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SUPPLEMENT  
TO THE  
FEDERATED MALAY STATES  
GOVERNMENT GAZETTE

OF FRIDAY, THE 1ST OF DECEMBER, 1922.

(No. 27, Vol. XIV.)

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PUBLISHED BY AUTHORITY.

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MONDAY, 11TH DECEMBER, 1922.

The following Notification is, by direction of the Chief Secretary to Government, published for general information.

C. W. H. COCHRANE,

*Acting Under Secretary, F.M.S.*

No. 7596.—With reference to *Gazette* Notification No. 5327 of the 26th August, 1922, the Government publishes for general information two further despatches, with enclosures, from the Right Honourable the Secretary of State for the Colonies, dated the 10th August, 1922, and the 14th October, 1922, upon the subject of the financial position of the Federated Malay States.

F.M.S.

No. 307.

DOWNING STREET,

*10th August, 1922.*

SIR,—I have the honour to transmit to you the paper noted below on the subject of the financial position of the Federated Malay States.

I have, etc.,

(Sd.) WINSTON S. CHURCHILL.

THE HIGH COMMISSIONER  
FOR THE MALAY STATES.

Description.

Date.					
31st July, 1922	...	...	...	From the Association of British Malaya	

Your ref. 24267/1922.

THE ASSOCIATION OF BRITISH MALAYA,

359, MANSION HOUSE CHAMBERS,

11, QUEEN VICTORIA STREET,

LONDON, E. C. 4,

*31st July, 1922.*

SIR,—I am directed to acknowledge your letter of the 14th July and to express to Mr. Secretary Churchill the thanks of the Committee of the Association of British Malaya for placing at their disposal a copy of Sir L. N. Guillemard's despatch of 21st April last dealing with the Association's letter of 28th January, 1922.

2. In that letter the Committee of the Association, while criticising in detail many administrative acts during the later history of the Federated Malay States, had no thought of suggesting that the present High Commissioner was responsible for financial difficulties brought about by a policy with which he was not connected. The Committee are greatly indebted to Sir L. N. Guillemard for going so thoroughly into the questions raised in their letter; they feel that much of their criticism is disarmed by His Excellency's candour and the manner in which he has met their criticisms, and they desire to express their cordial acknowledgment of the full and valuable information furnished by the High Commissioner. The Committee note that Mr. Secretary Churchill has given permission for the publication in the Federated Malay States of Sir L. N. Guillemard's despatch and they have no doubt that this course will give general satisfaction.

3. Now that the High Commissioner has seen the representations which the Committee of this Association felt compelled to address to the Secretary of State, and has expressed his sympathy with so much that was stated in the letter of 28th January last, the Committee feel that their object has been largely achieved and that these important questions can now be left to be dealt with by the High Commissioner, who has expressed his concurrence with the main considerations urged by the Committee. I am however to invite attention to the speech made by Mr. Choo Kia Peng at a meeting of the Federal Council on the 20th June last when he stated that the commitments of the Federated Malay States, outside their own borders, amounted to something like one hundred millions of dollars, and he added the very significant words: "We have never had any definite information as to the reasons which led past High Commissioners to sanction these enormous commitments, when the country was not in a position to face them."

4. The Committee invite Mr. Secretary Churchill's special attention to paragraphs 12 and 14 of the High Commissioner's despatch. In paragraph 43 Sir L. N. Guillemard signified his agreement with the Committee of this Association in holding the High Commissioner, advised by the Chief Secretary, responsible for the financial administration of the Federated Malay States. In 1912 these small States made a gift of the battleship of Malaya to the British Government, and the cost of the ship was \$24,000,000 or £2,800,000—that was a generous and very useful gift. It appears, however, that in the years 1917-19 a total of 16½ millions of dollars was given by these States to the Imperial Government for other purposes connected with the War, and that sum does not include the cost of a large number of battleplanes given by the generosity of private persons. With the battleship, the gifts of the Malay States Government to the Imperial Government amounted to nearly £4,700,000, and the finances of the Federation are now in what is described as an unfortunate state. Having regard to the position in which the British advisers stand towards these countries and their people, it seems to the Committee very desirable that the giving and the acceptance of these costly presents should be avoided.

5. With reference to paragraph 48 (b) of the High Commissioner's despatch I am to explain that the Committee recognize that the Federated Malay States are well served by ably conducted newspapers but, while the Press of the Straits Settlements represents the interests of British subjects in a British Colony, the English journals in the Federated Malay States can hardly be expected to represent, in the same degree, the thoughts and aspirations of the Malays.

6. The financial situation is admittedly serious and the Committee hold a strong opinion that what is wanted is not more taxation to increase revenue but drastic retrenchment, not only in works but in many other directions where it can undoubtedly be made without damage to the reasonable progress of the country. They do not question the advisability of the rice purchases, though they think the manner in which those transactions were carried out cost both the Colony and the Federated Malay States more than was necessary. They have heard nothing to change the views already expressed by them in regard to purchases of tin, which seem likely to involve the Government in heavy loss.

7. Finally the Committee have noted with unfeigned satisfaction the views expressed by Sir L. N. Guillemard in paragraphs 42, 43, 44, 45 and 46 of his despatch and they feel confident that in carrying out those views the best interests of the Malay States will be secured.

I have, etc.,

(Sd.) F. K. MURRAY-JOHNSON,

Secretary.

THE SECRETARY OF STATE FOR THE COLONIES,  
COLONIAL OFFICE,  
DOWNING STREET, S.W.1.

F.M.S.  
No. 404.

DOWNING STREET,  
14th October, 1922.

SIR,—With reference to your despatch No. 153 of the 21st April, 1922, I have the honour to transmit to you the accompanying copies of letters from Sir A. Young, G.C.M.G., K.B.E., and Sir E. L. Brockman, K.C.M.G., regarding the financial position of the Federated Malay States.

2. Copies of these letters will be sent to the Association of British Malaya, and I shall be glad if you will arrange for them to be published locally.

I have, etc.,

(Sd.) WINSTON S. CHURCHILL.

HIGH COMMISSIONER,  
SIR L. N. GUILLEMARD, K.C.B.,  
&c., &c., &c.

SPRING GROVE,  
SUNNINGDALE, BERKS,  
21st September, 1922.

SIR,—I have the honour to state that I have received a copy of Circular No. 3 of August, 1922, issued by the Association of British Malaya.

2. In that Circular is published Sir L. Guillemard's despatch of 21st April, 1922, which criticises adversely the financial policy of the Government of the Federated Malay States for the years 1912-1919, the period I had the honour to be the High Commissioner of those States.

3. Sir L. Guillemard refers to my financial policy in the following terms:

- (i) In his paragraph 3 he attributes "the unfortunate state of the Federated Malay States finances to-day"
  - "(a) primarily to the fact that finances in the years 1912-1919 were not conducted on sound lines."
- (ii) In his paragraph 5 he states "The primary cause of the present position is in my opinion that the Government has in the past overloaded the revenue with heavy expenditure on capital account, much of it on works done under contracts continuing over a period of years."
- (iii) In his paragraph 10 he enumerates six "special burdens" and adds in his paragraph 11 that there was left by the end of 1919 "42½ millions to be provided in 1920 and subsequent years."
- (iv) In his paragraph 13 referring to the \$15 million loan raised in 1916 and to be repaid in 1921 he states "No proper provision for sinking fund was made in connection with this loan which remained therefore as a charge against revenue and balances."
- (v) In his paragraph 43 he speaks of "the unfortunate position" which he inherited.

4. The following are facts:

Towards the end of the year 1913 my advisers and I were of the opinion that it was desirable that the Government of the Federated Malay States should raise a loan of six million sterling mainly for the purpose of accelerating railway construction. The question was laid before the Secretary of State early in 1914, correspondence took place and when I came Home on leave in July of that year I saw the late Mr. Secretary Harcourt on the subject; I was informed that it was not a favourable time to raise a loan but the Crown Agents would no doubt be able to advance what was necessary until a loan could be raised. I then interviewed the Crown Agents who agreed to advance £2,000,000.

About a fortnight later War was declared and there was no loan.

5. When I addressed the Federal Council in November, 1914, I warned the members that we were not in a good position to meet the financial strain of the War as the greater part of our assets were either not realizable or were only realizable at a heavy loss.

The War however treated British Malaya very kindly; revenue increased whilst expenditure was confined, as far as possible, to maintenance of roads and works and to the completion of works which had been commenced. In consequence the Government was able to lend the money so saved to the Home Government for the prosecution of the War. In addition a comparatively large sum was raised by special taxation and given to the Home Government as a contribution towards the expenses of the War.

6. The following is a return of the revenue and expenditure for the eight years 1912-1919, the period I was High Commissioner of the Federated Malay States:

Year.	Revenue.	Expenditure.
1912	\$42,647,687	\$30,990,488
1913	44,332,711	47,287,581
1914	37,309,942	55,010,037
1915	40,774,984	42,838,631
1916	51,121,856	31,966,581
1917	65,553,186	40,878,746
1918	68,448,862	45,286,910
1919	72,135,075	70,676,961

7. The Treasurer's statement as given in his report for the year 1919 shows that the assets and liabilities on the 31st December, 1919, were as follows:

Assets on the 31st December, 1919—

Cash	...	...	...	...	...	...	...	...	...	\$ 8,746,912.51
Investments—										
Cost.					Approximate value.					
\$68,522,425.79	...	...	...	...	\$61,431,610.78	...	...	...	...	68,522,425.79
Investments a/c War Saving Certificates	...	...	...	...	...	...	...	...	...	132,097.75
Sundry Advances...	...	...	...	...	...	...	...	...	...	6,938,311.00
Loans	...	...	...	...	...	...	...	...	...	35,752,506.79
Drafts and Remittances	...	...	...	...	...	...	...	...	...	127,132.11
Suspense, Miscellaneous	...	...	...	...	...	...	...	...	...	5,567,005.42
Suspense, Crown Agents (Deposits at Call)	...	...	...	...	...	...	...	...	...	1,799,999.99
Total	...	...	...	...	...	...	...	...	...	\$127,586,391.36

Liabilities on the 31st December, 1919—

Deposits	...	...	...	...	...	...	...	...	...	\$ 2,426,022.60
Public Debt	...	...	...	...	...	...	...	...	...	15,000,000.00
War Saving Certificates a/c	...	...	...	...	...	...	...	...	...	230,821.32
Penang Agency a/c	...	...	...	...	...	...	...	...	...	3,529.96
Surplus	...	...	...	...	...	...	...	...	...	109,926,017.48
Total	...	...	...	...	...	...	...	...	...	\$127,586,391.36

8. The above statement shows that, excluding all items on the asset side except cash and investments and taking investments at their approximate value there was on the 31st December, 1919, a sum of over \$70 millions available to meet the loan of \$15 millions and the other liabilities amounting to less than \$3 millions, also the commitments (see paragraph 11 of Sir L. Guillemard's despatch) amounting to \$42½ millions.

9. In his paragraph 29 Sir L. Guillemard refers to the large programme of normal railway development; there is of course a railway construction programme, it is carried out departmentally and can be slowed down or stopped if funds are not available; there is no commitment of future revenues as regards railway development except in respect of the contract works at Prai and Johore Straits; the cost of these two works is included in the \$42½ millions referred to in the preceding paragraph. As indicated in my speech to the Federal Council on the 30th April, 1919, I contemplated the necessity of a loan at some future time if it was intended to proceed with the railway programme as fast as it was desired, and it should have been obvious that there could not be any very large increase in expenditure until the position had been made safer by the raising of a loan for capital works.

10. One of the items on the assets side which I omitted when arriving at the figure of "over \$70 millions" in paragraph 8 is "Sundry Advances" amounting to \$6,938,311; this represents, I believe, mainly advances to Heads of Departments and District Officers to meet their average monthly expenses.

11. Certain investments were ear-marked to meet the \$15 million loan and no sinking fund was therefore necessary (see paragraph 13 of Sir L. Guillemard's despatch on this point); he states in that paragraph that "all the securities were required in 1921 to cover the commitments of the Federated Malay States Government in London." If by this is meant commitments for which my predecessor, Sir John Anderson, and I were responsible it is a wholly incorrect statement for I have shown in paragraph 8 that on the 31st December, 1919, there were ample funds to meet all commitments authorized by us.

12. I left my successor with an available surplus more than sufficient to meet all commitments and the small public debt of \$15 millions; in addition there were loans on the asset side amounting to \$35,752,506; he was also left with a railway built at a capital cost of \$160 millions out of savings.

It was an excellent inheritance but it was a very mistaken view to consider that \$110 millions, the surplus assets over liabilities, was ready cash and available to meet in addition to great increases in staff, a loss of \$22 millions on rice and a further \$21 millions on account of the unhappy purchase of tin.

13. I request that a copy of this letter may be sent for publication to the Association of British Malaya.

I have, etc.,  
(Sd.) ARTHUR YOUNG.

88 CANNON STREET,  
LONDON, E. C. 4.

August 29th, 1922.

SIR,—I have the honour to acknowledge the receipt of your letter No. 40,893/1922, dated 25th August, 1922, forwarding a copy of a despatch from the High Commissioner for the Malay States dated 21st April, 1922, regarding the financial position of the Federated Malay States. I understand that this despatch has been communicated to the Association of British Malaya and that it will be published in due course in the Federated Malay States. It contains serious reflections on me and I must ask, therefore, that my observations upon it may be communicated to the Association of British Malaya and may also be published in the Federated Malay States.

2. In paragraph 16 of his despatch Sir L. N. Guillemard states "Early in February, 1920, on the second day after my arrival in this country, I noticed that the Federated Malay States Estimates for 1920 budgetted for a deficit of \$34 millions, and I asked whether this was satisfactory. I gathered that the position was considered quite safe owing to the fact that we possessed adequate balances, which were stated as being over \$100 millions."

If Sir L. N. Guillemard intends to suggest that I stated, or led him to believe, that there were available balances of over \$100 millions I must very respectfully but emphatically deny that I did so.

3. In paragraph 19 of his despatch he states:

"It was then discovered that the financial position on my arrival in February, 1920, was really as follows: "The surplus assets on 31st December, 1919, were shown in the official accounts (*see Federated Malay States Government Gazette* of 17th May, 1920) as amounting to \$110 millions. But this figure did not represent the cash surplus on the credit side of the account; as is customary in Government accounts, investments were shown at their cost price with no allowance for depreciation, and loans and advances, being governed by definite schemes of repayment, could not be regarded as cash. I was advised that, after adjusting the account in the light of these considerations, the 110 million dollars represented a realizable cash value of about \$54½ millions."

4. The statement published in the *Gazette* was strictly in accordance with the Colonial Financial Regulations. In a similar statement in the Treasurer's annual report the investments are shown, not only at their cost price, but also at their market value at the close of the year. There was a similar statement in the Chief Secretary's annual report and it was possible for anyone of ordinary intelligence to ascertain from those statements the approximate amount available in cash and realizable investments. Assuming the amount to have been \$54½ millions (more than £6½ millions) that was a very respectable cash surplus for a country having no debt, and it was enough to meet the known obligations of the Federated Malay States. Moreover, the intention was to make the position more safe by the raising of a loan of moderate amount for the completion of certain capital works, and the necessity for a loan was made known to Sir L. N. Guillemard immediately on his arrival in Singapore.

5. On the day after his arrival I had an interview with Sir L. N. Guillemard, Mr. F. S. James who had acted as Governor and High Commissioner, being present. Mr. James had evidently spoken already to Sir L. N. Guillemard on the subject of finance and the question of a loan was discussed. It was definitely recognized then, February, 1920, that a loan was necessary. The question of when it should be raised was not mentioned but had I been asked at that time for my opinion I think I should have said that I hoped we could manage to get through 1920 without the loan and it was obviously advantageous to wait as long as possible before trying to raise money.

6. Sir L. N. Guillemard visited Kuala Lumpur in April, 1920, and he then discussed again the question of a loan. He was evidently satisfied that a loan was necessary. I mentioned to him the unfortunate position in which the Federated Malay States were placed in that their stock would not be a trustee security. He was not aware of this and at once expressed his intention of writing to London to get this remedied and he was confident that he would be successful. There the matter of the loan rested for a time. I should mention that Sir L. N. Guillemard had already intimated to me that he did not favour our policy of paying for capital works out of income as we had been doing. Shortly before my departure from Kuala Lumpur (13th June, 1920) he sent me the reply he had received and it was unfavourable. He sent me soon afterwards a minute regarding the loan proposal and I replied on the 13th June, 1920. Regarding my minute, which was written on the day of my departure on which day also I informed Sir L. N. Guillemard that I was going to retire and take my pension, he observes in paragraph 17 of his despatch "He sent me a minute in which he stated that he was entirely in favour of the Federated Malay States raising a general purposes loan when a favourable opportunity offers. He gave no hint that there was any urgency in the matter or that he had any doubt as to the availability of sufficient balances on which we could rely until the 'favourable opportunity' occurred."

7. That is hardly a fair comment on my minute and it does not give a correct impression of what I wrote concerning the financial position. In my minute I discussed at considerable length the question of the proposed loan and I referred to the previous proposals for borrowing money in 1914. I mentioned the matter of our surplus balances which I pointed out only existed because we had been unable to spend money. They would have all disappeared and we should have had a loan had it not been for the War. (These surpluses were not savings but only unexpended balances all wanted for works to which the Federated Malay States were committed.) I stated that I felt sure there would soon be a cry for economy in the Federated Malay States and I advised that additional taxation would be necessary and that the sooner it was imposed the better. It is true that I did not use the word "urgency" in connection with the loan proposal but it is clear from my minute that I contemplated that a loan would be raised before our balances were depleted and that in any case it would be raised before the 1st May, 1921. I also recommended that there should be a local loan as well as a loan raised through the Crown Agents. When I left Kuala Lumpur I believed, and surely, after what had taken place, had good reason to believe, that steps would be taken without delay to prepare for a loan. It would then be for the Crown Agents to advise as to the favourable opportunity for floating it. At the time I wrote there was no indication of a trade depression. The Federated Malay States were apparently in for a time of extraordinary prosperity and there were sufficient balances as far as one could then judge to enable the Government to proceed with the works already in hand and others contemplated. There was not in my opinion sufficient to justify a very considerable increase in expenditure until a loan was floated.

8. Sir L. N. Guillemard states in paragraph 21 of his despatch that, "it ought to have been clear as far back as February, 1920, to any one knowing the facts that the deficit of 34 million dollars on the 1920 Estimates was definitely risky, that the time was more than ripe for a loan, and that till a loan was floated expenditure should be rigidly kept down."

I can only reply to that, that it was recognized that a loan must be obtained in order to make our position safer, that Sir L. N. Guillemard was so informed immediately on his arrival and that he concurred in the necessity for a loan. He himself contemplated a very large additional expenditure which would, if carried out, necessitate the raising of a very much larger loan than I was contemplating.

9. He made a statement of his policy at the meeting of the Federal Council on the 13th April, 1920. He stated, "I think that as this is the first meeting at which I have had the pleasure of being present, it is only natural that I should make a few general remarks to indicate the position of affairs here as I see it, so far as I understand it after my short sojourn here and as far as I can see the line I should wish Government to take in the future. The central fact is quite obvious. This is at the present minute a country of arrears, of things which have to be done. I wish to take the earliest opportunity of stating, in the most emphatic way I possibly can, that in any remarks I am going to make it is not my intention to attribute any blame to my predecessor or his advisers. It would be unjust if I did so. It would be singularly ungenerous if I came out here, having found they had borne the burden and heat of the day, and blamed them for something which was beyond their power to make otherwise. The country has been for some years under the influence of what is known as "force majeure" that is to say the war has prevented my predecessor and his advisers from doing many things which would otherwise have been done. I think the position is perfectly clear."

"With regard to myself, I merely hold myself and regard myself as extremely fortunate. I have come out at a time when it may be my good fortune to do some of the things they would have been anxious to do had circumstances permitted. I have been asked by many people by letters and the Press to make a comprehensive statement on policy. I am not very fond of the word "Policy." It suggests ambitious, visionary ideas, a good deal of talk, a good deal of promises, and consequently a considerable amount of risk.

I propose to deal with the matter in what I might call a modest spirit and simply to try and see what is the position out here as a whole, but if I stray outside the boundaries of the Federated Malay States and wander for a moment into the Colony, I must be forgiven for I am trying to take a wide view.

Then I come to the Hill Stations. To deal with Penang first, I am very grateful to the Council for facilitating the first steps in making Penang into a suitable Hill Station. I am not in the least afraid it will be a monopoly of the Colony, and my own belief is that Federated Malay States money will have been very well laid out in constructing the line. I feel very strongly with regard to the railway management that we have got an excellent and efficient system and whether extensions are made in the Colony or in the Unfederated Malay States they should be built and managed by the Federated Malay States who should take the profits. When they are built by other bodies who subsequently hand them over it leads to nothing but confusion. I think the policy followed with regard to Penang ought to be followed everywhere in this country. If I may say so I think Mr. Kenion's attitude to the Penang railway is perhaps a little grudging.

With regard to money, it is quite obvious that a very large expenditure is ahead of the country. You cannot do things like providing power for lighting, drainage, irrigation, roads without very heavy expenditure. . . . my own view is that the condition of the country is such that there is no need to put a stop to any of these works for lack of money. We must be prepared to find it in one way or another."

10. A complete programme of railway development had been drawn up showing what it was proposed to expend in the next six or seven years and it was obvious that this programme could not be carried out in its entirety without having recourse to a loan of a considerable amount. The estimates for 1920, as pointed out by Sir L. N. Guillemard, showed a deficit of \$34 millions. This may appear large but there was little prospect of the money voted being all spent owing to the difficulty in getting materials and staff. As it turned out there were savings amounting to nearly \$20 millions but unfortunately there were supplementary votes to the amount of over \$25 millions (\$12½ millions on account of rice). Over \$20 millions were voted in the last seven months of 1920.

11. In paragraph 16 of his despatch Sir L. N. Guillemard states, "I wrote to him (the Chief Secretary) directing his attention to the continuing loss on rice as affecting our balances." Sir L. N. Guillemard subsequently, in April, 1920, discussed the rice question with me. He indicated how he proposed to deal with it. Up to the time of my departure I had no information as to what would be the ultimate loss. This depended on the future policy of the Government. It had been publicly stated by the High Commissioner, Sir Arthur Young, that it was hoped that it would be possible to get out of the rice business without loss. The price was raised in May, 1920, and if it had been maintained as was originally suggested the loss would have been small in comparison with what it ultimately was. The policy of the Government which resulted in an enormous loss, was decided upon after I left the country. I have no responsibility in the matter and could not possibly have foreseen that the altered policy of the Government was going to lead to such a serious loss.

12. Sir L. N. Guillemard was present at a meeting of the Federal Council on the 28th July, 1920, when the Acting Chief Secretary moved a resolution approving of a vote of \$5 millions on account of the loss on rice. Nothing was said as to this probable total loss, although it is reasonable to assume that by that time the Government had formed some plan as to the future policy. I have gone into the question at some length because it is apparently suggested that I, having some vague information that there would be a loss, ought to have done something, and I think it is relevant to enquire what the Government actually did when it was realized that there would be an enormous loss such as on the information given to me, I could never have imagined was possible. At the same meeting of Council when the five millions were voted for the loss on rice there was also moved a resolution authorizing the expenditure of £1,040,000 on additional works at Prai. Nothing was said as to how these works were to be financed. I should mention that at a Federal Council meeting on the 13th April, 1920, a vote had been approved for constructing out of Federated Malay States funds a railway up Penang Hill in the Colony, a work which ought to have been constructed with Straits Settlements money but which the Colony had abandoned because it was advised that it would be unprofitable.

13. I have indicated above that I deny that I said anything to lead Sir L. N. Guillemard to suppose that we had available surpluses of over \$100 millions. But whatever he may have thought at the time of his arrival in the Colony it is clear that he was well informed on the subject of the financial position on the 30th November, 1920, for he made the following statement in the Federal Council on that day:

"At the end of the first half-year more than two-thirds of our estimated annual revenue of sixty and a half million dollars had been collected while less than half of the estimated expenditure of ninety-five millions had been expended. Revenue had exceeded the expenditure by 1½ millions and the surplus of our assets over liabilities had increased by this amount, standing on the 30th June at over 111¼ million dollars.

These figures are, however, now out of date. The financial situation at the close of the year will present a different aspect. We have spent a good deal of money in making up arrears, and in spite of the fact that the estimated revenue is increased to 74½ millions, it is now estimated that the expenditure for the year will exceed the revenue by nearly 29 millions and that the surplus on 1st January, 1921, will be reduced to some 81 millions. I should like to take this opportunity of correcting a somewhat wide-spread idea that the surplus is in the nature of a hoard of ready money which can be drawn upon at any time. This is far from being the case. Of this surplus

of 81 millions no less a sum than 38 millions is represented by loans and, though an asset, and a valuable asset is incapable of immediate conversion into cash. A further amount of fifteen millions is ear-marked for the redemption of the Federated Malay States War Loan which, as you are aware, falls due on May 1st, 1921. This leaves us with an available balance of 28 millions wherewith to meet any excess of expenditure over revenue in the coming year.

Now what is our financial position in the coming year. I want to put it before you as plainly as I can. The War has bequeathed to us a heavy legacy of things that ought to be done and cannot be done cheaply. I think that this Council will probably take the same line as the Colony in dealing with the estimates of expenditure for next year. I know that they will scrutinize the estimates closely. I expect that they will pass them in essentials. Large as the estimates are they have been heavily pruned, the Government having come to the conclusion that they must put off some things which they would wish to do and postpone to some extent the full programme of wiping off arrears which we have in view. I use the expression 'postpone' deliberately, for it is my opinion that the programme should not be curtailed but carried out in full. I have been looking into our financial methods, and have come to the conclusion that we have been paying out of revenue for many works which ought quite properly to be paid for out of loans. We cannot expect this to go on for ever, and I feel that the time has come when the Council should consider the advisability of a change of policy. The Government are considering the question of raising a loan for general purposes. It is not, as we know, a favourable time for borrowing money, but we feel that it is better to raise a loan, even if it is not possible to do so on the most advantageous terms, than to postpone indefinitely works which are felt to be urgently required."

14. The Acting Chief Secretary was anxious that there should be no doubt as to the financial position and in introducing the budget for 1921 on the same day he said:

"His Excellency has given you the figures in his address but the matter is of such importance that I propose to state them again. The public has an idea that we have an inexhaustible cash balance but that is not so. On the 1st January, 1920, our balances amounted to 110,000,000 dollars. Of this huge sum 38,000,000 dollars are on loan, chiefly to Siam, and repayment is not due until 1924 and then only by instalments extending over a period of 26 years. That sum therefore is not available to meet expenditure and our balance is thereby reduced to 72 millions. In addition we have a debt of 15 millions which is required to be paid off on 1st May, 1921, so that our total liquid balance amounts to 57 millions. . . . It is now estimated that our expenditure for 1920 will amount to 103 millions and our revenue to 74 millions—an excess of 29 millions. Now I do not wish you to think that the Federated Malay States are poor because, of course, that is not so. Our credit is very high. We have built railways, public works, and roads worth many hundreds of millions. Not only has this been done out of revenue but we have still 28 millions in cash and 38 millions out on loan on good security, but I do want to dissipate the idea that we have fabulous balances only waiting to be spent. Sir Edward Brockman prophesied that we should soon come to the end of our balances and that a loan for general purposes would be necessary. That time will arrive in the course of next year as soon as the economic position is more favourable."

15. I invite particular attention to the Acting Chief Secretary's reference to me. When I prophesied that we should soon come to an end of our balances and be wanting a loan there was actually a boom in trade. There was no indication of the depression that was so soon to come over the world. The tin industry was in a most satisfactory condition; the price of rubber was not high but the demand for rubber was increasing; there was great activity in rubber shares and a great demand for land; revenue was bounding up but so was expenditure and that was why I said we should soon come to an end of our balances and be wanting a loan. Now I am accused of having misled the High Commissioner, of having concealed from him the true state of affairs, of having led him to believe that there was a cash surplus of 110 million dollars. It is alleged that I gave no hint that there was any urgency about a loan or that I had any doubts as to the availability of sufficient balances on which we could rely until a favourable opportunity occurred for floating a loan. In consequence the High Commissioner was induced to authorize expenditure and incur obligations which he would otherwise have refused to authorize. I must observe that at the meeting of Council at which the High Commissioner made the above quoted statement as to the financial position of the Federated Malay States, estimates for 1921 to the amount of more than 101 million dollars were passed. The original estimates as drafted amounted to 139 millions but they were cut down to 101 millions in view of the trade depression which had set in. The revenue, the estimates for which had been prepared before the depression arrived, was stated at 73½ millions.

16. It is even suggested that misrepresentations as to the financial condition led the High Commissioner to assent to the purchase of tin by Government towards the end of 1920. In paragraph 38 of his despatch Sir L. N. Guillemard states: "The purchase of tin stands in a different category. I sanctioned it reluctantly after much consideration as a choice of evils, and on the merits of the case I consider that I was justified, but I freely confess that, if I had known the facts as to the financial position, the scale would have turned the other way, and I should have been forced to decide against the purchase." The High Commissioner's statement as to the financial condition which he made in the Federal Council on the 30th November, 1920, differs very little in material points from that set out in his despatch. The Government commenced to purchase tin some time during the month of December, 1920.

17. Sir L. N. Guillemard has mentioned the subject of patriotic gifts including the gift of H.M.S. "Malaya". As the 16½ million dollars given to the Imperial Government during the War were provided for by special taxation this expenditure had no effect on the financial position and there is no need to say anything about it. As to H.M.S. "Malaya" I think I am justified in mentioning the fact that the original intention was to pay for H.M.S. "Malaya" on an annuity system and the scales of payment were worked out on a 15 year and a 20 year basis. For very good reasons which it is unnecessary to go into here it was decided to provide for payment if possible in five years.

18. The total contributions to the Imperial Government amounting to 40½ million dollars including the cost of "Malaya" are insignificant enough having regard to the intolerable burdens undertaken by the British Empire in the prosecution of the War. It would have been very disgraceful if the Federated Malay States had stood out and made no contribution at all.

19. I am willing to admit now in the light of the experience which has been gained since the great depression began to set in that we were trying to do too much at a time. Let me quote what Sir Robert Horne, the Chancellor of the Exchequer, said to the House of Commons on the 6th May, 1922:

"The trade boom which followed the War had given place to a steep and sudden slump. Many people were caught unprepared. It is true that those who had reflected on the problem anticipated that the War would be followed by a spell of activity and then by a period of depression, but I think no one anticipated that we should have a mere spasm of activity and that paralysis would supervene so quickly. Most men calculated that the boom would last long enough for them to make profits to justify them in embarking on new enterprises or extending and developing the old, but the far-reaching effects of the great convulsion to which the world had been subject upset all calculations based on previous experience of mankind."

20. Let us consider what was the position in Malaya. I admit that I believed that nothing could interfere with the demand for tin and rubber. Malaya was the largest rubber producing country in the world. The output of tin was decreasing but we were looking forward to a very large increase in the output of rubber. The exports from the Federated Malay States alone of rubber in 1920 amounted to over 106,000 tons valued at £22,050,000. There was an immense area of land already planted which was coming rapidly to the producing stage, and after the cessation of hostilities there was a very great demand for more land throughout Malaya for planting rubber and other products but chiefly rubber. A serious shortage in the supply of rubber was acutally prophesied by some who seemed to be well informed. Our communications were far from perfect and the fear was that we should be quite unable to deal efficiently with the increase in traffic which was expected. Work had been slowed down during the War but in anticipation of the expected increase we had been steadily taking such steps as we could to prepare for this increase. That is why we committed the Government to the two contract works at Prai to which Sir L. N. Guillemard now takes exception. These were the only contract works. Their estimated cost is given by Sir L. N. Guillemard as \$30,402,000, not a very large sum to commit the country to in times of abounding revenue. Other works were being carried out departmentally and these could be accelerated or they could be slowed down or they could be stopped as circumstances demanded. In view of the anticipated increase in traffic the works at Prai and Johore were undoubtedly, as far as Malaya was concerned, the most urgent of all the works contemplated. The great complaint against the Federated Malay States Railway administration was that it was never able to deal promptly with the rapidly increasing traffic. The landing and shipping facilities at Prai, which was the port for the northern part of the peninsula, were in a deplorable condition. There was no prospect of the Straits Settlements authorities doing anything to improve them in a reasonable time. The linking up of the Federated Malay States Railway system on the west with the Siamese Railways meant that Prai would be the terminus for the line to Bangkok now that Siam had abandoned the proposal to construct a deepwater port in Siamese territory to the north of Penang, and it was therefore all the more imperative that something should be done without delay to improve the port of Prai. The War was not ended and it was useless to think of calling publicly for tenders but there was on the spot a firm of contractors who had just completed a big contract in Singapore and had large quantity of plant available for other works. They were in a good position to undertake the works at Prai. The opportunity was too good to be lost and the contract was given to them for the works at Prai.

21. As regards the Johore Causeway the conditions were somewhat similar. There is at present only a wagon ferry for the transport of goods. It was being worked to its full capacity. It was the cause of much delay and the time was rapidly approaching, so it was believed, when it would be quite unable to deal with the traffic. In this case again the same firm of contractors was asked to submit a tender and their offer being considered in the circumstances a favourable one it was accepted. These works at Prai and Johore will complete the essential communications of Malaya and for many years to come railway extensions can, if necessary, be suspended.

22. The harbour works at Prai might well have been constructed at the cost of the Colony of the Straits Settlements but there was very little prospect of the Colony getting to work on them, and as they were considered to be urgently required it was decided to commence them. Both these contract works are for the benefit of Malaya generally and the Colony will derive the greatest benefit from them. It is not too much to expect that now that the Federated Malay States have exhausted their surpluses for the common good—the Colony should bear its fair share in the cost of developing the resources of the peninsula.

23. It is very easy now, though somewhat unprofitable, to criticise our policy of the past few years. Only a short time ago the cry was that we were doing nothing. Malaya was a "Country of arrears"; we were unnecessarily piling up huge surpluses; instead of surpluses we ought to have had a big debt; the demand was for increased expenditure. "The mistake made was that they did not borrow money," said one member of the Federal Council. "Hear, hear," said the High Commissioner, "This country now, instead of having a petty debt of fifteen millions, should have had one of five hundred millions," continued the member. "If they had borrowed that, and put aside the surplus revenue over expenditure to a sinking fund, then the position they were in to-day would have caused them no trouble whatever and they could have looked forward to the future with equanimity." The idea of a sinking fund to be drawn upon in times of distress is rather original.

24. The Administrators of Malaya did all they could out of income and if it had been a question of borrowing money a good deal of the railway system would not have been built. It has been the policy of the Government to secure for the country a fair share in the profits derived from tin mining and rubber planting. The revenue from tin which is a working asset should not be regarded as income and should be put back into capital works as it has been in the past. This policy is a perfectly sound policy. A moderate loan may be justifiable but it is obvious that a country such as the Federated Malay States in which the taxable capacity of the inhabitants is very limited cannot stand a big debt such as has been apparently contemplated.

25. The figures set out in Sir L. N. Guillemard's despatch may look rather formidable but the material point in the present controversy is how far the prospective revenue of the Federated Malay States had been mortgaged by his predecessor's administration. I assert that they had not been mortgaged at all, as when he arrived there were actually cash balances and realizable securities sufficient to meet the obligations to which the country had been at that time irrevocably committed. The position was, as far as human intelligence could discern, eminently satisfactory. There was no debt for although there was a loan of 15 million dollars certain securities had been definitely ear-marked for the repayment of the loan. It was thought, however, that a moderate loan would be required in the near future and that was why Sir L. N. Guillemard was at once told about the need for a loan when he arrived.

26. The financial position improved appreciably in the beginning of 1920. At the end of June more than two-thirds of the estimated revenue had been collected while less than half the estimated expenditure had been expended. This was not of course money saved but it indicated that if things went on well the time for floating the contemplated loan could be put off. It was certain that there would be an excess of revenue and eventually it was nearly 12 millions more than the estimate. The Federated Malay States Treasurer may perhaps be excused if he advised waiting before floating a loan. The trade depression then began to set in. It was not regarded seriously. As late as the 25th October, 1920, Sir L. N. Guillemard stated in the Legislative Council of the Colony. . . . "and for some time past we have been disturbed, and perhaps a little over alarmed by a period of commercial depression. I hope and believe it is only a backward ripple, perhaps only a check in the favourable tide which has for so long washed our shores." Accordingly the estimates for the Federated Malay States amounting to 101 millions were passed, with estimated revenue of only 73½ millions (greatly over-estimated) to meet that expenditure. Now it is alleged that the optimism which led to this policy was induced by misrepresentations as to the financial position in the beginning of 1920 and we are blamed for having budgetted for an excess of expenditure for 1920 when it ought to have been clear to us that this was "definitely risky" and "that the time was more than ripe for a loan, and that till a loan was floated expenditure should be rigidly kept down."

27. In my minute of the 13th June, 1920, I had advocated immediate additional taxation. Assuming that there was to be a loss on rice my view was that this was not a fair charge on general revenue and that it ought to be provided for by special taxation. There had already been correspondence about the introduction of an income tax in the Federated Malay States and I had explained to the High Commissioner my objections to such a tax. The Colony was, in spite of a protest from me, securing for itself a larger share in the opium revenue and had its income tax to fall back on. In the Federated Malay States there was nothing for it but to devise some means of raising more money and I advised that the sooner it was done the better.

28. In paragraph 13 of his despatch Sir L. N. Guillemard states "Lastly, in the year 1916, the Federated Malay States raised a 6 per cent. loan of \$15 millions, which was not lent to the Imperial Government but absolutely placed at its disposal. This is made clear in the official report of the speech of the Chief Secretary to which reference is made in paragraph 6 of the Association's letter. No proper provision for sinking fund was made in connection with this loan which remained therefore as a charge against revenue and balances." It might appear from the above that the \$15 millions was a free gift to His Majesty's Government. There were special reasons why the money was actually placed at the disposal of the Imperial Government but the whole amount was used to liquidate the temporary advances which it had been necessary to obtain through the Crown Agents. It was not given to the Imperial Government.

29. I am more particularly anxious to defend myself against the accusation of having misrepresented the financial position of the Federated Malay States to the High Commissioner with the result that he was induced to sanction expenditure which would otherwise not have been sanctioned. So far from having misrepresented the position, I submit that my minute of the 13th June contained as strong a warning as I could have been justified in giving at that time.

There was discussion of the proposed loan, a prophesy that there would be soon a cry for economy, a suggestion that additional taxation should be immediately imposed. My minute was written at a time of unprecedented prosperity, and I might well have been accused of pessimism. As to the policy of pushing on with works which we believed to be essential for the development of the country there may be differences of opinion and I do not wish in any way to relieve myself of the responsibility as far as I am concerned. I certainly took a broad-minded view of the policy to be adopted in order to develop the communications throughout Malaya so that we might be prepared for the rapid expansion of trade which I, in common with everyone else expected. In the words of Sir Robert Horne the far-reaching effects of the great convulsion to which the world had been subjected upset all our calculations.

THE UNDER SECRETARY OF STATE FOR THE COLONIES,  
COLONIAL OFFICE,  
DOWNING STREET.

I have, etc.,  
(Sd) E. L. BROCKMAN.