

*13th October, 1938.*

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**PRESENT:—**

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

HIS EXCELLENCY THE GENERAL OFFICER COMMANDING THE TROOPS (MAJOR GENERAL A. W. BARTHOLOMEW, C.B., C.M.G., C.B.E., D.S.O.).

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

THE ATTORNEY GENERAL (HON. MR. J. A. FRASER, M.C., *Acting*).

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

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

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

HON. MR. R. M. HENDERSON (Director of Public Works).

HON. MR. T. H. KING (Commissioner of Police).

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

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

HON. MR. J. J. PATERSON.

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

HON. MR. LO MAN-KAM.

HON. MR. S. H. DODWELL.

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

HON. DR. LI SHU-FAN.

HON. MR. A. L. SHIELDS.

MR. B. C. K. HAWKINS (Deputy Clerk of Councils).

Present by invitation of His Excellency the Governor were His Excellency the Commander-in-Chief, Vice-Admiral Sir Percy Noble,

K.C.B., C.V.O., Lieut. Cmdr. P. H. Matheson (Flag-Lieutenant, H.M.S. Kent), the Right Rev. H. Valtorta, Vicar Apostolic of Hong Kong, the Hon. Sir Robert Kotewall, KT., C.M.G., LL.D., and Dr. Cecily Williams.

### **MINUTES.**

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

### **PRESIDENT'S ADDRESS.**

H.E. THE GOVERNOR.—Honourable Members,—The presentation by Government of the estimates for the next year is a suitable occasion for a short review of the circumstances in which the Colony finds itself and for an indication of the intentions of Government in respect of the Colony's principal problems.

Before beginning that task, which I will perform as briefly as I can, I take the opportunity to express the hope that the new method of dealing with the estimates, which my predecessor foreshadowed and I have gladly approved, will in practice commend itself to you. The debate on the resolution shortly to be moved by the Honourable the Financial Secretary will, it is hoped, give an opportunity to members to discuss the general financial policy of the Government; criticism of details in the draft estimates, on the other hand, will, I suggest, be more appropriate to subsequent discussions in the Select Committee, to which I expect the draft estimates will be referred, or, alternatively, to a later stage of the discussion of the resolution in Council.

### **Economics and Finance.**

If I pass quickly over the economic aspect, in the narrower sense of the words, of the Colony's affairs it will be because, so far as finance is concerned, I do not wish to take the Council's time on a subject which will be fully set before them this morning by my honourable friend when he addresses himself to the principal business of to-day's meeting. There are only two major items of financial policy of which I will make mention: the first is the change in the system of water finances and the second the method of making what is known as the military contribution.

Regarding the former, I hope that the scheme now approved, which is set out in detail in the estimates, will be found to be a satisfactory compromise between the merging of water finances in the general revenue and expenditure and the complete separation which some have advocated. The new arrangements are designed to secure ultimate control by Government while ensuring, firstly, that adequate provision is made for the maintenance of the undertaking's capital equipment and, secondly, that water consumers pay no more and no less than is necessary to meet the true costs of supply.

As for the military contribution, I could not fail to be struck, soon after my arrival, by the innumerable practical difficulties produced by the present method of calculating the contribution and I addressed the Secretary of State some months ago proposing a new method of assessment which would do away with those embarrassments. I have not yet had a reply from the Secretary of State, but I sincerely trust that some improvement in the present method may be agreed in the near future.

THE OUTLOOK.—Turning to economic issues in general it appears, at any rate on the surface, that the actual financial outlook is satisfactory. With a large nominal surplus and a prospect of a larger revenue this year than ever before in the Colony's history, there seems to be no danger of shortage of cash; though it is pertinent to add that conditions in the Far East make it advisable to review the figure which has in recent times been looked upon as a sufficient cash balance, *viz.*, \$10,000,000. But the economic problems of a community are not confined merely to questions of cash finance; they include also the right development of the essential social services which bring in their own returns. As the Financial Secretary's memorandum makes clear, the estimates of expenditure which are now before you show big increases in the fields of public health and public safety, including defence, and much of that increased expenditure must be looked upon not only as permanent but also as indicative of greater demands of the same nature in the future: I shall indicate later a material increase under the head, Education, which results from the report of the Teacher Training Committee. This report was not taken into consideration when the department's budget was being framed. On the other hand, while the Colony is not likely to experience financial stringency this year or next, it is not to be expected that its revenues will maintain their present dimensions, partly fortuitous as they are, when Sino-Japanese hostilities come to an end. The prospect must be faced, therefore, that either the policies represented by these developments of the social services must be reversed or more revenue must be found. The former alternative is, I hope, unthinkable: as for the latter, it will not be seriously contended that this community is heavily taxed at present and I believe that I correctly interpret the sentiments of the majority in asserting that further taxation to provide the amount necessary to support and develop those policies could be borne without hardship, provided that fair and equitable means of levying it are found.

How that should be put into effect I am not prepared at this stage to say: it is a subject for close expert examination. Our present sources of revenue are few and not very flexible. Moreover, owing to our special economic conditions, certain obvious sources of revenue appear to be ruled out; but I am sure that it would not be beyond our abilities to devise means of broadening the basis of taxation in the Colony. I intend, therefore, in the near future to appoint a committee to make a thorough, but I hope not prolonged, examination of this problem, which I believe to be, on a long view, the most important financial question now facing the Colony.

STATISTICS.—While on the subject of economics I may mention my intention to create a Statistical Branch of the Colonial Secretariat. In many respects the statistical information at the disposal of this Government is deficient or unscientifically arranged; there is a serious lack of machinery for the co-ordination of such statistics as exist, and in nearly every case these are crude. In such circumstances it might with some truth be alleged that figures are given to us to conceal the facts. The first-rate importance of well-digested and well-correlated statistics to a Colony, which is so largely dependent upon commerce and has, for example, such grave population problems as Hong Kong, is indisputable and the move will, I hope, be appreciated locally.

TRADE.—The subject of economics leads naturally to that of trade: the main facts of the situation are too well-known to call for recital here. Summarised they are that the total visible trade of the Colony was during the first eight months of this year greater than for the same periods in 1937 and 1936 by 15% and 58% respectively. As, however, this apparent prosperity is due to the misfortunes of our neighbours it is in no sense gratifying to its immediate beneficiaries.

### **Transportation.**

The problems of the Colony relevant to transportation are numerous and of first-rate importance. Hong Kong is classed among the principal seaports in the world; it is in process of becoming a very important junction for an increasing number of air services and there is a prospect of a big increase in its railway traffic. It is scarcely necessary to add that these problems cannot be considered altogether independently of each other.

THE PORT.—On 31st December, 1949, all existing pier leases expire and it is not the present intention of Government to renew them. This decision raises several vital issues, the principal one being whether the harbour is to be developed by Government, by an independent corporation such as a Port Trust, by private enterprise or by some combination of these methods. Closely connected with the problem of administration is that of the physical development of the harbour.

In view of the eminent importance of these questions I intend to ask the Secretary of State's assistance in the selection of one or more experts in port organization to whom they can be submitted for investigation and advice.

NEW TUG.—The question of whether the tug "Kau Sing" should be replaced was under discussion when the estimates were framed and they, therefore, contain no provision for that purpose. Government, however, has been investigating the advisability of building a vessel which could serve as a lighthouse tender, a training-vessel for the Hong Kong Naval Volunteer Force and a means of transport for the

officer in charge of the Southern District when visiting the island: it could also be put to occasional use for junk and sampan rescue from typhoons, anti-smuggling duty and so forth. The provision of such a craft seems to be highly desirable: accordingly, the Select Committee will be asked to express their views on the inclusion of amount *ad hoc*: the cost is put at between \$350,000 and \$400,000.

AIR SERVICES.—The rapid growth in the use of this airport, with its prospect of greater expansion in the near future, calls for consideration being given to the adequacy of the existing accommodation and administrative arrangements. As Honourable Members are aware, the aerodrome serves a dual purpose, being used both by the Royal Air Force and civilian aviators. It is to be expected that the former use will grow rather than diminish, but I am not able to make any useful forecast of its growth. Civilian machines, however, are coming in rapidly increasing numbers and tonnage. For instance, during the first seven months of this year 7,700 passengers used the aerodrome, that number being more than double that for the whole of 1937, while goods and mail tonnage for the former shorter period was four times that for the previous twelve months. The revenue from fees and licences collected by the Air Services Department also shows the very rapid growth of this traffic. In 1937 it amounted to \$25,800: the first seven months of 1938 have already brought in \$35,600 to which should be added \$15,800 on account of charges for storage, rent and rates collected by the Treasury.

There are five air lines already using the airport and it is inevitable that the number will grow. There is the further important factor that the modern aeroplane tends to take progressively longer runs in which to become air-borne. In view of these important issues I have appointed a small expert committee to examine the existing aerodrome in the light of its probable future needs and to advise upon what steps, if any, should now be taken to meet them.

THE KOWLOON-CANTON RAILWAY.—Physical connexion with the Canton-Hankow Railway, now an accomplished fact, will, it may be assumed, lead to a large permanent increase of traffic when peace again returns to China. It has already led to the institution of a bi-weekly through passenger service to Hankow and further traffic developments may be expected in due course. The necessity for the erection of godowns and the construction of additional sidings is clear and plans are in preparation to that end.

POSTS AND TELEGRAPHS.—The activities of the Postmaster General's department have undergone several changes and much growth during the last few months. On the one hand Messrs. Cable & Wireless have taken over all commercial wireless transmission reception and delivery. On the other, the department is now responsible for all our international wireless communications and reserved official services in the Colony; it also receives and distributes all matter coming from press agencies throughout the world. The increase in air-borne mail

has been phenomenal and the new "All Up" service with Great Britain will bring a great expansion of the Colony's letter mail. The progressively high standard attained by the Hong Kong Broadcasting Station is meeting with the appreciation which it deserves. I understand that the number of current licences now extant have passed the ten thousand mark, an increase of 18.5% over the number extant this time last year.

### **Forestry and Agriculture.**

The estimates reflect the intention of extending the area under forests and at the same time of tightening up conservation methods especially in respect of timber stealing. I understand that there has already been a notable decrease in this kind of larceny.

The Superintendent of the Botanical and Forestry Department has been instructed to report on the possibilities of agricultural development of the New Territories including the larger islands. An agricultural reconnaissance of Lan Tau will be undertaken shortly and if the results are sufficiently promising it will be followed up by an agricultural survey. Admittedly, it would, initially, be rather expensive to make a small-settlement scheme attractive to the peasant farmer type but I believe that it might prove remunerative in the long run. In this connexion it is noteworthy that of the 240 tons of fresh vegetables consumed daily in Hong Kong a little over 30 tons are grown in the Colony, the remainder coming from Kwangtung Province and elsewhere. The figures for fresh meat are equally striking. Obviously it is undesirable that the Colony should be so greatly dependent on external sources for such essential commodities. If such a scheme also succeeded in relieving Victoria and Kowloon of some of their unwanted squatters and unemployed the Colony would be benefitted in a second direction.

### **The Social Services. I. Health.**

LIVING CONDITIONS IN HONG KONG.—The two principal causes of human ill-being, malnutrition and slum housing conditions, dominate, I regret to say, the lives of a very large majority of Hong Kong's population. My predecessors set on foot two lines of inquiry which aimed at combatting these two enemies of human health.

NUTRITION.—The Nutrition Research Committee appointed by Government in 1937 has presented an interim report. The committee's main function was to foster research into local nutritional problems, and through its own efforts as well as through existing social welfare organizations to make available to the people of Hong Kong the advantages of the modern knowledge of nutrition.

THE Committee sponsored investigations into nutritional disorders of pregnant women at the Tsan Yuk Hospital and similar problems complicating the convalescence of cholera patients. It also carried out an important inquiry into the vitamin treatment of certain types of

malnutrition and accorded assistance to the Committee on the Overcrowding of Prisons by evaluating various official prison diets and by making recommendations thereon. Public interest was invited to the subject of dietetics, and a series of talks on feeding of infants, children and mothers was broadcast.

The Committee made two recommendations in its interim report, (1), the creation of a whole time Nutritional Research studentship, and (2), the enlargement of the Committee with a view to increased activities on its part. The former of these, although it has my full approval in principle, has not been carried into effect in the draft estimates as I am advised that it is doubtful whether a suitable officer will be available in the near future: the latter has been carried out and the reinforced committee is continuing its functions.

HOUSING.—The actual report of the Housing Commission, which will shortly be in the hands of members, is short but pregnant and there is appended to it a thoughtful and informative study of the principal features of Hong Kong's problems of this nature, made in the light of the past experience of other countries. This appendix is stated in the report to be "only one of a series of memoranda" which Mr. W. H. Owen, the secretary of the Commission, compiled for the consideration of members. I endorse very strongly the high commendation which the Commission gave to Mr. Owen's valuable services to them.

The report brings out the essential interdependence between slum clearance, hygienic housing of the poorer classes and town planning and, wisely, it makes no pretence of being final: its main recommendations, briefly summarised, are

- (1) That surveys of many different kinds should be put in hand at once, in order to establish the facts of the case:
- (2) that competent authorities be set up for that purpose:
- (3) that expert advice be sought when these preliminary investigations have been made, before remedial expenditure is begun on a large scale.

There are several other suggestions of less, but far from insignificant, importance, some of which, at any rate, could be put into effect in the near future.

The paragraph which deals with the requisite surveys is so cogent and comprehensive that I quote it here:—

"Before the actual clearance of slums can be undertaken, it will be necessary to prepare a survey of local industry and housing, each in relation to the other; to prepare a survey of existing buildings, particularly houses, in order to find the number and

situation of those which do not conform to acceptable standards; to prepare a key plan as a guide to redevelopment as opportunity occurs; to survey sites and prepare plans for possible new developments; and to prepare legislation and devise machinery necessary to give effect to town planning and housing schemes. This preparatory work and eventual constructional work will take many years and some form of permanent authority will be necessary to organize, carry out and control such an undertaking."

To cope with these surveys and the measures to be taken in the light of the information derived from them the Commission's counsel is that a consultative committee be appointed to advise Government on town planning and housing matters and that a permanent sub-department of the Public Works Department be appointed to carry out the actual surveys.

I have not yet had time to obtain the advice of the Executive Council on this very important matter: the views which I now express, therefore, must be looked upon as my own. Personally I am of the opinion that it would be better to set up at once a Town Planning Authority, containing technically equipped members, whose functions would be to make these investigations and, subsequently, to submit for Government's consideration programmes of town planning, slum clearance and housing, which, when approved, the Authority would carry out. In order to ensure *liaison* between the Urban Council and the Town Planning Authority I consider that the Chairman of the Urban Council should preside over the Authority. I hope that voluntary helpers will be forthcoming for the conduct of the social surveys which are necessary for this purpose: these will provide a field where University students would find plenty of scope and I trust that it will appeal especially to them.

A fundamental issue is raised by the Commission's observation that there is no escape from the social evils resulting from excessive population—excessive, that is, relatively to the number of people who could subsist themselves properly upon the wage-fund available in Hong Kong, in the words of the Commission "so long as an enormous reservoir of population exists at our door, unless it is a remedy which presents very serious difficulties, namely restriction of immigration." Such a policy of restriction would, I agree, be a momentous innovation, as far as Hong Kong's history goes, though it is commonplace in other parts of the world: nevertheless I hold that it is our duty to face facts and to do right accordingly.

How the reform of housing and town planning is to be financed is a matter which can safely be left to the future: it is quite obvious that such schemes as may be approved after the facts have been ascertained can only be put into execution on a plan which will extend over a long period of years; it is also apparent that it will be costly though not necessarily non-remunerative in the long run: further consideration at the present time of how the initial costs are to be covered would be futile.



My recommendations to the Secretary of State for the Colonies will be on these lines, unless in the meantime I am persuaded to the contrary. The whole subject is of first rate importance and I do not wish to stampede public opinion upon it: I shall, therefore, not submit any such recommendations until the members of this Council have had time to form and express their own views. On the other hand, the matter is not one which permits of indefinite postponement: I hope, therefore, that critics of the report and my expressed intentions will deliver themselves with no long delay.

PREVENTION OF DISEASES.—Intimately connected with the major issues relative to nutrition and housing two other activities need to be constant and ubiquitous if a high standard of public health is to be attained and maintained: these are infant welfare and antiepidemical work. The former goes to the root of the matter, *viz.*, the physical well-being of a human community is in direct ratio to the education in health subjects which it receives. The injury suffered here and elsewhere by young children through the ignorance of well-intentioned mothers is appalling. I am aware that much excellent work is being done by the charitably-inclined and by Government to this end; but the position will not be satisfactory till a network of adequate welfare-centres covers the whole Colony. I hope to see a big extension of this beneficent activity during the next few years.

Epidemiological work here is on the increase and, happily, without serious objection on the part of those subjected to its discipline. During the first six months of this year 823,530 persons were vaccinated against small-pox under the powers recently conferred upon the Medical Department, very little difficulty being encountered by the operators. The incursion of cholera this year following on the serious epidemic of 1937 proved that strong measures were necessary to combat it. Quarantine was declared against the infected parts in South China and was accepted by the Authorities there in a spirit of loyal co-operation which this Government appreciates highly.

OTHER PREVALENT DISEASES.—Tuberculosis, beri-beri and venereal disease are three diseases which make great havoc among the poorer classes here—obviously the first two go back to nutritional and housing defects: the third is under special investigation at the moment. Recently the arrangements made with the Shek Lung Mission for the treatment of lepers have been revised and extended.

SALE OF FOOD.—Two useful measures aimed at the prevention of diseases were passed by the Urban Council recently. One made compulsory the pasteurization of all milk sold to the public: this will come into effect on January 1st next. The other controlled the manufacture and sale of reconstituted milk and cream. The problem of how to deal with food-hawking, licensed and otherwise, is still to be solved. It is closely bound up with the very difficult problem of excessive population to which I have already alluded and may have to

wait for solution until peace returns to China. But the fact must not be forgotten that the practice of food-hawking endangers public health and is a sign of backward administration.

HOSPITALIZATION.—It is, I believe, generally known that some months ago I appointed a committee to report on the whole hospitalization system of this Colony with recommendations for its improvement. I understand that it is making very thorough and wide investigations into its subject.

REFUGEES AND DESTITUTES.—A full statement having been made in this Council recently of the intentions of Government for the housing of the Colony's surplus population during the winter it is unnecessary to dwell on the subject on this occasion.

Three camps are now in course of erection, *viz.*,

at North Point	capable of holding	1,512	persons.
at King's Park	" " "	1,368	"
at Ma Tau Chung	" " "	2,016	"
Total .....		4,896	persons.

The capital cost entailed is \$545,000: maintenance costs with the camps occupied to the full is put at approximately \$1,000 per diem.

COST OF LIVING.—The rise in the cost of living, in respect of rents, food and, occasionally, firewood is somewhat disturbing. The measures taken to counteract the tendency of the first of these have met with some success, though they have not, of course, solved the whole problem. A very considerable portion of the population is unable to find any accommodation whatever and, as I have just stated, the public purse is being put to heavy expenditure in order to house such persons during the winter. Food prices, it is reckoned, have risen to the extent that to subsist a labouring class family of four costs about 8% more to-day than was the case a year ago. The position is kept under close review in the Secretariat for Chinese Affairs.

### **The Social Services. II. Education.**

TEACHER-TRAINING.—The committee appointed to advise upon the training of teachers has produced a very useful report. I have not been able to discuss it as yet with the Executive Council, so what I say on the subject to-day must be regarded as my personal view. That view is, briefly, that the committee's advice should be implemented as soon as is practicable. Not all their recommendations are capable of immediate fulfilment: indeed it is clear that some of them were

put forward as schemes intended for gradual implementation as circumstances allow: all of them, however, appear to me to be acceptable on that understanding.

I consider that Government should initiate action upon the recommendations of the report as follows:—

- (1) *Post-graduate teachers.*—The post-graduate course which is advised for Anglo-Chinese school teachers would be held at the Hong Kong University and therefore presents no immediate problem. The average number in the class probably would be about twelve, six with and six without scholarships, and, for the first year or two at any rate, its cost would be unlikely largely to exceed that of the existing system.
- (2) *Non-graduate Anglo-Chinese and Vernacular School Teachers.*—(a) The nursing sisters' quarters belonging to the old Government Civil Hospital are being examined with a view to converting them into hostel accommodation and lecture and other rooms for the students taking the two two-year courses. If that proves to be impracticable it would be necessary to make some temporary arrangement and to give further consideration to the whole question of housing the Training Institute.
  - (b) The teacher-training staff should be drawn as far as is possible from the staff of the Education Department, they being replaced by the engagement of University graduates as masters on the department's staff.

It will be advisable to proceed tentatively with whatever scheme is ultimately approved and it is not possible, therefore, to make any firm estimate of expenditure: but the following gives a reasonable forecast of what the recurrent cost to the taxpayer would be if action were to be taken in accordance with my ideas on the subject, formed as they are in consultation with the Vice-Chancellor of the University and the Acting Director of Education.

The assumptions on which the calculation is based are that—

- (1) the Institute will train twice as many teachers for the vernacular schools as for the Anglo-Chinese schools;
- (2) in each of the first two years of the Institute's existence 24 teachers-in-training of each type will be accepted. In the third year and thereafter 24 will be accepted for the Anglo-Chinese schools and 48 for the vernacular schools;
- (3) by the beginning of its second year normal wastage will have reduced each year's new entry by one-sixth: this process would in its fourth year give the Institute a pupil population of 132;

- (4) 132 pupils in six classes would require as teaching staff 1 Principal and 7 masters.

On this basis the cost of the Institute in the fourth year is put at \$60,000, against which may be set the saving of \$20,000 which is the amount presently expended on evening and normal classes for teachers. Two tables are appended showing how these figures are reduced.

If these courses begin in accordance with the foregoing outlines at the beginning of the next academic year, viz., in September, the recurrent cost for 1939 will be in the neighbourhood of \$8,000.

### **Public Safety.**

DEFENCE.—Honourable Members will see considerable increases in the estimates under the head, Defence. I do not think that these will be adjudged as premature or exceeding the needs of the case. In passing I make mention with pleasure of the greater part to be played in the Defence Corps by Chinese.

It is a matter of regret to me that I am unable to provide for the new headquarters for the Volunteer Defence Corps, but their eventual siting depends upon the settlement of one or two wider questions which I hope can be brought to an issue of much advantage to the Colony. I have already mentioned that consideration is being given to the provision of a tug which would serve as a training-vessel for the Hong Kong Naval Volunteer Force. The big demands of the Air Raid Precautions Office must not, I fear, be regarded in any way as final; nor should it be assumed that they represent all that will be required even for the forthcoming year: as will be observed the greater part of the estimate is for "Mobilization Stores" at the round figure of a quarter of a million dollars.

PASSPORT CONTROL.—The rapidly increasing number of passengers landing at this port has for some time put a full passport examination service beyond the physical abilities of that section of the police force engaged in that duty. Such a service is a necessity at a port such as this and the estimates for next year contain a big increase of police personnel for that purpose. Opportunity has been taken of this expansion to transfer passport office work to the Police Department from the Colonial Secretariat.

CRIME.—From more than one source come disturbing statements that juvenile crime is on the increase. The Colony is not yet properly equipped to deal with young criminals: the Remand Home and the Industrial School do much valuable work: but they are, at best, expedients and it will, I fear, be necessary to provide a suitable institution in the near future.

HEROIN.—The increase in the use of this drug is highly deplorable. I am aware that persons of other races than Chinese bear a great guilt in this matter and I cannot express too strongly my detestation of their conduct. At the same time without local help they could do little harm to China and it is for the Chinese themselves to fight and win this battle. Every Chinese man or woman who takes any part in this nefarious industry is an enemy of his own nation and should be so regarded by every right-minded person. I hope that the time is soon coming when Chinese public opinion will range itself so forcibly against this man-killing industry and will put an end to it.

PRISON DEVELOPMENT NEEDS.—I have received from the recently arrived Commissioner of Prisons several suggestions for the re-organization of the local prison system, and these are under consideration. Their principal aims are—

- (1) more efficient reformatory methods,
- (2) reduction by various means of the numbers confined in Stanley Prison.

I hope that before long it may be possible to inform this Council of Major Willcocks' proposals in detail and that provision for some of them will be made in Select Committee.

PROTECTION OF WOMEN AND GIRLS.—The legislation passed this year for the better protection of women and girls has, I trust, provided sufficient safeguards against their exploitation by the unscrupulous. When the pressure upon the Attorney General's Department becomes lighter—and there is little prospect of that in the visible future—it may be considered desirable to recast the existing law in this regard. But there is no urgent need for such action. Honourable Members will be glad to learn that the recent legislation is working effectively and smoothly.

MOTOR TRAFFIC.—I am informed that there are now 5,000 motor vehicles and 10,000 motor drivers in the Colony. As a not unnatural result there has been a serious increase in accidents connected with motor vehicles. In these circumstances it would be unwise further to defer the revision of our motor traffic legislation and the inclusion therein of provision for compulsory insurance against third party risks. This would have been done long ere this but that this Government has been for some years awaiting draft model legislation on the subject: there seems, however to be little prospect of its arrival in the near future and I have requested the Attorney General and the Commissioner of Police to confer with a view to the production of the necessary bills and regulations.

### **Labour and Industry.**

LABOUR DEPARTMENT.—For some years the advisability of the creation either of a Labour Department or the post of Labour Officer within one of the Secretariats has been under consideration by this

Government and I have now decided upon the latter alternative. The duties of the Labour Officer will include supervision of employment, particularly in so far as the laws and regulations designed to benefit and protect labourers are concerned; investigation of the cost of living and wage-rates; the prevention and settlement by conciliatory means of industrial disputes; and the promotion of methods of collective bargaining. The first duty of the officer appointed to this post will be to study its somewhat voluminous literature and especially the terms of the labour conventions to which Hong Kong, as an important unit of the British Empire, should adhere, and thereafter to organize his office accordingly. For the time being at any rate he will be attached to the Secretariat for Chinese Affairs. The following figures, which show the growth of manufacturing industries in the Colony, may be of interest to Honourable Members. On December 31st, 1933, there were 300 factories registered here, employing 38,550 persons: on July 31st, 1938, there were 779 employing 54,090 persons.

BOILER INSPECTION.—Regulations governing the use and condition of boilers are in process of being drafted.

MINING REGULATIONS.—Recently Government reached the conclusion that the mining regulations of the Colony called for review and amplification. The Governor of Malaya very kindly put at my disposal Mr. A. E. Kershaw, M.C., one of that Government's Wardens of Mines, who has furnished a most useful report: action will be taken thereupon in due course. I take this opportunity to express this Colony's thanks to the Malayan Government for the help given by them.

### **Public Works Extraordinary.**

Very full information on the Government's proposals for Public Works extraordinary expenditure has been placed in the hands of members this morning. As the Honourable the Financial Secretary points out in his memorandum, next year's list contains a number of major works, to be financed from revenue, which form part of a five-year development programme and includes a new Government House. I invite the attention of Honourable Members to a sessional paper laid this morning, which makes public full details of that programme.

I also wish to bring to their notice item (*k*) in the Waterworks Schedule of New Loan Works which is to be found in Appendix VI (*c*). The intention is to begin next year investigative work in the Tai Lam Chung Valley, where another large storage reservoir is planned. This year's experience has shown how necessary it is, in order to keep pace with the constant increase of consumption, to add to our reserve supplies. It may be expected, therefore, if the investigations go well, that the 1940 estimates will contain provision for the commencement of large new works there. Meanwhile the completion of the catchwaters to supplement the supply running into the Shing Mun reservoir will be pressed on.

### Miscellaneous.

THE REVISION OF THE LAWS.—The issue of the first volume of the Revised Laws is welcome. The honourable and learned Attorney General informs me that other volumes are in preparation and will be laid in this Council in succession as soon as they are ready.

HONG KONG TEAM AT BISLEY.—I have been asked by Major Steers, who organized and captained the Colony's team at Bisley last July, to convey to Honourable Members a message of thanks for the financial help given by the Council. This alone enabled the team to appear: as is well-known, their shooting did them and the Colony great credit.

This address was printed before the invasion of the Kwangtung Province by Japanese forces had begun. The outbreak of hostilities so close to its border is of course a matter of grave and regretful concern for this Colony. As I have pointed out already, three-quarters of our fresh vegetable and a large proportion of our fresh meat supplies come from that province. Secondly, the Colony must face the prospect of an additional serious refugee problem arising from this invasion: as Honourable Members are no doubt aware, certain steps are being taken to cope with that eventuality: these together with the military and police precautions which are necessary in such circumstances will entail heavy charges upon the Colony's funds. Again, the interruption of Hong Kong's long-established trade with China will bring heavy losses upon the revenue and upon commerce.

I need not mention the many other ways in which this Colony will or may be adversely affected. I am confident, however, that the citizens of Hong Kong will face these new difficulties with good sense and dignity, relying upon the British Government to do all in its power to protect their interests.

I now commend the business of the session to the earnest care of the Council. (Applause).

### PAPERS.

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

Regulations made by the Governor in Council under the Pleasure Grounds and Bathing Places Regulation Ordinance, 1936, Ordinance No. 29 of 1936, dated 16th September, 1938.

Form prescribed by the Governor in Council under section 42 of the Merchant Shipping Ordinance, 1899, Ordinance No. 10 of 1899, dated 31st August, 1938.

Amendment made by the Governor in Council under section 2 of the Emergency Regulations Ordinance, 1922, Ordinance No. 5 of 1922, to the emergency regulations, dated 16th September, 1938.

Rules made by the Governor in Council under section 6A (1) of the New Territories Regulation Ordinance, 1910, Ordinance No. 34 of 1910, dated 21st September, 1938.

Order made by the Governor in Council under section 99 of the Public Health (Sanitation) Ordinance, 1935, Ordinance No. 15 of 1935, dated 21st September, 1938.

Amendments made by the Governor in Council under section 3 of the Adulterated Food and Drugs Ordinance, 1935, Ordinance No. 8 of 1935, to the regulations, dated 23rd September, 1938.

Amendment made by the Governor in Council under section 39 of the Merchant Shipping Ordinance, 1899, Ordinance No. 10 of 1899, to Table T of the Regulations, dated 23rd September, 1938.

Rescission of the Order made by the Governor in Council on the 19th February, 1938, under section 18 of the Quarantine and Prevention of Disease Ordinance, 1936, Ordinance No. 7 of 1936, dated 29th September, 1938.

Declaration under section 18 of the Quarantine and Prevention of Disease Ordinance, 1936, Ordinance No. 7 of 1936, dated 29th September, 1938.

Proclamation No. 10.—Court situate on the 2nd floor of the building known as the Magistracy appointed as Third Court.

Proclamation No. 11.—Juvenile Court, Kowloon, appointed an additional Court-house.

Administration Reports, 1937:—

Part I.—General Administration:—

Report on the Assessment for the year 1938-1939.

Part II.—Law and Order:—

Report of the Registrar of the Supreme Court, Official Trustee, Official Administrator and Registrar of Companies.

Report on the New Territories, District Office, North.

Report on the New Territories, District Office, South.

Part VI.—Public Works:—

Report of the Director of Public Works.



Sessional Papers, 1938:—

No. 12.—Report of the Housing Commission, 1935.

No. 13.—Draft Programme of Public Works.

He said: The Interim Report of the Nutritional Research Committee, Item No 14 on the list of papers, has not been published, but is available to Honourable Members who wish to see it.

### **FINANCE COMMITTEE'S REPORT.**

THE COLONIAL SECRETARY, by command of H.E. The Governor, moved that the report of the Finance Committee (No. 8), dated 15th September, 1938, be adopted.

THE FINANCIAL SECRETARY seconded, and this was agreed to.

### **RATING AMENDMENT ORDINANCE, 1938.**

THE ATTORNEY GENERAL moved the first reading of a Bill intituled "An Ordinance to amend the Rating Ordinance, 1901."

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. Clause 2 of this Bill adds to section 43 (1), (2) and (7) of the principal Ordinance words enabling any loss in revenue occasioned by the default of an owner or occupier of a tenement in refusing or neglecting to furnish particulars as required by section 4, or knowingly making a false or incorrect statement of such particulars, or wilfully making a false or incorrect statement for the purpose of obtaining a refund of rates under section 36 of the principal Ordinance, to be recovered summarily with interest at eight per cent. before a magistrate.

2. The amendment of section 43 of the principal Ordinance, made by section 3 of Ordinance No. 16 of 1931, deleted a provision in the opening words of that section, limiting the time for recovery of penalties for offences against the Ordinance to two years. The effect of that amendment was to bring into operation section 20 of the Magistrates Ordinance, No. 41 of 1932, limiting the time for the making of a complaint or the laying of information to six months from the time when the matter of such complaint or information arose. In consequence certain offences have gone unpunished; clause 2 of this Bill adds a new subsection (8) to section 43, extending the time within which proceedings may be taken to six years from the date of the offence.

3. Clause 3 of this Bill adds a new section 43A to the principal Ordinance, enabling the Assessor on the conviction of any person for

an offence under section 43 (1) or (2), to make a new valuation of the tenement in respect of which the offence was committed, and making rates payable upon that valuation from the date of the conviction until the next assessment.

### **STAMP AMENDMENT ORDINANCE, 1938.**

THE ATTORNEY GENERAL moved the second reading of a Bill intituled "An Ordinance to amend the Stamp Ordinance, 1921."

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

### **WATERWORKS ORDINANCE, 1938.**

THE ATTORNEY GENERAL moved that the Bill intituled "An Ordinance to provide for and regulate the supply of water" be recommitted to Committee for further amendments. He said: I would like to mention that certain amendments to this Bill were published in the *Government Gazette* of 7th October and are now in the hands of Honourable Members. I propose, therefore, to make these amendments in Committee.

THE COLONIAL SECRETARY seconded.

On the motion of the Attorney General, seconded by the Colonial Secretary, the Council then went into committee to consider the following bills clause by clause:—

#### **STAMP AMENDMENT ORDINANCE, 1938.**

#### **WATERWORKS ORDINANCE, 1938.**

THE ATTORNEY GENERAL proposed the following amendments to the Waterworks Ordinance, which were approved:—

Substitute "seven days" for "ten days" in the third paragraph of regulation 2 in the Schedule.

Delete the proviso to the first part of Appendix I under the heading "Price of water" and substitute:—

Provided that the above rates shall be increased by twenty-five cents in the case of any sum under five dollars, and by five per cent. in that of any other sum, payment of which is not made on or before the date notified by the water authority in his account as the date by which payment of such sum is to be made: And provided also that a fraction of any such increase which is less than ten cents shall be reckoned as ten cents.

He said: These are minor amendments of accounting and administration. It was found, on scrutiny by the departments which

will have to carry out the collection of fees and other payments under the Bill, that the arrangements first made would not work in practice, and these amendments are suggested in order that a workable scheme be evolved.

Upon Council resuming,

THE ATTORNEY GENERAL reported that the Stamp Ordinance had passed through Committee without amendments and moved the third reading.

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

THE ATTORNEY GENERAL reported that certain amendments to the Waterworks Bill had been made in Committee, and moved the third reading.

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

### **THE BUDGET.**

THE FINANCIAL SECRETARY moved "That the draft estimates of expenditure for 1939 be approved." He said: Your Excellency,—In moving the Resolution standing in my name, I want, without repeating the detailed figures and explanations which have already been circulated to Honourable Members, to amplify the general remarks you have made on the financial position by bringing out the principal features of our financial outlook.

Honourable Members have had the Estimates themselves and the accompanying explanatory memoranda for nearly a fortnight and I have no doubt have examined them in that time. Perhaps the first thing which will have struck them will be a certain unfamiliarity in form, various changes in the manner of presentation having been made. It so happens that a number of departmental rearrangements, of which the one most prominent in the public eye is the rearrangement of the Water Department, have coincided with changes of an accounting nature introduced by the direction of the Secretary of State; but I hope that the unfamiliar form has not proved too inconvenient and that eventually the changes will be found to have been advantageous.

Looking at the figures of revenue and expenditure, they show a small anticipated surplus for the current year, before allowing for certain accounting adjustments. That surplus is, however, illusory because at the end of the year we shall be owing nearly a million dollars of military contribution which must be paid next year. Revenue is still coming in well but money is going out even faster than early in the year. We are having to incur a great deal of expenditure of an emergency nature and, as Your Excellency has pointed out, the events of the last two days are likely to increase that expenditure.

The true outcome of the year is likely to be a small deficit rather than a small surplus. The short payment of military contribution ought to be kept very prominently in mind by all those who are inclined to take a rosy view because of the large nominal surplus shown in our monthly accounts.

As to next year, the Estimates show a probable deficit of \$2,400,000 which will reduce our available surplus to \$11,000,000 but if the various items of additional expenditure which Your Excellency has foreshadowed are included, the deficit will be over \$2,800,000.

I imagine, however, that what must strike anybody examining the figures of both revenue and expenditure most strongly is their magnitude. They are substantially higher than in any previous year and the question must arise whether that is a temporary phenomenon or whether these figures are likely to be continued in future years. It is with that question in mind that I propose to discuss the position.

The increase on the revenue side, which is spread over nearly all the main heads, is due primarily to the larger population of the Colony. So far as one can distinguish between the two it is the magnitude of the population rather than the extent and profitability of business activity which most influences our revenue, affected as it is principally by the consumption of liquor and tobacco, the extent to which rated properties are occupied or not and the extent to which the transport companies, the cinema theatres and the race tracks, all of which contribute their quota to the revenue, are used by the public. Two particular items of revenue, the Post Office and the Railway are affected by other special considerations to which Your Excellency has already referred, that is the development of airmail and the opening of the Canton-Hankow line. The second of these items is likely to be adversely affected by the recent spread of hostilities to South China.

Assuming therefore that population is the major factor in our revenue it would seem that we are very largely dependent on the course of events in China, to the disturbances in which the recent increase in population here is due. It must be the wish of everybody that a satisfactory end should be brought to the Sino-Japanese hostilities and once that end is reached I think it must be expected there will be some decline in the population and therefore in the revenue of this Colony. We hope of course that when peace is restored normal trade will again recover and that some at least of the manufacturing developments which have taken place in the Colony of recent months will not be merely temporary; but it would hardly be safe to assume that we can continue to receive from the existing sources of taxation so large a revenue as is expected for the current year or even so much as the lesser sum estimated for next year.

It must also be remembered that we are proposing to set against next year's expenditure a non-recurrent item, the \$839,000 withdrawn from the Government House and City Development Fund.

When we turn, however, to expenditure I fear that there is less prospect of reduction in future years. The main increases in the 1939 Estimates are shown under pensions; defence, including military contribution; police; medical; charitable services; and public works. I ignore the increases under Post Office and Railway which are higher running costs connected we hope with higher receipts.

The only head under which we can reasonably expect any substantial reduction after 1939 is that of military contribution and that because, as already explained, we are providing in 1939 for a large payment on account of 1938.

Under other heads of expenditure I fear that far from expecting reductions we must prepare for further increases. There will for example be an automatic and unavoidable increase under the head "Pensions." The figures given in the memorandum circulated with the estimates show an increase of some 30% between 1936 and 1938. Comparisons before that year are vitiated by exchange fluctuations but taking sterling payments alone the pensions bill has more than doubled since 1930. There is no sign that the increase is yet coming to an end. It must be remembered that the pension bill is in the main governed by the establishment and the salary scales in existence ten or twenty years ago and little can be done to reduce it immediately unless Government is to default on its obligations. Some attempt has been made to stem the tide of increase in the more distant future by the recent adoption in all the senior grades of the service of new scales of salary which provide lower pensionable emoluments.

A similar increase takes place annually in Widows' and Orphans' pensions. Here, as Honourable Members have pointed out on previous occasions, Government is in the position of having accepted contributions from officers and, while there is no foundation for the mischievous statements that Government makes a profit out of those contributions, it has incurred a liability to pay pensions in the future which will have to be met in due course. It is impossible to state without an actuarial valuation what that liability is. Those members who have previously taken an interest in this subject will however be pleased to learn that it has been decided in principle, with the approval of the Secretary of State, to recast the whole system of Widows' and Orphans' pensions and to establish an independent Fund into which will be paid a sum representing the present liability of Government on this account and annual sums for the future representing Government's contribution towards the pensions of the widows and orphans of public officers. The compiling of the information for the necessary actuarial valuation has already been started but it is a slow business and it is quite impossible to say when the actual change will take place. It will not, I may add, reduce the benefits to which officers are entitled under the existing Scheme.

The effects of the change on Government accounts will be, first, that we shall have to provide a sum, probably running into millions of dollars, representing the accumulated liability, necessitating a further

substantial diminution in our nominal surplus balance; and secondly that each year thereafter we shall have to provide in the estimates a contribution representing the true amount of the Government assistance given to the fund, while losing the receipts on the revenue side representing the officers' contributions. I am sure that Honourable Members will agree that it will be better to face our liabilities in this way instead of deferring them to an indefinite future but so far as future estimates are concerned it will mean an increase in net expenditure.

Another head which may be expected in a few years to show an automatic increase is that of public debt charges. We have been charging to loan account considerable capital expenditure on waterworks and other items but much of the actual money has so far been found from advances made out of our surplus balances. That cannot go on for ever and some day a loan must be raised to repay these advances. The amount advanced at the end of the current year is expected to be something over \$12,000,000 and debt charges on that, at the same rate as are now being paid on the part of the loan already raised would amount to about \$900,000 a year.

Next there are a number of heads of expenditure in which increases are not automatic in the sense of arising out of legal commitments but are unavoidable unless substantial changes in government policy are made. These are defence services and the large group of social services, particularly health and education.

Under the head of defence in the estimates very much the largest item is the defence contribution. Apart from the possible change in the whole system, that expenditure is not within our control. Other defence expenditure is legally at least within our discretion but for all practical purposes we are compelled to an increase in it by forces beyond control of this Colony. Our expenditure is truly for defence purposes and is designed solely to help in meeting any possible attack, but it is rendered imperative by the fear of war which, ghastly as it seems to all intelligent people, overhangs and darkens the world to-day. The comparatively small heads of the Volunteer Defence Corps and the Naval Volunteer Force are increasing in cost as a result. Those increases must continue in future years so long as the dictates of policy require increases in the numbers of those forces and the supply to them of more and more expensive equipment in order to keep pace with modern military requirements.

The principal increase in defence expenditure for which we must allow is, however, in the sphere of air raid precautions. In the 1938 estimates a figure of \$50,000 was inserted, admittedly as a token vote. I regret to say that it has been necessary to exceed that figure very substantially and a supplementary vote will in due course be placed before Council for approval. The additional expenditure was decided upon after the printed Estimates before you were prepared and instead of the figure appearing in them of \$50,000 the revised estimate for

1938 must now be put at \$120,000. In 1939 the head shows a further large expansion to a total of \$338,065. Even that, however, is providing for a first instalment only of what the Air Raid Precautions Officer considers necessary for the protection of the civil population against air attack. I may say that his original estimates provided for expenditure next year of many times the sum now in the estimates and there can be no doubt that large further additions to equipment and stores will be necessary in subsequent years. Decisions have not yet been taken as to the exact supplies of, for example, gas masks which should be provided and most of this head is contained in the single sub-head of \$250,000 for all kinds of equipment under the title of Mobilization Stores, which may well have to be substantially supplemented even during 1939. In addition to the expenditure shown under the Air Raid Precautions head itself, provision is being made under Public Works Extraordinary for the erection of certain stores and other buildings in connexion with air raid precaution work at an estimated cost of \$200,000. Here again it may be necessary to come to Council later for approval of supplementary votes for other special constructional work connected with air raid precautions.

After external defence comes internal security. The Police Estimates are higher, owing mainly to increased personnel which is necessary in view of the greater population and other responsibilities resulting from the present situation in South China. It is unfortunately not possible to hope that those responsibilities will soon disappear.

Naturally connected with Police are Prisons. Under that head no increase is provided in the Estimates as now drafted but the plans for reform referred to by Your Excellency will entail expenditure of which estimates will have to be submitted to Council at a later date.

The next large increase is under the Medical Department. The memorandum which has been circulated gives details of the increased medical services which are proposed. Experience of the epidemics which have struck the Colony in the last two years must have brought home to everybody that it is just as necessary to strengthen our defences against disease as to strengthen them against military attack. Nor must it be imagined that the increases proposed next year are the end of the story. Proposed additions and improvements to hospital provision, the establishment of public health centres throughout the Colony and numerous other very desirable developments of a similar kind will demand in due course both additional personnel and increased recurrent charges for their maintenance and operation. Such additional financial commitments can only be avoided by abandoning what is the present policy of Government, of endeavouring to remove at least the most obvious menaces to the health of the Colony.

Connected with improvement of health are certain items of expenditure on relief and assistance to various classes of the community. The problem we have most prominently before us at the moment is that of the unfortunate persons who are destitute on the

streets as a result of the incursion of refugees from South China. A sum of \$150,000 has been provided under Charitable Services for the relief of such destitutes but if the camps which are now being erected have to be maintained in full operation at the cost which Your Excellency has stated for the whole of next year I fear that the expenditure will substantially exceed that amount. Moreover the possibility must be faced that many of these people who have become the responsibility of the Colony as a result of the disturbances in China will remain a responsibility for years to come.

You have hinted, Sir, at a policy of social amelioration involving if necessary a regulation of entry into the Colony. It may be taken as probable, or indeed certain, that such a policy, whether its primary purpose is improvement of housing or correction of malnutrition, must also involve expenditure, and large expenditure, by Government. I venture to express personal agreement with the objects of such a policy but it is my duty to emphasize to this Council the certain financial consequences in order that preparation may be made for meeting them.

Two other items of charitable expenditure deserve mention not so much because of their magnitude but because they illustrate the effect of social policy on finance. The Government has recently adopted measures which were very generally welcomed both in the Colony and in England to improve the protection afforded to certain classes of women and girls. As a result of those measures the Chinese Secretariat had in the first place to be strengthened by additional personnel to carry on inspection duties but it has also become responsible for the well-being of increasing numbers of girls and something has to be done to provide for them. Accordingly, the Po Leung Kuk has had to be asked to undertake increased responsibility with the inevitable consequence of an increased Government grant; and for similar reasons a new grant is proposed to the Tai Po Rural Orphanage.

Last among the group of social services is education. The estimates before you show very little increase in the proposed expenditure of that department for next year but the implementation of the policy as regards teachers training referred to by Your Excellency has not been provided for in these estimates. It is likely to require capital expenditure at once for the erection or conversion of buildings and eventually a steady annual expenditure on teaching staff and grants to students in training. Government has also recently adopted new codes governing subsidies to vernacular schools which are deliberately designed to encourage the provision of fully qualified teachers by offering increased scales of grant to schools possessing certain prescribed percentages of qualified teachers. As the schools react to that stimulus, in which they will be assisted by the new proposals regarding the training of teachers, the annual expenditure on grants is bound to increase very substantially.

The other big field in which a large increase in expenditure may be seen is under the head of Public Works. A plan, which is now



before Honourable Members, has been prepared providing for a number of big works which it is proposed to undertake in the next five years. I doubt if anybody will argue that any of those works is not necessary and, in most cases, overdue. Criticism is likely to be directed, I think, to the omissions, e.g. the new Mental Hospital and a new Queen's College, rather than to the items included. As the Sessional Paper shows, it is desired to maintain expenditure on this programme at a steady annual figure in future years and while the plan is such that postponement could be made, the works are in fact urgently needed and ought not to be put off if it can be avoided.

It may be asked whether some of these could not be met from loan. I think that would be possible, but I believe that it is always sound finance to meet as much as we can out of revenue. I have already pointed out that to meet important works from loan is merely to postpone payment because the charges have to be met eventually. We have in fact effected a compromise between loan and revenue because all waterworks capital expenditure is for the time being met from the loan account.

Mention of water draws attention to another large increase of expenditure, that is the contribution of some 4 lakhs a year to the Waterworks Renewals Account. I suppose the ineradicable suspicion of Government's motives in this matter will make it difficult for the public to believe, but that contribution is a real charge on general revenue and represents, together with the loss of revenue which is expected to result on balance from the adoption of the new scale of charges, the cost of implementing the new water policy.

So much for the major increases of expenditure envisaged next year or in the near future. I must however add also some minor or less imminent increases which are likely to be entailed by other developments foreshadowed in Your Excellency's address. Many of these, for example the development of town-planning and the greater attention it is hoped to pay to agricultural and forestry developments, are in the nature of investments and may be expected to yield a return in the years to come by way of increased revenue or economies in public expenditure. But I fear that in nearly every case the first thing necessary to implement all those developments will be more money.

Of recent years the expenditure of the Colony has been in the neighbourhood of \$30,000,000 with a tendency to rise. Next year we are contemplating an expenditure of nearly \$39,000,000 or if we deduct the special payment of military contribution, \$38,000,000. If the policies I have referred to are to be maintained, my successor of a few years hence may be presenting a Budget of \$40,000,000.

In suggesting that, I am deliberately trying to correct the impression of a rosy financial outlook which our soaring revenues may have given, but I am not by any means painting too gloomy a picture.

We are fortunate in being for the moment free of anxiety for the immediate future—in the financial sense, I mean—and the passing for the time being of acute financial stringency has enabled us to open the purse-strings a little more freely and to permit certain necessary—often very acutely necessary—expansions and developments, without reducing our estimated surplus balances at the end of 1939 below the \$10,000,000 mark which has been regarded up to now as the minimum reserve. But as Your Excellency has suggested, that is not a large reserve. With a \$40,000,000 budget in prospect it is no more than three months' revenue and it would undoubtedly be well to increase it, especially in view of the many uncertainties which still surround the Colony's future.

If this view of the outlook is correct, therefore, the problem is of finding means to meet the prospective increased expenditure. The alternative is to abandon or modify the policies which give rise to it. I believe that in every instance I have referred to it will be money well spent and money which this Colony as a community can afford to spend; but Government must consider how it can itself secure the necessary funds and this, I would urge, is the time to consider that question, not some years hence when we shall be already committed and faced perhaps with already depleted cash balances.

I now move that the Draft Estimates of Expenditure for 1939 be approved.

THE COLONIAL SECRETARY seconded.

H.E. THE GOVERNOR.—I think it will be convenient if I adjourn the meeting at this stage until 2.30 p.m. this afternoon to enable members to study the speeches already delivered.

When Council resumed in the afternoon, H.E. The Governor said: The motion of the Financial Secretary has been moved and seconded and it is now open for discussion.

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

HON. MR. J. J. PATERSON.—I beg leave to second.

HON. MR. CHAU TSUN-NIN.—Your Excellency,—My Chinese colleagues and I desire to express our very deep sense of gratitude to Your Excellency for the many acts of kindness which you have shown to the large number of Chinese who have fled from all parts of China to seek sanctuary in this Colony; and while fully appreciating all that has been done for those who are here, we venture to encroach further upon the generosity of the Government by requesting that, if and when occasion

arises, Your Excellency will favourably consider the question of making a substantial grant from public funds for affording medical and other relief to the suffering in China. Such a friendly action is, I believe, well within the laws of neutrality, and, having regard to the fact that nearly 97 per cent. of the taxpayers in this Colony are of the Chinese race, I feel confident that this request will meet with general approval.

Your Excellency's recent visit to Canton and General Wu Teh-chen's return visit to the Colony have further strengthened the cordial relations subsisting between Hong Kong and the neighbouring province, and any charitable assistance of this nature to China will, I feel sure, have the same beneficial influence on the friendly relations between Great Britain and China.

HON. MR. LO MAN-KAM.—Your Excellency,—I listened with profound interest to the comprehensive and illuminating address which Your Excellency delivered this morning. As there has hardly been sufficient time for me to study and consider Your Excellency's statement, I propose to reserve any comments I may wish to make on it until the next meeting of this Council. In the meantime, however, I should like to make a few general observations.

First and foremost, I desire to express the warm gratitude of the Chinese community to Your Excellency for the courage, benevolence and humanity which have characterised your administration of the Colony. Your reply to the Colony's Address of Welcome afforded the Chinese ample grounds for hope that in all charitable measures which might be found necessary in connexion with the Sino-Japanese conflict, we could count upon the sympathetic consideration of Your Excellency. This hope has been amply realized. And we are indeed grateful to Your Excellency for your decision to erect refugee camps at an estimated capital cost of over half a million dollars.

I feel that no words are necessary from me to emphasise the pressing need for providing charitable and medical relief to the Chinese on account of the Sino-Japanese conflict. Such relief is a humanitarian cause which, as I venture to think, transcends any consideration of mere "profit and loss". But in view of some observations which appeared in the Press at the time when the Government's policy in regard to the erection of refugee camps was announced, which appeared to me to have been coloured by such "profit and loss" considerations, I invite the attention of this Council to certain remarks of the Financial Secretary. These remarks are contained in his extremely lucid memorandum on the financial position for 1937, 1938 and 1939, on which I venture to tender to him my hearty congratulations.

The Financial Secretary points out that, as regards 1937, the revenue exceeded the original estimate by \$4,436,118: that the expenditure was less than the original estimate by nearly \$150,000: that, as regards 1938, the revised estimate of revenue shows an excess of \$5,405,080 over the original estimate: and that the expenditure "of all kinds arising out of the emergency situation (including the epidemics of disease) amounts to \$768,622 exclusive of the \$550,000"

in respect of the construction of three refugee camps. The Financial Secretary attributes the increased revenue, as regards 1937, "to the general improvement in trade which characterized the first half of the year and the special increase in the population and activity of Hong Kong in the latter part as the result of the Sino-Japanese hostilities", and, as regards 1938, principally to various factors arising from these hostilities. It will thus be seen that the increase in revenue, for 1937 and 1938, comes to \$9,841,198. If one were to deduct therefrom say 1½ millions for increased expenditure directly or indirectly attributable to the same cause and, say, another million as being due to causes other than the hostilities, it is clear that the Colony has been benefited during the last two years to the extent of over 7 million dollars by China's life-and-death struggle for her very existence.

In the Budget Debate in October last year I ventured to make these remarks: "In times of calamity such as flood and famine the Government has frequently, in the past, shown its great sympathy with this Colony's Chinese neighbours by voting substantial sums for relief. The suffering is indescribable, and the need for medical succour is unprecedented. Is there any reason why Government should abstain from giving material assistance purely as an act of humanity because the occasion for such assistance has been caused, not by Heaven, but by a nation whose object, in the words of Lord Cranbourne, 'seems to be to inspire terror by indiscriminate slaughter of civilians'?"

At the present time no specific request is being made for any special grant out of public funds. But I do wish most respectfully to associate myself with all that my senior Chinese colleague has just said in this regard. If and when the Hon. Sir Robert Kotewall and my other Chinese colleagues and I consider it right and proper to approach Your Excellency with such a request, I venture to hope that not only will such a request receive sympathetic consideration by Your Excellency, but that it will be appreciated by every other member of this Council and by the general public that a strong case has been made out for such charitable and medical succour out of public funds, not merely on humanitarian grounds, but also on the basis of "profit and loss" consideration.

THE COLONIAL SECRETARY.—I rise by Your Excellency's permission to assure the Council that the amendment which has been proposed by the Hon. Sir Henry Pollock is acceptable to the Government.

H.E. THE GOVERNOR.—I should like to add that the request put forward by the Hon. Mr. Chau will have my consideration, but he and the other supporting members will not, I am sure, expect an answer from me this afternoon.

The amendment was put and carried.

#### ADJOURNMENT.

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