The Straits dollar and the currency board system

Dr Alexander Ressos, TEP
Attorney-at-Law (Switzerland and Germany),
Solicitor (England & Wales and Hong Kong)
Of Counsel, KGP Legal LLC
alexander.ressos@kgplegal.com.sg
www.ressos.com.sg

The silver dollar after 1867

The tin and rubber trades were conducted in silver dollars. When the Straits Settlements became a Crown colony in 1867, the Indian rupee lost its status as legal tender and the dollar became the standard of the colony, as Chapter I of this part showed. The coins in circulation came from many mints: Spanish and Mexican dollars, Hong Kong dollars and, from 1895, British trade dollars minted to meet the shortage of Spanish silver. Paper money was issued by private banks, beginning with a note issued in 1840 by the Singapore branch of the Union Bank of Calcutta, the first to bear the name Singapore.[1]

A silver currency suited a port that traded mainly with China and the archipelago, where silver was the measure of value. It became a problem in the last quarter of the nineteenth century, when the major Western economies adopted the gold standard and the price of silver fell. The dollar lost value against sterling year after year. For the agency houses and the London companies that invested in tin and rubber, this

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meant that profits earned in dollars bought fewer pounds. For importers of British goods it meant rising costs. The colony's merchants divided between those who gained from a falling exchange and those who lost from it.

The note issue and the Board of Commissioners of Currency

The first step towards reform concerned paper money. Ordinance VIII of 1897 authorised the government to issue currency notes. It took effect on 31 August 1898, and the first notes, dated 1 September 1898, reached the public on 1 May 1899.[2] The issuing authority was the Board of Commissioners of Currency, Straits Settlements, established in 1897. According to the Monetary Authority of Singapore, the Board issued its first government note, the Straits Settlements dollar, in 1899, a note that also became legal tender in the Malay States.[3] Private banks were barred from issuing new notes.[4]

The Board neither lent to the government nor to banks. Its function was to exchange notes for coin and coin for notes. The coin it received was held in a Note Guarantee Fund, part of which could be invested in securities.[5] The note was thereby a claim on a fully reserved fund, which made it as safe as the coin it replaced. Because the arrangement extended to the Malay states, one currency served both the colony and its hinterland.

The Barbour Committee and the link to sterling

The decisive reform followed. A committee in London under Sir David Barbour, a former finance member of the Government of India, examined the Straits currency and signed its report on 17 March 1903. It recommended the introduction of a gold standard and held that the currencies of the Straits Settlements and the Federated Malay States should remain identical.[6] In 1903 the Board issued a new Straits dollar coin, valued at par with the British trade dollar. British, Mexican and Hong Kong dollars ceased to be legal tender on 31 August 1904.[7]

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The government then allowed the value of the new dollar to rise with the restricted supply of coin until it reached the level it had chosen. In 1906 the Straits dollar was fixed at two shillings and four pence sterling, equal to twenty-eight pence.[8] Since sterling was then convertible into gold, the Straits dollar became a gold exchange currency. Earlier in 1906 the Commissioners had been empowered to issue notes against gold at the fixed rate.[9]

The new regime soon met a test. Rising silver prices pushed the bullion value of the silver dollar towards its fixed gold value, which threatened to make the coin worth more as metal than as money. Winston Churchill, then Under-Secretary of State for the Colonies, explained the government's response to the House of Commons on 30 October 1906. An Order in Council of 22 October reduced the fineness of the dollar from .900 to .800 at an unchanged weight of 416 grains. A new ordinance allowed the Commissioners to redeem notes in gold as well as silver. These measures followed the Governor's advice to keep the dollar at two shillings and four pence. A dollar with a smaller silver content followed in 1907.[10]

How the currency board worked

The Straits Settlements thus acquired what economists call a currency board. A currency board is required to maintain a fixed exchange rate with a foreign currency, fully backs that commitment with reserves in the anchor currency and keeps unlimited convertibility between its notes and the anchor.[11] The model had first been used in Mauritius in 1849. The British Empire applied it to many of its colonies with the support of the Bank of England, which favoured it because colonial reserves were held in sterling and placed in London.

For a commodity economy the currency board had clear advantages. A London company investing in a Malayan estate knew what its dollar revenues would be worth in sterling. A merchant in Singapore who financed a rubber shipment for sale in London faced no currency risk between purchase and sale. The banks could fund themselves in London and lend in the Straits without fearing a devaluation. Since every note had to be matched by reserves, the note issue could not be used to finance government deficits. Confidence in the currency became almost automatic.

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The disadvantages were the other side of the same mechanism. The money supply of the colony expanded when export earnings brought sterling into the system and contracted when they fell. A boom in tin or rubber was amplified by an expansion of credit, whereas a collapse was deepened by a contraction. The Board could not act as lender of last resort, so that a bank in difficulty had to look to its head office or to its correspondents in London. The colony had no monetary policy of its own, which meant that the full burden of adjustment fell on prices, wages and employment. In the depression of 1929–1932 the absence of any monetary buffer meant that the fall in export prices passed straight into domestic incomes.

From the Straits dollar to the Malayan dollar

The link to gold ended in 1931, when Britain left the gold standard and the Straits dollar, still tied to sterling, moved to a sterling exchange standard. In September 1933 the Secretary of State for the Colonies appointed Sir Basil Blackett to examine the participation of the Malay states in the profits and liabilities of the currency. His commission recommended that the sole power of issuing currency for the whole area should be entrusted to a pan-Malayan currency commission.[12]

The question of profits mattered because a currency board earns income on its invested reserves. Under the old arrangement that income accrued to the Straits Settlements, although the Malay states used the currency. The Board of Commissioners of Currency, Malaya, came into being in October 1938. The Malayan dollar replaced the Straits dollar at par in 1939, at the same rate of two shillings and four pence, or sixty dollars to seven pounds.[13] The Japanese occupation interrupted the system, as Chapter I of Part C shows. After the war the Board, renamed in 1952 the Board of Commissioners of Currency, Malaya and British Borneo, issued from 1953 the Malaya and British Borneo dollar for the colonies and states of the region.

The legacy: the Currency Fund of independent Singapore

When the currency union ended on 12 June 1967, Singapore kept the principle of the currency board through the Board of Commissioners of Currency, Singapore, which had been established on 7 April 1967. The notes and coins issued by the

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Board, and since the merger of the two bodies on 1 October 2002 by the Monetary Authority of Singapore, are fully backed by external assets in the Currency Fund. Interchangeability at par with the Brunei dollar, a remnant of the common currency area, is still maintained.[14] Chapter V of Part C examines the founding of the Monetary Authority and the relationship between the two institutions.

The monetary policy of modern Singapore differs from that of the colonial board. The Monetary Authority manages the trade-weighted exchange rate of the Singapore dollar within a policy band and conducts foreign exchange operations to keep it there.[15] The underlying idea nevertheless has a colonial ancestry. A small, open economy that lives from trade anchors its money to the outside world and backs its currency with external assets. The merchants who traded tin and rubber in Straits dollars would recognise the principle.

Notes

1. Wikipedia, "Straits dollar" (accessed November 2026): in 1867, when administration moved to the Colonial Office, the Indian rupee lost its legal tender status; the British began issuing trade dollars in 1895 because of a shortage of Spanish silver dollars. Monetary Authority of Singapore, "History of Currency in Singapore", mas.gov.sg (accessed November 2026): the first note bearing "Singapore" "was issued by the Singapore branch of the Union Bank of Calcutta in 1840"; the silver dollar was the main currency of trade. ↩
2. Wikipedia, "Straits dollar" (accessed November 2026): the government was "first authorised to issue currency notes" under Ordinance VIII of 1897, which took effect on 31 August 1898; notes dated 1 September 1898 were issued to the public on 1 May 1899. ↩
3. Monetary Authority of Singapore, "History of Currency in Singapore", mas.gov.sg (accessed November 2026): the Board of Commissioners of Currency, Straits Settlements, was established in 1897; two years later it issued "the first government note, the Straits Settlements dollar"; the Straits Settlements dollar also became legal tender in the Malay States. ↩

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4. Wikipedia, “Straits dollar” (accessed November 2026): “Private banks were also prohibited from issuing new banknotes.” ↩
5. On the Note Guarantee Fund, the share to be held in coin and the separate Depreciation Fund, see the Colonial Office correspondence on the Straits Settlements currency of 1905–1906 (CO 273 and CO 882 series), and Frank H.H. King, *Money in British East Asia*, London, HMSO, 1957. ↩
6. Report of the Straits Settlements Currency Committee (chairman Sir David Barbour), signed 17 March 1903, with the Secretary of State’s despatch of 24 April 1903; reproduced in Colonial Office records (CO 882). ↩
7. Wikipedia, “Straits dollar” (accessed November 2026): in 1903 the Board issued the Straits dollar, “valued at par with the British trade dollar”; by proclamation of 24 August 1904, British, Mexican and Hong Kong dollars ceased to be legal tender on 31 August 1904. ↩
8. Wikipedia, “Straits dollar” (accessed November 2026): in 1906 the Straits dollar was pegged at two shillings four pence (28 pence) sterling, which was then on a gold standard. ↩
9. House of Commons, HC Deb 30 October 1906, vol. 163, cc. 864–865 (“Straits Settlements Currency”), answer by Mr Churchill: the Commissioners had been empowered earlier in the year to issue notes against gold at the fixed rate of 2s. 4d. to the dollar. Wikipedia, “Straits dollar” (accessed November 2026): in 1906 the one-dollar note was fixed at an exchange rate against gold instead of silver. ↩
10. House of Commons, HC Deb 30 October 1906, vol. 163, cc. 864–865 (“Straits Settlements Currency”): answer by Mr Churchill that the Ordinance enables the Commissioners of Currency to redeem notes in gold or silver; fineness reduced from .900 to .800 by an Order in Council of 22 October; standard weight unchanged at 416 grains; the silver dollar remains unlimited legal tender; the change responds to the rise in the value of silver; the Governor advised keeping the dollar at 2s. 4d. Wikipedia, “Straits dollar” (accessed November 2026): the rise in the price of silver led to a new dollar with a smaller silver content in 1907. ↩

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11. Wikipedia, “Currency board” (accessed November 2026): a mechanism by which a monetary authority “is required to maintain a fixed exchange rate with a foreign currency”, “fully backing the commitment with foreign holdings, or reserves”, with “absolute, unlimited convertibility”; the first such case was the Board of Commissioners of Currency of Mauritius, established in 1849; successive boards served the Straits Settlements and then British Malaya; a currency board “does not act as a lender of last resort to commercial banks”; the Bank of England favoured such boards so that colonies would hold reserves in sterling and place them in London. ↩

12. Wikipedia, “Straits dollar” (accessed November 2026): in 1931 sterling left the gold standard, putting the Straits dollar on a sterling-exchange standard; Sir Basil Phillott Blackett appointed in September 1933 by the Secretary of State for the Colonies to lead a commission on the participation of the Malay States, including Brunei, in the profits and liabilities of Straits Settlements currency; the Blackett Report recommended that the “sole power of issuing currency for the area should be entrusted to a pan-Malayan Currency Commission”. ↩

13. Wikipedia, “Malayan dollar” (accessed November 2026): the Board of Commissioners of Currency, Malaya, “came into being in October 1938 following the Blackett Report”; the Malayan dollar replaced the Straits dollar at par in 1939; one dollar was worth two shillings four pence, “60 dollars = 7 pounds”; formal currency of the region until 1953; the Board renamed in 1952 as the Board of Commissioners of Currency, Malaya and British Borneo; succeeded by the Malaya and British Borneo dollar. ↩

14. Wikipedia, “Singapore dollar” (accessed November 2026): “On 12 June 1967, the currency union which had been operating for 29 years came to an end”; Singapore “established the Board of Commissioners of Currency, Singapore (BCCS), on 7 April 1967”; notes and coins are “fully backed by external assets in its Currency Fund”; the BCCS “merged with the Monetary Authority of Singapore (MAS)” on 1 October 2002; interchangeability with the Brunei dollar is still maintained. ↩

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15. Monetary Authority of Singapore, "Monetary Policy", mas.gov.sg (accessed November 2026): monetary policy is "centred on managing the trade-weighted exchange rate"; MAS uses foreign exchange operations to keep the Singapore dollar nominal effective exchange rate "within a policy band". ↩

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Author contact: Dr Alexander Ressos, TEP · contact@ressos.com