

**SINGAPORE GOVERNMENT PRESS STATEMENT**

MC. JN. 41/63 (PM)

**STATEMENT BY THE PRIME MINISTER**  
**ON FINANCIAL DISCUSSIONS WITH THE FEDERATION OF**  
**MALAYA**

The Committee of Officials of the Singapore and Federation Governments reached no agreements on two matters :-

(1) The apportionment of expenditure and the quantum of Singapore's contribution for Federal expenditure.

(2) Responsibility for collection of national taxes in Singapore after merger.

As a result, these and other unresolved matters were referred to the plenary sessions of the Inter-Governmental Committee which to date has held nine sessions. The first session on the 28<sup>th</sup> February, 1963 was convened at the instance of the Federation Government to discuss these unresolved matters. On

the 21<sup>st</sup> March, 1963 the plenary session of the Inter-Governmental Committee met again to discuss a memorandum forwarded to the Singapore side on the 18<sup>th</sup> March, 1963 setting out the proposals of the Federation Government. The main features of this memorandum are as follows :-

(i) Provisional actual expenditure incurred in Singapore in the year 1962 is classified according to whether they are State or Federal expenditure according to the interpretation of the Federation Government of the White Paper Command 33 of 1961.

(ii) Similarly, revenues are classified as State or Federal in accordance with the interpretation of the Federation Government of the White Paper Command 33 of 1961.

(iii) The Federation Government proposed that Singapore should bear 21.2% of certain common Pan-Malaysian expenditure such as defence, internal security, external affairs, Parliament etc.

This percentage was based on the average of the 1961 actual revenue and the 1962 provisional actual revenues collected in each of the territories to comprise Malaysia.

National Archives of Singapore

(iv) Since Singapore's revenue from State taxes as defined in the Tenth Schedule of the Federation Constitution, will be inadequate to meet local State expenditure plus Singapore's contribution for common Pan-Malaysian services, as well as the cost of Federal Departments in Singapore, the Federation Government proposed that certain revenues be assigned to the State to enable Singapore to meet her obligations in both these respects.

The effect of the above proposals will be that Singapore's revenue surplus, i.e. the whole of the balance between revenue collected in Singapore, on both national and State taxes over Singapore's expenditure for both State and Federal departments will go to the Federation Government.

The Singapore Government objected to this scheme on the following grounds :-

(i) The figures used for computing Singapore's State expenditure were based on the provisional actual expenditure in 1962 whereas the cost of Federation defence services is based on projections as far ahead as 1970. Even expenditure outside the

fields of defence and internal security of the Central Government has been raised by varying percentages representing the expected increase in future expenditure.

- (ii) The percentage of Singapore's contribution for common Pan-Malaysian expenditure, assessed at 21.2% was too high. The percentage in our view should have regard to two factors, namely representation in the Central Parliament and population, and not just capacity to pay.
- (iii) The whole of Singapore's surplus based on 1962 calculations goes to the Federal Government.

Agreement had already been reached on the 1<sup>st</sup> March, 1963 on the initial disposal of national taxes collected in Singapore. The proceeds would go neither to the Singapore nor to the Federal Consolidated Fund but to an account to be opened in the Singapore branch of the Central Bank. The money collected must physically be in Singapore. No disbursement from the fund would be made until the apportionment between the two Governments has been agreed to as to Singapore's contribution to the Central Government for Federal Services.

The Singapore Government then proposed a scheme which was embodied in a paper submitted to the Inter-Governmental Committee for

consideration at its meeting on the 2<sup>nd</sup> April, 1963 held in Singapore. The main outline of the scheme was as follows :-

- (i) Singapore's contribution for Pan-Malaysian services should be based on actual expenditure and not projected expenditure. The contribution in the first instance should be based on estimates passed by the Federal Parliament in respect of these common Pan-Malaysian expenditure and should be adjusted after the Accountant-General has submitted his accounts of actual expenditure.
- (ii) Capital expenditure on defence and internal security should be financed partly from revenue and partly from loans.
- (iii) The percentage of Singapore's contribution should be based on three factors, namely its representation in Parliament, population and economic growth through time. This percentage will increase in accordance with the growth of industry in Singapore determined by the annual census of production carried out in Singapore since 1960. The percentage should initially be below the proportion of Singapore's population to total Pan-Malaysian population and eventually rise beyond it, to the extent that it falls short of it in the initial year.

The Federation Government objected to Singapore's proposals on the following grounds :-

- (i) the contribution for Pan-Malaysian defence and internal security expenditure was far too low.
- (ii) there would be troublesome accounting difficulties which may lead to acrimonious annual disputes over the quantum of contribution.
- (iii) the Federation Government would be put into an invidious position of having its financial accounts scrutinised by a State Government.
- (iv) the surplus of the Singapore Government was not shared and made available to the other territories.

## National Archives of Singapore

Tun Razak, Deputy Prime Minister, then discussed the matter

informally with myself and the Minister for Finance and stressed that the expenditure approach must be abandoned by the Singapore Government if any progress was to be made in these discussions. The contribution must be assessed in terms of percentage of national taxes arising in Singapore and this percentage could be subject to periodic review to ensure fairness to both sides.

The Federation Government then submitted an amended scheme.

The approach is identical with that to the first scheme, but it contains two concessions. First, defence and internal security contribution by Singapore was reduced from \$93.6 to \$75-million a year. Next Singapore retains half her surplus, based on 1961 calculations, instead of surrendering the whole lot.

The proposals of the Federation Government were then discussed at the Plenary Session of the Inter-Governmental Committee on 10<sup>th</sup> and 11<sup>th</sup> April, 1963. The Singapore Government at this meeting, accepted that Singapore's contribution need not be rigidly related to actual Federal expenditure incurred and we attempted to work out the apportionment of national taxes between Singapore's contribution for the cost of common Malaysian services and the cost of Federal departments in Singapore and Singapore's State expenditure. The gap between the estimates of the two Governments of the cost of Federal Departments in Singapore was narrowed down to \$8.7-millions. This is due to differing interpretations of the White Paper on the responsibility of three Departments – Income Tax, Customs and Broadcasting.

The amount of \$75-million for defence and internal security expenditure was accepted subject to a consideration of the following factors :-

- (i) British contribution to defence expenditure.
- (ii) Details of the defence and internal security expansion programme have not been examined by the Singapore Government.
- (iii) Capital cost of defence and internal security expenditure which may amount to \$18-million out of \$75-million would be met by capital transfers from Singapore's Development Fund to Federation Development Fund.
- (iv) The percentage agreed upon should be reviewed periodically for the first five or six years until defence and internal security expenditures have stabilised themselves.

As regards non-defence expenditure such as External Affairs,

Parliament, the Civil List etc., this contributes a small part of the total and could be settled without difficulty. We have agreed in deference to the Federation

Government's approach that expenditure on these Federal services, except defence and security, would not be subject to scrutiny of actual expenditure. We were however unable to do so for defence and internal security expenditure because future expenditure was unpredictable and periodic reviews, which the Federation Government had agreed would ensure fairness to both sides.

The Federation Government had indicated that it is not prepared to meet any prospective deficits in Singapore's budget. Accordingly Singapore's view is that there is no case for surpluses to be paid into the Federal Treasury. If the question of sharing surpluses computed on the basis of 1961 figures were not pursued by the Federation Government the difference between Singapore calculations and Federal calculations becomes very narrow indeed. The gap amounts to no more than \$13.7-million, or about 4% of what we estimate national taxes in Singapore would yield in 1964.

We had also offered to amend our laws to allow the Federal Minister of Finance sufficient scrutiny over Singapore's tax collection machinery to ensure that the collection of taxes including Income Tax and Customs was carried out efficiently and effectively.

## National Archives of Singapore

There were two elements which have a bearing on Singapore's financial contribution to the Federation. The first consists in the accounting approach, and the purpose is to forecast as accurately as possible with the figures in hand, what would be the costs of Pan-Malaysian services and of Federal services in Singapore from 1964 onwards. On the basis of this forecast, we can

agree on the apportionment of national taxes collected in Singapore for Singapore's contribution to the Central Government.

The second element consists of sharing Singapore's prosperity after Malaysia. The financial talks have run into difficulties because the Federation Government wants to introduce this element into the apportionment ratio, taking the 1961 surplus as the yardstick of prosperity. Whilst we agree that prosperity in Malaysia should be shared all round we have been unable to agree to this particular formula. It is the additional prosperity consequent on Singapore's entry into Malaysia that should be shared, not its past prosperity based on 1961 figures when it was not a part of the Federation. Should, for instance, Singapore prosper under Malaysia with the advent of a Common Market, then we must share this prosperity with the rest of the Federation.

A meeting was held informally on Wednesday, May 29, in Kuala Lumpur. It was agreed in principle that a Common Market should be established throughout Malaysia. This agreement would pave the way for a settlement of the financial arrangements between the Federation of Malaya and Singapore. Singapore's progressive entry into the Common Market must necessarily mean the gradual erosion of its free port status as Malaysia industrialises.

A further informal meeting was held on Tuesday, June 4, in Kuala Lumpur. On the basis that satisfactory arrangements will be made for the establishment of a Common Market including the setting up of a Tariff Board under a chairman to be nominated jointly by the two Governments by Malaysia Day, we have agreed to consider that the Singapore Government should pay a certain percentage of our national taxes to the Central Government.

The Singapore Government is also asked to pay by way of grant a sum of \$50-million during the first five years of Malaysia for development expenditure of the under-developed States of Malaysia, namely the Borneo territories.

The Ministry of Finance is at the moment carefully going through these proposals, in particular the percentage figures and a reply will be given to the Federation Government this week.

National Archives of Singapore

I have set out only the main outlines of the course of discussions. When final agreement is reached, all details will be published for debate and adoption in this House.

In conclusion may I say that the rationale for the arrangements in regard to Singapore lies in the fact that there will not in fact be a complete merger on the basis of one of the present eleven States of the Federation. Had there been complete merger as advocated by some parties in Singapore like the Barisan Sosialis, then the whole of Singapore's revenues from Income Tax, Customs, vehicle taxes and others will logically be surrendered to the Central Government. This means we give up more than three-quarters of our total revenue instead of only about one-quarter under the White Paper terms.

Under the terms of the White Paper the usual arrangements which are suitable in the case of the other States in the Federation do not apply to Singapore. The special position of Singapore is also shown by the fact that it has been allotted only 15 seats in the House of Representatives which is below the number it is entitled to if there was complete merger. Within the limits of this position, we have tried and will continue to try to work out a fair formula to share our prosperity consequent on the formation of a Common Market for Malaysia.

Needless to say if the Common Market terms are inequitable in their application as between industries in the Federation of Malaya and Singapore then the whole basis of contribution to the Central Government must be altered.

10 June, 1963.

(Time issued : 1500 hours)

National Archives of Singapore