

OFFICIAL REPORT OF PROCEEDINGS**Meeting of 18th May 1966****PRESENT**

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

MINUTES

The Minutes of the meeting of the Council held on 4th May 1966 were confirmed.

PAPERS

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

<i>Subject.</i>	<i>LN No</i>
Urban Council Ordinance 1955.	
Urban Council Elections (Registration of Electors) Regulations 1966	41
Urban Council Ordinance 1955.	
Urban Council Elections (Procedure) (Amendment) Regulations 1966	42
Telecommunication Ordinance 1962.	
Telecommunication (Amendment) Regulations 1966	43
Prisons Ordinance 1954.	
Prison (Amendment) Rules 1966	44

DR TENG PIN-HUI, by Command of His Excellency the Governor, laid upon the table the following paper: —

Subject.

Report of the Advisory Committee on Clinics.

He said: —Your Excellency, by Command' of your Excellency I rise to lay upon the table the report of the Advisory Committee on Clinics, copies of which are already in the hands of honourable Members.

An abridged version of the Report in both Chinese and English are also appended as a general guide and for ease of reading.

This Committee under the Chairmanship of my honourable Friend, Mr RUTTONJEE, was appointed by Your Excellency in June of last year in accordance with an undertaking given in this Council in July, 1963, when my predecessor moved the First reading of the Medical Clinics Bill, now the Ordinance, that it would be reviewed after 18 months' operation.

The Committee has now completed a very full review of the operation of clinics registered, or registered with exemption, under the Ordinance and has made detailed recommendations regarding the future of those clinics in which until the end of this year unregistrable medical

practitioners are permitted to practise medicine. The Committee has also advised that Government announce a decision on its recommendations as soon as possible. I agree entirely that a speedy decision on the recommendations of the Committee is necessary since, under the law as it stands at present, my power as Registrar of Clinics to permit a clinic to be in charge of an unregistrable medical practitioner comes to an end on 31st December this year. Accordingly I wish to assure honourable Members that Government will give full consideration to the recommendations of the Committee as early as possible.

In conclusion, I would wish to thank sincerely my honourable Friend Mr RUTTONJEE, and each of his colleagues on the Committee, for their painstaking and meticulous work in producing such a very full and comprehensive report.

QUESTIONS

Mr K. A. WATSON, pursuant to notice, asked the following question: —

Are the recent increases in car-parking charges part of a plan by Government to tax or price the middle-income motorist off the road, and restrict motoring to the rich and privileged? If so, how does Government justify this policy?

THE ACTING FINANCIAL SECRETARY replied as follows: —

There are two questions here. The answer to the first is most definitely in the negative. Mr WATSON possibly has in mind a statement made by Mr COWPERTHWAITTE in this Council on 24th March when he said that the private motor car may well be here to stay for a long time yet but inevitably for the few only whether rationed by price or privilege. It is, I think, axiomatic that as cars are not cheap to buy or run only the better off sections of the community can afford to use them and to this extent, therefore, it is true to say that motoring is restricted to the more affluent. In fact, at present a mere 6% of Hong Kong families own cars. It would be contrary to social justice to subsidize the more affluent at the expense of the poorer sections of the community and therefore it follows that it is difficult to contemplate the subsidizing of parking. Furthermore, parking is the supply of a service and we don't subsidize petrol or gas or electricity or even hair cutting all of which also involve the supply of services. All we are trying to do at the moment is to strike a fair balance between the general taxpayer and

the car-parking motorist so that the former does not support the latter and the latter does not support the former. I feel sure that my honourable Friend would agree with what I have said so far. Where I think the area of disagreement arises is in the method of calculation of parking charges. From what I hear, Mr WATSON is not alone in thinking that the motorist is being treated unfairly and perhaps this indicates that Government is remiss in not explaining the recent increase in charges fully enough. I hope, therefore, in answering Mr WATSON's questions that I can make good this deficiency to some extent though some questions are so involved that really only a cost accountant could deal with them adequately. Since the recent increases in car parking charges are not part of a plan to price motorists off the road the second part of Mr WATSON's question does not arise.

MR K. A. WATSON, pursuant to notice, then asked the following question: —

In the new charges is there any element of profit or surplus over the amount required to ensure that the multi-storey car parks are not being subsidized by the taxpayers?

THE ACTING FINANCIAL SECRETARY replied as follows: —

This is a rather difficult question to answer since whatever I say could be misunderstood depending on one's point of view. One major aim of policy is to encourage commercial participation in the provision of car parking and to do this Government must obviously adopt realistic charges. To the extent that we are trying to make the charges more in line with commercial operations, it could I suppose be inferred that these charges contain some element of surplus but on the other hand as I shall show later the charges fall far short of what commercial operators would expect. There is tremendous scope for argument on this point depending on what factors one uses in the calculations but essentially if Government allows the use of any facility at a price lower than that which a free market would pay, this means that it has failed to secure for the public or the tax-payer the full benefit arising from the grant of the facility.

The object of car park pricing should therefore be to secure a full commercial price for the use of the floor space of the car park though in Hong Kong we have not yet reached

this objective. Profits are a part of the commercial price of practically all the goods and services we use in our daily lives—even such essentials as food and clothing. If car parking is supplied from public funds at any price lower than the full commercial price this involves a subsidy to the car park user and consequently a transfer of wealth from the poorer to the more affluent sections of the community.

If the car parks are fully used, at present charges the average revenue per car park space would be about \$180 a month. After allowing \$40 a month for maintenance, running costs and rates, the net revenue or rent would be \$140 a month for the 318 sq. ft. of floor space required by each car park space or about 44¢ per sq. ft. per month.

This is very much below the market price for office floor space in areas in which the car parks are situated which is around \$1.50 - \$2.00 per sq. ft. per month. The existence of net revenue from parking meters and some increase in rateable values in properties near to car parks are accepted as being reasons to allow less than commercial rent in car parks financed from public and private funds.

MR K. A. WATSON: —Your Excellency, may I ask a supplementary on that one? May I take it from the answer of my honourable Friend, the Acting Financial Secretary, that there is an element of profit or surplus in these car park charges?

THE ACTING FINANCIAL SECRETARY: —It depends on what you mean by profit.

MR K. A. WATSON, pursuant to notice, then asked the following question: —

In the case of the Star Ferry and City Hall Car Parks, previous costings gave the annual value of the land as \$438,478, whereas the new calculations give a figure of \$1,204,000. How does Government account for this discrepancy?

THE ACTING FINANCIAL SECRETARY replied as follows: —

I can only give a full answer to this question by explaining at some length the change in policy that has led to the change in figures.

The price of land can be looked at in two ways—as a lump sum single payment or as a stream of rents. The ultimate user of land—in this case the car park user—pays an hourly or a monthly fee. He does not make a large single payment. On the other hand at an auction of land, bidders know they will have to pay a nominal Crown Rent over the period of the lease and they are offering bids of a single lump sum premium. It is this premium that is called the market price. In deciding what bids to offer, the purchasers will have an eye on the rent they expect to receive. Just as nobody in Hong Kong will lend money on the promise of repayment in ten or twenty years so the bidder for land will have in mind only the rents he expects for the first few years of the lease even though the lease may be for 75 years or more.

At the auction the rents are gathered up or capitalized by the bidder into a single sum. If this single sum is then turned back into rents, not over the eight or ten years the bidder has in mind, but over 75 years, the rents are naturally much lower. This was the basis of the earlier costings in that the full market value was turned into a stream of rents over 75 years. Since no land developer works in this way the resultant land rents were far less than commercial land rents and involved a considerable subsidy to the car-park user. In order to strike a fairer balance between the tax-payer and the car-park users a more straight forward approach has been adopted in the present costings. Car-park users are renting floor space so the starting point for the present charges is the monthly market rent of floor space *not* the capitalized value of rent.

This starting point was used when assessing a rent to charge the Telephone Company for space in a car park building for a telephone exchange. The full floor space rent was not charged because the Telephone Company paid for its share of the building costs at the time the building was put up. After making a deduction for these costs the remaining rent represented a land rent. The Telephone Company only occupies a part of the building and the land rent was deemed to be for a part of the site. Rent at the same rate was charged for the remainder of the site against the car park.

In the case of the Star Ferry and City Hall car parks there was a further refinement for which I am grateful to my

honourable Friend Mr. S. S. GORDON. These two sites are not fully developed as the height was restricted deliberately for aesthetic reasons. Some allowance had to be made for this height restriction for it had been imposed not for the benefit of the car-park users but for the public in general.

If these two sites had been fully developed we assumed there would have been the same area of car park space for each square foot of the site as we now have for each square foot of the Garden Road and Middle Road sites. Land rent was therefore charged in proportion to the area of car park floor space not the site area.

Using rounded figures, the annual land rent for the half million square feet of car park space at Garden Road and Middle Road car parks, based on the Telephone Company rentals, was \$2½ million or \$5 per square foot of car park space. The Star Ferry and City Hall car parks have about 200,000 sq. f t. of car park space for which land rental at the same rate would be \$1 million. The full market value of the two latter sites was 20% over that of the two former so the land rental was increased by 20% giving the \$1.2 million land charge mentioned by my honourable Friend.

I assume that my honourable Friend took the other figure of \$400,000 odd from Appendix I to the Urban Council Committee Paper 14/25/62 to which he has referred in the past. In that case the treatment of land was quite different. It was assumed the land had been purchased with a 75 year loan at 6% interest. The annual charge was the 6% interest plus a contribution to a sinking fund where the interest was earned at 5%. Loans on such highly favourable terms are not of course available even from the World Bank. The costing to which he refers was a hypothetical costing of the Garden Road car-park done for illustrative purposes and did not refer to the Star Ferry and City Hall car parks. The purchase price of the land in the costing was set at about \$7 million or \$200 per square foot which as a matter of interest compares with \$365 per square foot paid for the Hilton hotel site next door.

If my honourable Friend wishes I shall be glad to furnish him with written details of these complex and rather confusing calculations. He will, I regret to say, find two almost compensating errors in the calculations of the Star Ferry and City Hall car park rentals which together work slightly to the benefit of the car-parker and against the tax-payer.

If my honourable Friend can forgive us these errors no more need be said about a small error in his own calculations by which I mean his figure of \$438,478 should be \$430,478.

MR K. A. WATSON: — Thank you, Sir. I am afraid I find I am overwhelmed by expertise on this and I have no supplementary question.

MR K. A. WATSON, pursuant to notice, then asked the following question: —

Is it considered that the persons responsible for the previous costings were incompetent?

THE ACTING FINANCIAL SECRETARY replied as follows: —

No Sir. The change in land charges results from a change in policy.

MR K. A. WATSON, pursuant to notice, then asked the follow question: —

Government, according to its latest figures, estimates the full market value of the land used for the first four car parks at \$74 million. Is this the value of the land at the time the land was allocated for use as car parks?

THE ACTING FINANCIAL SECRETARY replied as follows: —

Yes Sir. The valuation is full market value for land without restriction as to height. I should add however that this valuation was used only to determine the ratio of full market value of land at the Star Ferry/City Hall car parks to that at the Garden Road/Middle Road car parks in order to allow for the height restriction.

MR K. A. WATSON, pursuant to notice then asked the following question: —

How much does this estimate work out per square foot for each car park?

THE ACTING FINANCIAL SECRETARY replied as follows: —

Star Ferry = \$572 per sq. ft.

City Hall = \$797 per sq. ft.

Garden Road = \$379 per sq. ft.

Middle Road = \$500 per sq. ft.

MR K. A. WATSON, pursuant to notice, then asked the following question: —

Is it suggested that had this land been sold to private developers these amounts would have been obtained for the normal 75-year (renewable) leases?

THE ACTING FINANCIAL SECRETARY replied as follows: —

Yes. The valuation assumes, however, there is no restriction on height on the Star Ferry and City Hall sites.

MR K. A. WATSON: — One supplementary question, Sir? Can my honourable Friend tell us of any building adjacent to the Star Ferry or City Hall Car Park that fetches anything like the sum of \$572 per square foot or \$797 per square foot in the years 1956, 57, 58.

THE ACTING FINANCIAL SECRETARY: —Quite obviously, Sir. I shall require notice of that question and I shall have to consult the Crown Lands Department.

MR K. A. WATSON: —Thank you.

MR K. A. WATSON, pursuant to notice, then asked the follow question: —

If the buildings are amortized over 25 years at 6%, why is a different system used to amortize the value of the land?

THE ACTING FINANCIAL SECRETARY replied as follows: —

Land charges are not worked out by amortizing a capital charge but on a rental basis. It may help if I refer back to my answer to my honourable Friend's third question.

I explained how a land rental for the telephone exchanges was worked out by deducting from a floor space rental an amount allowed in recognition of the fact that the Company

had paid for the building costs. Car-parkers did not pay building costs as a lump sum so an annual charge has to be added on to land rental to amortize building costs. The annual charge chosen was that which would amortize building costs over 25 years at 6% interest. Probably we are in error here as this produces a very low charge by commercial standards and is thus unduly favourable to the motorist at the expense of the tax-payer.

MR K. A. WATSON, pursuant to notice, then asked the following question: —

What is the justification for charging interest at 10% for land instead of 6%.

THE ACTING FINANCIAL SECRETARY replied as follows: —

As has been explained land charges are worked from floor space rentals not from a capital sum so no question of interest arises. I believe the only mention of 10% in published papers is where by way of illustration the annual land rental was capitalized. This was, I think, to some extent irrelevant and confusing as capitalized land rents have not been used.

MR K. A. WATSON: — May I ask a supplementary, Sir? Was it not stated that the sum worked out in the annual charge was the charge estimated at 10% over 13 years?

THE ACTING FINANCIAL SECRETARY: — The 13 years, I think refer originally to the Telephone Company lease.

MR K. A. WATSON: — Sir, there is reference in the paper for parking to this 13-year lease and the 10% per annum interest. However, I'll leave that and ask my last question.

MR K. A. WATSON, pursuant to notice, then asked the following question: —

If the cost of the land is amortized over 13 years, does this mean that land costs will be omitted from calculations of car parking fees after this period?

THE ACTING FINANCIAL SECRETARY replied as follows: —

No Sir. There is no question of amortizing land charges. A land rental is charged, and from time to time, rental should

be revised to take into account variations in market rentals for floor space. Perhaps I can illustrate this better by giving an example: if a commercial developer were to charge rent for the use of a building which could be said to amortize the whole of his outlay on building and land in, say, eight years with 12% interest this does not mean to say he would allow his tenants to live rent free from the ninth year onwards.

Sir, I hope that my answers have not served to confuse this confusing issue further. I am inclined to the view that any attempt to arrive at annual charges for buildings, and previously land, by amortizing a capital sum tends to be confusing. The use of two different methods for land and buildings makes it all the more confusing. We are after all talking about renting floor space and it may be preferable to present all these costings in terms of monthly floor space rentals as such. My honourable Friend is a member of the Transport Advisory Committee which has undertaken to keep parking policy under review and he may wish to explore this possibility in that Committee.

MR P. C. WOO, in pursuance to notice, asked the following question: —

In connexion with the exercise of the discretion of arrest under section 45 of the Police Force Ordinance (Cap. 232), a learned Judge of the Supreme Court once remarked that "the wider the discretion the greater the care should be taken in its exercise". Have any specific orders been given by the Commissioner of Police to Police Officers relating to the exercise of such discretion in order to ensure that no unnecessary arrests should be made, particularly in respect of trivial offences?

THE ATTORNEY GENERAL replied as follows: —

In answering my honourable Friend I can assure him that there are specific orders on this subject issued by the Commissioner of Police and these orders are incorporated into the Police training manual. The orders draw attention to the wide powers of arrests afforded to the Police and the duty upon all officers to exercise such powers sparingly and with the utmost discretion. In addition the orders specifically require Sub-divisional Inspectors to ensure that the men under their command adhere strictly to the orders.

The purpose of arrest, as is shown in these orders, is to ensure that a suspect shall be subject to the normal processes of the law; and in particular that he should be available to stand his trial. The orders bring out equally clearly that, except where it is necessary for the maintenance of law and order, the procedure of a summons should be used. However, even for minor offences it may become necessary to arrest a suspect when for example he has no address at which a summons could be served. I have examined these orders; Sir, and, as there may be room for misunderstanding in regard to some of the factors to be taken into account by police officers when exercising their discretion as to arrest within the broad principles enunciated in the orders, I am taking the matter up with the Commissioner of Police.

MR P. C. WOO: —May I ask a supplementary, Sir? Will my honourable Friend inform this Council at its next meeting whether any disciplinary action has been taken against any officers for disobeying the orders: —

- (a) if so, how many such cases, since the issuance of such specific orders; and
- (b) if not, why not?

THE ATTORNEY GENERAL: —I will certainly have inquiries made in relation to that, Sir, but I would warn my honourable Friend that there may be cases where errors have been made but which have not resulted in disciplinary action because the errors were understood to be reasonable errors.

MR P. C. WOO, in pursuant to notice, asked the following question: —

It has been known that in a certain case where a director of a limited company was convicted for failure to file an annual return under the Companies Ordinance (Cap. 32) he has been requested by the Police to have his fingerprint taken under section 54 of the said Police Ordinance.

- (a) Why is a person convicted of such a trivial offence required to have his finger-print taken?
- (b) Would this not amount to an abuse of the exercise of the discretion conferred by section 54 of the said Ordinance?

THE ATTORNEY GENERAL replied as follows: —

Under section 54 of the Police Force Ordinance the Police may take and keep finger-prints of any person who is convicted of an offence. They may take them from any person who is arrested, but these finger-prints must be destroyed if no conviction results. In 1958 section 66 of the Criminal Procedure Ordinance was enacted in its present form. This section provides the statutory method for proving previous convictions by means of the Police records of finger-prints. It is clearly not normally necessary to prove previous convictions for very minor or trivial offences. The question therefore is whether the offence referred to by my honourable Friend is as he says a trivial offence. I am informed by the Registrar of Companies that he does not accept that failure to file an annual return under the Companies Ordinance is a minor or trivial offence. He points out that the public, and in particular the business community, rely on the information contained in the Companies Register in order to check on the reliability and financial standing of the companies with whom they have business dealings. Such people may be misled if the Companies Register is not kept up to date because of a failure to file annual returns. Since the offence in question is not considered to be trivial, the issue of an abuse of the relevant discretion does not arise.

MR P. C. WOO: —May I ask a supplementary question? Is it a request for finger-printing from the Department of the Registrar General?

THE ATTORNEY GENERAL: —Sorry, I did not understand the question.

HIS EXCELLENCY THE GOVERNOR: —May we have the question again, please.

MR P. C. WOO: —Is the finger-printing of a director being convicted for failure of filing an annual return at the request of the Registrar General?

THE ATTORNEY GENERAL: —On the point of order, Sir, I think that raises a new matter. But I would be prepared to make the inquiry and inform my honourable Friend when I have the answer.

Supplementary Provisions for the Quarter ended 30th September 1965

THE ACTING FINANCIAL SECRETARY moved the following resolution: —

Resolved that the Supplementary Provisions for the Quarter ended 30th September, 1965, as set out in Schedule No. 2 of 1965-66, be approved.

He said: —Your Excellency, the Schedule before Council is the second list of supplementary provisions on the 1965-66 account and relates to the Quarter ended on 30th September 1965. The total supplementary vote amounts to just over \$94.2 million. Of this figure, Public Works Non-Recurrent items, including revotes account for nearly \$49 million; \$7 million of this sum was required to enable an advance to be paid to the contractors for the Shek Pik Dam against their claims, \$7 million for the Incineration Plant on Hong Kong Island, \$2.9 million for Trunk Supply Mains in East Kowloon, \$2 million for the site formation for the Housing Authority in Ping Shek Tsuen Estate and \$2.3 million for the Sailors' Home and Mission to Seamen Building at Blackhead Point. A further \$35.8 million was accounted for by advances made by the Official Receivers of both the Ming Tak and Canton Trust banks, the repayment later of which will be recorded as revenue. \$2.25 million was voted for new dredging plant for the Marine Department; and \$2 million for the development of licensed areas and transit centres for the Resettlement Department.

All items in the Schedule have been approved by Finance Committee and the covering approval of this Council is now sought.

THE COLONIAL SECRETARY seconded.

The question was put and agreed to.

INLAND REVENUE (AMENDMENT) BILL 1966

THE ACTING FINANCIAL SECRETARY moved the Second reading of a Bill intituled "An Ordinance further to amend the Inland Revenue Ordinance."

THE COLONIAL SECRETARY seconded.

MR WILIFRED S. B. WONG, addressed the Council: —

He said: —Your Excellency, may I address Council on this Bill intituled "An Ordinance further to amend the Inland Revenue Ordinance" with particular regard to the proposed increase in the earnings and profits tax.

I realize that this is probably the last chance I have of presenting my views to this Council on this issue which I consider to be of the utmost importance to the economy of Hong Kong, and I shall avail myself to the fullest extent of the opportunity.

A correspondent writing to the newspapers had said that the basic economic incentive in Hong Kong is the low tax. I am sure that the Honourable Financial Secretary is only too aware of this fact and therefore he has gone into great detail in working out a schedule of assessment which graduates the tax from 2 $\frac{3}{4}$ per cent in the lowest to 30 per cent in the highest category with the total tax on earnings of not more than 15 per cent. Members of the Council are also aware that Hong Kong had no direct taxation prior to the War. One often wonders how Hong Kong financed itself at that time.

In 1940 and 1941, a war tax of 10 per cent was introduced which may be described as the forerunner of the present 12 $\frac{1}{2}$ per cent direct tax which was introduced in 1950. The 10 per cent taxation was also in effect from 1947 to 1949. During the years from 1947 to the present time, Hong Kong's prosperity has continued in an almost unbroken curve with the exception of a recession in the real estate market which occurred soon after the bank runs in 1965.

Hong Kong's economy is based on the pentagonal structure of retail trade, imports, exports, manufacture and the real estate and building trade. A study of the classification of the businesses of Hong Kong would soon confirm this structure. There are those who hold the view that, as long as exports are rising the economy is in perfect shape and no recognition need be made of the importance of retail trade which exemplifies the exchange of goods and services within the Colony. England at one time was described as a nation of shopkeepers. It survived before foreign trade was developed. Hong Kong, likewise, survived before exports became one of its major activities.

That there is a recession of significant magnitude in the retail trade and the real estate and building trade, is one of the reasons why the proposed increase of taxation should not be introduced at the present time. I may add that, in the financial market, the stock exchange is now very depressed.

We are all aware of the fact that Hong Kong has no natural resources, no mineral wealth, no hinterlands, and no agricultural products to speak of. Its basic incentive for industry and trade is the present low tax and the attraction for foreign investment, is based on free trade at a low taxation level. I have evidence that a number of foreign accounts for investment locally has been cancelled or diverted elsewhere since April 1, 1966.

It is not so much of the 2½ per cent increase by itself but the foreign investors felt that this year's 2½ per cent increase might foreshadow a further increase, and they have begun to lose interest in Hong Kong.

Members of this Council might be interested in recalling that there are certain areas in the world which offer a five years tax free concession to attract investment.

Now we come to the matter of reserves. One of the reasons for a tax increase may be the estimated diminishing reserves. The fact of the matter is that the total reserves of the Colony at the end of the last financial year stood at \$1,201 millions. Although this reserve will be reduced in the course of the next two years it is still in a class by itself compared with some of the major countries of the world which have no reserves at all.

Hong Kong is unique in that public works in particular and most capital expenditures are financed out of current revenue. The great reluctance which the Honourable Financial Secretary has shown on Government borrowing was the cause of the concensus of opinion that he rejects borrowing altogether. In this connexion I may say that if a Civil Servant were to say to the Salaries Commission that his salary was insufficient because it could not buy a house in the United Kingdom, he would probably be told that the common practice is for people to pay down certain deposits, presumably out of savings, then mortgage the house with banks or finance companies and he will pay back the loan in a number of years. Government financing is in essence no different from private financing and Government borrowing should be resorted to whenever a small deficit might be in sight.

On the matter of public debt; the public debt of America is US\$1,700 per capita. In the United Kingdom, it is £ 562 19s. 6d. per capita, and in Hong Kong it is only HK\$22 per capita. My honourable Friend, the Financial Secretary reminds us that foreign investors are at least as discouraged by high national debts as by high taxes. These heavy per capita public debt of America and the United Kingdom seem not to offer any discouragement to the foreign investor. With such an overwhelming disparity between these and the HK\$22 per capita of Hong Kong it would have to be a very long time indeed before the Hong Kong public debt could ever even approximate to that of these western countries and thus become a deterrent to the foreign investor.

One of the reasons for the proposed tax increase is the estimated 'Deficit'. In the Honourable Financial Secretary's Budget Speech on February 24, he estimated the true revised deficit for 1965-1966 at HK\$122 millions. In his Budget Speech reply on March 24 he had re-estimated this year's deficit reducing it to between 62-72 million dollars.

What is happening is that the surplus of revenue over expenditure was HK\$22 millions in January. There probably was also an equivalent surplus in the month of February, and I believe there will be surpluses for other months of the year, although in smaller amounts. Whether the difference is due to under-spending or over-collecting in revenue is immaterial. The important point is that there are monthly surpluses. On the under-spending side, I am sure that members of this Council will do their best in maintaining it by cutting down unnecessary expenses and eliminating extravagance. On the over-collecting side I am reminded of the growth factor in taxation.

When a tax is eminently right and is one on which the public confidence is built, a growth factor inevitably results. This is allowed by the Honourable Financial Secretary to the extent of approximately 7 per cent for 1966/67 over 1965/66. This is, of course, a conservative estimate of the growth factor if the tax remained at 12 per cent. It probably will be considerably more—possibly between 10 per cent and 14 per cent increase this year. Therefore the so-called 'over-collection' may cover the estimated deficit of HK\$62 millions without any increase in direct taxation.

On the point of collection of revenue I would re-emphasize that, it is very easy to say that there are very little tax evasion. The majority of businessmen would say there are quite a few firms which do not pay tax at all, and it is partly due to insufficient staff in the Department of Inland Revenue. May I suggest that the qualified staff required by the Inland Revenue Department be immediately authorized, as this not only plays for itself but also will spread the tax burden from the honest people, who are again penalized because of their honesty, to the people who should bear some responsibility while enjoying the privileges of Hong Kong.

The Honourable Financial Secretary had suggested that, my honourable Friend, Mr GORDON, had his tongue in his cheek when he suggested that, since Government trades in land, Crown Land be treated as a current asset. Long before I heard this humorous expression, that is about a year ago, a prominent public accountant also said the same thing. I should think that, if all Crown Lands are not valued and listed in the assets, the land earmarked for sale within the Financial Year could be valued at a discount from the upset price. This is quite in accordance with sound accounting practice.

I would not call this a speculative procedure as it is a normal business procedure but it does bring out the potential assets of Hong Kong. It is a point of positive attraction to investors in Hong Kong and it is also a reason against the necessity of raising taxes at the present time.

In certain countries increased taxation is used as a cure for inflation. I do not think that the Honourable Financial Secretary has that

in mind but if he had, it would be the year 1963 and not 1966. I must qualify this statement by saying that it is always easy to have hind-sight than fore-sight.

I am not so much concerned that the people earning in certain categories pay an extra \$25 a year and people in another category pay another \$2,500 a year, as I am concerned with the general effect of the tax increase on Hong Kong's economy.

It is not a question, as suggested by a newspaper, that the increase in a certain category of income is the straw which broke the camel's back. The point at issue is whether the camel is going in the right direction. Is it going to the Mecca of prosperity, or in the reverse direction?

This 20 per cent increase in the tax rate in itself will not yield very much in revenue but the effect of it upon the economy may be more than we can foresee.

If it could be proved that the increase is not necessary this year, or if it could be postponed for a period of even three more months, the advantage will be immense for this Colony. An accurate assessment of the actual position at the end of the 2nd quarter would be most advisable. There is nothing to lose because our deficit, if any, will be small. There is everything to gain because we would be riding on a prosperity based on the low tax and supporting a tried financial policy which has prevailed over the last 17 years. On the other hand, if we precipitate this Bill into law today, all we gain is a doubtful \$56 millions, and even this \$56 millions will have to be considered in the light of possible tax avoidance, a point brought out by my honourable Friend, Mr GORDON, and tax evasion, a point which I brought up.

The danger and disadvantage of the Bill is a general economic recession and increased tax evasion. The price of this Bill is hardly worth paying and the risk involved is hardly worth taking. In my last speech I was making an appeal. In this speech I am making a plea for an amendment to the amendment.

Amidst the deepening gloom there is a faint ray of hope as hope springs eternal. The Honourable Financial Secretary in his wisdom has made a slight concession by making the proposed Bill not effective from April 1 but from the time that the Third reading is passed. I have subsequently found that the tax increase is only effective from the passing of the Third reading for the interest tax. The earnings and profits tax will be retroactive from April 1st, 1966. Although this is legally allowable I would like to see legislation relating to the future and not retrospective in effect. He has also stated categorially that he does not reject borrowing altogether. I do hope that this Council will

consider, owing to the immense importance of the Bill, an amendment to the amendment.

If we accept the views of the economist, Gustav CASSELS, that stabilization is the condition of health in a economic society, then we should follow a policy which leads to stable prices, stable costs and stable rates of taxation, especially when there is a substantial reserve.

For the reasons which I have stated today, and in my Budget Speech, and in the light of new evidence and developments relative to the estimated 'Deficit', I regret that I will have to vote against the second reading of the Bill as it now stands."

MR K. A. WATSON then addressed the Council: —

He said: —As this is, I understand from my honourable Friend, the first time in 17 years that the rate of direct taxation has been increased, I do not think the occasion should be allowed to pass without comment.

Although I shall vote for the motion, I would like to express my support for many of the things my honourable Friend Mr WONG has said. I support them because I do not think that we, as unofficial members of this Council, are taken sufficiently into Government's confidence in various aspects of its taxation policy.

No one wants to pay taxes and any increase is bound to arouse opposition. But we cannot ask for improvements in any particular field, in education, medical services, housing, public transport, or social welfare, without accepting the responsibility of finding ways of paying for them.

It is here that confusion arises. Should we retain the present scale of taxation and hope that the anticipated deficits are cancelled by unexpectedly buoyant revenue? If taxation must be increased should this be by direct or by indirect means? How great a place should borrowing take in our fiscal policy? How should we regard royalties paid by public utility companies, as the siphoning off of excess profits, or as a tax on the users? Is it Government's policy to price or tax motorists off the roads, and if so is it a justifiable one?

This Council is, I understand, responsible for matters of finance but its powers are severely limited. We meet twice a month in Finance Committee and discuss specific matters of expenditure. But the question of taxation, of ways of raising money is mentioned only in the annual Budget debate. We do not meet in Committee to discuss the sort of questions I have suggested today. Each of us has to work out his own philosophy, without the discussion of conflicting arguments which is only possible in Committee. We have no opportunity of getting

together with the Financial Secretary to thrash out the pros and cons of different methods of raising money, the justice of imposing special taxation on certain objects and activities and not on others, the appropriate total amount of expenditure and revenue.

All this may be the prerogative of you, Sir, and the Executive Council and if so I apologize if I appear to be encroaching on your and its preserves. But if we are expected to play an intelligent part in the finances of this Colony, if we are expected, as we are today, to make a decision which transfers \$56 million from one lot of pockets to another, I suggest there is a need for a much greater and more detailed discussion of economic principles.

THE ACTING FINANCIAL SECRETARY then addressed the Council: —

He said: —Your Excellency, I feel I should say a few words to refute some of the points just made by my honourable Friend Mr Wilfred WONG and Mr WATSON.

Let us first look at the revenue and expenditure figures on which Mr WONG bases part of his argument. It is quite true that there was a surplus in January. It was in fact \$23 million. Mr WONG is also correct in saying there was a surplus in February; it was in fact \$47 million. Final figures for March will not be available until later this month but it is now certain that there was a substantial deficit of nearly \$65 million due in the main to contractors' bills and Special Defence expenditure. The deficit for 1965-66 will then be about \$135 million which is within the revised figures of \$130 million to \$140 million which Mr COWPERTHWAITTE gave in his speech to the Council on 24th March. If we add the deficit of the Development Loan Fund of \$14 million the total deficit becomes \$149 million which compares with an estimated yield this year from the proposed 2½% increase in the rate of tax of only \$56 millions and \$67 millions in 1967-68. For the financial year 1966-67 the deficit taking into account the proposed tax and certain other revenue raising measures already announced is \$94 million as against an original estimate when the Budget was introduced of \$185 million. But this figure of \$94 millions does not take into account any arrears of salary payable if the Salaries Commission recommendations are implemented which would add \$39 million in respect of arrears for 1965-66 and \$29 million for 1966-67 bringing the estimated deficit for the current year up to \$162 million. In addition there is a possibility for another \$5 million for the Knowles/Ross report on Superscale salaries in respect of both 1965-66 and 1966-67 and another \$17 million additional subsidies to subvented private organizations such as hospitals and schools which would follow from adoption of the Salaries Commission Report. This brings the deficit for 1966-67 up to \$184 million so we are back to where we started when the Budget was introduced but *after* allowing for the Budget revenue-raising proposals. The total

deficit for the two years 1965-66 to 1966-67 is therefore in the region of \$319 million. This figure does not allow for expenditure arising out of the Easter disturbances and other supplementaries which are bound to arise and which have already arisen. If the Amending Bill is not passed the deficit for the two years will be swollen to \$375 million and at the end of 1967 our reserves would be reduced to \$585 million or less than 1/3 of our estimated expenditure this year. I think these figures demonstrate conclusively the necessity for the tax increase but I will nevertheless go on to develop further arguments.

My honourable Friend Mr WONG compares our low public debt with other countries including the U.K. which with its extremely high taxation is an unfortunate comparison. Apart from the necessity for Hong Kong in its peculiar position to maintain adequate reserves—an axiom which I am sure the majority of this Council will not dispute—I would remind my honourable Friend that these reserves which he thinks are excessive and which are held both in Hong Kong and overseas last year produced \$54 million in recurrent revenue for the Colony and without them we might now be debating an increase in the rate of tax of 5% instead of 2½%.

Mr WONG seems to think that we should resort to borrowing to tide us over this huge deficit though he himself thought it was small and compares our position with that of a civil servant buying a house. I know of no building society, however, that will advance money for house purchase without first assuring itself that the purchaser has a sufficient surplus of regular income to cover payment of principle and interest. The Five Year Forecast of Revenue and Expenditure indicates that our deficit over the three years 1967-68 to 1969-70 could be as much as \$1,000 million and while I have no doubt that this figure is pitched too high since it is not adjusted for revenue increases in this year's budget, it serves to illustrate that our commitments are continuing and are not caused merely by once and for all expenditure like buying a house. Mr COWPERTHWAITTE whom I must defend in this matter is not against borrowing as such but he has stressed that it should be confined to self-financing projects or to cover a temporary situation which will correct itself. To borrow unnecessarily for other purposes—even if this can be arranged—merely puts off the evil day when taxation must be raised and, in the end, unless it promotes further growth means even more taxation than would otherwise be the case. We also know that the World Bank would be unsympathetic to a loan at our present very low rates of taxation. I will not dwell on the other economic heresy that exports here are relatively no more important than the retail trade and the real estate market except to say that both these activities would soon collapse if our overseas income from exports, tourists and other sources dried up.

My honourable Friend, Mr WONG has said that he objects not so much to the Salaries Tax element but to the general effect of the tax increase which he thinks is being introduced at an inopportune time while there is a recession in retail trade. I agree with him that psychologically the timing might be better but I would stress, however, that we are mainly concerned with a Profits Tax not a Turnover or Sales Tax and that a firm has to make a net profit after adequate allowances for depreciation before it incurs Profits Tax. It is then permitted to keep 85% of its net profits. If the economy is as bad as he makes out—and I do not for one moment share his pessimism—and no one makes a profit, then no profits tax is paid. It is remarkable in fact how many firms keep going year after year though claiming to run at a loss! Honourable Members will recall that Mr COWPERTHWAITÉ suggested other forms of taxation but these generally got a chilly reception. In this connexion I have taken a note of Mr WATSON'S plea for further consultations on taxation matters.

I have great respect for Mr WONG'S sincerity and wish I could support him but I can't. Nevertheless, I firmly share his belief in the need for a low taxation structure. So does Mr COWPERTHWAITÉ who said on 24th March in his address to this Council that he had no intention of letting the rate of taxation go high so far as the matter rested with him. To which I would add that if anyone thinks 15% is not still a low rate of taxation let him look around at the rates elsewhere which are generally very much higher. My honourable Friend, Mr WONG, asserts that the increase in the rate is deterring foreign investors; there may indeed be isolated instances and possibly, however, other reasons but my own inquiries do not support this assertion and I know in fact, of substantial investments which are currently contemplated.

Finally, Sir, I would remind this Council of Government's obligations and programmes in the fields of education, public health, housing, public order, security and administration, amenities, roads and the thousand and one other things including subsidies which Government is urged to spend money on for the general benefit of the Community. Naturally, no one likes taxation and unpopular decisions require courage. I am sure that it is the wish of this Council that while every economy must be exercised, these vital programmes should not be jeopardized and I therefore most earnestly urge honourable Members to vote for this Bill as it stands, subject however to a procedural amendment to Clause 3 which I will explain later.

The question was put and agreed to.

The Bill was read a Second time.

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

Clauses 1 and 2 were agreed to.

Clause 3.

THE FINANCIAL SECRETARY: — Your Excellency, I rise to move that clause 3 be amended as set forth in the paper before honourable Members.

As stated in the remarks, this amendment is of a procedural nature. In many cases taxpayers will make application for spreading to the Commissioner of Inland Revenue after they have received an assessment which includes a lump sum payment as defined in the proviso. The Commissioner must then be given the power to make an amended assessment for the year in which the lump sum payment accrues and the simplest way of effecting this is to have an application under the proviso treated as a valid objection under section 64 of the Ordinance. But this section allows a taxpayer only one month after the date of a notice of assessment within which to object; otherwise the objection is not "valid" and under section 70 an assessment becomes final. Because the proviso is a relief provision it is felt that no time limit should be placed on a person making an application under the proviso, and for this reason the amendment treats such an application as a "valid" objection under section 64.

Proposed Amendment

Clause

3. In proviso (a), insert at the end thereof the following: —

"and notwithstanding the provisions of section 70 an application made by any person under this proviso for the adjustment of an assessment shall, to that extent, be regarded as a valid objection to the assessment under section 64; and".

Clause 3, as amended, was agreed to.

Clauses 4 and 5 were agreed to.

Council then resumed.

THE ACTING FINANCIAL SECRETARY reported that the Inland Revenue (Amendment) Bill 1966 had passed through Committee with one amendment and moved the Third reading.

THE COLONIAL SECRETARY seconded.

The question was put and agreed to.

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

NEXT MEETING

HIS EXCELLENCY THE GOVERNOR: —That concludes the business for today.
The next meeting of Council will be held on 8th June.