New currencies for Singapore and Malaysia

THERE will be a lovely lot of new money around this morning, crisp notes with the rustling assurance that comes from good backing. The new money is worth no more, of course, than the old. Nor is it worth less.

Why we must have Malaysian dollars, Singapore dollars and Brunei dollars, three varieties instead of one, is a sad and discouraging story. In the end there was no help for it, and there is an impressive catalogue of facts to prove this. The essential fact was distrust.

Sharing a common currency obviously is a difficult and testing operation. Virtually it means having also a common fiscal policy; there must be an authority of last resort. That was the rock on which the Malayan dollar split.

For sixty years the Straits dollar and the Malayan dollar have served us surpassingly well, stability taken for granted, automatic convertibility into sterling giving our own currency an unquestioned international value. The dollar has had from 100 to 110 per cent backing.

THE MONETARY SYSTEM OF SINGAPORE AND MALAYSIA.
Edited by J. Purcal. (University of Singapore. $1.75).

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Backing

This will still be the case, at least for a while, and permanently so for Singapore and Brunei as long as they retain the currency board system. In Malaysia the Bank Negara becomes the currency issuing authority; the quantity of currency notes in circulation ceases to be adjusted automatically in accordance with the balance of payments.

An obvious disadvantage of the currency board system is that one hundred per cent backing ties up a great deal of money, some of which ought perhaps to be used for financing economic development. The currency reserve otherwise does earn its keep. In their last annual report (for 1965) the Currency Commissioners disclosed a net income of $69 million.

Although the common dollar has gone, there will still be complete freedom of financial transactions within the old Malayan dollar area, and there is agreement on customary tender. The Singapore dollar will not be legal tender in Malaysia, or the Malaysian dollar legal tender in Singapore. But it is permissible to use them, and the banks will exchange them without charge

The currency authorities have agreed to repatriate notes and coins through a somewhat simpler process than the passport requirement which soon will be necessary for travellers, even regular commuters, from one country to the other.

Tribute

This is probably all that most citizens on either side of the Causeway need to know. It has even seemed that it is all that they even want to know, which is a rather different matter and no tribute to public interest in a currency revolution that forecloses the guarantees which have sustained economic as well as monetary stability for six decades.

There has been protest, of course, and a little fear has been shared. Controversy finally was exhausted when it was apparent that while there was much that called for debate and explanation it was all pointless because the minds that mattered had either been made up or had never been open.

The University of Singapore, responsive as it so often has been to public matters of this nature, organised a course of extramural lectures on the implications of the split, four of which have been published in this fifty-page opuscule.

Some of the scholarship obviously is beginning to brush off, but in fact it is a perfectly manageable booklet and about as readable, professorial style apart, as could be expected. The statistics unfortunately are a little dated, and should have been revised on their way from the lecture hall to the case room.

Summing up the implications, Dr. Purcal is fairly forthright. We have lost one of the most important compulsions to co-operate. We are deliberately creating separate and competitive systems, and are further separated because of the wide differences in respective approaches to political and social problems.

Logical

If monetary and fiscal policies of the two countries are radically different, says Dr. Purcal, the result might be different exchange values, a black market for currencies and a flourishing smuggling trade in goods. It has been said before, of course, but loudest and longest years ago when it was decided not to split the dollar.

The Malaysian change to a managed currency system is a logical development in the pattern of economic change since independence, adds Dr. Purcal. Malaysia is moving away from an export economy, although the importance of her export earnings is undiminished.

Production for domestic use is becoming the real stimulus to growth, and if overseas aid and domestic savings are not as forthcoming as expected, then development plans will have to be adjusted.

There is an alternative, but it is impolite to discuss it. The machinery for deficit financing, however, "is at hand with the Central Bank assuming control over the management of currency."

Beyond this Dr. Purcal does not go, except to emphasise the perils that would follow any weakening of confidence in the Government's ability to maintain the purchasing power of the dollar.

Writing of Singapore's problems, Dr. Purcal points out that the Republic's invisible earnings, in large part British defence expenditure (which he puts at the astonishingly high figure of $600 million a year) have enabled Singapore to retain imports worth five times its exports of domestic origin.

Dr. Chiang Hai Ding contributes a history of Malaysian and Singapore currency. Miss Degani examines the system which we lost this morning, and Mr. S. Y. Lee describes the growth of commercial banking, "a timely service" as the foreword says. A pity publication took so long — "timely" is relative.