

will then find itself again in the financial chaos which prevailed during the autumn of 1925, when private investors were faced with huge losses and the Government had to come forward with assistance in the shape of a Trade Loan.

The Financial Secretary quotes the Taxation Committee as being unanimous that an income tax was in principle the best method of raising further funds. I am not satisfied this is quite a fair statement. As I am given to understand that Committee were against Income Tax, but agreed it could be brought in in case of necessity of the Colony itself. I do not believe they visualised it would be suggested as a means of taking money out of the people to be remitted out of the Colony.

It appears that the Honourable Financial Secretary does entertain some fears that Capital may be removed, for he makes two suggestions that should be adopted to prevent such movement.

The first one is that "No Income Tax should be charge on interest on deposits held by non-residents".

Is not this an admission there is some danger of such deposits being removed, and if there is fear of non-residents doing so, why should it not cause residents to do likewise?

Later in his speech the Financial Secretary proposes some special concession is to be made to newly established factories. It seems to me this is also an admission of some fear new capital may be prevented from coming here.

To my mind Income Tax is unsuited to the peculiar conditions of Hong Kong which has built up its importance as a trading and financial centre on the principle of freedom from Government restrictions upon the individual trader and his financial operations. The confidence thus created is essential to the prosperity of the Colony. There is real danger that a method of taxation ill-adapted to the special position of Hong Kong will destroy that confidence and seriously damage a delicate financial structure.

I would repeat again, Sir, it is of vital and paramount importance that the facilities of this Port be kept as free and cheap as possible.

The introduction of any measures that may endanger these facilities or become a means of restricting the movement of its Chinese traders will have the most disastrous effects. Trade driven from this Colony to competitors, who are only too anxious to obtain a share of our trade, will be extremely difficult to recover.

I am satisfied that suitable alternatives can be found for the object we all have in mind, and I associate myself with the Honourable Member who represents the Chamber of Commerce in his suggestion,

that the Expert Committee now examining the Bill be given wider terms of reference.

There seems to be abroad in some circles a feeling that the British Community is unwilling to shoulder its proper responsibilities. I desire to associate myself with the remarks made by the Hon. Mr. S. H. Dodwell in this regard. There is no reluctance, as far as I am aware, to take our share in the war-time responsibility of the Empire, but I do most strongly feel that the financial and commercial interests of the Colony and therefore its future prosperity will be adversely affected by the introduction of a levy in the form of the proposed Income Tax. (Applause).

HON. MR. LI TSE-FONG.—Your Excellency,—As I am a comparatively new member of this Council I have a few observations to make.

I agree with the Government's policy that there should be as little disturbance as possible with the Colony's current activities and development schemes, and I venture to think that the provisions made for public works extraordinary are by no means extravagant. All works provided for in the estimates for the development of health and education, that would confer common benefit to the community, should be proceeded with without any avoidable delay. I earnestly hope that in the event of Government being called upon to cut down expenditure in order to balance the Budget, this should not be done at the expense of Health and Education.

Although the present is not opportune for me to advocate larger appropriation for the extension of these essential services, I feel that in the matter of education I must call Government's attention to the lack of provision for the building of model vernacular primary schools as recommended by Mr. Burney in his Report issued on May 27th 1935. In urging Government to give this matter its careful consideration, I will quote the following passage from the Report in regard to primary vernacular education in the Colony:—

“It is a serious weakness in Hong Kong's educational system with result felt through the school career of many of the children that the school in which the primary foundations are laid should be of so poor a quality. This is the more regrettable when it is remembered that for many children education ends at the primary stage. In fact it is evident that the Government's expenditure on Higher (including Secondary) Education is out of proportion to its expenditure on Primary Education. On these grounds it is recommended that the Government should assume as soon as possible larger responsibilities in primary education and the best way of doing this would be to build, as a start, two or three large primary schools in the City of Victoria, staff them only with fully trained teachers, inspect them properly and thus make them fit to serve as models for schools conducted by private

enterprises. These new schools should be free, an innovation which would not be very costly since any fees charged could only be small."

Some of the schools conducted by private enterprises, I must say, are fine institutions but the general conditions of many others are far from satisfactory. The Community are predominantly Chinese, and as tax-payers they have the right to expect that Government should assume full responsibilities in the primary education of their children. I submit that it is now the general accepted policy of all modern nations to provide at least the primary education necessary for every citizen as a common benefit and to make it free to all the recipients.

This leads me to a consideration of the Board of Education. It was established in 1920 "for the purpose of assisting the Director of Education in matters pertaining to the development of education in the Colony", and has since then remained as a purely advisory body. It is an important body, and I feel that it is time that the constitution of the Board should be reviewed and its function extended. A desirable feature of any new change would be the institution of several select committees, on similar lines as the Urban Council for the purpose of dealing with various educational activities such as registration of private schools, awarding of Government scholarships and recommendations of grants to aided schools.

In the matter of expenditure under Air Raid Precautions I wish to draw the attention of Government to the total lack of provision for shelters for civilians who may be out in the open in time of emergency. I realise the peculiar formations of this Colony that make it almost impossible to provide shelter for everyone, but I venture to think that it may be possible at a small cost to build a number of small underground shelters or in the alternative to strengthen some of the public buildings in the City to provide for such an eventuality.

I will now come to the consideration of the proposed imposition of Income Tax. I have had the opportunity of studying the speech made by the Honourable the Financial Secretary on the 9th November, but I can see no reason to change my opinion. I shall therefore confine to what I intended to say on that day and refer to his speech again at the end.

Before I offer my personal observations on this very important matter I wish to say that the Chinese Community, whose views my Chinese colleagues and I have the honour to represent, are not unconscious of the duty of all citizens in this Colony in connection with the present war in Europe. They realise that the Colony should do its utmost to make contributions to the war chest to the full extent of its resources as a token of the Colony's loyalty to the Imperial Government. The Chinese Community are most grateful for the protection and security afforded to them in this Colony and I feel that they will not hesitate to give their support to the Government in any financial measures other than Income Tax in connection with the

war. The opposition to the proposed imposition of Income Tax as far as the Chinese are concerned, is not based on any political grounds but is entirely for economic reasons.

I share the view which has been expressed both inside this Chamber and outside that in view of the peculiar economic structure of the Colony as an entrepot which is apt to be adversely affected by the war in Europe, the imposition of this form of taxation at the present juncture may inflict such damage to the vital interests of the Colony that it may not be able for a long time to regain its importance.

In modern countries where industrial organisation is well advanced and the population is well educated and the standard of living is more or less uniform, Income Tax, from the point of view of equity and faculty, is perhaps one of the best forms of taxation. But it is noteworthy to observe in the Taxation Committee Report of 5th April, 1939, that even in these modern countries "incessant vigilance is necessary to prevent evasion." In Hong Kong with its peculiar economic conditions and its peculiar composition of population, the task on the part of the Administration to carry into effect such "incessant vigilance" may prove to be formidable and costly.

The impact of the war in Europe is beginning to tell on a large section of the Colony's manufacturing industries such as cotton goods, shirts and singlets, rubber wares and shoes, cosmetics and electric torches and batteries, mainly due to increasing cost of imported raw materials and transport. Any further encumbrance which a new impost such as Income Tax may imposed upon those industries may compel them to move out of the Colony. What I ask is that the Government should not make it more difficult for these industries to carry on if it can possibly help it.

In the matter of Exchange Control the Government has recognised this Colony's peculiar position and was quite right in applying special treatment to solve that problem. It is therefore logical that on the question of taxation, we are entitled to similar special considerations bearing in mind that any form of taxation which would tend to drive capital and industries away from this Colony should be avoided as far as possible.

At the present stage when full details of the proposed Income Tax are not yet available to the Public, I would only add that Income Tax, being in reality not a simple Tax but a complex system of taxation, is not a desirable form of taxation for this Colony.

There have been many proposals put before the Government as alternative methods for raising the necessary revenue for the war budget. I realise that some of these proposals would place the main burden of the additional taxation on some particular sections of the community but as war measures a certain degree of inequality is unavoidable.

I hope that the Honourable the Financial Secretary will agree with me that the financial position of the Colony is not at all precarious but is, in fact, quite sound. The Colony's surplus at the end of 1939 would probably be more than what is budgetted for in the revised estimate when we take into account the fact that duties on petrol and liquors have been doubled and the increased assessment came into effect on the 2nd half of the year. In my humble opinion if Government fail to raise the necessary amount of revenue for the requirements of the war budget by means of taxation other than Income Tax, the Government could fall back on the Colony's surplus which, at \$13,562,235.00 as on 1st January 1939, represents over 33% of the total ordinary revenue for the whole year.

The above, Sir, was all I proposed to say, had not the budget debate been postponed, on the 9th November. As, by the rules of debate, laid down by Your Excellency many of the previous unofficial members, including my two Chinese colleagues, are debarred from answering the speech of the Honourable the Financial Secretary made on that day I must add a few remarks in reply to that speech.

No one who has listened to or read the Financial Secretary's speech of the 9th November could possibly fail to appreciate its brilliance as a debating effort. But if I may say so, his speech upon a close analysis is not convincing because it fails to deal adequately with the fundamental objection to the tax, namely, its effect on the Colony; and because it is devoted largely to an argument as to the absence or presence of administrative difficulties.

The Honourable the Financial Secretary appears to have overlooked two very important observations of the Taxation Committee which, briefly summarised, are as follows:—

- (1) That the possibility of the successful working of the tax should first be the subject of a detailed investigation with the assistance of an expert preferably familiar with the collection of the tax in an eastern country.
- (2) That it would be unwise to impose a tax of this nature until a substantial body of opinion in this Colony believes that the tax can be levied fairly and efficiently.

The Hon. Mr. Caine stresses the point that because the exchange rate of the Hong Kong dollar has been stable for the last few weeks at about the highest limit permitted under the stabilization scheme, there has been no substantial outward movement of capital. It is well known that the exchange rate of the Hong Kong dollar is subject to fluctuation caused by many factors which I need not enumerate, and I do not think that it can be taken as any evidence indicating the movement of capital. In this connection I need only point out that the exchange rate of our dollar in term of the Chinese dollar has depreciated quite substantially since the 12th October.

I have no actual figures available but I have reason to believe that since Income Tax was mooted, the amount of Chinese currency notes that has been shipped out of the Colony has been on the average of about a million dollars a day which constitutes a heavy inroad on the floating capital of the Colony. In addition there is that invisible flight of capital through transactions in sterling operated between here and other financial centres.

The Honourable the Financial Secretary was somewhat caustic in his criticism of arguments advanced against the imposition of Income Tax, because of the difficulties of administration, and he saw fit to set his knowledge against that of the Honourable Senior Chinese unofficial member as to how Chinese accounts are kept. I am sure that my Senior Chinese Colleague did not intend to weave a net of mystery about Chinese accounting as if he were trying to defend it in that way. It is fundamentally different in a manner that it is not easy to describe. Those, who have occasionally to construe it, as for instance in the courts of law or in bankruptcy, know how difficult it is to reconcile it with modern accounting methods.

There is one aspect with which the Honourable the Financial Secretary has not dealt adequately and which should be weighed strongly against Income Tax as a temporary war measure. I refer to the matter of organisation. As Income Tax is in reality a complex system of taxation, the organisation of the new administrative forces for its collection will require a good deal of time and the normal revenue-yielding power will only be reached many months or perhaps years after its enactment. By the time the new machinery is in working order the war may have ended or be near its end. The more I think of this aspect of the question, the more I fail to understand why Government should choose Income Tax to finance the war budget.

With reference to Mr. Caine's observation that the Chinese members have made no specific suggestions for alternative taxes I would like to point out that in his speech the Honourable Senior Unofficial Member made it quite clear that he was speaking with the unanimous support of all the Unofficial Members when he asked Government for the appointment of a committee to consider and make recommendation for suitable alternatives. My Chinese Colleagues and I have therefore decided not make separate suggestion in that regard.

I will now close by paying a tribute to the Honourable the Financial Secretary for the public spirit and unselfish sentiment expressed in the final paragraph of his speech. To meet his laudable wish I think that Government can easily devise a scheme whereby all Government servants whose salaries reach certain figure should be subjected to a special levy as a war contribution.

If Government were to adopt such a scheme I feel sure the Public will readily and cheerfully submit to some alternative taxes

which, while enabling us to make a substantial contribution to the Imperial Government, would not be injurious to the Colony as would be the introduction of Income Tax. (Applause).

THE DIRECTOR OF MEDICAL SERVICES.—I am grateful to to Your Excellency for giving me an opportunity of replying to some of the points the Honourable Mr. Pearce has just raised in his speech.

The Honourable Member has referred to the rapid growth of the Medical Department". He has a considerable advantage over me in having spent so many years of his life in this Colony. If, however, by the use of the adjective "rapid" it is intended to suggest "recent" growth, I submit that this hardly gives a true picture of the position for reasons which I will give later.

In his speech on Thursday last, my Honourable and learned friend Sir Henry Pollock referred to the overcrowding and dangerous accommodation in the Kwong Wah Hospital. These are facts which cannot be denied.

My Honourable friend Mr. M. K. Lo also characterised the congestion in the Chinese hospitals as a standing disgrace, and he stressed the need for a hospital for children and for tuberculous patients.

It might be of interest to note that on the opening day of this debate the Tung Wah Hospital had 870 in-patients of whom only 189 had a bed to themselves. The maternity beds were all occupied and the demand on them is so great that it is customary for mothers to spend only four days in hospital at child-birth.

Realising the urgent need to improve both hospital accommodation and the conditions prevailing in the Chinese hospitals here, Your Excellency appointed a Technical Hospital Committee last year over which I had the honour to preside. With the concurrence of the Chinese Directors of the Tung Wah Hospitals, Your Excellency also appointed at the end of the year an Executive Committee for these hospitals. Both the Senior Chinese Member of this Council (Honourable Mr. T. N. Chau) and the Honourable Mr. M. K. Lo are particularly valued members of this Committee. Both would, I feel sure, agree that, although the conditions in the Chinese hospitals still leave a very great deal to be desired, the progress made during the first eleven months of the work of this Committee has fully justified its appointment. During the period in question Government has assisted with a grant-in-aid of \$400,000 to the Tung Wah Hospitals.

The Report of the Technical Hospital Committee has just been published and will, no doubt, receive the sympathetic consideration of this Government. The Honourable Member can rest assured that there is unlikely to be any "extravagance" in this connexion.

The Technical Hospital Committee concluded that the dearth of hospital beds in Hong Kong amounted to at least 5,000, taking the population at the very low figure of $1\frac{1}{4}$ millions. The Committee was satisfied that this lack results in many sufferers, including cases of infectious disease, remaining in crowded tenements, thereby producing a vicious circle since they act as sources of infection to others—leaving aside altogether the humanitarian aspect.

In point of fact, Government has already taken steps to initiate work on site formation for a new infectious diseases hospital and, possibly, a new general hospital at the Kowloon Medical Centre.

With Your Excellency's encouragement and support efforts have been made to increase the available accommodation on very simple lines. For example, the former prison at Lai Chi Kok now provides beds for 500 patients, the huts at Kennedy Town Hospital contain 45 beds, and the matsheds at the Kwong Wah Hospital mentioned by Sir Henry Pollock house 200 camp beds placed side by side in practically continuous rows.

These additions make little impression on the main hospital problem, and many of the sick poor who should be admitted have to be turned away, unless room can be made for them by discharging patients not yet sufficiently recovered from their illnesses, but in less dire need.

It is sometimes forgotten by those more used to Western conceptions of medical care of the sick poor that thousands upon thousands of the poorer Chinese live in grossly congested dwellings quite unsuited to home nursing.

I can hardly believe that the Honourable Member who criticised the size of the Medical Budget really considers that hospital accommodation should be curtailed so that a larger number of patients have to be refused admission or nursed on the floor, or even more than two to a bed.

Nor can I bring myself to credit the Honourable Member with the desire that the quantity of food—costing about 25 cents a day—given to the wrecks of humanity treated in our hospitals should be reduced.

It scarcely seems possible that the Honourable Member would be prepared to advise a reduction in the vote for (and therefore in the quantity of) antiseptics for wounds, anaesthetics for operations, tetanus and diphtheria anti-toxin to save the lives of sufferers from these diseases, quinine for malarial patients, smallpox, cholera and typhoid vaccine for use in prophylaxis? And yet beds and bedding and food and drugs and vaccines do not drop like manna from heaven.

Concurrently with and to some extent arising out of the impossibility of admitting all those to hospital in need of such care, the staffs of out-patient departments and dispensaries are compelled to work for long hours; insufficient time is available for adequate investigation, diagnosis and treatment of patients, many of whom have to endure long waits before being medically examined. Those who might be restored to health are exposed to the danger of becoming chronic invalids—or of dying prematurely.

The death-rate for the first nine months of 1939 was nearly 34—considerably over three times that for England and Wales in 1938.

Part of the increase in the Medical Budget now under consideration relates to additional staff which it is desired to appoint to meet the heavy demand for medical services. Be it noted that it is intended to recruit Chinese and other local graduates for this purpose—a point mentioned by my friend, the Honourable Mr. d'Almada in his speech last week.

As the Honourable Mr. Lo pointed out in his speech a week ago, the loss of life in infants under one year of age is nearly seven times higher in Hong Kong than in the United Kingdom.

Malnutrition is no doubt an important factor in this sad wastage, an unsatisfactory environment and ignorance of mother-craft coming next in importance.

In the Medical Budget, provision is made for a few thousand dollars to increase by one the number of Chinese lady doctors and by a small handful the number of Chinese nurses and health visitors to extend the welfare services.

I can hardly believe that the Honourable Member really thinks that the all too few clinics for mothers and babies should be curtailed.

It is scarcely necessary for me to remind Honourable Members of the burden of suffering and loss of life which occurs from preventable epidemics in Hong Kong. All are familiar with the outbreaks of cholera, smallpox and cerebrospinal meningitis which have afflicted the Colony in the past few years—aggravated by the very overcrowded condition of the town and the lowered standard of living following upon the refugee influx.

To combat these conditions staff and material are, of course, essential and cost money.

Would the Honourable Member advocate the reduction in the meagre staff of Health Officers responsible for preventing disease?

Is it the view of the Honourable Member that there should be less accommodation for dangerous infectious illness,—or for victims of the tuberculosis scourge?

Now, if we take 1936 as a normal year in so far as concerns medical expenditure, since this period preceded the outbreak of hostilities, we find that the approved expenditure was \$1,651,378.

The mid-year population in 1936 was 985,345. The per capita expenditure thus amounted to \$1.67 per annum—a little over 2/1d. The Medical Budget for 1940/1941 now submitted to this Council for approval makes provision for the sum of \$3,635,709 for the period of 15 months. This is the equivalent of \$2,908,568 for a period of 12 months. On a conservative basis, the mid-year population for 1939 amounted to $1\frac{3}{4}$ millions. I use the word "conservative" advisedly, because expert statisticians have expressed the view that the population calculated at June, 1939, was then within ten per centum of the two million mark.

If we assume that the population at mid-year 1940 will not vary to any appreciable extent from that for the current year, then the per capita expenditure for next year will be in the neighbourhood of \$1.66 per annum—one cent less per head than in 1936.

As regards increase in the staff of the Medical Department, in 1936 there were 56 doctors and 277 nurses. The figures in the 1940-41 budget show 79 doctors and 355 nurses. This increase may appear big at first sight. That is not the case; firstly, because the original cadre was inadequate four years ago; and, secondly, because, whereas the population has practically doubled in the intervening period, the increase in doctors is approximate 2/5th and in nurses considerably less than a third. This relatively small increase of staff has had to cope with over a thousand additional hospital beds as well as with new clinics and dispensaries.

Bearing in mind the mass of poverty-stricken and suffering persons in Hong Kong does the Honourable Member really advocate a smaller number of doctors and nurses?

I am aware that it is believed in some quarters that the present population is likely to diminish very considerably once peaceful conditions obtain in China. There are, however, many present in Council to-day, who, I think, would not deny the fact that Hong Kong has grown, as it were, by leaps and bounds, and that many of those who have sought asylum from disturbed conditions in China at intervals during the past 20 years or so have, in fact, remained as permanent residents.

I trust that enough has been said in this inadequate survey of the position to convince my Honourable friend Mr. Pearce that there is no real justification for his alarm at the very moderate increase in

the Medical Budget. His alarm was not, I am most thankful to say, shared by the other unofficial members when they considered the provision in Select Committee.

I do not think that it would be Your Excellency's wish that I should take up the time of this Council by commenting upon the phrase "formidable highly-paid staff" which occurred in my Honourable friend's speech. The question of salaries is one affecting the Service as a whole and it would be difficult to produce evidence that the staff of the Medical Department was, in fact, "formidable" in the face of its responsibilities or that the salaries were "high".

Knowing the Honourable Mr. Pearce's humanitarian outlook, I think that I should not be far wrong in assuming that he would be prepared to answer the questions which I have taken the liberty of putting to him with an emphatic negative. Yet it is these very services that account for so much of the expenditure of the Medical Department which it is our duty to develop for the well-being of the community for whom we are responsible.

Turning to the Honourable Member's second point, namely that relating to street cleansing, I hasten to assure him that the Health Authorities share his views on the subject whole-heartedly. As the result of representations which were made by the Medical Department to Government and which received at least in part, the support of the Urban Council, more refuse-lorries have been purchased and put into commission and about 200 additional labourers have been taken on. Like Oliver, the Department would like to see more transport and more scavengers available for this necessary work. It has some hope that the Honourable Director of Public Works may find it possible to allow a certain amount of water to be used for washing down the streets and pavements in some of the more insanitary parts of the urban area.

In fairness to the Honourable Director of Public Works, it must be admitted that he is faced with a very heavy and responsible task to provide enough water for at least 1¾ million people.

A part of the nuisances encountered in the streets are the result of the careless habits of large numbers of refugees who have come to Hong Kong for safety from villages in the war areas where it is customary to deposit wastes of all kinds in the valleys and open spaces adjoining their houses.

Shortage of public latrines and, as yet, an inadequately organised system of collection and disposal of night-soil from houses lacking a water-carriage system are further reasons for the unsavoury condition of some of the streets and lanes. Provision has been made in the Colony's budget for the construction in 1940-41 of a proportion of the public latrines deemed to be necessary. In addition, a sub-committee of the Urban Council appointed by direction of Your

Excellency is now considering the possibility of introducing a more up-to-date system than exists at the moment of dealing with night-soil as advocated by the Health Authorities.

Honourable Members can, I feel sure, rely upon the Chairman and Vice-Chairman of the Urban Council assisted by the Members of that Council to bring about the much needed improvement in the cleanliness of the thoroughfares of Hong Kong. At the same time, a reorganisation of the service responsible for supervising street cleanliness is in process of being carried out.

On the subject of squatters settlements, Honourable Members of this Council may be sure that the matter has been given the very closest attention by Government for some time past.

Many of these squatters are refugees. Many others were, hitherto, good lawabiding citizens until high rents and depressed wages made it difficult for them to live in ordinary tenement buildings.

That danger attends the existence of these squatters both to themselves and to the general public from the lack of sanitary conveniences, water supplies, and from outbreaks of fire, is well appreciated by Government. The present policy is to try to persuade those who are refugees without means of support to return to their own country. Such persons are given a free passage and an ex gratia grant by Government to this end. Squatters who are Hong Kong-born citizens or who are unwilling to be repatriated are being provided for in two ways:—

- (1) Firstly, women and children amongst them are given the opportunity of accepting food, shelter, medical care and welfare services in the Government camps up to the extent of the accommodation available.
- (2) Secondly, plans are in preparation for establishing one camp on the Island, a second on the outskirts of New Kowloon and two on the frontier between Lokmachau and Takuling, to which squatters unwilling to return to China can be sent. They will be provided with a water supply and simple medical and sanitary services, but they will have to provide their own hut accommodation in proper alignment, adequate attention being paid to fire-breaks, ventilation, drainage, etc.

If Your Excellency would allow me the privilege and you, Sir, and the Honourable Members of Council would bear with me for a few moments longer, I should like to say a few words on the question of income tax which occupied the more prominent position in the speech of the Honourable Member.

If we review the very low standard of living in the Colony, the increase in food prices, the widespread malnutrition, the high rents,

the tragic overcrowding, the high infant mortality and death-rates, we must all agree that the poorer sections of the community cannot have any further burden placed upon them.

Money has to be raised, however, for Defence purposes, both in relation to the special needs of Hong Kong and the war against aggression in Europe in which this Colony is so intimately concerned.

My friend the Honourable Mr. Caine has so ably and, in my humble view, rightly maintained that income tax is the most equitable form of raising revenue. Rates and import duties have always been found to bear most heavily on those sections of the community least able to sustain them.

Looking at the problem from the point of view of a doctor and not from that of a business man, my conception of income tax follows these lines:

Government endeavours to work out, as fairly as possible, the minimum sum necessary for the adequate feeding, clothing and housing of an individual.

It then examines the financial responsibilities of that individual—whether or not he has a wife, a child or children and one or more dependent parents and relatives, and makes allowances (and, I assume, in this Colony, for education) accordingly. Only when the total for these commitments has been ascertained does the Government ask for a contribution from the balance towards the maintenance—or extension—of the essential organisation of Defence, Civil Administration and Social Services.

I venture to maintain that the level of income tax in a country provides evidence of the sense of responsibility which the community has acquired in the carrying out of its fundamental obligations.

That, in fact, a relatively high rate of income tax indicates that a country has accepted and intends to honour its international pledges; that a high level of incorruptible and efficient administration has been achieved and that the Government has recognised its duty to provide for the young, the old, the sick and for those in want.

Up to the present, Hong Kong has only fulfilled a part of the complex duties of a modern state.

The instrument of income tax, as now proposed by Government, is brought forward as a measure to meet the increased cost of the additional services necessary to give effort to the determination of the British Commonwealth to maintain freedom, law and order among nations.

I believe that there are not a few present in this Council to-day who look forward to the time when it will be possible to use income tax not only for Defence, but also for the development of the social services, and, in this Colony, education, which are so urgently in need of increased finance.

The argument that income tax is unsuited to the particular set of conditions prevailing in Hong Kong calls to mind the opposition encountered last year to two Health measures which were introduced to protect this Colony. I refer to the declaration of Canton as an infected port owing to an outbreak of smallpox and to the introduction of compulsory vaccination here in the spring of 1938.

There were many who shook their heads and prophesied that the first measure would jeopardise the prosperity of this Colony and that the intrusions on home privacy incidental to universal vaccination against smallpox would be bitterly resented so that the measure would be impracticable.

Both measures were entirely successful as proved by the lessening and, for many months, the complete disappearance of the virulent strain of smallpox which had previously exacted a heavy toll of human life. Trade was not adversely affected and members of the general population were most helpful and co-operative in securing a well-vaccinated community.

I would urge that arguments, similar in content, were brought forward when income tax was first introduced into the United Kingdom and, indeed, in relation to many forms of social legislation.

I am confident that Hong Kong, which has met so many upheavals and so successfully adjusted itself to changed conditions, will accept this new form of taxation in that courageous spirit which it has often shewn in the past.

It has been my privilege to work for the past eighteen months in close contact with several of the Chinese members of this Council. During that time, it has been my invariable experience that they have always been willing to set aside their own interests and the interests of a class for the sake of the community whom they serve as a whole. Hence, I have no doubt as to the ultimate outcome of their deliberations in support of this measure. (Applause).

H.E. THE GENERAL OFFICER COMMANDING.—Your Excellency, Hon. Members,—I had not intended to take up the time of this Council by giving my views on this rather complicated question of Income Tax because it is one about which I do not pretend to have any detailed knowledge. It would be presumptuous of me, indeed, to claim to have any detailed knowledge of the financial workings and the details of business in Hong Kong, but since my return from the North, I have been reading the speeches of Hon. Members delivered a week ago, and it occurred to me that the wider issues of this question have perhaps been obscured, and that the details set out for the

measure had, perhaps, not been fully understood. For that reason I am glad that Your Excellency has allowed me to speak to-day.

What are the facts? The facts are that the British Empire is now engaged in a war of the greatest magnitude and no one can predict the future. Hong Kong is as much concerned in this war as any other part of the Empire for, if things go wrong, she will be the first to suffer. I think Hong Kong is very fortunate at this moment that the war is so far from her shores.

I have heard it mentioned that Hong Kong's membership in the Empire is a rather limited and loose one and that her responsibilities, therefore, are correspondingly limited and loose, but that view has no foundation in truth. It has also been stated that Hong Kong is of considerable strategic importance to the Empire, and that it is only right and proper that Great Britain should provide for her protection. Hong Kong has little or no strategic importance, and, in fact, might well prove to be an embarrassment. Hong Kong is defended, and will continue to be defended, largely on the responsibility of Great Britain, because it is a British Colony, and I think it is as well for the people who inhabit this Colony to realise what is being done in their interests and for their security.

The Military Contribution from Hong Kong represents a small percentage of the costs to Great Britain of the defence of this Colony, and I doubt whether it is realised that the amount paid in the form of Military Contribution is more than refunded by the sums spent by the Service departments in this Colony.

If this war is not prolonged, we obviously will have much to be thankful for in every direction. If it is a long war, the financial side is perhaps as important as the military side and heavy financial as well as human sacrifices will be required. I think it very wrong if we are not prepared for a long war, and if we do not consider that Hong Kong is fully concerned with the financial side of the war.

It also seems to me wrong to use the term "War Gift" in connection with Hong Kong's financial responsibility, and I consider we should not discuss whether three, five or ten millions ought to be given as a war gift to Great Britain. Hong Kong may be required to pay to the limit of her resources and no one can forecast the amount. I know very well that Members realise this.

The question in dispute is the method of taxation in order to raise the money in connection with the war. It seems to me that the machinery now set up must be capable of extension.

What are the facts in connection with this? A year ago the Government set up an Income Tax Committee, composed of members of the best ability and standing in the Colony who were more than able to express an opinion on the subject.

As I understand it, reading the Report of this Committee, its recommendations were made, after cool deliberation in time of peace, as the best way of raising capital should Government require more capital in peace. I was under the impression that the Committee recommended Income Tax is the best form of meeting the Government's needs, but I stand to correction as I may be wrong. In any case, there was then a strong feeling in favour of introducing Income Tax.

The situation now is that a war has arisen and, with it, heavy demands and financial sacrifices, which no one disputes. But, on the Government proposing to introduce Income Tax, it has been met by heavy and organised opposition, which I consider to be a surprising situation.

Income Tax is universally admitted as the only fair form of raising revenue. In Hong Kong, where a considerable section of the public is very poor, it is clear that the limit has been reached and that indirect taxation cannot be extended much further. On the other hand there is in Hong Kong a section of people who enjoy a very high standard of living and are very prosperous. It would seem then any form of taxation other than Income Tax is not likely to be distributed equally and fairly.

I have not had the opportunity of hearing any reasonable alternatives to Income Tax. There have been suggestions such as lotteries, tax on cinema tickets, food, land tax and so on. None of them, I am sure, Hon. Members will accept as reasonable. Increases of indirect taxation on petrol and wine have also been suggested, but they again do not fall upon those best able to bear them. Mr. Dodwell may have to spend £30 more on petrol and Mr. Pearce may have a wine bill of £100, but it is of no interest to them—it is only of great interest to those with an income of about £500 a year.

Fears have been freely expressed in regard to the financial stability of the Colony were Income Tax to be imposed. I have no knowledge with which to dispute these fears because I have obviously no information on that subject, but it seems to me that risks must be taken and the possible consequence of Income Tax must be accepted in certain circumstances.

Another point is the question of tax evasion on which great emphasis has been laid. Efforts will no doubt be made to avoid paying taxes. In every country of the world there is a number of people who do their utmost to evade taxes, and in this Colony there will no doubt be tax evasion. But should Government avoid doing the right thing on this account, if there is a necessity for the tax? In India they have for many years had Income Tax, and there, I understand, in small businesses three sets of books are kept, so it is quite possible in Hong Kong four sets of books may be kept, but that is no argument against introducing what is the best form of obtaining revenue.

The tax proposed by the Government so far, I am sure, is a relatively small one and the burden will fall only on the shoulders of those well capable of bearing it. It is to be hoped very much that the Government will not have to make further demands. No one likes to pay Income Tax, and I am certain the opposition is not due to personal grounds. I do feel it is possible to introduce the Tax and I hope Hon. Members will not misunderstand my attitude in speaking on the subject, as I believe that the conclusions reached have been, perhaps, a little hasty and before the Government's proposal was fully known, and I think that a great many are not satisfied with the attitude taken by the majority of those who oppose Income Tax. I therefore hope they will be given an opportunity to reconsider the question.

This is a very important measure. If Income Tax is not accepted it will certainly not add to the reputation of Hong Kong. I am convinced that the Government's proposals are the only ones which can deal with the situation and I hope very much that time will be available for reconsideration of this Bill. (Applause).

THE COLONIAL SECRETARY.—Sir,—This debate has been so predominantly a debate on Income Tax that there remains little for me to say on the so-called ordinary budget which is the subject of the resolution standing in my name. I am grateful to unofficial members for the assistance which they have rendered in Committee since the Council meeting of 12th October and for their unanimous agreement with the Government's proposals, as modified by that Committee, which are now presented.

The points which Mr. Li Tse-fong has raised on the subject of education will be carefully considered by the Director of Education and Mr. Li will no doubt pursue them further in the Board of Education of which he is a member. I would only say that the newly established Teachers Training College and the revised code of subsidies for vernacular schools indicate that, although much still remains to be done when funds permit, the improvement of vernacular education has not been unduly neglected. As to the constitution and organization of the said Board, any suggestions which it may choose to submit on these questions will be sympathetically considered.

The same member again raises the question of providing Air Raid Precautions Shelters for the general population. On this subject I made a full statement at the meeting of this Council on 29th June, 1939, and there is, I fear, nothing that I can usefully add to that statement.

Mr. D'Almada has revived the question of increasing the number of locally recruited officers in the Government service. I can only repeat that this form of economy is still the considered policy of the Government whenever it can be shown that the duties of a post can be performed by such infiltration without loss of efficiency. The Chinese Sanitary Inspectors, for example, are gradually allowing reductions to be made in the European staff, and I understand that the experiment of recruiting Chinese for senior posts in the Police

is working satisfactorily. A scrutiny of past and present estimates will show how far this policy has advanced in the Medical Department.

Mr. Dodwell has raised two questions which are not entirely within the competence of this Government. The disciplinary control over Government servants and particularly the steps necessary to dismiss officers in case of incompetence are common to all Colonies; and the same is true of the system on which stores are purchased through the Crown Agents. Mr. Dodwell and Mr. Pearce deplore the growing costliness of the machinery of Government, but several members suggest an expansion in various directions of the social services which it undertakes, and particularly an acceptance of certain of the liabilities which are now the concern of charitable organizations. It can hardly be doubted that, as soon as we have time to think of anything except the war, it will be necessary to come to some agreed policy on the balancing of such claims, including of course the propriety of the direct financing of certain services, as Mr. M. K. Lo suggests, which are at present undertaken by the various charitable organizations with or without subsidies from the public funds.

I hardly think that a "profit and loss account" such as Mr. M. K. Lo has attempted on the effect on the Colony of China's recent troubles is entirely justifiable. The security to life and property which Hong Kong has always offered has certainly for the last quarter of a century been one of our principal assets, as the Financial Secretary has pointed out; and even if that has stood out rather more sharply since 1927 this fundamental fact remains as before.

The acceleration of the Air Raid Preventions programme to which Mr. Pearce has referred is, as honourable members are aware, a deliberate policy. Capital expenditure which in more normal times might have been spread over a number of years has already been met in part by supplementary votes during the current year, funds being readily available, and the funds to be voted for 1940/41 merely continue that policy. Such special expenditure is of course non-recurrent and imposes no commitment on posterity.

Both Mr. Shields and Mr. Pearce have suggested that the uncertainty of the Colony's financial future should have been reflected in the ordinary budget which is now before us and that it would have been prudent to aim at a considerable addition to surplus balances. Mr. Li Tse-fong on the other hand agrees that current activities should be disturbed as little as possible, and this of course is the general view of His Majesty's Government at home. It would savour of unreality to make no provision for war expenses in 1940 and it is fair to point out that if the transfers suggested are made to the proposed war budget the present deficit of about half a million on the ordinary budget will at once become a surplus of about two million dollars. (Applause).

H.E. THE GOVERNOR.—Honourable Members,—All the main points relative to the 1940-41 estimates which have been raised on

the Unofficial side of the Council during the two days of debate have been answered, and, I think it may be fairly claimed, answered adequately. I have, therefore, nothing to add to those answers but I will renew the undertaking given by the honourable gentleman, the Financial Secretary, on October 12th by reiterating that Government, in putting into effect the approval given by you to those estimates, will keep a close watch upon the revenue and will govern its expenditure both on public works and in respect of the filling of new appointments in accordance with the financial outlook from time to time.

The subject which has occupied almost the whole of the debate, however, is not reflected in the estimates. On October 12th in my address I outlined to the Council a proposal for a war-budget, on the expenditure side of which the largest item would be Hong Kong's contribution to the resources of His Majesty's Government for the successful conduct of the life and death struggle in which Great Britain is engaged. I say Great Britain; but I have no doubt that honourable members realise that Hong Kong's future is as deeply concerned with the outcome of that struggle as is the United Kingdom itself. I suggested that that contribution might have two objectives, firstly to cover our expenditure on local defence and other expenditure caused by the war, and secondly to provide, according to our means, a free gift to His Majesty's Government in aid of the prosecution of the war against Germany. I also suggested that that gift might consist either of cash or kind or both.

In setting that idea before the Council I had in mind, as I have firmly still, the thought that it is the duty of this Colony to help to bear the Empire's burden to the utmost of its power, even though that utmost would be, monetarily speaking, as insignificant as was the Widow's Mite; and, secondly, I considered, as I personally still consider, that an Income Tax was the best means of collecting that contribution. As the Honourable the Financial Secretary has said, when that proposal was made public we were not without good reason for believing that an Income Tax levied for the purposes which I have mentioned would be accepted generally by the people of the Colony as appropriate at this juncture.

I could not, if I would, add anything of value to the masterly reply which the Honourable Mr. Caine has made to the principal objections which have been raised to the introduction of Income Tax: he has shewn that some of the apprehensions which the announcement of Government's proposals has roused have been unduly magnified and that others have no foundation in fact. I feel quite sure that most, if not all, of the opposing arguments adduced here have found voice in every country where Income Tax has been mooted. So far as administrative difficulties are concerned, I have it on the authority of the Secretary of State that we should not be deterred by fears on that ground, for experience has shewn in many Colonies that these can be successfully overcome; and it may be of interest to members to know that, apart from the Dominions, Income Tax is already part of the financial structure of fifteen British Colonies, while several others contemplate its introduction.

But although I do not propose to add to or to reiterate the points made by the Honourable the Financial Secretary, there are one or two aspects of the matter on which I have a word to say. Firstly as to the amount that the Colony should contribute, for I note that every member here supports in one degree or another the making of such a contribution. In this connection I wish to dispose of an apparently widespread delusion that Government has determined to raise a war budget revenue of \$10,000,000 per annum or of any other pre-determined sum. No such statement has ever been made by a Government officer; presumably the error took its rise from too hasty a reading of a few paragraphs of the Honourable the Financial Secretary's speech in this Council on October 12th, which appear on page 143 of this year's records. As he made clear in mentioning that figure, it was no more than a guess-work estimate by the Taxation Committee of what might be the outcome of a two-shilling income tax, and that guess included, of course, the large amount which would have been transferred from the Home Government Income Tax revenue to the Hong Kong Treasury. Two shillings was regarded by Government as a reasonable standard rate for an Income Tax here, should one be imposed, and so it came about that the ten million figure was mentioned. I recognise the motive which has prompted the Honourable and learned member, Sir Henry Pollock, to propose the very handsome sum of three million dollars as a maximum for the Colony's contribution; but, in the absence of any real information about the Colony's aggregate income and until the means of raising the contribution have been settled, I think it wiser at this stage to leave the question of amount at the Honourable Mr. Lo's definition, which he expressed as follows:—

“As we are all agreed that the Colony should make the best contribution of which it is capable, the problem confronting this Council resolves itself to one of finding the best means of raising the money.”

While on this subject I would observe that there has been an assumption in several quarters that Government's intention has been that Hong Kong's contribution to His Majesty's Government would necessarily take the form of a monetary gift sent from here to London. Such is not the case and I take such blame as the false impression deserves for not being more specific in my first utterance on the subject. Rather, what I had in mind—and similar suggestions have appeared in the local Press—was the construction at our expense and in our yards of vessels for the Royal Navy, such as mine-sweepers, one or two of which would make a very valuable addition to our defences here and others, no doubt, could usefully be employed elsewhere: alternatively, our contribution might be towards the Royal Air Force.

Secondly, as to the method of obtaining funds for our purpose. I frankly confess to surprise that so many Members of this Council and responsible bodies outside the Council should have been ready to express themselves so definitely on this very complex question of

Income Tax not only in the face of the findings of an expert committee but even without waiting to see the Government's actual proposals in detail or hearing any expression of the case. However, that exposition has now been given, and given by one who is master of his subject; and there is, moreover, no vote to be cast on the issue at the present time, so no boats have been burned as yet.

I have said that I would not go over the ground trodden by the Honourable the Financial Secretary and I do not wish to elaborate the case or Income Tax to-day; but I wish to make two or three points in connection with the proposals outlined by myself on October 12th. The first I have made already. What Government has in contemplation is a free gift to His Majesty's Government while engaged in a life and death struggle: it would be utterly illogical, to say the least of it, to describe as free a gift wrung from an unwilling community by the use of the official majority in this Council: no such thought has ever entered my mind.

Doubt has been thrown this afternoon upon the actual conclusion to which the Taxation Committee came in respect of Income Tax. After detailing the arguments against and for such a measure they reported as follows:—

Our conclusion is that the advantages of an efficiently administered Income Tax over other forms are overwhelming from the point of view of equity, and that, if it be considered that the tax is capable of successful administration in the Colony, it should be imposed as soon as additional revenue on a substantial scale becomes a necessity. In view, however, of the undoubted force of many arguments opposing the introduction of the tax locally, we must qualify our recommendation in five ways.

(a) We must not be taken as expressing the opinion that such substantial extra revenue is actually necessary; in so far as more revenue is needed owing to the growth of the Colony that very growth is likely automatically to increase the revenue, while it is outside our province to consider how far it may be needed to finance new or improved services.

(b) The possibility of the successful working of the tax should first be the subject of a detailed investigation with the assistance of an expert, preferably familiar with the collection of the tax in an Eastern country.

(c) The imposition of the tax involves a new departure in fiscal policy. We assume that it would not be passed through Council by the use of the official majority and that Unofficial Members of Council will expect to receive, before agreeing to the imposition, some indication of the heads of expenditure to which its yield will be applied.

(d) We feel that it would be unwise to impose a tax of this nature until a substantial body of opinion in the Colony believes that the tax can be levied fairly and efficiently.

(e) The imposition of Income Tax should to some extent be compensated for by the remission of other forms of taxation.

The second and third points deal with certain objections which have been against the imposition of an Income Tax. Of these one is that, once established on the plea of the necessity of war, the tax would remain in peace time. To that I would rejoin that if eventually it is agreed that an Income Tax Bill for war purposes should be introduced I should have no objection to the inclusion of a clause which would effect an automatic repeal of the measure at some stated time, for example, at the end of the financial year next after the conclusion of peace. The other objection is of smaller calibre, though I believe that it is very potent: it is the fear that Income Tax procedure is necessarily inquisitorial to a high degree and that the business secrets of merchants and manufacturers would thus become the prey of either their competitors or of blackmailers. But that it not so: the honest taxpayer has nothing to fear from an Income Tax: his return of income supported, where necessary, by a balance sheet or a profit and loss account, neither of which would reveal trade secrets, would normally be accepted without examination of his detailed accounts. This fear of inquisitorial methods is, I am sure, sincere; nevertheless it has no justification in reality.

Lastly, in order that I should be completely frank on the subject, I admit my belief that the principal contribution to the peace-time—I repeat, peace-time—revenue of this Colony should come from an Income Tax. Trivial arguments can be ranged against its equitability in a community composed of different races with different standards of living: but these arguments have little weight when opposed to the undeniable basic equity of a tax which is assessed in accordance with ability to pay. More than one Unofficial Member has reminded me during the debate of the shortcomings of this Colony's Administration. I freely, though with deep regret, agree that in primary education, in facilities for sick poor and sick children, in housing of the poorer classes, in town planning and in other respects the provision made by this Colony is gravely lacking. I do not attempt to disguise from myself the fact that in order to cure that complexity of social ills it would be necessary to raise a great deal more revenue and I again state my conviction that the only proper way of raising the necessary amount would be by putting the revenue on an Income Tax foundation. A few steps, mostly tentative, have been taken during the last two years towards the solution of the various problems which these social diseases set up but the real fight has got to come.

These latter remarks at such a time as this may be regarded as inopportune. I have made them because I hope that the day may come when I shall preside over a meeting of this Council with a bill before it for the imposition, or re-imposition, of Income Tax as a peace-time measure, in order that we may begin to tackle in practical earnest those social problems. But that is looking some way

ahead. The immediate question before this Colony, though not to-day before this Council, is whether we should discharge our admitted duty to Great Britain by means of an Income Tax or some other revenue-raising measure or measures. I ask no more than that those who have reached a conclusion contrary to Income Tax should, in the light of the Honourable the Financial Secretary's speech and the very cogent remarks which have fallen from the Honourable and gallant member, the General Officer Commanding the British Troops in China, closely re-examine the reasons which led them to that conclusion, having during the process an open mind and a single eye for the good of the Colony and the Empire. It is not the case that the whole community of Hong Kong is opposed, either in principle or in practice, to the imposition of Income Tax at the present time. I am aware of a growing body of opinion, both European and Chinese, which is in support of that course of action.

I have been asked to widen the terms of reference of the expert committee appointed to examine Government's proposals as framed in a bill. I am prepared to do so on the clear understanding that the committee will first discharge the duty which it accepted on appointment, that is to say to enquire whether an Income Tax measure suitable to the present moment's needs can be devised. (Applause).

H.E. THE GOVERNOR.—The motion before the Council is "That the Estimates of Expenditure for the year 1940-1941 as now presented be approved." Those in favour? Those against? The motion is carried.

APPROPRIATION FOR 1940-41 BILL, 1939.

THE FINANCIAL SECRETARY moved the first reading of a Bill intituled "An Ordinance to apply a sum not exceeding Forty-nine million seven hundred and six thousand seven hundred and eighty-seven Dollars to the Public Service of the financial year beginning on the 1st January, 1940, and ending on the 31st March, 1941, and also to apply an additional sum not exceeding Five hundred and fifty-nine thousand one hundred Dollars to the Waterworks Renewals and Improvements Fund for the service of that Fund in the said financial year."

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

MOTIONS.

THE FINANCIAL SECRETARY moved:

That this Council approves the carrying out of the works set out in the Schedule below at an estimated cost of \$4,436,500 and of the expenditure in the financial years 1939 and 1940-41 of the sums set out in columns 3 and 4 of the Schedule, the cost to be met from a future loan and meanwhile to be charged as advances from the surplus balances of the Colony pending the raising of a loan.

THE COLONIAL SECRETARY seconded, and the motion was approved.

SCHEDULE.

Appendix VI (C).

LOAN WORKS.

Additional Works to be charged to a proposed New Loan.

Works.	Estimated Cost.	Revised Estimated Expenditure. 1939.	Estimated Expenditure. 1940-41.
	\$	\$	\$
Head 1.—New Markets:—			
(a) Central Market ..	* 50,000.00	50,000.00	—
Head 1.—Total	50,000.00	50,000.00	—
Head 2.—Water Works:—			
(a) Supplies to Albany and Peak Road ..	230,000.00	96,277.42	—
(b) Cross Harbour Pipes	900,000.00	268,198.88	50,000.00
(c) Rapid Gravity Filters, Eastern	490,000.00	50,000.00	420,557.28
(d) Kowloon Chai Service Reservoir and Pipelines	490,000.00	380,000.00	85,364.25
(e) Distribution	210,000.00	60,000.00	86,164.50
(f) Shing Mun Valley Scheme Catchwaters	1,070,000.00	360,000.00	400,000.00
(g) Rapid Gravity Filters, Shing Mun Valley Scheme	150,000.00	120,000.00	30,000.00
(h) Tai Lam Chung Valley Scheme	70,000.00	50,000.00	10,000.00
(i) New Meters	210,000.00	110,000.00	100,000.00
(j) Waste Detection ..	300,000.00	120,000.00	180,000.00
(k) Miscellaneous Works	106,500.00	67,500.00	39,000.00
(l) New Workshop, Hong Kong	100,000.00	—	100,000.00
Head 2.—Total	4,326,500.00	1,681,976.30	1,501,086.03
Head 3.—Miscellaneous Works:—			
(a) Extension of Aerodrome; Preliminary investigation	60,000.00	1,600.00	58,400.00
Head 3.—Total	60,000.00	1,600.00	58,400.00
Grand Total	4,436,500.00	1,733,576.30	1,559,486.03

* Part Cost:—total cost is estimated at \$910,126.10 of which \$860,126.10 has been charged to the 1934 Loan.

WATERWORKS RENEWALS FUND RESOLUTION.

THE FINANCIAL SECRETARY moved:

That this Council approves the expenditure during the financial year 1939 from the balance credited to the Waterworks Renewals and Improvements Fund of the further sum set out in the Schedule below:—

SCHEDULE.

Pokfulam District Supply \$5,000

He said.—It is necessary to approve this resolution because there is certain excess expenditure over that originally drafted.

THE COLONIAL SECRETARY seconded, and the resolution was approved.

LIQUORS DUTIES RESOLUTION.

THE FINANCIAL SECRETARY moved:

Resolved pursuant to section 39 of the Liquors Ordinance, 1931, Ordinance No. 36 of 1931, that the Liquors Duties Resolution of the 9th September, 1936, published in the Gazette by Notification No. 745 of the 11th September, 1936, be rescinded with effect from 2 o'clock P.M. on Thursday, the 12th day of October, 1939, and that thereafter the duties to be paid upon intoxicating or spirituous liquors imported into, or distilled, made or prepared in the Colony shall be assessed in Hong Kong currency as in the following Table:—

PART I.*European Type Liquor.*

	Liquors brewed or distilled in the Colony.	Liquors consigned from and grown or produced in the British Empire.	Liquors of other origin.
	\$ per gallon.	\$ per gallon.	\$ per gallon.
On all liqueurs, champagne and other sparkling wines	—	16.25	26.00
On all brandy	—	6.25	20.00
On all gin, whisky and other spirituous liquors	—	12.50	20.00

	Liquors brewed or distilled in the Colony.	Liquors consigned from and grown or produced in the British Empire.	Liquors of other origin.
	\$ per gallon.	\$ per gallon.	\$ per gallon.
On all port, sherry and madeira .	—	7.50	12.00
On all other still wines	—	6.25	10.00
On cidar and perry	—	0.80	0.80
On beer (as defined in the Ordinance, but exclusive of cider and perry) not exceeding 1055 degrees original gravity, that is to say, the specific gravity of the worts before fermentation	0.70	0.80	0.80
with the addition of \$0.02 per gallon for every degree by which the original gravity of the worts for such beer exceeds 1055 degrees as measured by the "Bates" standard saccharometer.			
On all other beer (as defined in the Ordinance, but exclusive of cider and perry) whether in concentrated form, or as ale basis, or malt and hops concentrate, or otherwise	0.80	0.80	0.80
with the addition of \$0.02 per gallon for every degree by which the original gravity exceeds 1045 degrees as measured by the "Bates" standard saccharometer.			
On all intoxicating liquors above the strength of 20 degrees under proof, for every degree above such strength in addition to the appropriate duty as above	—	0.15	0.24

	Liquors brewed or distilled in the Colony.	Liquors consigned from and grown or produced in the British Empire.	Liquors of other origin.
	\$ per gallon.	\$ per gallon.	\$ per gallon.
PART II.			
<i>Chinese Type Liquor.</i>			
On all Chinese type spirits contain- ing not more than 25 per cent. of alcohol by weight	1.50	1.75	1.75
On all Chinese type spirits contain- ing more than 25 per cent. of alcohol by weight, for every one per cent. of additional alcoholic strength by weight .	0.06	0.06	0.06
PART III.			
<i>Japanese Type Liquor.</i>			
On all sake containing not more than 25 per cent. of alcohol by weight	1.50	1.50	1.50
For every one per cent. of addi- tional alcoholic strength by weight	0.06	0.06	0.06
PART IV.			
<i>Other Liquors.</i>			
On all spirituous liquors other than intoxicating liquors, but in- cluding spirits of wine or arrack, containing not more than 25 per cent. of alcohol by weight	1.50	1.50	1.50
For every one per cent. of addi- tional alcoholic strength by weight	0.06	0.06	0.06

Provided that it shall be lawful for the Superintendent of Imports and Exports, in his discretion, to assess the duty on any intoxicating liquor not specifically mentioned in Part I, II and III above at such rate as is provided in any such Part for the liquor which the said

Superintendent shall deem to approximate most nearly to such intoxicating liquor; and Provided also that it shall be lawful for the said Superintendent, in his discretion, to assess the duty on any spirituous liquors, imported in a consignment of less than two gallons at one time, at \$20.00 per gallon.

He said.—This resolution gives effect to the increases in liquor duties which were announced in this Council on the 12th October and which were put into immediate effect by Your Excellency's order.

THE COLONIAL SECRETARY seconded, and the resolution was approved.

LIGHT OILS RESOLUTION.

THE FINANCIAL SECRETARY moved:

Resolved, under section 7 of the Hydrocarbon Oils Ordinance, 1939, that the duties on light oils as set forth in section 6 of the Hydrocarbon Oils Ordinance, 1939, be increased to sixty cents per gallon.

He said.—This resolution gives effect to the increase of duties on light oils.

THE COLONIAL SECRETARY seconded, and the resolution was approved.

THE ATTORNEY GENERAL moved:

Resolved pursuant to section 3 of the Public Officers (Changes of Style) Ordinance, 1937, that the style of the office of "Apothecary" be changed to that of "Chief Pharmacist" and of "Assistant Apothecary" to "Pharmacist" for all purposes and that the following addition be made to the Schedule to the said Ordinance:—

<i>Old Style of officer, office or department.</i>	<i>New Style of officer, office or department.</i>
Apothecary. Assistant Apothecary.	Chief Pharmacist. Pharmacist.

He said.—This change of style has been suggested by the Secretary of State and is for the purpose of conforming with the recent changes in titles.

THE COLONIAL SECRETARY seconded, and the motion was carried.

PROMISSORY OATHS AMENDMENT BILL, 1939.

THE ATTORNEY GENERAL moved the second reading of a Bill intituled "An Ordinance to amend the Promissory Oaths Ordinance, 1869."

He said.—The first reading of this Bill was taken some weeks ago. The objects are explained in the memorandum of objects and reasons.

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

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

Upon Council resuming,

THE ATTORNEY GENERAL reported that the Promissory Oaths Amendment Bill had passed through committee without amendment, and moved the third reading.

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

ADJOURNMENT.

H.E. THE GOVERNOR.—This completes the business before the Council which I therefore adjourn *sine die*.

16th November, 1939.

PRESENT:—

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

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

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

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

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

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

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

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

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

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

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

HON. MR. S. H. DODWELL.

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

HON. MR. LO MAN-KAM.

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

HON. MR. A. L. SHIELDS.

HON. MR. T. E. PEARCE.

HON. MR. LI TSE-FONG.

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

MINUTES.

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

PAPERS.

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

Essential Commodities Reserves Regulations made by the Governor in Council under section 16 of the Essential Commodities Reserves Ordinance, 1939, Ordinance No. 38 of 1939, dated 10th November, 1939.

Amendments made by the Governor in Council under section 3 of the Vehicles and Traffic Regulation Ordinance, 1912, Ordinance No. 40 of 1912, to the regulations, dated 7th November, 1939.

Order made by the Controller of Food under the Defence Regulations, 1939, with the consent of the Governor, amending the standard prices of certain articles of food, dated 10th November, 1939.

Administration Reports, 1938:—

Part III.—Public Health:—

Report of the Director of Medical Services.

**CONTINUATION OF DEBATE ON ESTIMATES AND
INCOME TAX.**

H.E. THE GOVERNOR.—When I adjourned Council a week ago, the Hon. Mr. Shields, who had been speaking, made a request to the effect that he be allowed to continue his speech to-day. I believe the standing orders cover that request and I therefore call upon Mr. Shields to continue his speech.

HON. MR. A. L. SHIELDS.—Your Excellency,—I am glad to have the opportunity, owing to the adjournment of the debate on the War Budget, of considering the speech made by the Hon. Financial Secretary in support of the Income Tax measure proposed by Government in which he dealt with the storm of disapproval from all sections of the community as voiced by the Unofficial members of Council who preceded him.

The Financial Secretary ably handled the case for Government but dismissed in cavalier fashion the alternatives for providing a contribution to the Imperial Exchequer which had been put forward by representatives of many interests. The goodwill and co-operation of the people in a matter of this kind are important if not essential to the successful carrying out of Your Excellency's laudable desire that Hong Kong should do its bit towards financing the War.

I make this assertion, Sir, as I imagine it prompted your statement that Government did not intend to use the Official majority to put through a measure which the people believed to be detrimental to the welfare of the Colony in order to provide a gift from these people to the Home Government.

I have not been able to get an official copy of your remarks Sir, but I believe I have correctly interpreted them in my own words.

As you are aware Sir, the General Committee of the Chamber of Commerce held a meeting and after discussion and consideration they decided unanimously against Income Tax.

They recommended other alternatives which had also been carefully considered, and gave their opinion that the proposal to raise three million dollars for local defence and seven million dollars as a grant for War purposes was too high, as it would be detrimental to the welfare of the Colony if such a large sum was taken out of the Colony, giving no return.

The Chinese Chamber of Commerce hold similar views which have been expressed by my Unofficial colleagues and inquiries made from merchants, Bankers and people in many walks of life make it clear that public opinion is almost entirely against Income Tax.

Indications are not lacking that the Unofficial members of this Council are solidly against Income Tax but I believe they will be as solidly in favour of raising a War contribution by other means.

The Committee of the Chamber of Commerce proposed other taxes to produce about \$6,200,000 to cover local defence and a contribution to the Home Government. These taxes may not be free from criticism but they deserve careful examination as they have the great advantage of costing practically nothing to collect. Government may suggest other alternatives which will satisfy the community and for these reasons, Sir, I would urge that the terms of reference of the Taxation Committee now sitting be broadened to include the examination of alternatives.

The very able speech of the Hon. Financial Secretary impressed me as one of no compromise. Nothing but Income Tax will do, all arguments against it are torn to shreds, the business community, Bankers, investors, manufacturers, etc. should swallow the distasteful draught and believe it to be less harmful than any other nostrum which they might prefer to try.

We British are credited with being experts in compromise and the middle course but there is no confirmation of this in the Hon. Financial Secretary's speech. He set out to confound the opposition to his pet tax and may have done so entirely to his own satisfaction but the people who must pay the fiddler apparently still dislike the tune.

In comparing taxation in Hongkong with other places one has only to examine the high cost of living here to find that one of the contributory factors is the high price of land. Government is the ground landlord and the high price it obtains for land has to be paid for ultimately by the tenants. Land sales have been an important item of Revenue. Rents which are based on a return on the investment in land and buildings are also the basis of assessment. It was said that when land in the business centre was \$60 and over per square foot it was dearer than land in Lombard Street in the City of London. I admit the value of the dollar was higher than at present.

Rents of private dwellings are higher than in England which is partly due to the cost of preparing sites, the charges for sewerage and water connections, permits for access over Crown Land, etc.

A man at Home paying £40 per annum for a house in the suburbs with taxes at three times the rate in Hong Kong (say 50%), that is £60, pays the equivalent of \$960 per annum or \$80 per month. What can he get in Hong Kong for that rent inclusive of the present 17% rate?

The long list of Government charges for permits, stamps fees, etc., must be considered. Many things from permission to work a steamer on Sunday to permission to park a car in Duddell Street have to be obtained by permit at a price. Great ingenuity on the part of successive Colonial Treasurers has been displayed in finding these methods of increasing Revenue. Official signatures, for instance, are estimated to produce \$40,000 in the 1940-41 budget. A charter party signed in Hong Kong is taxed at 15 cents per \$100 of the charter money which for a big ship amounts to a large sum. In London charter parties require a 6d. stamp for each signed copy.

Salaries here are admittedly higher than at Home—they have to be—but house rent is not deductible from income for tax purposes. It would probably be surprising to find how many families with children to educate and provision to make for retirement must economize in every way to get along. The imposition of an Income Tax would mean in many cases an adjustment of salaries falling on the employer, who would also pay tax on his business profits and still have to compete with merchants in other ports for the trade of China.

One objection, I believe, to the alternative taxes proposed by the Chamber of Commerce and the Chinese Community is that they do not get at unlimited partnerships and salaried employees including Government Servants, but if this cannot be accomplished I believe a request for voluntary contributions would meet with an immediate response from many who would contribute according to their means. I firmly believe there is no unwillingness to pay towards the cost of the War.

An important objection to Income Tax is that Home Government will have to refund such a large proportion of the total collection that the net contribution to the United Kingdom may be greatly reduced, and to get that everyone will suffer a big disturbance in paying and reclaiming and the net result may not be worth it.

The Hon. Mr. Caine deals with the vexed question of evasion of Income Tax by stating that taxes on tobacco and liquor, and stamp duties and charges for wireless licences are not 100 per cent. effective but nobody suggests they should be abolished on that account.

If Income Tax should prove to be 50% ineffective would he propose to discontinue it after an expensive department had been set up to collect it?

So many objections have been made to Income Tax that I need not say more than that the Hon. Financial Secretary seems to be ploughing a very lonely furrow. A perusal of all that has been said in this debate leaves one with the same impression as the proud Mother whose son had joined the Army. She turned out to see his Regiment on the march and was surprised to find that they were all out of step with her Peter. (Applause).

THE FINANCIAL SECRETARY.—I rise not to make another speech but to ask Your Excellency's permission to make a personal explanation with regard to the speech I made at the last meeting of the Council.

There was a sentence in that speech which could conceivably have been interpreted as imputing improper motives to members of this Council. I said that if suggestions were made that Income Tax should not be introduced in this Colony because it would not be quite 100 per cent effective, I could not but suspect that they covered some other motives. It was not in my mind that any Member of this Council had opposed Income Tax principally on that ground. In fact, I had wholly in mind when saying those particular words, criticisms to that effect in the Press. I had stated at the beginning of my speech that I proposed to deal with Members' comments as well as remarks made by the Press, and I wish to make it clear that it was very far from my thoughts to suggest that any Member of this Council had any other motive but the best interests of this Colony. (Applause).

HON. SIR HENRY POLLOCK.—On behalf of the Unofficial Members of this Council, I should like to thank the Hon. Financial Secretary for the statement he has just made.

HON. MR. T. E. PEARCE.—Before dealing with the proposal to introduce a Special War Budget, I have some general observations to make on the Ordinary Budget for 1940-41.

I appreciate the fact these estimates were drawn up and completed before the outbreak of the present war, and I also appreciate the fact the Secretary of State has recommended that we should continue with our social services, but I do not interpret in these recommendations that we are to provide for expenditure on a lavish scale, to the tune of millions, for new and expensive schemes during the present abnormal state of affairs.

In the Financial Secretary's memorandum on the financial position and estimates, we read the following:—

“In view of the uncertain outlook it has been decided to “suspend completely all work on the Government House, and no “funds for it are to be provided in 1940-41”.

I am no pessimist as far as the future of this Colony is concerned, but I do feel this same policy should have been adopted throughout this Budget, for I maintain and do sincerely suggest that the present is a time for caution and curtailment, and that not only the new Government House but other works, important though they may be, should have been held in abeyance until the atmosphere clears, and a more normal state of affairs prevail.

It is clear Government has not altogether lost sight of the fact the recent prosperity of the Colony has been due to a number of fortuitous circumstances, due to the Sino-Japanese conflict, for in numerous items of increased Revenue, the explanations repeatedly given are, “Increased population”, “Rise in Rentals and less vacant tenements”, and such like. Apart from these indications, there is no gainsaying that much of this Colony's prosperity during the last 24 months has been due to the fact it has been a larger clearing house for China's trade than ever before, because of difficulties in other Ports in China. I therefore hold a strong view, not fully shared by my colleagues, that this Budget, coming at a time when the situation is obscure, should have been framed to show a large surplus, which if realized, could have been held in a special reserve, and utilized at some more suitable time for the various projects referred to by the Senior Unofficial Member. It would, I am convinced, have been more businesslike to have postponed these projects and given them consideration when prices of iron, steel and other imported requirements for building had returned to pre-war and reasonable levels.

The rapid growth of the Medical Department with its formidable number of highly paid staff, and consequent increasing pensions list calls for some comment. I am appreciative of the work being done and not unmindful of the lack of Hospital facilities as shown in the comprehensive report recently published. I hope I shall not be described as heartless, if I here express doubts as to whether the Colony can afford to pay this enormous Doctors bill.

The question of providing bigger hospital accommodation will no doubt be tackled in due course. I hope when that time comes every care will be taken to see there is no extravagance or unnecessary expenditure incurred.

In the meantime, I hope the Director will, when developing the numerous schemes he now has in hand, keep a watchful eye on expenditure.

As I have frequently referred to expenditure on Air Raid Precautions at meetings of the Finance Committee, I must here again express my scepticism as to whether the Colony is getting full value for its money. I cannot believe it was ever anticipated that such a big amount was to be expended, and I hope the expenditure on capital account for this new department will soon be completed.

I regret that I must level a complaint against the Sanitary Department, on the question of the cleanliness of our streets. I believe there is some difference of opinion in regard to this matter, and also some difficulty in regard to the water supply required. I hope that a satisfactory solution of these differences will be arrived at, for I feel strongly, as do many others, that money will be well spent if our roads and streets are kept in clean condition.

I must also comment on the Squatter Settlements in various overcrowded districts, particularly the way matshed buildings are allowed indiscriminately on the hillsides. I appreciate there are numerous difficulties in the way, but I maintain these settlements are no credit to whoever is responsible for their supervision.

As one who has from time to time voiced criticism, I should be wanting in my duty if I did not make some reference to Pensions, for this is a subject that is constantly discussed in business circles with ever increasing alarm and apprehension.

The Colony is fully justified in its demands that this question be tackled forthwith, and a scheme evolved whereby it will definitely know its total commitments from year to year, and not have to rely upon an estimate in the Annual Budget. I cannot believe there is any better service the Financial Secretary can render this Colony than for him to solve this stupendous problem satisfactorily.

Although I am not altogether satisfied, the pensions already being enjoyed cannot be put on a proper actuarial basis, the figure could, I believe, be catered for by the institution of some sound Provident Scheme.

I venture to suggest, Sir, this question of Pensions is already getting out of hand, and unless dealt with firmly, efficiently and immediately, will be too heavy a load for this Colony to bear.

I hope it will not be long before Government can make some announcement that an expert is dealing with the whole question.

Coming now, Sir, to the question of the Special War Budget, and the proposal to introduce Income Tax to provide funds to meet that Budget, I gladly avail myself of the Honourable the Financial Secretary's invitation made in the opening sentences of his speech to make some rejoinder to his arguments and contentions. I am also grateful to you, Sir, for agreeing to a postponement of this adjourned Council Meeting until to-day. This courtesy is very much appreciated.

The Honourable the Financial Secretary, naturally with bias in favour of the Tax, has ably dealt with its numerous aspects and has assailed the arguments made by Unofficial Members with spirit, but his arguments are not convincing. After close scrutiny of his speech, I can see no reason to alter my views. I am still of opinion that the introduction of this particular form of taxation cannot be anything but a hindrance and deterrent to the business of this Colony. I hold it is of paramount importance that the cheap and easy facilities offered by this Port must be maintained, and that its financial structure to deal with this trade is not hampered.

I am in agreement with the Honourable Financial Secretary when he declines to accept the allegation that the Colony has been suffering during the last two years from trade depression in consequence of the Sino-Japanese hostilities. The view of my Unofficial colleagues and the commercial community generally is that the Colony has undoubtedly enjoyed a wave of prosperity. But at the same time there is no doubt that those conditions have been abnormal and must be entirely ignored when measuring the Colony's taxable capacity.

I must take issue with the Honourable Financial Secretary's arguments regarding the expenditure which will be incurred and the difficulties which will be met in the collection of the Tax. I suggest, with all due deference, that to inaugurate a big and important department by "drawing the staff required from other branches of the Government Service, whose activities will have to be reduced to some extent", is a proposition which is untenable. The intricacies of Income Tax collection in Great Britain remains to this day a problem difficult of solution. The Financial Secretary will be aware that there are many experts finding an honest livelihood advising clients, who have no thoughts whatsoever of the evasion of Income Tax. I am not impressed with the argument that expert assistance will not be required. I maintain the situation out here in regard to this matter must be complicated, much more complicated than at Home, where despite many years during which the tax has been in operation, legal problems are a constant source of litigation.

One further word in regard to the matter of collection of the tax, and that is the question of Chinese accounts and accountancy. The Honourable the Senior Chinese Member, in his speech, dealt with

this matter, pointing out difficulties that would certainly arise. I must frankly confess that I am disappointed at the manner in which the Financial Secretary lightly passes over these comments. In support of my honourable friend Mr. Chau's views, I would say that in conversation with leading British Accountants, I discover numerous difficulties, too numerous to catalogue here. I would have been more impressed if the Financial Secretary had been able to give us an assurance that the local firms of accountants had been consulted. I remain unmoved in my view that it will be a costly matter both to Government and to the Community, adding burdensome overheads.

In dismissing in a few words the reference to the imposition of Income Tax in Singapore the Financial Secretary says, "I have it on very good authority that the enforcement of Income Tax was never seriously pursued."

I am disappointed the Financial Secretary has not given us the reasons why the administration in Singapore never really pursued the tax and why very soon after its inception, dropped it.

I am given to understand that of the tax actually collected approximately 76% was borne by the European community.

It was certainly a War Time measure, but in spite of that fact, important objections must have existed, information as to which must be available. It is significant the imposition of Income Tax was soon dropped in the Straits Settlements.

The Financial Secretary has pointed out that capital invested in plant and equipment cannot be removed from the Colony and goes on to remark that it is a matter of indifference to the Government whether a tax on the income from it is paid by the existing owner or anyone else to whom he has sold his shares. But surely the Financial Secretary has overlooked the deflationary effects of a general movement to sell out Hong Kong investments. The plant and equipment to which the Financial Secretary refers have been purchased from funds provided by the investor. Many of these investors are in a position to transfer their money from one part of the world to another and their money happens to have been invested here because of the attractions offered by Hong Kong in the way of security and a reasonable and untaxed return on capital.

The imposition of an income tax will, in the opinion of the business community, raise doubts in the mind of such an investor, who without giving full consideration to what the Financial Secretary calls the beauty of income tax, may decide to dispose of his share of the plant and equipment referred to. If he does so he may have to take less than he expected and in turn his forced selling and the forced sales of others will mean recession throughout the share list. There will then follow a heavy reduction in the value of collateral securities and bankers will start to call in their loans. The Colony