there has been another unique source of strength

for the fast growing economy. I refer, Sir, to the stability in the rate of tax on business profits. In Hong Kong where industry has to expand in untried and hazardous directions, it is understandable that risk-taking in new enterprises would require incentives. One of the important incentives has been the fact that the rate of tax on profits is not only fairly low but also may be expected to remain stable.

I would observe in passing that most developing areas, in order to obtain the needed capital to become industrialized, have to either depend on the time-consuming process of gradual capital accumulation through savings, or rely on the crutch of free foreign financial aid, or offer special inducements to prospective external investors. But Hong Kong has the distinction of having forged ahead industrially without pursuing any one of these courses. The requisite supply of risk capital has so far been forthcoming from domestic as well as foreign sources. The low rate of tax on profits and the reasonable certainty that the rate will remain stable may be considered as one of the key explanations.

This brings me to a related matter of basic importance, namely, the necessary condition and climate conducive to vigorous economic growth, in the form of government's liberal economic policy and its conscientious implementation. In regard to the administration of economic matters, the Commerce and Industry Department is at the center of the stage.

As the needs and problems confronting this Department have greatly multiplied, and will inevitably increase in volume and complexity, its responsibility has correspondingly grown. Its work may therefore be regarded as quite crucial in building up the confidence of investors in the future economic development of this community.

These important factors relating to labour relations, fiscal policy, taxation and administration of economic affairs have worked separately and in combination to render possible Hong Kong's industrial transformation. Their impact on the economy has been so vital that it will be impolitic, if not dangerous, to have any one of them being eroded or impaired.

Yet, with continued and accelerated expansion from one year to next, there have emerged, as I briefly touched upon at the outset, some symptoms of overstrain and imbalance.

In the first place, evidences have multiplied that the rate of industrial expansion has steadily outstripped the supply of trained workers. Unless prompt and effective steps are taken to raise productivity, it will not be easy to meet the trend of rising wage rates. However, the maintenance of harmonious management-labour relations will in a large measure depend on the ability to keep always this rising trend within sight.

As an independent and qualified investigator has recently computed, the annual rise of wages in Hong Kong's manufacturing industries has averaged 8.8% from 1958 to 1965. In terms of both money wages and real wages Hong Kong's industrial pay scale has reached a higher level than in any other Asian country except those of Japan. To enable our rising living standard to continue, and, at the same time, to enable us to make sure that our competitive position in the world markets is not compromised, we must see that our industrial economy is enriched with a corresponding growth of productivity. The alternative would be drift and stagnation, barring the event of inflationary spiralling of wages and prices which would be self-defeating and surely nobody would wish to see this happening in Hong Kong.

To enable the good management-labour relations to remain harmonious, as in the past, it would be important for Government to provide guidance and assistance to industrial concerns in the planning and implementation of appropriate education and health programmes.

Insofar as education is concerned, it is appreciated that government has formed an advisory committee to examine the problem of industrial training.

It may not be out of place here to stress the special importance of meeting the needs of small industrial units, and of assisting them with technique and finance to enable them to establish industrial training and education programmes tailored to their special requirements. As to industrial plants with a large working force, the training programme could perhaps be of a type that combines technical learning in actual operational practice in the plant with a course of instruction in general education. The trainee would thereby be offered a freer and broader scope in making choices of his future career. I may mention that this possibility has been demonstrated to be workable, although the idea of its introduction by industrial plants has not yet been popularized.

Besides the setting up of appropriate educational programmes, industry should be encouraged to introduce voluntary schemes to raise the health standards of workers through subsidized medical care, as a complement to the mandatory requirements for paying sickness benefits. Under such a scheme suitable clinical facilities for workers could be provided rather than by paying an arbitrarily limited amount of cash. With the help of some public subsidy where needed, medical treatment rather than cash payment would be of greater practical benefit to the patients. The net effect of adopting such a system would be to assure the good health of the working force, which is a basic condition for the enhancement of productive efficiency.

The education and health programmes, if implemented with government assistance and guidance, cannot fail but to strengthen mutual

goodwill and cooperation between management and labour, and further cement the existing harmonious relations.

In the second place, there are signs that the economy has increasingly been subject to pressures which may lead to an over-extension of its capability.

We note that the business boom got under way upon entering the sixties with the value of exports jumping to new high levels by an average of about 14% a year. The annual receipts of internal revenue, which largely reflected the steady growth of commerce and industry, leapt by 20% in four years from 1961 to 1964. Land values soared to record highs accompanied by feverish activities in building construction.

And yet, in face of the booming conditions, the budget surplus, in terms of total annual cash receipts and outlay, began to dwindle. From an annual average of about 100 million dollars in surplus for the preceding three years, the amount dipped in 1963-64. With trade figures reaching another record high in 1965, the financial year 1965-66 ends with a deficit and the estimates for the coming year indicate an even bigger one. More deficits are in the offing for the next three years.

It is however some consolation to note that the disturbing outturn in the overall budget situation, as my honourable Friend the Financial Secretary pointed out, has arisen basically by virtue of the imbalance in the capital account. The fact is, recurrent items will continue to show a surplus for the next few years though relatively in smaller amounts. But the surplus will be swallowed up by very heavy annual commitments of the vast programmes for capital development. If we keep on reckoning on the basis of total cash receipts and payments, and keep on paying capital expenditure out of current revenue, the overall annual balance will inevitably continue to be in the red.

This uncomfortable development notwithstanding, my honourable Friend considered that the case for financing capital requirements with long-term borrowings instead of with current receipts did not appear to have been satisfactorily made out.

My honourable Friend's reservations against borrowing on capital account were made on a number of counts. One, the capital assets handed down to present users have been paid during past years out of current revenue; so we have no moral right to ask future users to share the cost of projects at present under construction. Two, resort to financing by borrowing would be a temptation to extravagance. Three, loan funds of distant maturity would not likely be forthcoming especially from local sources. Four, few development agencies and projects could earn enough to meet interest and amortization.

These are all weighty reasons. But some considerations may be offered in attenuation.

True, we have been provided with capital assets, handed down and paid-for. This has however been made possible by the circumstance that economic expansion during past years has been so rapid that the payment of capital costs out of current income did not cause hardship, as proven by the very fact that, despite the tax rates being low and stable since 1950 there has nevertheless been a succession of sizeable budget surpluses. This is in sharp contrast with the conditions at present when an obvious strain has developed in the economy. This contrast is also the reason for thinking that present financial exigencies could well justify, on realistic grounds, the sharing of the burden of capital outlays with a clean conscience. After all, it is fair to ask that projects conferring continuing benefits for many years to come be partly paid for over a reasonably long period in future.

As to the question of temptation to extravagance, it may be safe to assume that the amount of borrowing would in any case barely cover a portion of the prospective deficit, and surely not leave much in excess to tempt the launching of new capital programmes. Furthermore, we may feel safe that the restraining hand of my honourable Friend will always be there to resist such a temptation.

The maturity of a bond issue should not of course be too distant, but a 10-year term loan may be feasible in view of Hong Kong's good financial record as has been achieved under energetic and prudent direction. If international banking institutions have already been well impressed by Hong Kong's records and potentialities, we have little cause to be over-pessimistic on the flotation of a bond issue in some leading world financial center.

Now, coming to the point of whether a development project could earn enough to repay the loan incurred to finance it, it would surely be very desirable if the special authorities or agencies which administer the capital construction programmes could meet fully the debt charges out of their fees, interest, rentals and sales proceeds, etc. But this should not be regarded as a necessary condition, so long we expect to have a continuing annual surplus in the recurrent account. Possibly a definite portion of the surplus from recurrent items each year could be earmarked for the payment of interest and amortization of the general bond issue. Where income received cannot completely cover loan obligations, an amount from the surplus could be set aside to subsidize any authority or agency borrowing on its own but under a government guarantee.

While the foregoing lines of thought would merely render support to the general policy of resorting to government borrowing in present

circumstances, I should hope, Sir, that you would agree to have this important matter thoroughly and promptly investigated, so that some workable plan could be ready for implementation before the start of the next financial year.

The immediate crucial question is, then, how to make up the deficit of the current year. Here we approach a dilemma of choosing between raising the rates of taxes which, to be productive and equitable, should include the direct tax on profits, and upsetting the stability of the profit tax that would tend to discourage new investment as well as re-investment.

I am not unconscious of the great pains my honourable Friend took to determine the ways and means required to cover the deficit. Still, it would seem to be highly important to stress that the stability of the rate of tax on profits is one of the most important incentives for the launching of new industrial and business enterprises in Hong Kong.

It is gratifying that my honourable Friend fully recognized the "inhibiting effects on our economy" of ruinous rates of taxation. Of course it is conceded that a 2½% raise on profits tax does not thereby make the rate ruinous. But the stability of our tax rate in its impact on the attitude and confidence of the potential investor is even as important as, if not more so than, the level of the rate. This is especially true, when the raising of the rate takes place at a time when signs of over-strain in the economy have already been in evidence, and estimates of the rising cost of public services during coming years have already indicated a string of deficits of increasing magnitude.

I should think that the very announcement of Government's decision to consider seriously the loan approach to meeting capital outlays of coming years could counteract the uneasiness which may arise with the outlook that the long period of stability of the tax rate will soon be terminated, and that budget uncertainties are likely to get worse in future years.

The announcement of a new approach being taken by Government would also set at rest any anxiety over the possible imposition of fresh levies which were mentioned in the budget speech as being in contemplation, namely, the tax on dividends and the tax on payroll.

It is relevant I hope, to comment on the pertinent aspects of the taxes, even though they are only in the exploratory stage. To superimpose a tax on dividends over and above the profits tax would be tantamount to making a discriminatory treatment against corporate income and would discourage this particular form of business organization which I should hope is not the intention of Government. Actually the intention, if I am not mistaken, is to encourage its general adoption. For one thing, the greater use of this type of organization is most desirable because

it would be conducive to more disciplined filing of profit returns for tax purposes and offer less openings for tax evasion. This is one phase of revenue administration which I hope the Advisory Committee which my honourable Friend proposed to set up to discuss matters of technical and controversial nature may consider with advantage.

The other contemplated tax, one to be levied on the payroll, would seem to have some grave shortcomings. Aside from the inequity of taxing business units irrespective of their operating results, one unit *losing money* having to pay the tax in amount equal to another *that makes money* with the same payroll, the tax would tend to produce undesirable repercussions by causing employers to recoup themselves by other means, who may for instance be tempted to reduce the scope of amenities or cut down the pace of raising workers' pay. It would moreover directly go against the desirable goal as discussed earlier in this discourse of promoting harmonious management-labour relations through the extension of private education and health programmes.

Finally I would refer, Sir, to the very urgent need of relieving the Commerce and Industry Department of the growing pressure of work that has resulted from a fast expanding economy. It is a matter of common observation in trade circles that the Commerce and Industry Department is overworked and under-staffed. The pressure has in part been mitigated by the prospective transfer of some functions to newly-created organizations, such as the work of export promotion to the new Export Council. But the problem does not appear to have been completely resolved.

If I understand the situation correctly, the major problem has to do with the manner of recruitment. I would suggest that adjustments be introduced in recruiting rules, so that the Commerce and Industry Department could be given first priority in the filling of vacancies existing among various departments, and procedural delays be reduced to a minimum. It is also essential for the building up of a top-notch staff that an adequate number of high grade posts be provided in the Department to accommodate specialists and experts possessing the requisite calibre and experience.

There is above all an important consideration relating to the status of the Department. It would seem that, in view of the heavy and constantly increasing responsibilities of the Director of this Department, he should have top grade status as far as departmental grading and emoluments are concerned. To keep the present grading which was fixed at a time when the conditions governing the relative importance of the major departments were so utterly different, would be obviously unrealistic.

In this connexion, it may be apropos to observe that the annual appropriation for this Department averaged only about nine-tenths of

one percent of total expenditure up to this year. Against this background, the estimates for the coming financial year at 21.7 million dollars, representing an increase of 4½ million dollars over the revised estimates of 1965-66 reflects the gratifying recognition given to the expanding services expected of this Department.

This increase includes 1.4 million dollars for *special* expenditure on several newly organized activities which are vitally related to the development of commerce and industry, namely, export promotion, export credit insurance and the productivity centre. We should hope that, as the work of these new organizations gradually expands, the increasing requirement for funds will be fully met. It may be noted that the scale of expenditure for export promotion in neighbouring countries such as South Korea is reported to be fixed on a very liberal basis.

In concluding my observations I would hope, Sir, to have brought into focus what would seem to be the outstanding factors contributing to the phenomenal growth of Hong Kong.

I submit that these sources of economic strength deserve to be very closely guarded against possible erosion or disturbance. If well taken care of, they can be depended upon to impart vigour and vitality to industry and trade, the twin fountain head of financial resources needed to support every field of public endeavour.

With this plea for emphasis on the high priority of maintaining economic growth, and in the hope that the ideas hereby put forward will receive your approbation, I beg, Sir, to support the motion before Council.

MR TSE YU-CHUEN: —Your Excellency, I rise to make some observations on the current legislative debate but am content to limit myself to the important problems of social welfare. My first point is that Government should take prompt and serious considerations on social welfare and in particular on stabilizing the food situation by forming with all speed a Food Control Commission.

In September 1945 just on the conclusion of World War II, Hong Kong was in the throes of food shortage. To stabilize the prices of rice, Government with due promptness formed the Rice Control Section so that this staple food might be sold at very reasonable prices on the basis of the actual needs of each household—i.e. on a rationing system. Thus the problem of food supply was solved and the well being of the community was well in hand. As the trends then were towards prosperity, by July 1954 the food situation was no longer a problem thereby justifying the abolition of the rationing system. As regards providing

rice by the Rice Control Section in the course of nine long years, progress was proceeding smoothly, the administration was efficient and prices were stabilized to the satisfaction of the public. After the suspension of the Rice Control Section entrusted with the allotment of rice, Government being aware of the importance of rice supply to the population and desirous not to countenance an indifferent or *laissez-faire* attitude took the position, for the sake of a great margin of safety, that the sale of the rice should not be undertaken in an unfair or irresponsible way. Therefore Government appointed twenty-nine rice importing firms for the sale and distribution of this staple food and later were added nine more to the list. Thus there are at present thirty-eight firms responsible for and in charge of transportation and sale. Although in 1954 Government drew up regulations concerning the import of this commodity, they only stipulated the number of importing firms and limited the total amount to be imported and held in stock. Important questions such as concerning rice after import to Hong Kong, determination of prices, the fixing of retail prices and the amount of profits are not dealt with at all in the regulations. During the past ten years, the thirty-eight rice importing firms have been left to their own notion in the sale and determining the prices. In general merchants are largely prompted by profits without much regard for the welfare of the masses. As this has been going on, a situation has unfortunately arisen whereby the importers are interested only in the fruits of this monopoly and are unmindful of the responsibility under this privilege. There has been a gap left open since the closing of the Rice Control Section in the sale of low-priced rice under the rationing system. This deficiency has caused much harm to social welfare and shaken the tranquillity of the community. Salient facts are as follows: —

- (1) Among the thirty-eight rice importing firms, most of them have, at will, formed a price appraisal committee, so that the commodity is sold only at high prices and never at low prices. If the market is slack and requires slashing of prices, permission must be first obtained from the appraisal committee before sale is made. Thus the sale of rice under this monopoly in Hong Kong has fallen into the hands of several rice merchants and under their manipulations at will. Towards Government they are violating the spirit of supervision and towards the public they impose a great financial burden with far reaching effect on people's livelihood.
- (2) At present the rice needed for consumption in Hong Kong comes from South-east Asia, which is currently in a state of turmoil. As supply may become precarious, the Colony should not in any circumstances allow any shortage or deficiency. As the present system of transportation and sale is under those merchants who import and sell rice wholesale in the way they see advantageous

to themselves only, it behoves Government painstakingly to find out whether rice merchants in their manoeuvres for profits may deplete the stock, and to check the supplies. Should any emergency arise, any shortage of rice would have wide repercussions on the community.

- (3) In considering the fact that the Government has not made any provision to limit the scale of prices as made by this group of rice firms for the free import of rice into Hong Kong on a monopoly basis, these importers having the privilege to manipulate prices may also take advantage of an opportunity to make enormous gains. Whenever rice quotations in nearby markets outside Hong Kong are on the upward trend, local reactions are very sensitive and find repercussions. But if quotations elsewhere are on the plunge downward, the drop in local markets is deliberately held back as slowly as possible. The idea is to take advantage of the situation and manipulate the rise and fall of prices. The profits gained in this way are prodigious.
- (4) Since the rise and fall of commodity prices are common occurrences those of rice are of no exception. Nevertheless, the sale and distribution of rice in Hong Kong being a monopoly, those engaged in this business should assume their obligation in order to fulfil the objective of stabilizing the food situation. For instance, if prices in the outports make sudden leaps, local prices should not blindly follow suit. The merchants should look over their stocks, gauge the volume of demand, consider the timeliness of action, make a check of all figures and then make an increase in the light of realism and exigency of the situation. Only under such conditions the increase of prices may be considered proper and fair. Now the prices are often raised in oligarchical fashion by the importers having the special privileges of shipping in rice from abroad, while Government has no means to check and look into the transactions and is unable to conclude whether any increase is justified and legal.

On the basis of the foregoing premises, I on behalf of the welfare of over three million people propose to Government to form without loss of time a Rice Control Commission and to devise measures to regulate the number of importing merchants, the quantity of rice to be imported and amount to be held to meet demand and to be stored up. The same regulations will stipulate reasonable prices to be charged by the importers and wholesale sellers and their fair profits. It is proposed that the Rice Control Commission shall also have the authority to supervise price appraisal and to determine reasonable margin of profits. Members of the Commission shall be appointed by the highest authority of Government on the strength of their reputation, moral integrity, experience,

connexions in this business and responsibility. This is a question with which over three million people are concerned. The wide extent and importance of this issue in social welfare are really unsurpassed.

My second point is that Government should encourage contributions towards social welfare pursuits and should exempt such donations from income or profit tax.

All the social welfare undertakings depend largely on the utmost endeavours and generous contributions of the philanthropists in the community. The success of these gratifying moves has impact on our eyes and ears. At present the population of Hong Kong has been on the increase side by side with the prosperous trends of the Colony. Thus measures in social welfare should stride abreast of these advances. To encourage these generous people in unloading their wealth on charitable purposes, Government should exempt donors from the burden of paying income or profit tax with respect to the amount offered. I think such exemption is deemed appropriate in view of the fact the donations are to be used in the interest of the public in the same way as taxes. Of course the donations should be made only to those genuine non-profit social welfare organizations as recognized by Government. This is to prevent tax evasion and to encourage *bona fide* donations.

My third point is proposal of supplementary measures on behalf of juvenile delinquents. Last year at this time I made suggestions to ameliorate the situation of youths degenerated into delinquents or teddy boys and miscreants harmful to society. Now I find I should make supplementary remarks in connexion with the remedy for their uplift. I refer to the number of pupils expelled from schools because of their bad behaviour, because the school authorities are compelled to drop such youths for fear of their contamination of good ones. Parents or guardians are unable in finding academic accommodation elsewhere for these wayward boys, who are prone to become menaces to society. Government should take steps to reform these misguided young men, and in this connexion remand homes should be established for their moral salvation and training, so that they may tread along the right path to an honest living.

My fourth and final point is that non-profit social welfare organizations be given the greatest leeway for support. At this time a year ago I brought before this Council a suggestion recommending that Government should give all-out support to non-profit social welfare bodies in order that these much needed endeavours be given due headway. I am glad such plea has not fallen on a stony ground in view of the fact that contributions to authentic charitable set-ups have somewhat increased over the years. Owing to the increase of population in this Colony, all kinds of pursuits relating to social welfare depending on Government

support are correspondingly on the increase. I urge that the majority of these organisations may get necessary or additional assistance in the interest of Hong Kong residents.

Having concluded my suggestions and observations and looking forward to their early implementation, Sir, I have pleasure in registering my support of the budget.

MR K. A. WATSON: —Your Excellency, I would like to applaud my honourable Friend, the Financial Secretary, on his brilliantly presented Budget. I have found all his arguments lucid and convincing and I am in substantial agreement with most of them. I shall therefore support his motion.

I am sorry my own speeches don't seem to receive the same degree of understanding. My honourable Friend has confessed to finding some difficulty in dealing with me, comparing himself to Alice in Wonderland (a somewhat muscular Alice) because, he says I seem to reason on a totally different plane to himself.

This may well be true but it is not necessarily a disadvantage for Hong Kong. Simple conformity with the views of the Financial Secretary by an unofficial member of this Council might almost be regarded as dereliction of duty, if it means giving up our right to think for ourselves and to come to our own conclusions. I regret, therefore, that I intend to continue to reason on a different plane, unless of course my honourable Friend cares to join me on it.

I think, however, I owe it to him to try to explain what I consider should be the function of Government, if only to demonstrate that my arguments sometimes have a certain consistency. Put very briefly, I believe that Government should do everything in its power to ensure the happiness and well-being of the people of Hong Kong.

This may sound self-evident and fairly innocuous. But if it is accepted fully, it has important implications. It means that Government must actively concern itself with the people's health, comfort, freedom from hunger, disease, suffering and insecurity, with the enjoyment of the good things in life, with their need for suitable and congenial employment, good housing, cheap education and medical care, open spaces, clean air, comfortable travelling, leisure for relaxation, and a pleasant environment in which to live and work.

Thomas JEFFERSON, the third President of the United States of America, summed it up by saying "The care of human life and happiness, and not their destruction, is the first and only legitimate object of good government."

Now, I can imagine my honourable Friend in front beginning to get impatient at this catalogue of utopian ideals, and saying to himself, "Fine words, but how are we going to pay for them?" He has repeatedly emphasized his conviction that we must tailor the standard of our services and amenities to our resources. He fears that as our decision-takers and policy-makers come from the richer section of the community, they will demand public services for all of a quality they expect for themselves and which they can afford, taking as their guide the quality of services found in more developed countries abroad. He calls this the "ex-patriate effect" and he thinks that I suffer from it in a fairly acute form.

I do not deny the accusation. Nor, however, do I accept the suggestion that the people of Hong Kong can never expect to enjoy the amenities of civilization. I do not expect my goals to be attained in full in 5 years, or 10 years, or in 20 years. But I contend that these ideals should be seen clearly as a target and that every effort should be made, within our limitations, to reach them.

I am well aware of the danger of aiming at a standard higher than the economy can afford and I do not advocate anything which would destroy our economic well-being.

How far and how fast we go depends on the extent of our resources. If the Financial Secretary thinks these are limited to what we can raise from duties, licences, fees and taxation, he is in a dilemma. On the one hand, indirect taxation is inequitable because it taxes the poor as much as the rich. Direct taxation on the other hand, if raised to too high a level would discourage foreign investment on which we depend for a substantial part of our capital. There is, however, a third alternative which the Financial Secretary appears to reject, to borrow money for our capital expenditure, either internally or externally. My honourable Friend, Mr P. Y. TANG has spoken eloquently in its favour this afternoon. He is supported by an influential body of opinion in Hong Kong which thinks that Government's policy of financing capital works out of current expenditure only is out-of-date. It is, of course, a commendable example of thrift, but it tends to lead to an austere, self-denying and dreary existence. By insisting on cash in hand, a whole generation may be forced to do without amenities which they would expect to enjoy in other countries, countries which find nothing immoral or unduly risky in raising loans and mortgaging the future in order to allow its people to enjoy benefits within their own lifetime.

I am in no position to argue on one side or the other, but I suggest that before we commit ourselves to the theory that revenue can only come from taxation and land sales, all other sources be fully investigated by a Committee specially appointed for the purpose.

While agreeing generally with the Financial Secretary's views on low taxation, I do not think his comparison with America's present

policy of tax reductions is valid, unless we include her policy of deficit planning and public spending. Though it is one of the most capitalistic countries in the world, the United States of America dispenses huge subsidies in many varied fields. It does this, not merely out of the goodness of her heart, but because it is sound business policy. Education affects a man's earning power, and it has been calculated that the loss of only one year's income through unemployment is more than the total cost of his school education. Failure to improve educational performance is thus not only poor social policy, it is downright bad economics. Here in Hong Kong, I think we tend to think too much about the immediate cost to Government and too little about the benefits to the individual and to the community.

There are certain fields in which Government is participating very fully, but there are others such as Social Welfare, in which it seems much less sure about the extent to which it should take part. In the Social Welfare debate, the Acting Colonial Secretary denied that relief for the aged and the incurably handicapped was given on the minimum level of existence. I would be interested to learn how much more than this minimum is in fact being provided and I would be delighted if, as a result of the debate, conditions for these unfortunate people have been improved. In the debate Government shied away from the idea of social security measures, conjuring up the bogey of the welfare state. The Financial Secretary pointed out that America, the richest nation in the world had a very incomplete and recent social security system. But things are changing rapidly in that country, and Mr James RESTON of the New York Times (a fellowcountryman of my honourable Friend) has said, "Well, it begins to look as if the people will take the welfare state and the planned economy if you don't mention names, mainly because, wicked or not, they seem to work." They seem to work in a number of other countries too.

But there are also signs of change in Hong Kong. You, Sir, have mentioned some of them, the setting up of a planning unit, discussions between the Social Welfare Department and the Hong Kong Council for Social Service, a survey of urban life, the transfer of the lottery money to a special Social Welfare Capital Fund, the visit of Lady Williams to advise whether a full-scale survey of our social welfare services would be useful. All these are welcome innovations and they make me think that astringent comments may sometimes bear fruit, however hotly they may be denied at the time.

My honourable Friend has expressed concern about the cost of Government salaries if the recommendations of the Salaries Commission are accepted. I support my colleagues who have said that if we need them, we must be prepared to pay for them. We expect Government servants to be hardworking, honest and above temptation, but is this a reasonable expectation if they are underpaid?

This applies particularly to members of the Police Force who are constantly being accused of corruption and intimidation. I am not saying that this does not exist or that the strongest measures should not be taken to eliminate them. But I am concerned at the constant sniping at them in the Press, some of it based on hearsay and speculation. This could do us, the people of Hong Kong considerable harm, for any weakening of respect for the Police can only encourage the criminals who oppose them.

The folly of irresponsible criticism may be seen in Britain, where it has caused a crime wave of alarming proportions. It is said that two out of every three crimes in that country go unsolved and criminals are getting ever bolder. In Hong Kong there are signs of an increasing number of crimes of violence, and the causes, a lowering of respect for, and co-operation with the Police may be the same.

In the field of domestic building, the past year has shown many unusual features. The property market is in the doldrums and land sales are infrequent, we now face our first genuine deficit since the war, due partly to the loss of revenue anticipated from land sales and partly to the achievement of my honourable Friend, the Director of Public Works, in spending all the money allocated to him.

In spite of the recession in the property market, there was so much private building in the pipe line that a new record of over 4,000 new tenements and flats were completed in July 1965, and this figure was exceeded in January 1966. These two months alone came to 28% of the total for the boom year, 1964-65, and for more than all the accommodation built in the year 1961-62.

There has been, however, almost a complete cessation of the number of applications for exclusion orders, which means that even if there is an immediate change there is bound to be a decline in new building in two or three years' time. Recovery is therefore likely to be slow and gradual. One effect of the over-supply of large flats may be to interest developers in smaller, cheaper flats for which there is still considerable need. There has also been a marked reduction in the amount of new squatting with the result that, this is the first year, I believe, since records were kept, the estimated number of urban squatters has dropped.

The Housing Board has been meeting regularly but has found that detailed and reliable information about accommodation and living conditions in privately-built tenements and flats is very meagre. We hope to get more information from this year's Bi-Census and from the various surveys proposed, but it may be necessary for us to ask for a specific housing survey.

The problem of old, dilapidated and dangerous buildings is still a worrying one and something better than merely closing them down and

evicting the tenants should be found. In spite of the over-supply of expensive flats, no significant improvement in the housing conditions of the poor can be seen, and it would seem that publically-assisted housing must continue for many more years.

The Financial Secretary has again referred to the differential standards of subsidised housing on which he spoke last year. I wonder if, in calculating the amount of so-called "subsidy" tenants of various types of housing get, he has not left out of the equation, the differing scale of rents they pay. A tenant in a Housing Authority flat, for instance, pays more per square foot than does an occupant of a room in a resettlement estate. I think that a detailed examination may show that the inequity is not as great as is thought.

Sir, you have spoken about local authorities and have invited comments. Some of my colleagues have spoken of the need for a greater participation of the people in local affairs.

I believe that we need to try to develop "grass-roots democracy", a healthy representational system starting at the lowest levels. I suggest that each district such as Shau Kei Wan, Wan Chai, Yau Ma Tei or Hung Hom should have its own District Council, to which representative would be elected. Both representatives and voters would have to be residents of those districts, so that they would have first-class knowledge of the people and of the problems. There they would do the work of the Urban Council and would be responsible for street cleansing, hawkers, markets, public health, and other matters.

From these District Councils members would be elected or selected to the Urban Council where they would bring first-hand information about the conditions in each of their districts.

Each of the new towns of Tsuen Wan, Castle Peak and Sha Tin are to have about a million people in each, and each should have its own City Council. Consideration might be given at some stage to having separate City Councils for Hong Kong Island, Kowloon, and New Kowloon, matching in size of population the other three cities.

Like every other modern city, Hong Kong faces the problem which the motor age has brought to urban areas. As I said before, we will not solve them by hiding our heads in the sand and hoping wishfully they will go away. To an ever-increasing degree, towns must be designed to include proper provision for vehicular traffic and for pedestrians. It is, of course, difficult and highly expensive to provide complete facilities in such areas as the Central District which have been allowed to grow up with narrow streets and pavements. But we are now planning three new cities in the New Territories and it would be monstrous if we repeated in them the mistakes of the past. As each of them is going to have a

population of a million people, they should each have their own mass transport system which would be much cheaper to install while they were being built than at some later date.

No doubt the Mass Transport Feasibility consultants will be producing their recommendations, both for the new cities and for the old, built-up areas. In doing so, I hope they will take fully into account the disruptive effect of typhoons and the threats of typhoons. The Commissioner for Transport has records showing how badly public transport by bus, tram and ferry is affected. I hope too it will be borne in mind that the only logical way of increasing the capacity of roads in the older parts of the town, will be to build elevated roads above them. And finally I hope they will not produce a scheme fettered by financial considerations which have not been accepted by us. It should be planned, not just for 30 years, but for a hundred years. The need for efficient transportation will continue long after the end of the New Territories lease.

I was not in Hong Kong when the Cross-Harbour Tunnel franchise was debated. My honourable Friend, the Director of Public Works has tried to meet my fears about its effect on traffic, by promising that sufficient new road works would be provided to deal with the anticipated tunnel traffic without causing congestion.

But this congestion will be caused, not only by the inability of adjacent roads to disperse traffic, but by queues of vehicles waiting to use the tunnel. My honourable Friend has said that the maximum capacity in one direction will be about 2,000 vehicles. The Road Research Laboratory has estimated that the probable traffic one way at peak hours will be 2,500 in 1971 and 3,300 in 1976. The Dartford Tunnel (admittedly only 2-lanes) had delays up to 6 hours not very long after it was opened, but it has miles of approach roads on which to park the waiting cars. Here in Hong Kong where are these cars to wait? Unless special provision is made for them, they will have to park on the main roads, and they may hold up traffic for hours. I am afraid that the cost of the extra roads required will far exceed the Director's present estimates. If, as is forecast, the vehicular ferries will have been driven out of business and there is no alternative way of crossing the harbour, we are then in for major headaches. Perhaps my honourable Friend will tell us what plans Government has got for cross-harbour facilities, when the tunnel has reached saturation.

Another field in which Government appears to be reluctant to play its full part is in the provision of adequate off-street parking. In 1961, the Colonial Secretary announced Government's policy of building two new car parks a year, funds permitting, provided fees were raised to 30 cents an hour and monthly tickets to \$60. Detailed costings were given, including land at commercial rates amortised over the anticipated life of the buildings and these showed that not only would they cover all cost,

but would also make a profit. These fees were considered and agreed to by the Urban Council. Since then the usage of the Car Parks has risen and there can be no doubt that they are now giving Government a substantial profit, based on Government's own figures.

In spite of this, Government has failed to keep its promise. The only excuse it can have is that funds were not available, although surpluses have been made every year since then except this one. I question the good faith of the Colonial Secretary if, when he promised that two new car parks would be built each year, funds permitting, he knew those funds would not be forthcoming, for he must have been fully aware of what calls were likely to be made on them.

There can be no moral objection to the provision of car parks, even if it is for a limited sector of the population, provided the fees cover the costs, which these car parks do. Apart from the convenience to motorists, the provision of off-street parking is an essential element of a proper traffic policy. In Britain all the revenue from parking meters is invested in off-street parks, and there is no reason why Hong Kong should not follow suit. During 1965-66, the revenue from parking came to an estimated \$4,677,000 and will reach \$5,495,000 in 1966-67. This I assume includes fees from meters, though why this should be included under the Urban Services which has nothing to do with it, I find difficult to understand.

In spite of the large profits which are being made and in spite of the severe shortage of spaces which now exists, the Financial Secretary has hinted that parking fees might be raised again without any promise of any new parks. I need hardly remind members of the irritation felt by the public at this refusal to act by persons who have their own free, reserved car-spaces under this building. I wish my honourable Friends who determine policy could experience the frustration of having to wait an hour to get a legal parking space, or risk having his car towed away, if in desperation he leaves it elsewhere.

Not only are parking charges likely to go up, but the price of petrol has been increased, and licence fees are to be raised. This would be acceptable if all the revenue collected were devoted to new roads, car parks and road improvements. But the Financial Secretary has been quick to point out that the duty on hydrocarbon oils, amounting to an estimated \$91 millions a year, is a general tax and must go into general revenue. This may be his own personal view of the matter, but I hope he will excuse us if we take a different view and ask that this money does not get lost in general revenue, but is added to all the other fees and licences and used to provide some of the better roads which are so badly needed now and will be even more badly needed in the future. May I remind him that this as much our money as it is his, and we should have a say in how it is used.

This harsh treatment is due perhaps to a lingering belief that the motor car is still a luxury, enjoyed by a small section of the community, and therefore fair game. This attitude had never been held in America and is passing rapidly in Britain, where the majority of families are car-owners. In Hong Kong, car-ownership is increasing at a very high rate and it will not be long before a similar position is reached. I have quoted what one great American has said. I am reminded of another great American, Mr Groucho MARX, who, on being asked his opinion of sex, said that he thought it had come to stay. I suggest that we must accept the fact that the motor car has also come to stay, an incomparably comfortable and flexible form of transport, one of the good things in life which should not be restricted to the rich, and of which Government should not attempt to deprive poorer people, by artificially raising the cost. If cars are to be banned, they should be banned for rich and poor alike and there should be no discrimination. But if any attempt is made to tax or price cars off the roads, there might be a spontaneous outburst of protest such as there was in Britain against Mr Ernest MARPLES. But instead of "Marples must go!" the cry will be "The F. S. must go!".

I myself would be strongly opposed to this, for I could not be sure that his successor could stand up to the urgent demands of utopian dreamers and prevent our economy from crashing to the ground. I believe he should be retained as an unmovable anvil on which to hammer out our sometimes naive ideas. If some sparks are struck, some new ideas born, then this is all to the good. I shall therefore vote for this motion.

MR G. R. ROSS: —Your Excellency, the Honourable Dhun RUTTONJEE has referred to the gracious visit of Her Royal Highness The Princess Margaret in connection with British Week, and as Chairman of the Chamber I particularly associate myself with his remarks. There can be little doubt that British Week in Hong Kong has been a great success and I wish to emphasize our appreciation to Her Majesty's Principal Trade Commissioner, Mr Michael HANNAM, and his staff.

Dealing first with the Financial Secretary's tax proposals, I believe that these are no more than we were led to expect. We are all keenly aware of the need to keep Hong Kong taxes low and I am particularly glad that my honourable Friend has publicly acknowledged this fact. However, while I think we can accept a rise in the standard rate from 12½% to 15%, I do feel he is stretching it a bit in suggesting we could stand twenty. If we are to continue to encourage foreign investments—as we must surely do—I trust we shall not depart from this new rate for a very long time to come. In this connection it has been suggested in some quarters that the proposed revision in the standard rate of tax was the result of pressure from Westminster. I am sure this was not so but

I should be grateful for confirmation from my honourable Friend. As for the suggestion of full income tax, which came from the Honourable F. S. LI, I can think of no surer way of frightening capital out of the Colony and I regret I cannot support his views.

The Financial Secretary has made it all too clear that we have a very expensive public service to pay for. In principle I am strongly opposed to the back-dating of salaries, and I trust we have seen the end of Salaries Commissions. Instead, I recommend that Government adopts the suggestion of the last Commission and institutes permanent machinery for the future adjustment of salaries. Assuming the various recommendations are eventually accepted, I consider the public service will compare very favourably indeed with private enterprise, and at this point I think Government should draw further comparisons. My honourable Friends, Mr C. Y. KWAN and Mr S. S. GORDON, have already touched on the thorny problem of leave. Certainly very few commercial houses can afford the generous leave terms which Government servants enjoy, and I know of none who have the luxury of four or five different terms of service varying from six weeks once a year for certain heads of department, which is practical, to 6½ months plus passage time from door to door every three or four years. It seems to me to be quite ridiculous to perpetuate 'old leave terms' in this modern age. I also question Government's retirement age of 55 which I think is no longer realistic, but worse still is the frequency with which Government servants choose to leave the service on reduced pensions between the ages of 45 and 50. The recommended new scales are now so good that this will deliberately encourage more to do so. The temptation to start a new career with anything up to half pay in one's pocket for life is almost too strong to resist. The proposed additional tax on automotive diesel oil accentuates an unsatisfactory situation whereby precisely the same oil is sold in Hong Kong at four different prices. Doubtless illegal advantage is taken of these price differentials in spite of the many Government Revenue Officers employed to control it. Certainly further investigation is needed; and it is embarrassing to the oil industry and to their retail dealers. I should, therefore, like to see Government enter into discussions with the petroleum industry with a view to improving this situation.

Reverting to my honourable Friend the Financial Secretary's opening remarks, I welcome the appreciative reference to our tourist trade which has indeed gone ahead with remarkable vigour. Second only to textiles, this important business is fast approaching \$1,000 million a year. This is big business, and we must ensure that we do not lose it by default. In America, Mr John T. CONNOR, Secretary of Commerce, recently stated "Every indication leads us to believe that travel and recreation will some day move from its present third place showing to the very first rank among all industries". Likewise the Chairman of the British Travel Association, Lord Geddes, said "In less than two decades, tourism

has grown from practically nothing into one of the most powerful economic forces in this country. It is already Britain's fourth largest export industry and biggest single earner of dollars". The British Government recently increased its annual subvention from £ 1¾ million to over £ 2 million. From elsewhere reports confirm increasing budgets and plans for tourist promotion. Australia, Czechoslovakia, India, Israel, Japan, Jordan, the Lebanon, Mexico, Morocco, Rumania—all have detailed plans.

What are *we* doing to encourage tourists to come to Hong Kong? As long as they like to come they are welcome, but we do little or nothing to see that they enjoy themselves and will come again. Sixty per cent of our tourist income is derived from shopping, but this attraction is steadily declining. We should have attractive and clean beach resorts with special bus services to take them there and special beach police to see they are not skinned. Our sporting facilities are strictly limited and it is easier for the proverbial camel to go through the eye of a needle than for a visitor to get a game of golf. Too few of our taxi drivers speak English. I can think of nothing more disconcerting to a stranger in a strange place than to be driven off wildly into the night by someone who cannot communicate. Our taxis themselves leave much to be desired. They are inspected twice yearly by Government but I cannot accept that the standard of inspection is high enough!

I am sorry to say that over the last three years the average length of stay of our visitors has declined from five days to three. To encourage them to remain here longer, the Tourist Association recently commissioned three surveys. The business community, supported by the Urban Council, recognizes the need for a multi-purpose stadium for conventions, recreation, entertainment, trade fairs and exhibitions. We have nearly 6,000 hotel rooms and now is the time to cash in on conventions. It is estimated that this project might cost £ 5½ million which is admittedly frightening but it need not all be done at once if the land is earmarked now. The Financial Secretary will point to his already over-stretched budget and ask where is the money to come from. Is this not a suitable project for reasonably short-term borrowing? Certainly the direct and indirect benefits to the Colony would be substantial and there is every indication that a multi-purpose complex would pay its way and be profit-making within six years. I understand the proposal for an oceanarium is supported by the Department of Agriculture and Fisheries, the Education Department and the Urban Council. \$5 million spread over two or three years can surely be forthcoming from Government, bearing in mind the estimated nett income is \$300,000 a year excluding a further sum of \$300,000 for depreciation. The third project represents the development of resort areas. This involves a much longer period than the other two, but we can take several bites at the cherry. The key to the whole plan is the provision of an adequate road on the Sai Kung Peninsula. The

report recommends the extension of the present road from Tai Mong Tsai to Pak Tam and a road circuit from there passing through Chik Kang on the Eastern arm of Long Harbour, along the coast of Tai Long Wan and back to Pak Tam. The road from Tai Mong Tsai to Chik Kang was actually in the Public Works programme until very recently but for some unknown reason it has been shelved. Will Government and the Public Works Sub-Committee take another look at their plans to see if a start can be made on the southern route through Chuk Wan and Lau Nai Wan to Sai Wan?

The businessman today travels far and wide and the tourist also—to escape—is developing a preference for long distance travel. Here again I believe Government can help, as the charge for air travel from the United Kingdom to Hong Kong is away out of line with other routes. For instance, the passenger air mile charge from the United Kingdom to Caribbean is 3.6 pence, United Kingdom to New York 3.3 and United Kingdom to Hong Kong 6.5. Accordingly, I urge my honourable Friend the Colonial Secretary to take up this matter on our behalf with the appropriate authorities in the United Kingdom.

Air pollution in our city continues to give rise to much concern. As a director of China Light & Power I confess my kettle remains as black as any other despite the immense amount of investigation and research they have devoted to this problem. The Company, with Government, is going into the matter again and an expert will shortly be coming out from England to advise. The spontaneous response to the suggestion of city decorations over Christmas was most encouraging and no doubt we shall, as always in Hong Kong, excel the best in the world in a few years' time. But the effect on the garlands of white holly was shocking—within hours the white was tittle tattle grey and within days it was nearly black. On our roads it is not uncommon to see a diesel engine vehicle belching forth black smoke. Our police find it almost impossible to prosecute obvious offenders under the existing Regulations. I must ask, therefore, that my honourable Friend the Attorney General give serious consideration to curbing this nuisance by providing more effective legislation than that covered by Regulation 103 of Road Traffic Construction and Use Regulations 1956. This air pollution is a health hazard involving us all and indeed is international. Not only will improved legislation help but as a subsequent gesture I recommend Government appoints a committee to investigate ways and means of combatting this growing menace.

In your illuminating review of the year, Your Excellency remarked on the report of the Working Committee on the Export Development Council. This is a unique instance of the chicken advancing before the egg and much has still to be done to get this organization off the ground. It is absolutely essential to its success that it gets immediate

authority for the engagement of essential staff and the expenditure of essential funds. Failing this it will not be possible to carry on the good work heretofore performed by the Public Relations Joint Committee and the Export Promotion Division of the Department of Commerce and Industry. The report has something to say about the degree of financial control to be exercised over the Council. Here I wish to recommend that maximum flexibility be accorded to it. It must be a dynamic force free, as far as possible, from red tape and in no sense must it give the impression of a Government department. It must be free to plan and replan according to change in trade winds and it must have complete autonomy over staff particularly overseas where it is necessary to pay the going rate. We must remember that Hong Kong products no longer sell their way easily overseas and more than ever today we need experienced marketing men abroad to break into highly competitive markets. With an eminent banker at the helm I am confident the Export Development Council will succeed. Nevertheless, support is needed from all sides. Our small New York office struggles on covering the vast United States under the able leadership and drive of Mr K. T. Woo. For seven years the United States has been our principal market and in view of our potential there some Government cum Trade Public Relations representation is now urgently needed in Washington. I wish, therefore, to ask Government for an assurance that early action be taken to create this essential post.

Although my copy of the Working Party's report on Export Credit Insurance has become rather yellow around the edges, it is encouraging to hear the objective is almost in sight. I welcome the appointment of a Commissioner designate and the setting up later this year of the Export Credit Insurance Corporation. At a time when we are trying more than ever to develop new markets overseas in areas where we have little experience, the existence of this Corporation will provide stimulus. I trust the rates to be quoted will be reasonable so that Manufacturers and Exporters may take full advantage of the scheme without seriously impeding their current business.

The Commercial Community looks forward to the part to be played by the Productivity Council which given time will become an essential part in our economy. We cannot afford to be haunted by pink elephants in the form of water-coolers nor can we accept that we deliberately go out of our way to poison little children with lead and set their Christmas trees on fire. Much has been said about standardization, inspection, patents, design and quality control of products without first appreciating the need to start at the source, namely at the production end. The Productivity Council can assist all manufacturers with their production and also it can develop a Hong Kong "Kite"—a trade mark (used successfully on goods in the U.K. approved by the British Standards Institution)

which can become universally regarded as representing specified quality in the Hong Kong product.

My honourable Friend the Financial Secretary remarked upon the weather last year which was favourable to engineering projects. The Acting Director of the Royal Observatory also commented recently upon the return of comparatively normal weather in 1965. There was abundant rainfall to fill our reservoirs and no destructive storms. Perhaps normality means we can wrap up our emergency plans and get on with the day to day problems which are more pressing, but what about our typhoon shelters? This is something of a hobby horse of mine but I can assure Your Excellency that it is not a roundabout of the fun-fair variety. On 5th January this year in reply to my question the Honourable Director of Public Works said the Aldridge Bay scheme would be very expensive for the amount of sheltered anchorage provided. He added that once the estimate was available, the proposal to build a typhoon shelter would be critically examined, balancing the need for more sheltered anchorages in the harbour against the capital cost of providing it. What are we weighing? Can we survive without a functional port—without a lighter fleet? In 1874 one of the worst typhoon occurred causing 5,000 loss of life; public opinion demanded that Government take action and Causeway Bay typhoon shelter was opened in 1880. Two further severe typhoons came in 1900 and in 1906 and in the latter case the death roll was over 10,000. Hundreds of vessels and local craft were destroyed. Our second shelter was completed at Yau Ma Tei in 1915.

The value of our trade handled in the port has increased by 50% during the last four years: our lighter fleet increased by the same proportion in the last six years. Our typhoon shelter capacity remains static. I confess I feel most uneasy about whether anything is really being done. The Financial Secretary, has done nothing to allay my concern and I refer in particular to his remarks about pruning the Public Works programme. He said that with the postponement of a very few less essential engineering works and by excluding one or two exceptional items, the target (that is the expenditure target) could be achieved. Has anyone thought what a catastrophe it would be if our lighters and ferries were wrecked in one typhoon? No amount of insurance would put it right. The island without trams or buses would be child's play by comparison. It is immaterial whether we go for Aldridge Bay, Stonecutters or elsewhere within the harbour limits but the fact remains our whole economy will suffer if the port is bottled up in a bad typhoon summer. Accordingly I request top priority for an immediate and realistic construction programme and legislative powers for the Director of Marine to clear typhoon shelters of squatters and prevent new squatters entering.

Before the crucial battle at Alamein in 1942—the turning point of World War II—Montgomery, the 8th Army Commander on arrival in

the Western Desert insisted on first *training* his officers before attacking Rommell.

I am sure we are all only too well aware of the urgent need to *train* our expanding manpower. *Training* is needed in any community with a large young population who will be required to take on responsibilities of junior and middle management only too soon. An education bears its fruits academically or technically but not necessarily with qualities of leadership, integrity and self-confidence. It is for these additional benefits that an Exploratory Committee, consisting of several prominent commercial and industrial representatives, is now considering the establishment in the New Territories of an Outward Bound School. The encouraging support from Your Excellency and heads of Government departments including the Police, Fire Brigade, Prisons and Preventive Services confirm that any good wine needs no bush. I would ask that when the Trust Committee is formed and applies for a land grant it will be given maximum sympathetic and financial assistance from Government. Likewise I hope Government will strongly recommend a maximum number of candidates to fill these courses which have proved successful over ten years in Malaya with the support of the Government there. As Your Excellency will know, the Outward Bound Schools have been an outstanding success both in Great Britain and in many other parts of the Commonwealth.

Sir, I have pleasure in supporting the motion before Council.

MR SZETO WAI: —Your Excellency, this being my first Budget speech, I intend to make it as long as possible.

Sir, both in your Review of the Year and in my honourable Friend, the Financial Secretary's Budget Speech, a warning was sounded of the heavy commitments in the implementation of our many plans for public services and facilities and the increasing maintenance and operational charges they entail.

Your Excellency said "As our plans mature, recurrent costs are bound to go up very sharply indeed, and it is no good whatever thinking that complex and advanced facilities can be provided without the money to sustain them". There are, however, priorities in all things. Some facilities would be good to have but we can survive without or make do with provisions short of the ideal. Others are essential to our health and well-being and it is with this in mind that I place before you my appraisal of a few of today's problems, some of which have a considerable bearing on our present economy.

Considerable public interest has been generated recently by the experts' report on the feasibility of erecting a convention centre which has

given impetus to the movement to build such a giant multi-purpose complex, which has the support of my honourable colleague, Mr Ross. My honourable Friend, the Financial Secretary, has stated that industry, commerce and tourism have gone ahead with a vigour which is remarkable in the circumstances of our temporary difficulties. The question is to how far and with what vigour should Government pursue the recommendations of this report?

The building cost of the complex, which is primarily intended as a Convention Centre to accommodate 10,000 people, is estimated by the experts at a cost of HK\$104 million excluding land costs, and we must ask ourselves seriously whether we are justified in bidding for what amounts to the world title in the field of international conventions and whether the prize is really worthwhile.

What is the frequency of international conventions and their sizes that are likely to take place in Hong Kong? Can we afford the operational and maintenance costs of such a complex? These questions merit serious consideration. We must be careful not to saddle the taxpayer with what might very well be a white elephant.

The report predicts annual attendances at international conventions in Hong Kong as 30,000 for the early years and 55,000 for the later period. This I find to be rather optimistic. In the course of last year the ASTA Congress, which was the biggest ever held outside the United States, had about 2,500 delegates; there were 1,600 Lions and Lionesses both foreign and domestic, while the meeting of the International Federation of Asian & Western Pacific Contractors' Association mustered only 460 many of whom were local participants. From 1960-1964, the percentage of the world total of international meetings held in Asia was only 10% of those held in Europe, whose primacy is chiefly due to its natural and historical background, and its many other tourist attractions which Hong Kong cannot match.

The statistics in the report are puzzling in the light of the giant complex proposed. Conferences involving over 3,000 participants are very rare, and no countries in Europe can boast of modern convention facilities for more than 5,000 persons except the City Auditorium in Vienna. The Royal Festival Hall in London accommodates only 3,000 while most of the post-war facilities in West Germany hold less than 2,000. There are huge trade exhibition halls in Paris and Turin but they are unsatisfactory for convention use. Even Vienna with its superb facilities in addition to its other attractions, has not captured the lead in international conventions. The leader in the field is still the City of Light. In the U.S.A., only 2% of the conventions held are international ones, despite the existence of wonderful facilities. In Asia, only 11% of the meetings held in 1964 had an attendance of over 1,000 and

none recorded a participation over 2,500. Finally, the average attendance at over 400 international conventions held throughout the world in 1964 was under 500.

I therefore consider that to attract international conventions of a fair magnitude and frequency, a more realistic project would be of 2-3 times the capacity of the City Hall with space for permanent trade exhibitions, or, say, half the scale of the proposed scheme. A project of this reduced magnitude would be more attainable and its realization would not cause undue strain on our present economy.

In this connexion, I understand that the operating cost for the hiring units in the City Hall for the first three years when their use was more for local functions was about 60% of the revenue, but expenditure shot up considerably last year when we were favoured with the three much publicized conventions mentioned previously. Indications are therefore that popular local use of the facilities should be a determining factor.

There is perhaps a need in the Colony for a large sports hall for mass recreation and entertainment, which may be used for trade exhibitions from time to time. But I do not think such a structure would be suitable for convention purposes; materials which will withstand constant mass public use would not create the atmosphere conducive to international conferences, whose participants will expect facilities more of the City Hall standard than those of a covered Sookonpoo.

We must also consider this project in relation to the Colony's other needs; its building cost alone' would be sufficient to house 100,000 people in flats of the standard of the H.K. Housing Authority or Housing Society. Our industry urgently needs well-equipped technical institutes; this project costs 17 times as much as a technical institute which Government is now planning. The overall cost of Queen Elizabeth Hospital was \$74 million and the new Lai Chi Kok Hospital is estimated to cost \$52 million, only one half the cost of the proposed complex.

Furthermore, it does not seem that the problem of land cost involved in the proposed scheme was given any consideration by the experts as it was presumed that no commercial enterprise would think of such a venture. Even at concessionary rates, the land value of an urban site required for such a huge complex with its attendant circulation areas and parking, say, amounting to 20 acres, would exceed \$150 million. The total cost of the undertaking to Government would therefore exceed \$250 million.

The deployment of our financial resources at the present time with the many pressing needs for housing allied to slum clearance, education, medical care, social welfare as well as other public works calls for the

wisdom of Solomon, and I submit, Sir, that with due respect to my honourable colleague, Solomon, would support my view that \$250 million could well be utilized in a much more prudent fashion.

From the desirable, but nevertheless not absolutely essential Convention Centre, I turn to a problem whose solution is absolutely essential to the well-being of Hong Kong: that of sewage disposal.

Many of our existing sewerage systems in the urban areas are obsolete, often over-loaded and the method of disposal inadequate and almost mediaeval. In many parts of the urban areas, their over-loading and inadequacy are clearly evidenced in constant chokages, sluggish flows, excessive surcharging of man-holes, together with the over-taxing of pumping stations. There are many instances where sewage has been forced willynilly to by-pass into surface water systems. The rapid extension of the urban area, coupled with the great increase of population and the resultant high density housing development, has aggravated a situation which, unless rectified and improved, will pose a serious threat to public health—a threat no less than that formerly posed by the shortage of water.

What I have said about existing sanitary sewerage is also applicable to our surface water drainage systems. Over-loading and inadequacy have been a consequence of the rapid expansion of the urban areas. Flooding and silting of roadways have often occurred in times of heavy rains with consequent damage to road surfacing and obstructions to traffic.

I understand the P.W.D. has had this important problem under review for some time and schemes have been formulated to remedy the situation, but the question is: “What priority will these remedies be accorded?” Some of the schemes are long-term measures which might not be implemented for years to come; whereas others are intended to be effected in the immediate future. While appreciating that improvements to our existing sewerage systems are costly undertakings, I consider the problem of sufficient gravity to be accorded a high degree of priority among the public works projects. But this does not seem to be the case from the Estimates now before us.

The Draft Estimates provide an amount of \$9 million for drainage works of which \$3.7 million is for duplication and improvements to existing sewers in the urban areas. I consider this insufficient as it represents less than 7% of the total estimate of \$54 million for these works which are designated as Phase I remedies. The estimated total cost of both the Phase I and the long-term projects is of the order of some \$137 million, a sizable sum no doubt, but comparatively insignificant when placed alongside such giants as our water supply schemes: such as Shek Pik—\$264 million and Plover Cove—\$540 million. Sir, I

appreciate our heavy commitments in this Budget in housing and water-supply but though the former will continue for many years to make heavy demands on our finances, expenditure on the latter should drop appreciably as the Plover Cove Scheme nears completion. Government should now turn its attention to the equally important projects involving public health and accord them the priority they warrant.

The question of the disposal of sewage and industrial wastes has become increasingly serious in the light of the vast increase of our population, its high density and the great expansion of industrial activities. What was considered adequate 25 years ago when the population was just over half a million, has certainly become inadequate for our present population. Hong Kong is blessed with its harbour and its surrounding waters into which sewage and trade wastes have been, and still are, conveniently discharged. Only three of our sewerage outfalls are extended by marine pipes to some distance off shore; most untreated sewage is discharged through outfalls at the seawalls. Surely this practice cannot be continued in view of the vast daily volume of effluent both domestic and industrial, without incurring the danger of water pollution.

Sir, our marine inheritance is our greatest asset; we must do our best, and with all speed, to live up to our name of "Fragrant Harbour".

From problems of water pollution, my thoughts turn to conditions created by smoke from chimneys and exhaust fumes from motor vehicles which are causing numerous complaints because of the nuisance and its harmful effects on properties and health. I am glad that my honourable Friend, Mr Ross, shares the same view with me this time. In the Colony's older industrial areas like Shum Shui Po, there are factories operated in premises not designed for such use and often with improperly constructed flues which emit dark smoke, grit, dust and soot. This is clearly an offence under the Clean Air Act. This offence is not limited to factory plants but is also committed by restaurants operated in unsuitable rented premises. The situation is aggravated by the numerous recently built, tall domestic buildings adjacent to old factory buildings whose operators find it almost impossible to have their chimneys extended to a sufficient height to abate the nuisance.

In this connexion, I am concerned with the siting of the Colony's first incinerator now under construction at Kennedy Town. The decision may have been made purely on economic considerations such as the haulage of refuse and the supply of the plant's waste heat to the Abattoir which is concurrently built next door. But, unless complete combustion is ensured or special air pollution control equipment is included, the dense population in the many high-rise buildings on the hill-slopes nearby will be affected.

The emission of exhaust fumes from vehicles especially those propelled by diesel fuel, has become increasingly serious in recent years.

Hong Kong's hilly topography tends to increase the emission of fumes from badly maintained vehicles and the harmful exhausts are often imprisoned by the surrounding hills and narrow canyon-like streets. The air we are breathing is being made unhealthy and even lethal gradually, and the situation will worsen as the intensity of motor traffic increases. The time has come when this health hazard must be given serious consideration by Government. There should be a close watch on emission of smoke or dust from industrial plants, large or small, obsolete or modern and excessive exhaust fumes from motor vehicles. It may be relevant for me to say that measures to outlaw excessive exhaust fumes from vehicles are enforced in many cities in the U.S.A., and that only very recently there has been a move in the United Kingdom to introduce new legislation to suppress this health hazard.

This leads me to a consideration of our traffic problems, which is a hobby-horse that my honourable Friend, Mr WATSON, has ridden most ably over the years. Sir, in recent years the problems of housing, traffic and public transport have occupied the minds of the people. Government has made tremendous efforts in accelerating the production of housing by the creation of new areas and new towns which have made possible dispersal of our fast expanding industry. In the sphere of traffic and transportation, Passenger Transport Surveys are being conducted; consultants are engaged to study the feasibility of Mass Rapid Transit Systems in our urban areas and in the new towns as well as the linking of these units.

The cross harbour vehicular tunnel will soon be put into construction; so will the improved systems of road networks on both sides of the harbour in anticipation of the tunnel's opening. All these forward planning activities are directed at the creation of conditions in which our expanding economy can thrive.

Your Excellency has stressed that we shall have to give greater consideration to communications. No doubt, the vast intricate road networks will make heavy claims on our resources in the next few years. The major road projects will cost over \$85 million not including the tunnel approaches at Kowloon, whose cost is still unknown.

These improvements will benefit the Colony as a whole but will especially improve the lot of our motoring population; in view of the fact that the motorists will have to pay more for their motoring in the future, I only hope that they will feel some of the money being collected from them is being put to good use. In this connexion, my honourable Friend, the Financial Secretary, appears to have been guilty of one of his rare excursions into the illogical in saying in one breath that increased fuel charges will go not into road works, traffic controls and such services, but into general revenue, and then in another charging motorists for traffic aids, traffic controls by an increase in car licensing fees. His

reference to history is surely anachronistic. Hong Kong in 1930 was only a dreamy slow-moving Colony of half-a-million people with very few automobiles. Rickshaws and sedan chairs were popular means of transport; whereas today it is a modern bustling crowded city of 4 million people and 100,000 cars, and the mention of flyovers and interchanges has become commonplace in our daily conversation.

Sir, since 1961 there has been a lack of government policy with regard to public car parks for private cars and, as a result, no government car parks have been planned since, except that proposed to be built under the Southorn Playground at Wan Chai. However, even the planning of this was suspended in 1963. Planning of the two car parks proposed behind the Roxy Theatre and at Yau Ma Tei has also been suspended.

This lack of government policy has now resulted in a deficiency of over 300 parking spaces in the Central District which will increase to almost 3,000 by 1970 when the cross-harbour tunnel should be completed. However, this Public Works Department estimate was based on a 12% simple yearly vehicle growth while the actual growth in recent years was 13% compound. With improvement in roads and parking, rapid progress in automobile design, rising living standard and the desire for private mobility both as a convenience and a status symbol, this forecast I am afraid is likely to be an underestimate.

Also the above deficiency relates to the Central District only. What of the other densely populated commercial/residential areas which generate an acute need for parking? It must be realized that multi-storey car parks require years to plan and build. Which is to come first, the cross harbour tunnel, or a solution to meet the serious situation which will arise in 1970?

My honourable Friend, the Financial Secretary, has advocated the principle of "pay for what you get" for public services and has also stressed the fiscal importance of ensuring that such public services are self-supporting. I do not smell any element of profit-making in this and therefore assume that it is the actual cost of the land due to site formation, reclamation, etc. which is to be taken into account in costing these services and not its commercial value. If actual subsidization is reflected in the \$2½ million loss last year in car park operation, then I consider it equitable to raise the level of existing charges, but not otherwise. I think that consideration should be given to the part that private cars play and have played in the commercial and economic life of the Colony, and the fact that Government now has almost an embarrassment of riches with regard to land. Differential charges for commuter areas and commercial/residential areas should also be introduced; civil servants should not be given preferential treatment under the pretext of maintaining administrative efficiency.

The commercial development of car parks will not take place unless certain concessions are granted to the developers. Therefore, I would propose that a certain degree of aid be afforded for land for car park purposes as was done for land for industrial use for which premiums may be paid by instalments. In the main commuter areas where land costs must necessarily be high, it will be unrealistic to expect private interests to operate public car parks; therefore, this provision must remain with Government and a reasonable view must be exercised in assessing the economics.

I am satisfied that provision for adequate car parks will be made by Government in the Central District to cater for its needs when the tunnel is open. But what about Wan Chai and Causeway Bay which are not considered as main commuter areas? If car parking facilities here are left to commercial enterprises, then their realization will be remote indeed. The reason that the underground car park proposed for Southorn Playground was suspended was due to high construction costs and the fact that it is not in the main commuter area. This is a congested district where the parking need is great, and the reprovisioning of the existing playground on the roof of the car park would eliminate the land element cost. This would help to offset the high cost of construction. Provision may have been made in the planning of the new reclamation at Wan Chai for a multi-storey car park, but the area will be separated from the existing crowded district by Gloucester Road which will be a limited-access throughway to the tunnel. I do not therefore consider this a satisfactory alternative to the Southorn Playground Scheme.

Similarly, in Kowloon the southern part of the Peninsula is receiving adequate provision with the existing car park in Middle Road, the New Ocean Terminal car park and other sites planned for this purpose at the Hung Hom Reclamation. By contrast, the Yau Ma Tei and Mong Kok districts will not see such facilities even in the distant future. With the near completion of the new Central Post Office Building at the junction of Nathan Road and Gascoigne Road and the Health Centre now under construction, it would be prudent to expedite the construction of the car park planned over ten years ago for the Yau Ma Tei Civic Centre of which these two buildings form a part.

All this points to the urgent need for a clear-cut Government policy on public car parking. The situation is deteriorating around us and we must take steps to alleviate these conditions without delay.

Sir, the disappointing result of land sales last year has shattered the hopes of my honourable Friend, the Financial Secretary, of a handsome revenue from that direction. It is hoped that the lesson of over-extension has been learned and optimism is slowly reviving. However, notwithstanding my plea for early provisions of car parks, I would urge that the sale of the old Dockyard land for piecemeal development should be held

up until the result of the Consultants' study on the Colony's Mass Transit Systems is known. The Consultants have recently stressed that no matter what form the Mass Transit Systems will take in our two urban areas, they must be linked across the water by a tunnel, and underground transitional terminals on both sides will be required to link up the Systems. Consideration is now being given to the old Dockyard land and Whitfield Barracks sites for this purpose, but it is unlikely that any decision in this respect will be possible in less than two years' time. I would therefore suggest that in the meantime the old Dockyard area be tidied up and all disused derelict structures be removed. The land could then be turned partly into a temporary paved car park, from which a small revenue may be realized. I am aware that the construction of the Garden Road Flyover Complex may require work space here, but I hope my honourable Friend, the Director of Public Works, will also find sufficient space to be laid out, turfed and paved to serve as a temporary sitting-out landscaped area for the public. The amenities and planting provided may be removed and transplanted elsewhere when the area is finally required for development and in the interval the area will be rejuvenated, and a pleasant environment created for the people.

Sir, I agree with my honourable Friend, the Financial Secretary, that we cannot spend our way out of depression, but equally we must not sit back and preach a doctrine of gloom, a thesis which my honourable Friend also supports. Investigation, planning and even the preparation of plans for our public services do not imply that a project will definitely be built, and the recent measure introduced to vet a scheme immediately prior to the calling for tenders ensures a last-minute review of our needs and our economy. My main plea, therefore, is that our needs and the plans which will effect their realization must not be allowed to lapse in the way that the parking policy of erecting two multi-storey car parks each year was allowed to lapse.

I shall now turn for a moment to the new taxation proposals. I do not consider them wholly equitable. A little more stress could well have been applied to tobacco and this would either improve our revenue or our health. A less benevolent attitude towards liquor would also have met with almost universal approval. This Colony probably has more cocktail parties per square mile than anywhere in the world, and a rather more sober view of this influential commodity would affect only a very small section of the Community and would not lower unduly the manifestation of spirit. I am fully aware that the present levy on liquor cannot be considered low, but the resultant prices are still among the lowest in the world. However, it is the raising of the Salaries Tax that causes me the greatest concern as it will bit the middle income man particularly hard in view of the fact that he is also likely to be affected by the increase on fuel tax, motor licensing and parking fees.

I see that the increases in Salaries Tax and Profit Tax are expected to produce an additional revenue of \$56 million next year. Could not the same sum have been obtained by a lesser increase in the former and a slightly heavier burden on the latter? It must not be forgotten that in Hong Kong less than 1% of the total population pay Salaries Tax, and it seems unfair to place the main burden of raising additional revenue on them.

My honourable Friend, the Financial Secretary, has said that the cost of providing public services is very high in Hong Kong per unit of service provided and also that the staffing costs of our public services are disproportionately high in relation to our means. This appears to imply that our public services are either over-staffed or that the staff are over-paid, or a combination of both. The provision for next year's personal emoluments amounts to \$618 million which is a third of the total estimated expenditure of \$1,878 million or 48% of the total estimated expenditure less public works non-recurrent spending. This amount is almost twice the civil service costs in 1961 though the establishment has since been increased by one third. Surely this is a considerable sum in relation to our means and the question is whether our economy can afford it especially in the light of the deficits forecast for the immediate future years. The estimated increase in revenue next year is \$90 million based on existing taxation rates, but 85% of this will be swallowed up by the increase in personal emoluments alone. However, if the recommendations of the Salaries Commission were finally to be accepted despite the inconsistency of some of its economic doctrine related to our present conditions, then the prudent thing will be for us to keep down the growth of our Civil Services to essential requirements. On one hand it is encouraging to learn that the authorized increase in establishment for 1966-67 is the smallest annual increase in the last 10 years, but, on the other hand, it is regrettable that many Heads of Departments have not co-operated with the Establishment Sub-Committee in producing manning scales or manning reviews to check the efficiency and proper economy of the working of their Departments. In this connexion, I would urge my colleagues on the Sub-Committee to exercise strict controls and keep a vigilant watch on all requests for additional posts in order to ensure that this example of Parkinson's Law will not be turned into a manifestation of Parkinson's Disease.

Notwithstanding the above reservations, I consider increase in taxation necessary if we are to meet our large expenditure next year, almost a third of which is for the implementation of our plans for housing, water-supply and roadwork which are all essential to the well-being of our Community.

Sir, I therefore support the motion before Council.

MR WILFRED S. B. WONG: —Your Excellency, this is my first Budget speech and it will be the shortest speech.

Owing to the importance of my honourable Friend the Financial Secretary's Budget, may I concentrate on its financial aspects and economic consequences.

The Financial Secretary's Budget did not catch the Colony unaware but it was received with mixed feelings. Just as an optimist would say that half a glass of water is half full and a pessimist would say it is half empty, so some people regarded the tax increase proposal in the budget as appropriate and timely and others considered it as inopportune and unnecessary.

Let us therefore make a solemn and searching inquiry into the virtues and drawbacks of the budget from the fiscal and the public finance points of view.

I may say that the part of the budget which should be opened to debate is the direct taxation and not the indirect taxation part. Almost everyone agrees on the necessity for an increase of taxation on tobacco, motor spirit and licence fees except the man who, having heard the Financial Secretary speak on television, stopped smoking.

In the past, the Financial Secretary has not only succeeded in balancing the budget but also produced surpluses. The Financial Secretary is to be congratulated in that he, in the classic fashion of Sir Stafford Cripps, will balance the budget and probably to the extent of a tolerance of plus or minus one percent.

The Financial Secretary, after an admirable discourse and careful deliberation, proposes a total increase in taxation of \$90 million of which he expects to raise \$34 million by indirect taxation and \$56 million by direct taxation.

Let us see whether the increase in the earnings and profits tax which is to be increased from 12½% to 15%, amounting to 56 million dollars, is desirable from the fiscal point of view or necessary from the public finance point of view.

Let us examine some of the background of the Hong Kong finances. First of all, it is to be noted that the surpluses for the Hong Kong Government over the past five years are: —

1960-1961	...	...	\$ 13,900,000.
1961-1962	...	...	\$ 77,200,000.
1962-1963	...	...	\$139,800,000.
1963-1964	...	...	\$ 98,500,000.
1964-1965	...	...	\$ 77,800,000.

In other words, Hong Kong Government has been deep in the "black" all these years and many more years before with one exception. In fact, the Hong Kong Government is the most solvent Government in the world. In addition to the past performances, the total reserves of the Colony at the end of this financial year is \$1,201,000,000. The sterling investments stood at £ 31,304,996. as of March 31st, 1965.

On the capital revenue side, although the revised estimate has been reduced to \$102,000,000 from the original \$190,000,000, it is to be remembered that Hong Kong, unlike other developed cities, does have a reserve of Crown land, the proceeds of the sale of which the Financial Secretary has habitually credited to revenue. This clearly establishes the fact that by refraining from the sales of Crown lands as a matter of temporary policy, it has preserved the capital assets in land, the value of which has not been recorded in our books. This is our fundamental position in finance.

My honourable Friend, Mr S. S. GORDON, I believe, hit the nail on the head yesterday by first quoting the Honourable Financial Secretary, "the true revised deficit for 1965-66 is \$122 million." He went on to say, "I would mention in passing that the shortfall in land sales exceeds this figure by \$4 million. As we still have the land for sale at a later date it seems to me that our so-called deficit is at worst represented by a fixed asset; as Government trades in land it could even be argued that this is a current asset so that there is no real deficit."

On the other band, we have to remind ourselves that Hong Kong's economic prosperity is due to two economic factors: (1) a free port with free trade; and (2) the lowest direct taxation at 12½%.

The effect of the increase of the 2½%, tax may have the following adverse reactions: —

- (1) The impression that the increase of 2½% will foreshadow another increase in future years. This is a disturbance of the stability theory of prices and taxes propounded by certain economists. A parallel may be drawn in the opposite direction by the fact that, even when the 15% surcharge in the U.K. was reduced to 10%, the reaction lingered that it would soon be moved again. This caused waiting, which demoralized trade.
- (2) It discourages foreign investments because even though Hong Kong still has the lowest tax in the world with earnings and profits tax at 15%, a number of overseas investors will think twice before they remit their money to Hong Kong. Certain investments are now on the borderline, and this increased tax would make a difference coupled with the fear that it might be increased again in future years.

- (3) An increase in taxation has been described by someone in the Press as a move which kills the goose that lays the golden egg. In this instance, if the goose is not killed it has, at least, been injected with sufficient drugs to reduce the production of eggs.

Now let us see what are the financial alternatives. Since we are dealing with a possible shortage of \$56,000,000, which is a matter of 3.6% of the budget, it appears to me that a Treasury Bill or Bond Issue of \$60,000,000, yielding 6% or 7% could be subscribed and snapped up within a few days. It is also to be noted that deposits in banks have reached an all time high of \$7,250 million at the end of 1965.

Our Financial Secretary will no doubt say that this would be borrowing money and that we would be mortgaging the present for the future. This would no doubt be true when such a financial policy is applied to a commercial firm. But in public finance, because of the social responsibility involved, the question may be posed as to whether there is a Government of a civilized country today which does not mortgage to some extent the present for the future? If there is, it might not be insuring the welfare which is due the people or carrying out its social responsibility to the present generation.

It may be noted that Hong Kong with a public debt of \$82,527,600. as of March 31st 1965, probably has the lowest public debt amongst the large nations of the world, of \$22 per head of population.

One of the ways of discharging our social responsibilities is *through Public Housing*. I have noted that the Housing Authority Estimates remain at \$20 million for the next five years without increase. The Resettlement Estimates show an increase from \$120 million to \$176 million and thereafter remain at \$200 million for the next three years. In the low-cost Housing Estimates there is an increase from \$25,000,000 to \$40,000,000 and thereafter they remain at \$50 million for the next three years. I have agreed on the principle of leaving the higher class flats to developers. I now agree on the levelling-off of the Resettlement Estimates budget. Emphasis however should be placed on low-cost housing for those earning below \$500 a month. This is what I have stressed in my recent speech at the Housing Authority.

It is to be noted that the majority of the Housing Authority is in favour of moving the income group qualifying for low-cost housing from \$400 to \$500 per month. Owing to the rising cost of living the raising of the income group would no doubt cover a larger percentage of families; this increase is estimated at 30%.

Consequently, the same rate of increase should be applied to the budget as listed in Appendix "E" of "The 5 years Forecast of Revenue and Expenditure, 1965-66 - 1969-70". The capital expenditure for low-cost

housing of 1965-67 should therefore be \$52 million and for the years 1967 to 1970 the expenditure should be \$65 million each year instead of \$50 million.

If more provisions were made for public housing such as those proposed for low-cost housing, I would be more inclined to vote for the budget.

Another most significant point is that the present earnings and profits tax has not been fully implemented. The tax in Hong Kong on earnings and profits is largely shouldered by a small group of responsible people. To substantiate my statement, for the financial year 1964-65 the number of people who paid Salaries Tax is 28,729 only, this represents roughly .75 of 1% of our population. Surely the principle of equity would call for a greater spread of the tax burden. Surely a serious effort should be made to collect the taxes which are due to Government without first increasing the tax. Similarly the number of cases chargeable to Profits Tax in the financial year 1964-65 is only 27,488.

There is a large section of the community who neither employ a chartered accountant for their company nor fill in their income tax forms. These are the people who escape taxation. They constitute the group who enjoy the privileges of Hong Kong without assuming any responsibility.

If the Inland Revenue Department could be enlarged sufficiently to implement our existing tax, I do not believe that there would be any necessity for increasing the tax rate at the present time. I believe this would be a judicious step to take and would, furthermore, pay for itself.

At this stage I do not wish it to be construed that I am not in favour of higher taxes if the economic situation so justifies it.

At the present moment, I think that with the all time high record deposits in the banks, a policy should be established to create a better psychological climate and to attract money to commerce and industry for more adequate performance of the economy, internal as well as external, through an amelioration of the sluggishness of the capital market.

Furthermore, I believe if the earnings and profits tax were not increased, the yield from the 1966 tax might be considerably more than estimated.

In fact, I am fairly confident that even without an increase in direct taxation the deficit will probably be smaller than estimated and I sincerely hope that the Financial Secretary will reconsider his proposal regarding the direct taxation part of his budget.

I believe that the economic effects of this increase would retard the recovery in the rate of internal exchange of goods and services within the Colony. The increase is not necessary because the deficit could be easily covered by a small bond issue which would satisfy the fiscal needs without the possible negative effects of this particular increase at this particular time.

Furthermore, I believe, with the proper implementation of the present tax to cover all sections of the community rather than a selected one, the yield from the present tax would be considerable.

In the last analysis, I come to the conclusion that, while the 2½% increase is desirable from the purely fiscal point of view, it is not necessary from the economic or public finance point of view.

I am aware that my honourable Friend, the Financial Secretary, must have reached the decision on tax increase in direct taxation with great reluctance. However, I assure him that should a miracle occur within the next fortnight and that he experiences a slight change of direction in economic theory, he will not be totally lacking in support. At the present moment, while expressing my great admiration for his masterly presentation and with due respect to the Honourable Financial Secretary, Sir, I regret that I am unable to vote for the whole motion as it now stands before this Council.

NEXT MEETING

THE COLONIAL SECRETARY: —Sir, I beg to move that the debate on the resolution before the Council be adjourned until the next sitting of this Council.

THE FINANCIAL SECRETARY seconded.

The question was put and agreed to.

HIS EXCELLENCY THE GOVERNOR: —The debate is accordingly adjourned. Council will next meet at 2.30 p.m. on Thursday, 24th March.