

19th June, 1930.

PRESENT:—

HIS EXCELLENCY THE GOVERNOR (SIR WILLIAM PEEL, K.B.E., C.M.G.).

THE HON. THE OFFICER COMMANDING THE TROOPS (COLONEL W. D. S. BROWNRIGG, D.S.O.).

THE COLONIAL SECRETARY (HON. MR. W. T. SOUTHORN, C.M.G.).

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

THE SECRETARY FOR CHINESE AFFAIRS (HON. MR. E. R. HALLIFAX, C.M.G., C.B.E.).

THE COLONIAL TREASURER (HON. MR. C. McI. MESSER, O.B.E.).

HON. MR. H. T. CREASY, C.B.E. (Director of Public Works).

HON. MR. E. D. C. WOLFE, C.M.G. (Inspector General of Police).

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

HON. DR. A. R. WELLINGTON (Director of Medical and Sanitary Services).

HON. SIR SHOU-SON CHOW, K.T.

HON. MR. J. OWEN HUGHES.

HON. MR. C. G. S. MACKIE.

HON. MR. R. H. KOTEWALL, C.M.G., LL.D.

HON. MR. S. W. TS'O, O.B.E., LL.D.

HON. MR. J. J. PATERSON.

HON. MR. A. F. B. SILVA-NETTO.

HON. MR. PAUL LAUDER.

MR. N. L. SMITH (Deputy Clerk of Councils).

MINUTES.

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

NEW MEMBERS.

The Hon. Officer Commanding the Troops (Colonel W. D. S. Brownrigg, D.S.O.), the Attorney General (Hon. Mr. C. G. Alabaster, K.C., O.B.E.), Hon. Mr. C. G. S. Mackie, Hon. Mr. J. J. Paterson, Hon. Mr. A. F. B. Silva-Netto and Hon. Mr. Paul Lauder took the oath of allegiance and their seats as members of the Council.

WELCOME TO H.E. THE GOVERNOR.

HON. SIR SHOU-SON CHOW, K.T.—Sir, As this is the first occasion on which you have presided over this Council, I take leave on behalf of my Unofficial colleagues, to tender to Your Excellency our respectful welcome and assurance of our loyal and whole-hearted support in all matters conducive to the best interests of the Colony.

We wish your Excellency good health to enable you to discharge the arduous and responsible duties of your high office to the advantage of the whole community. (Applause).

H.E. THE GOVERNOR.—Sir Shou-son Chow and honourable members, I thank you very sincerely for the warm welcome you have given me through the medium of your Senior Unofficial Member. Had a meeting of this Council been called within a few days of my arrival in the Colony, I should have said that although a stranger to Hong Kong I did not come before you entirely as a stranger.

I had the pleasure of meeting Mr. Southorn a year or two ago during his visit to Malaya. I travelled out nearly 32½ years ago with Mr. Hallifax on our great adventure to the Far East, and I have had the opportunity of discussing with him labour matters as affecting Chinese labour in Malaya since that date. Mr. Messer and I together faced the stern examiners of the Mathematical Tripos 34 years ago at Cambridge, whilst Dr. Wellington and I have been associated over a period of 20 years in health and other matters.

As, however, it has been unnecessary to call a meeting of this Council until to-day, I now feel that I come among you as among old friends. I have had the pleasure of meeting you all and feel we are now well acquainted.

Before I left London the Colonial Office handed me copies of certain proceedings of this Council. I was struck by the simple and businesslike tone which pervaded these proceedings. I admit that I missed the quite friendly ferocity which sometimes characterises the attacks on the Government by the Unofficial members of the Federal

Council of the Federated Malay States, but I sense here, as there, the underlying good relations which exist between the Unofficial members and the Government.

Differences of opinion must, of course, happen at times, and I assure you I will always do my best to find solutions, and in my efforts I know that I shall have the support of you all. If, as perhaps must inevitably happen, it is impossible to reconcile our differences, I feel sure that that fact will in no way impair the happy relations which have existed and do exist between what may be called the Government and the Opposition. (Applause).

PAPERS.

THE COLONIAL SECRETARY, by command of H.E. The Governor, laid on the table the following papers:—

Anglo-Japanese Treaty of Commerce and Navigation of 1911—effective from 7th June, 1930.

Regulation under section 27 of the Arms and Ammunition Ordinance, 1900, on 21st January, 1930.

Bye-law under section 16 of the Public Health and Buildings Ordinance, 1903, on 23rd January, 1930.

The Dangerous Drugs Ordinance, 1923.

Regulations under section 4 of the Dangerous Drugs Ordinance, 1923, on 25th January, 1930.

The Merchant Shipping (Convention) Act, 1914.

Amendment to the China Order in Council, 1925.

Additional Instructions regarding the Precedence of Members of the Legislative Council.

Regulations under section 3 of the Watchmen Ordinance, 1928, on 18th February, 1930.

Regulation under section 3 (1) of the Watchmen Ordinance, 1928, on 18th February, 1930.

Rules governing the award of Certificates of Honour.

Commercial Treaty between Great Britain and Honduras—Denunciation by Honduras.

Declaration under the Merchant Shipping Ordinance, 1899, on 10th March, 1930.

Rule under section 4 (8) of the Merchant Shipping Ordinance, 1899, on 5th March, 1930.

Regulation under section 3 of the Registration of Imports and Exports Ordinance, 1922, on 20th March, 1930.

Appointment under the London Missionary Society Incorporation Ordinance, 1891.

Regulation under section 4 of the Importation and Exportation Ordinance, 1915, on 21st March, 1930.

Regulation under section 3 of the Vehicles and Traffic Regulation Ordinance, 1912, on 5th April, 1930.

Regulations under section 3 of the Industrial Employment of Women, Young Persons and Children Ordinance, 1922, on 17th April, 1930.

Regulation under section 37 (2) of the Merchant Shipping Ordinance, 1899, on 23rd April, 1930.

Declaration under the Merchant Shipping Ordinance, 1899, on 30th April, 1930.

Declaration under the Merchant Shipping Ordinance, 1899, on 6th May, 1930.

Regulation under section 12 of the Female Domestic Service Ordinance, 1923, on 7th May, 1930.

Order under section 7 of the Pharmacy and Poisons Ordinance, 1916, on 8th May, 1930.

Modus Vivendi between Great Britain and Northern Ireland and Turkey.

Article 16 of the General Treaty between Great Britain and North Ireland and the Union of Soviet Socialist Republics.

Regulations under section 39 (8) of the Merchant Shipping Ordinance, 1899, on 10th May, 1930.

Regulation under sections 25 (4) and 33 (2) of the Merchant Shipping Ordinance, 1899, on 30th May, 1930.

Passenger Certificates granted under the Merchant Shipping Ordinance, 1899.

Order under section 2 of the Public Revenue Protection Ordinance, 1927, on 12th June, 1930.

Regulations under section 3 (1) (b) of the Tobacco Ordinance, 1916, on 12th June, 1930.

Regulation under section 3 of the Post Office Ordinance, 1926, on 10th June, 1930.

Regulations under section 3 (2) of the Electricity Supply Ordinance, 1911, on 11th June, 1930.

Report of the Secretary for Chinese Affairs for the year 1929.

Kowloon-Canton Railway annual report for the year 1929.

Report of the Police Magistrates' Courts for the year 1929.

Report of the Land Officer for the year 1929.

Report of the Official Receiver and Registrar of Trade Marks and Letters Patent for the year 1929.

Report of the Registrar of the Supreme Court for the year 1929.

Report on the Finance for the year 1929.

Report of the Superintendent of Prisons for the year 1929.

Report of the Director of the Royal Observatory, Hong Kong, for the year 1929.

Report of the Botanical and Forestry Department for the year 1929.

Report of the Harbour Master for the year 1929.

Report of the General Post Office, Hong Kong, for the year 1929.

Report of the Director of Education for the year 1929.

Financial Returns for the year 1929.

Report on the Assessment for the year 1930-1931.

Report of the Superintendent of Imports and Exports for the year 1929.

Report of the Director of Public Works for the year 1929.

Jurors List for 1930 (Sessional Paper No. 1 of 1930).

Report of the Playing Fields Committee (Sessional Paper No. 2 of 1930).

Correspondence relating to the Salaries Commission, 1928, (Sessional Paper No. 3 of 1930).

Information collected from Bangkok, Colombo, Manila, Saigon, Shanghai and Singapore in the matter of the charge made for water and the steps taken to check wastage of water (Sessional Paper No. 4 of 1930).

QUESTIONS.

HON. MR. R. H. KOTEWALL asked:—

1.—Will the Government give the following information concerning Juvenile Offenders in respect of the year 1929:

- (a) The number of boys and the number of girls, both under the age of 16 years (European reckoning), who were brought before the Magistrates.
- (b) The respective numbers of such boys and girls who were convicted, with a classification showing—
 - (1) the number sent to prison;
 - (2) the number of previous convictions;
 - (3) whether the convictions were for felony or for other offences;
 - (4) in the latter case, the number of convictions under the Hawkers Regulations.
- (c) The number of boys on whom the punishment of whipping was inflicted by order of the Magistrates, showing the number who received such punishment more than once during the period with a classification showing the type of offences for which the punishment was inflicted.

2.—Will the Government also state:

- (a) Whether or not children under the age of 16 years (European reckoning), while being detained at the Police Court or at the Gaol or in the precincts thereof awaiting trial, are so detained in company with adults who are charged with an offence, and who are not the relatives of such children.
- (b) Whether or not such children, on being tried by a Magistrate, are placed in the dock with adult defendants who are not charged jointly with such children.

THE COLONIAL SECRETARY replied:—

1.—(a)	Boys.....	985
	Girls.....	137
(b)	Boys (1)	131
	(2)	172
	(3) & (4) Felonies	268
	Hawking.....	377
	Other offences.....	340
	Girls (1)	5
	(2)	5
	(3) & (4) Felonies	7
	Hawking.....	73
	Other offences.....	57
(c)	433 whippings were inflicted on boys of which 177 were for felonies, 125 for hawking and 131 for other offences.	

There is no record of how many boys received this punishment more than once.

2.—(a) and (b) Yes, except in cases where bail has been found, when the juveniles charged are not detained and, when brought before the Magistrate, are not placed in the dock.

FINANCE COMMITTEE'S REPORTS.

THE COLONIAL SECRETARY, by command of H.E. The Governor, laid upon the table the reports of the Finance Committee, Nos. 2, 3, 4, 5 and 6, of 13th February, 13th March, 10th April, 15th May and 22nd May, 1930, respectively, and moved that they be adopted.

THE COLONIAL TREASURER seconded and this was agreed to.

MOTIONS.

THE COLONIAL SECRETARY.—Sir, The next three motions standing in my name are of a more or less formal character. The three works referred to have all received the approval of the Council but it is necessary to obtain formal sanction of the Legislature for the exact allocation of the funds. With the permission of the Council I should like to speak on all three motions now as they are similar in character.

As regards the Aberdeen Water Scheme, the Council voted a sum of \$555,000 for the expenditure of 1929 and \$1,000,000 for expenditure in 1930. Actually the work proceeded a little faster than was expected and the amount required for expenditure of 1929 is \$596,188.32.

A vote for the excess of \$41,188.32 is asked for.

With regard to the second motion on the Shing Mun Valley Scheme work proceeded more slowly than was expected. Consequently the vote for 1929 more than covered the expenditure but the vote for 1930 requires adjustment. The Council voted for 1930 \$95,849.39 from Loan Funds and \$579,150.61 from Surplus Balances. But owing to the slower progress of the work we have \$709,772.12 available on loan funds instead of only \$95,849.39 and it will be unnecessary to call on our Surplus Balances until the loan funds are exhausted. The Government is therefore asking the Council to approve of the expenditure of the further sum of \$613,922.73 from loan funds during 1930—this being the difference between the \$95,849.39 voted and the \$709,772.12 available. A sum has already been voted from Surplus Balances for the estimated expenditure beyond that covered by Loan Funds.

The third motion deals with the Aerodrome, and is due to a small saving on the Harbour works. The Harbour Development and the Aerodrome were connected works, the dredged material being used as filling for the Aerodrome and \$1,500,000 was allocated from the loan for the combined works. When the vote was taken last year the amounts respectively allocated from loan funds were \$419,771.26 for Harbour Development and \$1,080,228.74 for Kai Tak Aerodrome. The Harbour work was, however, completed for \$416,729.68 leaving a balance of \$3,041.58 available for the Aerodrome. The resolution I am about to move asks for your sanction to transfer this amount to the credit of Aerodrome Funds and your approval of its expenditure in 1929.

I now, Sir, move:—

"That with reference to the Colonial Secretary's motion of 2nd May, 1929, this Council approves the expenditure during 1929 of a further sum of \$41,188.32 on the Aberdeen Water Scheme, this sum to be charged as an advance from the surplus balances of the funds of the Colony pending the raising of a further loan."

THE COLONIAL TREASURER seconded.

The resolution was carried unanimously.

Shing Mun Scheme.

THE COLONIAL SECRETARY.—I move, Sir,

"That with reference to the Colonial Secretary's motion passed on 23rd September, 1929, this Council approves the expenditure of a further sum of \$613,922.73 from loan funds on the Shing Mung Valley Scheme during the year 1930."

THE COLONIAL TREASURER seconded.

The resolution was carried unanimously.

Kai Tak Aerodrome.

THE COLONIAL SECRETARY.—I move, Sir,

"That with reference to the Colonial Secretary's motion passed on 23rd September, 1929, this Council authorises the further sum of \$3,041.58 to be charged to the Public Works (1927) Loan for the construction of the Kai Tack Aerodrome and further approves the expenditure of this sum during the year 1929."

THE COLONIAL TREASURER seconded.

The resolution was carried unanimously.

SALARIES COMMISSION REPORT.

THE COLONIAL SECRETARY.—Sir, I rise to move the resolution standing in my name, viz:

"That this Council approves the recommendations of the Salaries Commission published in Sessional Paper No. 7 of 1929 as modified by the Governor's Despatch No. 37 of the 22nd January, 1930, and approved by the Secretary of State for the Colonies in his telegram of the 25th March, 1930, published in Sessional Paper No. 3 of 1930, and further modified by the exclusion of the High Cost of Living allowance referred to in paragraph 12 of the Commissioners' report and the rent allowance for dollar salaried officers of less than 10 years' service referred to in paragraph 180 of the report which allowances shall not be provided without further specific sanction of this Council, and accordingly resolves that a sum of \$1,628,917 be charged upon the Revenue and other funds of the Colony in addition to the sums already provided in the Estimates for 1930 for the purpose of carrying into effect as from the 1st of January, 1930, the recommendations so modified."

The Salaries scheme has been before the public for so long and its provisions have been
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I need not detain the Council with any long and detailed description of the scheme.

The last general revision of salaries resulting from the Salaries Commission of 1919 dates from 1920 when salaries here, as in all British Possessions, had to be revised to meet the altered conditions brought about by the war. It is now ten years since that revision and it is, I think, admitted that circumstances have altered greatly in the meantime, one of the chief alterations being the drop in the dollar from 5/6d. in 1920 to 1/3d. in 1930.

The fluctuating dollar is one of the chief difficulties in the calculation of appropriate salaries in Hong Kong and the large firms have, in common with the Government, been obliged to adopt temporary expedients from time to time to meet the difficulty. The Government scheme is set out in the Salaries Report and I need not detail it here. The original scheme worked reasonably well so long as the dollar did not drop below about 2/6d., but when it fell to 2/- the matter became so serious that the Government was faced with repeated requests for a reconsideration of the existing scheme of Government salaries. It was admitted on all sides that the cost of living had risen enormously since 1920, some estimates of the increase being as high as 40%. A temporary remittance privilege had been introduced in 1926 but failed to meet the growing difficulties of the Service, while increasing difficulty was being experienced in recruiting suitable officers for vacant posts. Consequently in April, 1928, the then Governor addressed the Secretary of State asking for a Commission to consider questions of the remuneration of officers generally and seeking approval meanwhile for an exchange compensation scheme to cover fluctuations of the dollar between 2/6d. and 1/9d. I might perhaps remind hon. members that the terms of this despatch were unanimously approved by the Unofficial members of this Council. The Secretary of State approved the temporary exchange compensation scheme subject to review by a Salaries Commission. The compensation scheme was subsequently approved by the Legislative Council, but the dollar refused to halt at 1/9d. and a further extension of the scheme to 1/6d. was approved by the Finance Committee for payment up to June 30th of this year. The dollar, as hon. members know dropped still further and on the present scheme of payment many members of the Government Service are actually receiving less dollars per month than their sterling salary would entitle them to if converted at the current rate of exchange without any exchange compensation privileges whatever. This is a position which the Government cannot view with equanimity and in justice to its servants it feels that action cannot be longer deferred.

In October, 1928, the Salaries Commission was appointed consisting of

Sir Henry Gollan, K.C., C.B.E.

Mr. Paul Lauder.

The Hon. Sir Shou-son Chow, Kt.

I do not think, Sir, that we could have chosen three more suitable Commissioners. The Chief Justice was a man of wide experience in many Colonies with a trained judicial mind, and was eminently qualified to arrive at a well-balanced judgment on the whole subject. Mr. Lauder is the head of one of the largest Insurance Companies operating in the East, with branches scattered all over the world and with a large staff of employees of different nationalities offering problems cognate to those confronting the Government in its salary questions, and there is no one in Hong Kong with a wider knowledge of Chinese problems than my honourable friend, Sir Shou-son Chow.

The Commission reported on August 31st, 1929. Their report was published as Sessional Paper No. 7 of 1929 on September 5th, 1929, and has been in the hands of honourable members and the public ever since.

Hon. members are well aware of the elaborate nature of the enquiries held by the Commissioners and from the personal character and attainments of the Commissioners the Government is fully justified in giving the fullest possible weight to their recommendations. Such an extensive survey naturally contained a mass of detail which it was necessary for the Government to examine before submitting the proposals to the Secretary of State. The result of that examination is set out in the annexure to the Governor's despatch of 22nd January, 1930.

I would at this point observe that at the request of the Unofficial members of the Executive Council the report was in October, 1929, sent to the Hong Kong General Chamber of Commerce and to the Chinese Chamber of Commerce for their observations. The Chinese Chamber replied on the 27th November that it had no observations or representations to make thereon, but in March last it made a further report representing the inadequacy of the increase in remuneration proposed for dollar paid officers. The Hong Kong General Chamber of Commerce did not send in its considered reply till the 14th of February last and as the late Governor naturally wished to communicate his views to the Secretary of State before he left the Colony it was impossible to wait for the views of the Chamber of Commerce. These views, however, were fully considered after their receipt and were sent to the Secretary of State, and the Government undertook to give time for their consideration in the Colonial Office before proceeding with the scheme. The Chamber's views were duly considered by the Secretary of State, who replied on the 26th of May last:

"I have given careful consideration to the criticisms of the Chamber of Commerce Committee, but while I appreciate the force of their argument I regret that I cannot consider them of sufficient weight to require reversal of instructions conveyed in my telegram of the 25th of March."

Subject to the minor amendments already referred to, the Government accepts the report
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a very difficult problem and the report has received the approval of the Secretary of State who has authorized the Government to place it before the Legislative Council and to ask for the provision of the funds necessary to carry it into effect.

But for the fall in the dollar I doubt whether the report would have met with the hostile reception which was accorded to it. With the dollar at 2/- many officers would have received actually a few dollars less per mensem than they were receiving before, but as the dollar fell the prospect of an increase in taxation became less and less attractive to the general public and increased the opposition to what is, in reality, a very fair scheme and indeed a tardy act of justice to a body of hard-working officers who are entitled to just remuneration for their labours. The opposition to the scheme may, I think, be classified under two heads. The first main criticism is that the salaries recommended are, generally speaking, too high.

Now, Sir, on the general question of the remuneration of sterling paid officers I would venture to quote to the Council certain passages from the very able report published only in April last on the System of Appointment to the Colonial Services. The report is generally known as the "Warren Fisher Report" from the name of the Chairman of the Committee. The Committee says:—

"Modern conditions demands also a generally higher standard of personal, educational and professional qualifications, and in addition the employment of men with scientific and special attainments of a kind not previously to be found in Colonial Service."

On page 15 the Committee, speaking of the remuneration of qualified technical officers, says with reference to Engineers:—

"Apart however from these special observations we do not hesitate to give it as our opinion that any real improvement in the quantity and quality of the fully trained engineering personnel required for the Colonial Services must depend on an improvement in the general rate of emoluments offered. Our evidence shows clearly that in view of the cost and duration of an Engineer's training the inducements offered by the Colonial Services are not adequate."

Again on page 33 the Committee says:—

"Recruitment of the necessary trained staff cannot in our opinion be regarded as sufficient either in quantity or quality. Though this may to some extent be improved by extended missionary work on the part of the recruiting authorities, it is to be borne in mind that the remuneration and opportunities offered in other public appointments and in business is an increasingly important competitive factor and one which must sooner or later call for a generally higher standard of remuneration in many of the Colonial Services."

The report is a public document which any member can obtain at any time.

Some of our critics have admitted that some of the salaries ought to be even higher, and I suggest for the consideration of hon. members that this shows how difficult it is, with inadequate knowledge, to assess the exact salary for any individual post—for in a scheme of this kind the personal qualifications of the holder at the moment must be disregarded.

As regards sterling salaries the Commission had the advantage of comparison with other Colonies, it had knowledge of our difficulties in filling vacant posts, I refer specially to the Cadet Service, to the Medical and Education Departments, and to some of the lower grade sterling posts, and it had considerable information as to what was paid in commercial firms and it based its recommendations on the knowledge it had obtained. As they stand there is no doubt that the salaries range lower than the salaries paid in Malaya and we must accept the position that we cannot afford Malayan scales of salary. How they compare with salaries paid in commercial firms it is very difficult for any-one without full inside knowledge to say, for commercial firms are in the happy position of not having to disclose their rates of salary or the bonuses and commissions which often form so large a part of their employees' remuneration.

It has been said that the salaries are too high at the present time and that the Government service should be prepared to share the present hard times with the mercantile community. There might be something in this argument if the Government servants were in a position to share the advantages of prosperous periods with the mercantile community. But when trade is booming and everyone else is prosperous the Government servant receives no more salary and the only effect on him of the prosperity of others is that he finds the standard of living going up all round him with no additional means to compete with it. Is he then to share the rough with others without being able to share the smooth?

As regards the Dollar salaries there have been two criticisms—one from the General Chamber of Commerce that they are too high and one from the Chinese Chamber of Commerce, which, as I remarked above, after first stating that it had no observations to offer subsequently criticised the dollar salaries as being too low. The criticisms of the Hong Kong General Chamber of Commerce seem to me to suffer in some respects from a failure to grasp the fact that the wages of daily paid labour are not dealt with in the report. The wages of daily paid labour are governed by certain economic laws and there is no sufficient reason to suppose that the recommendations of the Salaries Commission will have any appreciable effect on them.

But in so far as the monthly paid staff is concerned the Commissioners went very carefully into the question of what was an

economic wage for the lowest paid Chinese labourer and I know from personal conversations with Sir Henry Gollan that this particular question is one which caused him the gravest anxiety. He was satisfied that the salaries now being paid are, in many cases, not sufficient to provide a decent living wage and in justice to its minor employees the Government is bound to give full weight to the conclusions of the Commissioners in this matter. Starting from the bottom the Commissioners have worked upwards in an ascending scale and have produced a salary scheme for the dollar paid officers which the Government considers fair and reasonable. It has been urged that this scale is somewhat higher than that in force in mercantile offices, but I have reason to believe that some mercantile offices, pay equally well and offer prizes with which the Government service cannot compete. Taking everything into consideration the Government is satisfied that it ought to pay to its subordinate staff the salaries recommended.

Speaking generally the Chamber of Commerce criticism of the scheme seems to me to be based not on the theory that the recommendations of the Commission would result in the payment of salaries which are too high having regard to the nature of the work done and to the increased cost of living in recent years but rather on the effect which it is alleged will be produced on business firms in the Colony. In the eyes of the Chamber of Commerce the scheme is inexpedient from the point of view of the local employer and that is about as far as the criticism goes.

The other main argument against the scheme is that the Colony cannot afford it, or at any rate that it cannot afford it at the present time. Now, Sir, if the scheme is a fair one, and the Government believes it to be fair, it could only be said that the Colony could not afford it if the Colony was already highly taxed to meet its necessary services. Granted that the scheme is fair, the payment of these salaries becomes a debt of honour which the Colony is bound to meet unless in so doing it should place a crushing burden on the taxpayers. But, Sir, what are the facts? It cannot be denied that the Colony is lightly taxed. The incidence of taxation is admittedly very difficult to calculate, but calculate how they will I defy my hon. friends to prove that Hong Kong is heavily taxed at the present time.

If you take direct taxation, Hong Kong pays yearly about \$7.17 a head, Australia pays £12.19.9d., Canada £6.19.4d. and the United Kingdom £15.2.8d. a head, without counting municipal taxation. If you take direct and indirect taxation together and take Hong Kong's population at only 800,000 Hong Kong pays yearly \$20.7 a head. If you take total Revenue, which includes receipts from land sales, widows and orphans pension contributions and all other items, many of which are not derived from taxation at all, the proportionate revenue per head works out as follows:—

Hong Kong pays \$28.4, the Straits Settlements S.S.\$63 the Federated Malay States S.S. \$72 and Ceylon Rs. 31.5. I firmly believe,

Sir, that Hong Kong is one of the most lightly taxed civilized countries in the world, and if it expects and efficient modern Government it should be prepared to pay for it.

Now, Sir, if my view of Hong Kong taxation is correct my Unofficial friends are estopped from saying that the Colony cannot afford to meet the bill for the Salaries scheme, for there is a large reserve of taxable material at present untouched. The Government is satisfied that the Colony can well afford to meet the additional cost of the scheme, even though it should involve some slight additional taxation.

I turn now to the argument that the Colony cannot afford the scheme at the present time. Nothing would have pleased me better, Sir, than to introduce the scheme when the Colony was in the full flow of prosperity, when trade was booming and when everyone was happy. Admittedly, times are difficult and it has yet to be seen whether, as one school of local thought has predicted, the fall of the dollar will bring renewed prosperity to the Colony. For the moment, the fall of the dollar has brought hardship to many individuals who see their sterling costs going up and the value of their dollar savings dwindling. But if the scheme was necessary when the dollar was at 2/- and the currency crisis had not developed, it is no less necessary now, for on the present system of exchange for sterling salaries some officers are receiving less than the actual dollar equivalent of their sterling salaries, while dollar salaried officers, whose basic salaries were regarded as too low by the Commission with the dollar at 2/- are now feeling the pinch more than ever with the dollar at between 1/3d. and 1/4d. Even if the whole salary scheme were not accepted by this Council, some steps would be necessary to relieve the situation, and I notice on the agenda paper a motion by my hon. friend, Dr. Kotewall who is evidently prepared to offer a compromise with a view to reducing the cost to the Colony. But, Sir, Dr. Kotewall's scheme is in the opinion of the Government fair neither to the sterling-salaried nor to the dollar-salaried officers. The former it leaves in the position I have described above of receiving less than the dollar equivalent of their salaries; to the latter it offers only half of what the Commissioners thought they deserved as long ago as last August. Now, Sir, the Government has a high opinion of the value of its sub-ordinate staff, and it is not prepared to deny to them at the time when their needs are greatest one half of the increase to which the Commissioners considered them to be entitled last year.

But, Sir, the Government is not unmindful of the cost of the whole scheme and of the new factors introduced by the drop in the dollar, and it has, after mature consideration, come to the conclusion that it can reduce the cost of the scheme without undue hardship to the service by eliminating for the present the two charges referred to in my motion, viz., the High Cost of Living Allowances of 15% and 7½% for Sterling Salaried officers and the rent allowance for dollar salaried officers of less than 10 years service. As regards the former,

the salaries scheme took as its basis for calculation a dollar at 2/- and in order to give an officer roughly the same salary in dollars as he was then receiving, it increased his substantive salary by 15% and added a discretionary High Cost of Living Allowance of not more than 15% for married or 7½% for unmarried officers. It appears to the Government that as the cost of living in Hong Kong rises proportionately more slowly than the dollar drops, there comes a point at which the High Cost of Living allowance may scarcely be justified and the actual dollar equivalent of the sterling salary becomes a reasonable emolument without the addition of any High Cost of Living allowance. But this cannot be regarded as a permanent situation. The Commissioners realized that with an unstable exchange there must be a variable factor in the system adopted for the conversion of sterling salaries into dollars and while fixing new substantive salaries it left a variable factor in the High Cost of Living allowance. The point at which this allowance should again become payable, and the sliding scale which ought to be adopted when it does become payable, are matters which the Government is leaving for further consideration. Suffice it to say that for the present the Government is satisfied that it need not be paid and the resultant saving to the exchequer is estimated at \$665,800. The allowance will not be introduced without further reference to this Council.

At the same time the Government is prepared to ask for some sacrifice from the dollar-salaried officers. Hitherto dollar-salaried officers of less than ten years' service have not been entitled to rent allowance. The Commissioners recommended the grant of this concession regardless of length of service. The Government considers that the old rule might for the present remain unchanged without undue hardship and the saving obtained by this modification of the scheme is estimated at \$248,281. The Government is satisfied that with these modifications the scheme is not an undue burden on the Colony even under present conditions, and sees no justification for a further postponement of the scheme.

I come now, Sir to the cost of the scheme, and this of course varies with the rate of the dollar. On the advice of my hon. friend the Colonial Treasurer we have taken 1/6d. as the average rate for the year 1930 and we can only hope that we shall not be proved over-sanguine. No-one can guarantee the future course of the dollar and even since our calculations were made the dollar has dropped still further. Should it remain below 1/6d. there will necessarily be an increase in the cost of the scheme as calculated in dollars but the increase will be fully justified. Taking an average rate of 1/6d. over the whole year and taking the scheme as modified by the two alterations already referred to and by the recommendations embodied in Sir Cecil Clementi's despatch of 22nd January, 1930, and its enclosure, the additional cost over and above the amount voted in the estimates for 1930 is estimated after careful revision of the details at \$1,628,917.

The additional cost of the full scheme with the dollar at 1/6d. is estimated at \$2,542,998. Deducting from this the sums of \$665,800 and \$248,281 referred to above, we arrive at the nett increase of \$1,628,917. This amount includes the sum of \$377,400 which is the estimated cost of continuing the exchange compensation scheme down to 1/6d. It will be remembered that in voting this sum the Finance Committee stipulated that the increased compensation should not be paid beyond June 30th without further reference to the Committee and it may therefore be held to have voted only \$188,700. It has been thought better to include the sum already voted in the total vote for the new scheme but hon. members will of course understand that there will be a saving on the double vote of the amount already voted for the increased exchange compensation allowance.

To meet this additional recurrent charge and to meet the increased cost of sterling commitments owing to the drop of the dollar the Government considers it necessary to increase the revenue of the Colony. The financial position is very fully set out in Sir Cecil Clementi's despatch published in Sessional Paper No. 3 of 1930 and I need not detain this Council by repeating the details which can be more conveniently studied in the Sessional Paper. The Government has given much earnest consideration to the sources from which this additional revenue should be obtained and has taken due notice of the reception accorded to the proposals set out in Sir Cecil Clementi's despatch. I am authorized to say that it has been decided to leave in abeyance the proposal to raise the Assessment Tax, though I must warn hon. members that it may still be necessary to impose some increase later on in order to balance the Budget for 1931 unless the Retrenchment Committee, which my hon. friend, Mr. Owen Hughes will ask for later in the day and which the Government will readily grant, is able to effect such reforms that further taxation can be avoided. The Government, as hon. members are already aware, has increased the tax on tobacco and hopes to derive therefrom \$700,000 in a full year and \$300,000 during the rest of 1930. The postal rates, at present far below those current elsewhere, will be raised from 1st July, whereby the Government hopes to obtain \$100,000 during 1930 and \$228,000 in a full year.

The first reading of an Ordinance to introduce a Petrol Tax will be taken this afternoon, from which the Government hopes to derive a nett revenue of \$275,000 in a full year and \$135,000 during the rest of 1930.

An Ordinance to introduce an Amusement Tax will be brought forward later in the year from which the Government hopes to derive \$300,000 per annum.

These taxes should in a full year produce \$1,500,000 from which Military contribution of 20%, or \$300,000, falls to be deducted, leaving a nett additional revenue of \$1,200,000. Admittedly, this increase of revenue will not be fully available to meet additional

expenditure for the current year, but our revenue has been coming in well during the first half of the year and we are already more than \$750,000 above our estimates for the proportionate period. Expenditure is being carefully watched and if all goes well we may yet find ourselves able to keep within our revenue—and should this prove impossible we are in a strong position as regards our liquid reserves and should be able without difficulty to meet any anticipated deficit on the year's working.

It is, however, important that in a normal year recurrent expenditure should be met from recurrent revenue, and it is for this reason that I have ventured to sound a note of warning as to the possible necessity for raising further revenue by means of the Assessment Rates next year.

I regret, Sir, that my remarks should have been extended to this inordinate length, but the subject is one of vital importance to the good government of this Colony and one which has aroused great public interest. This must be my excuse for delaying the Council so long.

I now move:—

"That this Council approves the recommendations of the Salaries Commission published in Sessional Paper No. 7 of 1929 as modified by the Governor's Despatch No. 37 of the 22nd January, 1930, and approved by the Secretary of State for the Colonies in his telegram of the 25th March, 1930, published in Sessional Paper No. 3 of 1930, and further modified by the exclusion of the High Cost of Living allowance referred to in paragraph 12 of the Commissioners' report and the rent allowance for dollar salaried officers of less than ten years' service referred to in paragraph 180 of the report which allowances shall not be provided without further specific sanction of this Council, and accordingly resolves that a sum of \$1,628,917 be charged upon the Revenue and other funds of the Colony in addition to the sums already provided in the Estimates for 1930 for the purpose of carrying into effect as from 1st of January, 1930, the recommendations so modified."

and I trust that hon. members will feel that the motion is one to which they can give their support. The Government will regard it as a matter of sincere regret should it not receive the unanimous support of the Council in what it regards as an essential act of justice to its employees. (Applause).

THE SECRETARY FOR CHINESE AFFAIRS seconded.

HON. MR. J. OWEN HUGHES.—Sir, Being the senior European Unofficial member present to-day, it falls to me to present to Your Excellency and this Council the considered
v i e w s o f o u r s e l v e s , a n d

also of the members of the Hong Kong General Chamber of Commerce, and large employers of labour in this Colony, on the Salaries Commission Report.

Will you kindly allow me, Sir, first of all to refer to a letter sent to the Hon. Colonial Secretary by the Hon. Mr. Shenton on the 14th May expressing the unanimous request of Unofficial members that he should propose two motions in connection with the question now before us. Mr. Shenton wrote again on the 2nd of this month to ask Your Excellency to accept that letter as a formal notice of motion, and that Unofficial members desired that they be treated as substantive motions, at the same time, informing Government that owing to his impending departure for home these motions would be proposed by me.

As, however, the Government have exercised its prerogative and have adopted the present course of action, it necessitates the first of the two motions referred to being put as an amendment, and I trust Your Excellency will accept it in this form. The amendment therefore is:—

"That in view of the far reaching effect of the Commissioners' Report on employment generally, and the community as a whole, and the large expenditure of money involved, His Excellency the President of this Council be invited to appoint a Committee consisting of Government nominees, representatives of employers and employees and others having a broad knowledge of the conditions of employment in the Colony, to investigate the Report of the Commissioners and make a report thereon for further consideration."

As Your Excellency is doubtless aware, the Committee of the Hong Kong General Chamber of Commerce, very shortly after the Report of the Salaries Commission was received, appointed a special Sub-committee under the Chairmanship of the Hon. Mr. Shenton to consider the Report and obtain the views of the principal employers of this Colony, the others forming this Sub-committee being Mr. M. T. Johnson, then in charge of Messrs. Mackinnon Mackenzie & Co., and Mr. A. Ritchie of Messrs. Lowe, Bingham & Matthews, with Mr. M. F. Key as Secretary.

It was realised that it would be quite impossible to merely put the Report as it stood before the employers so they, as far as they were able to, took the Report to pieces, and recast it into schedules, shewing in separate columns the present position, the recommendations of the Commissioners and the percentages of increase.

The Report, the schedules in question and a covering letter were then placed before the following concerns, for the purpose of obtaining their views:—

- (1) Messrs. Jardine Matheson & Co., Ltd.
- (2) The Indo-China Steam Navigation Co., Ltd.
- (3) The Hong Kong & Kowloon Wharf & Godown Co., Ltd.
- (4) The Hong Kong Tramway Co., Ltd.
- (5) The Asiatic Petroleum Co., Ltd.
- (6) The Hong Kong & Whampoa Dock Co., Ltd.
- (7) Messrs. Mackinnon Mackenzie & Co., Ltd.
- (8) The P. and O. Steamship Co., Ltd.
- (9) The E. and A. Lines.
- (10) The Hong Kong Electric Co., Ltd.
- (11) Messrs. Butterfield & Swire.
- (12) The Taikoo Dockyard and
- (13) The Taikoo Sugar Refinery Co., Ltd.

It might here be stated that the Sub-Committee were considerably surprised to find that none of the executives of the above concerns had been consulted by the Commissioners.

Written statements were received from all, and were found to be unanimous in rejecting the Commissioners' Report, the general consensus of opinion being that the present terms of Government employment are more advantageous than similar employment outside. It must not be assumed by this general statement that there are not considered to be cases where revision is necessary—there are, and probably many, but they must be dealt with as individual cases.

The views expressed were collated in a Report which was passed to the Committee of the Chamber, who after consideration adopted it as the considered view of the Chamber, and the same was in January last sent to the Government.

It should also be stated that the Commission's Report had previously been submitted to a Board appointed to consider labour conditions, who by a majority arrived at the same conclusion as the Hong Kong General Chamber of Commerce.

That, Sir, is a brief history of the progress of the Commissioners' Report, through the hands of the sub-committee, the large employers

of labour and members of the Hong Kong General Chamber of Commerce.

Second only to the labour undertaken by members of the Salaries Commission themselves, in the taking of evidence, in the consideration, and the final presentation of the Report itself, is the vast amount of work undertaken by Mr. Shenton and those associated with him in preparing and presenting the Report, with the various schedules I have referred to, before the Committee of the Chamber and employers, but it has earned for them the gratitude of all, and especially of those who will be adversely affected should the recommendations of the Commission be adopted. Many meetings have been held by Unofficial members, including one meeting with representatives of the Government, members of the Salaries Commission, and with the Committee of the Chamber of Commerce, culminating in a speech by the Hon. Mr. Shenton which, but for his departure on a well-earned holiday, would be delivered by him to Your Excellency and this Council to-day.

With the knowledge and consent of all the Unofficial Members, a copy of the speech and schedules was sent to the Hon. Colonial Secretary and being thus submitted, it would in my opinion be unfair that such an important document, the result of many weeks labour and careful thought, should be left unrecorded. I therefore crave Your Excellency's permission and the indulgence of honourable members to quote freely from that speech, particularly as I am in full agreement with it. I will afterwards submit my own views leaving the seconder of this amendment, the Hon. Mr. Mackie, and other Unofficial colleagues to make their own observations in support.

I have before me a difficult and arduous task—one which I think no one will approach without a feeling of diffidence having regard to the magnitude of the subject, and the interests involved. One has only to scan the pages of the Salaries Report to realise that it covers almost every class of employment in the Colony. To be able to express an authoritative opinion on the emoluments, which should be received by every form of service in Hong Kong, is a knowledge which I personally do not possess, and I very much doubt whether there is any one man qualified. Nevertheless, I think it is possible to get a body of men together consisting of Government representatives, employers, and employees, who could at least do justice to those whose salaries are under consideration, and at the same time effectually guard the other interests and considerations which require protection.

I have no hesitation in saying that to arrive at an equitable and fair decision, not only must the views of the Government service be heard, but the representations of any other interests in the Colony, likely to be affected, and as regards pensions, the

general conditions existing, and likely to exist, in those countries where the recipient concerned is likely to retire to.

One must not be blind to the fact that any increase has to be paid for, that any advantages given must reflect on outside employment, and that the general conditions of trade, past, present and future, call for the most careful investigation.

Before proceeding further, I should like to pay a tribute to the great work of the Commissioners—who have given so much of their time to the study of this difficult matter—they have devoted many weeks to this important subject. The public as a whole, and the Government in particular, must be (and without doubt are) deeply indebted to the members of the Commission for their great service, and for the range of their deliberations, which has given us a comprehensive frame upon which to work, and will assist us very materially in understanding the important problems we are called upon to solve.

In reviewing this matter, we owe a duty to the Colony as a whole, and we should be failing in that duty if we attempted to represent any individual interest, or in any way allowed one section of the community to influence us more than another. Whilst we wish to do justice to the Government service, we must be careful that our recommendations do not cause undue injury to the public, or cast too great a strain on the revenues of this Colony.

The Commissioners were appointed on the 19th October, 1928, and the report in question was delivered some time in the autumn of last year, I cannot give the exact date as the report is not dated.

The terms of reference were four only:

- (1) The adequacy of the present Government Salary Scales.
- (2) The method of conversion of such salaries, when in the Colony, and on leave.
- (3) The principles of acting pay, charge allowances, and overtime.
- (4) Housing, and rent allowance.

I want you to note here, that although the terms of reference specifically refer to leave pay, no mention is made of pensions, and I venture to suggest that pensions are a matter which require separate consideration, and are not necessarily bound up with the amount of salary granted when on active service, but are more concerned with the general circumstances and conditions in the country to which the recipient is likely ultimately to retire.

The question of pensions was not in fact referred to the Commission, although the effect of the report broadly speaking is, that if exchange is in the neighbourhood of 2/-, to confer benefits on sterling employees, in respect of pensions and leave pay only.

I am not suggesting that the present adequacy of pensions is not ripe for enquiry, but that they were, according to my reading, not within the terms of reference, or if they were, that the field covered by the Commissioners was not sufficiently wide.

In considering the Report, there are four broad principles, we should not lose sight of, and which the Commissioners appear to have kept in mind when arriving at the decisions they did:

- (1) That exchange was likely to remain in the neighbourhood of 2/-, because in paragraph 7 of the Report, they say, "the dollar is now a little under 2/- and there is some probability that it will remain in the region of 2/-."
- (2) The recommendation of the second 15% for married officers and 7½% for unmarried officers, being a High Cost of Living allowance, was to be payable either wholly, partly, or not at all, at the discretion of the Government, see paragraph 12 of the Report.
- (3) In fixing sterling salaries they did not intend to give to an officer more dollars than he was then getting, because in paragraph 13 of the Report they say, "we have endeavoured to retain to an officer the number of dollars he is at present drawing."
- (4) That as regards dollar salaried officers, they intended to give them an all round increase of 20% and this is so stated in paragraph 14 of the Report.

Before dealing with the recommendations of the Commissioners, we should consider the position of Government Salaries at the present time.

- (1) Sterling officers are paid on the basis, authorised after the 1919 Salaries Commission had delivered its Report, converted at \$12 to the £, plus an allowance of 2% per penny as the Sterling Exchange drops from 2/6 down to 1/9 in respect of married officers, and 1% for unmarried officers, that is to say, with a maximum of 18% and 9% respectively, which means an increase over the nominal salaries of 34.4% on reconversion in respect of married officers, and 27.2% for unmarried officers, on a 2/- basis.

It should here be noted that since the Commission delivered its report, the Finance Committee were approached

by the Government, and asked to extend the exchange compensation scale down to 1/6, so as to assist them over a period of uncertainty, to which the Finance Committee agreed, but as a temporary measure only, and subject to any decision that might be come to, in reference to the Report. It was not the intention of the Finance Committee to make this permanent, and they were not prepared to treat it even as a High Cost of Living Allowance. They had not then considered the Report, and this decision was a temporary one only, and was not intended to bind them permanently in any way, but merely to assist the Government out of a temporary difficult situation, that had then arisen.

- (2) Dollar officers are paid on the basis authorised after the 1919 Salaries Commission had delivered its Report, and were settled from time to time during the years 1920 and 1921.

It is not possible to give any satisfactory idea of what the increases either sterling or dollar, amounted to, as the information has never been in my hands.

It is I think fair to assume they were on a generous scale. The years 1919, 1920 and 1921, were halcyon years—I think without doubt the most prosperous period in the Colony's history; many of us will remember those days of prosperity, the fat balance sheets, and the overflowing banking accounts. The average rate of exchange for the year 1919 was 3/9.7/16, for 1920 4/3.11/16, and for 1921 2/7.7/16. It was a period when generosity was the order of the day, and it was not until 1923 that this artificial situation subsided, rather more quickly than was pleasant, to be followed by the debacle of 1925.

It is a fair argument I think, that the high rates of exchange which we have enjoyed in past years, have created an unduly and unwarranted high standard of living, and must now be reduced. We must cut our coat according to our cloth.

In 1925 certain rent allowances were granted after 10 years' service.

Let us now consider broadly, what the Commissioners have recommended.

- (1) To sterling officers, the nominal salaries fixed after the 1919 Commission, plus 15%, plus a further 15% as a High Cost of Living Allowance in respect of married officers, and 7¼% for unmarried officers, convertible at the rate of the day, which if granted *in toto* would mean an increase over the nominal salaries of 3 2 ¼ % , i n r e s p e c t

of married officers and say 16% for unmarried officers on 2/- basis.

It should here be noted, that the second 15% and 7½%, *i.e.*, the High Cost of Living Allowance is discretionary in the Government—that is to say it can be given *in toto*, in part, or not at all, if the Government so desires. The Commission recommended that, the first 15% should be taken into account for leave, and pensions, whereas at the present time leave and pensions are calculated on the nominal salary only.

- (2) To dollar officers, a 20% all round increase, on the basis authorised after the 1919 Salaries Commission had delivered its Report.
- (3) The housing provision or rent allowances as at present existing are generally approved; there are, however, certain recommendations in respect of the dollar officers who have not had 10 years' service, and are referred to in paragraph 180 of the Report.

Generally, an officer gets housing accommodation, on the basis of 6% of his salary and 1% for furniture, or an allowance, which in the case of sterling officers works out from \$100 to \$200 per month. The Report of the Commissioners must now be viewed from two aspects.

- (1) The recommendations in respect of the sterling officers, and
- (2) The recommendations in respect of the dollar officers.

As regards (1)—the sterling officers. The exchange has not remained at 2/- but something which was not foreseen by any one has happened—exchange has dropped to the neighbourhood of 1/6, a fall of no less than 25%. The Commission visualised an exchange of about 2/-, and did not intend to give to an officer more dollars than he is already drawing, but on the basis of conversion recommended, he gets the full benefit of the drop, which was not contemplated.

Now, I do not think anyone will argue that the cost of living has risen to anything like the extent the dollar has fallen, in other words an officer will receive under the Report, dollars substantially in excess of any rise in the cost of living, so that the officer will benefit to an extent the Commission did not intend.

Let us now take a concrete case of an officer, who is entitled to a salary of £1,000 per annum.

At the present time on the basis of a 2/- dollar he will receive \$1,120 per month—and with his maximum exchange compensation in, \$1,180 per month—his exchange compensation is worth \$60 per month to him. Under the Report, on the basis of 2/-, he will get \$1,102 per month—in fact he loses \$18 per month, whilst if exchange is 1/6 he will get \$1,469 per month, or an increase of \$289 per month.

It might be fairly argued, that the Commissioners intended to give him \$18 per month less than he is at present drawing, but the drop in exchange will give him a rise of \$289 per month.

If the Report is adopted, less the second 15%, he would get \$1,277 per month, or an increase of \$175 per month.

If I am correct in my submission, that the question of pensions was not within the terms of reference, and should be dealt with in a different manner, then I arrive at the conclusion that for practical purposes, the basis of the Report, as regards sterling officers, has gone, and some very substantially amended formula ought to be adopted.

As regards (2)—the dollar officers. In the first place we do not know what was the actual result of the 1919 Commission, but we are inclined to think it was possibly generous.

On the face of the Report under review, the Commissioners recommend an all round increase of 20% on the results of the 1919 Salaries Commission.

The dollar officers cover a great range of employment, and it is in these classes that the main repercussion will most probably be left on outside employment. It is difficult for me to speak, with any degree of knowledge, as to what is, under all the circumstances, fair and equitable pay for these various classes of employment.

When considering Government salaries, one must bear in mind certain advantages they receive such as pensions, passages for themselves and family, housing or rent allowance, preferential rates for medical service, continuity of employment, safety of employment and protection against arbitrary dismissal.

I will now give some comparisons between the Commissioners' recommendations, present Government salaries, and outside employment.

SCHEDULE.

COMPARATIVE SALARIES & WAGES.

(Approximate Dollars drawn per month excluding House, etc. allowances)

Government Service.

	As Recommended by Salaries Report in toto, on basis of 1/6 exchange	As at present Paid, on basis of 1/6 exchange	Outside Employment for same or equivalent type of post	
	Dollars per month	Dollars per month	Dollars per month	
Medical Officers	894 to 1,507	708 to 1,204	500 to 800	
Public Works Engineers	703 to 1,469	543 to 1,180	389 to 875	
Education Masters (European)	639 to 1,214	501 to 944	400 to 800	
Clerks Senior Classes	767 to 894	590 to 708	400 to 600	
Clerks Middle Classes	225 to 467	183 to 400	125 to 300	
Clerks Junior Classes	40 to 150	37 to 125	25 to 100	
Stenographers	447 to 600	354 to 472	150 to 300	
Works Foremen (Chinese)	112 to 171	100 to 150	120.00	
Draughtsmen Senior Classes (Chinese)	263 to 375	183 to 233	100 to 200	
Draughtsmen Junior Classes (Chinese)	50 to 87	37 to 71	40 to 80	
Wireless Operators (Chinese)	125 to 150	100 to 125	60 to 125	
Storekeepers & Timekeepers	42 to 80	37 to 71	35 to 50	
Office Attendants	16 to 25	12 to 16	13 to 20	
Messengers	13 to 17	11 -	11 to 15	
Coolies—Labouring Classes	14 to 18	13 to 17	15 -	
Watchmen	21 to 29	20 to 24	20 to 25	
Launch Coxswains	{ Majority of Employees }	27 to 37	25 to 35	25 -
Launch Engineers		27 to 37	25 to 35	26 -
Motor Drivers	46 to 54	45 to 50	45 to 50	

Subsequently representatives of the employers, who had been consulted by the Hong Kong General Chamber of Commerce, were afforded an opportunity of meeting the Members of the Commission, but little result was possible, because in the first place, the Report had already been completed and published, and secondly, the Commissioners could only deal with matters within the terms of the reference, but three important aspects of the problem became apparent.

- (2) That they did not take into their consideration the effect of the report on outside employment, or attempt to decide on an economical wage, and
- (3) They were not by the terms of reference called upon to consider how their recommendations should be implemented.

Later, the same employers met the Government, and heard from Government representatives, appointed for the purpose, the general views of the Government on the Report.

The general conclusion to which I am driven is, that in view of the very strong opinion expressed adverse to the Report, the recommendations of the Commissioners require further and wider investigation and consideration on a much more extended basis.

Let us now turn to the cost of the Report to the Colony should we adopt it.

- (a) The present sterling salaries, including exchange compensation, on a basis of exchange at 1/10 which is the basis now budgeted for, will cost \$5,240,034. The present dollar salaries, including rent allowances, will cost \$3,781,173, making a total cost to the Colony of \$9,021,207.
- (b) If the Report is adopted in its entirety the extra cost to the Colony beyond the present Budget figures, of the sterling salaries, will be \$1,579,270, and the dollar salaries \$963,728, making a total extra cost of \$2,542,998.
- (c) If the Report is adopted less the second 15% (High Cost of Living), and less the further rent allowances recommended by the Commission, the cost to the Colony beyond the present Budget figures will be \$2,048,917.
- (d) Should the temporary concession, that is to say exchange compensation down to 1/6, be regarded as a permanent concession and as already granted, then leaving out the second 15% (High Cost of Living), and less the further rent allowances recommended by the Commission, the cost to the Colony will be \$1,671,517.
- (e) The saving on the second 15% (High Cost of Living) would be \$245,800, and on the extra rent allowance recommended \$248,281.

It must be borne in mind that although the figures give, include the cost of pensions, they do not include the cost of the extra Military Contribution, which is on the basis of one-fifth of the revenue, less certain deductions.

Now, how is this money to be found—obviously by new taxation. At once we ask what form will it take?

A rate of 1% brings in \$350,000, it will therefore require 7% on the rates to bring in the required amount, or if it is not decided to increase the rates to that extent, some other form of taxation must be found.

Let us now consider the result of the Report, if it is adopted as it stands. It must in the first place inevitably react on all outside employment—it is only natural if Government servants are given all round increases, outside employment will want similar concessions, and the burden must of course fall on employers. Secondly, who will have to find the money to implement the Report?—largely the big concerns who pay the rates on their extensive buildings and undertakings. The result is, a very large proportion of the burden will fall on the employers.

If employers are called upon to pay more in taxation and increased wages, the cost will inevitably have to be met by reducing the staffs, and the calling for increased efforts from those retained.

I doubt whether anyone in this Colony will argue that the present is a propitious time to cast heavier, and increased financial burdens on our trades and industries.

It might be thought from the arguments I have put forward that the Salaries Commission Report should be scrapped—that is not really my view, for I regard it as an important work, and of considerable value as far as it goes, as it forms the basis for further and more comprehensive consideration; a wider field must be enquired into, and other interests consulted. It would be unthinkable to totally disregard so valuable a document.

I find it impossible to adopt the Report *in toto* as it now stands; in fact I should regard myself wanting in my duty to the Colony, should I support it at the moment in the present circumstances and present form.

Your Excellency, I feel, and I am sure my colleagues also feel, the tremendous responsibility which is imposed on us in having to deal with this subject, and of the diffidence in being called upon to criticize a Report prepared and presented by such distinguished and able men as those composing the Commission.

As for the Report, and bearing in mind how circumscribed are its terms of reference, I imagine there can be little fault to find with it; the Commissioners, without doubt, have discharged the duty they undertook with the utmost fidelity.

At the interview granted to a deputation of members of the Hong Kong General Chamber of Commerce, and large employers of

labour, Sir Henry Gollan, in answer to a question replied that "it is not a question of economics that the Commission had to consider, but the adequacy of salaries."

It is at this point, Sir, that we come to the cross roads.

It is often said that comparisons are odious—that may be true in many cases, but in considering such an important matter as this when so much public money is involved it seems to me that only by obtaining evidence from other employers in the Colony that a fair and just conclusion could possibly be arrived at and in my opinion the terms of reference ought to have been wider in their scope, much of the bitter feeling that now exists would then have been avoided. Surely those who will have eventually to bear the cost have a right to be consulted.

The figures disclosed by the Comparative Table I have just read shews that wages paid by Government at the present time and wages paid in outside employment for the same or similar posts is distinctly in favour of the Civil Servants; I may say those figures were not obtained in any haphazard fashion, they have been supplied by one who has an intimate knowledge of the facts.

Government may retort by saying that employees in commercial firms are insufficiently paid—my answer to that must be a repeat of what I have already read, "We must cut our coat according to our cloth;" business firms are compelled to do so and I fail to see why Government should not do likewise.

If unhappily it should be true that wages paid in this Colony by business firms are too low, do not blame employers for there are abundant reasons in justification, of which the law of supply and demand is partly but by no means entirely responsible.

I can state without fear of contradiction that at no time during my thirty years' residence in this Colony has it been more difficult for commercial firms to balance their books and come out ever so little on the right side than it is to-day, and this applies equally to those engaged in Shipping, Insurance, Imports, Exports, Wholesale and Retail trading, and I must confess I can see no immediate prospects of an improvement.

I received two days ago a copy of a letter addressed to the Government by the Chairman of the Kowloon Residents' Association, expressing the alarm that is felt by members of that Association at the prospect of an increase in the assessment tax.

This letter comes very timely, and without doubt the same feeling exists throughout the Colony—though at the moment it may not be generally realised what the effect of any further increase in taxation will mean to thousands of non-official residents who are already sorely pressed by high rents and increasingly high cost of living.

Government has in the past asked for, and received, valuable advice from the K.R.A. and I do most sincerely trust that Your Excellency will now give a full and sympathetic heed to their request.

Unofficial members and the rest of the Colony owe a debt of gratitude to the Committee of the Association for their appeal to Government.

I can assure your Excellency that it would give me great pleasure to approve without further reference the Commission's Report, were it possible, and were it in my opinion justified, but in all honesty I cannot see how it is possible without inflicting an intolerable hardship on trade and the Colony generally, nor in view of the figures which I have already referred to.

How far my colleagues will approve the manner in which I have expressed my views I do not know, but on this we are of one mind that owing to entirely changed conditions since the Report was presented, a re-survey is absolutely necessary and essential.

Without again going over all the figures I will only remind Your Excellency that in all their consideration and calculations the Commissioners visualised the dollar as remaining in the region of about 2/-; they never contemplated anything approaching 1/6 (the figure to which temporary adjustments have already been granted to sterling salaried people), how much more then is it necessary to review the whole matter with the dollar at 1/3. Will it for one moment be contended that had the Commission been called upon to consider the matter on the basis of these figures they would have arrived at the same conclusions? It is for this reason above all others that I most earnestly beg Your Excellency to give effect to the amendment. (Applause).

HON. MR. C. G. S. MACKIE.—Sir, In support of the amendment proposed by the hon. member representing the Hong Kong General Chamber of Commerce I, as Chairman of the Chamber, wish to endorse the arguments which he, and through him, Mr. Shenton have put forward against the adoption of the Report of the Salaries Commission. The principal business interests in the Colony have clearly shown that the present salaries of both the Sterling and Dollar paid Officers compare favourably with the salaries paid to employees in commercial and industrial concerns. All employers in the Colony have recognized that within the last few years the cost of living has increased and this has been allowed for in the present scale of wages paid, particularly to locally engaged assistants.

The abnormal drop in the value of the dollar is quite another question, but to meet this situation employers generally have granted their Sterling paid employees an exchange compensation to help them out of their difficulties. In the absence of trade this means a severe tax on employers, a strain that some may find it hard to stand. It

is also recognized that if the present low level of exchange continues for a period the cost of living is likely to increase still more. This may necessitate a further adjustment of wages in the case of locally engaged assistants. Any adjustment, however, would be of a temporary nature.

The all round increase of 20% to dollar paid employees recommended by the Salaries Commission is, in the opinion of the business interests in this Colony, quite unjustified.

By the adoption of the Report of the Salaries Commission a heavy burden would be thrown on the tax payers of this Colony and would be reflected by a still further increase in the cost of living. I understand it is not proposed to introduce an increase in the rates now, but this will be necessary in the immediate future if the scale of salaries recommended is brought into force.

Any action of the Government which tends to place an additional hamper on trade at the present time must be viewed with grave concern by all who are dependent on the future prosperity of Hong Kong.

With these remarks I beg to second the amendment proposed by the Hon. Mr. Owen Hughes. (Applause).

HON. MR. J. J. PATERSON.—I would like to register my support to the amendment. As the matter has been very fully dealt with by the proposer and seconder I do not propose to say anything further.

THE COLONIAL SECRETARY.—I have listened with much interest to the able speech of the proposer of this amendment but I am authorised by you, Sir, to say that the Government cannot accept the amendment which my hon. friend, Mr. Owen Hughes, proposes. The reasons for this decision are, I think, set out sufficiently fully in the remarks with which I introduced the substantive motion, and the Government cannot see any sufficient grounds for further delay. It must be remembered that the Salaries Report has been under public discussion since September last. It has been exhaustively considered by a special Committee of the Chamber of Commerce which, as the honourable member pointed out, has consulted, I suppose, every firm of importance in the Colony in one way or another in order to get their views on the Report; and the very full report of that Special Committee, which has been adopted by the Committee of that Chamber, has been examined by the Government and by the Secretary of State. In fact much of the delay which has occurred has been due to the desire of the Government to meet the wishes of the Unofficial members that the scheme should not be proceeded with until the views of the Chamber had been first ascertained and then considered, both locally and by the Secretary of State. Moreover, the Chamber's representatives, with members of the Special Committee, had interviews both with members
o f t h e C o m m i s s i o n

and with representatives of the Government. The recommendations of the Commission have been very fully ventilated in the Press. The full facts are before us and I am at a loss to know what the hon. member hopes to gain from a further Committee on the Report— except delay—and as I said before, the Government sees no sufficient justification for further delay. The matter has been under consideration since early in 1928. The Commission took nearly a year over its work—and another Committee, which my honourable friend was careful to point out was to go in for further and wider investigation and consideration on a much more extended basis, might easily take at any rate as long if not longer—and when its recommendations were received, we might then be asked for yet another Committee because conditions had undergone still further changes, and so we might go on, piling Committee on Committee, till hope deferred had made sick the heart of every Government servant in the Colony. Many of the large firms have already taken action to compensate their employees for the drop in the dollar and it is high time that Government took action in the interests of its dollar as well as its sterling-salaried officers, if it is to retain a reasonably contented service. I was glad to notice the generous tribute in the hon. member's speech to the work of the Commissioners. I associate myself in that tribute, for the Government is satisfied that it had very able Commissioners indeed, and that, whomever it appointed, it would not have been likely to obtain a more equitable report.

I regret that I do not quite follow the hon. member's argument as regards pensions. Pensions are based on salary on a scheme which is more or less uniform throughout the Colonial Services, and any recommendations as to salary necessarily have a reaction on pensions; but the question of pensions was not specifically referred to the Commission and it is not likely that Hong Kong would be permitted to make any radical departure from the general principles on which pensions are calculated throughout the Colonial Services.

The hon. member assumes that the increases in 1919-20-21 were on a generous scale. He admits he has no evidence of this beyond the fact that, to quote his words, "generosity was the order of the day." I deprecate most strongly this attempt to prejudice the minds of hon. members by assumptions supported by so flimsy an excuse. How gratuitous the assumption is can be shown by a reference to the Hansard of 1919. If the Council will allow me I should like to read what one of the Unofficial members of that day said on the 1919 Salaries Revision. I quote from the speech of the Hon. Mr. R. G. Shewan on pages 101 and 102 of the 1919 Hansard:

"There is only one matter which I really meant to refer to. I had the honour of serving on the Civil Service Salaries Commission and I was rather surprised when I returned to the Colony to find that no official announcement had been made on that subject.

As to our recommendations I think I may say without revealing any secrets that we approached the matter determined not to lay ourselves open to any charges of extravagance or over-generosity. We meant to be as economical and conservative of the Colony's money as we could possibly be. But I am bound to say that on enquiry into the matter we found that the case of the Civil Servants for the redress of their grievances was overwhelmingly strong. They have suffered long and silently and stoically from the fluctuations of exchange, from the high rents of houses and from the general increased cost of living in the Colony.

"We examined personally every applicant and in no instance did we recommend any expenditure or any increase that we did not think absolutely justified by the facts. It was a matter of bare justice and nothing more."

But, Sir, we are not dealing now with the question of whether the salaries fixed in 1919/20 were generous at that time. Many of us were not here then and cannot say how they compared with the cost of living in those days. What we have to consider is whether the present salaries and system of payment are fitted to the conditions of to-day.

Again, the hon. member says that owing to the drop of the dollar the sterling paid officer will benefit to an extent the Commission did not intend. On this I join issue with him. The hon. member seems to me to have forgotten the variable factor introduced by the Commission. If I understood the Commissioners correctly they did intend that an officer should receive the full dollar equivalent of his substantive salary, however low the dollar may fall and that adjustment should be made by the variable factor of the High Cost of Living Allowance of 15% or 7½%. The scheme of conversion is not something specially devised for Government servants. I believe I am right in saying that it is in force to-day in at least one very large commercial firm in the Colony.

The hon. member also refers to certain advantages enjoyed by Government servants such as pensions, passages, housing or rent allowances, preferential rates for medical service, continuity of employment, safety of employment and protection against dismissal. Now of these, preferential medical rates have no practical bearing above the lower grades. There is a certain continuity and safety of employment and protection against unjust dismissal, but I doubt if they amount to much as compared with the security enjoyed by any honest hard-working officer in any of the large commercial firms. The Government service cannot be compared with the small business employing a small number of clerks or assistants. It can only be compared with large firms employing large staffs of varied character— and among these it would rank probably as the largest. The hon.

member speaks as though only Government servants enjoyed the privileges he refers to, but which of the large firms has not found it necessary to provide some form of pension or provident fund, some form of medical aid, some scheme of assisted passages and some system of housing for its employees? The details are difficult to obtain but if I am not much mistaken you will find that most of the large Banks, the Insurance Houses, the Shipping Firms, the Ship-building firms, and some of the larger Commercial houses do provide these things for their officers and that the Government servants are not specially privileged in these respects.

I cannot attempt to deal in my reply with the detailed list of salaries quoted by the honourable member. It is impossible for me to say if the figures quoted in the list he read out give any just comparison at all without knowing the exact conditions of service attaching to the posts to which these salaries apply.

I need not refer to the hon. member's remarks on how the cost of the scheme is to be met as I have dealt with this very fully already. His conclusion leads him to the amendment he has proposed. As I have already said, Sir, this amounts merely to further delay. No good is likely to come of a further Committee on the report, nor is any greater finality likely to be reached, and the Government therefore regrets that it cannot accept the hon. member's amendment.

H.E. THE GOVERNOR.—Honourable Members, I think that it is desirable that I should give my views on this question at this stage, though the matter has been so adequately dealt with in the very able speech of my honourable friend the Colonial Secretary that there does not appear to be a great deal left for me to say. I must crave your indulgence if to some extent I cover the same ground. I should like in the first place to congratulate the mover of the amendment on his eloquent speech and can only express regret that I find myself unable to find it sufficiently convincing. I am very sorry that such a strong difference of opinion should have arisen at my first meeting of this Council, but it appears to have been inevitable. Further, I need hardly say that it is a matter of great regret among the officers of the Government that, on a question of this kind, it has not been found possible to obtain the support and agreement of the Unofficial members.

There appear to be two main aspects of this question: First, whether the recommendations of the Salaries Commission, as regards basic salaries, are justified. Second, whether, assuming that they are justified, this is the proper time to put them into effect.

I approached this question with an open mind, but with some experience of a similar question in Malaya, and I have studied the report of the Commission very carefully. The Commission appointed by my predecessor to go into this question was, it must be

admitted, a very strong one. It consisted of, first, the highest judicial officer of the Crown, a man whose opinion has always carried considerable weight, who has been accustomed for many years to weigh up judicially all the pros and cons of any question, and who had a wide and varied knowledge of affairs both in this and other Colonies. The next member was a Chinese member of this Council, with a long and ripe experience of the conditions which obtain both in China and Hong Kong, and with a considerable knowledge of the conditions of employment. The third member of the Commission was, if he will allow me to say so, an able and hard-headed business man, with long and valuable financial experience, and a great knowledge of local affairs, and head of one of the largest concerns of its kind in the East. The great value of his advice generally has been recognized by Government in his appointment to be a temporary member of this Council, on which I take this opportunity of tendering him my congratulations. (Applause). This Commission, after a long and careful investigation, submitted to Government a valuable, well-reasoned and unanimous report. Government is unable to accept the suggestion that a further body of the composition proposed should be appointed *ad hoc* to examine and, in fact, criticize the report submitted by this very competent Commission. In my opinion the proposal is neither complimentary to the Commission, nor do the arguments put forward in its favour justify it.

It has been argued that, owing to the fall of the dollar, conditions have materially changed, but I am of the opinion that this fact does not fundamentally alter the basic recommendations that were made. It is true that the general recommendations were to some extent based on the assumption that the dollar would approximate to two shillings. At the same time, it seems to me that the Commission endeavoured to deal with the possibility of a greater variation in recommending that Government should reserve the power to grant a high cost of living allowance. As stated by the Honourable Colonial Secretary, Government, in view of present conditions, proposes to deal with that high cost of living allowance by not bringing it into force with the dollar as low as it is to-day, and further, as is shown in the resolution moved by the Honourable Colonial Secretary, will not introduce such an allowance without reference to this Council.

As regards the basic sterling salaries recommended by the Committee, I am of the opinion that they are not higher than is justified. Having regard to the cost of living, similar salaries in Malaya appear to me to be higher, for, though the salaries there are quoted in dollars, the fact that the dollar there is fixed gives them the effect of sterling rates. My experience there showed that, with a lower rate of salary, the recruitment of competent and suitable officers was almost impossible, and those rates had to be raised in order to ensure our getting the type of officer that was necessary. I am convinced, after many years' experience in a large Civil Service in one of our Far Eastern colonies and protectorates, that it is absolutely essential to maintain

a high standard of Government efficiency. More is involved than the mere carrying out of normal duties, and it would be fatal, in my mind, to the welfare of a Colony to allow the standard to go down, owing to the payment of inadequate salaries. This is the view of the Warren Fisher Committee, referred to by my honourable friend the Colonial Secretary.

I understand that it is the opinion of many Unofficials, both in this Council and out of it, that there is justification for raising the salaries of certain number of Government officers, but that there is some demur to an all-round rise. I submit that, once it is granted that the salaries of a number of these officers might justifiably be raised, it is sufficient admission of the justice of the Commission's recommendations generally. The ordinary man in the street has not had the same opportunity of examining the relative duties and responsibilities of Government officers generally, as had the members of the Salaries Commission. Once, therefore, it has been admitted that there is justice in raising the salary of a number of Government officers, I think we are justified in accepting the general rise recommended by a Commission who has carefully examined and compared the duties of all officers.

As regards the officers on dollar salaries, I think there can be very little reasonable opposition raised to the proposed increases. In their case, the fall in the dollar has operated even more strongly than in the case of sterling paid officers, and I am of the opinion, therefore, that the recommendations put forward by the Commission should be adopted.

I gather that there is a feeling that the raising by Government of the salaries, more especially of its dollar paid employees, will have the effect of raising the salaries of the employees of firms and other undertakings. Whether this will prove the case remains to be seen, but in any event I maintain that it is incumbent on Government in particular to pay its employees an equitable salary and not be rigidly bound to what is usually called the market rate.

To turn to the other aspect, namely, whether the present is a suitable time for giving effect to these proposals, I would point out that the Salaries Commission was appointed as far back as October, 1928, and I gather from the Colonial Secretary's speech that the Unofficial members of this Council were then of opinion that some amelioration was justified in view of the fall in the dollar. It must, therefore, be inferred that, even as long ago as that, there was a feeling that the existing rates of salary were inadequate. If that be proved, as in my opinion it has been, then it might be urged that the new rates should have come into force not later than the 1st January, 1929. It is proposed to give effect to them only from the 1st January last.

If we accept, as I maintain we must, the recommendations of the Salaries Commission as being just, then I consider that the payment of the new rates becomes a mere act of justice: it is in fact a debt which this Government must of necessity discharge unless it is shown that it is absolutely impossible for it to find the money. The payment of adequate salaries to Government officers for services rendered is just as much a legitimate debt as the payment to a contractor for services performed. If it had been possible to submit the report of the Salaries Commission to the Secretary of State earlier, it is probable that the new rates would have been brought into force as from the 1st January, 1929. If that had been done, I can hardly imagine that a request would have been made to Government to pay its officers at a reduced rate when the dollar dropped below a certain figure. In short, once the recommendations of the Commission are accepted as fair and reasonable, I consider that this Government is bound in honour to give effect to them.

I have given long and careful consideration to the question of how funds are to be provided to meet this increased liability. The Colonial Secretary has set out the position as regards taxation very fairly, and I think that it must be admitted that the total of direct and indirect taxation in Hong Kong is very low, and that in normal times rates and other forms of taxation might well be raised without there being any reasonable ground for complaint. I appreciate, however, that just at the moment it is undesirable to increase a form of taxation which may send up the necessary minimum cost of living. Before, therefore, officially considering the question of raising the assessment rate, which might well be deemed likely to increase rates all round, I considered and discussed with my advisers other sources. The question of imposing a petrol tax and an amusement tax had already been more or less accepted, though it will not be possible to get the machinery ready for the collection of the latter this year. Postal rates are much below what I might call the imperial rates, especially with the dollar at anything like the figure that it stands at to-day. An increase in these rates is more than justified. The imposition of a tax of fifteen cents a gallon on petrol will not be heavy. I believe I am right in saying that it will average to little more than $\frac{1}{2}$ cent a mile in the case of private cars, and $1\frac{1}{2}$ cent a mile in the case of buses which carry a number of passengers. I and my advisers considered the question of revising the duty on spirits and tobacco, but we came to the conclusion that it would be better not to alter the former, at any rate for the present. We were of the opinion, however, that the duty on tobacco, which comes under the heading of a luxury tax, might well be raised without causing any undue hardship. The rates have, as you know, been raised as from a week ago to-day.

These increases, while going a long way in a year to meeting the extra expenditure involved by the adoption of the Salaries Commission's proposals, will not meet such cost this year, inasmuch as they will only be in force for the second half of the year. I have,

however, already stated that I consider that these increased rates of salary are a debt due by the Government to their officers, which might have been discharged earlier, and I think, therefore, that it is only reasonable to make up the remaining deficit this year out of our available balances, which to-day stand at a very favourable figure of over ten millions.

By the adoption of the aforesaid additions to taxation, we have been enabled to defer any increase in the assessment rate. I must, however, confirm what the Honourable Colonial Secretary has already stated, that it may be taken as certain that it will be necessary to increase those rates in connection with the 1931 estimates, having due regard to the needs of the Colony generally.

I strongly deprecate the suggestion, which is on the face of it somewhat misleading, that such increases of taxation are merely introduced in order to pay Government officers a higher rate of salary. The payment of fair and adequate salaries to his employees is one of the first commitments of an employer, for a contented and adequate staff is an essential part of any undertaking. I consider that it therefore comes before, at all events many other services and must be met either by economy in other directions or by an increase in revenue. In view of the light incidence of taxation in this Colony, I do not consider it necessary or justifiable to reduce other services, and it is necessary, therefore, to increase our revenue, in order to enable us to carry out various services, including payment of salaries. That is the policy we are adopting.

While, however, Government is unable to support the resolution proposed by the honourable representative of the Chamber of Commerce, I may say at once that I am prepared to accept his second resolution regarding the appointment of a retrenchment committee. Although my short experience here hardly justifies me in giving any definite opinion on the point, I cannot avoid the feeling that we are somewhat overloaded in the matter of personnel, and that further there is room for retrenchment in other directions. I propose, therefore, to appoint such a committee at once, and earnestly hope that, as a result of its investigations, it may be possible to effect material economies. (Applause).

HON. MR. J. OWEN HUGHES.—I take it Sir, that my honourable friends the Senior Unofficial member and Mr. Paul Lauder, in view of the fact that they were members of the Commission, will not record their votes on this amendment.

H.E. THE GOVERNOR.—I think that is a matter which must be left entirely to the honourable members concerned.

HON. SIR SHOU-SON CHOW.—Sir, As a member of the Salaries Commission I beg permission to be allowed to abstain from voting on the three resolutions appearing on to-day's agenda which concern the Salaries Commission report.

HON. MR. PAUL LAUDER.—As a member of the Salaries Commission I associate myself with the Hon. Senior Chinese member and I also beg permission to be allowed to abstain from voting on the three resolutions appearing on the agenda which concern the Salaries Commission report.

The amendment was then put to the meeting and was declared lost.

A division was called for, and the votes were recorded as follows:

For the Amendment:—Hon. Mr. J. Owen Hughes, Hon. Mr. C. G. S. Mackie, Hon. Mr. R. H. Kotewall, Hon. Mr. S. W. T'so, Hon. Mr. J. J. Paterson, Hon. Mr. A. F. B. Silva-Netto.

Against:—The Officer Commanding the Troops, the Colonial Secretary, the Attorney General, the Secretary for Chinese Affairs, the Colonial Treasurer, the Director of Public Works, the Inspector General of Police, the Harbour Master, the Director of Medical and Sanitary Services, His Excellency the Governor.

The amendment was therefore lost by ten votes to six.

H.E. THE GOVERNOR.—I understand the Hon. Mr. Kotewall now desires to move an amendment.

HON. MR. R. H. KOTEWALL.—Yes, sir. I beg to move, as an amendment, the following resolution:

"That the recommendations of the Salaries Commission as modified by the Government be not accepted, and that, as an alternative, the temporary High Cost of Living Allowance approved by the Finance Committee on the 10th April, 1930, be continued until this Council shall otherwise decide; and a similar allowance equivalent to Ten per cent. of their salaries be granted to the dollar-paid employees of the Civil Service of Hong Kong with effect from the 1st January, 1930."

I submit this amendment with a due sense of responsibility and with considerable diffidence, realising to the full the eminence and competence of the three gentlemen who composed the Salaries Commission, who spared no pains to bring out an exhaustive report of permanent value, which entailed months of heavy labour; and also the necessity for an unbiassed mind in approaching a subject which affects, as in this case, the opposing interests of the Civil Service and of the public. My diffidence is the greater because while, on the one hand, I do not consider the recommendations of the Commission with certain modifications, altogether unreasonable, I am, on the other hand, opposed to the Government resolution for reasons I will adduce. My view in regard to the finding of the Commission is evidently shared by the Chinese General Chamber of Commerce, for

in reply to a letter from the Honourable the Colonial Secretary inviting an expression of their views, they stated that they had no observations or representations to make on the Commission's report; and in a subsequent communication to the same quarter they expressed only the opinion that, generally speaking, local employees were less generously treated by the Commission than their sterling-paid colleagues.

If it be asked why, holding the view I do, I have supported the motion for the appointment of a Committee to enquire into the recommendations of the Salaries Commission, my answer is that I did so because, according to the honourable member representing the Hong Kong General Chamber of Commerce, the Commissioners admitted that they had not deemed it necessary to consult outside employers, and had confined their investigations mainly to Government servants without due regard to the relation of their salaries to those paid outside the Service. This being the case, I considered that in a matter of such importance to the Colony, involving as it would the raising of a large sum of money by fresh taxation, the public would be better satisfied if the recommendations of the Commission were carefully reviewed by a Committee which included representatives of the large employers of labour, who had not an opportunity of expressing their views before the Commission arrived at its conclusion.

Before deciding upon the amendment which I have just moved, I had gone into the subject with great care, and had obtained from the Honourable the Colonial Secretary such figures and information as would assist my investigations. I would like here to express my thanks to the Hon. Mr. E. R. Hallifax for the facility he thus afforded me. The conclusion I have reached is that if the financial condition of the Colony warranted it without entailing fresh taxation, and without drawing upon our surplus balances, I would support the recommendations of the Commission, with the exclusion of the additional 15 per cent. increase to the sterling-salaried officers, and the extended rent allowance to dollar-salaried officers.

In this matter of Government salaries generally, I find myself in disagreement with those who contend that the pay of Government servants compares favourably with that of men in private employ, having regard to certain advantages which the former enjoy, such as pensions, free passages, free quarters or allowance in lieu thereof, and security of tenure. It is difficult, particularly in the higher ranks, to compare the two kinds of occupations. It must be remembered that while Government servants enjoy the privileges mentioned, they are precluded by Colonial Regulations from engaging in business of whatever nature, and even from investing in certain stocks in the Colony. Security of tenure cannot compensate for the chance of prosperity by which the income of the head of a large firm, who corresponds more or less to the head of a Government department, can easily exceed that of the Governor of the Colony. Business men also, though they do not generally get pensions, receive the benefit

of the now almost universal Provident Fund as well as free quarters in many cases. I am in no way supporting the cause of the Government, as my amendment proves; but I have thought it but fair to express my personal view on the subject—a view based on a fairly long experience both as a Civil servant and as a business man. At any rate, I have no hesitation in saying that both those at the apex of the Government Service and those at the base are inadequately paid. Perhaps between these two extremes there are some whose salaries could bear reductions; but, speaking generally, I think that the pay of Government servants is not excessive, though their number may be reduced; and were the financial position of the Colony sounder or more hopeful, I would not be loth to support a proposal to make a permanent improvement in their salaries.

However, the financial position of the Colony by no means justifies any substantial increase in expenditure of this nature. At no time during the last three decades, except during the short period of the Strike and Boycott of 1925-6, has business in the Colony reached so low an ebb as it has reached to-day. Certainly, never in the history of the Colony has exchange fallen so low. The public is in such a state of mind that it resents any proposal to impose fresh taxation in order to improve the pay of Civil servants. Already opposition has arisen from all sides. The Kowloon Residents' Association has raised its voice of protest in no uncertain way; the Hong Kong and Kowloon Property-Owners Association and the Chinese General Chamber of Commerce have uttered their disapproval through my Chinese colleagues and myself; and I hear that a "Kaifong" meeting has been suggested for the purpose of registering the protest of the whole Chinese community against any increase in the Assessment Tax or Rates, which is bound to come before long if the Government motion is carried. For my part I have no objection to the revenue being raised by taxing luxuries so as to enable the Colony to carry on its administration.

The Government is now asking the Council to vote the large sum of \$1,628,917 to implement the recommendations of the Salaries Commission this year. If we take into account, as we should, an additional \$300,000 payable as Military contribution to the Imperial Government on the revenue raised for this purpose, since the Secretary of State for the Colonies has not acceded to the request of Sir Cecil Clementi to waive this Contribution, the total amount involved, directly or indirectly, by the present proposal of the Government would therefore be about \$2,000,000. Even the latter figure is likely to be considerably exceeded, since, according to the Hon. Colonial Secretary, in his speech just delivered, the sum of \$1,628,917, which we are now asked to vote, was based on the assumption that the average rate of exchange for the year would be 1/6d. The actual rate would certainly be lower and consequently the actual amount required would exceed the present estimate.

In addition to this large figure a considerable sum of money has to be found to meet the substantial difference between the rate on

which the Estimates for 1930 were framed, namely 1/10d., and the present rate which is round about 1/3d., in the existing sterling commitments of the Government.

Now, with its trade at a decline owing to a combination of circumstances, and with so many other and more urgent demands on its revenue which must be increased to meet them, can the Colony bear the proposed additional expenditure necessitating special taxation and drawing upon our surplus balances? I believe that the Colony cannot bear it. The public also believes that the Colony cannot bear it. It has often been said that, unlike a private business, a Government need not cut its coat according to its cloth, but should find the right length of cloth to fit its coat. To this principle I agree, with this reservation: where there is little cloth to be found, even a Government must be content with a short coat. Since the Salaries Commission made its Report, the cloth has shrunk. It was on the rate of 2/- that the Commission based its recommendations, but unfortunately they did not anticipate any substantial decline in the rate, as is evidenced in paragraph 7 of their report. Even Sir Cecil Clementi, in paragraph 6 of his despatch to the Secretary of State for the Colonies at as recent a date as the 22nd January, 1930, said that though by that time the dollar had fallen as low as 1/6¼d. and had only slightly recovered, he did not anticipate that it would fall as low as 1/6d., or that it would remain at its level of that time— 1/7d. In paragraph 9 of the same despatch Sir Cecil Clementi again said that he hardly believed the dollar "would remain at its almost unprecedented depreciation."

From this it would seem that had the Commissioners been able to visualise the present rate of 1/3d. with all its serious consequences, their recommendations would in all probability have taken a different form. It seems equally probable that had Sir Cecil Clementi been confronted with this rate, he would have modified his recommendations.

The Estimates for 1930 were framed on a 1/10d. dollar, and it was stated at that time (and eventually reported to the Secretary of State) that, calculated at that rate, the cost of the recommendations of the Salaries Commission would involve an additional expenditure of only \$1,300,000. Since then the dollar has taken a headlong plunge, upsetting all calculations; and the fall has had a most detrimental effect on business and trade. The whole position is changed; the Colony is to-day unable to pay even the original estimate of \$1,300,000, not to say \$2,000,000.

Taking everything into consideration, and viewing the matter impartially, I think that the situation would be met by continuing the temporary High Cost of Living Allowance approved by the Finance Committee on the 10th April, 1930, and granting a similar allowance equivalent to 10 per cent. of their salaries to the dollar-paid employees with effect, as in the case of their sterling-paid colleagues, from the

1st January, 1930. I should like to point out that this temporary allowance to the sterling-paid employees was approved by the Finance Committee on the understanding that no further expenditure was to be incurred after the end of this month without reference to the Finance Committee.

The additional expenditure involved by this allowance to the sterling-paid employees for the current year has been estimated at \$377,000; and the proposed 10 per cent. allowance to the dollar-paid employees would amount to approximately \$390,000—the total additional expenditure on the two items being about \$770,000.

It may be asked why I advocate an allowance of 10 per cent. to the dollar-paid employees while the allowance already granted to their sterling-paid colleagues is equivalent to only 6 per cent. My reason, as stated in a letter written on the 15th May, 1930, by the Chinese Unofficial members of this Council to the Honourable the Colonial Secretary, is that in addition to this temporary allowance approved in April last, Government servants paid on a sterling basis have had, since the general revision of salaries in 1919-20, the advantage of improved emoluments resulting from a change in the method of converting sterling salaries into dollars; and, since July 1928, the advantage of compensation for the fall of the dollar below 2/6d.

In suggesting this percentage for the dollar-paid men, my Chinese colleagues and I have duly taken into consideration the fact that the concessions granted to the sterling-paid men were granted not only on account of the increase in the cost of living, but also because they have to remit money Home for the support of their families and dependents, and for the education of their children. But in spite of that consideration we think, for the reasons I have given, that this percentage is but fair and reasonable.

Though this High Cost of Living Allowance is to be a temporary relief on account of the fall in exchange I, for one, would not lightly withdraw it: I should prefer to see it disappear with the rise of the dollar.

From the trend of my remarks I trust that you, Sir, have not failed to draw the inference that my Chinese colleagues and I are not lacking in sympathy for the Civil servants; we only wish we could support the Government resolution. But we cannot conscientiously do so in the circumstances. The unprecedented decline in the value of the dollar has created a feeling of great anxiety on all sides. The present is troubled; the future is uncertain. To choose this time to levy new taxes in order to increase Civil Service salaries which, after all, are by no means 'starvation wages', to add impatiently a new burden to an already distressed community, is surely an ill-timed action. The Chinese community whom I have the honour to represent and who constitute 95 per cent. of the taxpayers of the Colony, have raised their voice in strong protest against

fresh taxation for any purpose because of the reaction it will have on cost of living. The public as a whole feel that to raise taxes for the purpose in view is to penalise them for the benefit of Government servants who are living under the same economic conditions as they themselves.

This, Sir, is, I think, an effective answer to the Government contention that the general increase of salaries to its servants should no longer be withheld as a debt of honour. I sympathise with the feeling of the public and I support their protest, not only for the reasons they have given, but also for another and equally cogent reason. It is that if the Government resolution were carried, and if the assessment tax were not increased during the current year, the probability is that the Government would draw upon the surplus balances of the Colony to meet this special expenditure. Indeed, the words in the resolution before us—"charged upon the revenue and other funds of the Colony"—point to this course being contemplated. It seems scarcely necessary to point out that to encroach upon the Colony's by no means large liquid surplus balances for the purpose of paying increased salaries to Government employees is wrong. It is the more to be deprecated in these hard times when every dollar of this surplus should be reserved for meeting the numerous items of extraordinary expenditure now clamouring for urgent attention.

Your Excellency has expressed the view that the incidence of taxation is light. The Hon. Colonial Secretary has also expressed the same opinion, after making a comparison with taxation in certain Colonies he named. Granting that such is the case, I submit that here again any additional revenue which Government can safely raise by taxation these times, would be required to meet the extraordinary expenditure I have mentioned. I therefore, with all earnestness, express the hope that Your Excellency will withdraw the original motion, and accept in its stead my amendment which, while affording some relief to the Civil servants, will not have the detrimental effects on the Colony which the adoption of the resolution at this juncture will undoubtedly have. (Applause).

HON. MR. A. F. B. SILVA-NETTO.—Your Excellency,—I beg to second the amendment. The Hon. Dr. Kotewall has covered the ground so ably in his eloquent speech that there is very little left for me to say in support of the amendment. I would like, with your permission, Sir, to make a few observations on the Report of the Salaries Commission and stress a few points of argument advanced by the mover.

The Report of the Salaries Commission which is the result of several months of tedious and laborious work, deserves the highest commendation, but with all due deference to the honourable members of the Commission I would venture to submit an expression of opinion that the liberal recommendations were made apparently without due

regard to the financial conditions of the Colony. In this connexion, I think it would be fair for me to mention that the Commission was appointed to consider four points only, briefly summarised as follows:—The adequacy of the salary scale of officers, the currency basis, the principles on which acting pay and allowances should be granted, and the provision of Government quarters and allowances for rent.

Under Paragraph 12 the Commissioners recommended that all Sterling salaries should be increased by 15 per cent and should be paid to them when on duty at Hong Kong in dollars at an average rate of the Hong Kong and Shanghai Bank reckoned from the 15th of the preceding month to the 15th of the month for which payment is to be made, provided that such average demand rate is 2/- or less than 2/- but if the average rate be more than 2/- then salaries shall be paid in Hong Kong currency at 2/-. On the 17th of this month the rate for Demand Draft was 1/2.15/16, say 1/3, at which rate (if it happened to be the average fixed rate), £1 will be equal to \$16, whereas at the so-called privilege rate of 2/-, £1 will be equal to \$10, a difference of 60%!

This recommendation does not seem to reconcile with the recognised policy of the Government that it is undesirable that the number of dollars drawn locally by Government employees on Sterling salaries should fluctuate with the value of the dollar, etc., as mentioned in paragraph 6 of the Report.

Under paragraph 14, the honourable Commissioners declared that they were faced with difficulty in arriving at a figure which would actually represent the increased cost of living and I am pleased to note that, after careful consideration, they came to the conclusion that a 20% increase on dollar salaries would be fair to this class of officer. I may say that since the Report was made the rate of exchange had receded more than 15% with a corresponding increase in the high cost of living. I think a higher percentage of increase would be more equitable, if the funds of the Colony would permit.

I do not think the ratepayers would grudge the increments as recommended by the Salaries Commission in return for the highly efficient services rendered by the Government employees if the Colony and only afford it. With all due deference, I would say that the increases recommended appear to be equitable although the kind hand of generosity was stretched a little too far in some instances.

The most glaring fact is that by computing the Sterling salaries at 1/6 there would be a sum of \$2,541,548 over the amount voted for 1930 and with the lower rate of exchange prevailing this figure would be augmented considerably. Since the Report was published rapid changes have taken place and the rate of exchange has declined considerably in sympathy with the value of Silver to an unprecedented

level. The whole matter hinges on the rate of exchange. About 60% of the salaries is in Sterling and paid in equivalent of Gold and the revenue is collected in depreciated silver, which makes a great deal of difference.

The temporary High Cost of Living allowance, approved by the Finance Committee on the 10th April, 1930, appeared to have conveyed a wrong impression, as evidenced by the remarks made by the honourable members at that meeting. It was certainly a misnomer. It could have been termed Exchange Fluctuation Allowance or any other suitable term, as I believe in calling a spade a spade.

Unless some sort of currency reform is advocated and established, this unfortunate state of affairs will continue to exist to the detriment of trade and the Colony. So long as civil wars continue to exist in China, which is still without a stable Government, pessimism will prevail and the waning power of the Nanking Government will further affect the situation.

Like the majority of the residents of this Colony all Government employees in receipt of dollar salaries are experiencing great hardships. The purchasing power of the dollar is considerably reduced in consequence of the low rate of exchange and I have therefore much pleasure in recommending that the temporary allowance as specified in the amendment be granted to the dollar paid employees and that the temporary High Cost of Living allowance approved by the Finance Committee on the 10th April, 1930, be continued until this Council shall otherwise decide.

Plain broad facts coupled with the sound arguments adduced by the Hon. Dr. Kotewall are sufficiently illuminating to convince the honourable members of the inability of this Colony to comply with the recommendations of the Salaries Commission as modified by the Government, without recourse to loans, further taxation, or some other means of revenue. By accepting such recommendations the Government will be compelled to provide the necessary funds. It is evidently the intention of the Government to increase the Assessment tax sooner or later for such purpose.

There are other potential sources of revenue that may be tapped which may not directly affect the public in general but it would be out of place to suggest any such measures at present. The time is not opportune for indulging in debts or any increased form of taxation but to study ways and means to enforce rigid economy. Increases in expenditure especially in personal emoluments were unfavourably commented upon last year by the hon. unofficial members, who had already foreshadowed with some degree of apprehension the necessity of having to resort to additional taxation. The Colony has gone through several periods of vicissitude and business depression and it is to be deprecated that the ratepayers should be saddled with heavier assessment tax, which

if approved, is bound to bring in its wake, increased rent, enhanced prices of all commodities and demand for higher wages thus aggravating the heavy pressure already exerted on the economic machinery of the Colony.

The views expressed from time to time by several correspondents in the columns of the Press should not be perused with bland indifference and the leading articles of the Press which represent the trend of public opinion should not be ignored.

The Kowloon Residents Association, which has always taken a keen interest in all matters of public interest connected with the Peninsula, has, with the usual commendable zeal that characterises the work of that useful association, forwarded its report and submissions to the Government expressing its opinion that it would be unfair to increase taxation to provide for cost of increased salaries.

I must therefore emphasize the fact, Sir, that there is a very strong current of opposition by the public in general to any contemplated increase in assessment tax to provide funds for increase of Salaries. With these remarks I have much pleasure to second the amendment. (Applause).

HON. MR. S. W. TSO.—Sir, in supporting the Hon. Dr. Kotewall's amendment I desire to express, at the outset, my high appreciation of the valuable work done by the members of the Salaries Commission. Had it not been for the unprecedented fall in the Sterling value of silver, which neither the Commissioners nor any one else in the Colony could foresee, their recommendations, which were calculated at a 2/- dollar basis, might, with some modifications, be adopted without having to resort to additional taxation.

But since the report was made the value of silver has dropped in an alarming manner which has the effect of not only changing the whole aspect of the Salaries recommendations but also of putting the economic condition of the Colony into a precarious position. Thus we are faced with a situation fraught with dangerous consequences. Trade has been bad on account of internecine strife in China which is our market and the unprecedented fall in the exchange value of silver has made it worse. Capital has become unproductive for want of trade and is being dissipated by high cost of living. Under such circumstances can we ask the public to bear the burden of further taxation? The answer of the public in all quarters is emphatically "No".

The Government in its motion now asks the Council to approve that a sum of \$1,628,917 be charged upon the revenue and other funds already provided in the Estimates for 1930 for the purpose of carrying into effect as from the 1st January 1930, the
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the Salaries Commission, as modified by the proposed resolution. This large sum of \$1,628,917 is, I understand, the estimated actual amount required for payment of additional salaries, but in point of fact I feel sure that, what with the payment of Military contribution and other commitments, a much larger sum will have to be raised from taxation in order to meet payment of these additional salaries.

The Hon. Dr. Kotewall has, in his speech, fully set out the various representations sent to us by the Chinese community against further taxation and I need not dwell on them here further. But any further taxation, except possibly on luxuries has the effect of increasing the cost of living and the poorer classes will be the greatest sufferers. Some people seem to think that the drop in the exchange value of silver does not affect the dollar-paid men. But I can assure you, Sir, that their cost of living has been much increased in consequence.

To adopt the recommendations of the Salaries Commission now, even in modified form, is inopportune in view of the present depression in trade and the necessity of increasing taxation.

Personally, I am not against the increase of salaries of Civil servants. On the contrary, I am on principle in favour of men being well paid for their services whether they be Civil Servants or otherwise. I do not agree with the idea that Civil Servants should be placed in the matter of pay on the same category as non-civil-servants or *vice versa*. The reason for such view is already explained by the Hon. Dr. Kotewall in his speech with which I concur. But I do earnestly hope that for the reasons above stated the Government will withdraw its motion in favour of the amendment which has the effect of tiding over a trying situation for the time being and of being fair to both the sterling-paid men and the dollar-paid men and will reintroduce the motion in a more opportune season. For these reasons I have pleasure in supporting the amendment. (Applause).

HON. MR. J. OWEN HUGHES.—In view of the fact that the amendment I had the honour of proposing has been lost and, bearing in mind the very generous manner in which the Chinese members of this Council supported us in our endeavours, I think it is due to them that under the circumstances we should now support them in the view that they take on dollar salaries. We do so, if I may be allowed so to express it, on the ground that half a loaf is better than no bread at all and certainly it is only fair after the support they have given us that we should assist them as a last resort.

THE COLONIAL SECRETARY.—When I was listening to the speech of my honourable friend, the second Chinese member, I almost felt he was one of my supporters and not one who was proposing an amendment. I really must thank him for the very fair way in which he spoke of the salaries which have been suggested by the Salaries Commission. In fact
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through his speech I felt that he was supporting me all through for he pointed out that both at the apex and at the bottom the salaries of Government servants were inadequate. The sting of his speech came, however, as stings have a habit of doing, in the tail and I gather from his address that while he is really fully in favour of all the increases recommended by the Salaries Commission he is not in favour of putting them fully into force at the present time. Well, Sir, I dealt, I hope adequately, with this very point in my opening remarks and you, Sir, also dealt very adequately with it in your remarks in reply to the Hon. Mr. Owen Hughes's amendment. The Government does not agree with the Hon. Dr. Kotewall that the Colony cannot afford to pay the increases recommended and consequently I have your authority, Sir, for saying that the Government cannot see its way to accept the motion of my honourable friend. I have stated very fully the Government's reasons for going on with the Salaries scheme at the present time, and I need only refer to what I have said with reference to this particular motion, viz., that in the opinion of the Government it is not fair either to the sterling or the dollar paid officers. The old sterling salaries were based on certain substantive salaries paid at \$12 to the pound coupled with a sliding scale of exchange compensation. The scale originally went down to 2/6d. then to 1/9d. and later on to 1/6d. The lower limits were fixed from time to time because no one foresaw the depths to which the dollar would fall; but there is no logical reason for fixing the limit at 1/6d. and no fairness to the officers in so doing. The limit destroys the balance of the scheme and, as I pointed out before, leaves some officers with less dollars than their substantive salary would entitle them to if converted at the current rate of exchange without any exchange compensation whatever.

To the dollar salaried officers the proposal seems even more unfair. My honourable friend admitted that the recommendations of the Commission were not unreasonable. As I pointed out before, the Salaries Commission considered an increase of 20% to be necessary with the dollar at 2/-. It must be regarded as even more necessary with the dollar at 1/3d. to 1/4d. for there must be very few indeed even of our dollar paid officers who have not suffered from the increased cost of living. The Government therefore considers it would be very unfair to put off the dollar paid officers with a grant of only half of the very reasonable recommendations proposed by the Salaries Commission. The chief burden of my honourable friend's remarks was that the Colony could not afford these increased emoluments. I say that the Colony can afford them as has been adequately shown by the figures I quoted on the subject of taxation in the course of the earlier part of the afternoon. I therefore, Sir, have to inform honourable members that the Government is not able to accept the honourable member's amendment.

HON. MR. R. H. KOTEWALL.—In the first place I should like to touch upon a rather humorous remark made by the Colonial

Secretary when he said that he was almost persuaded to believe that I was going to support the substantive motion. That remark of his shows, I think, how carefully and unbiassedly I approached this matter. I tried to approach each aspect of the question with an open mind and I arrived at my conclusion with, I hope, honest conviction. When the Colonial Secretary said that the sting was in the tail, I suppose he only indulged in a metaphor. I did not intend and do not intend any sting. I only hope there is no sting anywhere in this matter. The Colonial Secretary said that I had expressed the opinion that I agreed with all the increases recommended by the Commission. Yes, with this little modification, that the recommendations should be approved in better days and with the two exclusions mentioned by the Hon. Colonial Secretary.

The Colonial Secretary also said that my amendment was neither fair to the dollar man nor to the sterling man, and he proceeded to give reasons why the amendment was not fair, to the sterling man in particular. If, Sir, there is any difference of opinion in the interpretation of a former decision, my interpretation is shared by all my Unofficial colleagues, otherwise they would not have agreed to extending the exchange down to 1s. 6d. and no further. We and the Government disagreed in this matter, but I do not admit the Unofficials are wrong.

The Colonial Secretary has also advanced arguments to show that the Colony can afford the new expenditure proposed. In my opening speech I advanced arguments which should refute his reasonings, and I think my arguments were sufficiently cogent to persuade at least the unofficial members and the public that they were not only fair but reasonable. With these remarks, Sir, I leave the fate of my amendment to the fair-mindedness of this Council.

On being put to the meeting, the amendment was lost.

A division was called for and the votes were recorded as follows:

For the Amendment:—Hon. Mr. J. Owen Hughes, Hon. Mr. C. G. S. Mackie, Hon. Mr. R. H. Kotewall, Hon. Mr. S. W. T'so, Hon. Mr. J. J. Paterson, Hon. Mr. A. F. B. Silva-Netto.

Against:—The Officer Commanding the Troops, the Colonial Secretary, the Attorney General, the Secretary for Chinese Affairs, the Colonial Treasurer, the Director of Public Works, the Inspector General of Police, the Harbour Master, the Director of Medical and Sanitary Services, His Excellency the Governor.

The amendment was lost by ten votes to six.

The original resolution was then put to the meeting and was declared carried.

HON. MR. J. OWEN HUGHES.—I have now to move the motion standing in my name:

"That it is desirable, in the interests of this Colony, that His Excellency the President of this Council, be invited to appoint a Committee to be called a 'Retrenchment Committee' for the purpose of advising the Government where, and the manner in which, economy in expenditure can, and should be made, in the personnel and administration of this Colony."

I would like to express the great gratification of the Unofficial members that you are in favour of the motion. There are many reasons for bringing it forward and we appreciate your attitude very much. During my stay at Home last year, I observed in one of our local papers that there is one civil servant to every 77 or 111 people in this Colony, the population being variously estimated at between 700,000 and one million. I admit not being able to say whether those figures (if correct) are justified, but undoubtedly there is a very general belief that many of our Government departments are overstaffed.

This Retrenchment Committee should make careful enquiry not only with regard to the number engaged in different departments, but also into the routine followed, and to find out whether or not, by the adoption of other and more modern methods of working, a reduction in the number employed could not be effected without loss of efficiency.

HON. MR. R. H. KOTEWALL.—Although Your Excellency has already signified your intention to accept the resolution, I think the matter is of sufficient public interest for me to make the remarks I intended to make. In seconding the motion, I need not enter into elaborate figures to prove that it is necessary. According to Sessional Paper No. 3 of 1930 relative to the Salaries Commission, the total amount payable in salaries on a sterling and dollar basis, together with the High Cost of Living Allowance extended down to the rate of exchange of 1/6d., is \$9,308,496 this year. The adoption of the motion that has just been carried would bring this sum up to roughly \$11,000,000. To this have to be added other allowances scattered all over the Estimates. It is safe to say, then, that Personal Emoluments alone consume at least \$11,500,000 per annum, which is more than half the estimated current revenue for 1930, as given in paragraph 9 of Sir Cecil Clementi's despatch of the 22nd January, 1930, to the Secretary of State for the Colonies.

Now, the public believes, as I do, that the Government Service is over-staffed, and that there is room for economy. It seems to me that retrenchment could best be effected in the direction of reduction of personnel rather than reduction of salary, and also by a reorganisation and redistribution of work. In my view, the Colony

is not putting its splendid native material to a sufficient use. With proper training, many Chinese, Portuguese and Indians would be found suitable for positions now occupied by Europeans. I think that the Honourable the Colonial Secretary can bear me out that Ceylon has gone far towards this end without any appreciable loss of efficiency.

I do not advocate reduction of salaries attached to the posts now occupied by Europeans if non-Europeans are placed in them: I believe in equality of treatment, provided that the native can offer equal efficiency. But there can be no doubt that substantial savings could be effected in exchange compensation, long-leave pay and free passages, by the employment of non-Europeans in the place of Europeans.

I could adduce further arguments in support of the motion, but since I understand that Your Excellency is prepared to accept it, I prefer to leave the details to be worked out by the Committee. I have pleasure in seconding the motion.

THE COLONIAL SECRETARY.—The Government, Sir, accepts the motion of the honourable member and will be pleased to appoint a Retrenchment Committee on the lines suggested. In view of the fact that the Government is accepting this motion I do not propose to attempt any reply to the arguments of the mover and seconder although there is a good deal which might be said in reply, particularly to the remarks of my friend, Dr. Kotewall. The names of the members of the Committee and the exact terms of reference will be announced later. Departments will be instructed to afford every possible facility to the Committee and if the Committee can suggest any practicable scheme whereby the cost of administration can be reduced without loss of efficiency, no one will be better pleased than the Government.

TOBACCO TAXATION.

THE COLONIAL SECRETARY.—Sir, I rise to move the resolution standing in my name to increase the duties on tobacco. Of the need for an increase in our revenue honourable members are no doubt well aware from what has been said at an earlier stage of our proceedings. It is important that our current expenditure should be met from our current revenue and unfortunately owing to the drop in the dollar our current expenditure, a large portion of which is in sterling, will cost us more dollars than we had anticipated when the Budget for 1930 was prepared; and to this increase must be added the cost of the Salaries Scheme which is itself increased by the depreciation of the dollar.

In introducing the Salaries Scheme I mentioned certain proposals for the raising of additional revenue. The first of these to be put into force is the increase of the tobacco duties, and I do

not think anyone will raise any serious objection to the proposed increases. Tobacco though almost universally used must still be regarded as in the nature of a luxury. The tax will fall only on those using tobacco in the Colony. It will not affect the manufacture of cigars or cigarettes in the Colony as these will either be manufactured in bond or will be entitled to draw-back on export. The rates of draw-back have been adjusted to suit the new duties. The revised estimate of revenue from tobacco at the old rates is \$2,200,000. In a full year the increase of the duties should bring in a further \$700,000 but owing to the stocks of duty paid tobacco existing when the revised duties were introduced the Government does not expect to derive more than about \$300,000 additional revenue from this source during 1930. I now move the following resolution:—

"Resolved that the duties on tobacco set forth in section 6 of the Tobacco Ordinance, 1916, Ordinance No. 10 of 1916, be altered and that, subject to the provisions of sub-section (3) of the said section, the duty payable (*i*) upon all tobacco imported into the Colony after the coming into operation of this resolution, and (*ii*) upon all dutiable tobacco already in the Colony at the coming into operation of this resolution, shall be as follows—per pound weight.

A.— On unmanufactured tobacco:

(1) If unstripped:

- (a) containing 10 pounds or more of moisture
per 100 pounds weight thereof..... 75 cents.
- (b) containing less than 10 pounds of moisture
per 100 pounds weight thereof..... 84 cents.

(2) If stripped:

- (a) containing 10 pounds or more of moisture
per 100 pounds weight thereof..... 90 cents.
- (b) containing less than 10 pounds of moisture
per 100 pounds weight thereof..... \$1.00.

B.— On manufactured tobacco:

- (1) Cigars..... \$2.00.
- (2) Cigarettes..... \$1.00.
- (3) Other manufactured tobacco, including snuff and
cigar cuttings\$1.00."

HON. MR. C. MCI. MESSER.—Your Excellency, In seconding the resolution, I would like to say a few words regarding the present financial position of the Colony.

The financial result of 1929 was as follows:—

The revenue was budgetted at \$22,278,600 and expenditure at \$24,799,650, leaving a deficit of \$2,521,050. The actual revenue was, however, \$23,554,475, being \$1,275,875 more than the estimate. The actual expenditure was \$21,983,257, being less than the estimated expenditure by \$2,816,393. The net result of the year's working was, therefore, an excess of \$1,571,218 in revenue over expenditure, bringing the balance of assets over liabilities to \$9,662,852.

At the commencement of the year we had £492,000 liquid assets with the Crown Agents and \$2,144,000 held locally.

For 1930, the estimates were based on a 1/10 dollar for all services except sterling salaries which were based on a 1/8 dollar, and the estimates showed a deficit of \$4,555,595.

The revenue up to the present, however, is \$776,030 in excess of the proportionate amount due, and previous experience leads one to expect that under normal circumstances the expenditure would be considerably below the estimated figure, thus considerably reducing the estimated deficit. As already stated, the expenditure in 1929 was nearly three millions below the estimate. The provision of money to meet the increase of salaries, as recommended by the Salaries Commission, is, however, a new factor, and it is proposed to introduce fresh taxation, including that which is the subject of the present resolution. The fresh taxation will, it is anticipated, yield this year a net sum of \$428,000.

The fall in the dollar occurred early in the year, and every endeavour has been made to meet the altered circumstances by curtailing expenditure where possible, quite apart from any savings which may occur owing to our inability to spend all the provision. Some services, however, as for instance sterling pensions, interest and sinking fund on the Consolidation Loan, and passages, have to be paid for in sterling and do not admit of reduction. It is difficult to say at the moment exactly what additional expenditure will be necessitated owing to the fall in the dollar, but it will be necessary to draw to some extent on our reserves, most of which are in sterling. The amount involved, however, should give no reason for alarm. Our reserves stand at present at a substantial figure, and will be ample to meet any deficit on this year's working and to pay for loan works carried out both this year and next, the cost of which will be repaid out of a future loan, which will be issued when the time is ripe. It will, however, be necessary to balance our current expenditure and current revenue for 1931,

apart from expenditure on legitimate loan works, which can be paid for eventually out of the proposed loan.

The resolution was carried.

MOTOR SPIRIT ORDINANCE.

THE ATTORNEY GENERAL moved the first reading of a Bill intituled "An Ordinance to provide for the taxation of Light Hydrocarbon Oils." He said: Attached to the Bill is a memorandum of Objects and Reasons which has already been published in this morning's papers and which, in accordance with custom, will be published in the *Hansard* report. It will therefore not be necessary for me to say more than that the object of this Bill is to impose a tax of 15 cents a gallon on all Light Hydrocarbon Oils, a list of which is given in the fourth schedule on Page 30, which are in the Colony on and after 1st July next, with the exception of light hydrocarbon oils, imported as ship's stores, on local Government account or on account of the Imperial Government, and with the additional exception of Light Hydrocarbon Oils manufactured in this Colony and removed under export permit. I beg to move the first reading.

The Colonial Secretary seconded and the Bill was read a first time.

Objects and Reasons.

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

1. The object of this Ordinance is to tax, with certain exceptions mentioned in section 6 (3) and (4), all light hydrocarbon oils used in the Colony.

A drawback equal to the amount of the duty will be granted in respect of oils on which the duty has been paid, if such oils are exported. Necessary Regulations providing for drawback are contained in the First Schedule to the Ordinance.

2. The amount of the duty is fifteen cents per gallon, but provision is made in section 7 for varying the same.

3. A convenient title for the Ordinance is the Motor Spirit Ordinance, 1930.

4. The Ordinance follows closely the provisions of the Tobacco Ordinance, No. 10 of 1916, as amended by Ordinance No. 3 of 1929.

5. Section 2 defines hydrocarbon oils and light oils, and a list of light oils is contained in the Fourth Schedule to the Ordinance.

The definitions are adapted from section 2 of the Finance Act, 1928. (18 & 19 Geo. 5. Ch. 17.).

6. Sections 3, 4 and 5 are based on the corresponding sections of the Tobacco Ordinance, 1916.

7. Section 6 (1) and (2) impose duty at the rate of fifteen cents per gallon on all light oils imported into the Colony after the coming into force of the Ordinance and on all light oils imported before but landed after the commencement of the Ordinance.

Duty is also imposed on stocks of light oils exceeding one thousand gallons held by any person at the commencement of the Ordinance. These two sub-sections are based on section 2 of the Finance Act, 1928.

If hydrocarbon oils be imported and manufactured into light oils such light oils shall also pay duty, but if the manufactured light oils are exported under an export permit, no duty is payable. No duty is to be payable on light oils purchased or imported as ships stores or on account of His Majesty's Government or the Government of the Colony.

8. Section 7 to 34 inclusive are respectively based on sections 7 to 36 inclusive of the Tobacco Ordinance, 1916, as amended by Ordinance No. 3 of 1929.

9. Section 35 empowers the Governor in Council to grant to licensed importers, conditional exemption from any of the provisions of the Ordinance. The precise conditions have not yet been settled but the object in view when settling them will be to extend to well established oil companies of high financial standing every reasonable facility for the payment of duty without unnecessary interference with the expeditious and convenient handling of their oils.

10. Sections 36 to 61 inclusive are respectively based on sections 37 to 64 of the Tobacco Ordinance, 1916, as amended by Ordinance No. 3 of 1929.

11. The first Schedule contains regulations relating to Drawback, General Bonded Warehouses, Licensed Warehouses and Manufacturers and Retailers Licenses.

12. The Second Schedule contains forms for use under the Ordinance.

13. The Third Schedule gives a list of fees payable in respect of warehouses and licenses.

14. The Fourth Schedule has already been referred to in paragraph 5 hereof.

COLONIAL SECRETARY'S LEAVE.

HON. SIR SHOU-SON CHOW:—Sir, Before we retire, may I ask your permission to say a few words? As this is the last meeting of this Council at which the Hon. Colonial Secretary will be present, before he goes on a long leave which he has so well earned after four years' arduous work, not only as Colonial Secretary but as the Officer Administering the Government, I would like to take this opportunity, on behalf of my Unofficial colleagues and myself, of wishing him and Mrs. Southorn a pleasant voyage and a restful vacation (Applause).

THE COLONIAL SECRETARY:—Thank you very much, Sir Shou-son.

ADJOURNMENT.

H.E. THE GOVERNOR.—The Council will adjourn until Thursday, 26th June.

FINANCE COMMITTEE.

Following the Council, a meeting of the Finance Committee was held, the Colonial Secretary presiding.

Votes totalling \$6,336, contained in Message No. 7 from H.E. The Governor, were considered.

Item No. 70: Public Works Department:—Personal Emoluments, Salary to two Engineer Apprentices from 1.7.30 to 31.12.30, \$1,800.

HON. MR. R. H. KOTEWALL.—Is this item limited to two Graduates only?

THE CHAIRMAN.—Two this year. It depends, to some extent, on how many can be trained. An unlimited number cannot be trained. I do not know how many more the Director of Public Works considers he can train.

THE DIRECTOR OF PUBLIC WORKS.—We intend to start with two now. Only one has been nominated by the University at present.

HON. MR. A. F. B. SILVA-NETTO.—May I ask how the selection is made? I think the appointments should go to the students obtaining the highest marks.

THE CHAIRMAN.—They are nominated by the University.

All the votes were approved.