

CHAPTER THREE

THE PREPARATION OF ADMINISTRATIVE AND DEVELOPMENT PLANS FOR MALAYA 1945-1950

The purpose of this chapter is to trace the beginnings of the "international authority"¹ of the Bretton Woods' International Bank for Reconstruction and Development (IBRD) and International Monetary Fund (IMF) in the preparation of Malayan administrative machinery and economic development plans in the period 1945-50. In the immediate period after World War Two, the British Military Administrations (BMA) legislated the Bretton Agreements, which set in the short-term objectives for the IBRD and IMF. The Bretton Woods Agreements, 1945: Proclamations Number 29 and Number 32 led to administrative transformation in Malaya of the old colonial-bilateral institutions based on a legal order into new forms of multilateral structures within the first five-years after World War Two.

It is in the context of these reforms within the administrative structures, that the Bretton Woods' IBRD and IMF as the "international authority" were introduced. These long term objectives dealt with Development Plans: the formulation of their policies and allocation of multilateral finances. Both the

short-term and long-term objectives of the IBRD and IMF were introduced concurrently for administrative and economic programmes for Malaya in the period 1945-50. The chapter traces the legislative measures that were introduced in this period and makes the distinction between administrative reforms and Economic Development Plans. The "international authority" directed Britain to introduce the administrative reforms and the plans for economic development to receive multilateral funds. The IBRD through its agencies provided finances and strategies through the British government to the British Military Administration (1945-46), Malayan Union (1946-1948) and the Federation of Malaya (1948-1963).

The Bretton Woods Arrangements

The legislation of the Bretton Woods Agreements in the period 1944-50 provided the formal and legal powers for the IBRD and its international agencies to grant financial aid and strategies for the development expenditure of national Administrative and Economic Development Plans. The legislation of these Agreements obliged Malaya to undertake a programme of dismantling the colonial-bilateral structures. The BMA Secretariat (1945-1946) consisted of broad divisions: **Economic Secretariat**, **Pan Malayan Division**, and the **Public Administration Division** each of which housed several departments (see **Appendix 10**). This structure constituted the new economic and administrative

machinery. It was designed for economic development of Malaya within terms of Bretton Woods' multilateral international economic system.

The long-term blueprint of the Bretton Woods Agreement was hinged on the Anglo-American Financial [Loan] Agreement that committed the government of Britain to reorganize the sterling area on the principle of granting the opportunity for international multilateral currency provided by the IBRD and the IMF to access world resources.² The establishment of the IBRD and IMF displaced the authority of the colonial Government of Britain in determining and allocating monetary values and administrative strategies (policies) for the Government of Malaya. The British Government accepted and acknowledged the displacement of her colonial authority over Malaya.

On 6th December 1945, the Anglo-American Financial Agreement was signed and Britain was given a temporary extension to remove within a year all restrictions on the convertibility of sterling for current transactions.³ On the same day, Lord Keynes explained the objective of the loan agreement to convince the government of Britain (Parliament) in accepting a loan of \$3,750 million from the United States.⁴ This loan was specifically meant to reconstruct social and economic dislocations of Britain and her former colonial territories such as Malaya immediately after World War Two.

Keynes explained: "A blue print called the long-term organization of world commerce and the nondiscriminatory basis; short-term proposals for the

early reconversion of the sterling area in the same direction; and an offer of financial aid [a loan of \$3,750 million] from the United States to enable this country to overcome the immediate difficulties of transition which would otherwise make the short-term proposals impracticable and delay our [British] participation and collaboration."⁵

On December 18th 1945, Lord Keynes explained and urged the House of Lords to accept the loan in a parliamentary debate on the Anglo-American Agreements. In this debate, Keynes invited the representatives of the House of Lords to approve the financial arrangements between His Majesty's Government and the Government of the United States, including the final settlement of Lend-Lease; and finally invited discussions to arrive at an international agreement upon the basis of suggestions put forward on the same day, December 18th, 1945:

The long-term blueprint invites us to commit ourselves against the future organization of world trade . . . let me plunge at once into the terms of the loan and the understandings about the **short-term policy**, [the Anglo-American Loan Agreement of 6th December 1945] which are associated with it. Since our transitory financial difficulties are largely due to the role we played in the war and to the costs we incurred before the United States entered the war, we here in London feel that it might not be asking too much of our American friends that they should agree to see us through the transition by financial aid which approximated to a grant [of \$3,750 million]. We felt it might be proper for us to indicate the general direction of the policies which that aid would enable us to pursue and to undertake to move along those lines, particularly in terminating the discriminatory features of the exchange arrangements of the sterling areas [e.g., in Malaya] . . . I must now turn to the financial terms of the Agreement, and first of all to its amount. In my own judgment, it is cut [from \$6,000 million to \$3,750 million] somewhat too fine, and does not allow a

margin for unforeseen contingencies. Nevertheless the sum is substantial. No comparable credit in time of peace has ever been negotiated before. It should make a great and indispensable contribution to the strength of this country, abroad as well as at home, and to the well being of our tired and jaded people.⁶

This meant that Britain requested for a loan of \$6,000 million for the reconstruction and development programme at home and her colonial dependences through the Anglo-American loan Agreement. The government of the United States set two conditions against Britain for the offer of the loan:

- (i) to eliminate all bilateral relations (gold standard) and exchange restrictions against the dollar within one year from December 6 1945;
- (ii) to accept reduction in estimated loan development expenditure from \$6,000 million to \$3,750 million.⁷

On the same day, 6th December 1945, the government of Britain accepted the condition and the offer of \$3,750 million under the Anglo-American Financial Agreement. The funds were to come from the IBRD. The British parliament agreed that part of £120 million of the total loan development expenditure for the reconstruction and development programme was to be allocated for the elimination of controls on current transactions in dollars throughout the sterling area. Hence, the government of Britain passed a Bill in the name of the **United Kingdom Colonial Development and Welfare Act 1945**, on 6th December 1945. The 1945 Act:

"... increased the funds available for development and welfare schemes to £120 million for the ten years 1946-56 and for research to 1 million in any financial year. There was a ceiling of £17.5 million on issues of money in any one year. In his circular despatch of 12 November 1945 to colonial governments, the Secretary of State explained why further funds were being provided. The primary requisite still is an improvement of the economic position in the Colonial Dependencies, the utilization of their natural resources to the greatest extent possible and the widening of opportunity for human enterprise and endeavors."⁸

This Act allocated Malaya a sum of £5 million for the reconstruction and development programme.⁹ There were doubts among British representatives of parliament as to the relationship between the Anglo-American Financial Agreement 1945, which was the blueprint of the Bretton Woods Agreements, and the 1945 Welfare Act and its relation to Malaya. On 10th December the British Parliamentary Debates records the following:

"Mr. T Reidd asked the Secretary of State for the Colonies for what purposes the allocation of £5 million to Malaya has been made from the funds provided under the Development and Welfare Act, 1945. Mr. Creech Jones replied: This allocation will be available for any schemes made for Malaya during the 10 years covered by the Colonial Development and Welfare Act, 1945, for purposes provided for by the Act."¹⁰

The costs for the reconstruction and development programme for Malaya was met by the IBRD and its executing agencies such as the Colonial Development Corporation and Welfare Fund (CDC & W. Fund), the Colombo Plan and the Government of Britain. During the BMA, the **"United Kingdom Colonial Development and Welfare Act of 1945"** was enacted by the **"Proclamations and Notices Under Proclamations."** However, implementation of the economic development programmes waited until 1946 when the IBRD provided the loan development expenditure to the government of Britain. In this regard, the BMA issued the following Proclamations in 1945 while waiting for the £5 million:

(ii) "Bretton Woods Agreements: Proclamation Number 29, A Proclamation to Give Effect to Certain Provisions of the Bretton Woods Agreements;"¹¹

(i) Bretton Woods Agreements: Proclamation Number 32, A Proclamation to Provide for the Control and Regulation of Currency and Exchange."¹²

These proclamations established the formal and legal powers of the IBRD and the IMF in Malaya (see **Appendices 1-10**).

The Administrative Machinery under the BMA

It follows that the administrative structures of the BMA was decided by the IBRD and its executing agencies as agreed upon by Malaya under the Bretton Woods Agreements. Before carrying out economic and social development programmes, the BMA had two major administrative questions to handle in Malaya. The first involved the creation of a unitary state. The second involved the issue of forging a common citizenship among the various ethnic groups - the Malays of the Asiatic Archipelago and other Asian migrants such as the Chinese and Indians in Malaya. Both questions were dealt with by the BMA in Malaya.

The Centralization of States

On 31st December 1945, Commander Lt. General O. L. Roberts C. B. E. D. S. O., General Officer Commanding 34 Indian Corps announced the end of the Japanese military occupation of Malaya. Over the radio broadcast, the British Commander announced:

"On 31st December 1945, Lieut-General Teiko Ishiguro, Commander of the 29th Japanese Army signed the unconditional surrender of the forces under his command in Malaya. This surrender is in accordance with the Emperor of Japan's order and

was brought about by the complete defeat of the Japanese Navy, Air Force and Army wherever met. We have returned to bring prosperity to you and we are determined that the Japanese' nation [never] again be given an opportunity for unprovoked aggression, tyranny and base treachery."¹³

Following this declaration, the BMA was established by military command and powers that nullified both Japanese military rule and local authority in Malaya:

Now, thereof, I Admiral Lord Louis Mountbatten, Knight Grand Cross of the Royal Victorian Order, Knight Commander of the Most Honourable Order, Personal Aide-de-Camp to His Majesty the King, Honorary Lieutenant-General and Air Marshal, Supreme Allied Commander, South East Asia, hereby proclaim as follows:

1. A Military Administration to be called the British Military Administration is hereby established throughout such areas of Malaya as are at any given time under the control of Forces under my command and shall continue only so long as I consider it to be required by military necessity.
2. I hereby assume for myself and my successors full judicial, legislative, executive and administrative powers and responsibilities and conclusive jurisdiction over all persons and property throughout such areas of Malaya as are at any given time under the control of the Forces under my command.¹⁴

These were the formal and legal executive powers that placed the BMA at the highest command over any local authority that prevailed before in Malaya. It was necessary that the BMA embarked on transforming the isolated administrative (political) structures of Malaya. This involved the centralization of

the Malay Kingdoms as the new Administrative structure of the BMA. The Government of Britain had in mind the intention to receive and dispense international financial resources under a centralized government of Malaya:

WHEREAS by reason of military necessity and for the suppression of disorder and the maintenance of public safety it is necessary to place the territories of the Settlements of Singapore, Penang and Malacca, all islands and places forming part thereof and all British waters adjacent thereto, and the Malay states of Perak, Selangor, Negeri Sembilan, Pahang, Johore, Kedah, Kelantan, Trengganu and Perlis, all islands forming part of such States and the territorial waters thereof (hereinafter called Malaya) under military administration.¹⁵

This Proclamation signifies the plan to place all islands and waters of Malaya under a central government as a major objective of the BMA. Viscount Marechwood discussed the plan to unify the Malay States in relation to their economic importance in the British Parliament on 19th December 1945:

"The recent announcement that a Malayan Union is to be created consisting of two or the three Straits Settlements and the nine protected Malays States . . . the trade of Malaya in 1926 was more than double that of all other British Colonies put together. In 1938 it was still more than all the trade of our seventeen African Colonies and more than half that of the Indian Empire. Penang and Malacca are the two Settlements to be included in the Union, whilst Singapore will be constituted a separate Colony for the present, though it is stated that 'many ties between it and the mainland' may well work towards its 'ultimate inclusion.'¹⁶

The plan was rooted in decisions that were made by the British government to unify the individual Malay Kingdoms before 1945 under a central rule. The plan to put the FMS and UFMS was rooted in the treaties that were concluded by Sir

Harold MacMichael with the Malay Rulers soon after the eradication of Japanese military administration of Malaya. The centralization of Malay states succeeded as indicated by the British Parliament in written questions on the constitution discussion that took place on 19th December 1946:

"Mr. T Reid asked the Secretary of State for the Colonies if all the Sultans of the Federated and Unfederated Malay States have agreed to the application of the Foreign Jurisdiction Act to their territories; and whether it is intended to set up these territories [under] one Crown Colony unitary governry, or some sort of federal organization[?] Mr. Creech Jones replied: The discussions which Sir Harold MacMichael is having with the Malay rulers are proceeding amicably and satisfactorily, but my right honorable Friend hopes to be able to make a full statement soon."¹⁷

The unification of the FMS, the UFMS and part of the Straits Settlements became a preoccupation of the BMA. The centralized plan was formulated by the government of Britain in anticipation of the "modern world [creation of New States on terms of the Bretton multilateral international monetary system]."¹⁸ For this reason, Oliver Stanely, the then representative of the House of Commons of the British Parliament, argued that "up to 20 years ago, the Unfederated Malay States, the Federated Malay States and two other Settlements were in a position of almost complete isolation one from the other. He added, that kind of inter-colonial isolation cannot continue in the modern world [of course the modern world is the international state system that emerged at Bretton Woods]."¹⁹ The modern world was the creation of national entities and the forging of common citizenship and these issues were left to the BMA to resolve.

The Citizenship Question

Between July 8th and 23rd 1946, Mr. Skinnard (Harrow East), expressed in the British Parliament concern of the citizenship question under the Military Administration of Malaya:

"The point which worries me, as I know it causes concern to some of my Hon. Friends, is the varied treatment of minorities in the different new constitutions as if a purely opportunist line is being followed. For instance, immigrants in Malaya are to have full citizenship rights in conditions which have not been granted in Ceylon. There does not seem to be any common pattern . . . I would be very interested to know what will be the eventual solution proposed for Malaya[?]"²⁰

On the same date, Mr. Gammans (Hornsey), introduced discussions on the administrative policy to centralise Malay States and raised the question of a common citizenship to the House of Commons. He wanted the Committee to realize that they had already in Malaya the most serious administrative problem in their hands in the whole of the Colonial Empire, with the possible exception Palestine. He was particularly interested in urging parliament to reach a decision so that the Military Administration could be directed by the British government at home to solve the political problem lest it should damage the economic programmes that had been arranged for Malaya. Hence, he described the political situation to the house:

“The first thing that struck me when I got to Malaya was that the war and the Japanese occupation had, luckily, surprisingly little effect, either on the basic economic wealth of the country or on the international relations. I am willing to hazard that Malaya will as the Committee probably realize, there are two basic political problems in Malaya which those treaties set out to solve. The first was, in a country which is only large as England without Wales there were nine separate British protected States; and in addition there were the Straits Settlement, the British Colony, which comprised three settlements; in other words, twelve units of government in this small country . . . As we are envisaging democratic government in that country, it is right they should come along to the Colonial Office and claim equal political rights with the Malays and the other indigenous inhabitants of the country . . . On the questions, of centralization and granting political equality to the non-Malay races, there is no disagreement. The Malays are prepared to agree on both of them.”²¹

Upon restoration of political and social stability by order of military command, the BMA was terminated to form the civil government of the Malayan Union (MU) under a centralized Secretariat. The ultimate achievement of the BMA was the reorganization of the Malay States into a united state structure that was economically manageable under centralized financial schemes brought by the Malayan Union Agreement. Soon afterwards, the New State -the MU, agreed to powers and responsibilities of the IBRD and the IMF. "That the IBRD and IMF shall possess full judicial personality, and, in particular, the capacity: (1) to contract; (2) to acquire and dispose of immovable and movable property; (3) to institute legal proceedings."²² The requirements of the IBRD and its related agencies was the central focus of the BMA. The BMA adopted legislative, executive and administrative measures and formed a new administrative structure

in service of multilateral financial administration and programming. In 1946, the BMA completed preparations for a centralized government and the motion to grant a common citizenship to the inhabitants of Malaya which had been accepted by the British Parliament.²³

The Malayan Union, 1946-1948

The MU programme was drawn on terms of the Bretton Woods Agreements relating to the "international authority of the IBRD. These terms remained the same as those of the BMA and required the establishment of a civil system of government, to harmonize the relations of government with the commercial community to be canalized through one officer (central government), and lastly, it was "so designed so as to facilitate the eventual transition to responsible government."²⁴ This means that Britain wanted the Union government to implement the Reconstruction and Development programme Malaya.²⁵ In written questions at the British Parliament on 14 December 1945:

"Mr. Gammans asked the Secretary of State for the Colonies what protests have been received from Malay rulers or any responsible body in Malaya against the terms of the White Paper for the proposed Malay Union[?] Mr. George Hall replied: Since the publication of the White Paper I have received representations from the Sultan of Kedah and the Sultan of Perak, from a few organizations of Malays. I am in communication with the Military Administration in Malaya as to how far the latter are representative of local opinion. All these representations relates in the main to the position of the Malay rulers, their control over Muhammadan

religious affairs, and the admission of non-Malays to Malayan Union Citizenship. In so far as these matters are susceptible of adjustment within the general framework of the policy explained in the White Paper, they are receiving my careful consideration."²⁶

In the Draft proposal of the government of the MU, the British Military Secretariat was renamed the Malayan Union Secretariat. The Union's economic, social and administrative policies were defined by the Office of the British High Commissioner for the administration of the Union as instructed by the Secretary of State for Colonies by order of the government of Britain following the White Paper policy.²⁷ On the assumption that serious danger would have emerged for a single person to handle the same volume of work as the Chief Secretary, two measures were proposed in order to solve this problem while formulating the structure of the proposed civil government of the Union:

(a) "that there should be an independent Establishment Division, dealing with all personnel questions and responsible directly to the Chief Secretary.

(b) that the three Division grouped under the Deputy Chief Secretary should in charge of officers sufficiently senior to take many decisions on their own initiative."²⁸

The Establishments Division was proposed to be under a Principal Establishment Officer of Class IA, M.C.S., with four Assistants. The former Malayan Establishment Officer who was concerned only with officers appointed by the Secretary of State, was an officer of Class IB, M.C.S., and had three Assistant Establishment Officers. In addition, one officer in the Federal

Secretariat was engaged solely in dealing with locally-recruited F.M.S. officers, while a considerable volume of personnel work was also carried out in State Secretaries. It was considered that the work would be such as to keep five officers fully employed. It was also decided that the responsibilities amply justify a Class IA officer at the head.

It was further recommended that the remainder of the administrative work of the Secretariat be divided into three parts. The three parts were separate Divisions each of which with responsibilities similar to the Establishment Division. However, it was admitted that the allocation of subjects proposed was not entirely logical. This is due to what appeared to be the overriding necessity of maintaining the closest possible liaison with the Singapore Government. Accordingly all subjects of common interest or Pan-Malayan status were to be grouped in a single Division.

The officer in charge of this Division would have been responsible for all detailed liaison with Singapore.²⁹ The remaining Departments and activities of Government were designed to be grouped under one or other of the two remaining Divisions, according to whether they are primarily of economic or of administrative significance. This classification of course excluded those subjects which were primarily the concern of the Financial Secretary.³⁰

Eventually, the status of the MU plan was not recommended on consideration that such a system involved both political and administrative

problems that would have confronted the government after its establishment. It was also argued that it lacked a strong centralized Secretariat to manage the tasks ahead, and the plan was duly abandoned.³¹ Instead, it was recommended that the civil government of Malaya should take the form of the Federal system. Although the administrative proposal of the MU was not achieved between 1946 and 1947, it provided the framework for the administrative structure of the Federation of Malaya that emerged in 1948.

The structure of the Divisions and their various Departments outlined in **Appendix 10** were transferred from the framework of the MU to the Federal System without change. The administrative regimes of the BMA and the Malayan Union proposals and the Federation of Malaya-Agreement were carried out by British government within perimeters of rules set by Anglo-American Financial Agreement (Bretton Woods Agreements) of 1945 and the United Nations for the New State of the Federation of Malaya. The experiment of the MU signifies the processes through which the administrative structure of Malaya was prepared by the government of Britain in response to international multilateral finances provided by the Bretton Woods' IBRD and IMF and through their executing agencies such as the Colonial Development Cooperation (CDC), etc.

The structure of the MU Secretariat was prepared by the government of Britain as a paramount prerequisite for Malaya's reconstruction and development

programme. It was specifically designed in response to the need to establish a civil system of government, to harmonize the relations of government under one officer with the commercial community, (i.e., multilateral international financial programmes such as prescribed by the Bretton Woods Agreements and its agencies, e.g., the IBRD and IMF). The formation of such a centralized government determined when Malaya could receive funds allocated by the "Welfare Act" for its reconstruction and development programme. However, the MU Plan failed because it was disputed by a section of British Government officials and by the Conference Malay Rulers.³² Under these circumstances, the British government abandoned the Union plan in 1947 and opted for a centralized Federal system for Malaya that emerged in 1948.

The Federation of Malaya, 1948

In 1948 the government of Britain opted for a federal system as the civil administrative structure of Malaya. The preparation of this system concentrated on the organization of Public Services, which remained the same as established in the MU (see **Appendix 10**). In formulating the administrative machinery for the Federal Government, the British Government decided to put it in the hands of foreign expatriates on consideration that local personnel (e.g., the Conference Malay Rulers) lacked experience to deal with the new Federal Government

system of Malaya. Further, the British Government suggested that the objective of the Public Service Commission was to secure a satisfactory system of recruitment to government service by means of an impartial board which has the confidence of the public as a whole.³³ For this reason, the Secretary of State and the Crown Agents for the Colonies provided expert advice concerning the examination and selection of candidates for services along lines of the Public Service Machinery long established in the United Kingdom.³⁴

The Malay Rulers generally agreed to the proposal of the Public Service Commission and its terms as outlined by the government of Britain.³⁵ They also wished to expand the Terms of Reference proposed by the government of Britain and finally it was agreed that a Committee should be set up under the Chair of the Chief Secretary (a foreigner) with Terms of Reference as follows:

(i) To examine the question of the provision, by means of a Public Services Commission, of suitable machinery for regulating the selection and promotion of candidates for posts in the Federation Government Service and to advise the High Commissioner on the composition, function and scope of such a Commission;

(ii) To examine means: -

(a) by which the special position of the Malays could be safeguarded [as] required under clause 19 (1 d) of the Federation of Malaya Agreement, 1948, in so far as the entry and promotion of Malays into the Public Services are concerned in accordance with the present policy or otherwise;

(b) of providing special training for Malay personnel in the Public Services.³⁶

Administrative Machinery: The Public Service Commission 1949

A memorandum from the Chief Secretary on the subject of setting up a Public Services Commission was prepared by the government of Britain and was accepted by their Highnesses the Malay Rulers at a Conference of Rulers in 1949.³⁷ The Commission was set up with the responsibilities as outlined in the terms of reference namely, "to advise the Government on the selection of candidates on first appointment to all posts in Division I to II of Government Service, excluding the Malayan Civil Service, Judges of the Supreme Court and the Police Force; and with certain exceptions, the promotion of officers already in Government Service to higher posts in that Service, and the transfer of serving officers to another Department or Service."³⁸

In this connection, the Committee considered that the business of the Commission be greatly facilitated to the establishment of centers in the Federation for the business of the Commission and the Interim Body (members) of such a Commission.³⁹ This arrangement enabled the members of the panel to converge at the center in Kuala Lumpur.⁴⁰ It was agreed that the Federation Commission use these offices to advise on the selection and promotion of States and Settlements candidates for States and Settlements Services. It was also agreed to invite State and Settlement Government to suggest the names of local residents who were capable of serving the best interest of the Commission to be appointed as members of the panel and for such members to sit on the panel at the various

centers on behalf of State and Settlements Government and of the Federal Government.⁴¹ As a result, the arrangement enabled the Commission not only to have contact with a wider field but also to play a more vital part in ensuring a uniform standard in the selection of candidates for appointment throughout the Public Service of the Federation of Malaya.⁴²

The Federal States and Settlement Governments

The Federal States and Settlements governments were not consulted when the terms for Federal Public Service structure on the desirability were drawn: It was felt in the first place that those Governments would wish to have before them, for consideration, the result of the Committee's deliberations on the question of the political implications of the establishment of a Public Services Commission.⁴³ Secondly, it was considered that in the absence of conclusions drawn from an examination of the Commission, States and Settlements would not have enough data on the subject generally to confer with the Committee on matters relating to local Commissions.⁴⁴ In regards to the political implications of the establishment of a Public Services Commission in relation to the Federal government, it became the servant of the Government and the role (offices) of the commission was purely advisory. The terms of reference to the powers of

the Federal Government on all matters falling within its terms of reference. This equally applied to the Interim Body in that it was set up for purely advisory services in the capacity to assist the States and Settlements without interfering with the sovereignty of the Rulers of the Malay States or any of the functions of the State and Settlement Governments.⁴⁵ This plan is documented in the term of reference relating to the Public Service Commission and the political rights of the Conference of Rulers, States and Settlement Governments:

"To investigate the political implications of the establishment of such Public Services Commission, its relationship with State Authorities and the desirability or otherwise of establishing the same in States and Settlements."⁴⁶

"To examine the question of the provision, by means of a Public Services Commission, of suitable machinery for regulating the selection and promotion of candidates for posts in the Federation Government Service, and to advise the High Commissioner on the composition, functions and scope of such a Commission"⁴⁷

In this accordance, the public offices of the Federation other than political appointments were divided into three Classes:

- (1) Class I Officers included in the schedule of posts normally filled by officers of the Unified Services, e.g., the Administrative Service, the Agricultural Service, the Legal Service, etc.
- (2) Class II Other offices the initial emoluments of which [were] not less than \$500.00 per month.
- (3) Class III Other offices the initial emoluments of which [were] less than \$500.00 per month.

These arrangements accomplished the preparation for the centralized civil government of the Federation of Malaya. The most important achievement of the colonial government of the Federation of Malaya, was the creation of the Public Service Commission in the hands of expatriate personnel who provided technical services in public services. Particularly the Commission provided services to the reconstruction and development programme that were initiated and funded by the international financial institutions as outlined in the various departments of the MU government (see **Appendix 10**).

The role of multilateral finances for the economic development of the Federal government is apparent in the preparations that were made between 1948 and 1949. These arrangements were made in response to the 1945/46 Welfare Act that was preceded by the Anglo-American Financial Agreement which required Britain to set up economic development plans in Malaya on which financial and technical aid was provided from the IBRD and its executing agencies.⁴⁸

The Economic Development Plans for Malaya, 1946-1950

This section deals with the preparation of economic development plans for Malaya that began as a result of IBRD-finance and strategies in the period 1946-

50. This was the immediate period after World War II in which the short-term objectives of the Bretton Woods Agreements to replace bilateral (colonial) currencies with multilateral international currencies arising from the IBRD was being implemented. It was also the period in which the long-term policies of the Bretton Woods' IBRD and IMF were setting in as the "international authority" to determine policies and allocate finances for long-term economic development for the new State of Malaya.

To provide a background, the subsequent text explains the beginning of economic development for Malaya that emerged as the result of IBRD-finances and strategies under the following sub-headings: (a) Control and Management of Public Finances; (b) the Proposed Ten-Year Development Plan for Malaya 1946-56; and (c) the establishment of the Currency Board Commission. This articulates the achievement of the short-term policies of the Bretton Woods' IBRD and IMF that transformed Malayan bilateral currencies into multilateral international currency as a basis for receiving finances for economic development.

Bretton Woods Agreements: The Control and Management of Public Finances

The legislation of the Bretton Woods Agreements in Malaya in the period 1945-1950, gave effect to the Financial Provisions of the Federal Constitution in the same period. The terms of which, required, (and still requires) the IBRD to provide financial aid to the Federation Government for its Economic Development Plans. The external loan funds that were allocated by the IBRD constituted the **Consolidated Loan Account** of the **Consolidated Fund of the Treasury**,⁴⁹ out of which the Government drew moneys for the reconstruction programme towards the development of Malaya. The Financial Provisions of the Federal Constitution [Agreement] provided, (and still provides), the Federation Government to maintain by the Treasury in respect to the Consolidated Fund three separate Accounts:

"(a) an account to be called the **Consolidated Revenue Account** in which account shall be kept all moneys in the Fund other than such moneys as mentioned in paragraph (b) and (c);

(b) an account to be called the **Consolidated Loan Account** in which account shall be kept all moneys received by way of loan upon public credit of the Federation; and

(c) an account to be called the **Consolidated Trust Account** in which shall be kept of all moneys received subject to a trust and to be applied in accordance with the terms of trust."⁵⁰

These financial provisions relating to the "control and management of public finances of the Federation"⁵¹ signifies the mechanism by which external loan funds of the Consolidated Loan Account, the part of which when combined with the Consolidated Revenue Account and the Consolidated Trust Account constituted the Consolidated Fund of the Treasury. This explains the manner by which external loan funds in combination with total internal revenues (GDP) formulated the total assets (GNP) of the Treasury. The processes by which external loan funds contributed to the total assets of the Treasury is explained by the mechanism through which the IBRD and its agencies passed such funds to the Federation Government.

IBRD-finance and the Colonial Development Cooperation (CDC)

The IBRD allocated funds to Federation Governments via Britain and its agency, the Colonial Development Cooperation (CDC). These agencies were authorized to raise funds from the IBRD as go-betweens the Federation of Malaya and the IBRD. The British Government raised loan funds from the IBRD on the authority of the **"Colonial Development and Welfare Acts in Return to Schemes Made and Approved in the period [April 1st, 1945- March 31st 1950]."**⁵² The borrowing of IBRD-finance via British Government and the CDC was conducted in accordance to the Financial Procedure of the Federal Constitution Federal Constitution, and all funds that were received by the Federal

Government from the IBRD via Britain and the CDC were kept in the **Consolidated Loan Account of the Consolidated Fund of the Treasury**. This arrangement provided a centralized monetary system of development plans under policies and funds of international finance.

The Development Plan 1946-1956

Development planning in Malaya, on a coordinated basis of multilateral international finances and related to specific periods of time, goes back to 1945 when the **United Kingdom Colonial Development and Welfare Act** of that year was passed. This Act allocated a sum of £120 million for schemes of development and welfare in Colonial and Dependent territories and set a ten-year period up to March 31st 1956, for assistance from the funds available under the Act. Malaya was allocated a sum of £5 million (M\$42,857,143) for her reconstruction and development programme:

"The United Kingdom and the Welfare Act provides a sum of £120,000,000 for Schemes of Development in Dependent Territories and set a ten-year period up to March 31st 1956, for Assistance from the funds available under the act."⁵³

Towards the end of 1946, an Economic Development Committee was set up. This Committee was headed by the then Chair of the Economic Advisory Board and composed of Heads of Department under the new centralized

administration.⁵⁴ The Chair of the Committee was a Sir Ralph Hone, the then Deputy Governor Commissioner General of the MU, and the Heads of the 33 Departments were all British expatriates who had been serving in the Public Service of the Government of the Malayan Union.⁵⁵ The Development Committee invited "four [local] members from each territory [State] two of whom were unofficial [and not named]."⁵⁶ The committee collected proposals from the 33 Departments that constituted the new Governments of the MU and the Federation of Malaya under the central administration. These proposals were drawn to provide a framework for financial aid from Colonial Development and Welfare Funds and also to prepare an overall ten-year Development Plan in accordance with the general direction of the Secretary of State for the Colonies.⁵⁷ The Economic Development Committee recommended that a ten-year Development Programme be drawn until 1956 and was divided into two five-year periods, this meant that the allocation of M\$42,857,143 was divided into two halves for each five-year plan. However, the Heads of Departments in the then Malayan Union Government were asked by the Secretary of State for Colonies to submit the proposals for the ten-year Development Plan outlining estimates of costs of the Departments.

An outline of development projects was compiled from the 33 Departments and Ministries of the Federal Government as that which constituted the development programme of the proposed ten-year plan, 1946-1956. This plan

was made on the basis of estimated funds that would be available by allocation from the "Colonial Development and Welfare Funds", that is, M\$42,857,143. The plan was also made on the basis of estimated funds arising from local resources such as surplus balances, future revenue surpluses and the proceeds of public loans.⁵⁸ The proposed ten-year plan included all important increases in the recurrent expenditure of those Departments dealing with public health, agricultural and other developmental services as well as strictly capital expenditure. The incomplete lists of development proposals submitted by Heads of Departments to the Secretary of State for Colonies for consideration by the IBRD, indicated a total expenditure for a ten-year period from 1947 of the order of \$M640 million, made up of some \$M542 million for capital expenditure and \$M98 million in annually recurrent expenditure spread over the whole period.

A special Committee was then established towards the end of 1947 under the Chairmanship of His Excellency the Governor of the MU to advise on the highest priority schemes for immediate submission to the Secretary of State for financing from the Malayan allocation from CD and W. Funds. The general policy was that revenue producing works should be financed out of loan funds arising from IBRD-finance via the Government of Britain and its agency, the CDC, the function of which coordinated IBRD-finance in the name of the CD and W. Funds.⁵⁹ These external loan funds were combined with revenues funds arising from local sources for the annually recurrent expenditure relating to the 33

Departments of the Federal Government.⁶⁰ The schemes that were proposed by the Heads of Departments for financial aid from the CD and W. Funds were estimated to cost about \$27.5 million of which some \$25 millions was of capital expenditure.⁶¹

In 1948, Sir Ralph Hone presided over the Committee that finalized the compilation of 546 projects of development from the 33 Departments of the Federal Government that were submitted to the Secretary of State for Colonies for financing of the proposed development programme. The source for funds for financing the plan during the five/ten-year plan were outlined in Table 1.

Table 1
Colonial Development and Welfare Funds:
The Allocations for Economic Development of Malaya

Sources of Loan Funds	Allocation (\$)
CDC & W. Funds	28318000
CDC (Loan Funds)	36125000
Loan Funds	91000000
Revenue Funds	59200000
Total	\$214,643,000
Source: CO 1022/337: Progress Report, Federation of Malaya, 1952, para. 4.	

Table 2
Colonial Development and Welfare Funds: The
Allocations for the Development of the Sterling Area

Schemes of Development	Allocation
Geological Survey	23,500,000
Allocation to Territorial Resources	65,500,000
General Reserve Allocation	11,000,000
Total	£120,000,000
Source: CO 1022/337: Progress Report, Federation of Malaya, 1952, para. 3.	

The Welfare Act allocated the Welfare Funds towards the following sectors as was outlined in the various departments of the ten-year economic development programme: Development of Social Services, National Resources, Trade and Industry. This was the structure of economic development programme that was formed in 1949 in response to the allocation of Welfare Funds by order of the United Kingdom and Welfare Act that was brought about by the Anglo American Financial Agreement, the blueprint, of the Bretton Woods Agreements.⁶² It became the **"Yellow Book"** or the **"Draft Development Plan for Malaya, 1950/55-1960."**⁶³

The Currency Board Commission

The transformation of colonial-bilateral currency determined the time when Malaya was to receive financial aid for the implementation of the development plans. Thus, in the period 1948-1950 the IBRD and IMF embarked on the reconstruction of Malayan bilateral currencies to new multilateral international currency. The value of which, was determined by IBRD and IMF on terms of the Bretton Woods Agreements that were legislated along the economic development programme in the period 1945-1950. The implementation of the multilateral international currency system in Malaya was enforced by the Bretton Woods Agreements: Proclamation Number 29, **"A Proclamation to Give Effect**

to Certain Provisions of the Bretton Woods Agreements;"⁶⁴ Proclamation Number 32, "A Proclamation to Provide for the Control and Regulation of Currency and Exchange."⁶⁵ These legislation gave effect to the "Transitional Currency Amendments Ordinance, 1946," which enforced the establishment of the Currency Board Commission as the branch offices of the IBRD and IMF. It also required the Government to appoint the Financial Secretary of the Malayan Union and Financial Secretary of Singapore to be members of the Board of Commission of Currency for Malaya. It was this Currency Board that changed the old colonial (bilateral) currencies of the Federal States and Settlements of Malaya to a new currency that was determined by the IBRD and the old currencies was declared illegal:

"All Currency notes issued by and bearing the name of the Governments of Straits Settlements and all Currency notes bearing the dates prior to 1st July 1941 are illegal."⁶⁶

Upon this legislation, a total of Malaya's Currency equivalent to \$328,404,963.95 was destroyed.⁶⁷ By December 1948, only \$400,189,966.24 remained in circulation in the Colonies of Singapore, Brunei, and North Borneo.⁶⁸ The transformation of currency enabled the IBRD to provide multilateral international currency convertible into Malayan currency and the US dollars and the Sterling pertinent to economic development. It largely brought about scarcity in currency. As such, the Federation Government had to seek for financial aid

arising from the IBRD via the CD and W. Funds that was coordinated by the Government of Britain and its agency, CDC.

For these reasons, the IBRD opened its regional offices in Singapore in 1947. In 1949, the IBRD extended its branch to Kuala Lumpur in order to extend financial aid and strategies (policies) for the transformation process of the Malayan economic and administrative structures. The financial policies of the IBRD were carried out by the Board of Currency Commission that remained in force until 1956 when the Board was transformed into the Central Bank (Bank Negara) as the offices of the IBRD and IMF in Malaya.⁶⁹

Conclusion

The central outcome of legislation and implementation of the Bretton Agreements, 1945-1950, was the establishment of the "international authority" of the IBRD and IMF in Malaya. This replaced both local authority of the Malay Rulers and colonial authority of the British Government in determining administrative and economic affairs of the New State of Malaya that emerged in the five years after World War Two onwards. The processes and scope by which the IBRD and its executing agencies as the "international authority" in the making of administrative and development plans for Malaya, is articulated in the next two Chapters. These deal with the mechanisms by which the IBRD and its executing

agencies determined strategies (policies) and allocated finances that went into the making of the Economic Development Plans and the Administrative Machinery for Malaya, 1950/55-1960.

Endnotes

1. On the concept "international authority" of the Bretton Woods' IBRD and IMF consult Gordon L. Weil, et. al., *The Gold War: The Story of the World's Monetary Crisis*, London, Secker & Warburg, 1972, p. 3.
2. **Parliamentary Debates, (Hansard), House of Lords, Vol. 138, No. 28, Monday, 26th November, 1945, p. 929.**
3. Armand Van Dormael, *Bretton Woods: Birth of a Monetary System*, London, Macmillan Press, 1978, p. 275.
4. **Parliamentary Debates, (Hansard), House of Commons, Vol. 417, No. 5, 10th December-20th December, 1945-46, p. 354.**
5. *Ibid.*, p. 778.
6. **Parliamentary Debates, (Hansard), House of Lords, Vol. 138, No. 28, Monday, 26th November, 1945, pp. 779-780.**
7. Armand Van Dormael, *Bretton Woods: Birth of a Monetary System*, London, Macmillan Press, 1978, pp. 168-223.
8. **Colonial Development and Welfare Acts, 1929-70: A Brief Review**, Foreign and Commonwealth Office, London, HMSO, 1971, p. 8.
9. CO 1022/337: Progress Report on the Development Plan of the Federation of Malaya, 1950-1952, Kuala Lumpur, Government Printer, 1953, pp. 1-2.
10. **Parliamentary Debates, (Hansard), House of Commons, Vol. 417, No. 5, 10th December-20th December, 1945-46, p. 354.**
11. **British Military Administration, Malaya, Gazette of the Malay Peninsular, Vol. 1, No. 5, 29th December, 1945, p. 49.**
12. *Ibid.*, pp. 55-56.
13. *Straits Times*, 13th December 1945, p. 1.
14. **British Military Administration: Malaya, Gazette of the Malay Peninsula, Vol. 1, No. 1, 1st November 1945, p. 49.**
15. *Ibid.*
16. **Parliamentary Debates, House of Lords, Vol. 138, No. 28, Monday, November 26, 1945, p. 929.**
17. **Parliamentary Debates, (Hansard), House of Commons, Vol. 419, No. 5, February 11, 1946, p. 354.**

38.Ibid., p. 42.

39.Ibid.

40.Ibid.

41.Ibid.

42.Ibid.

43.Ibid.

44.Ibid.

45.Ibid.

46.Ibid., p. 9.

47.Ibid.

48.Federal Secretariat, Try. (EC) 84: Memorandum from the Member for Economic Affairs: Progress Report on the Development Plan, 1950-52, p. 1.

49.**Malayan Constitutional Documents, Vol. 1, No. 2**, Kuala Lumpur, Government Printer, 1962, p. 233.

50.Ibid.

51.Ibid.

52.**Colonial Development and Welfare Acts, 1929-1970: A Brief Review**, London, Her Majesty's Stationary Office, p. 37.

53.CO 1022/337: Progress Report, Economic Development Plans, Federation of Malaya, 1950-52, para. 1.

54.Federal Secretariat, CS. O. 1689/20: Memorandum from the Chief Secretary, Public Service Commission, 1949, p. 47.

55.CO 1022/337: Progress Report, Op. Cit., para. 3-4.

56.Ibid.

57.Ibid.

58.Ibid.

59.Ibid., para. 1-2.

60. Ibid.

61. Ibid.

62. On the allocations of the Development and Welfare Funds, specifically of £5 million arising from the Anglo-American Loan Funds for the Government of Britain and her former colonies, that is to say, Malaya, see **Parliamentary Debates, (Hansard), House of Commons**, Vol. 417, Series, No. 5, December, 19th, 1945, p. 165.

63. **Progress Report on the Development Plan of Malaya, 1950-1952**, Kuala Lumpur, Government Printer, 1953, para, 4-9.

64. **British Military Administration: Gazette, Op. Cit.**, p. 49.

65. Ibid., pp. 55-56.

66. **Federation of Malaya, Annual Report, 1948**, Kuala Lumpur, Government Printer, pp. 31-32.

67. Ibid.

68. Ibid., p. 32.

69. Ibid.

70. See Chapter 4.