1963/64

[His Excellency the Governor]

through the critical years lying immediately ahead. You can allay suspicions, curb passions, and weaken rivalries, and combine the tribes and communities which have divided Kenya in the past into the united nation of the present and the future. The slogan for that effort is *Harambe.*

Only a fool would seek to minimise the difficulties which lie in your path, as they lie to a greater or lesser extent across the path of any Government, old or new, which strives in these times to raise the standard of living and well-being of its people. The difficulties in Kenya are too obvious to need reciting on this occasion. But given a co-operative effort they can be steadily and surely overcome, for this fruitful and lovely land of Kenya can provide the basis for a comfortable and gracious life for its whole population.

One of the Government's and your duties will be to exploit further Kenya's natural resources: to preserve and develop its agriculture, expand the variety of its economy, encourage local and overseas investors, extend its home and external markets, cherish that national treasure, your Game Reserves and National Parks, and in every other way stimulate the country's material developments. The chief purpose of all that is to provide the means to give employment, education, health and a good living standard to everyone.

But none of those possessions is worth a great deal without liberty—national liberty and individual liberty. Yet neither is liberty worth much without those other attributes. So let us keep them all in the right perspective with each other, and strive to attain them all. With that ambition you now set forth gladly and your British friends join with you on the last stage of Kenya's journey to *Uhuru.*

Mr. Speaker of the Senate, Mr. Speaker of the House of Representatives, Mr. Prime Minister and Honourable Members of the National Assembly, I salute you! The eyes of the rest of Africa and of the whole world are upon you. All the friends of Kenya wish you well as you commence your historic task. Good fortune be with you: and may the blessings of God—the Universal God of all true religions—rest upon your labours.

The Speaker of the Senate (Mr. Chokwe): Hon. Members, it is now His Excellency's intention to take his leave.

[His Excellency the Governor and the Speaker of the Senate withdrew]

[Members of the Senate withdrew]

[The Speaker (Mr. Slade) resumed the Chair]

H2—16 pp.

SUSPENSION OF BUSINESS

The Speaker (Mr. Slade): Hon. Members, the House is now adjourned until 4.30 p.m. this afternoon.

(Proceedings were suspended from 3.40 *p.m. to* 4.30 *p.m.)*

COMMITTEE OF WAYS AND MEANS MOTION

THAT MR. SPEAKER DO NOW LEAVE THE CHAIR

The Minister for Finance and Economic Planning (Mr. Gichuru): Mr. Speaker, Sir, I beg to move that the Speaker do now leave the Chair.

The House is already in possession of the Estimates of Expenditure for 1963/64 and the Economic Survey for 1963. I now present the Estimates of Revenue for the year ending 30th June, 1964, together with the Financial Statement.

I should like to express my thanks to all those officers of the Treasury and other Ministries who are responsible for the production of the Estimates and the accompanying documents. Their task has not been made any easier by the major reorganization of Government expenditure which was carried out on the lines suggested in the Economy Commission Report, or by the need to plan for the introduction of a new Constitution. My thanks are also due to the Government Printer who, in addition to the mammoth task of producing the election documents, has coped, with his usual efficiency, with the Budget Estimates.

I shall deal first with the out-turn for the current year. The latest estimate of expenditure is £37½ million—or approximately £1 million more than the original estimate. The increase is due mainly to the following factors—the need to continue famine and flood relief measures on a greater scale than had been anticipated: a rise in the prison population: an extension of the limited compensation scheme: and the heavy cost of the elections.

Fortunately there will be an even greater increase in revenue over the original estimate, mainly due to higher receipts from customs and excise during the last four months of the financial year. The original estimate was £16.1 million and, at the end of the first six months of the financial year, only £7.7 million—or considerably less than half the estimate—had been paid into the Exchequer. We were on target by the end

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of February and have gone ahead since then, particularly in the month of April—the month in which increased duties were announced on motor-cars and textiles.

In general, the increases in duties announced in the last Budget have brought in additional revenue of approximately the amounts estimated, but there are exceptions to this, to which I should like to draw attention. I said last year that the increased duties on spirits were expected to bring in about£ 150,000 additional revenue in a full year. In fact, during the first six months of the financial year the revenue from spirits was substantially less than in the previous year. This illustrates the need for caution in raising the duty on luxury items to a point at which the actual return decreases.

The effect of increased duties on another comparatively minor item is a further illustration of the point which I have in mind. The duties on cosmetics were increased but, during the first six months of the financial year, receipts from this source also fell.

The deficit on the year will be approximately £2 million, as against the figure of £2.5 million on which the Budget was based. About £1.3 million of this will be covered from assistance received from the British Government for famine and flood relief and rehabilitation measures. After taking into account probable under-issues from the Exchequer this year, the balance in the Colony Exchequer Account will fall from £1.9 million at 30th June, 1962, to about £1.5 million at 30th June, 1963.

On Development, we started the year with a deficit of no less than £5.4 million, but I hope that this will be brought down to about £5 million at 30th June, 1963. Expenditure, except on Settlement, has proceeded more or less according to plan and, although the funds with which to finance the normal Development Programme were not in sight when the Budget was introduced, it did prove possible to negotiate additional assistance by way of Exchequer Loan from the British Government.

Expenditure on the general Development Programme is expected to total about £8.2 million, which is very near the original estimate, but there has been a substantial shortfall on estimated expenditure on Settlement, and total expenditure will be about £11¼ million as against the original estimate of £14.1 million. However, with the recent conclusion of negotiations for the 5-year expanded settlement scheme, very rapid progress is expected in 1963/64.

There has been a welcome increase in the amount of money held in Tax Reserve Certificates. At the beginning of the year it was £1¼ million, and there has been an increase of about £¼ million during the year. The overall deficit at 30th June, 1963, will be covered by this balance, the balance in the Colony Exchequer and cash held in the Paymaster-General's Account, with the residual deficit covered by short-term borrowing.

The Economic Survey sets out in detail how the economy fared in 1962, and gives a forecast of what we may expect in 1963. I hope that all hon. Members will find time to study this Survey, and propose now merely to summarize some of the major points. The total gross domestic product—sometimes loosely called the national income—increased by 8 per cent in 1962, but the greater part of this increase resulted from higher output in the subsistence, or non-monetary, sector of the economy, largely as a result of the return to normal from the disastrous weather conditions of 1961. The gross domestic product in the monetary sector increased by only 2 per cent, which was an improvement on the rate of less than 1 per cent achieved in the previous year, but, considered in relation to the increases in the population—which is now estimated to be growing at the rate of 3 per cent per annum—cash income per head must actually have fallen in 1962, even before taking into account the rise in prices.

Gross farm revenue from agriculture and livestock amounted to some £47 million, of which £36 million was earned by the large farms and estates in the Scheduled Areas, and nearly £11 million in the Non-scheduled Areas. Although this represents an improvement over 1961, the increase of only 3 per cent in production from the Non-scheduled Areas compares unfavourably with increases of the order of 10 per cent which have occurred in recent years. One of the main difficulties with which we are faced is the marketing of coffee and pyrethrum—the two crops on which our efforts in the African areas have been concentrated. We shall now have to re-think our cash crops policy, and the recent report of the Acting Director of Agriculture on this subject is a most important document which will receive the early attention of the Government.

Exports of almost £38 million were an all-time record, and some 7½ per cent above the 1961 figure. There were also increased sales of Kenya produce to both Tanganyika and Uganda.

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Our imports also rose slightly, and the value of commercial imports rose by nearly £2 million, or about 3 per cent. Higher imports of consumer goods were largely responsible for this increase, and for the increase in revenue from customs duties to which I have already referred.

Bank deposits increased, as did also the level of advances by the banks. Currency in circulation in the East African territories, including Zanzibar, rose by over £6 million between the beginning of 1962 and the end of February, 1963. The increase in bank deposits and in currency in circulation must reflect a greater level of economic activity in the country.

The number of visitors to Kenya was the highest ever recorded, and the indications are that 1963 will be an even better year for our tourist industry.

The gross product earned by the building and construction industry fell for the fifth successive year, but there are signs that there may be some recovery in 1963.

Unemployment remains one of our most serious problems, and the number of persons recorded in employment at mid-1962 was some 8,000 lower than in 1961, in spite of a small rise in the number employed in the public sector. It is feared that the figure has fallen further since June, 1962, but the fall has been confined to the agricultural sector. The estimated wage bill of the public sector and private industry and commerce changed little, and the agricultural sector was largely responsible for the overall drop of £¾ million. There has been a real increase in living standards for those on the lower levels of salary, who have benefited from wage increases during the year.

This is a somewhat gloomy picture but the facts as set out in the Economic Survey cannot be altered, and it would be wrong for me to attempt to gloss them over. Our prospects for future expansion depend to a large degree on the level of capital expenditure, for it is investment now which leads to higher incomes in the future. It is therefore discouraging to note that the estimated capital expenditure of £33 million in 1962 remains well below the level of from £40 million to £46 million achieved during the period 1955 to 1960. There are, however, signs that in this sphere also there may be some recovery in 1963.

I could give particular instances of projects of a substantial scale that I believe will be started in 1963, but capital is a shy bird, and information about where it is nesting may result in its flight. The eggs would then become addled and never hatch out. I can, however, say that, following on discussions that I have had with investors in various overseas countries, I have reason to believe that substantial new investments will shortly be made.

To sum up, there was no real increase in national income per head in 1962 and, in fact, there was probably a fall. Unemployment increased. On the other hand, exports were at a record level, and there is reason to hope that in 1963 there will be a rise in agricultural production and in the value of our exports of at least 5 per cent. If an expansion of this order can be achieved it will generate activity throughout the economy, and I am hopeful that the gross domestic product in the cash economy in 1963 may increase by as much as 5 per cent, and that a real rise in *per capita* income will occur for the first time since 1960.

I mentioned earlier the rise in the currency in circulation, and should like to add that the Currency Board's position remains one of great strength, and that the Board has enlarged its activities further during the year. It obtained an increase in its lending powers in order to ensure adequate finance for larger cotton and coffee crops. I should also like to place on record the fact that the Currency Board has set aside the necessary money required out of its surplus assets to enable us to find from this source our subscription that will be payable to the International Monetary Fund, the World Bank and other international organizations which we shall apply to join on the attainment of independence. The amount involved will be about £1¼ million.

It is, however, appropriate that at that stage in our political development a Central Bank should be established and, on the initiative of the Tanganyika Government, a report has been prepared by Mr. Blumenthal on the present monetary system and its future. This Report is a most valuable document and gives us a sound basis on which to advance towards the creation of a Central Bank for East Africa. This Report is now being considered by the East African Governments, and I am confident that it will prove possible to reach agreement on the setting up of a Central Bank which will be soundly based and which will not only maintain and enhance the status of our currency, but will also have a most important part to play in the development of East Africa. I must, however, point out that the setting up of this Bank will involve the expenditure of a considerable portion of the present reserves of the Currency Board, and that the running of the Bank

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will also absorb a considerable part of the present profits from which we are now receiving about £350.000 a year.

I now turn to the 1963/64 Development Programme. The total estimated expenditure is £14.1 million, including £6.2 million for land and settlement schemes. As already announced, the British Government will find £4.6 million towards this, and the remainder will come from the West German Government, the International Bank and the Colonial Development Corporation. Although the loans from the International Bank and the Colonial Development Corporation have been agreed, we have not yet been able to draw any money from either of these sources for settle-ent, as money is only issued after the approval individual sub-projects. Our first sub-project been submitted, but it is probable that before s approved further negotiations will have to e place with the International Bank and the olonial Development Corporation.

The General Development Programme amounts to a little less than £8 million. £1.12 million will be needed to meet our first major repayment under the Contractor-Finance Road Scheme, which has now been successfully completed, leaving £6.82 million for new expenditure, which is substantially less than in the current year. We have, however, in accordance with the advice of the Fiscal Commission, transferred £600.000 of expenditure—mainly on agricultural services —from the development to the recurrent budget. A further transfer of at least £300.000 will be necessary in 1964/65. The 1963/64 Programme is an extension of the present three-year Plan.

The emphasis remains on the development of agriculture, and the amount of loans—both for land purchase and development—has been stepped up and £1.330.000 has been included for loans for land purchase and agricultural development. One of the encouraging features of events in recent months has been the large number of transfers of land in the Scheduled areas, financed in part with the assistance of the Land Bank. In fact, the Land Bank has, during 1963, already approved loans which will assist in financing the purchase of over 200.000 acres by buyers of all races. It is important that adequate funds should be available to continue this process. On the agricultural side we are following closely the recommendations of the World Bank, and the programme for tea development is going ahead according to plan. Of the target of 11,000 acres, 90 per cent will have been planted by mid-1964, and the necessary tea factories are being started. Finance is being sought for a further programme of an additional 12,000 acres.

A high priority in the programme has been given to the continuation of localization and training, and the Kenya Institute of Administration is now running at full strength. The expenditure on buildings will inevitably be at a lower level than in recent years, although some provision has been made for essential buildings at new Regional Headquarters. We have reviewed and overhauled the various institutions dealing with credit both in the agricultural and industrial fields. In the industrial field a Kenya Development and Finance Company will be set up with a capital of £1½ million, and we believe that we shall shortly be able to negotiate the necessary agreement under which £500.000 will be made available by the West German Government; £500.000 by the Colonial Development Corporation; and £500.000 by our own Industrial Development Corporation.

Forestry development is also going ahead, and there is every hope of reaching the target of 210.000 acres of soft wood plantations in 1968.

The educational programme rightly lays particular stress on the provision of more secondary school classes in African schools, and by 1964 places will have been provided for over 12.000 pupils, which is more than double the enrolment in 1960. In addition, a programme has been drawn up for the expansion of higher school certificate classes.

Towards the basic programme of nearly £8 million, finance has been negotiated from the British Government totalling £5.1 million. A further £635.000 of loan funds will be obtained from the West German Government, and £276.000 from the International Bank. Some £350.000 in grant funds will, it is expected, be obtained from the United States Government. The gap to be filled is a little over £1 million and, to meet part of this, I am proposing to allocate to the Development Exchequer our share of Currency Board profits, which will amount to about £350.000. I am confident that ways and means will be found of closing the remaining gap. We also hope to negotiate finance for projects outside the Plan, the largest one being for the raising of the Sasumua Dam which—provided there are no more land slides—will secure Nairobi's water supply needs for a number of years to come. This and other projects were first discussed in London and Washington by Mr. Mboya, Mr. Muliro and myself in August last year.

This illustrates the point that it takes over a year from the time a project begins to be discussed with an overseas international body before all the necessary negotiations can be finalized, and before any money can be drawn. I am not in any way criticizing the overseas Governments

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or overseas agencies, from whom we have received the fullest help and co-operation. but the demands for aid from many countries greatly exceed the supply of available capital. and these Governments and agencies quite rightly insist on being fully satisfied on the soundness of a particular project before they agree to participate in and providing finance for it.

Our success in obtaining money for development in future will depend very largely on our ability to prepare and process detailed applications to potential overseas lenders. related to specific economic projects, and it will be essential that we should seek in the future to find local money for the local costs of many development schemes. If we look at other territories in Africa which have recently announced large Development Plans. it will be found that they are planning to raise. either from budget surpluses or from other local sources, at least half the total money required. We shall not reach this position in the near future. but must begin planning to tap local sources of money.

The officers of the Treasury and other Ministries who have to try to match potential overseas sources of aid with Kenya's essential priority needs should possess a large number of qualities. They should have the perspicacity of Solomon. the patience of Job. the persistence of Robert the Bruce, the push of a high-pressure salesman and the persuasiveness of a company promoter! I do not suggest that all these qualities are ever found in one civil servant or even among one group of civil servants, but those who have been working in this field on behalf of Government deserve our gratitude for the considerable measure of success they have achieved—which compares favourably with the success achieved by many other countries in a similar position to Kenya.

I do not propose to say much at this stage on the subject of development planning and our programme for the future, but the first step in this direction has already been taken, and I shall lay on the Table this week a Sessional Paper on the International Bank Report which was approved at the last meeting of the Coalition Government Council of Ministers. I hope that all hon. Members will find time to study this Sessional Paper and the World Bank Report itself, which has proved to be a best seller, and is now having to be reprinted by the Government Printer! In general. the Government accepts the World Bank Report as the basis for our future development plan, but has had to stress the great difficulty that we are likely to experience in raising as much capital overseas as the Mission suggests to be necessary to finance the Programme.

I should. however. perhaps refer to two points on which the Government does not entirely accept the proposals of the Mission. As is explained in paragraph 51 of the Sessional Paper. the Government has decided in principle that Kenya should develop its own source of hydro-electric power at Seven Forks. Further decisions on the timing and financing of the project, as well as its priority as against other major projects in the Programme. must be taken in the near future if Kenya is to avoid a serious power shortage which would inhibit further development.

The other major scheme—in which I am sure many hon. Members are interested—is the Mombasa Road. An expert on toll roads is being sought to advise on possible construction on a self-financing basis, and consideration will be given to going ahead with the Mombasa Road project if finance can be obtained on terms related to the expected economic return.

In spite of all our difficulties, I expect that actual expenditure by Government on the Development Programme, including the settlement schemes, will be higher than in any previous year.

I now turn to the Recurrent Expenditure Estimates for 1963/64, which total £40.960.000 or, excluding compensation and commuted pension payments to designated officers, £36,787,200. A detailed comparison between these estimates and the revised expenditure figures for the current year is given in the General Memorandum Note, and I do not propose to go over this ground in detail again. Our budgetary problem in November last year looked almost insoluble. We were faced with a deficit, excluding compensation and commuted pension payments, of some £5 million between forecast expenditure for 1963/64 and probable receipts from taxation at existing rates.

In solving this problem, the first step was to review the whole field of expenditure and see where economies could be made. In this we were greatly assisted by the Report of the Economy Commission. but the desired savings would not have been achieved without the full co-operation of all my colleagues in the former Coalition Government, whose realistic acceptance of the need for economies made the necessary action possible. As explained in the note in the printed Estimates. economies achieved amounted to about £1¼ million and, in relation to the forecast estimates, they amounted to an even higher figure. The remaining gap will be covered by revenue at existing rates of taxation, plus the

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revenue that will be derived from measures announced in April and further measures which I am to announce today.

The largest single economy recommended by the Economy Commission was in Non-African Primary Schools, and the Commission estimated that a saving of £746,520 was possible. The Commission recognized that grants to schools cannot conveniently be made on a *per capita* basis, but advocated that the same general level of assistance—irrespective of the racial communities which the schools principally serve—should be the objective to be achieved as quickly as possible. They pointed out that the element of Government subsidy in European, Asian and Arab Primary Schools was substantially greater than the element of subsidy in African Primary and Intermediate Schools.

The Expenditure Estimates have been prepared on the assumption that tuition fees in Government European Primary Schools will go up from Sh. 175 to Sh. 280 per term; in Asian Primary Schools from Sh. 57 to Sh. 90 per term: and, although in the higher classes in Arab Schools no change is proposed, it is suggested that the fee for Standards I to IV should go up from Sh. 15 to Sh. 42 per term. There will be corresponding adjustments in the grants-in-aid under the non-African rules, and the Government grant to European. Asian and Arab aided Primary Schools will be reduced from 80 per cent to 40 per cent of approved salaries. and in Secondary Schools from 90 per cent to 80 per cent.

It has also been assumed that the changes in fees will come into force with effect from the September term this year. and the adjustments in grant-in-aid with effect from January, 1964. No change is proposed in African school fees. with one exception—namely, that it is proposed that the boarding element in the fee at Secondary Schools should go up by Sh. 50 per annum with effect from January. 1964. The savings that will be produced in the 1963/64 year are estimated at £85,700 from fee increases in Government schools. and £111.400 from reductions in grants-in-aid to aided schools. I very much regret the need for these changes. but we have not gone as far as the Economy Commission suggested. I do not. however. think that we can deny the logic of the Commission's recommendations: I must make it quite clear as far as both fees and grants-in-aid are concerned in the future that. in the case of schools which pass from the Central Government to Regional Authority or Local Government schools, the changes on which the Estimates have been based must be regarded merely as recommendations to these authorities.

Other major economies—the need for which I also regret—include the abolition of the diesel refund to farmers, although cereal farmers will be compensated to some extent for the increase in the cost to them of diesel oil by a fertilizer subsidy which it is proposed to introduce on the 1st July. I also greatly regret the need for the suspension of the Kenya Regiment and for other major changes, including those involving a very substantial reduction in expenditure by the Ministry of Works, and the abolition of the grants to the European and Asian Hospital Insurance Funds. On the other hand, the Economy Commission carried out a necessary and unpopular task with great care and thoroughness. and I am sure that the Coalition Government was right to accept the great majority of their recommendations.

However. in spite of all the economies that have had to be made. hon. Members will. I am sure, be glad to know that we have managed to find some additional money for the encouragement of tourism.

There is one omission from the expenditure estimates to which I should refer at this stage. No provision has been included for the cost of the Army and. assuming that we achieve independence before April. 1964. we shall have to find the necessary funds to cover the period between the end of the United Kingdom financial year at the end of March. 1964. and the end of our financial year at the 30th June. 1964. The present estimate of the annual cost of the Kenya battalions of the King's African Rifles. and the necessary supporting establishments for this Force, is £2.450.000. The exact size of the Force that we shall need. and the question of how our Army is to be financed, will be the subject of discussion with the British Government, but we have to face the fact that we shall have to find over £2 million for our Army in 1964/65, and may have to find over one-quarter of this sum during the 1963/64 financial year.

This. I think. provides an answer to anyone who might doubt the need for the economies that have been effected. We shall. with the assistance of the measures that I shall announce later. balance our 1963/64 Budget, but in 1964/65. in addition to taking over the cost of our Army. we shall have to find a further sum of over £400.000 for Public Debt, and over £500.000 for pensions. and will also have to provide for a full year for

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diplomatic representation overseas. We shall have to take over further expenditure from development on to the Recurrent Budget.

Additional costs that will fall on the Central Government in 1964/65 will therefore exceed considerably the sum of £3 million, and it will be necessary to make further economies towards this essential additional expenditure.

The Regional Authorities will start with a deficit of rather less than that suggested in the Fiscal Commission Report. I shall deal later on in some detail with the position of the Central Government and the Regional Authorities.

I have aready indicated that the amount of expenditure we have to finance next year from Kenya sources is about £36.8 million. After allowing for various adjustments in the Revenue Estimates, such as the abandonment of the diesel refunds and the decision to regard landing fees as revenue, and for the taxation measures already announced, I estimate that the revenue that will be produced towards financing expenditure next year will be about £35.9 million, leaving nearly £900,000 of additional revenue to be found.

I now come to my revenue proposals, and would at this stage ask Mr. Speaker that—in accordance with precedent—this speech be taken as Notice of Motion to be placed before the Committee of Ways and Means dealing with the measures I am now proposing.

One of the possible sources of revenue which we have had to examine is export taxes. Obvious candidates for export taxes are coffee, tea and sisal, but it is going to be increasingly difficult for us to sell our coffee, owing to quota limitations, and the sale of increasing amounts of coffee in non-quota markets at lower prices will reduce the return to the producers. As far as tea is concerned, we have under way a very large programme for the expansion of the growing of tea in the Non-Scheduled Areas, and it is part of the agreement we have made with the sources of finance for this programme that we will not impose an export tax on tea grown as part of the scheme. It would, I think, be a little difficult to justify imposing an export tax on tea grown in some parts of the country, but not in others. The price of sisal has gone up, but I am anxious that this should provide an incentive to the growing of more sisal, for which there is likely to be a market, and the imposition of an export tax could certainly not be regarded as an encouragement by the Government for more investment in sisal.

My main reason, however, for not imposing export taxes this year is that I regard them as an unjustifiable form of double taxation. I can see no logical reason, for example, why a company producing coffee, tea or sisal should be subjected to a greater taxation than a company, say, producing butter, bicycles or boots. As far as individuals are concerned, a man's income from the crops he grows—whether for export or not—determines the amount of graduated personal tax which he has to pay and the amount of income tax which he has to pay. I do not wish to add to the problems of Regional Authorities and Local Authorities by making more difficult the collection of graduated personal tax, which will be one of the main sources of revenue of Local Authorities, and I see no reason to impose an additional form of taxation on those income tax payers who happen to grow export crops.

Having said all this, I must admit that export taxes have been a fruitful source of revenue in many countries and, although I have no intention of imposing such taxes at the moment, this is a matter that will have to be kept under review.

I now turn to Customs and Excise. Last year we put up the duty on spirits and I have explained that this has led to a fall-off in imports and a reduction in revenue. Although I do not contemplate reducing the duty at this stage, it would be foolish to increase it. Beer, cigarettes and petrol were all hit last year, and I am satisfied, after careful examination, that it would not be right to increase the duty on these products again.

I have already announced increased duties on motor-cars and textiles. These are estimated to bring in an additional £600,000, which has already been taken into account in the estimate of revenue that I have given. I am glad that it has in general been accepted by the public that these increases are reasonable.

The increased duty on textiles is also in part a protective measure, and the increase is moderate.

The purchase tax on second-hand motor-cars, which has also been announced, is working smoothly, and I think it not unreasonable that the Government should take some of the benefit that will accrue to the second-hand motor-car market as a result of the increase in duties on new ones. This measure is estimated to bring in about £200,000, and has also been taken into account in my estimate of revenue.

I might at this stage mention that the early imposition of these taxation measures—which did, I think, catch the public by surprise—is in my

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view a logical step. The Government will feel itself free to adjust rates of Customs and Excise duty when this seems most convenient and when, in fact—in relation to the overall financial position or in the interests of the country's economy —it appears to be appropriate and necessary.

I now turn to protective measures. Last year I invited the House to shed tears over the fate of immature crocodiles. The export tax on crocodile skins, which was mainly intended to assist the Tanganyika trade, has not proved very effective, and is being re-examined, but I have no change to propose at this stage. I am, however, taking action with regard to another inhabitant of our waters—namely, the trout. Artificial flies for catching trout are manufactured very skilfully by a small concern at Kipkabus, and I am satisfied that a small increase in the import duty from 25 per cent to 33⅓ per cent is necessary to assist this firm.

Tariff Item 47 will be recast to provide increased protection at the rate of 25 per cent on metal doors and windows. At the same time, a duty of 12½ per cent is to be imposed on down piping and ventilators which are made locally.

Tariff Item 72 will be revised to impose a duty on 12½ per cent on imported vats and tanks of 30 gallons or more capacity, with walls not thicker than ¼ in. if made of stainless steel and not thicker than ½ in. if made of aluminium or alloy. This will confine the imposition of the duty to the types of tank which the local industry can produce, and which can be produced in sufficient quantity to satisfy the East African market.

The rate of duty on putty under Tariff Item 81 *(e)* will be raised from 12½ per cent to 25 per cent, as there is a satisfactory local product which can fulfil local demand.

Hon. Members will be aware that the paint industry is efficient and produces almost all types of paint required in East Africa. This industry does, however, need some further measure of protection, and I propose that the rate of duty on imports should be raised from 25 per cent to 33⅓ per cent.

For some time past several companies of tyre manufacturers have displayed an interest in the establishment of factories in East Africa. In order to encourage the setting up of such factories, provision is made in the Finance Bill for a suspended duty of 41 cents per lb. This suspended duty will not be imposed until and unless a factory is set up, and would at that stage be imposed only on those sizes of tyres which the local factories could produce. The object of the amendment is to assure the companies concerned of the Government's intention to assist them when factories are established. There is a further minor modification to this Tariff Item. Experience has shown that the specific rate of duty covers practically all imported tyres, and the alternative *ad valorem* duty is therefore removed.

One final protective measure concerns cement. It is proposed that the duty should be raised from Sh. 1 50 per 400 lb. to Sh. 1 10 per 100 lb., which will be imposed. The previous rate became obsolete when Kenya became self-sufficient in cement. The new duty may permit the import licensing of cement to be relaxed.

I now turn to changes that are being made mainly with the object of increasing revenue. The changes are set out in detail in the Financial Statement but, briefly, items which will now become dutiable at 25 per cent will be all imported fruit and vegetables; cups, medals and badges; toys and games; sheet, plate and float glass; handles for tools and implements; weighing and measuring appliances; refrigerators and air-conditioners, excluding industrial refrigerator equipment. Also included in the 25 per cent rate will be a number of builders' requisites, such as bricks, slates and tiles; lime and building plaster; sanitary ware and roofing materials; and floor compounds. Some of these changes also have a protective aspect.

There has been some criticism of the amount of imports of foodstuffs which come into Kenya when Kenya can produce almost all it requires in this field. If, however, the figures are examined, it will be seen that most of Kenya's imports relate to essential foodstuffs required to meet a local deficiency. For example, we are not yet able to produce all the sugar and rice we need, and also have to import hard wheat for mixing with local wheat. Further, in times of famine, it is necessary to import maize, and we have also accepted generous gifts of skimmed milk from America for free distribution in famine areas. However, as a general principle, we do impose an adequate duty on imports of foodstuffs which compete with local products or, alternatively, operate a control through import licensing. The general 25 per cent tax on fruit and vegetables is imposed in accordance with this policy.

The duties on building requisites also in a number of instances have a protective angle, and the slight increase in duty will encourage local production.

I am advised that the present mark-up by retailers on toys and games is high, and that it

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should be possible for the increased duty to be absorbed without much increase in prices to the public.

The imposition of the duty on cups, medals and badges is partly being made for administrative reasons. The difficulty of determining under the present Tariff whether a particular import is an article which could be imported duty-free or which should be subject to duty as having a general use has given birth to some of the fattest files in the Customs archives!

One further change relates to the duty on lubricating oil imported under Tariff Item 103 *(d)*. The duty is to be raised from 60 cents to Sh. 1 per imperial gallon, bringing the duty levied in Kenya up to the level of the duty that is now in force in Uganda.

I also propose that the duty on plywood, pulp board and plastic and similar sheeting under Tariff Item 127 should go up from 12½ per cent to 25 per cent. In addition to producing some further revenue, this change should act as a stimulus to the local plywood industry, and provide an incentive for the establishment of a pulp board industry.

I estimate that the additional revenue that will be obtained from these measures will amount to £170,000.

My final customs amendment relates to the very contentious Item 112 *(b)*—Medicines. Hon. Members will be aware of the difficulties which have arisen as a result of the different methods of taxing patent medicines introduced in the three territories. The Tanganyika system involves the taxing of all medicines other than those that are exempted, and the Kenya and Uganda method involves the exemption from tax of all medicines other than those that are specified. A year's experience has shown that the Tanganyika system has worked more smoothly than the Kenya and Uganda systems, and the Kenya and Uganda Governments have therefore agreed to change over to the Tanganyika method. A list of the items which are to be free of duty is being published in the Official Gazette.

I now turn to the field of direct taxation, and will deal first with graduated personal tax. In accordance with the recommendation in the Fiscal Commission Report—as reflected in the Constitution—graduated personal tax will become a Local Authority tax with effect from 1st January, 1964. Action will also have to be taken in accordance with the statement in paragraph 254 of the Fiscal Commission Report that in the 1963/64 year the Central Government will be entitled to withhold from Local Authorities grants-in-aid equal in aggregate to the amount which the Central Government would have received from the graduated personal tax had it still been in possession of that tax. I have consulted Professor Tress about the interpretation of this recommendation, and he has confirmed that it was made with a view to the Central Government being entitled to withhold grants-in-aid equal not only to the amount of revenue that the Central Government would have received if the tax had continued at the present rates, but also to the amount which the Central Government would have received if it had increased the rates on the lines which are proposed in the Report.

One adjustment has already been made, and grants to Local Authorities from the Local Government Contributions Vote have been reduced by £429,000. I have, however, examined this matter very carefully and, although in this year the Central Government will receive £1.25 million in graduated personal tax, and although, if the new Constitution had not been introduced, I should have contemplated an increase in rates which would have brought the Central Government more revenue from this source in 1963/64, I am satisfied that, in order to leave Local Authorities with sufficient money to balance their budgets, it would be wrong for the Central Government to reduce grants to Local Authorities by more than about £1,010,000. As I have said, £429,000 has been cut off, and a further reduction of £581,000 will have to be made in grants—mainly from grants for primary education payable during the first half of 1964. At this stage, however, the full amount of expenditure by the Government on primary education, on the basis of the present grant structure, is reflected in the expenditure estimates, and the £581,000 which will become local authority revenue is still reflected in the revenue estimates. The necessary adjustments will have to be worked out in detail well before 1st January, 1964.

It is not for me to indicate to what extent Local Authorities—subject to the approval of Regional Authorities—will have to increase graduated personal tax with effect from 1st January, 1964. Professor Tress envisaged that in 1964/65 the total proceeds of graduated personal tax, including existing African District Council rates, would be £3,600,000, and he suggested that, in order to achieve this revenue figure, the minimum charge for those with incomes of less than Sh. 1,200 would have to be Sh. 50, rising to Sh. 600 for those with incomes of over Sh. 12,000. If all those liable to the tax paid at these new

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rates, and if full collection was achieved, the amount of revenue obtained would be not £3,600,000, but well over £5 million. These estimates have been prepared on the basis of the tax registers but, if they had been prepared in relation to the number of men on the voters' rolls, they would have been even higher! I think it must be accepted, therefore, that the Fiscal Commission has made a realistic estimate of the amount that could be collected from increased graduated personal tax rates on the lines suggested by them.

My preliminary examination of the financial position of Local Authorities in 1964 leads me to believe that they will find it necessary to go a long way towards implementing the Fiscal Commission proposals. These will involve the abandonment of revenue from traders' licences. The whole financial viability of Local Authorities —and to a considerable extent of Regional Authorities—will depend on the success which they achieve in collecting graduated personal tax. The Fiscal Commission Report has recommended that adequate sanctions should be contained in the legislation governing the collection of this tax, and I am sure that this is right. A model Ordinance is being prepared, and will include a provision requiring employers to collect tax from their employees. On the other hand, the best sanction of all is a recognition by those concerned that local services will depend on the payment of local taxes.

I now turn to income tax. In my Speech last year I said, and I quote, "Naturally I cannot bind a future Government, but can say that it is my intention to do my best to avoid next year any further upward movement in the total tax on companies, which will now become Sh. 7/50". I am glad to say and I can fulfil this implied undertaking but, when I made it, I had in mind a recommendation that I had already received on a confidential basis, and which has subsequently been published in the Report of the International Bank Mission on the Economic Development of Kenya. This recommendation was that corporation tax on companies should go up by Sh. 1/50 with a corresponding reduction in the company rate, leaving the total tax on companies at the present figure of Sh. 7/50. I propose to accept this recommendation, and to apply the new rates to the 1962 year of income.

The effect of this change will be that public companies—which is a loose definition of the more technical term "non-controlled companies" —will be entitled to deduct tax of Sh. 4 in the £ from dividends paid after today. The rate of corporation tax on the profits of life assurance (business) will be Sh. 3 in the £. Shareholders who have already received dividends paid by non-controlled companies on 1962 profits will be credited with tax at Sh. 4 in the £ only.

I have carefully considered the position of private companies, or companies which are controlled and subject to the undistributed income tax arrangements. The object of the legislation governing these companies is to try to ensure that a private individual or small group of individuals cannot avoid tax by the device of forming a private company, and the essence of the system is that, where such a company does not distribute profits to its shareholders, then it has to suffer, after certain permitted deductions, a penal rate of tax equivalent to the difference between the standard rate and the maximum resident individual rate. The effect is that such companies are forced to distribute their profits so that the individual share holders bear tax at their appropriate individual rates.

Under the arrangements introduced last year, the standard rate of tax for these companies was left at Sh. 5/50 in the £, but the percentage which they were required to distribute in order to avoid the penal rate of undistributed income tax was put up to keep their position more in line with non-controlled companies on which the corporation tax of Sh. 2 in the £ was imposed.

However, I can see no reason why controlled companies should not bear initially on their profits the same total rate of tax as that which is imposed on non-controlled companies—namely Sh. 7/50 in the £—and I therefore propose that the standard rate of income tax on such companies should be increased to Sh. 7/50 in the £. The higher rate will be chargeable on the year of income 1962, and will therefore be payable on the 31st December, 1963. In so far as the profits of such companies are distributed to East African shareholders, credit for the tax paid by the company will be given against the shareholder's individual liability, and they will in the end suffer no more tax than at present. It will, however, prevent undue delay in the payment of the proper amount of tax which has been caused by the introduction of various devices, such as the payment of profits from one controlled company to another. Controlled companies will be entitled to deduct tax of Sh. 7/50 in the £ from any dividend paid after today. Where any dividend has already been paid by a controlled company in relation to the year of income 1962, with tax deducted

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at Sh. 5/50, the extra Sh. 2/- in the £ may be recovered from the shareholders forthwith, or on the payment of a future dividend.

As far as non-resident shareholders in controlled companies are concerned, the effective rate of tax on their receipts of dividends will be put on the same basis as for non-controlled companies, and the effective charge against their share of profits will be Sh. 7/50 in the £.

The arrangements for dealing with controlled companies are inevitably complicated, but the only way in which a major simplification could be achieved would be by bringing down the maximum rate of tax on individuals from the present figure of Sh. 15 in the £ to a figure much closer to the total company rate of Sh. 7/50 in the £. I regret that I do not think that it is possible at the moment to take action on these lines—particularly at a time when the graduated personal tax on individuals with comparatively small incomes will have to go up—but it is something that will be kept in mind for further consideration in the future.

I do not think that my proposals in relation to non-resident shareholders will be likely in many cases to increase their ultimate tax liability, as the majority of such shareholders will be able to claim relief under double taxation agreements, and the Government is very ready to conclude further double taxation agreements with countries from which we have received, or are likely to receive, a substantial amount of private investment.

Before I leave the question of undistributed income tax, I should mention that there are certain changes, in addition to those included in the Finance Bill which has been published today, which will be the subject of legislation in the Central Legislative Assembly. To compensate for the increase in the standard rate of tax on controlled companies it is proposed that the percentage deductions for undistributed income tax purposes, which are now 25 per cent and 10 per cent according to the nature of the company's business, should be increased to 30 per cent and 11 per cent respectively.

It is also proposed to modify the present arrangements under which allowances are made to such companies for development expenditure. Ninety per cent of such expenditure has to be added to distributable income in later years at the rate of 10 per cent per annum. The law at present provides that a claim, once made, shall apply to any consecutive period of five years but, if it is not renewed, the balance of expenditure not added back is added back in the fifth year, which means a heavy burden on the company in that year. I now propose that the balance of expenditure should not be added back at the end of the fifth year, but should continue to be added back at the rate of 10 per cent per annum—a step which will, I hope, encourage development by the larger private companies. The change will be effective from the year of income 1963. The present rule will, however, continue to apply in the case of a liquidation, since there would otherwise be scope for avoidance.

It is also proposed to introduce an amendment to remove certain non-resident companies with non-resident shareholders from the scope of undistributed income tax. These companies will be liable instead to corporation tax with effect from the year of income 1961.

It has frequently been urged that the Government should introduce some form of tax holiday, or pioneer industry relief. This question has been examined by various expert commissioners, which have advised against this particular measure. I have also had the opportunity of discussing taxation matters and inducements for investment with potential investors in many overseas countries, including the United Kingdom, West Germany, Italy, Switzerland, France and the United States of America. I am very ready to consider any measures which will encourage investment, including tax holidays and pioneer industry relief, but what most potential investors ask for is not special tax concessions, but assurances of fair and equitable treatment. The first consideration in the mind of an overseas investor is, of course, whether his proposed investment will yield him a reasonable profit on a commercial basis within a reasonable period of years, and this is a commercial risk which it is for him to calculate.

What, however, he does want to be sure of is that he will be permitted to remit his profits and to repatriate his capital, if necessary. He wants to be assured that his enterprise will not be nationalized. On these issues the Government has given, and will continue to give, firm assurances to the overseas investor. Approved Status is given under the Exchange Control Ordinance to investment from outside the sterling area, and I am glad to repeat the undertaking given by the Coalition Government that this Government will also treat no less favourably investments from the sterling area.

The overseas investor is also anxious to be assured that a strong Government will be in power, which will enable him to carry on his

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business peacefully and without undue interference. Here again, I can give him a firm assurance, but recognize that we shall be judged by overseas investors not by words, but by *deeds*.

In order to create the right climate for investment the Government must get over to potential investors that they do not regard profit as something which is immoral, but as something which is essential if the country's economy is to go forward and if the Government is to get its income tax and wage-earners their wages.

Last year I introduced an investment allowance of 10 per cent for all investments, both by overseas and local companies, in manufacturing industries. This investment allowance means that such investors can write off 110 per cent of their investment in industrial buildings, including the necessary plant and equipment, over a period of years. I now propose to increase this allowance with effect from today to 20 per cent. This new rate of deduction will apply to industrial buildings the construction of which commences after today, and to the new machinery installed in such buildings. I also propose to extend the scope of this deduction to industries engaged in processing local produce. It was previously confined to manufacturing industries, but I am satisfied that it should no longer be so confined, and should be extended to industries processing local produce. This measure, I am sure, will be a valuable encouragement to investment which, in itself, will assist our serious unemployment problem. I calculate that with regard to most new investments this concession will be equivalent to a three-year tax holiday. There will be no loss of revenue in 1963/64, and the cost of this concession in subsequent years will, of course, depend on the amount of new investment, but the loss may well be of the order of £150,000 a year.

I estimate that the changes in company tax which I have announced will bring in additional revenue of some £700,000 in 1963/64. About half of this amount will be in the nature of a windfall, and is related to the increase to Sh. 7/50 in the standard rate for controlled companies.

I now turn to individual rates of income tax. I have explained that I have not found it possible to reduce these rates but, equally, I do not propose to increase the present rates, or to change or modify the present allowances.

All the changes in customs and excise duty and income tax have been agreed and co-ordinated with the Governments of Tanganyika and Uganda.

I have two more taxation measures to announce though. The first concerns betting. Two years ago my predecessor imposed a tax on football pools. This measure has proved successful and is producing about £18,000 a year in revenue. There is, however, a very large amount of betting on overseas horse-racing, and I see no reason why the Government should not get some revenue from this source. Our proposals have been worked out in close consultation with the experts of the Jockey Club, and the proposal is for a tax of 5 per cent on the stake money for losing bets and 5 per cent of the winnings on winning bets.

It is very difficult to make even a reasonable guess at the amount of revenue which this tax will produce, but I shall be surprised if it does not produce about £50,000 a year. The intention is that the Jockey Club of Kenya should undertake the collection of this tax on behalf of the Government and they will, in turn, receive a percentage of what they collect and will, out of this, meet the cost of the necessary staff they will have to employ. It is proposed that this measure should come into force on the 1st July.

My final proposal concerns estate duty. Estate duty was imposed in Kenya from the 8th June, 1918, to the 29th April, 1959, and there is therefore nothing novel in this tax. One of the main reasons why the tax was lifted in 1959 was because it was hoped that funds would be attracted from large estates in the United Kingdom for investment in Kenya. In practice, the lifting of estate duty did not have much visible effect on investment, and the main reason for the exemption was removed when last year legislation was introduced in the United Kingdom under which immovable property, wherever situated, of persons dying domiciled in the United Kingdom was made liable to United Kingdom duty. It has also been recommended in the report of the World Bank Mission on the Economic Development of Kenya that estate duty should be reimposed. Estate duty will therefore be reimposed on the estates of persons dying after midnight tonight.

Estates of a net value not exceeding £5,000 will be exempt. Duty will be charged on an *ad valorem* basis on all estates which exceed £5,000. The rate on estates between £5,000 and £7,500 will be 2 per cent, increasing progressively to the former maximum of 40 per cent on estates of over £2 million. As before, there will be provision for marginal relief where an estate exceeds by a small margin a value above which it becomes liable for an increased rate of duty.

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It is proposed that the Board of Estate Commissioners which functioned under the previous legislation should be replaced by a single commissioner, who will be the Registrar-General, but it is intended that a Valuation Appeals Tribunal should be set up to deal with appeals against the valuation placed on assets by the Commissioner.

It is expected that estate duty will produce a sum in the region of £100.000 per annum. This tax is a tax on capital, and is also an uncertain source of revenue which will fluctuate considerably from year to year. I propose, therefore, to apply the proceeds of this tax to our Development Budget.

I have now come to the end of my revenue proposals which will produce a balanced budget. In fact, on the basis of the estimated figures, there will be a small surplus of about £70.000. However, the estimates which were prepared before the formation of the new Government do not provide for a sufficient number of Ministers and Parliamentary Secretaries, and additional provision will be needed to cover the cost of these additional appointments. If my estimates of revenue prove to have been too conservative, then we shall have funds available to meet part of the cost of the Army during the last three months of the financial year. If they prove to have been too optimistic, then it will be for us to take action to cover any deficit, as we can no longer go to the British Government for assistance with normal recurrent expenditure.

To sum up, we were faced with a prospective deficit of about £5 million. Over one-third of this has been covered by economy measures, and almost exactly one-third by additional taxation. The remaining amount is expected to be absorbed by increases in revenue at the existing rate of taxation.

As hon. Members are aware—with the one exception of graduated personal tax—the revenue proposals in the Fiscal Commission Report will not come into effect until 1st July, 1964, and Regional Authorities can therefore rely in 1963/64 on receiving sufficient money from the Central Government to carry on the services which they will take over at the level provided for in the 1963/64 expenditure estimates. However, an exercise has been carried out with the object of seeing how Regional Authorities would have fared in 1963/64 had the proposals of the Fiscal Commission been brought in with effect from 1st July, 1963.

The overall position is that Regional Authorities would have a deficit of a little over £1 million, which can, however, be marked down by the expenditure that will be transferred to Local Authorities to compensate for the additional revenue which Local Authorities will receive in the first half of 1964 from graduated personal tax. The net deficit for Regional Authorities would have been about £600,000, with a corresponding surplus of about £600.000 for the Central Government. The first reaction of hon. Members may be that the Fiscal Commission must have got their sums wrong, because—as explained in Table 8 on Page 116 of the Report—they envisaged a deficit for the Central Government of about £2 million and a deficit for the Regions of about £1 million. In fact, this is not the case, for the Fiscal Commission Report tables relate to the 1964/65 financial year. In that year the Central Government will, as I have explained, have to find over £3 million to meet the cost of the Army and unavoidable additional expenditure on Pensions, Public Debt and other Central Government services. The Central Government is therefore likely to have in 1964/65 to deal with a deficit of a larger figure than was suggested in the Fiscal Commission Report, and the Regions with a slightly lower deficit.

The position as regards individual Regions appears to be that the largest deficit will have to be faced by the Coast Region, and the next largest by the Rift Valley. I can assure my KADU friends that the figures have not been manipulated to produce this result, and that revenue estimates will be provided to Regional Authorities to assist them in dealing with the 1964 Local Authorities' budget and their own 1964/65 budgets. It has been assumed that the Coast Region will receive the whole of the unallocated three-tenths of Nairobi's share of petrol and diesel revenue as recommended in the Fiscal Commission Report.

How can this deficit be met? It can in my view not be met to any significant degree by further increases in taxation, which could only be damaging to the economy and to our future prospects of economic progress. It will, I hope, be met partially by increases in revenue at existing rates of taxation, but this depends upon the revivial of economic activity and a sustained expansion of our national income. I believe that the increased investment allowances which I have announced will go some considerable way towards bringing about the resumption of private capital investment so necessary for our economic development. At the same time we must continue to look for economies in expenditure and, in this connexion, I am hopeful that the recommendations of the Local Salaries Commission will assist. We shall have to devise a local salary structure related to

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East African conditions and taking into account the present very low incomes of the great majority of our people. At a time when the national income per head is not increasing, increases in wages and salaries can only be found by providing wage and salary earners with a larger slice of the cake at the expense of others.

The successful transfer of responsibilities to Regional Authorities and the working out of Regional and Local Authority budgets will be a difficult task, which will demand the maximum amount of goodwill on both sides. I can assure hon. Members that the staff of my Ministry will do its utmost to assist any Regional Authority seeking advice or assistance from them.

I feel that I should, at this stage, summarize the amount of assistance we shall be receiving from the British Government in 1963/64. Towards development expenditure of £14.1 million we shall be receiving £9.7 million, of which £4.6 million will be for Settlement Schemes and the remainder for the basic Development Programme, including the Land Bank. In addition, the British Government will be providing—as already announced—£700,000 for the purchase of what are called "compassionate case farms". There is no provision for this expenditure yet in the Development Estimates, and the necessary provision will be made by Supplementary Estimate.

Towards our recurrent budget of £40.96 million we shall be receiving, we hope, £4,173,000, being the cost of Kenya's share of compensation and the commuted pension payments to designated officers, but this is still subject to negotiation. However, since the estimates were printed the date of internal self-government—which is the operative date for the General Compensation Scheme—has been fixed, and a second instalment of compensation, of which Kenya's share will be about £2 million, will be payable in June, 1964. We hope to obtain assistance from the British Government towards this payment also.

Outside the estimates, the British Government will be meeting the cost of the Armed Forces—which I have already given as £2.45 million—and will be finding under the Overseas Aid Scheme a further sum of approximately £6¼ million, representing the overseas addition to the basic salaries of designated officers, plus education allowances and half the cost of passages plus the British Government's share of compensation payments.

I estimate, therefore, that the total assistance towards Development will be about £10½ million, and the total assistance towards recurrent expenditure some £15 million. This is a formidable sum, and we cannot, I fear, rely on assistance on this scale after independence. The total figure comes to over £25 million, and I think it is appropriate that I should place on record the Kenya Government's thanks.

Mr. Speaker, Sir, as hon. Members who have listened so patiently will be glad to know, I have now come to the end of my review of the state of the economy and the Government's expenditure and revenue proposals. I should have liked to have been able to provide for less taxation and more expansion of services, but it is unfortunately not possible for any Finance Minister to do this. I would accept that we are at the moment probably taking rather too high a proportion of the national income in taxation but, on the other hand we have succeeded in making substantial economies and we have, in my view, spread the burden of taxation fairly and equitably.

Looking to the future, the pessimist could—from the facts and figures which I have given—produce a very black picture. He could point to increasing unemployment; to a fall in the real national income per head; to quotas limiting the production of important export crops, such as coffee and pyrethrum; to the potential dangers of replacing large-scale farmers by smallholders; to the probable loss of more expatriate professional, technical and administrative skill than we can immediately replace; to the difficulties of putting into operation a complicated new Constitution; and to the difficulty in raising adequate funds for development and the lack of any reserves on which to draw.

One point that I have not yet mentioned on the development side is that in 1965, before we start spending any new money on development, we shall have to find £8 million to repay or convert local loans; to pay for the Contractor-Finance Road Project; and to meet debts due on the Mombasa Water Supply.

On the other hand, the optimist could argue that our exports are running at a record level; that revenue is showing remarkable buoyancy; that our receipts from tourism are steadily increasing; that the Economic Survey forecasts a rise of at least 5 per cent in the national income this year; that large investment projects are, we believe, on the way; and that the coming of independence will itself generate throughout the economy increased effort and increased activity. He could argue, in fact, that Kenya is on the threshold of a boom.

An impartial observer, weighing up these two views, might, I fear, feel that the pessimist had the better case. I am sure that we can prove him wrong, but we shall not do so by ignoring or

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minimizing the very real difficulties ahead. We shall need goodwill and understanding within Kenya and within East Africa, and a great deal of help from our friends overseas.

We must plan and work for a more prosperous Kenya, and if we plan wisely and work hard we shall succeed, but we must not allow natural exuberance—generated by self-government and independence—to dissipate the present mood of economy and realism. The road ahead is uphill and we have, over the next two years, some very tricky corners to negotiate, after which we may find a straighter and smoother thoroughfare on which we can accelerate. We can look ahead to better times, but must keep one eye at least on the road or we may land in the ditch. Let us reach for the stars, but keep our feet on the ground.

Mr. Speaker, Sir, I beg to move.

The Minister for Justice and Constitutional Affairs (Mr. Mboya) seconded.

(Question proposed)

ADJOURNMENT

The Speaker (Mr. Slade): Manifestly, hon. Members it will be convenient if we adjourn at this stage. The view of the Government is that it will also be to your convenience that we do not sit again for another week.

The House is therefore adjourned until Tuesday, 18th June, 1963, at 2.30 p.m.

The House rose at twenty minutes past Six o'clock.