

OFFICIAL REPORT OF PROCEEDINGS**Meeting of 28th February 1962**

PRESENT:HIS EXCELLENCY THE GOVERNOR (*PRESIDENT*)

SIR ROBERT BROWN BLACK, GCMG, OBE

HIS EXCELLENCY LIEUTENANT-GENERAL REGINALD HACKETT HEWETSON, CB,
CBE, DSO

COMMANDER BRITISH FORCES

THE HONOURABLE CLAUDE BRAMALL BURGESS, CMG, OBE

COLONIAL SECRETARY

THE HONOURABLE MAURICE HEENAN

ACTING ATTORNEY GENERAL

THE HONOURABLE PATRICK CARDINALL MASON SEDGWICK

ACTING SECRETARY FOR CHINESE AFFAIRS

THE HONOURABLE JOHN JAMES COWPERTHWAITTE, OBE

FINANCIAL SECRETARY

THE HONOURABLE ALLAN INGLIS

DIRECTOR OF PUBLIC WORKS

THE HONOURABLE KENNETH STRATHMORE KINGHORN

DIRECTOR OF URBAN SERVICES

THE HONOURABLE PETER DONOHUE

DIRECTOR OF EDUCATION

THE HONOURABLE KWOK CHAN, OBE

THE HONOURABLE HUGH DAVID MacEWEN BARTON, MBE

THE HONOURABLE DHUN JEHangIR RUTTONJEE, 019E

THE HONOURABLE FUNG PING-FAN, OBE

THE HONOURABLE RICHARD CHARLES LEE, OBE

THE HONOURABLE KWAN CHO-YIU, OBE

THE HONOURABLE KAN YUET-KEUNG, OBE

THE HONOURABLE WILLIAM CHARLES GODDARD KNOWLES

MR ANDREW McDONALD CHAPMAN (*Deputy Clerk of Councils*)**ABSENT:**

DR THE HONOURABLE DAVID JAMES MASTERTON MacKENZIE, CMG, OBE

DIRECTOR OF MEDICAL AND HEALTH SERVICES

MINUTES

The minutes of the meeting of the Council held on 14th February, 1962, were confirmed.

PAPERS

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

<i>Subject</i>	<i>GN No</i>
Draft Estimates of Revenue and Expenditure for the year ending 31st March, 1963.	
Memorandum on the Estimates, 1962-63.	
Report of the Sub-committee of Finance Committee on the Public Works Programme for the year 1961-62.	
Hong Kong Annual Report, 1961.	
Registration of Persons Ordinance, 1960.	
Registration of Persons (Re-registration) (No. 4) Order, 1962	A 11

QUESTIONS

MR FUNG PING-FAN, pursuant to notice, asked the following questions: —

- (a) Will Government inform this Council what amount of damage has been caused to properties, and the number of lives lost as a direct or indirect result of indiscriminate discharge of crackers during the recent Chinese New Year celebrations?
- (b) Will Government be good enough to assure the public that steps will be taken to exercise stricter control over the discharge of crackers?

THE COLONIAL SECRETARY replied as follows: —

Sir, during the recent Chinese New Year celebrations the discharge of firecrackers is thought to have been responsible for 128 fires occurring between the 5th and 8th February, and the damage caused is estimated very approximately at \$140,000. No loss of life resulted from the discharge of firecrackers, but during the same period 108 people were injured, 4 seriously. This figure includes 27 people who were treated for eye injuries.

Government is aware that there is considerable public concern over the extent of the damage and injuries caused, and it is proposed to consult very fully with responsible opinion in the hope that effective measures can be introduced to reduce the risk of fire and injury without at the same time interfering unduly with the long-standing Chinese tradition of setting off firecrackers at the New Year.

ADDRESS BY HIS EXCELLENCY THE GOVERNOR

HE THE GOVERNOR: —Honourable Members of Council, from year to year, for some time now, our economy has enjoyed increasing prosperity, which, in varying degrees, most of us have shared; but if, in a succeeding year, we should fail to leap that much higher again, the Jeremiahs will doubtless see the emergence of a crisis and prophesy decline. There is a danger of this kind, in reviewing 1961, since our recollections of the striking performances of the preceding year are still fresh. The trading results for 1961, although, once more, they make a record total in value, show no significant changes from the previous year. They reflect, in fact, the increasing competition we face in our markets. The value of total exports was \$3,930 million—a fraction less than last year—the cause a decrease of \$79 million in the value of our re-exports. An encouraging increase of nearly \$72 million in the export value of our domestic products largely offset this loss. The export value of these at \$2,939 million was 2.5% greater than in 1960, and they now comprise 74.8% of our total exports. Imports have risen by 1.8% and they exceed our total exports by just over \$2,000 million, but, in this connexion, I reiterate what I said last year: we can meet this adverse balance in our visible trade with our invisible earnings. I do not regard it as a cause for concern.

Now, I have just referred to increasing competition in our markets. We are encountering mounting difficulties, mainly in the export of our textile products and in more competitive trading in our best markets. To a limited extent over-supply in certain markets in 1960 led to a reduced demand during the first six months of last year, but, towards the end of the year, there were at least welcome signs of a quickening in our trade. To the brooding Jeremiahs I say that we can look back on 1961 with some satisfaction and that our achievements so far ought to encourage us. This, however, does not mean that I am blind to our future problems. 1962 may prove to be a crucial year in assessing the decisions we have to take about the pattern of our future trade and the strength of our economy. All of us must do all we can to make certain that 1962 is a year in which we secure as well as may be the future progress and prosperity of Hong Kong.

The recent census has underlined something which is of grave concern to us, and that is young people born in Hong Kong who will soon be seeking employment in numbers much greater than ever before in our history. They represent both a precious asset and a heavy responsibility. We can only use their potentialities and their energies if we can maintain our exports and find for these a still larger place in the world's markets. Our aim must be to increase our export trade by at least 10% a year; most industrialist countries regard that figure as the minimum rate of growth. We shall have to produce goods which are competitive and to promote their sale by every profitable means at our disposal. To make what we produce competitive we must find how to reduce our costs of production. Admittedly, we are at some disadvantage compared with many of our competitors because our raw materials come from abroad at prices we cannot control; we have no cheap natural resources of power; land for development is scarce and expensive to prepare. The trend for us is rising production costs, and this has been most noticeable in terms of wages. The reverse side of that coin, of course, presents a welcome image, signifying a higher standard of living for our wage-earners to enjoy.

In all the circumstances, there are but a few methods open to us to maintain and to improve our capacity in competition. One is greater productivity, which we can achieve, first, by a more efficient use of plant and staff and, secondly, by turning to new industries. I have noted with satisfaction that leading commercial and industrial associations, and notably the Federation of Hong Kong Industries which has sponsored management courses, are alive to the need to give instruction in new techniques. Conversations which I have had with one or two leaders in our community show that they are favourably impressed with the results of the first courses which have been sponsored.

I have stressed it so often and so have others—the importance of the second method. We simply must increase the range of our industries and of our products. On this occasion, I might put it this way. There is room not only for new industries but also for variations within the existing ones. Take our largest industry, the manufacture of textiles. I suspect some people in Hong Kong do not realize that we are a net importer of piece goods. Our manufacturers of made-up cloth cannot, as yet, draw from local resources all their requirements, either in type or in quality. Contrary to public opinion, products, however competitive, do not sell themselves. We in Hong Kong are at a disadvantage in having a very limited domestic market and, perhaps, in consequence, we are more conscious of the importance of export markets, despite the lower margin of profit they provide, a lower margin than is the case with other more fortunate countries. However that may be, we have not only to maintain existing channels of exports to existing markets, but also to find new outlets and new trading partners.

The success of our trade mission to Australia last July, which the Honourable J. D. CLAGUE led so ably, has persuaded the Trade and Industry Advisory Board to consider sending similar missions to the Middle East and South America. Again, one of the main reasons for the success of our trade mission to Australia was that we followed it up immediately by attending the Sydney Trade Fair. The Honourable Dhun RUTTONJEE led our delegation to that fair and we were fortunate in having him, for he has become something of an expert in this field. This year there will be an exhibition in Lagos and I hope our manufacturers will fully support our venture into this market.

I have said that this year could well be a crucial one for our trade. We are facing developments even more complex, and with even greater implications for our livelihood than those of 1961. Our textile exports account for about 52% of our total domestic exports, and this industry has had a difficult year in the face of further demands for restriction on the quantities which it may ship to the United Kingdom and the United States of America. These demands are likely to increase this year. As you know, the International Textile Conference at Geneva led to our subscribing, last November, to an agreement to limit our exports for the year ending 30th September of this year to the level of the 12 months ending June, 1961. In theory, the agreement sought an extension of the textile trade with the world, as well as methods of easing the inevitable adjustments in the economies of importing countries. And negotiations on the long-term agreement have now taken place, as you also know. My comment on these is that, while restrictive measures are most objectionable in principle and there are several features of the five-year agreement which disappoint us, the agreement itself at least limits the use of restrictions to "disruptive" situations and even then recognizes a right to expand exports. If used wisely and with forbearance, and if no country inserts a new factor into the situation, it may take the heat out of the issue of international trade and textiles, while preserving some degree of flexibility.

You will also not have forgotten that the British textile industry obtained a further undertaking from us last year to limit our piece goods and made-up exports until the end of this year. This agreement at least increased the basic quota and also, in the supplementary arrangements, gave some recognition of Hong Kong's right to a minimum proportion of the United Kingdom import market in relation to imports from other sources. I am afraid we must expect a further round of negotiations this year for an extension of this undertaking, and a complicating factor is the Common Market. Naturally, we anxiously await the outcome of the Brussels negotiations and hope for some acceptable solution to the difficult problem of preserving, so far as possible, Hong Kong's special position. Sir William GORELL-BARNES, from the Colonial Office, visited us for consultations last December and listened with sympathy and understanding to what we had to say.

Before leaving economic matters, I wish to say that I consider that the formation of the Cotton Advisory Board last year was a significant step forward in drawing together our diverse textile interests. Its deliberations have proved of assistance in these international negotiations.

You will see that, in our Annual Report, we have called our feature chapter "The Big Count—Census, 1961". Yet again we return to that fundamental problem of ours—people. Under the able direction of Mr. BARNETT, the Census Commission embarked on the first full census since 1931. It is already clear that the Commissioner and his team have tackled efficiently and scientifically a big operation, and I congratulate him and them. I also acknowledge the co-operation of the public themselves, including members of the Civil Aid Organization and many thousands of school children who volunteered their services as enumerators and chief enumerators.

At the moment I was addressing you last year, the field work of the Kowloon census had ended and that for the Island census had begun. And now, a year later, the tabulation work is almost finished and the first two volumes of the three volume Census Report are in the press. In the early days of reconstruction, after the war, we had much to do and we had few resources: any step forward was a step forward. When it is necessary to recover from chaos, one can tolerate minor dislocations. But there came a time when we had to husband and apportion carefully our resources, still limited, so that we used each not merely to good effect but to the best effect; and we had to have programmes so arranged that progress on one item did not disturb work on another. Without accurate figures of the size and characteristics of the population, planners had often to depend on guesswork which entailed frequent changes of plan and, what is fashionably called, agonizing re-appraisals. No doubt there will still be changes of plan and re-appraisals, but we should now have removed one major cause for them. We know that at the beginning of March 1961, we had approximately 3,130,000 people. We know that this population is growing at about 3.1/7th% a year, which gives us approximately 3,225,000 million people as I now speak. We must face the prospect of having four million people in 1966 or 1967. It is on this that we shall have to base our plans for the next five years.

The characteristics of this population give food for thought. Over 40% are young people under 15; 16% are children under 5. This is of great importance both in terms of education and of employment. The returns suggest that there is very little unemployment, and the employment details recently off the machines indicate that even underemployment is not so great as one might have thought it would be, since, except for special cases like the building trade with its casual

labour, and Tsuen Wan, where so many workers are reported to be on daily rates, the bulk of employed persons are claimed to be permanent employees on monthly rates.

Hong Kong is young in age as well as in heart. It appears now that there are about half a million children of primary school age. The number of primary school places in registered schools is 480,000, with over-age children occupying about 100,000 of these places. This suggests that there are about 120,000 children of primary school age without schooling; however, there are probably about 60,000 children in schools awaiting registration, although indeed most of these schools are in adapted premises and many of them are night schools. In the last year, the enrolment has increased by 58,000 and the anticipated increase in places during the next twelve months is 79,000. We have not yet reached our goal of universal primary education, but we are making good progress towards it. This has been dependent in the past, and will continue to be dependent, upon voluntary agencies providing for private schools and we must give full credit to these bodies.

The number of secondary school places has risen to 89,900, and, of 48,000 leaving primary schools last year, 30,000 were able to find places in secondary schools, mostly private ones. Apart from places which Government and Government-aided secondary schools offered, Government has continued to purchase places in certain private schools.

It is clear that we have reached a stage at which we must review the development of primary and secondary education in Hong Kong, and, for this, the census figures will be most helpful. The Board of Education will shortly have the chance to study an appreciation of this problem which must take into account children between primary school age and the statutory age of employment. We shall move as quickly as we can, but the question has important implication for the whole Colony, financial ones amongst others, and we must be sure of our ground.

Increased school enrolment has led to the need for more trained teachers, and, in addition to the new Northcote Training College now completed, a third training college is in being. Last year it functioned as part of the Grantham Training College in temporary premises in Kowloon.

We are enlarging our technical education to keep pace with expanding industry. The Technical College reported a record enrolment of over 8,000 students in full and part-time day and evening classes last September. The students find no difficulty in securing employment, which is surely something to think about for those whose sole concern is a "white-collar" job. At the secondary level of technical education, we are now embarked on Kowloon Technical School, which is an improved version of the present Victoria Technical School, while

three of our new secondary modern schools, with a vocational bias, are now in operation.

1961 was a proud year for the University, whose Jubilee celebrations aroused world-wide interest. The Institution of Electrical Engineers gave full recognition to the reinstated course in electrical engineering, and the Royal Institute of British Architects accorded recognition to both the intermediate and final courses in architecture. These successes are most encouraging and reflect great credit on those responsible for securing the necessary standards. The University's seven-year plan is entering its third year and the total enrolment has now reached 1,600.

The progress of the grant-aided Post Secondary Colleges towards University status continued. Government has accepted, in principle, the recommendation of the Chinese University Preparatory Committee to earmark an area of about 200 acres in the Sha Tin valley for a possible site for the new University, and we are now engaged in the appointment of a representative commission of experts to visit Hong Kong later this year to advise on the suitability of each of the grant-aided Colleges for admission to University status.

The results of counting the population bring us again to housing them. It appears that the urban areas of Hong Kong include some of the most densely populated in the world. The fourteen census divisions of highest density have 184,400 people living in 78.1/3rd acres; the next sixteen have 194,700 living in 134¾ acres. The most thickly peopled division is 3.84 acres round Peel Street and Wellington Street, where the density is 2,819 to the acre. These maximum densities are not as high as we had feared; nevertheless, they illustrate the serious over-crowding which the shortage of real living space aggravates so seriously. The census tables further show that the average size of a household is 4.37, and that there are nearly 600,000 households in the urban areas alone. In order to measure the extent of the housing shortage in Hong Kong, ignoring altogether the standards of accommodation and modern amenities, we turn to another of the tables and find that no less than 47,248 households, or say 215,000 people, live in circumstances which represent no proper accommodation at all—cock-lofts, roofs and so forth. On the other hand, set against this, it is interesting to note that approximately 13.5% of the total population are now living in resettlement accommodation and about 2.2% in flats which the Housing Authority and the Housing Society have built. These latter percentages are increasing and, by the end of 1964, if present plans materialize, there should be about 25% of the total population living in Government-provided or Government-assisted housing. I do not wish to overload you with figures on this problem. They may appear to have been excessive to you already, but the Census

Report makes even clearer than it has hitherto been just how stupendous a task we are facing in Hong Kong.

The responsibility which Government has accepted in this is heavy. During the year, in the resettlement estates, the Commissioner for Resettlement has housed 71,834 people. It is our intention to increase the pace of resettlement over the next five years to an average annual rate of over 100,000 persons. There are still over 500,000 squatters (including those on the roof tops of the urban areas) apart from a large number in the New Territories, and there are no grounds for complacency in tackling this problem. Meanwhile, the design of the existing multi-storey resettlement blocks has served its purpose adequately for many years; it is no longer desirable to retain it for future resettlement estates; and the Public Works Department has produced a modified design more adaptable to the terrain and is considering the addition of an eighth floor. The new design follows basically that of the new low-cost housing projects which the Housing Authority will administer. Rising costs, of course, mean that the rents for this slightly superior accommodation will inevitably be higher than those for the existing resettlement estates.

The Housing Authority is proving that it can accommodate families in density at from 1,500 to 2,000 to the acre in multi-storey flats. The research which it has been carrying out during the last few years is now bearing fruit. It now has 6,130 flats completed and occupied by approximately 38,500 people, and, at the end of the year, 8,149 flats were in various stages of construction. It has expanded this programme to include two further schemes—one at Kwun Tong and one at Tsuen Wan. These the Authority is financing without the aid of additional loans. The \$156 million revolving fund which Government approved should, by 1965, have provided housing for approximately 127,000 people in good, self-contained flats at a cost of about \$187 million.

Although the Authority still aims to house families with total earnings between \$300 and \$900 a month, it has been concentrating much of its effort on families with incomes between \$400 and \$600. The rents for most of the flats now being built will be under \$80 a month and more within the rent ability of the lower income group. The large families earning under \$400 a month will have to enter the category of those eligible for the new type of low-cost housing which the Public Works Department has designed and for which Government has a programme for housing 20,000 a year. The Housing Authority, as I have already mentioned, will take over the management of this.

A further contribution which Government makes to the supply of houses covers both the loans, now exceeding \$109 million dollars, to the Government Officers' Co-operative Societies for the construction of flats

for their members, and also the favourable land rates for employers of labour who make provision for their own employees.

Then again, during 1961, the Hong Kong Housing Society completed 1,024 flats, which housed 5,036 people. It has 2,135 flats under construction. These are well built and are well managed, and they form a valuable contribution to the Colony's housing needs.

Private enterprise has ever been most active in building. While the value of new buildings which private developers completed was approximately the same as in 1960, an analysis of the permits issued during 1961 for the demolition of buildings shows that, in all, just over 1,100 tenement buildings have been, or are about to be, demolished, to make way for redevelopment, practically all of which is in the urban areas. The number of permits has risen steadily from month to month, and, in nearly all of these redevelopment proposals, there is little or no restriction under the lease conditions. The trend that has followed as a consequence of this is, in my opinion, a disturbing one because of the possibility of over-development in areas already over-populated.

1961 was notable in several ways in medical and health matters. It was the tenth year of the present integrated programme for the control of tuberculosis. The size of this problem in our special circumstances has dictated the nature of our control measures. These have been the protection of young children with B.C.G. vaccine, ambulatory treatment of active disease using chemotherapy, and medical and surgical treatment in hospitals for those cases of curable tuberculosis most likely to respond to in-patient care. Voluntary agencies, with subventions from Government, have been largely responsible for the hospital treatment, while Government has developed B.C.G. vaccination and the ambulatory chemotherapy programmes. Last year, almost 80% of all babies born in Hong Kong received B.C.G. vaccine within three days of birth, and just under 29,000 cases of tuberculosis received continuous treatment at Government Clinics. Since 1952, the death rate from tuberculosis has declined from 158 to 60.1 in every 100,000 persons, and the percentage of deaths in young children has fallen sharply from 34% to 11% of the total tuberculosis deaths. These are striking figures and they must give us encouragement; but, of course, we are not in the least complacent. There are grave problems lying ahead of us, for instance, in connexion with the early treatment of adults suffering from undetected tuberculosis and the general control of the active disease in all the forms which can give infection to others. Government has invited two leading experts this year to survey the results achieved and to make recommendations about future policy. They will, of course, have every opportunity to consult all actively engaged in this major medical and social problem, for we must co-ordinate control measures to the highest possible degree and sustain the attack on all fronts.

With the Castle Peak Hospital of a thousand beds, opened last March, we began a new era in the management and treatment of mental illness. Our new legislation incorporates liberal ideas for the care of the mentally ill and we can claim to be well abreast of present day thought. There is also at Castle Peak the Drug Addiction Treatment and Rehabilitation Centre, set up for those drug addicts who come forward voluntarily to be freed of their addiction. We have already learned about the root causes of addiction as it occurs in Hong Kong and this will be of help to the complementary project on which the Society for the Aid and Rehabilitation of Drug Addicts is engaged at Shek Ku Chau.

I cannot here deal extensively with our medical problems, but I must record the continuing pressure on all our existing Government and voluntary hospitals. It continues unabated, and, as an emergency measure, we have added two additional wards for children to the Kowloon Hospital, and, by arrangement with the Anti-Tuberculosis Association, the Grantham Hospital has provided accommodation for the patients in the tuberculosis wards of the Queen Mary Hospital, and this assistance has released badly needed beds for the medical and surgical emergencies amongst children on Hong Kong Island.

Last August's outbreak of cholera was a challenge, and all sections of the public rose to meet it splendidly. The White Paper of last December has recorded the details of the emergency. The danger of a further outbreak during this summer is very real. We are taking precautions and an inoculation campaign has already started. We have learned a number of lessons from the cholera outbreak, the main one being that we can control epidemic diseases in our over-populated cities if all citizens are conscious of the risk and come forward for inoculation. This co-operation, of course, extends beyond inoculations for cholera, and we should not forget that last year there were 114 deaths out of 1,336 cases of diphtheria.

In the field of social work, we are concentrating on improved training as the basis for most effective, most constructive and most discriminating social work, aimed at setting people on their feet as self-supporting, self-respecting and productive members of the community. The Social Work Training Fund, now over three million dollars, was set up last year by law, and its income will powerfully support the training programmes. The Royal Hong Kong Jockey Club has opportunely donated a million dollars to supplement the original United Kingdom donation of two million.

Last year, we built our second Community Centre, with World Refugee Year funds from the United Kingdom, and we are honoured that Her Majesty The Queen consented to naming this The Princess

Alexandra Community Centre, and that Her Royal Highness herself visited it in person and showed great interest in it.

The steadily developing interest in social work is reflected in the increased competition for entry to the University courses in Social Studies as well as for entry to an introductory course in social work and a course in child-care, for which voluntary and Government efforts are jointly responsible. The Council of Social Service continues to be most active and there is evidence of greater public support for voluntary welfare agencies.

I now turn, for a moment, to our water supply problems. The major works at Shek Pik are going ahead well; the under-sea pipeline from Silver Mine Bay is well ahead of schedule; and the due date for completion is the end of 1963. The main interest is now turning to the integrated scheme associated with Plover Cove. This scheme, indeed, seems already to be regarded as almost an accomplished fact. I had hoped that the Consultants' full report would have been in our hands prior to this meeting. In the event, the investigations have taken longer than we expected, and we have received only a summary of the broad outlines of the report. This, however, is sufficient to confirm that the scheme is feasible. The first stage of the project for an integrated scheme is already in hand; it is for the provision of treatment and the storage of water both from our neighbours and from our own additional resources in the north. The second stage would be the Plover Cove dam itself, but, on this and on the subsequent stages, we still have much work to do, and I shall not speculate on our conclusions. I can say, however, that the water is there if we can afford it, and that at a price with which the conversion of salt water to fresh cannot yet compete.

Although the Public Works Department will not have fulfilled completely its programme of works in terms of the Estimates, it has done remarkably well and has exceeded the record performance of the preceding year. Apart from the construction work on the City Hall, there have been 180 Government building projects in varying stages of development. These works vary from the Queen Elizabeth Hospital, which is progressing fast with hopes of completion by April of next year, to the humble shelter in a children's playground. Expenditure on building works, including resettlement and low-cost housing, is running at well over \$100 million a year, and a recent review has shown that each successive year has been producing new records of achievement. Nevertheless, the pace is not enough and our intention, therefore, is to increase expenditure on buildings by an additional \$20 million a year, the work going both to private architects and to a suitably strengthened Architectural Office in the Public Works Department.

Our road network is continuing to expand and to improve. The now Lung Cheung Road came into being to meet a great need in North Kowloon, and we are already engaged on the waterworks tunnel to Sha Tin which we shall make large enough to provide eventually for a road. The Kwun Tong road is now extending to Yau Tong, while we are building better roads in the New Territories and making major improvements to existing roads in the urban areas which sometimes disturbs some of our correspondents to the newspapers. The expenditure on road works in recent years has risen 25% a year.

We have also had a host of town plans before us, including development plans for Sha Tin and several areas in the New Territories, and a large number of more detailed plans for the urban areas. Here again, the statistics of the Census Commissioner have been valuable, to verify planning previously carried out on the basis of assumption. This planning also depends on the existence of land, and the Public Works Department is well embarked on important reclamation schemes, at Kwai Chung and Tsuen Wan, at Kwun Tong, and on the Victoria waterfront, in the third stage of the Central Reclamation Scheme. All in all, I think the Director of Public Works, who has such a heavy load of engineering responsibility on his shoulders, has done an excellent job.

When I opened the Fisheries Exhibition recently, I was able to dilate on the extension and development of the fishing industry, and I need scarcely say more here; but I should like to refer briefly to the position of our farmers in the New Territories. Once more, they have had a satisfactory year and, fortunately, natural hazards this time included nothing so territory-wide as the typhoon of the previous year. Agricultural production continues its steady increase, both in quantity and in value, and prices have remained reasonably steady throughout the year. Rice farming continues to give ground to market gardening and to more intensive field cropping, but it was, nevertheless, a good year for paddy with higher yields, compensating for the reduced acreage planted. The pig raising industry is still expanding and, generally, farmers have benefitted from the steadily improving marketing conditions. Furthermore, they are drawing benefit from our water supply planning, because of the complementary arrangements being made for irrigation works.

A new department has come into being and its early performance has been most encouraging. Its *raison d'être* was my anxiety to find an efficient means of telling the man-in-the-street how to deal with those of his day-to-day problems which might require an approach to a Government department. I wished to ensure that he would know where to go, how to get a licence if need be, what to pay (or not to pay), and so forth. A Senior Administrative Officer was given the task

of mounting the Public Enquiry Service and of running it. After a careful survey, he opened an enquiry counter in the Secretariat in July. From that date until the middle of this month, his Department received 60,603 enquiries, over 22,000 of which were of substance, calling for answers of a detailed nature, while about 38,000 were for direction to Government offices. Slightly more than half the total number of enquiries of substance were connected with the vital problems of housing, taxation, travel, small businesses, employment and identity. 43% of the total number of enquiries have come from persons from Kowloon and the New Territories; they have crossed the harbour to seek the answers, and so, for their benefit, we are opening an enquiry counter in Mong Kok next month. I believe that we have met an important need and done something to guide the public and safeguard it in its day-to-day business. The Administrative Officer responsible, Mr. Tsui, deserves commendation for the way he has tackled this new service.

The Government continues to be most fortunate in the co-operation of so many public-spirited men and women, through their service on Boards and Committees, their active social welfare work, and their participation in such organizations as, for instance, the Kai Fongs. Those who think that my Honourable friends on this Council only work when they make appearances at these meetings could not be more completely wrong. Your duties make great demands on your time, notably in Finance Committee and on the various committees which work to that body, the Public Works Sub-committee and the new Sub-committee on Staff Increases which has done so much in connection with the preparation of the draft Estimates before us now. I am, as ever, grateful to my Unofficial colleagues, both on Executive Council and on Legislative Council, for their work and their advice, and I must add the Members of the Urban Council for the work they have been doing. That Council also has many working committees which take a great toll on the time of busy people, who, nevertheless, see it as their duty to render service to our two cities.

I also wish to take this opportunity to place on record my full confidence in the Civil Service of Hong Kong and my appreciation for their hard work. The Service, most deservedly, has a reputation which extends beyond the limits of Hong Kong for imaginative planning and exceptional resource.

It would take me much longer even than I have allowed myself this afternoon to describe fully Hong Kong's performance during the past year, its performance in so many fields of activity—commercial, industrial, social, as well as in that of administration. We can take heart from that performance, continuing and convincing evidence of the courage and ingenuity, the cheerfulness and great spirit of our people.

There are enough problems in all conscience to tax these qualities, but I know we can and shall surmount our difficulties, because I have faith in the people of Hong Kong.

Finally, I should like to refer to a delightful experience for us all. During the year, Her Royal Highness Princess Alexandra of Kent greatly honoured us by a visit of eleven days. Her beauty, charm and great humanity reached through to our hearts right from the beginning of her visit, and I know, in our eyes, that the visit was a supremely successful and happy one. I believe that Her Royal Highness enjoyed it all as much as we did. (*Applause*).

RESOLUTION REGARDING THE DRAFT ESTIMATES OF REVENUE AND EXPENDITURE FOR 1962-63

THE FINANCIAL SECRETARY moved the following resolution: —

Resolved that the draft Estimates of Revenue and Expenditure for 1962-63 be referred to a Select Committee composed of the Colonial Secretary (Chairman), the Financial Secretary and all the Unofficial Members.

He said: Your Excellency, I rise to move the resolution standing in my name.

Sir, I face the task of introducing the Colony's budget for the first time with some diffidence as I realize that I can aspire neither to the lucidity nor to the wit of my predecessor. I am also very much aware that during his ten year tenure of office he saw the Colony's annual expenditure rise from \$170 million to his last estimate of \$1,075 million and that he wound up his last budget speech with the prophecy that in much less than ten years more it would reach \$2,000 million. I fear that to-day we will be taking a first by no means inconsiderable step along this road.

I shall begin, as is customary, with a resumé of the final accounts for the year 1960-61. The revised estimated deficit of \$55 million, which, Mr. CLARKE hazarded a guess, would turn out to be a surplus in the region of \$5 million, in the event became a slightly larger surplus of \$14 million. This was reduced to \$5½ million on revaluation of our investments but as these are all dated stock this does not necessarily represent a real loss.

The net effect therefore was to increase the General Revenue Balance from \$406½ million to \$412 million. The eventual surplus was due mainly to increased revenue receipts which finally totalled \$859 million or 29% over receipts in the previous year; as the increase in taxation was estimated to yield \$35½ million only, or rather less than

a 5% increase, this was a most remarkable result. Expenditure at \$845 million was \$36 million short of the revised estimate but it is noteworthy that the expenditure on Public Works Non-Recurrent reached \$239 million compared with 1959-60's previous record figure of \$171 million.

I should add that issues from the Development Loan Fund exceeded receipts in 1960-61 by \$22½ million. Although the Fund is used for different purposes and in different ways from the Colony's general revenue, it is appropriate to consolidate the two when considering public finance as a whole. It would therefore be correct to speak of a deficit of \$17 million on overall account rather than the surplus of \$5½ million I have already reported.

I now pass on to ordinary Revenue and Expenditure for the current year 1961-62. The original estimate of revenue was \$914 million and of expenditure \$1,075 million, the budgetted deficit being \$161 million. This took account of increased taxation estimated to yield \$35½ million.

From almost the beginning of the financial year it seemed clear that our economic progress, as reflected in receipts of revenue, was continuing at a rate hardly less remarkable than in the previous remarkable year; and there has been no sign yet of a reversal of this trend. The revised estimate of revenue is now \$1,020 million; this represents, at 19%, a rather smaller proportionate increase than in the previous year (with increased taxation this time representing 4%) but is all the same a substantial achievement.

The results have perhaps been rather more uneven than in the previous year. Tobacco revenue has continued to disappoint and is likely to fall \$2 million short of the estimate. This is partly due to substantial removals from bond at this time last year in anticipation of an increase in duty, which exaggerated that year's revenue; but it seems also that the 50% increase in duty two years ago was a shock from which smokers have not yet fully recovered. There are no signs of substantial smuggling except in one type of tobacco to which I shall refer later.

Receipts from alcoholic liquors, too, have not shown any exceptional result but other forms of spending such as Entertainment Tax and Betting and Sweeps Tax have shown substantial increases. In connexion with the latter I understand that, although the Jockey Club's share of bets was reduced from 9½% to 7½% by the increase in tax this year, the sums accruing to the Club have not been significantly, if at all, reduced.

Stamp Duties have shown a remarkable rise from \$39½ million last year, and an estimate of \$40½ million for this year, to a revised figure of \$54 million; although the additional yield from the increased duty on

Bought and Sold Notes had been estimated at \$2½ million only. The revised estimate reflects a very high level of activity both on the Stock Exchange and in the land market. In connexion with the latter I understand that the value of land transactions in 1961 reached a total of \$2,058 million, compared with \$1,292 million in 1959 only two years ago when the total first reached the \$1,000 million mark.

Another remarkable, but fortuitous, increase has been in Post Office revenue where the revised figure at \$80 million is some \$17 million higher than the original estimate. This is largely due to the despatch of food parcels to China. It represents of course gross, not net, receipts.

The revised estimate for Rates is only \$1 million higher than the original estimate but it is noteworthy that in the revised estimate the yield from rates in Kowloon for the first time exceeds that from the Island.

Because Earnings and Profits Tax reflects the previous, not the current, year's experience, it was expected that the yield this year would be considerably higher than in 1959-60, although this was obscured to some extent by the volume of arrears collected in that year. The original estimate of \$174½ million included \$18 million from the increase in Property Tax; the revised estimate is now \$198 million, although the increase in Property Tax in fact brought in only \$15 million extra.

Land sales have also exceeded all expectations. This partly reflects increased values but also an acceleration of the programme of disposal of land. The previous year's record figure of \$62½ million has been surpassed by a wide margin; the original estimate of \$68½ million for this year was reached in the first week of January and the revised estimate is \$86 million. This does not include sales of industrial land at Kwun Tong which are paid for by instalments over as long as twenty-one years.

Expenditure has, as before, lagged behind and by the end of December was some \$143 million below three quarters of the estimate and a surplus of \$77 million had been accumulated. Expenditure tends, however, to accelerate in the last quarter, particularly in the field of Public Works, the pace of which can be adversely affected by weather in the earlier months of the financial year. The revised estimate is \$999 million, of which \$311 million represents Public Works. If the latter figure is achieved, it will be a noteworthy achievement in relation both to the original estimate of \$353 million and to last year's record figure of \$239 million.

Thus the original estimated deficit of \$161 million has, once again, melted away to give place to the revised estimate that there will be a surplus of \$21 million. And I suspect once again that the final figure will be higher, perhaps \$50 million or even more. My predecessor has

given me permission to put the blame for this error of forecasting on him, if blame it be, but has told me that he will accept no further responsibility in the matter. (*Laughter*).

One noteworthy feature is that I now expect revenue to defeat expenditure by a short head in the race towards the \$1,000 million mark.

I should add again that the picture of Government's finances is incomplete without the inclusion of the accounts of the Development Loan Fund. It is estimated that the Fund will show an excess of payments over receipts this year of the order of \$51 million, so that, overall, there is an estimated deficit on Government account of \$30 million. This estimated deficit in the Fund will cause it to overdraw its present resources by \$16 million. I will have something to say later about future financing of the Fund.

I might now follow my predecessor's example and add a word or two about bank deposits and advances, and the currency, as these have some bearing on the state of the economy and the future prospects of the revenue.

Bank deposits grew very rapidly in 1960, increasing from \$2,056 million to \$2,682 million, or 30%. A special feature was the very rapid rise in savings accounts from \$369 million to \$537 million, or 45%. Although I understand that some of these are not genuine savings accounts, the increase does demonstrate the growing banking habit of the man-in-the-street. During 1961, deposits further increased to \$3,367 million; this is a slightly greater absolute increase than in 1960, \$683 million against \$626 million; as a percentage increase it is lower, 25% compared with 30% in 1960. It is of particular interest that the run on the Liu Chong Hing Bank in June does not seem to have had any significant effect on public confidence in banks; savings accounts in particular have been well maintained, increasing in 1961 by \$125 million to a total of \$663 million, although the big increase has been in time deposits, under the influence, no doubt, of higher interest rates. Advances to commerce and industry have kept pace with the upward movement of deposits and I think it can be said that there is evidence that the banking system fully employs the resources at its disposal within the limits imposed by sound banking principles.

Currency in circulation has not expanded so rapidly, which can possibly be interpreted as a sign of increasing economic maturity. It rose in 1960 from \$896 million to \$984 million and further in 1961 to \$1,027 million.

At the end of 1960 the note-issuing banks held \$846 million in Certificates of Indebtedness and at the end of 1961 \$874 million. At the end of 1960, the Exchange Fund held cover amounting to 122½%

of the Certificates of Indebtedness outstanding; the accounts for 1961 have not yet been finalized but it is likely that this percentage has increased to something in the region of 127%. I will speak later about proposals for the use of this excess cover. I might add that, although there were reports that money was tight at the approach of Chinese New Year, I have had to authorize the issue of almost exactly the same amount of additional currency as in 1960 and 1961, that is about \$110 million.

At the end of the year there were still over 30 million one dollar notes outstanding, equivalent to three quarters of the one dollar circulation; but the circulation of \$1 coins has recently increased and I look forward to a substantial switch this year. At least we are no longer incurring a financial loss from the \$1 note issue because of the need to replace notes frequently, and we can look forward to an increasingly substantial annual profit from the dollar coinage.

I now pass to the more important business of the day—next year's prospects. The draft estimates are already in the hands of Honourable Members. I would like, before going further, to pay a very special tribute to Mr. WHITELEGGE and his staff for producing them in good time for to-day. Not only is this the first occasion on which Mr. WHITELEGGE has been charged with the task but he has been under the unusual handicap of working with a Financial Secretary who is also a complete tyro in these matters.

Total revenue next year, at current rates of tax, is estimated at \$1,058 million. The differences between this figure and this year's revised estimates are shown on page 187 of the Memorandum on the Estimates.

It has seemed to me unusually difficult this year to make a reasoned forecast of revenue. That may be inexperience, but looking at the phenomenal growth in the last two years, it is difficult not to ask oneself, not just whether we can maintain the pace, but whether we are not likely to fall back a little. We hear rumours of impending recession and growing trade difficulties but on looking back over recent years I seem to discern a trend. Every year, about Budget time, there is gloomy talk; but as the year goes on things improve and there is more confidence until the Budget again approaches. Perhaps it would be uncharitable to suggest that this is in any way directed towards influencing the Financial Secretary's judgement as to the wisdom of increasing taxation. This year I have heard the usual talk but I do not myself see any signs of imminent recession, in spite of the threatening clouds in the distance; and I have accordingly based the greater part of the revenue estimates on the view that next year will bring a reasonable rate of growth, taking into account such factors as population growth and increased Government activity.

There are some Heads, however, which deserve special mention. In the case of Salaries and Profits Tax the yield is, as I have already said, based on the previous year's experience and there is therefore some information available on which to base an estimate; the estimate is \$205½ million compared with a revised estimate of \$198 million this year.

The Post Office revenue estimate on the other hand shows a substantial reduction from \$80 million to \$64 million because it cannot be presumed that the despatch of food parcels to China will continue at its present level.

The Head which has given me most trouble is Land Sales. This year, as I have already said, increased values and an accelerated programme have raised the yield to an estimated \$86 million. Next year some of the extensive land development schemes which are being undertaken should begin to bear fruit. This could have, indeed is intended to have, some restraining effect on land values; and, of course, quite apart from that, there is no guarantee that there will be the capital and the confidence necessary to find ready buyers at our present pace of disposal. Estimates as high as \$164 million have been suggested to me. I have put in the more conservative, and yet by no means unconservative, figure of \$106 million. This is \$20 million more than the revised estimate for this year. I have taken a risk on this because it should be possible, if the need arose, to cut back some development expenditure if the land market suffered a really serious decline. To put this matter into perspective, I am told that total land sales in the 104 years between 1851 and 1955 amounted to \$107 million or only \$1 million more than I am budgeting for for next year. From 1851 to 1961, the total was approximately \$371 million.

It will be noted that the subheads of revenue from Land Sales have been reorganized to show them on a "functional" rather than a geographical basis.

The estimate of expenditure for next year is \$1,226 million, giving an estimated deficit of \$168 million.

The expenditure estimates are almost in the same form as last year except that the Defence Heads have been slightly reorganized to show the Defence Force Headquarters separately from the Hong Kong Regiment; and the City Hall has also been shown separately.

There is an increase in total recurrent expenditure of \$83 million over the revised estimate for this year, almost equally divided between personal emoluments and other charges. This is rather higher than the comparable figure for last year which was \$67 million but is less than for the previous year (the 1960-61 estimates) when it was \$93 million.

The greater part of the increase is "in-built" in the expansionary policies we have been pursuing in recent years; it represents the fruition of these policies rather than the addition of new projects. Education alone, for example, accounts for over \$31 million of it and Medical Services for \$10 million; next year I doubt if the increase in Education will be much less and, with the opening of the Queen Elizabeth Hospital, the increase in Medical expenditure will certainly be substantially greater. On the other hand, some of the extra expenditure will be reflected in increased revenue. This is so for the Post Office, for example, where the extra cost next year is estimated at \$5 million.

I should add one further observation about recurrent expenditure. The amounts shown in the Estimates are the amounts we expect to spend in the financial year, not necessarily the full annual cost of the services to be provided. In many cases therefore provision is made for only a few months' salary because we know that it will take several months to recruit new staff and to get a new project going. As a result, next year's estimated expenditure will rise even if not a single extra civil servant is taken on. This year, for example, the concealed extra commitment may be of the order of \$20 million.

I would here like to express my gratitude to the newly constituted Staff Increases Sub-Committee who have had the time-consuming and tedious task of scrutinizing proposals for new posts. Their work has been of great value to me and I hope that the Sub-Committee will become a permanent one, although it has meant that the time for actual compilation of the Estimates has been curtailed.

The estimate for Public Works Non-Recurrent is \$438 million or \$127 million above the revised estimate for this year. This is a very substantial increase. It is made possible by a number of factors. A number of large building schemes, such as the Queen Elizabeth Hospital, are now in progress, while a considerable number of projects put into the hands of private architects are only now getting into their stride. The Development Office also is beginning to produce a greater volume of work, while contracts totalling \$65 million have been let for Stage I of the Integrated Water Schemes.

The Public Works Programme has, as usual, been under periodic review by the Public Works Sub-Committee during the past year and the report of its December meeting is already in the hands of Honourable Members. There is one recommendation to which I might draw particular attention and to which Your Excellency has already referred. Last year my predecessor announced that private architects would no longer be engaged for Government work and that the programme must be limited by the capacity of the staff of the Public Works Department. A close study has been made of the Department's architectural capacity

in relation to the programme and it has become clear that, if the earlier decision is implemented, the present programme will not be completed until 1970 at the earliest. This is clearly not acceptable on general grounds, and it is proposed therefore to take on additional staff in the Architectural Office of the Public Works Department capable of producing another \$10 million's worth of work a year, and also to appoint private architects, as occasion arises, for a second \$10 million's worth. This increased output will, of course, not be reflected in actual expenditure for perhaps two years. A rather similar situation exists, but less acutely, on the engineering side but no decision has yet been taken there.

I have said earlier that I consider it appropriate to bring the Development Loan Fund into account as well as general revenue, when looking at the public finances. Appendix I gives the usual Financial Statement of Approved Loans and Projects. This is unchanged from last year except for revised estimates of the total cost of seven of the Hong Kong Housing Society's projects at a net increase of \$7 million, and an increase in Fisheries Loans from \$2 million to \$5 million which already has the approval of Finance Committee. In addition, I have added for information, as Appendix II, a forecast of the Fund's receipts and payments this year and next year in relation to its resources. As the Fund stands at present its outstanding commitments exceed its available liquid resources by about \$165 million. Finance Committee has agreed that the Fund may draw on general revenue as a temporary measure and it is likely to be about \$16 million in debt at the end of this financial year. The problem is where to find additional permanent resources for it. My proposal is to syphon off some of the excess funds which have accumulated in the Exchange Fund and serve no useful purpose there. The present Exchange Fund Ordinance makes no provision for this, although it is clear from statements made at the time the Fund was set up that this was the intention. I hope to bring amending legislation before Council in the near future. In Appendix II I have shown the effect of my proposal to transfer \$80 million this year and \$30 million next year from the Exchange Fund. Even this is likely to leave the Development Loan Fund at 31st March, 1963 \$26 million short of its present commitments. The question of providing additional capital to assist the various low-cost housing organizations to extend their activities, a question on which I have been approached from time to time, may therefore be one of some difficulty, although it will, of course, be looked at as sympathetically as possible.

Leaving the Development Loan Fund out of account, the estimated deficit for next year is \$168 million, or about \$7 million more than the deficit originally estimated for this year after taking into account additional taxation.

So now I come to that part of the budget which is of real interest after these rather dreary figures, that is, proposals for changes in taxation.

The question that arises is to what extent we should try to close the gap of \$168 million and by what means.

The source of extra funds that naturally comes first to mind is Earnings and Profits Tax, or rather it is one which has been very much in my mind all year. In his last budget speech my predecessor dwelt at some length on the ramshackle nature of the present tax, in particular the scope for evasion and the inequity inherent in it, and on the compelling need to make an early change to a system of full income tax. During the early months of the present financial year I took certain preliminary steps in this matter but by the time the Commissioner of Inland Revenue returned to the Colony from leave it was becoming clear that our revenue was once again keeping pace with the expansion of the public services and I have so far done nothing further. I propose, however, to take the matter up again early in the next financial year.

At the same time let me make it clear that a postponement of full income tax will not inhibit me from proposing an increase in the standard rate of tax under the present Ordinance, should that be necessary, although it would be very much better if the former step could be taken first. I have therefore considered the question of an increase this year without reference to the question of full income tax. I have come to the conclusion that, in view of the smallness of the estimated deficit in relation to our reserves, the deficit itself does not warrant an increase.

On the other hand, it has been represented that we should take the money while it is there; in a year or two profits may not be as high and the taxable funds will have slipped through our hands. I personally reject that argument. Enterprise in Hong Kong has a good record of productive re-investment and I have a keen realization of the importance of not withdrawing capital from the private sector of the economy, particularly when it is responsible for an important part of the public services. I am confident, however old-fashioned this may sound, that funds left in the hands of the public will come into the Exchequer with interest at the time in the future when we need them. I therefore do not propose that the standard rate of Earnings and Profits Tax be increased this year. But I should like to add my warning to others that have gone before; income tax is the only substantial source of revenue to which we can look to finance the degree of expansion of public services we are aiming at and an increase in the tax is inevitable before long.

I have once again looked at taxation of motor vehicles in the light of the ever-increasing cost of road construction and maintenance, and of traffic control; also the need to devote more and more of our scarce land to the parking and movement of private vehicles, at the expense of the non-owner. Motorists were hit fairly hard last year with increases in petrol tax and licence fees and the introduction of the First Registration Tax. Although these do not seem to have had very much effect on the rate of increase in ownership of motor vehicles, I do not think I would be justified in suggesting any further taxes just yet; particularly as my friends of the Motor Traders Association assure me, much to my surprise, that Hong Kong has no traffic problem.

Last year my predecessor suggested that the tax on diesel fuel should eventually be brought up to the same rate as that on petrol but suggested doing so in two steps. He left them still 50c. a gallon apart. I do not propose to complete the process of assimilation yet, not so much because I do not think it justified as because it has not yet proved possible to introduce an identifying dye for non-automotive diesel, which attracts a lower rate, and there are dangers of evasion.

We are also looking at parking charges in the light of the cost of the Murray Parade Ground Car Park, which is at present under construction, and it seems likely that an increase will be recommended.

I must now make my second threat; it is not a new one. It seems to me inevitable in Hong Kong that car owning must remain the privilege of a minority, and a small minority at that, if it is to remain at all, because of sheer limitations of living and working space in relation to population; and inevitable that, if we are going to try to make it possible for this privileged minority to continue to circulate without bringing to a standstill the public transport on which the large majority must continue to rely (or, for that matter without making the poor pedestrian's life completely intolerable), the cost, which is high already, is going to increase very substantially. The cost of keeping that privilege must be paid for in one way or another and I feel safe in prophesying that private motoring is going to become increasingly expensive.

Tobacco is a favourite target for the taxgatherer, particularly for one who is a non-smoker himself. But, as I have said already, tobacco revenue has been disappointing in the two years since the last increase; and the wide variety of quality and price here has presented technical difficulties in devising a convenient form of duty which, unlike the normal rate per pound, does not bear too heavily on less well-to-do smokers.

I do propose one change, however; this is a reduction in duty on one special category, although the reduction is in fact designed to increase the amount of duty collected. That special category is known as "Chinese Prepared Tobacco" or "suk yin". It is cheap, of low quality and, I believe, a taste even more difficult to acquire than that for other forms of tobacco. Duty was increased from \$3.00 a lb. to \$4.90 a lb. in 1960 when all tobacco was increased by that amount. Even before then, at \$3.00, very little tobacco paid duty, only a few thousand pounds a year. But there is one, perhaps significant, difference now; very much more smuggled tobacco is being caught than before; in fact in 1960-61 three times as much was caught as paid duty. The indications are that smuggling has increased substantially, perhaps because the increased duty on very cheap cigarettes has led to more smoking of Chinese prepared tobacco. Estimates of the amount smuggled range from half a million to three quarters of a million pounds a year on which duty of \$2½ million to \$3¾ million should be paid. It is the very high rate of duty compared with the value of the tobacco that makes smuggling so attractive and so difficult to stop; it represents more than 100% *ad valorem* compared with, perhaps, 50% for other cheap types of tobacco. I propose therefore to reduce the duty from \$4.90 a lb. to \$2.50 a lb. in the hope that this will make it no more expensive to pay duty than to smuggle. I would hazard a guess that revenue will increase by somewhere between \$½ million and \$1 million if the proposal is adopted. There is no guarantee that it will but it cannot be worse than the present situation. I do not propose to alter the estimate of revenue to take this possibility into account.

The Roman Emperor, Vespasian, imposed a tax on public conveniences. When his friends remonstrated with him, saying that he should not levy so degrading a tax, he held up a coin, sniffed it and said "This coin does not smell". My honourable friend the Director of Urban Services has represented to me that we should cease to levy the Conservancy Fee of \$16 per quarter per tenement floor, which is charged for the removal of nightsoil where there is no water-borne sanitation. I do not propose to reply in Vespasian's words (although I think they might well be used of our new dollar coins) but propose rather that the Urban Council be invited to make the necessary amendment to its By-Laws to remove the charge. At present the fee brings in \$3 million against costs of between \$4½ and \$5 million but it falls on the poorest part of the community living in substandard accommodation. It is also awkward to collect and involves the issue of 32,000 separate demand notes each year. Water-borne sanitation is being installed in all new buildings and the cost of providing the necessary sewerage is very substantial. Unlike conservancy it is not separately charged for but is assumed to be covered by the Rates. There may be a case for recovering the revenue lost by removal of the conservancy fee by an increase of ½% in the Rates but the argument

is not conclusive as the premises with water-borne sanitation probably tend to have higher rateable values. In any case Rates will have to go up one day and I do not think the time yet appropriate.

In view of the estimated deficit of \$168 million, before loss of \$3 million in conservancy charges, although I have rejected any increase in Salaries and Profits Tax or in tobacco duty, I feel that some increase in taxation is necessary. The tax on alcoholic liquor has not been increased since 1955; the tax on wine imported in cask was in fact reduced in 1959. I am of the opinion that wine is still over-taxed in comparison with spirits and beer and I propose therefore that there should be no change in the duty on wine but that the duty on spirits should be increased by \$12 a gallon or \$2 a bottle, on beer by 30c. a gallon which is just 5c. for a large bottle; and on Parts II and III of the schedule of duties, that is, Chinese type liquor and sake, and spirits of wine, arrack and liquors other than intoxicating liquors, by 50c. a gallon. The duty on Methyl Alcohol must be kept in line with the last of these to prevent adulteration. I estimate that these changes will yield \$5 million a year. Your Excellency signed two orders this morning under the Public Revenue Protection Ordinance bringing them into effect from two o'clock this afternoon.

I should also mention at this point the Government Lottery, the enabling bill for which I introduced two weeks ago. This is estimated to yield \$2 million next year, and, although, as I explained when I introduced the bill, it will lead to an increase in spending on social welfare, it should properly be brought into account in next year's Estimates.

That exhausts my very modest proposals for changes in taxation. They will have the effect of reducing the estimated deficit next year to \$163 million. I should add that, if circumstances are propitious, I propose to try to raise a sum of between \$50 million and \$100 million by a short to medium term loan. There are a number of projects such as the Kwai Chung Development Scheme which can be expected to pay for themselves within seven to ten years and would therefore lend themselves admirably to short-term finance of this kind, but only if the interest we have to pay is not too high. An enabling bill is being drafted.

So much for the next financial year. I should now like to look a little further ahead and make one or two general remarks about our plans and prospects.

We have made a forecast of our finances over the five year period 1962-63 to 1966-67. This forecast, which is based on, but not completely restricted to, presently agreed programmes of expansion, envisages total capital expenditure in these five years amounting to \$2,570 million (not counting self-finance by the Housing Authority through

its revolving fund). This compares with \$1,355 million so spent in the previous five years. It is estimated that with present sources of revenue and taking into account all reserves (including the Exchange Fund surplus), but leaving a reasonable sum in reserve as working capital, we shall be about \$550 million short. At the end of the period recurrent revenue should still be running at about \$148 million or 15% above recurrent expenditure, compared with \$200 million or 27% in next year's budget.

Now how do we plan to fill the gap? Here I am in something of a dilemma. I am told by the taxpayer that taxes, in particular income tax, should not be increased until we have borrowed, preferably from abroad. Foreign lenders on the other hand, particularly non-commercial ones, feel that they should not be asked to lend to us, when there are so many other needy clients in the world, until we have increased our taxes, not perhaps as high as some of our neighbours, but at least to a significantly higher level than at present. Finally, I see little prospect of borrowing locally at interest rates and for redemption periods which make any sense in relation to what we can regard as a reasonable price for public services. This last factor, as well as the fact that previous generations have handed down to us a substantial public heritage by way of roads, port, etc. almost completely free of debt, seems to me to impose some limitation on the validity of the theory that by borrowing we should, or could, pass on the burden of development to the next generation. I hope that we will in practice be able to find a middle road and I propose to aim at covering about half the estimated deficit by taxation and half by borrowing. This is, however, only a most general aim as the premises from which the conclusion is reached are most uncertain ones. It is, I believe, useful to make five year forecasts such as we have just made but they are highly speculative and it is important to realize their limitations. I propose, therefore, to continue to draw them up annually, although this imposes an additional burden on heads of departments, of the value of which they may feel doubtful.

I should say something at this point about our discussions with the World Bank. In the light of our present fortunes these have perhaps been rather premature, but it has, I think, been valuable to make contact with the Bank now rather than at the critical moment of need. The Bank's economic mission which visited Hong Kong last year was, I am told, impressed by the strength of Hong Kong's economy; and the Bank has indicated that it would be willing to consider lending to Hong Kong for sound projects if Hong Kong's public capital requirements should prove to be beyond the Colony's capacity for financing from revenue, domestic and other external borrowing and a reasonable use of other Government resources. In other words, I think we may claim to have shown that we are creditworthy, but not yet adequately demonstrated an early need for credit.

I should now like to make some general points about the cost of public services. I am not speaking here of cost in terms of efficiency; as Honourable Members are aware, we are at present employing Management Consultants to investigate that side of our affairs.

In one sense some public services are too cheap at present. I have always been a little unhappy that the price of some services, such as housing and water, should be based, as they are, on interest rates and redemption periods which are so very far out of line with those applying in the private sector of the economy; although one would naturally expect them to diverge to some extent in normal conditions. This has, perhaps, not had any very serious consequences so long as services have been financed almost wholly from taxation, although where, as in housing, the benefits have gone to a part of the population only, it has given rise to inequities which are not altogether easy to justify; and probably also to distortions of demand which induce a wasteful use of resources. At the latest when we begin to finance these services with borrowed money, but preferably rather earlier, it will be necessary to reflect more realistic interest rates and redemption periods in the prices we charge; to continue present practices would produce a severe financial burden on general revenue and a gross degree of inequity. Rents of Government financed housing, for example, which are at present based in principle, although not, I admit, in practice in every case, on a 40 year redemption period at either 3½% or 5% interest, may have to be somewhat higher; we certainly cannot expect to borrow anywhere in the world on anything like that basis. Water is another example of something we are selling at what is really an uneconomic price. It is costed at present at 3½% or 5% interest, depending on the date at which the capital expenditure was incurred, with a 50 year redemption period for dams and a 25 year period for plant.

For water there are other reasons as well which will make it necessary, probably fairly soon, to increase the present charge of \$1 a thousand gallons. In the first place, each new source of water tends to be more expensive; sites are more difficult and water has to be brought longer distances. It will be noted from the *pro forma* accounts of the Water Authority printed as Appendix G to the Estimates that in 1960-61 there was a small loss of \$131,000; the result in 1961-62 will probably not be very different, although I expect a small profit. It will be noted also that some 37% of the revenue credited to water came from the 2% of the Rates which is levied for that purpose; the average cost of water, even at present interest and redemption rates, was not \$1 a thousand gallons but about \$1.50. In recent years rates have increased faster than the supply of water and have therefore helped to keep down the price of water consumed that must be paid for separately. With the large supply schemes we have on hand this is unlikely to be so in future years; supplies are likely to grow faster

than the rates. It is not possible to say now exactly what the final price is likely to be but I warn the public now that by the time water begins to flow from Shek Pik in the winter of 1963 it will almost certainly be necessary to raise the charge for water to a figure which can hardly be less than \$1.25 a thousand gallons and may well be more. This is not dear compared to similar charges elsewhere; it is cheap taking into account our supply difficulties and is the price we must pay, one way or another, for improved supplies.

There is another sense in which some of our public services may be criticized as too cheap. In a full welfare state, where welfare services go hand in hand with steeply progressive personal taxation, the administrative convenience of providing free or nominally priced services to rich and poor alike is not seriously prejudiced by considerations of equity. We do not have a steeply progressive taxation system and I often wonder whether the substantial subsidies we give, for example, in education, to all, irrespective of ability to pay, are really justified. I am told, although I have not checked the figures myself, that every single pupil in a Government secondary school receives a subsidy of at least \$1,150 a year out of a recurrent cost of \$1,470. In Government primary schools the subsidy is \$352 out of \$402. In subsidized schools the subsidy is rather smaller but nevertheless very substantial. There are, of course, a considerable number of free places in addition. It would seem to me that there is a strong case for higher standard fees with subsidized places only for those who need them.

The next point I want to make is about the rising cost of the public services. I cannot pretend to be happy about either our mounting bill for recurrent expenditure or our extensive capital commitments. In this connexion I would like to draw attention particularly to the analysis of expenditure printed as Appendix B to the Estimates.

It has occasionally been suggested that we should adopt a system of separate Recurrent and Capital Budgets such as has been adopted in some other territories. This has certain administrative advantages, particularly in accounting for loan funds, but I find it confusing and apt to make speculative elements look more authoritative than they are. I prefer to keep our actual accounts in their old-fashioned form but segregate the recurrent and capital parts in a separate analysis, so as to make it clear at least that we are not spending capital to meet our recurrent needs. It will be seen from the Appendix that, while the absolute margin between recurrent expenditure and revenue has tended to increase (although it may begin to fall next year) the proportion the surplus bears to recurrent commitments tends to grow smaller. It was 37% in 1958-59; in next year's estimates it is 27% and as I have said, it may be 15% by 1966-67. This means that a slighter and slighter degree of recession in recurrent revenue could put us in the red.

The worrying thing is that we are still very short of giving an adequate public service to the whole community. It is true that we have some leeway, too, on taxation before it is heavy enough to do serious damage to the economy. But the main reason for the comparative ease with which we have so far financed our expansion is that we have been providing services for only part of the population, while taxing the whole of it. As our public services grow the margin between revenue and expenditure narrows; not only do we have to be concerned about the danger of the one overtaking the other but there is also the fact that we will no longer have an adequate surplus to help to finance capital expenditure. The question is, will our wealth grow rapidly enough to make it possible to provide, at reasonable rates of taxation, public services at their present standards, and at the cost these standards involve, to meet the reasonable needs of the whole community? Sometimes I have wondered if our standards and the consequential cost were not too high for this to be possible. Recently a head of department, whom I will not name, said in a press interview that the service he was providing cost only half as much per head of the population as the same service costs in Britain. I am not sure what he meant to show by that, but, as Britain has about four times the income per head we have, his service in fact costs, in relative terms, twice as much as the British one does—and, this is the frightening thing, he says he must expand further.

Sometimes these high standards and costs are to a large extent unavoidable—for example, at the Airport, technical equipment must be such as to attract international airlines; and at the City Hall there is the question of prestige. But I think that they are often avoidable.

Sometimes, of course, they arise from laudable circumstances, such as professional pride. A professional man who has done his training in a wealthy country, when given a job to do, naturally wants to do it to the highest professional standards he knows; he cannot be expected to decide, by a process of reasoning of his own, that he should, because of the comparative economic position here, reduce his standard by so much—particularly as I myself would not find it easy to say with precision what lowering of standards is necessary or justifiable—and the small proportion of our population who can afford high standards themselves might well condemn him for incompetency.

There is a somewhat similar phenomenon in the salary structure of the civil service. In our present stage of development professional and technical men are relatively scarce and they have a comparatively high market value, particularly if it is necessary to train or recruit them abroad. Their high market value tends to draw up the salary structure of the civil service as a whole above its appropriate level, particularly as traditional differentials are so difficult to disturb.

I myself believe that, if we are not careful, at the rate at which we are going we will reach a point in the not very distant future where we cannot afford to expand the public service any further, although we are still not providing a full and adequate service. To put the matter in over-simplified terms, we have a choice between quantity and quality. I have hopes that increasing wealth will allow us to have a full public service of reasonable quality but I fear that in a number of spheres our standards are at present set at a level which will make it necessary to call a halt before that stage is reached. I hope I am wrong but it is a matter which requires the most serious consideration when we look at our programme of expansion. (*Applause*).

THE COLONIAL SECRETARY seconded.

The question was put and agreed to.

LEGAL AID IN CRIMINAL CASES RULES, 1962

THE ATTORNEY GENERAL moved the following resolution: —

Resolved that the Legal Aid in Criminal Cases Rules, 1962, made by the Chief Justice on the 30th day of January, 1962, under section 9 of the Criminal Procedure Ordinance, be approved.

He said: Sir, this resolution seeks the approval of this Council to rules made by the Chief Justice under the Criminal Procedure Ordinance.

Under the prevailing law the availability of free legal aid in criminal proceedings before the Supreme Court is limited to only three types of cases, namely—

- (i) capital cases;
- (ii) cases where a question of law is reserved by the trial judge for the consideration of the Full Court; and
- (iii) appeal cases or proceedings incidental thereto where the Full Court or a judge considers that the appellant should have legal aid.

Sir, the Legal Aid Committee appointed in 1958 has recommended in an Interim Report to Government that a pilot scheme be introduced to extend the scope of the provision of legal aid in criminal proceedings before the Supreme Court. Government has accepted this recommendation in principle, and accordingly these new rules provide for the grant of free legal aid, not only in the cases previously mentioned, but in all criminal cases before the Supreme Court, and in all criminal appeals before the Full Court, provided certain conditions are fulfilled.

With regard to defendants committed for trial before the Supreme Court, these conditions are that the defendant must make an application to, and satisfy "the certifying authority", who is either the committing magistrate or a Judge of the Supreme Court, that his means are insufficient to enable him to obtain legal aid, and if it then appears to the certifying authority, that it is desirable in the interests of justice that the defendant should have legal aid it may be granted to him free of cost to the defendant. However, in the case of a defendant committed for trial upon a capital charge, it is sufficient if he makes an application and satisfies the magistrate or Judge that he does not have means to obtain legal aid. With regard to the provision of free legal aid to appellants in Criminal Appeal cases the conditions of grant are similar but the certifying authority may be either the Full Court or a single Judge of the Supreme Court.

Sir, the extent of free legal aid afforded is left to the discretion of the Chief Justice who may assign a solicitor and one or more counsel, or a solicitor or counsel only, to represent the defendant. The fees to be paid by Government to solicitors or Counsel assigned under these rules are prescribed by rule 6. The rules have been agreed with both the Law Society and the Bar Association and come into operation on a day to be fixed by the Chief Justice. I am informed the Chief Justice considers that a period of one month from now will be sufficient to permit those concerned to become familiar with the new provisions.

THE COLONIAL SECRETARY seconded.

The question was put and agreed to.

QUARANTINE AND PREVENTION OF DISEASE (AMENDMENT) BILL, 1962

THE ATTORNEY GENERAL moved the First reading of a Bill intituled "An Ordinance to amend the Quarantine and Prevention of Disease Ordinance, Chapter 141."

He said: Sir, doubt has arisen as to whether the word cholera in the principal Ordinance includes the disease known as enteritis cholerae El Tor commonly called para-cholera. Paracholera occurred in the Colony last year, and is at the present time prevalent in countries adjacent to Hong Kong. Precautions are now being taken against a recurrence of this disease in Hong Kong this summer, and the Colony's protection would be incomplete unless it is possible, in the event of need, to take steps to prevent paracholera being imported from other territories. Accordingly, Sir, the purpose of this Bill is to amend the Quarantine and Prevention of Disease Ordinance, so as to put beyond doubt the fact that the expression "cholera" includes enteritis cholerae El Tor, commonly known as paracholera.

THE COLONIAL SECRETARY seconded.

The question was put and agreed to.

The Bill was read a First time.

Objects and Reasons.

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

The purpose of this Bill is to amend the Quarantine and Prevention of Disease Ordinance to put beyond doubt the fact that "cholera" includes enteritis choleraformis El Tor which may be classified as paracholera.

HOUSING (AMENDMENT) BILL, 1962

THE COLONIAL SECRETARY moved the Second reading of a Bill intituled "An Ordinance to amend the Housing Ordinance, 1954."

THE ATTORNEY GENERAL seconded.

The question was put and agreed to.

The Bill was read a Second time.

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

Clauses 1 to 3 were agreed to.

Council then resumed.

THE COLONIAL SECRETARY reported that the Housing (Amendment) Bill, 1962, had passed through Committee without amendment and moved the Third reading.

THE ATTORNEY GENERAL seconded.

The question was put and agreed to.

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

ADJOURNMENT

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

THE ATTORNEY GENERAL: —Sir, I suggest Monday, the 19th March.

HE THE GOVERNOR: —Council stands adjourned until Monday, 19th March.