

**HONG KONG LEGISLATIVE COUNCIL.**

*16th January, 1941.*

**PRESENT: —**

HIS EXCELLENCY THE OFFICER ADMINISTERING THE GOVERNMENT (LIEUT-GENERAL E. F. NORTON, C.B., D.S.O., M.C.).

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

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

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

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

THE FINANCIAL SECRETARY (HON. MR. H. R. BUTTERS).

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

HON. MR. A. B. PURVES (Director of Public Works).

HON. MR. C. G. PERDUE (Commissioner of Police, *Acting*).

HON. MR. W. J. CARRIE (Chairman of the Urban Council).

HON. MR. J. J. PATERSON.

HON. MR. S. H. DODWELL.

HON. MR. LO MAN-KAM.

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

HON. MR. A. L. SHIELDS.

HON. MR. W. N. T. TAM.

HON. MR. T. E. PEARCE.

MR. C. B. BURGESS (Deputy Clerk of Councils).

**ABSENT: —**

HON. DR. LI SHU-FAN.

**MINUTES.**

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

**LOYALTY TO THE THRONE.**

H.E. THE OFFICER ADMINISTERING THE GOVERNMENT. —With the approval of the Council I propose that the following message be sent to the Secretary of State for the Colonies for transmission to His Majesty the King, timing it so that if he graciously pleases to send us a reply we should get it in time for the centenary celebrations. The form of the resolution I suggest is: That the Legislative Council of this Colony, on the occasion of the hundredth anniversary of the Colony's foundation, humbly renews the expression of its loyalty to the Throne, and its devotion to the Empire's cause. (Applause).

HON. MR. J. J. PATERSON. —I have very great pleasure in seconding that.

HON. MR. M. K. LO. —On behalf of my Chinese colleagues and myself, I desire most respectfully to associate ourselves with the resolution.

The resolution was carried unanimously.

**STANDING LAW COMMITTEE.**

THE COLONIAL SECRETARY. —By Your Excellency's direction I rise to announce the appointment of the Standing Law Committee for 1941.

The following Members have been appointed: —The Honourable the Attorney General (Chairman), The Honourable the Financial Secretary, The Honourable Sir Henry Edward Pollock, Kt., K.C., LL.D., The Honourable Mr. M. K. Lo and The Honourable Mr. Leo D'Almada e Castro, Junior.

**PAPERS.**

THE COLONIAL SECRETARY. —By command of Your Excellency, I lay upon the table certain papers, copies of which are in the hands of Honourable Members, except for Item No. 11 on the list, namely the List of statements and abstracts of reports, which are too bulky to print, but these are available for Honourable Members to scrutinize if they desire.

Order made by the Governor in Council under section 5 of the Dangerous Goods Ordinance, 1873, Ordinance No. 1 of 1873, suspending until further notice Regulation 164 (4) of the Dangerous Goods Regulations, 1940, dated 13th December, 1940.

Amendment made by the Governor in Council under section 3 of the Post Office Ordinance, 1926, Ordinance No. 7 of 1926, to the regulations, dated 17th December, 1940.

Resolution made and passed by the Legislative Council under section 3 of the Public Officers (Changes of Style) Ordinance, 1937, Ordinance No. 25 of 1937, on the 19th December, 1940.

The Trading with the Enemy (Specified Persons) (Amendment) (No. 12) Order, 1940, made by the Officer Administering the Government, with the prior approval of the Secretary of State, under section 3 (2) of the Trading with the Enemy Ordinance, 1914, Ordinance No. 25 of 1914, as amended by regulation 2 of the Trading with the Enemy Ordinance, 1914, Amendment Regulations, 1939, dated 17th December, 1940.

Order made by the Harbour Master under section 39 (17) and (18) of the Merchant Shipping Ordinance, 1899, Ordinance No. 10 of 1899, prohibiting junks, sampans, etc., from anchoring or mooring at certain places, dated 18th December, 1940.

Order made by the Controller of Trade under regulation 50 of the Defence Regulations, 1940, with the consent of the Officer Administering the Government, prohibiting the export, except by licence, of diamonds, dated 27th December, 1940.

Order made by the Controller of Trade under regulation 50 of the Defence Regulations, 1940, with the consent of the Officer Administering the Government, prohibiting the movement, except by licence, of rice to the New Territories, dated 27th December, 1940,

Register kept under the Pharmacy and Poisons Ordinance, 1937, Ordinance No. 8 of 1937, dated 3rd January, 1941.

Proclamation No. 1. —The Immigration Control Ordinance, 1940, Ordinance No. 32 of 1940, to come into force on the 15th January, 1941.

Administration Reports, 1939: —

Part II. —Law and Order: —

Report of the Chief Officer, Hong Kong Fire Brigade.

Part IV. —Education: —

Report of the Director of Education.

List of statements and abstracts of reports of the following Companies which have been deposited with the Registrar of Companies under the Life Insurance Companies Ordinance, 1907, during the year 1940: —

*Statements wider Section 12.*

The China Hong Nin Life Insurance Company, Limited.

The Sincere Life Assurance Company, Limited.

The Wing On Life Assurance Company, Limited.

The Luk Hoi Tong Life Assurance Company, Limited.

West Coast Life Insurance Company.

*Statements under Section 13.*

Tai Shan Insurance Company, Limited.

China Insurance Company, Limited.

The Central Trust of China.

**FINANCE COMMITTEES REPORT.**

THE COLONIAL SECRETARY, by command of H.E. The Officer Administering the Government, laid on the table the Report of the Finance Committee (No. 10), dated 19th December, 1940, and moved that it be adopted.

THE FINANCIAL SECRETARY seconded, and this was agreed to.

**PLACES OF PUBLIC ENTERTAINMENT REGULATION  
AMENDMENT BILL, 1941.**

THE ATTORNEY GENERAL moved the first reading of a Bill intituled "An Ordinance to amend the Places of Public Entertainment Regulation Ordinance, 1919." He said: The object of this Bill is to put an end to a nuisance which is explained in the Memorandum of Objects and Reasons. The practice of block-booking is well-known throughout the world, and in many places it is more convenient for customers to buy their tickets at an agency than to travel some distance and wait at the entrance of a theatre till the booking office is open. But here, as explained in the final paragraph of the Memorandum, it has become a racket and something more than a ramp; it has resulted in several assaults on members of the public and even in a street murder outside a theatre. It has a very distant connection with finance as well, because under the Entertainment Tax Ordinance, the tax vanes with the price paid for admission, and the price paid for admission when paid to these touts is never the price on which we can base the entertainment tax.

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 the proposed new section in the Plates of Public Entertainment Regulation Ordinance is to put an end to a ticket-selling racket which has grown into an intolerable nuisance.

2. Briefly, the trouble in that touts, acting for individuals or gangs who have bought quantities of tickets in advance, stand about in the streets adjoining and the entrance halls of and approaches to, cinemas, theatres and sports grounds, sometimes even obstructing the entrances, box-offices or turnstiles, importuning would-be entrants to buy their tickets from them, and often representing that all other seats are fully booked.

3. Not only have complaints against this nuisance been received from entertainment organizers and the public, but there is cause to believe that the operations of gangs or roughs, interested in the sale at their own prices of these tickets, have resulted in several assaults on members of the public and even in a street murder outside a theatre.

### **ENTERTAINMENTS TAX AMENDMENT BILL, 1941.**

THE ATTORNEY GENERAL moved the first reading of a Bill intituled "An Ordinance to amend the Entertainments Tax Ordinance, 1930." He said: This is in substitution of the Bill which was read at the end of last year and passed its first reading only. It is to the same effect except that it reduces the price of tickets free from duty to four cents. Under the Ordinance it is 20 cents, and it was proposed under the earlier Bill to reduce it to 14 cents. It is now proposed to reduce the price to four cents so that this Council, when it passes the resolution, will have a free hand to tax any admission price from five cents upwards.

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. It is provided by section 3 (1) of the Entertainments Tax Ordinance, 1930, (Vol. III of the Ordinances of Hong Kong, 1937 Edition) that there shall be charged, levied and paid on all payments for admission to any entertainment . . . a duty at such rates as the Legislative Council may by resolution prescribe.

2. Section 6 (1) (a) however provides that the duty shall not be charged on payments for admission to any entertainment where the Financial Secretary is satisfied that the charge for Admission is not more than twenty cents for each person.

3. The rates at present in force are as follows: —

Where the amount of payment for admission, excluding the amount of duty—

does not exceed 20 cents .....	Free.
exceeds 20 cents and does not exceed 50 cents .....	5 cents
exceeds 50 cents and does not exceed \$1 .....	10 cents
exceeds \$1 and does not exceed \$2 .....	20 cents
exceeds \$2 and does not exceed \$3 .....	30 cents
exceeds \$3 and does not exceed \$4 .....	40 cents
exceeds \$4 and does not exceed \$5 .....	50 cents
exceeds \$5 .....	50 cents for the first \$5 and 20 cents for each additional \$5 or part thereof.

4. As the War Expenditure of the Colony recently undertaken or contemplated exceeds the estimate of revenue from the War Taxation Ordinance, the question of introducing a Resolution into the Legislative Council providing for an increase in the above rates has had to be considered; and in this connexion it has been deemed desirable to reduce the maximum for duty free admission charges from 20 cents to 4 cents and at the same time to increase the duties on all other admission charges.

5. This necessitates amending section 5 (1) (a) of the Ordinance by changing the 20 cents exemption to 4 cents which is effected by clause 2 of the Bill.

#### **HOLIDAYS AMENDMENT BILL, 1941.**

THE ATTORNEY GENERAL moved the second reading of a Bill intituled "An Ordinance to amend the Holidays Ordinance, 1912."

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

On the motion of the Attorney General, seconded by the Colonial Secretary, Council then went into Committee to consider the Bill clause by clause.

Upon Council resuming,

THE ATTORNEY GENERAL reported that the Bill had passed through Committee without amendment, and moved the third reading.

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

**DRAFT ESTIMATES, 1941-42.**

THE FINANCIAL SECRETARY. —Sir, —I rise to move “that the draft estimates of expenditure for 1941-42 be approved.”

A detailed exposition of the financial position 1939, 1940-41 and the estimates for 1941-42 is contained in the memorandum already in the hands of Honourable Members.

Let me first summarise that financial position. We closed the year 1939 and entered the year 1940 with a general reserve balance of \$17,091,170, a handsome sum, but largely a nominal one. Most of the money had already been expended as advances in anticipation of loans. It was to improve the liquid position that Government in June last floated the second tranche of the 1934 Dollar Loan of which Government itself took up \$5,790,000 and obtained cash to the extent of \$5,640,000. That reserve of \$17,000,000, it is hoped, will not be appreciably diminished at the end of the current 15 months; in fact the memorandum, perhaps a little optimistically, anticipates a small increase. But it must be remembered that of the 17 million dollars with which we hope to commence the next financial year the \$5,790,000 already referred to has only a paper existence and represents an accounting expedient to meet past expenditure from future revenue, while by the end of next year a total of over 4 million dollars will have been advanced in anticipation of a future loan. The real reserve is, therefore, considerably short of the desiderated 10 million dollars, which sum is based on past figures of revenue and expenditure and is inadequate in present circumstances, being less than 2 months contemplated expenditure for next year. I have dealt with this matter of reserves at the outset to anticipate, and I hope prevent, any suggestion that we have an adequate hump on which we can draw if necessary to meet any deficit in respect of next year. We have in fact a nominal reserve of 17 million dollars, a real reserve of about 7 million and a public debt of 27 million.

I will now refer to the current 15 months and I do not propose to quote detailed figures, all of which are set out in the memorandum. Suffice it to say that the estimate of ordinary revenue approximated to that of ordinary expenditure, while the proposed separate war budget gave place to a new head entitled War Expenditure. I shall deal with War Revenue and expenditure first. Income Tax, which it was originally proposed to introduce to provide the necessary additional war revenue, was estimated to bring in annually 10 million dollars. The war taxation which was substituted for it was expected to bring in 6 million dollars. The revised estimate which I am afraid is somewhat on the optimistic side is \$9,700,000. When Mr. Caine addressed this Council on the Budget for 1940-41 he stated in this connection:

"We are proposing a standard rate of Income Tax of 10%, with a possible surtax on very high incomes. I will explain later more of the detail, but the yield at 10% was put by the Taxation

Committee at about \$10,000,000 per annum. I can at present give no reliable estimate of the costs of administration but they are likely to be only a small percentage. The local defence and war expenses are not likely to aggregate more than \$2,000,000 per annum and the balance payable to His Majesty's Government should be of the order of \$7,000,000 or \$8,000,000. I do beg, however, that nobody will hold these figures against me if they turn out wrong. There are no statistics whatever of total incomes in the Colony and we are compelled to do a lot of guesswork at this stage."

So far from local defence and war expenses not aggregating more than 2 million dollars per annum they have in fact aggregated almost 12 million in the last year, due chiefly to expenditure on A.R.P. and food reserves. Two contributions of £ 100,000 each have been made to H.M. Government bringing the total war expenditure to 15 million dollars. I may add in passing that this Colony is further contributing £ 200,000 per annum for the period of the war from the profits of its Exchange Fund, while almost a further £ 100,000 has been raised in the past year by voluntary subscription through the War Fund inaugurated by the *South China Morning Post* and *Hong Kong Telegraph*.

The excess of \$5,300,000 on war expenses has had to be met from ordinary revenue, and to increase that tobacco duties were raised in September. The tax on cash sweeps has been doubled and postage rates are about to be raised. The recent increase in railway charges has not been to produce revenue but to offset the increased cost of coal, and the aim of the further increase in the petrol duties was not to produce more revenue, but, by reducing consumption particularly in respect of private cars, to conserve foreign exchange and save tankage. With the assistance of this increased, taxation it is hoped that ordinary revenue, which has come in well all the year, will be sufficient not only to meet increased ordinary expenditure but also the war expenditure not covered by existing war taxation. I should like to remark in passing that it is difficult strictly to demarcate ordinary and war expenditure and that many items of expenditure in the printed estimates of this year and the draft estimates for next year are either due to or increased by the war.

I now come to the resolution before Council "that the draft estimates of expenditure for 1941-42 be approved." These estimates amount in all to \$62,389,776 inclusive of \$12,300,274 specifically classed as war expenditure. The estimated revenue is \$54,836,000, \$45,536,000 from ordinary sources, and \$9,300,000 from war taxation, leaving a deficit of \$7,663,776. There is one item in the draft estimates, namely a lighthouse tender for the Harbour Department, estimated to cost \$600,000, the building of which would in any case be conditional on happier times and the cessation of other expenditure. Omitting this item, therefore, from the estimates we are faced with a deficit of roughly 7 million dollars.



There have been two major considerations in framing the estimates, first defence, secondly social services. Defence, it is submitted, must in present circumstances come first, but it is also submitted that in the present financial position of this Colony social services must not be allowed to lag behind, nor even to stand still, but should advance so far as circumstances permit.

The major items in the defence budget for next year are 4 million dollars for the completion of the programme for the construction of tunnels, concrete pens, etc., for the protection of the civil population against air attack and \$5,220,000 for the construction of vessels to be presented to the Admiralty and War Department, in respect of which no expenditure has been incurred during the present year. No specific provision has been made for cash gifts to H.M. Government as these will depend on the financial position during the course of the year, but I venture to submit that in meeting from its own resources the relatively large local defence programme undertaken under Your Excellency's direction this Colony has made a definite contribution to the defence of the Empire.

Regarding social services, it is my firm belief that economic development must precede and be the basis of social welfare and these draft estimates include provision for a Fisheries Research Station, and an Experimental Agricultural Station in the New Territories. Provision for the building of the Fisheries Research Station was included in the printed estimates for the current year when it was anticipated that the cost would be met by a grant from the Colonial Development Fund. During the year a nucleus staff has been engaged with the approval of this Council and it is now proposed to erect the building itself next year from Colonial funds. These schemes should not only improve the nutrition of the population of Hong Kong but help to make the Colony more self-supporting in the matter of food supplies. The draft estimates also include provision for the daily collection of nightsoil from the tenements in the urban area by labour directly employed by the Sanitary Department, in place of the present system under which the nightsoil is removed by freelance coolies employed by the householders. This scheme is sponsored by the Urban Council and strongly recommended by my Honourable friend the Director of Medical Services, who is Government's adviser in health matters. The Urban Council has suggested, and Government favours the suggestion, that the additional annual expenditure of between 4 and 5 lakhs should be met by an increase of one per cent. on the rates. The existing unsatisfactory arrangements are estimated to cost householders half a million dollars annually, and the proposal will relieve those concerned of that expenditure and spread it over the community generally, which seems only fair in so far as the sewers provided for those whose tenements have flush systems have been paid for likewise from taxation by the community as a whole. Provision has also been made for an Infectious Diseases Hospital, and a new Public Mortuary and Disinfecting Station, Kowloon, for a new block for the Central Police Station and new

Police Stations at Kowloon Tong and Blue Pool Road. The introduction of a new subsidy code for vernacular schools is reflected in additional expenditure in the Education Department; and Government has again felt it its duty to increase, this time to \$760,000, the subvention to the Tung Wah Hospitals. Considerable expenditure has been undertaken to provide an adequate cemetery for the Chinese population at Wo Hop Shek, near Fanling; and road maintenance and Improvement will cost several lakhs. Provision has also been made under a new head for the recently established Immigration Department, but while it is hoped that the control of Immigration will be self-supporting it is not intended that surplus revenue should be derived therefrom. All items of Public Works Extraordinary are explained in the notes by the Honourable Director of Public Works already in the hands of Honourable Members.

I am afraid all of those measures will not find favour with the conservative, who will say cut this or retrench that, but if the Colony is to advance its it should, and it still lags far behind modern standards in many respects, it must have these amenities and if it must have them it must pay for them. The estimates have already been pruned to what must be considered an excessive degree by idealists who may condemn Government for having failed in the middle of a total war to build Jerusalem with its hospitals and health centres, its colleges and schools, in Hong Kong's green and pleasant land. We have tried to steer a middle course and have followed the golden mean of practicality as against the extremes both of ultra conservatism and radical change. As I have already stated these draft estimates involve a deficit of 7 million dollars. The 1% increase on the rates already referred to will, if approved, reduce that deficit to roughly \$6,500,000. How is that to be met? Your Excellency has already signed orders increasing by ten cents per gallon the duty on heavy oils to be used as fuel for heavy oil road vehicles and imposing a duty of ten cents per gallon on other hydrocarbon oils at present untaxed, which are estimated to bring in \$1,000,000 per annum, and an order further increasing the duties on liquor which are estimated to bring in \$650,000 per annum. It is proposed to increase the Entertainments Tax, to increase Estate Duty and impose a new tax on table waters, and an order to that effect under the Public Revenue Protection Ordinance has also been signed. There is no reason why the consumers of sarsaparilla and lemonade should not in their degree contribute with the brandy and whisky drinkers to the upkeep of the Colony. The amended Entertainments Tax should produce an additional \$300,000 per annum, the table waters tax \$300,000, and the increased Estate Duty \$600,000. Our prospective deficit is, therefore, reduced to roughly 3½ million dollars, though I must emphasize that all these calculations of revenue presuppose a continuation of the prosperity of the Colony.

It appears to me that there remains one way only to meet the remaining deficit which represents roughly the excess of war expenditure over war revenue and that is by increasing the war taxation.

Although the War Revenue Ordinance has secured considerably more revenue than was anticipated it has failed to secure enough to meet the revised war expenditure either in the current year or in 1941-42. The simplest way, and I must confess the way which first appealed to me, largely on account of its simplicity, is to increase the standard rates possibly by one half from 10% to 15%, but I am satisfied that this would emphasize to an intolerable degree the inequities and imperfections of the present compromise taxes. I have already stated that it was estimated that the four taxes would bring in 6 million dollars per annum. The revised estimate is \$9,700,000. But how is that composed? Salaries Tax is estimated to bring in \$1,000,000 as was anticipated, Property Tax \$2,300,000 against \$2,000,000 while Corporation and Business Profits should bring in \$6,400,000 against \$3,000,000, but this figure includes not less than \$5,500,000 in respect of Corporation Profits and only \$900,000 in respect of Business Profits, which is disappointingly small when it is remembered that businesses include all non-incorporated firms, and also professional men who do not pay Salaries Tax. We seem to be faced with three alternatives, first, to perpetuate and increase the existing inequity by increasing without other modification the existing rates, second, to amend radically the present Ordinance with a view to spreading its incidence more fairly over the community, third, without increasing drastically the present standard rates to revert to proper Income Tax which was the original proposal of this Government in 1939, and which Government has always considered to be the fairest form of taxation. In this connection I venture to quote my own words in introducing the War Revenue Bill in this Council in March of last year:

"The Government has accepted the recommendations of the War Revenue Committee and the bill which I am asking to have read to-day for the first time is a Government measure. It is, however, just and proper that I should state at this juncture that in the Government's view the taxation scheme framed in the bill will not be as equitable or as efficient a means of raising revenue as would be an Income Tax measure on the lines which you, Sir, and your advisers had in contemplation a few months ago.

"It may be anomalous that an Administration, with a competent majority on the Legislature, should deliberately promote one measure believing another to be its superior, but the explanation is not far to seek. This bill's principal purpose is to finance a not inconsiderable free gift from public funds to His Majesty's Government, and in such a case it would be improper to force upon the would-be donors by the use of that majority a taxation method to which the unofficial members of this Council had objected strongly and unanimously."

Far be it from me to seek to resuscitate a controversy that is dead and buried, but Government has a right to invoke the cooperation of all in finding the best means of meeting war expenditure which, I am sure, everyone will agree is unavoidable.

Circumstances have altered considerably since Government accepted with expressed reluctance the recommendations of the War Revenue Committee, and though Government does not propose to repudiate that acceptance, it feels, in view of the change in the financial position and the situation disclosed by the actual receipts from the four war taxes, that the principles on which the taxation is based should be reconsidered. I am accordingly authorised by Your Excellency to state that you propose to reconstitute the War Revenue Committee and to refer the matter to it for re-examination and advice. I venture in passing to invite the attention of Honourable Members to the fact that expenditure on the War Taxation Department itself both this year and next has been and will be kept considerably lower than the original estimate.

It only remains for me to add that the detailed preparation of the estimates of expenditure has been in the competent hands of Mr. Todd, who has also been responsible for the preparation of the memorandum which accompanies it.

Sir, I beg to move.

THE COLONIAL SECRETARY seconded.

HON. MR. J. J. PATERSON. —Before I propose an amendment may I thank the Hon. Financial Secretary for what I think is a most excellent speech and I am very grateful to him for it. I now propose, as an amendment to the resolution, that the draft estimates be deferred for consideration by a Select Committee comprising the Colonial Secretary, the Financial Secretary and all the Unofficial Members.

HON. MR. M. K. LO. —I desire to second the motion proposed by the Senior Unofficial Member, and in doing so I would like to associate myself with the remarks that have fallen from his lips as a tribute to Mr. Butters' excellent speech in introducing the Budget.

The amendment was carried.

### ADJOURNMENT.

H.E. THE OFFICER ADMINISTERING THE GOVERNMENT. —Council stands adjourned *sine die*.

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