

The Ministry of Finance and the early development of  
modern financial administration in Siam, 1885 - 1910

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## ABSTRACT

In April 1892 King Chulalongkorn instituted a modern, western-based system of government in Siam, involving the establishment of twelve Ministries with clearly defined functional responsibilities. This study is primarily concerned with the early development of one of those Ministries, the Ministry of Finance - the creation of the Ministry in the late 1880s, its legal establishment in 1892 and its emergence as an important constituent part of the Siamese administration by the end of King Chulalongkorn's reign in 1910. In addition considerable attention is paid to the various financial reforms promoted by the Ministry in this period.

Chapter I examines the imperialist threat to Siam in the late nineteenth century and the consequent need for financial reform, and includes an analysis of the pre-reform system of financial administration and of the attempts at financial reform in the first half of the reign of King Chulalongkorn. Chapters II to V trace the development of the Ministry of Finance from the late 1880s to 1910 with particular reference to the development of budgetary control: in addition considerable attention is paid to specific reforms and developments - the appointment of a British Financial Adviser from 1896, the raising of loans in Europe in 1905 and 1907, the closure of the provincial gambling dens in the mid-1900s. Chapter VI is concerned with the currency and exchange reforms promoted by the Ministry of Finance in this period - principally the adoption of a gold-exchange standard over the period 1902 - 1908 - Chapter VII with the abolition of the tax farm system and the introduction of revenue collection by direct Government agency. Chapter VIII is a conclusion and includes a comparison of the development of the Siamese financial administration over the period 1885 - 1910 with contemporaneous financial reforms in other parts of Asia, particularly colonial Asia.

## TABLE OF CONTENTS

Acknowledgements	6
Preface	7
Notes and Abbreviations	10
CHAPTER I        The Setting : towards the establishment of a modern Ministry of Finance	12
1.     The imperialist threat and government reform	12
2.     The pre-reform administration	16
3.     Financial reform in the early part of the Fifth Reign	31
4.     The structure of the study	38
CHAPTER II      The early years of the Ministry of Finance : its establishment and collapse, 1885 - 1896	39
1.     Prelude to the establishment of the Ministry of Finance : The Finance Office and revenue, 1885 - 1890	39
2.     The establishment of the Ministry of Finance, 1890	45
3.     The beginning and failure of budgetary control, 1890 - 1893	48
4.     The resignation of Prince Narathip, March 1893	55
5.     Prince Narit as Minister of Finance, 1893 - 1894	60
6.     Prince Sirithat Sangkāt as Minister of Finance, 1894 - 1896	65
7.     1896 : a new Minister of Finance and the appointment of a Financial Adviser	70
CHAPTER III     The creation of an effective Ministry of Finance, 1896 - 1902	73
1.     The development of budgetary control	73
2.     The Ministry of Finance and the Government's revenue collections : the establishment of the Bangkok Revenue Department and the Provincial Revenue Department, 1898 - 1899	98
3.     The Financial Advisers : Mitchell-Innes and Rivett-Carnac	105

CHAPTER IV	The effective Ministry in operation : financial stringency, 1902 - 1906	119
1.	Budget stringency and the first European loan, 1902 - 1906	119
2.	Revenue and the closure of the gambling dens	150
3.	The resignation of Prince Mahit, May 1906 : the 'Book Club'	160
CHAPTER V	The Ministry disunited and revived, 1906 - 1910	164
1.	The European loan of 1907	165
2.	The budget and the attempt to extend financial control, 1906 - 1908	173
3.	The resignation of Phrayā Suriyā, February 1908	186
4.	The appointment of the new Minister of Finance, Prince Chanthaburi, February 1908	192
5.	Budget problems, 1908 - 1910	195
CHAPTER VI	Currency and exchange reform, 1885 - 1910	209
1.	The abandonment of the silver standard, November - December 1902	210
2.	The gold-exchange standard in operation, December 1902 - November 1905	219
3.	Further revaluation, November 1905	227
4.	The exchange policy of Phrayā Suriyā, 1906 - 1908	230
5.	A re-examination of Phrayā Suriyā's exchange policy	248
6.	The introduction of the Gold Standard Act, November 1908	252
CHAPTER VII	The collapse and abolition of the tax farm system, 1885 - 1910	259
1.	The defects and weaknesses of the tax farm system	263
2.	The collapse of the opium monopoly, 1905 - 1907	271
3.	Government administration of the opium monopoly, 1907 - 1910	291
4.	The abolition of the tax farm system	306

CHAPTER VIII    The Ministry of Finance and the early development of modern financial administration in Siam	311
1. The financial ethos of the bureaucracy	312
2. The authority of the Ministry of Finance	315
3. A conservative financial and monetary policy	324
4. The British Financial Advisers	334
5. Siam's financial reforms and administration 1885 - 1910 in an Asian setting	339

Statistical Appendices	347
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Select Bibliography	354
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List of Tables

Treasury selling rate for the <u>baht</u> , December 1902 - February 1904	221
Rice Exports/Exchange Rate : 1900 - 1910/11	248
Contribution of tax and monopoly farms to Government revenue, 1895/96 - 1905/06	261

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## PREFACE

The latter half of the reign of King Chulalongkorn - the years from the mid-1880s to 1910 - was arguably one of the most dramatic and decisive periods in the modern history of Thailand. On the one hand, throughout a large part of this period Siam was faced with the most intense diplomatic and, at times, military pressure from the neighbouring colonial powers - Britain in Malaya and Burma, and France in Indo-China. On occasions - as when in July 1893 two French warships forced their way up the Chao Phraya river, past Siamese defences, to Bangkok, an action that was later followed by a French blockade of the mouth of the river - the sovereignty of the Kingdom appeared to be in immediate danger<sup>1</sup>. At other times - with, for example, French troops occupying the eastern provincial town of Chantabun from 1893 to 1904, or with, in the 1900s, Britain putting considerable diplomatic pressure on Siam's position in the northern Malay States - the continued independence of the Kingdom remained in doubt. At no point in this period could it be said that the independence of Siam was secure. Yet to a considerable extent by astute diplomacy and by gradually, sparingly, giving way to the major territorial demands of the colonial powers<sup>2</sup>, Siam succeeded in surviving as an independent state during this most intense period of British and French imperial pressure up to the outbreak of war in Europe in 1914. And the fact that Siam escaped colonial rule was clearly a crucial factor in the subsequent political and economic development of the Kingdom.

No less important for those future developments were the political and administrative reforms which took place within Siam in the final two decades of the reign of King Chulalongkorn. In April 1892 King Chulalongkorn formally

1. Anglo-Siamese and Franco-Siamese relations in this period are dealt with by D. G. E. Hall in his A History of South-East Asia 3rd. ed. London 1968, Chapter 39, 'Britain, France and the Siamese Question'.

2. For example, in 1893 Siam renounced all her claims to territories on the east bank of the Mekong in favour of French claims: in 1907 she ceded the Cambodian provinces of Battambang and Siemreap to France. In 1909 Siam transferred her sovereignty over the Siamese Malay States - Kedah, Perlis, Kelantan and Trengganu - to Britain.

inaugurated a new, western-based Government structure, involving the establishment of twelve Ministries with clearly defined functional responsibilities. The principal objective of this radical reform of the Siamese administration was to secure a more effective and efficient government of the whole Kingdom by the central authorities in Bangkok, and from the early 1890s a series of reforms, projects and schemes issued from the new Ministries, programmes which in some cases literally changed the face of Siam - as in the construction of a railway network - and in others laid the foundations of the Government and administrative system and procedures of modern Thailand.

Therefore it need hardly be surprising that historians of Thailand have in recent years been strongly attracted to this momentous period. With regard to studies which have appeared in English, much of the earlier interest was in Siam's relations with Britain and France<sup>3</sup>, but more recently two studies have appeared which examine important aspects of the internal reforms and politics of those years - David K. Wyatt's The Beginnings of Modern Education in Thailand, 1868 - 1910, Ph.D. thesis, Cornell 1966, published as The Politics of Reform in Thailand, New Haven 1969, and Tej Bunnag's The Provincial Administration of Siam from 1892 to 1915 : A Study of the Creation, the Growth, the Achievements and the Implications for Modern Siam of the Ministry of the Interior under Prince Damrong Rachanuphap, D.Phil. thesis, Oxford 1968. The principal objective of this present study is to provide a detailed assessment of one further important aspect of the internal reform programme undertaken by King Chulalongkorn and his Ministers from the late 1880s - a consideration of the establishment and early development of the Ministry of Finance in Siam, the specific problems that it faced and how, confronted with severe political, administrative and economic constraints, it attempted to solve them. It is hoped that in this way some contribution

3. For example, see : B. S. N. Murti Anglo-French Relations with Siam 1876-1904 Ph.D. Thesis, London 1952, S. Xuto British Foreign Policy towards Siam, 1890-1900, Ph.D. thesis, London 1958, Thamsook Numnonda The Anglo-Siamese Negotiations, 1900-1909 Ph.D. thesis, London 1966 and Chandran Mohandas Jeshurun Anglo-French Tensions on the Upper Mekong River, 1892-1902, Ph.D. thesis London 1967.

will be made towards a more comprehensive understanding and appreciation of the achievements of the Siamese Government during the reign of that remarkable King, and of the influence of that Government's reforms - in this case specifically financial reforms - on the making of modern Thailand.

## NOTES AND ABBREVIATIONS

Transcription

The system of transcription employed throughout this study is the 'General System of Phonetic Transcription of Thai Characters into Roman' as published in the Journal of the Thailand Research Society, vol. 33 pt. 1 March - November 1941 pp. 49 - 53. There are two minor exceptions. First, in the case of personal names, whenever possible the known preferences of the individuals concerned and/or accepted usage have been followed: therefore King Chulalongkorn instead of King Čhulalongkön, and Prince Devawongse instead of Prince Thērawong. Second, accepted usage has also been followed in the case of certain Thai words which have become familiar in English; for example baht instead of bāt.

Chronology

From the late 1880s until 1911 the chronological system employed in government circles in Siam was the Rattanakōsinsok, the Bangkok Era; r.s. + 1781 = A.D. However, the official Siamese year, which coincided with the Siamese financial year, ran from 1 April to 31 March. Thus r.s. 121, for example, would correspond to 1 April 1902 to 31 March 1903. Consequently, though cumbersome, the form 1902/03 has to be used to convey the exact equivalent of r.s. 121; similarly, 1890/91 for r.s. 109, 1909/10 for r.s. 128 and so forth.

Coinage

The standard coin of the Siamese monetary system in the period covered by this study was the baht: in contemporary western writings it was usually referred to as the 'tical' but the Siamese term has been retained here except where 'tical' appears in quotations.

Until 1909 the baht was divided into the fu'ang (8 to the baht), the at (64 to the baht) and the solot (128 to the baht), but at the end of the

reign of King Chulalongkorn a decimal system of subsidiary coins was introduced, with the baht divided into 100 satang.

Abbreviations

F.F.A. Files of the Financial Adviser, (Bangkok).

J.A.S. Journal of Asian Studies.

J.S.E.A.H. Journal of South-East Asian History.

J.S.S. Journal of the Siam Society.

N.A. National Archives, (Bangkok).

P.R.O. F.O. Public Record Office (London), Foreign Office Series.

R.F.A.B. Report of the Financial Adviser on the Budget (of the Kingdom of Siam).

## CHAPTER I

The Setting : towards the establishment of a modern Ministry of Finance.1. The imperialist threat and government reform.

In a letter to Prince Damrong, the Minister of the Interior, written in January 1896, King Chulalongkorn explained succinctly the case for the reform of the government administration that had been taking place in Siam from the late 1880s<sup>1</sup>. To the west and to the east the Kingdom was faced with European powers whose military strength and systems of administration were much superior to those of the indigenous states they had replaced, and to that of Siam itself. This threat to the independence of Siam could be met, the King argued, by three measures - by maintaining friendly diplomatic relations with the neighbouring colonial regimes, by possessing sufficient power to maintain the internal peace of the Kingdom, and finally, by improving the Kingdom's administration so that it equalled that of the European regimes themselves. These points were inter-dependent. For example, good diplomatic relations with the powers could not be maintained if the colonial regimes were seriously inconvenienced and annoyed by lawlessness in the adjoining border areas of Siam. Internal peace and stability depended in turn on the existence of orderly administration throughout the Kingdom. There were a further set of considerations. Under an orderly administration the people would have the opportunity and incentive to develop their agricultural and commercial interests: this in turn would increase the Government's revenue, which in itself was essential to finance the original administrative improvements. And again, the ability of the Government to raise revenue required the creation of an effective administration throughout the whole Kingdom: yet the creation and maintenance of such an administration depended on the availability of government funds.

Some of these points can be illustrated by one relatively minor, though

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1. King to Prince Damrong 18 January 1896. Quoted by Tej Bunnag The Provincial Administration of Siam from 1892 to 1915 D.Phil. thesis, Oxford, 1968, pp. 142-143.

relevant example - the establishment in the early 1890s of a Forestry Department. For several decades prior to that British teak companies working in the Chiangmai area had been seriously inconvenienced by the unpredictable and arbitrary restrictions placed on their operations by the local chiefs and by an almost intolerable level of lawlessness and dacoity in the area. At first the companies had complained to the British Consul in Bangkok, then after 1884 to a newly appointed Vice-Consul in Chiangmai itself. In the early 1890s the King and the General Adviser, Rolin-Jacquemyns decided to create a Forestry Department, capable of governing forestry operations in the north in much the same way as they were controlled in British Burma: indeed it was proposed that British forestry experts would be hired to train Siamese officials in western forestry methods. It was hoped that the establishment of the Department would secure two main benefits. If the Department dealt quickly and effectively with the complaints of the foreign companies, it could be expected that the companies would no longer ask their Vice-Consul to take up each difficulty with the Siamese authorities in Bangkok: the danger of each irritation and annoyance suffered by the foresters being transformed into a political issue by the Vice-Consul would be much reduced. Second, it was assumed that an efficient Forestry Department, responsible to Bangkok would greatly increase the central government's revenue from the forest fees and duties imposed on the companies, and that by a strictly enforced restriction on felling, by the introduction of replanting programmes, the government would be able to draw revenue from the forests almost indefinitely<sup>2</sup>.

The creation of a Forestry Department capable of efficiently and effectively controlling forestry operations throughout the Kingdom implied a considerable expansion in the central government's responsibilities - and expenditure. Offices and accommodation for officials had to be constructed in the provinces: foreign experts engaged: in the longer run, the Government had to meet the cost of training and then maintaining a group of salaried Siamese forestry

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2. Prince Damrong Thesaphibhan (Provincial Administration) Bangkok 1967  
pp. 38-41.

officials. Yet clearly the Bangkok Government's obligations could not rest there. Effective measures against dacoity could be taken only by the establishment of permanent, effective police forces in the provinces. The freedom for disgruntled, independent-minded local rulers to conspire with the colonial powers against Bangkok, the opportunity for rapacious, oppressive local officials to reduce their domain to anarchy and near-rebellion, could be restricted only through the establishment of firm, just administration by government officials loyal and responsible to the central Government. And again, effective control of the sensitive outer provinces from Bangkok depended on the existence of good communications between the capital and the border areas - first the telegraph and then the railway. An expanding central and provincial bureaucracy could be staffed with capable officials only if there were sufficient general and vocational educational facilities available. A reduction in lawlessness throughout the Kingdom, the abolition of extra-territorial privileges for the great powers, depended significantly on the creation of a just, efficient judiciary - and so on. In each case the Government found itself committed to a radical increase in its functions and responsibilities - and consequently, in its expenditure.

It would be valuable to underline once again the interdependence of certain of the measures considered by King Chulalongkorn to be essential for the maintenance of Siamese independence. The orderly administration of the Kingdom - on which the internal peace of the Kingdom depended - necessitated a considerable increase in government expenditure and hence revenue. That in turn depended on the existence of an administrative system capable of raising sufficient revenue from the Kingdom. Administrative reform and the ability of the Government to raise revenue were therefore closely connected. This was particularly so since under the terms of the commercial treaties signed with the western powers from the 1850s - beginning with the Bowring Treaty with Britain in 1855/56 - Siam was prevented from levying new taxes or from raising

the rates on existing ones<sup>3</sup>. As a result the increase in revenue had to be achieved through a more efficient exploitation of the existing tax structure - by improved methods of tax administration and collection, particularly in the provinces, and by the development of effective tax accounting methods by the Ministry of Finance itself to ensure that all revenues collected reached the Treasury.

It should now be evident that the Ministry of Finance, established in 1890 as the ministry responsible for the whole of the Government's revenue and expenditure, was at the centre of the reform programme undertaken by King Chulalongkorn and his ministers. It was the responsibility of the Ministry to see that the revenue was sufficient to finance the schemes, projects and general administration of the Government, and to do this by the development of a system of tax collection which yielded a large revenue yet was inexpensive to administer, by ensuring through a detailed system of accounts and financial checks that all the revenues collected by various officials in the administration reached the Treasury, and lastly by promoting, through financial reform, the continued commercial development of the Kingdom. On the expenditure side it was the responsibility of the Ministry of Finance to draw up, in consultation with each ministry and department, the budget allocations of the entire administration, to see the budget sanctioned by the Council of Ministers and the King, and finally to ensure that the disbursements of each department from the Treasury were strictly in accordance with those allocations.

It should also be evident that the problems faced by the Ministry of Finance in carrying out those functions were not wholly, or even mainly, economic in character. They were also administrative - how to create a system

3. See Article 8 and the attached 'Tariff of Export Inland Duties to be levied on Articles of Trade' of the Bowring Treaty: the full text of the Treaty is reproduced in Manich Jumsai King Mongkut and Sir John Bowring Bangkok 1970 pp. 126-138. The treaty clauses were of course to apply only to the nationals of the treaty powers and not to the Siamese themselves. Legally the Government was free to impose any taxes it wished on its own people. Yet clearly the Government was unwilling to make a distinction in this respect between Siamese and European and so in effect the restrictions on levying taxes also applied to the Siamese population.

of financial accountability for both revenue and expenditure for the whole of the central and provincial bureaucracy, including the Ministry of Finance itself. There were political problems - how to persuade, or force each ministry and department to accept the interference of the Ministry of Finance over their budget allocations and the way in which they were used. There were significant cultural problems facing the Ministry - how to wean officials away from long accepted but now anachronistic conceptions of their functions and responsibilities.

## 2. The pre-reform administration.

The extent and complexity of those problems can be appreciated only by an examination of the pre-reform structure and system of administration. This has already been carried out at length and in considerable detail in a number of works<sup>4</sup>. It is not intended to retrace that ground here but rather to consider only those features of the pre-reform administration which have a direct bearing on the present study.

The basic structure of the pre-reform administration was created by King Trailok in the mid-fifteenth century. At the top were two ministries, the Mahātthai and the Kalāhōm which administered the civilian and military populations respectively. Below that, on the civilian side came the four ministries of the Wang (Palace), Nā (Lands), Phra Khlang (Treasury) and the Nakōnbān (Capital). Below them came a number of minor departments. The Government was

4. The major work on this subject is H. G. Quaritch Wales Ancient Siamese Government and Administration (London 1934). Useful analyses are provided by Fred W. Riggs Thailand: The Modernization of a Bureaucratic Polity (Honolulu 1966) and William J. Siffin The Thai Bureaucracy: Institutional Change and Development (Honolulu 1966), in both cases as an introduction to an analysis of the modern Thai bureaucracy, and by James N. Mosel Thai Administrative Behavior (in Toward the Comparative Study of Public Administration William J. Siffin (ed.) Indiana 1959). In Thai, King Chulalongkorn's Speech Explaining the Changes in the Government, first published in Bangkok in 1927, and Prince Damrong's Ru'ang laksana kānpokkhōng prathētsayām tae bōrān (The Old System of Government in Siam) both of which are printed in Nangsū' ānprakōp khambanyāi wichā phū'nthan ārayatham thai (Handbook on Basic Thai Culture) Thammasat University 1971, are particularly important. Specific aspects of pre-reform government are covered by Wira Wimoniti Historical Patterns of Tax Administration in Thailand (Bangkok 1961) Akin Rabibhadana The Organization of Thai Society in the Early Bangkok Period, 1782-1873 (Cornell Data Paper no. 74 1969) and Prince Dhani Nivat The Old Siamese Conception of the Monarchy J.S.S. vol. 36 pt. 2 pp. 91-106.

constructed along functional lines, with each ministry and department having its own defined responsibilities and duties.

It would seem that from the first, the financial responsibilities of the Phra Khlang were relatively light. In the first place the authority of the Phra Khlang, as with each ministry at that level, extended only to the area immediately surrounding the capital. However, towards the end of the sixteenth century officials were appointed from the Phra Khlang to the provinces, and this increased the flow of revenue into the Treasury<sup>5</sup>. Second, major projects initiated by the King - military campaigns, the construction of religious edifices - were carried out by means of forced labour rather than financed from the Treasury. As a result, the Mahātthai and the Kalāhōm which controlled the corvée were more involved with such projects than was the Phra Khlang<sup>6</sup>.

The financial interests of the Phra Khlang were further reduced towards the end of the seventeenth century, when, in a major change in the structure of government, the Mahātthai and the Kalāhōm took over territorial responsibilities - the Mahātthai administered the area to the north of the Capital, Ayudhya, the Kalāhōm that to the south. The two ministries were responsible for every aspect of government in their area - the organization of the corvée, the administration of justice, the collection of taxes. In turn this meant that the Phra Khlang's control of financial matters - particularly its ability to secure an adequate flow of revenue into the King's Treasury - was still further reduced, for although the Phra Khlang's authority had never really extended far beyond the capital, responsibility for tax collections in the provinces now rested firmly with the Mahātthai and the Kalāhōm<sup>7</sup>.

That the Phra Khlang did not disappear altogether was due to the fact that from the seventeenth century it began to develop non-financial responsibilities.

5. Wales op. cit. p. 215.

6. King Chulalongkorn Phrarātchadamrat nai phrabāt somdet phra čunlachōmklaō čhaoyūhua song thalaēng phraboromarātchāthibāi kāekhai kānpokhrōng phāendin (Speech Explaining the Changes in the Government) Bangkok 1927 pp. 5-6.

7. Wales op. cit. pp. 113-114.

That period saw a growth in sea-borne trade between Siam and China, a trade in which vessels specially prepared on the instructions of the King played a predominant part. The Phra Khlang had the task of seeing that the King's ships were loaded with particularly exotic items such as ivory and sapanwood: this it did by collecting what was known as suai - special products sent to the capital from distant provinces where, because of the distances involved, the people were unable to perform physical corvée services for the King. Similarly the Phra Khlang was responsible for the distribution among the administration of goods received in return from China. This trade brought the Phra Khlang into contact with foreign merchants, and it was therefore natural that when increasing numbers of foreigners, including Europeans, came to Siam in the seventeenth century, they came under the jurisdiction of that Ministry. Gradually the Phra Khlang began to develop the role of a department of foreign affairs, and indeed it became known as the Kromathā - the Department of the Port - though its Minister retained the title of Chao Phrayā Phra Khlang.<sup>8</sup>

However, the major change in the Phra Khlang's status and functions occurred towards the end of the Ayudhya period. In 1733 the King, King Taisra, died, and there then followed a brief but very violent succession struggle between the ex-King's brother and his second son<sup>9</sup>. The Crown was won by the brother who became King Boromakot. One of the chief supporters of the defeated second son had been the Minister of the Phra Khlang, so on ascending the throne King Boromakot promoted one of his own group to that position, and at the same time transferred responsibility for administering the southern provinces from the Kalāhōm to the Phra Khlang<sup>10</sup>. This is an interesting example of the way in which the structure of the administration, the division of responsibilities and functions between the ministries, was determined principally by political

8. Wales op. cit. pp. 215-216.

9. W. A. R. Wood History of Siam (London 1926) p. 229/pp. 231-232.

10. Neon Snidvongs The Development of Siamese Relations with Britain and France in the Reign of Maha Mongkut, 1851-1868 Ph.D. thesis, London 1961, p. 10.

factors, by the varying power, ambitions and connections of the ministers.

The Phra Khlang now found itself responsible for the government of the south - the administration of justice, the organization of the corvée, and the collection of revenue - tasks for which it was largely unprepared and unsuited.

Overwhelmed by its new responsibilities, the Phra Khlang lost control of virtually all its remaining, original financial functions. The major part of them - the administration of the King's revenue and expenditure - was transferred to the Phra Khlang Mahāsombat, an independent treasury also dating from King Trailok's reforms of the fifteenth century. The preparation of the royal trading ships, which had earlier been entrusted to a subordinate department in the Phra Khlang, the Phra Khlang Sinkhā, was retained by that department, though the department itself became independent of the Phra Khlang. In fact the sole financial responsibility remaining for the Phra Khlang, apart from those connected with its administration of the southern provinces, was to check the bia wat lists - the annual payments from the King to certain government officials. But as the Ministry's knowledge of the financial affairs of the administration weakened, so even its control of the bia wat suffered<sup>11</sup>.

During the reign of Rama I (1782-1809), the capital having by now moved to Bangkok, the administration of the southern provinces was returned to the Kalāhōm with the exception of the eastern gulf area which was retained by the Phra Khlang on the grounds that most of the foreigners visiting Siam entered the Kingdom and carried out their business in those provinces. In addition some of the inland provinces of the Mahātthai were transferred to the Phra Khlang: in effect the Phra Khlang became the third ministry with territorial responsibilities<sup>12</sup>. But though relieved of some of its territorial functions, there was little chance of the Phra Khlang regaining the limited control over finance which it had held in the late Ayudhya period. There was even less of a chance of it developing control over the flow of revenue and

11. King Chulalongkorn op. cit. pp. 6-7.

12. Neon Snidvongs op. cit. p. 16.

expenditure into and out of the Treasury to the extent originally envisaged in King Trailok's reforms, but never actually attained. In the first place, the Mahātthai and the Kalāhōm raised the revenue and controlled expenditure in their own part of the Kingdom. Second, the Phra Khlang Sinkhā, though it lost its original function with the decline and then abolition of royal trading in the Third and Fourth Reigns, greatly increased in importance when it assumed responsibility for the administration of many of the Chinese-run tax farms established during the reign of Rama III (1824-1851). It also became responsible for the administration of the triennial Chinese poll tax. In fact, according to Prince Damrong, by 1872 ten separate departments were responsible for the collection of the Kingdom's revenue<sup>13</sup>. The crucial point was that each of them maintained an independent treasury in which their tax receipts were held and from which they financed their administrations. The Phra Khlang Mahāsombat which had inherited the financial responsibilities of the Phra Khlang towards the end of the Ayudhya period was but one of those ten departments: it was incapable of forcing the other nine to remit all their tax receipts to the King's Treasury, it was incapable of controlling their expenditure.

In his speech explaining the changes in the government, delivered in the late 1880s, King Chulalongkorn pointed out that

'Phrayā Rāatchaphakdi [the head of the Phra Khlang Mahasombat] did not know how much revenue would be coming in to finance the government's work: neither did he have the authority to demand the other departments remit all their revenue receipts to him. He could only accept whatever they wished to send. Therefore it must be concluded that the position and the functions of the Phra Khlang did not exist ... they had been dispersed among the other government departments. As a result, the revenues virtually disappeared; there was not enough for the administration.' <sup>14</sup>

Indeed, according to the King, a situation was reached where the revenue received by the Crown for expenditure on government projects fell in absolute

13. Prince Damrong Tamnān phasi ākōn bāngyāng (The History of some Taxes) in Latthi thamniam tāngtāng (Various Customs) Bangkok 1963 pp. 176-180.

14. King Chulalongkorn op.cit. p. 7. My emphasis.

terms each year<sup>15</sup>. With regard to the Phra Khlang itself, by the nineteenth century it was concerned almost solely with governing the gulf provinces - which of course implied control over some sources of revenue in that area - and with foreign affairs.

There was a further, political aspect to these developments: almost from the beginning of the Bangkok period right through to the 1880s, control of many of the major ministries was retained by one family - the Bunnags<sup>16</sup>. Members of that family, or close relatives, controlled the Kalāhōm from 1782 to 1888, and the Phra Khlang from 1822 to 1885, except for the years 1865 to 1869. In addition the family held numerous posts throughout the whole administration. With such a powerful political and administrative position the Bunnags were able to divert the revenues collected under their control away from the King's Treasury towards their own private use. With the power of the King to control the revenues and expenditure of the Kingdom dissipated throughout the administration, each noble family could use its bureaucratic positions to increase its own wealth: but the Bunnags, as the dominant bureaucratic family, were by far the most active in this respect. They reached their period of greatest influence between 1868 and 1873, when with King Chulalongkorn still a minor, Chao Phrayā Si Suriyawong, the Kalāhōm in the Fourth Reign, became Regent - King in all but name<sup>17</sup>. With the Crown relatively weak, the ministries were able to retain an ever increasing share of the revenue collected under their control and divert it away from the King's use. The King's reaction to this situation will be dealt with at a later stage.

The fact that the structure of the pre-reform administration, as it developed in the Ayudhya and early Bangkok periods, lacked a ministry capable

15. ibid p. 42. This is a suitable point to underline one important consideration. Since King Chulalongkorn was on the point of abolishing the government structure he was describing in this speech, some allowance must be made for the King's probable exaggeration of the failings of the old administration. This consideration should be borne in mind through the whole of this section concerned with the pre-reform government.

16. See: D. K. Wyatt Family Politics in Nineteenth Century Thailand J.S.E.A.H. vol. 9 no. 2 Sept. 1968 pp. 208-228.

17. D. K. Wyatt The Politics of Reform in Thailand (Yale 1969) pp. 35-62.

of controlling the Kingdom's revenue and expenditure, capable of placing at the King's disposal more than a relatively small proportion of the total revenue actually raised in the Kingdom, had a profound influence on the way in which the administration operated.

The most obvious effect was, as noted above, that the King's ability to finance large-scale projects was considerably limited - in fact limited to the construction of palaces and temples, the conduct of royal and religious ceremonies, and the distribution of the annual bia wat payments<sup>18</sup>. In order to finance major projects other than those - for example, the construction of forts, the sending of missions to other countries - the King was forced to impose extraordinary levies<sup>19</sup>. For the Kings of the Ayudhya and early Bangkok periods, whose active administration of the Kingdom was relatively restricted (in both the geographical and functional sense) this was not a serious difficulty. But for King Chulalongkorn, who saw the absolute necessity for expanding the functions and responsibilities of the central government if the sovereignty of the Kingdom was to be protected, this was a major problem. Therefore it hardly needs adding that the financial weakness of the Crown was a predominant reason why King Chulalongkorn wished to establish a strong and effective Ministry of Finance.

A corollary of the financial weakness of the King was that those ministries which administered the Kingdom's revenue had a considerable measure of autonomy. Since they were not dependent on a central treasury under the control of the King for their resources they were relatively free to pursue their own self-interested projects. There was therefore comparatively little interdependence or co-operation between ministries and departments, unless, of course, two ministries were controlled by members of one bureaucratic family. In fact the insularity of ministries extended to the point where each had its own facilities for recruiting and training officials<sup>20</sup>. However, not all

18. Tej Bunnag The Provincial Administration of Siam from 1892 to 1915 D.Phil. Thesis, Oxford 1968 p. 21.

19. Wales op. cit. p. 212.

20. Siffin op. cit. p. 34.

ministries and departments were strategically placed to raise revenue: some did not administer the collection of a particularly lucrative tax, or did not provide a service for which they could extract large payments from the population. And of course they could not appeal to the King's Treasury for large funds. As a result these departments were starved of resources and were incapable of carrying out their designated responsibilities effectively. This was the fate of, in particular, the various courts of law scattered throughout the administration<sup>21</sup>.

Looking at the administration as a whole, it is clear that in the absence of a strong finance department the resources available to any particular ministry or department depended almost exclusively on the ability of that agency to control the major sources of revenue in the Kingdom. In effect the distribution of the Kingdom's resources was determined not in accordance with the King's view of the needs of his domains, but rather in accordance with the distribution of political and administrative power among the constituent parts of the administration. It therefore followed that the strong ministries, the Mahātthai and the Kalāhōm, were in a position to become stronger, to assume control over increasing numbers of taxes and duties, and over increasing functions and responsibilities. By the Bangkok period these ministries had assumed such a wide range of duties that their administrative machinery was seriously over-worked. Despite the considerable resources at their disposal they were over-burdened with responsibilities. Conversely, the weak departments, the courts of law, for example, were in no position to prevent themselves becoming weaker: in time, because of insufficiency of resources they became incapable of carrying out their duties. In the case of both strong and weak departments the net result was the same - an inefficient and ineffective administration<sup>22</sup>.

King Chulalongkorn's reform of the administration, initiated in the late 1880s, was designed to abolish that system completely, to create an

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21. King Chulalongkorn op. cit. pp. 21-33 / Wales op. cit. pp. 177-196.

22. King Chulalongkorn op. cit. p. 56.

administrative structure in which each ministry and department had its own clearly defined responsibilities and sufficient resources with which to carry them out<sup>23</sup>. Furthermore, it was clearly intended that the allocation of resources between the various ministries would be determined by the government as a whole - the King and the Council of Ministers - in accordance with the agreed needs of the Kingdom. For example, the funds required to promote educational facilities would be set aside for that purpose, simply by the Council of Ministers agreeing to increase the budget allocation of the Ministry of Public Instruction from the Treasury. An important department would not flounder because of its inability to develop its own sources of revenue.

The nature of the responsibilities of the Ministry of Finance in the reformed administration and the problems faced by the Ministry in fulfilling those responsibilities, should now be clearer. In essence each ministry was required to entrust its financial affairs to, in the immediate perspective, the Ministry of Finance and, in general, to the Government as a whole. They were required to depend entirely on the Ministry for their resources, to remit all tax receipts, fees and duties collected under their auspices to it, and to open for the inspection of the Ministry all aspects of their financial operations. Clearly such interference by the Ministry of Finance ran counter to the well-established financial insularity of certain ministries and departments. For virtually the whole period covered by this study, and particularly for the period up to 1901 or 1902, this was to prove a major problem for Ministers of Finance.

Turning to a consideration of the ministers and officials themselves, the first point to note is that in the pre-reform bureaucracy neither group received a regular salary, though officials above a certain level received an annual payment, a royal bounty from the King - the bia wat. Instead officials were expected to retain a portion of the revenues passing through their hands for their own use. In much the same way as the King was expected to protect and

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23. ibid p. 57.

support the people - either in the practical ways of patriarchal Sukhotai kingship, or through the performance of ritual in the tradition of Indian kingship - and would, in return, receive either corvée services, goods or monetary payments from the population, so the officials, who took their authority from the King, could expect to receive a portion of the tribute flowing up to the King. This system of payment was known as kin mu'ang - 'to eat the country'.

The origin of kin mu'ang, the development of its various practices and its effect on the administrative behaviour of officials, at least in the provinces, has been described by Prince Damrong<sup>24</sup>. The concept of kin mu'ang derived from the office of chao mu'ang (lord of the country) or local ruler. These local rulers were expected to discard all attempts to make a living through trade or farming, and instead to devote themselves entirely to governing their appointed part of the Kingdom so as to maintain the peace and happiness of the people under their authority. In return the people were obliged to offer corvée services to the chao mu'ang, to provide for his personal well-being. The Government in the capital had no need to support these local authorities, though it did allow the chao mu'ang to retain a portion of the revenues passing through their hands to meet any expenses incurred in carrying out their responsibilities, and as a form of recompense.

Over time, as the population increasingly came to use coin in the conduct of their business, the chao mu'ang received less support from their people in the form of corvée services and payment in kind. This meant that the chao mu'ang found it necessary to develop alternative sources of income. Because of their authority and position the chao mu'ang were able to bestow privileges on particular clients, for example assisting a local merchant by allowing him tax exemptions, or supporting a tax farmer by instructing the local officials to ensure that the population paid their taxes to him. In the case of both the merchant and the tax farmer, they would of course pay the chao mu'ang for the special privileges he was able to provide. According to Prince Damrong,

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24. Prince Damrong Thesāphibān (Provincial Administration) Bangkok 1967 pp. 25-26.

in time, throughout the whole bureaucracy the custom arose of officials using the powers of their positions in this way to make a living. This system of recompense clearly had a profound influence on the administrative behaviour of officials.

In the first place, officials and ministers were reluctant to work in those departments where the opportunities for kin mu'ang were small. Those officials who did work in such parts of the administration would strive to retain as much of the revenues which did pass through their hands as was possible; alternatively, in the conduct of their work they would procrastinate, they would create difficulties in order to force the people to pay more for a speedy and efficient completion of their business. Since these departments were precisely those which were not closely involved with the collection of the Kingdom's revenue - and hence were starved of resources - this was a further reason why their administrations were so poor. For example, the only sources of income for the courts of law were fines, a proportion of which was retained by the judges, and the levying of innumerable fees on the litigants<sup>25</sup>. Neither judges nor court officials received a salary. As a result judges tended to impose frequent and heavy fines; furthermore, it became common practice for the court to decide in favour of whichever litigant was prepared to offer the higher payment. Cases were prolonged by officials if it were felt that the parties would be willing to pay to have their case settled quickly.

Yet even in those departments where the opportunities for kin mu'ang were greater, the temptation for officials to oppress the people was usually overwhelming. In addition, those officials who found it relatively easy to support themselves by kin mu'ang were almost certain to neglect those aspects of their responsibilities which yielded them only a small financial return.

Second, those departments involved in the purchase of goods for the King

25. Wales op. cit. pp. 188-189. Wales gives a number of examples of the judicial fees imposed: 'Fee for four constables'/'gong beating fee'/'cost of bamboo collars worn by plaintiff and defendant'. The accused could obtain more considerate treatment whilst awaiting trial by paying a further set of fees to the officials of the court.

or the Government were likely to make those purchases not on the basis of which was the most suitable or cheapest item available, but on the basis of whichever item gave the department and its officials the greatest financial return<sup>26</sup>. The merchant who offered the appropriate officials the largest commission received the order - a clear example of the way in which officials could use their government positions to maintain their income.

Third, by and large ministers and officials would show enthusiasm only for projects and schemes in which they had a financial interest. Were the King to propose a measure which held little attraction for his officials, each ministry, by intrigue and complaint would attempt to pass responsibility for the measure to another part of the administration<sup>27</sup>. It was relatively easy for a department to argue that a particularly unwelcome task was not its concern, since by the Bangkok period the functions and duties of the various departments had become so confused.

One further aspect of the kin mu'ang system requires attention. It can be argued that government positions, particularly high positions, were regarded primarily as affording the holder an opportunity to maintain and increase his personal wealth. The administration of specific taxes or other potentially profitable responsibilities was allocated throughout the Government to particular people as a means by which they could support themselves - allocated to individuals, not to the office. This highly personalized concept of government office revealed itself in a number of practical ways. For example, ministers rarely visited the ministry under their control, but instead carried out their administration from their own residences<sup>28</sup>. The minister would visit his ministry only in cases of emergency. This, together with the practice of officials retaining a portion of the revenues they had collected, or using the authority of their positions to confer privileges on clients in return for financial payments, illustrates clearly that in the pre-reform

26. King Chulalongkorn op. cit. p. 40.

27. ibid pp. 56-57.

28. Prince Damrong Thesaphiban p. 11.

administrative system, no real distinction could be made between the private and government activities of ministers and officials. This should not be taken to imply that officials paid little or no attention to the obligations of their office. There was always the danger that if a ministry under an official's rule became particularly inefficient, or if his province was reduced to rebellion by oppression and poor administration, he would be removed either by the King or by the bureaucratic family to which he belonged fearful of a weakening of the family's position as a whole<sup>29</sup>. But by and large ministers were more concerned with protecting and enhancing their own position, wealth and authority, than with notions of governmental responsibilities and obligations as such.

There was a further feature of the pre-reform administration which had a profound effect on administrative behaviour, and to which brief reference must be made - the existence of a strict bureaucratic hierarchy. The hierarchy had been formalized by King Trailok as part of the administrative reforms of the fifteenth century and an elaborate system of correlated ranks, official titles and status marks established to indicate the exact position of an office and individual in the bureaucracy. An inferior was (and since this is still very much a characteristic of Thai society, is) expected to show deference in speech and behaviour to a superior, never questioning instructions or ideas received, never offering an opinion in return<sup>30</sup>. Were an official to receive instructions which he felt were unacceptable - if, for example, there were considerable practical difficulties involved in implementing the instructions - then, rather than pointing out the difficulties to the superior, the official would simply acknowledge the instructions but then, in some way, avoid carrying them out. Face-to-face confrontations, or even in some cases discussions, between

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29. In this context it is interesting to note that Prince Damrong was the first minister of the Mahatthai to undertake regular inspection tours of the provinces. His predecessors had been forced out of the capital only when a crisis in the provinces, such as a rebellion or the threat of invasion, had threatened their sources of income or their political positions. Prince Damrong op. cit. p. 24.

30. See: James N. Mosel Thai Administrative Behavior (in Toward the Comparative Study of Public Administration William J. Siffin (ed.) Indiana 1959 pp. 278-331).

inferior and superior, were to be avoided at almost any cost. A further aspect of this was the belief that a superior wishing to have some task performed simply gave his instructions to his subordinates and assumed that the matter would be dealt with. For the superior problems of implementation did not arise<sup>31</sup>.

A less formal structure of relationship was that of the patron-client. The patron-client relationship was another aspect of the kin mu'ang system, as for example where an official used his position to enable a client to avoid corvée obligations to another authority in return for some financial payment. However, such relationships were formed not only between officials and the people but were also very important within the bureaucracy itself. Clearly patron-client relationships were also hierarchical, since by the very nature of the relationship the patron must be of a superior status, the client of inferior, but at certain periods a divergence would appear between the formal structure of titles and ranks and the informal structure of patron-client relationships<sup>32</sup>. Informal alliances would develop between officials both within ministries and between them, which cut across the formal hierarchical structure of the individual ministries. In this way an official could secure immunity from the control of his formal superior by calling on the protection of his patron, even though the patron were in a separate, administratively unconnected department. As a result patron-client relationships could subvert the formal structure of each ministry, and to a considerable extent bureaucratic decisions would come to be made on the basis of the personal relationships or kinship ties of the officials involved. In the reign of King Mongkut the hierarchy of informal patron-client relationships was very much under the control of the Bunnag family, and indeed their influence in this respect extended back into the earlier reigns of the dynasty<sup>33</sup>. It was a corner-stone

31. ibid pp. 281-282.

32. For a thorough analysis see: Akin Rabibhadana The Organization of Thai Society in the Early Bangkok Period 1782-1873 (Cornell Data Paper no. 74 1969) esp. chaps 5-7.

33. ibid p. 147.

of their power: by manipulating these alliances they were able to influence the administration, to undermine the formal hierarchy of the Government through which the monarchy expected to operate.

It would be valuable at this point to return to the original aim of this section - to place this brief analysis of the pre-reform administration in the context of the government reforms of King Chulalongkorn, and more specifically, the place of the Ministry of Finance in those reforms. First, it should now be evident that the structure and bureaucratic methods of the pre-reform administration were incompatible with the efficient, effective and just government of the whole Kingdom - it should now be clear why reform was essential. An administrative structure with no strong central financial agency was unlikely to be able to mobilize and distribute the Kingdom's resources in such a way as to make possible the most effective government of the whole country from the capital. A judicial system in which judges and court officials made their living by ~~prizing~~ payments from litigants could hardly be just. A system whereby bureaucratic decisions were influenced by informal patron-client relationships, where the division of functions between ministries was severely confused, could hardly be efficient. Justice, efficiency and effectiveness of administration were to be achieved, in essence, in two ways. First, by a reform of the government structure, by the creation of a functionally-differentiated administration. Second, by the development of a bureaucracy in which officials had no personal financial interest in the outcome of their administrative decisions, where they were responsive to the criteria of efficiency and the concept of responsibility to the Government and the people.

Second, the importance of the Ministry of Finance in the reformed administration created by King Chulalongkorn should now also be evident. Of greatest importance, the Ministry was to be the strong central financial agency, receiving into the Government Treasury all the revenues raised in the Kingdom, disbursing funds from it to all the component parts of the administration in accordance with the agreed allocations laid down by the Government and set out in the budget. In addition, the Ministry was to establish and maintain a system

whereby all officials were paid salaries commensurate with their responsibilities and grade, and sufficient to make it no longer necessary for them to resort to kin mu'ang: this was also to involve the promulgation and enforcement of regulations to ensure the accountability of all monies passing through the administration, whether as revenue or expenditure. The analysis of the pre-reform administration above underlines the difficulties that were faced by the Ministry of Finance in this respect, particularly since at the time it was encouraging the emergence of western financial ethics throughout the bureaucracy, such ethics were by no means fully accepted within the Ministry itself. Concepts of administrative and financial propriety developed over a period of 400 years from the time of King Traiok were unlikely to be swept aside or even greatly modified in the space of two or three decades.

### 3. Financial reform in the early part of the Fifth Reign.

Some of the points made above can be demonstrated by a review of King Chulalongkorn's first attempts at financial reform, undertaken at the end of the Regency period and in the first years after his accession to full authority. Such a review will also provide the necessary introduction to the major reforms of the second half of his reign, which are the principal concerns of this study.

In the five years of the Regency - 1868 to 1873 - the King, and indeed the royal family as a whole, suffered a considerable loss of political and financial power at the hands of the Bunnags. In fact, towards the end of the Fourth Reign Chao Phrayā Si Suriyawong, the future Regent, had already transferred the administration of the spirit tax farms - and hence the revenues - away from the Privy Purse Department to his own ministry, the Kalāhōm<sup>34</sup>. During the Regency period itself the Bunnags carried out a number of dubious financial operations<sup>35</sup> which had the effect of reducing still further the

34. D. K. Wyatt The Beginnings of Modern Education in Thailand 1868-1910 Ph.D. thesis, Cornell 1966, p. 76 fn. 44.

35. D. K. Wyatt The Politics of Reform in Thailand p. 43

flow of revenues to the King and his family: indeed several princes found themselves in severe financial difficulties<sup>36</sup>. The financial reforms initiated by the King towards the end of the Regency period were primarily an attempt to restore the financial, and in turn political, power of the Crown.

In June 1873 the King issued a royal edict 'Pertaining to the Financial Department'<sup>37</sup>. It was an uninhibited, almost reckless assault on what the King saw as the inadequacies of the existing financial system - the control of the Bunnagffamily over sources of revenue (and the power which that control gave them over the informal structure of patron-client relationships in the bureaucracy), the retention of tax receipts within ministries and departments and the consequent starvation of the King's Treasury and Privy Purse, the inefficiencies and injustices of an administration based on kin mu'ang.

The edict created the Finance Office (the Ho Ratsadâkñaphiphat), a department controlled by the King and independent of the existing government structure: significantly it was situated within the walls of the Grand Palace<sup>38</sup>. The Kingdom's tax farmers were directed to remit their payments to the new department, the aim being to deprive the ministries of a major source of revenue and instead to deflect the flow of funds directly into the King's Treasury. At the same time strict regulations were drawn up to check the worst inefficiencies of the tax farming system. For example, each prospective farmer had to show proof of his financial resources and produce suitable guarantors willing to support his application. The bids for the farms were to be secret, the contract going to whichever farmer bid the highest. It was also decreed that were a farmer to fail to pay his instalments to the Finance Office for two consecutive months, then the contract had to be reauctioned, the defaulting farmer being made responsible for any loss suffered by the Government as a result of the reauction. These, and numerous

36. ibid p. 53.

37. An English translation of the edict appeared in Siam Repository vol. 4 April 1874 pp. 183-189.

38. Siam Repository vol. 4 January 1874 p. 17.

similar regulations were designed to ensure that the Treasury received something like the full value of the revenue from the tax farmers, who were notorious in their attempts to defraud the Government. Furthermore, an elaborate system of accounts and financial cross-checks was established to ensure that neither the tax farmers nor the officials in the Finance Office itself had the opportunity to retain some of the funds in their care for their own use.

Finally, the edict included a series of regulations governing the work of officials employed in the Finance Office. They were to work regular hours - from 10.00 a.m. to 4.00 p.m. They were forbidden to conduct government business in their own homes or indeed in any other place except the Finance Office. Officials were to appoint tax farmers solely on the basis of whoever offered the Government most for the contract: accepting fees, presents, commission or payment of any kind, and granting special privileges or assistance to any client were strictly forbidden. Furthermore it was made clear that 'the revenue is for the benefit of the State, and not for the benefit of any particular individual'. Finally, officials employed in the Finance Office were to receive salaries so making them financially independent of the actual conduct of government business<sup>39</sup>. The Finance Office was, therefore, the first Siamese government department to attempt to develop western methods of administrative behaviour.

In mid-1874 the newly-established Council of State held a series of meetings to consider further reform of the financial administration<sup>40</sup>. As a result, an additional edict was issued requesting ministries and departments to budget their expenditures in consultation with the Finance Office and to apply to the Office for permission for any unusual expenditures<sup>41</sup>.

39. Siam Repository vol. 4 April 1874 pp. 183-189.

40. Siam Repository vol. 4 October 1874 pp. 471-472. The Council of State was established by King Chulalongkorn in May 1874: it was composed of twenty senior government officials and members of the royal family and was to act as the advisory body for the Government on matters of state. D. K. Wyatt The Politics of Reform in Thailand p. 54.

41. D. K. Wyatt op. cit. p. 54.

One further administrative reform of this period should be noted. The Finance Office was the embryo of the Ministry of Finance established almost twenty years later. It was with the creation of the new Ministry that the various treasuries, the Phra Khlang Mahāsombat, the Phra Khlang Sinkha and the remaining financial divisions of the Phra Khlang itself were brought together. A major step towards this was taken in 1875 when the foreign affairs aspects of the work of the Phra Khlang, which had in fact dominated the Ministry from at least the early Bangkok period, were extracted from the Ministry to form a separate department. In 1885 this became the Department of Foreign Affairs with Prince Devawongse as its head.<sup>42</sup>

These financial reforms, though revolutionary in intent, were far from revolutionary in effect. In the first place the regulations for officials working in the Finance Office ironically did not apply to Prince Mahāmāla, an elderly uncle of the King and head of the Phra Khlang Mahāsombat, who had been instrumental in the establishment of the new department and was its director. He also held a senior position in the Ministry of the Palace where, of course, the old administrative methods were firmly entrenched. Therefore Prince Mahāmāla was allowed to continue to conduct his administration in the established manner - he continued to work from his own residence and to receive commissions and fees. His officials in the Finance Office, however, were expected to comply with the new administrative regulations. Understandably the new financial and administrative practices maintained only a tenuous existence in the new department: old and new existed side-by-side, undisturbed until the major reforms of the 1890s.<sup>43</sup>

Second, the development of the Finance Office was hampered by a shortage of qualified and able officials. Indeed the shortage was so acute that the King feared that the new department would fail to survive. Therefore in 1874 one of the major functions of the Finance Office, inspecting the revenue and

42. Prince Damrong Thesaphiban pp. 11-12.

43. Prince Damrong op. cit. p. 11.

expenditure accounts of the administration, was transferred to yet another new department, the Audit Office<sup>44</sup>. This too was independent of the existing administration and situated within the walls of the Grand Palace. In fact it was even more firmly under the control of the King than was the Finance Office: Prince Devawongse, Prince Narēt and Prince Sommot all found employment there. The King himself spent a part of each day working in the Audit Office. Undoubtedly it was run with an efficiency unrivalled in the government of that time. Eventually the Audit Office, because of its proximity to the King and the effectiveness of its administration, began to attract other responsibilities, often far removed from its original duties, in the manner characteristic of the pre-reform bureaucracy. In time the Audit Office became the Royal Secretariat, with the task of checking accounts only one of its many duties<sup>45</sup>.

But the major reason why the financial reforms initiated by King Chulalongkorn in the early 1870s failed to achieve the radical effect sought by the King, was that control of the Kingdom's sources of revenue remained to a considerable extent in the hands of the noble bureaucratic families, principally the Bunnags. These families saw to it that not all tax farms remitted their payments in full to the Finance Office<sup>46</sup>, though sufficient revenue was received by the Office to avert the bankruptcy that had threatened the royal family during the Regency period. In early 1875 the King found it necessary to defend the financial reforms initiated by himself and the Council of State. He pointed out that the Government was merely taking steps to ensure that it received the full value of the revenues to which it was entitled, and that such revenues were spent wisely. The only people who could object to the reforms were those who had been dishonestly diverting the revenues into their own pockets. The King emphasized that unless the Government received sufficient

44. The department was actually called by the English words 'Audit Office'.

45. Prince Damrong Phraprawat somdet phrachao boromawongthoe kromphraya thawa-wong waropakān (Biography of Prince Devawongse) Bangkok 1923 pp. 12-13.

46. Wira Wimoniti Historical Patterns of Tax Administration in Thailand Bangkok 1961 pp. 112-114.

funds it would be incapable of maintaining expenditure on such vital projects as the development of communications and other reforms which would benefit the people as a whole<sup>47</sup>. Yet the King's explanation could not disguise the fact that the reforms severely threatened the sources of income of the bureaucratic families, a point brought home when in 1874 the Minister of Lands, a member of the Privy Council and a nephew of Chao Phrayā SI Suriyawong, was dismissed from office on the grounds that he had misused government funds<sup>48</sup>.

Opposition to the King's reforms reached a climax in the so-called Front Palace Incident of December 1874 to February 1875<sup>49</sup>. On the night of 28 December 1874, a fire broke out near the gunpowder warehouse within the walls of the Grand Palace. The troops of the Second King, fully armed, sought an entrance to the Palace, offering their assistance in putting out the blaze. They were refused admittance. The Second King then fled and sought refuge in the British Consulate: there he was assured by the acting Consul that British aid - in fact a gunboat - was on its way from Hong Kong. This outside assistance failed to materialize. After considerable negotiation a compromise was reached between King Chulalongkorn and his Second King. The forces of the Second King were reduced to a maximum of 200 men: in return he was granted a larger proportion of the revenues of the Kingdom, an indication that the Second King and his supporters had been motivated in their attempted coup by, at least in part, a fear that the newly established Finance Office threatened their sources of income.

The Front Palace Incident brought the King's political and financial reforms to an abrupt halt: indeed the King was so shaken by the strength of opposition to his measures that he began to purchase property abroad in case in the future he should need to abdicate and go into exile<sup>50</sup>. Yet the financial reforms of the early 1870s left an important legacy. The establishment of the Finance

47. D. K. Wyatt The Politics of Reform in Thailand p. 57.

48. ibid p. 56.

49. For a much fuller description and analysis of the Front Palace Incident and of this period as a whole, see D. K. Wyatt ibid pp. 35-62.

50. D. K. Wyatt ibid p. 61.

Office and the Audit Office, and their development of accounting and auditing procedures signalled the determination of the King to assume firm control over the revenues of the Kingdom; though success was limited in the early 1870s for the rest of that decade and into the 1880s the King maintained the pressure in this respect with a series of edicts encouraging tax farmers and tax officials to remit tax receipts in full to the Treasury<sup>51</sup>. And though the new administrative methods introduced with the establishment of the Finance Office in 1873 never really took root in that department, they were nurtured and developed in the Audit Office/Royal Secretariat in the late 1870s and early 1880s by Prince Devawongse, Prince Naret and Prince Sommot. When, in 1885, Prince Devawongse was promoted to head of the Department of Foreign Affairs he introduced into his new department reformed methods of accounting and correspondence: he was the first Siamese minister to work regular office hours and to receive only a government salary<sup>52</sup>.

As the King's brothers rose to positions of authority within the bureaucracy in the 1880s, so the power of the Bunnag family began to decline. The ex-Regent died in January 1883, and in 1885 and 1888 respectively his brother, the Phra Khlang, and his eldest son, the Kalāhōm, retired. That, coupled with the death of the Second King in August 1885, allowed the King to embark on his second and principal period of reform<sup>53</sup>.

Yet it is important to note that though death removed serious political opposition to the King's reforms, it could not of course by itself seriously diminish the resilience of many of the bureaucratic attitudes and methods practiced by the noble families, attitudes and methods which had become deeply ingrained in the administration. In the late 1880s, within a few years of the waning of the power of the Bunnags, King Chulalongkorn began to refashion

51. A significant proportion of the documents concerned with finance in the earlier part of the Fifth Reign (up to 1885) held in the National Library is comprised of such edicts. For example chotmāihēt r.5 163/2 and 35/39.

52. Prince Damrong Thesāphibān p. 12/ Biography of Prince Devawongse p. 20.

53. D. K. Wyatt op. cit. pp. 84-85.

the structure of his Government, to create twelve functionally differentiated ministries, including a Ministry of Finance whose responsibility for financial matters was clearly defined and, in theory at least, unchallenged by other government departments. But to infuse that structure with the philosophy and ethos of new administrative methods - to overcome the established tendencies for ministries to covet their financial independence, to wean salaried officials away from the practices associated with kin mu'ang, to encourage co-operation between the ministries on financial matters so as to ensure the most effective use of the Kingdom's resources - these were to prove some of the major problems yet to be faced.

#### 4. The structure of the study.

Having provided a background to the establishment and development of the Ministry of Finance in the second half of the reign of King Chulalongkorn, it would be as well at this point to outline briefly the organization of the main part of the study. The following four chapters trace the chronological development of the Ministry of Finance between 1885 and 1910, with an emphasis on the evolution of the Ministry as an influential department within the Government, the growth of its control over the Government's finances, and its response to the various financial problems of the Government. The succeeding two chapters are concerned with two particularly important classes of reform undertaken by the Ministry over the same period - Chapter VI with exchange and currency reform, Chapter VII with the abolition of the tax farming system, with special reference to the most important farm, the opium monopoly.

## CHAPTER II

The early years of the Ministry of Finance :  
its establishment and collapse, 1885 - 1896.

In 1885 Prince Mahāmāla, the effective head of the Hō Ratsadākōnphiphat - the Finance Office - since its establishment in the early 1870s, retired; he was succeeded first by his nephew Prince Chakkraphatdiphong and then, when ill health prevented Prince Chakkraphat from playing an active part in government by another of King Chulalongkorn's brothers, Prince Narāthip Praphanphong<sup>1</sup>. It was Prince Narāthip, at that time<sup>only</sup> in his mid-20s<sup>2</sup> who was to guide the establishment of the Ministry of Finance and the introduction of the first financial reforms of the second reform period.

1. Prelude to the establishment of the Ministry of Finance : The Finance Office and revenue, 1885 - 1890.

Until the establishment of the Ministry of Finance in October 1890, Prince Narāthip was simply the head of the Finance Office, and as such his principal responsibility was to ensure that the revenues collected by the various ministries and departments were remitted in full to the Government Treasury. In the mid-1880s many, if not most of the taxes raised in the Kingdom remained under the control of departments other than the Finance Office. However, in 1886 an undertaking was obtained from the minister of the Kalāhōm, Chao Phrayā Surawong Waiyawat, the eldest son of the ex-Regent, that in future all revenues collected under his administration would be forwarded in full to the Finance Office, and furthermore that the auctions for all tax farms attributed to the Kalāhōm would be supervised by Prince Narāthip's department<sup>3</sup>. Over the following two or three years Prince Narāthip appointed groups of

1. D. K. Wyatt The Politics of Reform in Thailand pp. 85-87/p. 93 fn. 16.

2. Ratchasakunwong (Royal Genealogy) Bangkok 1969.

3. Chao Phrayā Rattanabodin to King, 1886. N.A.Kh. 14/3. In fact it appears that the Kalāhōm had been remitting its opium revenue to the Finance Office since 1884/85 (Accounts of opium revenue for Bangkok and Provinces collected by the Kalāhōm and remitted to the Finance Office 1884/85-1890/91 N.A.Kh. 14. lk/4).

officials to the Finance Office, each group being responsible for the revenues received by the Treasury from a particular Ministry: they were responsible for exerting pressure on that Ministry not to fall into arrears, for checking monies received and for preparing revenue accounts<sup>4</sup>. In 1888 six officials were appointed to check the overall flow of revenues into the Treasury<sup>5</sup>. It is evident that with the waning of the power of the Bunnag family in the 1880s the Finance Office under Prince Narāthip was in a much stronger position to increase the proportion of revenues reaching the Treasury than it had been under Prince Mahāmāla in the early 1870s when the Bunnags were at the height of their power. In this context it is important to note that already in 1885 the King's brothers held the positions of Ministers of the Capital, of the Palace, of Foreign Affairs and of Finance<sup>6</sup>. All the same it is interesting to remember that when, in 1886 the Kalāhōm agreed to remit its revenues to the Treasury, it was still under the control of a Bunnag.

In the late 1880s Prince Narāthip also introduced a series of measures designed to strengthen the Government's control of, and increase its revenue from, the three main tax farms - the spirit, gambling and opium monopolies<sup>7</sup>. The Government was particularly concerned about the opium farm.

In the first place it was the most profitable of the three main monopolies for the Government: in 1889/90 it yielded 2.0 m. baht<sup>8</sup>, approximately 15 per cent of the Government's total revenue. More importantly, by the late 1880s the administration of the opium monopoly had become so complex and demanding that only syndicates of the richest Chinese had the capital resources and business skills to bid for the contracts. In fact by that time a considerable proportion of the opium sales in the Kingdom were controlled by one syndicate;

4. Correspondence in N.A.Kh. 14/3.

5. Prince Narāthip to King, 11 February 1892, N.A.Kh. 1/5.

6. D. K. Wyatt op. cit. pp. 86-87.

7. In 1892/93, the first year for which there are adequate figures, these farms (including the lottery farm) contributed 7.5 m. baht to the Treasury out of a total revenue of 15.3 m. baht (R.F.A.B. 1903/04 p. 22).

8. Accounts of opium revenue for Bangkok and Provinces collected by the Kalāhōm and remitted to the Finance Office 1884/85-1890/91 N.A.Kh. 14.lk/4.

in 1890 an additional syndicate was formed merely to administer the retail sales in Bangkok's 1,200-odd opium shops<sup>9</sup>.

This heavy concentration of power had two main consequences, both damaging to the Government's interest<sup>10</sup>. As the wealth and power of the opium farmers grew, so paradoxically their position became more precarious. The profits to be made from the farm, the patronage associated with the position of opium farmer, encouraged intense rivalry between the syndicates competing for control of the monopoly, rivalry heightened by the fact that each syndicate was based on a particular Chinese secret society<sup>11</sup>. Since the Government was largely dependent on the one syndicate for a considerable part of its opium revenue, the financial collapse of that syndicate as a result of the machinations of its rivals could almost completely destroy the Government's revenue from that source. Second, and as an alternative, it was possible that with relatively few syndicates bidding for the opium contract, the farmers, instead of competing for the monopoly, would come to some prior agreement among themselves to allow each of them to hold the contract in turn, and in this way they would be able to reduce the price of the farm - the Government's revenue - and increase their own profits.

The King was so concerned about the vulnerability of the Government to the machinations of the opium syndicates and the instability and precariousness of the opium revenue that in 1889 he established a committee under the chairmanship of Prince Devawongse and including Prince Narathip and Chao Phraya Rattanabodin to examine the structure and operations of the opium monopoly<sup>12</sup>. After considering various new structures for the monopoly, the committee proposed that it be divided into several regions, with a separate farmer in

9. G. William Skinner Chinese Society in Thailand Ithaca, 1957, p. 121.

10. The following description of the operations of the opium monopoly is intended merely to illustrate briefly a few of the measures taken by the Government in the late 1880s to increase the flow of revenue into the Treasury. A detailed analysis of the tax farm system - and in particular the opium monopoly - is reserved for Chapter VII.

11. G. William Skinner op. cit. p. 140.

12. Joint letter from the committee to King, 4 January 1890 N.A.Kh. 14.1k/1. Chao Phraya Rattanabodin was the Minister of the Mahatthai.

each region. In this way the number of syndicates capable of bidding for a section of the opium monopoly would be increased and it was hoped that this would result in an increase in the total amount bid for the whole monopoly, as well as an improvement in the stability of the farms. The committee produced one further major recommendation: from the time the opium monopoly had been established at the beginning of the reign of King Mongkut<sup>13</sup>, the farmers had been allowed to prepare the raw opium for sale themselves, though their supplies of the raw drug were imported by the Government<sup>14</sup>. The committee suggested that in future the Government would take over some of the preparation of raw opium for sale to the farmers. The hope was that this tighter control over the distribution of legal prepared opium in the Kingdom would enable the authorities to deal much more effectively with a flourishing trade in illegal opium that was damaging the farmers' sales, and hence the Government's opium revenue<sup>15</sup>.

The report of Prince Devawongse's committee formed the basis for a 'Supplementary Law relating to the Opium Monopoly' which came into operation in April 1890<sup>16</sup>. Under this law, responsibility for the monopoly, which had been entrusted to the Kalâhôm since the Fourth Reign, passed to the Ministry of Finance - a clear example of the way in which, in the late 1880s, the major ministries of the pre-reform administration were abandoning their control over the Kingdom's revenues to a centralized finance department. The first auctions using the provisions of the new law were held in late March 1890: they resulted in a substantial increase in the Government's revenue

13. Prince Damrong Tamnân phâsi ăkñ bângyâng (The History of some Taxes) in Latthi thamniam tângtâng (Various Customs) Bangkok 1963 pp. 143-264. Tamnân phâsi fin (History of the Opium Tax) pp. 233-243.

14. Williamson to Prince Mahit, 20 March 1902 F.F.A. 6/2.

15. The opium monopoly was greatly affected by illicit trading in this period. Large-scale Chinese immigration into Siam in the later nineteenth century, coupled with a considerable expansion in the coastal trade between the Kingdom and the Straits Settlements led to almost uncontrollable opium smuggling.

16. 'Supplementary Law relating to the Opium Monopoly' 1890 F.F.A. 6/1. N.A.Kh. 2/1.

from the monopoly<sup>17</sup>.

Prince Narāthip's measures with regard to the spirit and gambling farms can be dealt with more briefly. In 1888 the Government closed every small gambling den in Bangkok Province - some 277 premises - and reduced the number of larger dens from 126 to 67<sup>18</sup>. By 1893 only 16 dens remained in the area of the capital. Over the same period the authorities introduced strict regulations for the remaining establishments, governing their hours of opening, their siting within the city and the forms of gambling allowed within them<sup>19</sup>. These changes were carried through without causing a fall in the revenue from gambling - quite the reverse. Improved methods of administration, tighter control of the operations of the den managers, allied to the fact that increased business at the remaining dens more than compensated for the revenue lost by the closure of the smaller ones, ensured a considerable increase in revenue for the Government from this source<sup>20</sup>.

With respect to the administration of the Kingdom's spirit farmers, Prince Narāthip took action in three areas. First, by an 'Internal Taxation Law' in 1886 and an 'Excise Law' in 1887 he codified and restated the current legislation governing the leasing out of the spirit farm contracts<sup>21</sup>: it was an attempt to enforce the law as it stood - an attempt to curb the worst violations

17. Notes on the 1890 opium monopoly auction attached to the Accounts of opium revenue for Bangkok and Provinces collected by the Kalāhōm and remitted to the Finance Office 1884/85-1890/91 N.A.Kh. 14. lk/4. In 1890 the estimated total opium revenue - including the Government's profit from the importation and preparation of opium - was put at 2.68 m. baht p.a.: in the mid-1880s the opium revenue had averaged 1.6 m. baht p.a.

18. Prince Damrong Ru'ang tamnān kānloekbōnbia lae lōek huai (The Abolition of Gambling Dens and the Huai Lottery) Prachum phongsawadān no. 17 Bangkok 1960, pp. 37-45.

19. ibid p. 37/pp. 41-42. Prince Narāthip to King, 13 November 1891 N.A.Kh. 14. lk/1(g). (The suffix (g) is added to distinguish this series of files from those concerned with the spirit monopoly. In both cases the series is denoted by 14. lk but the 'kh' is, in Thai, a different letter.)

20. Unfortunately no figures are available for the Bangkok area alone, nor for the period prior to 1892. However, between 1892 and 1896, when no more dens were closed, the revenue from all the dens in the Kingdom rose from 1.8 m. baht to 2.9 m. baht and this in a period when the increases in revenue from the other main monopolies were relatively small. (R.F.A.B. 1903/04 p. 22)

21. An outline of the 1886 and 1887 Laws can be gathered from scattered references in N.A.Kh. 14.lkh/1-39.

of the monopoly regulations by the farmers<sup>22</sup>. Second, from 1889 provincial authorities were instructed to carry out raids against illicit stills in their area<sup>23</sup>: production from these stills was, at that time, a major threat to the business of the spirit farmers and hence to the expansion of the Government's spirit revenue. Finally, also in 1889, responsibility for collecting the import duty on foreign spirits - until that point entrusted to the spirit farmers - was transferred to officials of the Customs Department<sup>24</sup>. This was an early portent of one of the most important financial reforms of the period - the gradual abolition of the system of tax farming and the introduction of tax collection by government officials.

Prince Narāthip's measures to increase the flow of revenue into the Treasury - involving both the introduction of stricter control over the opium, spirit and gambling monopolies, and the imposition of more effective pressure on the other ministries and departments to yield up their full revenue receipts - had a considerable, almost startling degree of success. In 1886 there was a sudden doubling of Treasury receipts over the figure for 1885, and the new level was maintained for the remainder of the decade<sup>25</sup>. By 1890 the Government Treasury was assured of a much greater and more reliable flow of funds than had ever before been the case. With the establishment of the Ministry of Finance in 1890, attention was to be focused on the problems of distributing

22. Again this is a subject which will be considered in detail in Chapter VII.

23. Instructions to provincial governors from the King, December 1889 N.A.Kh. 14.lkh/2.

24. Phrayā Anuman Rajadhon Tamnān sunlakakōn (History of the Customs Department) Bangkok 1939 p. 96/p. 118. However, according to Phrayā Anuman, the import duty on foreign spirits remained attributed to the farmers until 1901; between 1889 and 1901 the duty was apparently collected by the Customs Department, passed to the appropriate farmer who then made the agreed payment to the Treasury along with his other payments in connection with the farm.

25. The following figures are given by Wira Wimoniti (Historical Patterns of Tax Administration in Thailand p. 114) :

Treasury Revenue Receipts 1882-1889 (m. baht).

1882	6.92	1886	13.66	The break at 1885-1886 appears to be very sudden,
1883	7.39	1887	12.09	yet figures of the same order of magnitude were
1884	6.03	1888	13.65	quoted by Prince Narāthip to King (17 March 1893
1885	6.08	1889	12.02	N.A.Kh. 3/1). 1886 was the year in which the

Kalāhōm agreed to remit all its revenue receipts to the Finance Office.

those resources throughout the administration - on the problems of controlling Government expenditure.

## 2. The establishment of the Ministry of Finance, 1890.

It was also in the late 1880s that Prince Narāthip began reorganizing the various financial departments of the Government - gathering the financial functions of the administration into a rapidly expanding Finance Office all in preparation for the establishment of the Ministry of Finance. The re-organization reached fruition in October 1890 when, with the promulgation of an 'Act concerning the functions of the Ministry of Finance', the Ministry finally came into being<sup>26</sup>. In the words of the Act, the Ministry was to be responsible for

'receiving, disbursing and maintaining the whole income and treasure of the Government, for maintaining accounts, and for collecting the taxes throughout the whole Kingdom' 27.

The Ministry was divided into thirteen departments (krom) which in turn fell into three groups. First there were five administrative departments :

1. Krom Phra Khlang Klāng : the Central Office - responsible for the overall administration of the Ministry and the preparation of budgets.
2. Krom Sarabānchi : Accounts Department - responsible for the actual receipt and disbursement of monies to and from the Treasury in accordance with the budget estimates as well as the compilation of accounts.
3. Krom Truat : Investigation Department - responsible for investigating accounts, tax collections, and the general work of the Ministry.
4. Krom Kep : Treasury - the department actually responsible for the storing of the Government's cash and wealth.
5. Krom Phra Khlang Khāngthī : the Privy Purse Department

Then there were five taxation departments :

6. Krom Suai : Capitation Tax Department - to administer the various poll

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26. 'Act concerning the functions of the Ministry of Finance' 7 October 1890 N.A.Kh. 1/5. The Act is quoted in full in Wichai Prasangsit Prawatsanphākōn (History of Taxation) Bangkok, 1971, pp. 305-313.

27. ibid. Clause 1.

taxes levied in the Kingdom including the triennial Chinese poll tax.

7. Krom Sanphakṣon : Taxation Department - responsible for taxes which involved some form of licencing system principally the spirit, gambling and opium monopolies.
8. Krom Sanphasi : Taxation Department - responsible for taxes on goods where a fixed proportion of the value of the good was taken in tax, for example, the inland transit duties.
9. Kron Thi Din : Land Tax Department.
10. Krom Sunlakṣon : Customs Department.

Finally there were three production departments :

11. Krom Krasapsithikān : the Mint.
12. Krom Kanphimbat : Printing Department - for printing forms, instructions and notifications, but not currency notes.
13. Krom Ratchaphatsadu : a purchasing and sales department.

The Act went through each of the thirteen departments of the Ministry, carefully outlining the number of senior officials in each department, their rank and their exact responsibilities. Furthermore, the officials of the Ministry were instructed that if in their opinion their superior made an error they were to bring it to his attention; if the Minister himself was at fault then his subordinates had to place the matter before the King. Senior officials were assured that their Minister would be unable to dismiss them without the prior sanction of the King<sup>28</sup>. Such exhortations and assurances represented a clear break with the practices of the traditional bureaucracy.

This principal Act was rapidly followed by a number of smaller pieces of legislation dealing in more detail with the responsibilities and duties of the constituent departments of the Ministry. For example, that same month, October 1890, saw the promulgation of a 'Privy Purse Department Act'<sup>29</sup>. The Act was principally an attempt to define clearly a distinction between the finances of the King and the finances of the Kingdom. Such a distinction was

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28. ibid. Sections 4 and 5.

29. 'Privy Purse Department Act' 20 October 1890 N.A.Kh. 9. 1/1.

strictly meaningless in the old government system - the King was 'Lord of Life' and, in theory at least, every object in his domain was his personal possession. There was therefore no restriction on the King's ability to draw money from the treasury and to use it as he wished. However, at some point either in the late Ayudhya or early Bangkok period, the King decided to maintain a separate smaller fund, adjacent to the Throne Room, from which he could make disbursements on anything or to anyone he wished, without letting other officials know. Rama III greatly increased the size of this treasury and in the following reign the Phra Khlang Khāngthī or Privy Purse Treasury was created. As the importance of this separate account for the expenditure of the King grew, so a distinction between the finances of the King and the finances of the Government gradually developed. For example, in the Fourth Reign a number of residences were constructed for members of the royal family; the construction was financed by the Phra Khlang Khāngthī and as a result the residences were considered not the property of the Government but the property of their occupants.<sup>30</sup> The Privy Purse Act of 1890 developed the distinction a little further.

Prior to 1890 the Privy Purse, like virtually all departments in the administration, had attributed to it a number of tax farms and other sources of revenue; revenue receipts were sent in to the department where a varying amount was retained for the personal use of the King, the remainder being remitted to the Treasury. This was of course the standard practice in the traditional bureaucracy. The 1890 Act stipulated that in future all revenues received by the Privy Purse, including rent on property owned by the King and interest and profit on his financial transactions, were to be remitted in full to the Treasury<sup>31</sup>. In return, each year the Privy Purse would be allotted 15 per cent of the total revenue of the Government. Furthermore, since the Privy Purse was now a department within the Ministry of Finance, it was

30. Prawat samnakngān Phra Khlang Khāngthī (History of the Privy Purse Department) by the officials of the Department. Bangkok 1967, pp. 13-15.

31. It appears that this would apply only to rent and interest earned on capital attributed to the Privy Purse. The King and the royal family had considerable investments abroad and it is unlikely that the income from those came under provisions of this Act.

required to maintain accounts of all its transactions and to submit those accounts each month for examination by the Accounts Department of the Ministry. Indeed, if any of the activities of the Privy Purse directly involved the finances of the Government, the Department had to work through the Minister of Finance himself. Only for strictly private matters - for example if the King were to give money to a member of his family - was the Privy Purse independent of the Ministry. The Act came into force in April 1891<sup>32</sup>.

Then, in December 1890, an Act for the Krom Kep was promulgated<sup>33</sup>. Since the department was responsible for storing the Government's revenues and treasure, and therefore the department's officials were constantly handling vast sums of money, the Act was primarily concerned with establishing rigid standards of financial propriety. It was strongly emphasized that since officials now received a government salary they were strictly forbidden to accept any unofficial remuneration in the course of their work. At the same time a long list of regulations was compiled, covering virtually every financial transaction possible within the department; the object was to ensure that all monies were accounted for at all times so that officials would find it extremely difficult to divert the revenues into their own pockets<sup>34</sup>. Similar regulations were created for each department of the Ministry<sup>35</sup>.

### 3. The beginning and failure of budgetary control, 1890 - 1893.

The establishment of the essential structure and responsibilities of the Ministry of Finance in 1890 enabled Prince Narathip to proceed with the major task of framing a budget of the Government's revenue and expenditure. The

32. 'Privy Purse Department Act' 20 October 1890, N.A.Kh. 9. 1/1.

33. 'Krom Kep Act' 13 December 1890, N.A.Kh. 2/2.

34. For example : 'When an official of the Krom Kep receives gold, precious stones of any description, gold or silver ornaments brought to the Department by an official from the Krom Sarabānchi, he must give the Krom Sarabānchi a signed, sealed receipt for each item' / 'When an official receives or disburses cash, deposits it in the Treasury or withdraws it, he must immediately note the transaction in the accounts. At the end of each day, all accounts must be checked and closed.'

35. Prince Narathip to King, 20 November 1890 N.A.Kh. 1/5.

first attempt to produce a comprehensive budget appears to have been made towards the end of 1891 in preparation for the inauguration of the reformed structure of government the following April, the beginning of the Siamese year<sup>36</sup>. Certainly the Ministry of Finance at least proved capable of compiling accounts of the principal heads of revenue and expenditure, as well as revenue and expenditure totals for the year 1892/93, though it would be extremely difficult, in fact impossible, to estimate how accurate the Ministry's figures were<sup>37</sup>. Yet it would seem that this first budget was not compiled and implemented without producing considerable friction and argument between the Ministers, and particularly between the Ministers and Prince Narāthip.

At the root of these conflicts was the fact that the Council of Ministers, legally inaugurated in April 1892, was unwilling or perhaps unable to devise procedures for resolving inter-ministerial disputes and for arriving at an agreed set of governmental priorities. To a considerable extent the disunity of the Council derived from the fact that in mid-1892 the King withdrew from the immediate daily affairs of government, hoping to pass the burden of administration to his Ministers, leaving himself responsible only for the direction of the broad outlines of Government policy. In the following few months he spent an increasing amount of time at Kø Si Chang, his island in the Gulf of Siam<sup>38</sup>. The removal of the King's steady influence and experience proved fatal. Sir Henry Norman, who was in Bangkok at this time, described the activities of the Council of Ministers in the year 1892/93

36. Prince Narāthip to King, 11 December 1891 N.A.Kh. 1/5.

37. There exists in the National Archives no record of the discussions that went into the production of this budget, nor indeed a copy of the budget itself. However, a detailed statement of Government revenue and expenditure for the period from 1892/93 was published in the R.F.A.B. 1903/04 pp. 22-23. But of course it is a statement of actual revenue and expenditure in that period, not of the budget estimates.

38. Sir Henry Norman Urgency in Siam Contemporary Review LXIV (1893) p. 738. For the general internal political situation in the early 1890s see Chapter 4 of D. K. Wyatt The Politics of Reform in Thailand.

as

'a nine months' carnival of intrigues and jealousies, followed by a three months' nightmare of cabals and recriminations' 39

In such an atmosphere it was clearly very difficult for the Ministry of Finance to fulfill its principal responsibility - to work in consultation with the other Ministries in imposing control over the total level of Government expenditure and over the allocation of that expenditure between the various Ministries and departments.

However, Prince Narāthip's response to this situation undoubtedly made the task of his Ministry even more difficult, if not impossible. First, in deciding the expenditure allocations of the Government his attitude was to refuse any new or unusual outlay<sup>40</sup>. As long as total expenditure was covered by the year's revenue he was not over-concerned about its distribution among the Ministries. For example, when in early 1892 the commander of the army, Chao Phrayā Surasakmontri presented a request for new equipment and uniforms for his troops, the request was refused out of hand by Prince Narāthip with the comment that

'nowadays the whole world has stopped using weapons of war and has taken to the pen instead' 41

Perhaps in the circumstances such blunt, indiscriminate tactics on the part of Prince Narāthip were the only means by which some basic control over the total level of expenditure could be maintained. But inevitably those same tactics strengthened the determination of Ministers to escape or subvert the control of the Ministry of Finance.

39. Sir Henry Norman The Peoples and Politics of the Far East London 1895 p. 451. At this point it is important to note that for the period up to 1896-1897 the documentary evidence is rather scanty and disorganized, reflecting partly the underdeveloped nature of administrative procedures and partly the later virtual collapse of the Government. For this reason, for this period one has to rely to some considerable extent on Norman's book, though as Wyatt points out (*op. cit.* p. 95 fn. 18) many of the specific opinions he offers are questionable. On the other hand, the available documentary evidence does support his general picture.

40. W. A. Graham Siam vol. 1 p. 338.

41. D. K. Wyatt *op. cit.* p. 96/Prince Narāthip to King, 26 April 1892 N.A.Kh. 1/9. It should be added that Prince Narāthip was a leading Siamese literary figure.

Ministers could achieve this either by ignoring the expenditure estimates completely, or by retaining some of the revenues still collected under their administration instead of remitting them in full to the Ministry of Finance. Indeed, in this period, the early 1890s, the practice developed of ministries holding a proportion of their funds in the Bangkok branch of the Hongkong and Shanghai Bank, out of sight of the Ministry of Finance<sup>42</sup>. The retention of revenues was, of course, a prominent feature of the pre-reform administration, but it is important to note that its existence in the 1890s was more a reflection of the clumsiness and, as the Ministers saw it, the injustice of Prince Narathip's methods of financial control, rather than an attempt by Ministers and senior officials to enrich themselves. The attempts to avoid the budgetary control of the Ministry of Finance in turn strengthened Prince Narathip's determination, for in the period after 1890 the Minister attempted with increasing steadfastness to ensure that the full proceeds of the taxes levied in the Kingdom were forwarded to the Treasury<sup>43</sup>. In 1891 he circulated a memorandum to each department stating that any official found holding back the revenues in his care would be severely punished<sup>44</sup>, and in June 1892 the King himself wrote to the Council of Ministers urging each Minister to forward all the revenues collected under their authority to the Treasury, in accordance with the revenue estimates<sup>45</sup>.

Second, in a situation where almost every Ministry had a list of projects which it was eager to see implemented<sup>46</sup>, but where those projects were frequently frustrated either because the Minister concerned lacked sufficient

42. W. A. Graham op. cit. p. 338.

43. In a letter to the King on 28 January 1893 (N.A.Kh. 20. 1/12) Prince Narathip referred to 'imminent' legislation forbidding government departments from maintaining secret accounts at the Bangkok banks. No such legislation appeared.

44. Prince Narathip to King, 30 July 1891 N.A.Kh. 1/5.

45. King to Council of Ministers, 28 June 1892 N.A.Kh. 5. 1/3.

46. See for example the numerous educational schemes put forward by Prince Damrong as Minister of Public Instruction, 1889-1892: D. K. Wyatt op. cit. chapter 5.

political weight in the Council<sup>47</sup>, or because of the parsimonious attitudes of the Ministry of Finance, it became a matter of annoyance for Ministers that the Ministry of Finance itself always seemed to have adequate resources for its schemes. There was little or no evidence that Prince Narathip was willing to impose the same standards of financial austerity on his own Ministry that he was imposing on those of his colleagues.

Three of Prince Narathip's reforms in particular stood out as objects of controversy, and perhaps envy. First there was a proposal for the introduction of a Government paper currency, a proposal that involved the ordering of some 4 million specially printed notes from Europe in late 1890<sup>48</sup>. Second, Prince Narathip, as part of a series of measures designed to improve the efficiency of the Royal Mint, proposed ordering expensive modern baht-minting and copper-coin minting machinery from Europe<sup>49</sup> to replace the existing dilapidated equipment which had been installed over thirty years previously<sup>50</sup>. Finally, the Minister embarked on a series of tax reforms, including the introduction of more systematic and effective procedures for the collection of the triennial Chinese poll-tax (due in 1891)<sup>51</sup> and more importantly the introduction of measures designed to reduce the Government's reliance on the tax farmer for its revenue and to increase the proportion of revenue collected directly by Government officials<sup>52</sup>. The 'Inland Transit Duties Act' of 1893, which codified and simplified the mass of duties levied on goods in transit in the

47. Note the contrast of the limited achievements of the Ministry of Public Instruction under a weak Minister 1892-1897. D. K. Wyatt op. cit. chapter 6.

48. Prince Narathip to King, 1 November 1890 N.A.Kh. 11. 1/1.

49. Prince Narathip to Phraya Maha Yotha, 6 January 1893 N.A.Kh. 10. 1/1 : Prince Narathip to King, 17 November 1891 N.A.Kh. 10/1.

50. R. S. Le May The Coinage of Siam The Siam Society, 1932 p. 85.

51. For example, the police forces of the capital were reorganized so that all coolies working in Bangkok could be traced and taxed; in addition, new certificates of taxation and wrist seals were produced. (Prince Narathip to King, 5 June 1891/15 July 1891 N.A.Kh. 13. 1/1)

52. Report of Prince Devawongse's committee, 11 March 1893 N.A.Kh. 5. 2/1.

Kingdom<sup>53</sup>, contained provisions for the collection of at least some of those duties by officials from the Krom Sanphāsi<sup>54</sup>. According to Wira Wimoniti, this was the first legislation that supported the collection of revenue directly by the Government<sup>55</sup>. However, whilst Prince Narāthip remained Minister these proposals were more a declaration of intent than an actual achievement<sup>56</sup>, though ironically they were to play an important part in the crisis which led to Prince Narāthip's resignation in early 1893.

Inevitably the tax reforms too involved an increase in Government expenditure, in this case principally to pay the salaries of the large numbers of new officials appointed to carry out the tax collections and supervisions. Indeed in the few years following the establishment of the Ministry in 1890, Prince Narāthip made an almost constant series of new appointments to all departments under his authority. In December 1891 additional officials were engaged to work on the budget<sup>57</sup>; still more were recruited the following month<sup>58</sup>. The staff of the Customs Department was increased in March 1892<sup>59</sup>; new appointments were made to the Accounts Department in late 1892<sup>60</sup>. Without doubt at that time each Ministry was involved in expanding its staff in preparation for the increase in Government functions and responsibilities, but it is unlikely that any Ministry matched that of the Ministry of Finance. It appears that in just the two years April 1890 to April 1892 the number of

53. 'Inland Transit Duties Act' F.F.A. 9/1 N.A.Kh. 14. 2k/19.

54. Phraya Anuman Rajadhon History of the Customs Department pp. 44-46.

55. Wira Wimoniti Historical Patterns of Tax Administration in Thailand p119. Presumably Wimoniti is referring to the modern period - post Third Reign.

56. The only significant example of the abolition of a tax farm and the introduction of collection by officials in this period which I have been able to find concerned the 'Boat, Shop and House Tax' for the Bangkok area which came under direct Government control in 1893. (Correspondence in N.A.Kh. 14. 2k/8 and Report of Prince Devawongse's committee 11 March 1893 N.A.Kh. 5. 2/1).

57. Prince Narāthip to King, 11 December 1891 N.A.Kh. 1/5.

58. Prince Narāthip to King, 23 January 1892 N.A.Kh. 1/5.

59. Prince Narāthip to King, 31 March 1892 N.A.Kh. 1/5.

60. Prince Narāthip to King, 22 December 1892 N.A.Kh. 1/5.

officials employed in the Ministry of Finance virtually doubled<sup>61</sup>: over the same period it is almost certain that the expenditure of the Ministry increased by at least a similar amount<sup>62</sup>.

It hardly requires noting that the three main reform proposals of Prince Narāthip - involving the Mint, taxation and the introduction of a Government paper currency - would have been of considerable benefit to the Kingdom. The increased revenue resulting from the tax reforms, the encouragement to trade resulting from the introduction of paper notes and a guaranteed supply of silver baht from the Mint would, within a very short space of time, more than have repaid the initial expenditure. But again that was not the point at issue. At a time when the Council of Ministers was incapable of agreeing on an order of priorities for Government expenditure, and indeed when the Council appears to have abandoned its attempts to reach such an agreement, when the budget allocation of each Ministry depended almost exclusively on its Minister's political ability to secure his wishes amongst the 'carnival of intrigues and jealousies' in the Council, there was inevitable resentment at the success of any Minister who was able to finance the projects of his department. Yet the resentment against Prince Narāthip was particularly strong, partly because as Minister of Finance he was striving to control the Kingdom's revenue resources, and therefore, by implication, was moving towards a position of considerable influence over the expenditure of the other Ministries, and partly because there was a strong suspicion that not only was Prince Narāthip

61. It is extremely difficult to give accurate figures for the number of officials employed in the Ministry, particularly for this early period. The Government Gazette (Rāatchakitchānubēksā) periodically published lists of the officials in each Ministry, but comparisons over time are difficult, partly because the definition of what was a sufficiently important position to be included in the Gazette changed, and partly because in any one year one official could hold several posts. However, the issue for 20 April 1890 (vol. 7 pp. 32-34) lists some 70 positions in the Finance Office; the issue for 5 June 1892 (vol. 9 pp. 62-65) gave 134 posts in the Ministry of Finance on 1 April 1892.

62. Again it is virtually impossible to supply figures for this early period since there are no published figures for the expenditure of individual Ministries prior to 1892/93. However, some indication of the inflation in the Ministry's expenditure in the early 1890s can be gathered from the fact that in 1892/93 its accountable expenditure was 0.763 m. baht, but the following year, under a new Minister, it was cut to 0.308 m. baht. The figure for 1892/93 was not reached again until 1897/98. (R.F.A.B. 1903/04 pp. 24-25.)

capable of securing virtually all the required budget allocations for his proposals, but moreover that he was being extravagant in his budget demands.

#### 4. The resignation of Prince Narāthip, March 1893.

The conflict between Prince Narāthip and the other Ministers came to a head in 1893. In late February and early March of that year Prince Narāthip submitted to the King the detailed expenditure estimates of every Ministry, including those of the Ministry of Finance itself, for the year 1893/94<sup>63</sup>. It was Prince Narāthip's hope that in that year a considerable proportion of the revenue - apart from that derived from the major spirit, gambling and opium monopolies - would be collected by officials rather than farmed out: consequently in the estimates for his own Ministry he allowed for a substantial increase - in some cases a doubling - in the expenditure of the revenue departments, particularly the Krom Sanphāsi and Krom Sanphākōn<sup>64</sup>. However, because officials employed in the revenue departments would take some time to become proficient in the collection of taxes, Prince Narāthip estimated that in 1893/94 the revenue collected by those departments would in fact be lower than the amount received from the tax farmers the previous year. Though there appears to have been support in the Council for Prince Narāthip's basic proposals, there were strong objections that his actual estimates were extravagant, and demands that he greatly reduce the allocations of his revenue departments. But the Minister agreed in the first instance to an insignificant reduction of only 1,600 baht in the budget for the Krom Sanphāsi<sup>65</sup>. In order to break the deadlock the King appointed a committee headed by Prince Devawongse and containing Prince Damrong, Prince Phānuphanwong, Prince Narit and Prince Svasti<sup>66</sup> to examine the budget estimates of the Krom Sanphāsi and Krom Sanphākōn. The committee found Prince Narāthip's estimates for the two departments extravagant,

63. Correspondence contained in N.A.Kh. 5. 1/4.

64. Report of Prince Devawongse's committee, 11 March 1893, N.A.Kh. 5. 2/1.

65. *ibid.*

66. Phraya Anuman Rajadhon Phraprawat phraworawongthoe phra ong chao phrōmphon athirāt (Biography of Prince Phrōm) in History of the Customs Department p. ii.

and by reorganizing the responsibilities of the departments, including transferring certain of their functions to other parts of the administration<sup>67</sup>, they were able to impose large cuts in the estimates. The budget for the Krom Sanphasi and the Customs Departments alone was cut by more than 100,000 baht<sup>68</sup>.

But that was not the end of the matter. Whilst examining the accounts of the revenue departments the committee uncovered considerable extravagance and mismanagement in other sections of Prince Narathip's Ministry, and with the approval of the Council of Ministers proceeded to examine in detail the accounts of the Central Office, the Accounts Department, the Treasury and the Mint<sup>69</sup>. As a result of these investigations the committee recommended a number of minor amendments to the structure of the Ministry of Finance, with the objects of strengthening the audit and accounts procedures of the Ministry and of reducing the number of officials employed there.

The committee then went on to examine two specific reforms promoted by Prince Narathip, the reorganization of the Mint and the introduction of a paper currency. They suggested that the plan to import new machinery to mint copper coins be abandoned, though they were agreed on the necessity for new baht producing machinery. It was also suggested that the number of staff at the Mint be reduced. The committee proposed that Prince Narathip's paper currency scheme be dropped. It was felt that unless the success of the scheme could be guaranteed - that the public would have confidence in the notes and that the Government would be able to maintain the convertibility of the issue - Siam would suffer a severe loss of face, as well as a considerable financial loss, were the scheme to fail<sup>70</sup>. There was also the point that as the Hongkong and Shanghai Bank already had notes in circulation, there was less urgency

67. For example, the collection of certain land taxes was transferred to the Ministry of Agriculture.

68. Report of Prince Devawongse's committee, 11 March 1893, N.A.Kh. 5. 2/1.

69. Report of Prince Devawongse's committee, 17 March 1893, N.A.Kh. 5. 2/2.

70. *ibid.*

for the Government to proceed with its scheme<sup>71</sup>.

Yet there was a more disturbing aspect to this matter. In its investigations Prince Devawongse's committee came across numerous serious discrepancies in the accounts of particular departments. For example, the committee could not make the accounts of the opium revenue balance for any month in the year 1892/93<sup>72</sup>. These discrepancies could not be explained simply in terms of administrative incompetence or in terms of defective accounting procedures. The committee became increasingly convinced that large-scale misappropriation of the Government's revenue was taking place within the Ministry of Finance - and that Prince Narāthip was involved in it.

One of the most serious of the misappropriations concerned the funds of the Privy Purse. In the early 1890s the head of the Privy Purse Department had been unable to carry out his work, apparently because of ill-health, and responsibility for the running of the Department had passed to his superior, Prince Narāthip<sup>73</sup>. Prince Narāthip was confident that in time he would be made Director of the Privy Purse Department in his own right (whilst retaining the position of Minister of Finance) and so he gave instructions for the accounts of the various departments of the Ministry to be transferred to the Privy Purse<sup>74</sup>. In effect the Privy Purse Department was being made the main administrative unit for the whole Ministry. As a result there was a danger that the distinction between the finances of the King and the finances of the Government would be lost. In addition, as Minister of Finance Prince Narāthip was responsible for the private accounts of the wives and children of the King at the Hongkong and Shanghai Bank in Bangkok; these accounts were usually held in trust in the names of Prince Narāthip and Prince Sommot, the King's secretary. It was alleged that Prince Narāthip had misled Prince Sommot and on

71. The Bank's notes had been issued from 1889 (Prince Devawongse to J. R. M. Smith - manager of the Bangkok branch - 31 December 1888. Records of the Bangkok branch of the H.S.B.C., held in the Bank in Bangkok.)

72. Report of Prince Devawongse's committee, 11 March 1893 N.A.Kh. 5. 2/1.

73. King to Prince Sommot, 21 March 1893 N.A.Kh. 3/1.

74. Prince Devawongse to King, 20 March 1893 N.A.Kh. 3/1.

his own initiative had withdrawn money from those accounts, though it was never stated to what use he had put the money<sup>75</sup>.

The anger of the Council of Ministers engulfed Prince Narāthip. He was subjected to a constant stream of accusations and insults which on 16 March 1893 culminated in a demand from the Minister of Agriculture, Čhao Phrayā Surasakmontri, that he be dismissed from his post<sup>76</sup>. On that occasion Prince Narāthip was saved by the intervention of Prince Devawongse, but then, within a few days as Prince Devawongse continued his investigation into the affairs of the Ministry of Finance he too became convinced that the Minister was guilty of financial malpractices. On 20 March he wrote to the Hongkong and Shanghai Bank instructing them not to allow Prince Narāthip to draw on any of the accounts in his name unless prior permission had been given by Prince Sommot<sup>77</sup>. That same day he wrote to the King calling for Prince Narāthip's dismissal for, he argued, to allow him simply to resign would constitute insufficient punishment<sup>78</sup>.

In two letters to the King<sup>79</sup> Prince Narāthip strongly denied that he was guilty of any malpractice, arguing that the discrepancies discovered in the accounts of his Ministry had arisen without his knowledge or involvement. He also argued, with some justification, that the charges of extravagance were in part unfounded since all the Ministry's expenditure had, in theory at least, been approved by the Council of Ministers and the King himself. In addition Prince Narāthip drew attention to the achievements of the Ministry under his direction, particularly its success in increasing the flow of revenues into the Treasury. But he also asked the King for permission to resign, not, he emphasized, as an admission of guilt, but simply because resignation was the only way for him to escape from the hostility of the other Ministers.

75. ibid.

76. Prince Narāthip to King, 17 March 1893 N.A.Kh. 3/1.

77. Prince Devawongse to Browne (R.S.B.C.), 20 March 1893 N.A.Kh. 3/1.

78. Prince Devawongse to King, 20 March 1893 N.A.Kh. 3/1.

79. Prince Narāthip to King, 17 March/19 March 1893 N.A.Kh. 3/1.

His request was granted: he was saved the ignominy of dismissal. On 21 March 1893 Prince Narit, who had been Minister of Public Works since 1889, became Minister of Finance; at the same time Prince Sommot became Director of the Privy Purse Department<sup>80</sup>. Prince Narāthip never again held a ministerial position<sup>81</sup>.

The resignation of Prince Narāthip in 1893 leaves one important question: was he forced to resign primarily because of his alleged financial malpractices or because since 1890 he had, through his budget policies, attracted the enmity of the other Ministers to the extent that his removal was widely desired? Certainly the Ministers, and in particular Prince Devawongse, expressed outrage at Prince Narāthip's alleged malpractices, but on balance the evidence suggests that the Minister's dubious financial dealings were merely the immediate cause of his downfall, not the fundamental factor behind his dismissal. In this respect it is important to note that the Minister who demanded the resignation of Prince Narāthip at the meeting of the Council on 16 March 1893, Chao Phrayā Surasakmontri, had, as commander of the army, been refused a request for an increased budget allocation by the Minister of Finance in early 1892<sup>82</sup>. Revenge may have been uppermost in the mind of the Minister of Agriculture in March 1893. Furthermore it is significant, and indeed ironic, that within a few months Chao Phrayā Surasakmontri himself was accused of the unauthorized use of his Ministry's funds, and yet was allowed to clear his name and retain his position<sup>83</sup>. This would strongly suggest that in the circumstances of the time it was extremely unlikely that a Minister would be dismissed solely for financial malpractices<sup>84</sup>.

However one important distinction between the cases of Prince Narāthip and Chao Phrayā Surasakmontri must be noted. Prince Narāthip was Minister of

80. King to Prince Narāthip, 21 March 1893 N.A.Kh. 3/1.

81. Rātchasadakunwong (Royal Genealogy) Bangkok 1969.

82. See p. 50

83. D. K. Wyatt The Politics of Reform in Thailand p. 296.

84. This is the view accepted by D. K. Wyatt, *ibid.*

Finance, the head of a newly established Ministry, part of whose responsibilities was to introduce and promote western-orientated concepts of financial propriety. It is therefore possible that when the accusations of financial malpractice were made against the Minister, the King and the Council took a much sterner view of the matter than would normally have been the case.

##### 5. Prince Narit as Minister of Finance, 1893 - 1894.

The resignation of Prince Narathip pushed the Council of Ministers further along the path from disorder to complete disintegration. By the time the crisis with France, which had been gathering momentum with a series of border incidents in early 1893, finally broke in July 1893, the Council of Ministers was incapable of effective and rational administration. It was to a significant extent through the adroit diplomacy of Prince Devawongse, working independently of the Council, that the sovereignty of Siam was preserved, though at considerable cost. Siam was forced to cede the whole of her territory on the left bank of the Mekong, including Luang Prabang, withdraw her forces to a distance of 25 km. from the west bank, evacuate the provinces of Battambang and Siemrap and to pay an indemnity of 3 m. francs. In addition the French were to occupy Chantabun until Siam evacuated the left bank of the Mekong<sup>85</sup>.

The territorial losses suffered by Siam, coupled with the collapse of the Council of Ministers, brought the King to the point of a complete physical and nervous breakdown which effectively removed him from the administration

85. D. G. E. Hall A History of South-East Asia 3rd. ed. (London 1968) pp. 679-701.

<sup>86</sup> of the Kingdom. Inevitably the machinery of government almost ceased to function and indeed, after August 1893 the Council of Ministers no longer met<sup>87</sup>. Certain Ministries were able to survive this collapse and continue reforms and projects begun in the earlier period - notably the Ministry of the Interior which pressed ahead with its reorganization of the provincial administration, and the Ministry of Foreign Affairs which had to deal with the French crisis and its aftermath. The relative vitality of those Ministries was, however, merely a reflection of the resourcefulness and independence of their Ministers, Prince Damrong and Prince Devawongse. But those Ministries which lacked an energetic Minister and where there was little or no reform momentum (and this included the Ministry of Finance) slipped into inactivity and apathy, for the King had neither the physical or mental strength, nor it seems the interest to encourage and support their work.

But in the years immediately following the collapse of the Council the Ministry of Finance had to bear a further handicap, a legacy of the years prior to 1893. It was not simply that the Ministry had to contend with the

86. In November 1893 Scott, the British Minister in Bangkok, informed the Foreign Office that in the previous 4 months the King had lost 3 stones in weight and had abandoned all interest in life. (Scott to Lord Rosebery, 24 November 1893 Tele. 109 P.R.O. F.O. 69/150.) In June 1894 he reported that the King, now at K<sup>o</sup> Si Chang, had a high fever and that it was believed that death was imminent. (Scott to Earl of Kimberley, 21 June 1894 Tele. 40 P.R.O. F.O. 69/153.)

There is also some evidence on this point from Robert Morant, the tutor to the Crown Prince, who was dismissed from his post in early 1894. On his return to London he wrote a 'Memorandum on the Present Political Situation in Siam. The Misleading Nature of the Current Reports thereon and the Grave Condition of Her Internal Affairs' July 1894, which he submitted to the Foreign Office (P.R.O. F.O. 17/1223 China File). Because of the circumstances surrounding his departure from Siam, Morant certainly cannot be regarded as an independent observer, (and in this context it is important to note that he was Sir Henry Norman's principal informant - see p.<sup>50</sup> fn.<sup>39</sup>), but he was, one would imagine, almost the only foreigner to see the King regularly at this time. He wrote that in August 1893 the King 'was as nearly as possible imbecile ... though it is at the same time incorrect to suppose that he is or has been in a condition of pronounced active insanity.' Though he had since improved, Morant suggested that 'he has lost all will-power and all initiative, is a prey to perpetual despondency, and also entirely "possessed" by the spirit of distrust and suspicion of everyone who approaches him.' These were certainly the symptoms of acute depression.

See also : D. K. Wyatt op. cit. pp. 95-96/Sir Henry Norman op. cit. pp. 435-439/451-453.

87. Sir Henry Norman op. cit. pp. 451-452.

stigma attached to the scandal of Prince Narāthip's resignation: more importantly it had to overcome the antagonism and resentment felt by the other Ministries at its earlier attempts to impose some measure of control over their financial affairs. Clearly there could be no question of the Ministry tackling that crucial problem until the King had returned to the centre of the Government and until the Council of Ministers had been resurrected and was operating in a conciliatory manner. As a result for the short period for which Prince Narit was Minister of Finance, March 1893 to December 1894, the Ministry was almost dormant.

A skeleton set of revenue and expenditure estimates for 1893/94 prepared by Prince Narāthip and of course amended by Prince Devawongse's committee was inherited by Prince Narit, but there is no indication that the Ministries attempted to abide by those estimates or that Prince Narit attempted to enforce them. The Ministry of Finance prepared a very rough budget for 1894/95 and despite the difficulties involved in convening a meeting of the Ministers to consider the estimates<sup>88</sup> and the King's indisposition, it appears to have been discussed and sanctioned. Unfortunately the 1894/95 budget appears to have been inoperative, for some Ministries seem to have been without approved funds for that year<sup>89</sup>. Inevitably those Ministries were forced to work outside the budget, to finance their administrations by retaining a proportion of the revenues collected under their auspices and by maintaining undisclosed accounts at the Hongkong and Shanghai Bank<sup>90</sup>. It would not be an exaggeration to suggest that in the period whilst Prince Narit was Minister of Finance the Ministry exerted practically no control over the finances of the Government.

88. King to Prince Narit, 27 February 1894 N.A.Kh. 5. 1/4.

89. Even the Ministry of the Palace complained to the King that it had received little or no funds from the Treasury (Official in the Ministry to King, 26 November 1894 N.A.Kh. 5. 1/4.).

90. W. A. Graham Siam vol. 1 p. 338. This situation was well reflected in the statements of actual accountable Government expenditure. Total expenditure fell from 18.17 m. baht in 1893/94 to 12.48 m. baht in 1894/95. More significantly, the accountable expenditure of the important Ministry of the Interior was, at 0.205 m. baht the lowest of all the Ministries in 1894/95 save the Ministry of Justice (R.F.A.B. 1903/04 p. 24). The implication is that to a considerable extent Prince Damrong's Ministry was financing its work outside the budget - from its own sources of revenue.

The Ministry's weakness revealed itself in another way. In March 1893, when the accounts of the Ministry were under investigation by Prince Devawongse's committee, the contracts for the opium farms came up for re-sale, but in the confusion no auctions were held for many of the principal farms<sup>91</sup>. A short time later two tax farmers, Phra Phakdiphatarakon and Phra Charoenratchathorn, asked the Ministry of Finance for the contract to administer the opium monopoly for virtually the whole Kingdom, undertaking to increase considerably the Government's opium revenue<sup>92</sup>. The Ministry agreed<sup>93</sup>. Indeed it appears that it was willing to go further and transfer control over virtually all aspects of the monopoly's operations to Phra Phakdi and Phra Charoen, for the farmers were allowed to buy the Government's stock of raw and prepared opium<sup>94</sup>. In effect from mid-1893 Government control of the activities of the opium farmers was reduced to periodic inspections of their accounts by the Krom Sarabanchi. It would seem that this abrogation of responsibility by the Ministry of Finance - against the recommendations of the 1889 committee on the opium monopoly and against the stipulations of the 1890 opium law - arose from the fact that the Ministry, shaken by a severe internal crisis within three years of its establishment, feared that in the future it could prove incapable of efficiently administering the monopoly. Phra Phakdi and Phra Charoen's offer was regarded as the only effective way of maintaining the Government's revenue from opium. Alternatively it is possible that the Ministry, its administrative machinery in ruins, simply lost control of the situation.

Indeed in the otherwise rather barren period of Prince Narit's tenure of the Ministry of Finance only two positive features stand out. First there was a significant change in the structure of the Ministry. In November 1893 the Privy Purse Department was removed from the Ministry and placed in the Krasuang Murathathan, the Ministry of the Privy Seal. Prince Sommot was

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91. Prince Narathip to Mqm chao Sawat (Director of the Krom Sanphakan) 20 March 1893 N.A.Kh. 14. lk/10.

92. Phra Phakdi to King, undated N.A.Kh. 14. lk/11.

93. Prince Narathip to Prince Sommot, 21 March 1893 N.A.Kh. 14. lk/10.

94. Prince Narathip to Mqm chao Sawat, 20 March 1893 N.A.Kh. 14. lk/10.

confirmed as Director of the Department. The Privy Purse was still required to submit all its accounts to the Ministry of Finance and to remit all its profits to the Treasury, but in future it was to do so in the same manner and under the same conditions as any other Ministry or department not under the direct control of the Ministry of Finance<sup>95</sup>. There seems little doubt that the removal of the Privy Purse Department from the Ministry of Finance was prompted by Prince Narāthip's interference in the private accounts of the department but it is important to note that, almost incidentally, the transfer completed the separation of the finances of King and Government.

Second, Prince Narit, like Prince Narāthip, was anxious to increase the proportion of revenue collected directly by officials. Though Prince Narāthip's extravagant budget allocations from the Krom Sanphāsi and Krom Sanphākōn had sparked off the crisis which had eventually led to his resignation, the committee which had investigated the Ministry's accounts in 1893 had still been prepared to sanction a significant increase in the budgets of those departments<sup>96</sup>. The result was that whereas in 1892/93 the Krom Sanphāsi alone had collected 1.6 m. baht, that figure was virtually doubled the following year<sup>97</sup>. The department also became responsible for the overall administration of the Chinese poll-tax collection in 1894, a year in which a record number of Chinese were taxed<sup>98</sup>. Indeed it was one of the more favourable features of Prince Narit's period at the Ministry that despite the virtual collapse of budget and accounting procedures the value of the revenue flowing into the Treasury was maintained<sup>99</sup>, though it must be added that it is likely that this was achieved

95. Prince Sommot to King, 5 November 1893 N.A.Kh. 9. 1/1 enclosing copies of amendments to the 1890 Privy Purse Act. Also Prawat sannakngān Phra Khlang Khāngthī (History of the Privy Purse Department) by officials of the Department, Bangkok 1967 p. 17.

96. Report of Prince Devawongse's committee, 11 March 1893 N.A.Kh. 5. 2/1.

97. Prince Narit to King, 23 January 1894 N.A.Kh. 14. 2/2.

98. Prince Narit to King, 4 June 1894 N.A.Kh. 13. 1/5. Accounts in N.A.Kh. 13. 1/5.

99. Total Government Revenue 1892/93-1894/95 (R.F.A.B. 1903/04 p. 22).

<u>1892/93</u>	15.37 m. <u>baht</u>
<u>1893/94</u>	17.38 m. <u>baht</u>
<u>1894/95</u>	17.33 m. <u>baht</u>

less by the efforts of the Ministry of Finance itself and more by the fact that the Kingdom was enjoying a trade boom after a quite pronounced depression in the first years of the decade<sup>100</sup>.

In the latter half of 1894 the King's physical and mental health improved, though even at the end of the year it could not be said that his recovery was complete<sup>101</sup>. Yet there were some indications that an attempt would soon be made to reorganize the administration and to repair the damage caused by the internal and external crises of 1892-1893<sup>102</sup>. It was in that context that at the end of December 1894 Prince Narit was transferred to the Ministry of War<sup>103</sup> and Prince Sirithat Sangkāt became Minister of Finance, his first ministerial appointment. He was the third Minister to be appointed to the Ministry in the four years since its establishment.

#### 6. Prince Sirithat Sangkāt as Minister of Finance 1894 - 1896.

Prince Sirithat was to remain at the Ministry for only a relatively short length of time, less than two years, but in that time he made a determined effort to revive the Ministry from the collapse of 1893 and to overcome the inactivity and lethargy which had taken hold under Prince Narit. As has been shown, a major failure of Prince Narit's term of office had been the Ministry's virtual relinquishment of control over the operations of the opium monopoly and it is significant that one of Prince Sirithat's first concerns on his appointment was to attempt to regain that control.

##### 100. Total Value of Imports and Exports (m. baht) 1890-1894.

<u>1890</u>	58.41	<u>1893</u>	86.65
<u>1891</u>	33.37	<u>1894</u>	69.57
<u>1892</u>	32.52		

From: James C. Ingram Economic Change in Thailand 1850-1970 Stanford 1971 Appendix C.

101. de Bunsen to Bertie. Private letter. 16 December 1894 P.R.O. F.O. 69/153.

102. In September 1894 Rolin Jacquemyns, the General Adviser, wrote to the King outlining a series of urgently needed administrative, and particularly judicial reforms: the suggestions met with the King's general approval (Scott to Earl of Kimberley, 20 October 1894 and enclosures. PRO F.O. 69/153).

103. Phraprawat somdet chaofa kromphraya naritsarānuwattiwong (Biography of Prince Narit) in Banthu'k ru'ang khwāmrū tāngtāng (Correspondence between Prince Narit and Phraya Anumān 1936-1943, 5 vols, Bangkok 1963) vol. 2 pp. 1-39, p. 21.

By 1895 relations between the Government and the Phra Phakdi/Phra Charoen syndicate which had controlled virtually all opium sales in the Kingdom since mid-1893, were very poor indeed. For example, in 1894 the syndicate had asked the Ministry of Finance for permission to increase the retail selling price of opium on the grounds that there had been an increase in the price of the imported drug: the Ministry was so slow in reaching a decision that the syndicate proceeded with the increase without waiting for a reply, at which point the Ministry instituted legal proceedings against the farmers for breach of the opium laws<sup>104</sup>. Such disputes held considerable dangers for the Government for with the opium monopoly accounting for 15 per cent of its total revenue it was at a considerable disadvantage with regard to a syndicate which controlled such a high proportion of the Kingdom's opium sales.

In mid-1895 Prince Sirithat held discussions with the King on a possible reform of the structure and operations of the opium monopoly. They decided that once again the monopoly would be divided into smaller, individual farms thereby reducing the power of each farmer<sup>105</sup>. They also agreed that in order to reassert the Government's control over the legal supplies of opium in the Kingdom, the Customs Department would be made responsible for the purchase and importation of raw opium and its distribution in strictly regulated amounts to the farmers<sup>106</sup>. The farmers would retain the right to prepare the raw opium.

In January 1896 Prince Sirithat prepared a new set of regulations for the opium monopoly<sup>107</sup>, putting into effect the revised structure of the monopoly agreed the previous year. In addition the opportunity was taken to reissue earlier opium monopoly legislation, particularly regulations governing the transfer of the contract from one farmer to his successor, for it had been

104. Phra Phakdi to King, May 1894 N.A.Kh. 14. lk/11.

105. Prince Sirithat to King, 17 May 1895/King to Prince Sirithat, 18 May 1895. N.A.Kh. 14.lk/11.

106. Phrayā Anuman Rajadhon Phraprawat phraworawongthōe phra ong chao phrōmphon  
athirāt (Biography of Prince Phrōm) in History of the Customs Department  
pp. iv-viii.

107. Opium Regulations 1896: enclosed in Prince Sirithat to King, 10 January 1896. N.A.Kh. 14. lk/11.

found that such transfers were the occasion for the most serious conflicts between the syndicates for control of the farms, and were the occasion for the most serious violations of the law.

The auctions for the 1896/97 - 1898/99 contracts were held in March 1896.<sup>108</sup> Significantly, at the termination of their contract Phra Phakdi and Phra Charoen attempted to damage the monopoly for their successors by flooding the market with cheap opium, but the strict enforcement of Prince Sirithat's regulations appears to have thwarted the scheme. For the first few months of their contracts the legal sales of the new farmers were low<sup>109</sup>, but as the cheap opium cleared the retail market they began to revive and the monopoly remained intact - at least for the time being<sup>110</sup>.

But perhaps the most important and forthright measure of Prince Sirithat's short term as Minister of Finance concerned his attempts to create a revenue and expenditure budget for the whole Government. To compile the budget, guide its passage through the Council of Ministers and to present it to the King remained one of the central, as yet unfulfilled functions of the Ministry. Yet the fate of Prince Narathip's earlier attempts to establish budgetary control stood as a warning. And even if it were argued that in the early 1890s unusual conditions had prevailed - that the Council had had insufficient time to create accepted procedures for the conduct of Government business, that Prince Narathip had clumsily antagonized his colleagues - there was surely little doubt that even in the calmer atmosphere of the mid-1890s it would be a major task for Prince Sirithat to persuade each Ministry and department to co-operate under his guidance in producing a set of budget estimates - and abide by them.

During the opening months of 1895 Prince Sirithat held discussions with some of the Ministers over their estimates for the coming year, but by 15 March,

108. Phra Phibun Phatana~~k~~on to King, undated, N.A.Kh. 14. lk/11.

109. Prince Mahit to King, 20 November 1901 N.A.Kh. 14. lk/23.

110. The section above is simply intended to demonstrate one aspect of Prince Sirithat's attempts to restore the administrative effectiveness of the Ministry of Finance. A detailed analysis of the problems of the opium monopoly, and the response of the Ministry to them, is reserved for Chapter VII.

the date by which the Ministry of Finance was expected to submit the full estimates to the King, the discussions were far from complete<sup>111</sup>. It appears that the King was unwilling to approve any of the estimates submitted to him until he had seen the full budget; as a result those Ministries which had submitted their estimates on time suffered by being unable to draw money from the Treasury on the basis of those estimates. They could not even draw their allocation to pay the salaries of their officials<sup>112</sup>. In fact it was not until October 1895 that the full estimates were sent to the King for his approval - over six months behind schedule<sup>113</sup>. The King immediately sanctioned the budget but he was clearly disturbed that it had taken so long to compile. He suggested to Prince Sirithat that if his officials began work immediately on the budget for the coming year, beginning in April 1896, then perhaps the estimates would be completed on time<sup>114</sup>.

Prince Sirithat immediately wrote to each of the Ministers asking them to submit their preliminary expenditure estimates to his Ministry by not later than 15 December 1895, but by that date only the Royal Secretariat, the Privy Purse Department and the Police Department had complied with the request<sup>115</sup>. The estimates of the Ministry of Finance itself were not completed until late December 1895<sup>116</sup>. In January 1896 Prince Sirithat sent warning letters to the remaining Ministries but only the Ministry of Agriculture responded by submitting its preliminary estimates<sup>117</sup>. By March of that year the situation had improved slightly with estimates being received from the Ministry of the Capital and the Ministry of Public Works<sup>118</sup>, but still nothing from the Ministries of

111. Prince Sirithat to King, 15 March 1895 N.A.Kh. 5. 1/4.

112. Prince Sirithat to King, 19 May 1895 N.A.Kh. 5. 1/4.

113. Council of Ministers to King, 6 October 1895 N.A.Kh. 5. 1/4.

114. King to Prince Sirithat, 15 October 1895 N.A.Kh. 5. 1/4.

115. Prince Sirithat to Prince Sommot, 24 January 1896 N.A.Kh. 5. 1/5.

116. List attached to: Prince Mahit to King, 23 September 1896 N.A.Kh. 5. 1/5.

117. Prince Sirithat to Prince Sommot, 24 January 1896 N.A.Kh. 5. 1/5.

118. Prince Sirithat to King, 3 March 1896 N.A.Kh. 5. 1/5.

Prince Damrong, Prince Devawongse or Prince Narit. With the new year imminent the King allowed Prince Sirithat to present to the Council of Ministers those estimates which had been received<sup>119</sup> and at the same time he wrote strongly worded letters to those Ministers who had failed to comply with the requests of the Ministry of Finance<sup>120</sup>. In fact by 1 April 1896 only the expenditure allocations of the Royal Secretariat, the Privy Purse, the Ministry of the Palace and the Ministry of Finance had been sanctioned. Most of the remaining important budgets were approved by the end of May, but even so by the time Prince Sirithat left the Ministry in August 1896 the estimates of the Ministry of War and the Ministry of Foreign Affairs had still not been presented to the Council of Ministers<sup>121</sup>. In short, Prince Sirithat, like Prince Narathip, failed to establish the procedures and administrative mechanisms of budgetary control.

There were obvious dangers in such a situation. The period 1892-1896 had seen an unprecedented expansion in the value of the Government's revenue and expenditure<sup>122</sup>, but those same years had also seen a tendency for each Ministry to expect and even demand extravagant expenditure allocations, with little or no regard for the requirements of the Government as a whole. Ministers had consistently failed to co-operate with each other in producing a universally accepted order of priorities for Government expenditure, but rather their main objective had been to see the budget sanctioned by the King as rapidly as possible so that they could proceed to draw the allowances for their Ministries from the Treasury<sup>123</sup>. As a result, the Ministry of Finance in order to produce

119. King to Prince Sirithat, 20 March 1896 N.A.Kh. 5. 1/5.

120. King to Prince Sirithat, 22 April 1896 N.A.Kh. 5. 1/2.

121. List attached to: Prince Mahit to King, 23 September 1896 N.A.Kh. 5. 1/5.

122. Government revenue rose from 15.37 m. baht in 1892/93 to 20.64 m. baht in 1896/97. Over the same period, expenditure increased from 14.91 m. baht to 18.48 m. baht (R.F.A.B. 1903/04 pp. 22-25).

123. The ideas expressed in this paragraph are taken from an unsigned, undated memorandum included in the file concerned with the 1896/97 budget (N.A.Kh. 5. 1/5). The author is difficult to determine, but it was probably either Prince Sirithat or his successor Prince Mahit. The important point to note, however, is that a very prominent person in the Government fully recognized the failure of budgetary procedures to develop, the implications of that failure, and the urgent need for reform.

the primary requirement of a set of estimates - a revenue surplus - had been forced to cut the preliminary estimates of the Ministries almost indiscriminately. Inevitably some potentially important projects were ignored in the scramble for budget allowances, some relatively unimportant proposals were financed. In short it appears that there was a continual, considerable mis-allocation of Government resources. By 1896 there was a further danger: unless the Ministries co-operated in compiling the budget estimates there was a likelihood that it would become impossible to achieve even the limited objective of holding down total expenditure below total revenue, for with budget procedures so haphazard and indiscriminate, the Ministries had every incentive to ignore Prince Sirithat's requests and to attempt to work outside the budget.

#### 7. 1896 : a new Minister of Finance and the appointment of a Financial Adviser.

The most prominent characteristic of the Ministry of Finance in the period from its establishment in 1890 until 1896 was its instability. Those six years alone had seen three Ministers. Inevitably instability led to weakness, particularly weakness of budgetary control. In this context it is important to remember that the Ministry of Finance was created largely by the amalgamation of existing finance departments scattered throughout the administration: unlike, say, the Ministry of the Interior it was not an established Ministry which merely had to amend its functions and responsibilities to accord with the requirements of the reformed government structure. The Ministry of Finance had to create its functions, impose its role on the Ministries to a much greater extent than any of the other principal departments of government. Perhaps it was simply asking too much for the Ministry of Finance to develop its role, to develop as an effective and influential component of the administration in the politically and administratively unstable conditions that existed in the first half of the 1890s, for it has to be borne in mind that to a considerable extent the instability and weakness of the Ministry between 1890 and 1896 reflected, as well as contributed to, the instability and weakness of the Government as a whole. In other words an influential Ministry of Finance could

exist only in a stable political environment, just as a stable political environment - with the Ministries working effectively in co-operation with each other - depended on the existence of a strong, well administered Ministry of Finance. Both depended to a considerable extent on firm leadership from the head of the Government and it is significant that the gradual return of the King to effective power coincided with Prince Sirithat's term as Minister of Finance.

Therefore it is not surprising that 1896, which saw the King reassume his dominant position in the administration, should also have seen both a large-scale reorganization of ministerial positions which brought the most able of the King's brothers into prominence<sup>124</sup> and important changes at the Ministry of Finance.

The first concerned the appointment of a European Financial Adviser. As far back as April 1890 Prince Narāthip had suggested to the King that in view of the deficiency of financial expertise in the Government a European adviser should be appointed<sup>125</sup>, but at the time nothing came of the proposal. The matter was revived in late 1894 or early 1895 by the General Adviser, Rolin Jacquemyns, who argued that a European adviser was needed to assist in the reform of the administrative methods and procedures of the Ministry of Finance and to organize the publication of the Government's annual budget, which would be indispensable in establishing Siamese financial credit in the world<sup>126</sup>. He made it clear that the adviser

'... should be appointed not as a member of the Government, invested with such share of the executive power as only belongs to a responsible Minister of Finance, but as an adviser or a councillor, whose suggestions or advice may or not be sanctioned by Your Majesty.' <sup>127</sup>

The King approved Rolin Jacquemyns' proposal (though apparently there was opposition from some Ministers)<sup>128</sup>, and instructed the General Adviser to find a suitable man for the post.

124. D. K. Wyatt op. cit. p. 100.

125. Prince Narāthip to King, 24 April 1890 N.A.Kh. 1/5.

126. Rolin Jacquemyns to King, 15 February 1896 (enclosed in de Bunsen to Lord Salisbury, 20 February 1896 P.R.O. F.O. 69/169).

127. ibid.

128. de Bunsen to Lord Salisbury, 28 February 1896 P.R.O. F.O. 628 Box 18 No.242.

Rolin Jacquemyns immediately wrote to Lord Cromer in Egypt: prior to his appointment to Siam Rolin Jacquemyns had been employed in the Egyptian administration<sup>129</sup>. Lord Cromer suggested Alfred Mitchell-Innes, a 31 year-old British official who had been in Cairo since 1891<sup>130</sup>. There, in late 1895, the matter rested, since the Foreign Office, which had to approve Mitchell-Innes' release to the Siamese Government was unwilling to let the appointment proceed for fear that it would jeopardize Anglo-French negotiations over Siam, then in progress<sup>131</sup>. However with the signing of the Anglo-French agreement guaranteeing the independence of the Chao Phraya valley in January 1896, the political obstacles on the British side to the appointment were removed. The following month the King approved the engagement of Mitchell-Innes<sup>132</sup> and the first Financial Adviser arrived in Bangkok in June 1896<sup>133</sup>.

The second major change at the Ministry of Finance in 1896 occurred in August when, as part of the general change in ministerial positions, Prince Sirithat was transferred to the Ministry of the Privy Seal and Prince Mahit Ratchaharithai, who had been Minister of the Palace since 1887, became Minister of Finance. It was to be an important appointment, for Prince Mahit was to remain at the Ministry for almost ten years giving to it the continuity and stability which it had so far so seriously lacked.

129. Christian de Saint-Hubert Rolin Jacquemyns (Chao Phya Aphay Raja) and the Belgian Legal Advisers in Siam at the turn of the Century J.S.S. July 1965 pp. 181-190.

130. Foreign Office List 1951.

131. Lord Cromer to de Bunsen, 31 December 1895 P.R.O. Cromer Papers vol. 8 F.O. 633.

132. King to Rolin Jacquemyns, 16 February 1896 (enclosed in de Bunsen to Lord Salisbury, 18 February 1896 P.R.O. F.O. 69/169).

133. Prince Sirithat to King, 15 August 1896 N.A.Kh. 1/16.

## CHAPTER III

The creation of an effective Ministry of Finance, 1896 - 1902.

Prince Mahit's term as Minister of Finance was so long and constituted such an important period in the history of the Ministry that it will be dealt with over two chapters, the first covering the period from August 1896 until the middle of 1902, the second the years from 1902 until Prince Mahit's resignation in May 1906. The earlier period was dominated by Prince Mahit's attempts to establish the Ministry of Finance as an effective and influential government department, and it will be argued that by 1902 his efforts had been rewarded by a reasonable degree of success. After 1902 the Ministry was concerned with major financial reforms - including exchange and currency changes and the raising of a sterling loan in Europe - and with the prospect of substantial budget deficits.

1. The development of budgetary control.

On his appointment as Minister of Finance in 1896 Prince Mahit took as his immediate and most important task the necessity to establish effective budgetary procedures for controlling the expenditures of the whole administration, for there could be little doubt that the Ministry's clumsy and largely unsuccessful attempts to regulate the finances of the Government in the early 1890s had proved to be its most serious and disrupting failure. Prince Mahit inherited from Prince Sirithat the incomplete estimates for the year then in progress, 1896/97<sup>1</sup>. The Minister suggested to the King that since the year was already half over those budget allocations which had been sanctioned should be allowed to stand, whilst those Ministries which were still without approved estimates (notably the Ministries of Foreign Affairs and of the Capital) would have to abide by their allocation for the previous year, 1895/96, though slight amendments could be allowed for urgently needed projects. In effect those Ministries

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1. Prince Mahit to King, 23 September 1896/12 October 1896, with attached accounts and lists. N.A.Kh. 5. 1/5.

were to be made to suffer for their failure to abide by the Government's budget procedures. The rapidly completed budget for 1896/97 was sanctioned by the King on 13 October 1896<sup>2</sup>.

The following year, 1897/98, gave Prince Mahit his first real opportunity to improve the effectiveness of the Ministry's budget procedures. In fact there was considerable pressure on the Ministry to have the budget completed on time - by April 1897 - since in that month the King was scheduled to leave Bangkok on his first visit to Europe and Prince Mahit was to form part of the royal entourage. In late 1896 the Ministry of Finance despatched the standard request to each Ministry and department that they submit their preliminary estimates to the Ministry by 15 December, and it appears that the majority of Ministries complied with the request<sup>3</sup>. In January 1897 Prince Mahit followed this up with a letter to each department asking that in future they submit detailed accounts of their current expenditure along with the preliminary estimates for the coming year<sup>4</sup>. Prince Mahit explained that it was important that his Ministry have accurate, up-to-date information on the actual expenditure of each department when it came to assess that department's future expenditure demands: in particular it was important that the Ministry of Finance should have clear evidence that a department had been able to exhaust its budget allocation for one year before it even considered discussing an increased estimate for the following one. Two months later Prince Mahit despatched accountants from the Kōng Sarabānchi division of the Ministry to each department in the administration to instruct the finance officials there in the accounting and auditing methods which the Ministry of Finance wished to see introduced throughout the government<sup>5</sup>. The Minister's aim was to sweep away the multiplicity of accounting systems used by the various Ministries and

2. King to Prince Mahit, 13 October 1896 N.A.Kh. 5. 1/5.

3. King to Chao Phrayā Thewetwongwiwat, 12 December 1896 N.A.Kh. 5. 1/2.

4. Prince Mahit to Prince Sommot, 16 January 1897 N.A.Kh. 1/18. (Similar letters were sent to the head of each department.)

5. Prince Mahit to Prince Sommot, 18 March 1897 N.A.Kh. 1/18. (Again, similar letters were sent to the head of each department.)

and departments and to replace them with a uniform set of accounting procedures. In this way it would become possible for the Ministry of Finance to ascertain more speedily and more accurately the actual financial position of each individual Ministry and department.

In February 1897 the King lent his weight in support of Prince Mahit's measures when in a letter to the Minister, a letter which he wished to see circulated in the Council, the King strongly emphasized the responsibilities and functions of the Ministry of Finance<sup>6</sup>. It was by far the most forceful statement of the Ministry's role since its establishment in 1890.

- '1. The Minister of Finance has full authority and full responsibility in all matters directly or indirectly concerning the Ministry of Finance.
- 2. The Minister of Finance has the authority to issue regulations and instructions to other ministries on matters concerning the Ministry of Finance: all ministries must obey those instructions and regulations.
- 3. When the Minister of Finance thinks it necessary to investigate any financial matter in another ministry or in the provinces, matters which concern the Ministry of Finance, then he has the authority to make that investigation - to call for accounts and records - without obstruction
- 4. With regard to all the officials who are involved in the compiling of accounts, right down to the clerks who receive the accounts, the Ministry of Finance has the responsibility to examine their knowledge and their methods, and of deciding whether they are adequate for their posts or not.' <sup>7</sup>

There is little doubt that the King's instructions referred principally to the Ministry of Finance's responsibility for compiling the budget.

Prince Mahit's measures and the King's intervention had a noticeable effect. On 20 March 1897 Prince Mahit could report to the King that the Ministry of Finance was ready to present the full budget to the Council of Ministers for discussion<sup>8</sup>. The discussions took place throughout late March and early April 1897. The Council was faced with a familiar problem - total preliminary expenditure estimates exceeded by a considerable margin the Ministry of Finance's estimate of the Government's revenue for the coming year.

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- 6. King to Prince Mahit, 14 February 1897 N.A.Kh. 1/18.
  - 7. ibid.
  - 8. Prince Mahit to King, 20 March 1897 N.A.Kh. 5. 1/5.

Yet it appears that partly because the King agreed to a reduction in the budget allocation of the Privy Purse Department<sup>9</sup> - thereby setting an example which he undoubtedly expected to be followed - and partly because Prince Mahit submitted to the Council a list of proposals as to how Government expenditure could be held down<sup>10</sup>, agreement as to which projects should be postponed, reduced or abandoned altogether appears to have been reached fairly rapidly<sup>11</sup>. The budget for 1897/98 was sanctioned by the King on 6 April<sup>12</sup> and the following day the royal party left Bangkok for Europe<sup>13</sup>.

In the absence of Prince Mahit, Prince Narit became acting Minister of Finance whilst continuing to hold his position as Minister of War. Prince Narit, a noticeably apathetic Minister in his own right in 1893-1894, was if anything even more inactive in 1897. Very few documents from the Ministry of Finance for the period of Prince Mahit's absence exist, and even those few show Prince Narit's main concern to have been to defer any decision - no matter how small - until the King had returned from Europe.

Immediately on his arrival back in Bangkok on 16th December 1897<sup>14</sup> Prince Mahit was again deeply involved in work on the budget. He was angered to find that despite the success of the previous year in having the budget completed virtually on time, and despite the fact that at the beginning of November 1897 each Ministry and province had been reminded that they had to submit their preliminary estimates to the Ministry of Finance by 15 December<sup>15</sup>, the Ministries

9. King to Prince Sommot, 20 March 1897 N.A.Kh. 5. 1/5.

10. Prince Mahit to King, 20 March 1897 N.A.Kh. 5. 1/5.

11. Unfortunately there exists no record of the Ministry of Finance's examination of the preliminary estimates in early 1897, nor of the discussions of the Council of Ministers in March and April. In fact it is not until 1901/02 that there exists any detailed record of the budget discussions. This means that for the period 1897/98-1901/02 there is no direct evidence as to the pace and extent to which the budget regulations introduced by the Ministry of Finance became effective. On the other hand the fact that the Ministry reissued its budget regulations virtually every year would seem to indicate that any success it achieved in establishing effective and accepted budget procedures was relatively slow in coming.

12. King to Prince Mahit, 6 April 1897 N.A.Kh. 5. 1/5.

13. Phrayā Si Sahathēp Raya Thāng sadet phrarātchadamnoen praphat prathet yurōp r.s. 116 (The King's Visit to Europe in 1897) Bangkok n.d.

14. Phrayā Si Sahathēp op. cit.

15. Prince Mahit to King, 1 February 1898 N.A.Kh. 5. 1/5.

were again late in submitting their budget requests. By the middle of January 1898 no estimates had been received from the Ministries of Public Works, Public Instruction, the Capital, the Palace and War: nor from 13 provinces. A warning letter was sent to each offending Ministry and province by the King<sup>16</sup>. Only the Ministry of War and five provinces responded immediately. On 27 January 1898 Prince Mahit wrote to the King complaining of the persistent failure of some departments to respond to his requests and instructions<sup>17</sup>. On 2 February the King wrote again to each of the relevant Ministers and officials - including Prince Damrong, who was responsible for the expenditure estimates of the provinces - pointing out that it needed only one Ministry to ignore the deadlines imposed by the Ministry of Finance and the whole of the budget process was seriously disrupted<sup>18</sup>.

By 15 March all the preliminary expenditure estimates had been examined by the Ministry of Finance and the Minister was ready to submit the full budget to the Council of Ministers; but as Prince Mahit confessed to the King, he faced the budget discussions with little enthusiasm<sup>19</sup>. It was not simply that the Minister was disquieted by the necessity to force the Ministries to submit their preliminary estimates on schedule. Prince Mahit's concern went deeper than that: he was disturbed by the spirit in which the Ministries compiled their expenditure requests and consequently by the criteria by which the estimates were examined by his Ministry and approved by the Council of Ministers. Prince Mahit argued that the Council approached the discussions with no basic agreement as to the priorities for Government expenditure, no consensus as to what constituted a legitimate demand from a department for an increased expenditure allocation. As a result the discussions - if that was the word - had a tendency to degenerate into a series of drawn-out and almost useless disputes over relatively unimportant items of expenditure. He argued that given an

16. Mitchell-Innes to King, 19 January 1898 N.A.Kh. 1/16.

17. Prince Mahit to King, 27 January 1898 N.A.Kh. 5. 1/5.

18. King to various Ministers, 2 February 1898 N.A.Kh. 5. 1/5.

19. Prince Mahit to King, 15 March 1898 N.A.Kh. 5. 1/7.

agreed set of guide-lines for the presentation of expenditure estimates by the Ministries the budget discussions by the Council of Ministers could be completed in two or three days.

The Minister enlarged on his fears in a further letter to the King on 19 March 1898<sup>20</sup>. According to the calculations of the Ministry of Finance, the estimated revenue for 1898/99 was 26.0 m. baht. The total of preliminary expenditure allocations demanded by the Ministries for the same year came to 29.45 m. baht: therefore 3.45 m. baht had to be cut from the expenditure demands if a budget deficit were to be avoided. The problem had two aspects. On the one hand, in a situation where Government expenditure as a whole was rising rapidly as a result of the expansion in the administration's functions and responsibilities, it was extremely difficult for the Ministry of Finance in the time available to it to spot those expenditure demands submitted to it which were either unjustified or extravagant. Yet, Prince Mahit continued, an examination of the actual expenditure of the Ministries over the past few years, compared with their expenditure estimates in those years, revealed that most Ministries had a tendency to request and obtain an expenditure allocation considerably in excess of that which they were capable of using. At the end of each year they were left with unspent funds. In short, the projected budget deficit for 1898/99 was more apparent than real. The problem facing the Ministry of Finance was how to persuade the Ministries to submit expenditure demands which reflected accurately their spending capacities rather than impracticable notions of what they would wish to spend, for it was only in this way that the Ministry could avoid the difficult and inefficient task of making large cuts in the preliminary estimates, and could avoid the time-consuming and virtually fruitless disputes in the Council over certain budget items.

Prince Mahit argued that it was the Ministries' tendency to submit inflated salary estimates which was causing the Ministry of Finance by far the most serious difficulty. There were no regulations governing the number of officials in each department: there were no salary scales. As a result some Ministries

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20. Prince Mahit to King, 19 March 1898 N.A.Kh. 5. 1/8.

were seriously over-staffed whilst others could not obtain sufficient officials; some officials received more than adequate salaries, many were seriously underpaid. The Ministry of Finance found that when it came to examine the preliminary expenditure estimates of the Ministries, it was faced with innumerable demands for increases in salaries and positions; to examine each demand in detail was impossible, with the result that the estimates were rejected or approved on almost an ad hoc basis. Inevitably, Prince Mahit admitted, some unjustified demands had been passed, some justified demands refused. The solution was clear: to establish a standard system whereby all officials were paid the same salary for the same responsibilities, and where the same number of officials would be appointed to do the same volume and class of work in every department of the administration. In this way disputes over salaries and positions could be settled speedily and fairly by reference to the standard regulations. In effect matters concerning the appointment of additional officials to a particular department or increases in salaries would be removed from the preliminary examinations of the Ministry of Finance and from the budget discussions of the Council of Ministers. The Ministry and the Council would be able to devote their time to the more important expenditure estimates, such as those for railway construction and irrigation projects.

Prince Mahit recommended that a committee be established to determine, in consultation with the appropriate Ministers and heads of department, the responsibilities and functions of each department in the administration, the number of officials required to carry out those functions, and the salaries they were to receive. The committee's decisions, once approved, could not be amended except where the responsibilities of a department changed or where an increase in the cost of living necessitated an increase in salaries, in which case the increase would be made to apply throughout the whole government service. Prince Mahit also suggested that whereas it had been common practice to reward an able official by increasing his salary, leaving him doing the same work for more money, in future his salary, responsibilities and grade should all be increased so as to maintain the standard responsibility/salary ratios. Similarly, Prince

Mahit argued, incompetent officials should be demoted; the practice of leaving an inefficient official in his post but of appointing an assistant to him who in fact took over the burden of the position was extravagant and should be discontinued.

The Minister also included in his letter to the King a few general suggestions concerning the Government's expenditure estimates: that expenditure sanctioned under one head could not be transferred by the Ministries to another head; that the individual Ministries would not be allowed to maintain separate reserve funds to meet unexpected items of expenditure but rather that all such reserves would be held in a single account controlled by the Ministry of Finance<sup>21</sup>.

Prince Mahit's letter was read to the Council of Ministers on 26 March 1898<sup>22</sup>. The Ministers were in basic agreement with his recommendations though there were some reservations, particularly from Prince Damrong. Most of Prince Damrong's arguments concerned alleged practical difficulties to be expected in the implementation of Prince Mahit's recommendations, but the Minister of the Interior did have one particularly important misgiving; he appears to have been concerned that Prince Mahit's proposals gave too much authority to the Ministry of Finance. In holding down Government expenditure, he argued,

'... we must not get into the position where a head of department would be able to say - because the Ministry of Finance is unlikely to allow me the necessary funds, therefore I am unable to carry out my projects.' 23

Prince Damrong's remark suggests that within the Council there was still uneasiness over the prospect of the development of a particularly strong Ministry of Finance.

Prince Mahit met each of Prince Damrong's objections in turn, and in particular he impressed on the Council the real objective of his proposals :

21. Prince Mahit to King, 19 March 1898 N.A.Kh. 5. 1/8.

22. Report on the meeting of the Council of Ministers. 26 March 1898 N.A.Kh. 5. 1/8.

23. *ibid.*

'My real wish is this: to have the budget discussions completed speedily, to have new major items of expenditure discussed, as to whether we should proceed with them or not, whether we can afford to proceed with them or not. For the fact is that we are faced with a situation of rapidly increasing expenditure which cannot all be covered by revenue: therefore there has to be discussion and decision as to the order of priorities for expenditure.' <sup>24</sup>

The Council of Ministers gave general approval to the proposals of the Minister of Finance.

The King then followed up these discussions by asking the Financial Adviser, Mitchell-Innes, for his views on the process by which the budget was compiled<sup>25</sup>. The Adviser had a number of important recommendations to make, all of which complemented his Minister's earlier proposals. Mitchell-Innes suggested that at the end of each financial year (31 March) the expenditure allocations of that year should be annulled in order to prevent Ministries carrying over funds from one year to the next<sup>26</sup>. Clearly the objective once again was to enable the Ministry of Finance to ascertain accurately the expenditure allocation available to each Ministry within each year. He also drew the King's attention to the fact that often funds allocated for one Ministry were in fact spent on behalf of another: for example the navy frequently lent ships to other departments, yet the cost of maintaining the vessels was always attributed solely to the navy. It was such inaccuracies in the estimates which made it very difficult for the Ministry of Finance to obtain a realistic picture of the actual allocation of Government expenditure. Finally the Adviser criticized the way in which the Council of Ministers approached their discussions on the budget. He pointed out that the Ministers usually began by examining and reducing the more vital allocations instead of looking at and cutting minor items first. In addition he advised that in future the funds for railway construction be provided from the accumulated surpluses of former years; in this way one of the most important items in the budget would no longer be vulnerable to cuts by the Council

24. *ibid.*

25. Mitchell-Innes to Prince Sommot, 30 March 1898 N.A. b.2kh/424.

26. Mitchell-Innes to King, 30 March 1898 N.A. b.2kh/424. According to Prince Mahit such a regulation was already in operation. King to Rolin Jacquemyns, 30 March 1898 N.A. b.2kh/424.

of Ministers<sup>27</sup>.

Meanwhile the Ministry of Finance and the Council of Ministers were engaged in the final stages of the preparation of the budget for 1898/99: the completed estimates were sent to the King on 20 April 1898<sup>28</sup> and the budget was sanctioned three days later<sup>29</sup>.

In the long struggle of the Ministry of Finance to create and maintain efficient and effective procedures for the allocation of the Government's expenditure, the period from December 1898 until June 1899, which saw the completion of the budget for 1899/1900, was to prove crucial. At the beginning of this period the Ministry of Finance was faced again with what must now have seemed like an almost insoluble problem - the inability, or perhaps in view of the apparent uneasiness within the Government over Prince Mahit's increasing influence, the unwillingness of the Ministries to submit their preliminary budget estimates to the Ministry of Finance on time. On 31 December 1898, 15 days after the estimates were supposed to have been in, the Ministry had still not heard from over half the Ministries (including the Ministries of the Palace, Foreign Affairs, the Interior, the Capital and Public Works) and from ten provinces<sup>30</sup>. The King felt that the time had come to deliver his most severe rebuke to the offending Ministers and officials. In a long letter to each Minister he pointed out that the raising and spending of the Kingdom's revenues was no longer a matter which affected the King alone: it now affected every

27. Mitchell-Innes to King, 3 April 1898 N.A.Kh. 5. 1/10.

28. Prince Mahit to King, 20 April 1898 N.A.Kh. 5. 1/8.

29. King to Prince Mahit, 23 April 1898 N.A.Kh. 5. 1/8. Once again it is extremely unfortunate that the Archives contain no records of the budget discussions of the Council, for undoubtedly such records would provide useful illustrations of those problems faced by the Ministry of Finance mentioned by Prince Mahit in his letters to the King. Yet the evidence which is available does support the Minister's argument. In 1898/99 the Government had 29.13 m. baht at its disposal (Prince Mahit to King, 20 April 1898 N.A.Kh. 5. 1/8. This sum included revenue returns for the year, plus unspent funds from 1897/98). Since the Ministries had originally requested 29.45 m. baht, presumably this meant that few expenditure cuts were necessary: in fact the expenditure estimate for 1898/99 was put at 28.7 m. baht. The interesting point is that actual expenditure in 1898/99 was only 23.78 m. baht (R.F.A.B. 1903/04 p. 25) which tends to support Prince Mahit's argument that the Ministries were asking for more funds than they were capable of spending.

30. Mitchell-Innes to King, 31 December 1898 N.A.Kh. 5. 1/8.

Siamese<sup>31</sup>. Since the responsibilities of the administration were now much greater than they had been in the past the failure to allocate sufficient funds to any Ministry, or the failure to allocate the funds wisely, could severely damage the effectiveness of the Government: ultimately it could even threaten the stability and independence of the Kingdom. The King continued :

' ... I do not want you to regard, to consider without thinking, these strict budget regulations as simply a ceremony or simply an import from the west. It is true that they come from the west, but we are using them because they will bring stability and certainty [to the Government's finances]. Do not think that we are merely adopting the outer forms of such procedures, just so that we can give the impression that all [our finances] are in order, that all is beautiful. These regulations must really be applied.' <sup>32</sup>

The King made it very clear that he never again wished to hear that the Ministries were late in preparing and submitting their estimates, and to emphasize his point he instructed each Minister to inform him directly, immediately they had presented their expenditure requests to the Ministry of Finance. As was to be expected the Ministries responded quickly to the King's reproaches, and by mid-January 1899 the Ministry of Finance had received sufficient preliminary estimates for it to be able to begin work on the final budget<sup>33</sup>.

In this task the Ministry was assisted for the first time by the presence of a European Controller-General, Charles James Rivett-Carnac, who had arrived in Bangkok in early December 1898<sup>34</sup>. In examining the preliminary estimates as they were submitted to the Ministry Rivett-Carnac was struck, as Prince Mahit himself had been the previous year, by the number of requests for lavish increases in salaries and official positions, requests which, he argued, the Ministry was unable to consider in detail yet which if sanctioned would within a few years bring the Treasury to bankruptcy<sup>35</sup>. To meet this problem Rivett-Carnac took up his Minister's March 1898 proposal for the establishment of a committee to investigate the salary and functions of every official in the administration. In January 1899 the King approved Prince Mahit/Rivett-Carnac's

31. King to various Ministers, 1 January 1899 N.A.Kh. 5. 1/8.

32. *ibid.*

33. Correspondence from various Ministers to King, early January 1899 N.A.Kh. 5. 1/8.

34. Bangkok Times, 3 December 1898.

35. Memorandum, Rivett-Carnac, 28 December 1898 N.A.Kh. 5. 1/8.

proposal<sup>36</sup> and the committee was able to begin work the following month.

The Committee on Establishments, as it was called, contained three permanent members: Prince Narit (now Minister of Public Works), Mqm Chao Alangkān (a senior official in the Ministry of Finance), and Rivett-Carnac; for the period during which a Ministry was under investigation the appropriate Minister was appointed an ex-officio member of the Committee. It was decided to look first at the Ministry of Justice: since the Ministry had a relatively efficient administration it was hoped that the investigation would be straightforward and therefore that the Committee would get off to an impressive start to its work<sup>37</sup>. The Committee met on six occasions in February and March 1899 and their extremely detailed enquiries involved them in visits not only to the Ministry of Justice but also to the courts and prisons under the authority of the Ministry. The Minister of Justice, Prince Ratburi Direkkrit, had requested salaries for 552 officials in his estimates for 1899/1900: the Committee reduced that figure to 469, but partly because most of the positions rejected were those of low-grade officials, and partly because the Committee agreed to increase the salaries of some senior officials, the allocation for salaries for 1899/1900 was reduced only slightly, from 645,240 baht to 628,824 baht<sup>38</sup>. Therefore the Committee did not secure an immediate, substantial reduction in the expenditure estimates. In fact that was not its aim. As Rivett-Carnac argued, the object was to bring effective control to bear on increases in salaries and positions where none had existed before, to

'... in future prevent the indiscriminate raising of a man's pay without proportionate increase in his work and responsibility.' <sup>39</sup>

The Committee achieved another objective. For the first time Prince Mahit's wish that some of the routine expenditure estimates be removed from the direct responsibility of the Ministry of Finance and from the budget discussions of the Council of Ministers was put into effect.

36. King to Prince Mahit, 3 January 1899 N.A.Kh. 5. 1/8.

37. Prince Mahit to King, 13 February 1899 N.A. b.2kh. 1/35.

38. Report of Committee: attached to Prince Mahit to King, 12 December 1899, N.A.Kh. 7/1.

39. Memorandum. Rivett-Carnac, 28 December 1898 N.A.Kh. 5. 1/8. My emphasis.

Unfortunately the Committee on Establishments, after a promising, energetic beginning to its labours, soon lost momentum, mainly because Prince Narit and Mqm Chao Alangkān were frequently absent on other business. By June 1899 the work of the Committee was at a standstill<sup>40</sup>. Only after Rivett-Carnac had sought an audience with the King did the Committee resume its meetings, but even then, on the insistence of Prince Narit, it met only once a week<sup>41</sup>. Four meetings in June and July 1899 saw the Committee complete its investigations of the Ministry of Foreign Affairs<sup>42</sup>. The investigation of the next Ministry, the Ministry of the Interior, was almost perfunctory: it concerned only the Ministry in Bangkok and not the provincial administration, it was attended not by Prince Damrong, who was on an inspection tour of the provinces, but by his deputy, Phrayā Si Sahathēp, and it lasted only 95 minutes<sup>43</sup>. The superficiality of the examination of one of the major Ministries is most strange, and on the evidence available inexplicable. Finally, over the period September to December 1899 the Committee held four meetings to examine the responsibilities and salaries of the officials in the Ministry of Finance itself<sup>44</sup>. The Committee made a large number of amendments to the Ministry's estimates for 1899/1900, cutting the staff of, in particular, the Central Office (from 53 to 34) and the Krom Kep (40 to 25), but at the same time approving a large increase in the number of officials employed in the Customs Department (564 to 620). Overall the number of officials allowed for in the estimates was reduced from 864 to 862, the salary allocation increased from 562,188 baht to 581,028 baht<sup>45</sup>. There the investigations of the Committee came to a halt until 1901. From

40. Prince Sommot to Rivett-Carnac, 1 July 1899 N.A.Kh. 7/1.

41. Rivett-Carnac to Prince Sommot, 4 July 1899 N.A.Kh. 7/1.

42. Report of Committee: attached to Prince Mahit to King, 4 January 1900 N.A.Kh. 7/1.

43. Report of Committee: attached to Prince Mahit to King, 1 February 1900 N.A.Kh. 7/4.

44. For these meetings the Committee consisted of Prince Narit, Prince Mahit, Mqm Chao Piya Phakdi and Rivett-Carnac, all of whom worked, or had worked in the Ministry under investigation.

45. Report of Committee: attached to Prince Mahit to King, 7 March 1900 N.A.Kh. 7/5.

December 1899 to March 1900 the Committee drew up its reports on the Ministries of Justice, Foreign Affairs, the Interior, and Finance, submitted them to Prince Mahit who in turn presented them to the King. The essential point to note is that in presenting the reports to the King, Prince Mahit asked permission to use the Committee's recommendations as to the number of officials and their salary allocation for each Ministry in the budget for 1899/1900, and in all future budgets until such time as the King himself approved any amendment<sup>46</sup>. In effect, the Ministry of Finance had removed from its immediate concern, though not of course from its ultimate responsibility, the problems connected with the salary allocations of those Ministries.

At about the same time as the Committee on Establishments had begun its work, Prince Mahit had begun his examination and amendment of the remaining preliminary expenditure estimates for 1899/1900. There can be little doubt that the Minister found this task a considerable strain. In either February or March 1899 he wrote a long letter to the King detailing the problems faced by the Ministry of Finance in compiling accurate and realistic expenditure budgets, complaining of the apparent inability of the Ministries to co-operate fully with him in the revision and presentation of their expenditure demands<sup>47</sup>. He noted that it had been found necessary for the King to intervene forcefully in order to persuade the Ministries to abide by the budget regulations: the King's intervention implied the failure of the Ministry of Finance. In fact this letter, like many letters from Prince Mahit to the King in this period, had two almost contradictory themes. On the one hand there was unmistakeable despair and dejection, protestations by the Minister of his unworthiness for the position he held. Not for the first or last time, Prince Mahit declared his willingness, almost eagerness, to leave the Ministry of Finance if and when the King could find a replacement for him. There is no reason to doubt the Minister's sincerity in this letter: it underlines most forcefully how daunting the problems facing the Ministry of Finance must have appeared to Prince Mahit, how demanding the responsibilities of the position he held. Yet on the other

46. Reports noted above: N.A.Kh. 7/1, 4, 5.

47. Prince Mahit to King, undated. N.A.Kh. 5. 1/11.

hand, in the same letter, there was an equally unmistakeable determination that whilst he remained as Minister of Finance he would strive to establish and maintain the effectiveness of his Ministry's budget procedures. It is clear that the King was influenced more by the Minister's energy and determination than he was by the expression of discouragement, for there is no evidence that Prince Mahit's resignation was seriously contemplated by the King at this time.

The total expenditure requests of the Ministries for 1899/1900 came to 38.5 m. baht, but the Ministry was able to cut this immediately to 33.48 m. baht. The estimated revenue for 1899/1900 was 30.42 m. baht<sup>48</sup>. Rivett-Carnac argued that although the Treasury reserves - the accumulated budget surpluses of previous years - could easily cover the projected deficit of 3.06 m. baht, the Ministry should still make sufficient cuts in the estimates to produce a budget surplus<sup>49</sup>. First of all, he pointed out, it was evident that the Ministries were finding it impossible to use the full amount of their budget allocations, let alone the value of their preliminary expenditure requests. Second, he argued, sooner or later Siam would have to raise a loan in Europe in order to continue construction of the Kingdom's railway system. In raising such a loan the Government would be required to publish its budget and a statement of its financial position: if the budget showed a probable deficit for whatever reason, then, argued Rivett-Carnac, the European investing public would be very reluctant to take up the loan on any but the most stringent terms.

Rivett-Carnac outlined in detail where he thought the cuts should be made: a cut of 2.57 m. baht from the army and navy estimates<sup>50</sup>, a reduction of 1.0 m. baht in the allocation for railway construction - in the hope that the Government would soon make the decision to continue construction by means of

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48. Prince Mahit to King, 11 April 1899 N.A.Kh. 5. 1/11.

49. Memorandum upon the budget estimates for r.s. 118, Rivett-Carnac, 25 March 1899 N.A.Kh. 5. 1/11.

50. 'The real defence of Siam', Rivett-Carnac argued, 'lies in the improvement of her Administration and in the rapid development of her resources, and all our efforts should now be entirely devoted to those objects: when those objects have been attained, and no sooner, we can afford to expend more money in securing the increased efficiency and mobility of our Army and Navy.' Memorandum 25 March 1899 N.A.Kh. 5. 1/11.

a loan - and a number of smaller cuts in various minor public works programmes. In addition a small immediate saving was to be secured as a result of the King's decision to accept an annual fixed allocation of 6.0 m. baht for the Privy Purse and the Ministry of the Palace, instead of the 15 per cent of Government revenue which had been the case since 1890. According to Rivett-Carnac these reductions would give a total expenditure estimate of 29.52 m. baht, a slight budget surplus of 0.89 m. baht.

Prince Mahit accepted the proposed cuts put forward by Rivett-Carnac, though he recognized that inevitably some departments could object to them<sup>51</sup>. But as the Minister argued to the King, if the Ministries wished to have their estimates discussed more thoroughly and fairly, they would have to learn to submit them on time. The complete estimates for 1899/1900 were discussed by the Council of Ministers in late April and early May 1899<sup>52</sup>: the Ministers slightly amended the estimates as prepared by Rivett-Carnac and Prince Mahit, bringing the estimate for total expenditure up to 30.11 m. baht<sup>53</sup>. The budget was sanctioned by the King on 5 June<sup>54</sup>.

The Ministry of Finance completed its work on the 1899/1900 budget in a reasonably optimistic mood. In the first place Rivett-Carnac, now Financial Adviser, in a memorandum which in form fore-shadowed the Report of the Financial Adviser on the Budget which were to be published from 1901/02, drew an encouraging picture of the Kingdom's financial position<sup>55</sup>. First, the Government had very substantial cash reserves, more than 23.6 m. baht in Bangkok and

51. Prince Mahit to King, 11 April 1899 N.A.Kh. 5. 1/11.

52. Again, regrettably no record of the discussions could be found in the National Archive.

53. Prince Mahit to King, 15 May 1899 N.A.Kh. 5. 1/11.

54. King to Prince Mahit, 5 June 1899 N.A.Kh. 5. 1/11.

55. Memorandum. Financial Position of the Kingdom, 25 March 1899 Rivett-Carnac. N.A.Kh. 5. 1/11. It would appear that this memorandum was originally intended for publication. According to Greville, the British Minister, the King was reluctant to publish the budget (with the Adviser's Report) because he disliked advertising the fact that the Government obtained a sizeable proportion of its revenue from opium, liquor and gambling, and also because he feared that once the French were aware of the real extent of the Kingdom's recent progress, they would increase their pressure on the Eastern provinces. (Greville to Bertie, 28 September 1899, Private P.R.O. F.O. 69/197).

Singapore alone. From an administrative point of view, such large reserves were perhaps unsatisfactory, for their existence suggested once again the failure of the Ministries to use all their budget allocations and hence underlined the defects of the budget procedures. But financially it was a considerable achievement, particularly once it was recognized that at the same time as the Government had been building up these reserves, Government expenditure itself had been increasing at a quite outstanding rate<sup>56</sup>. Rivett-Carnac pointed out that over the period 1891/92 - 1898/99 the Government had spent entirely out of current revenue 14.41 m. baht on railway construction alone.

But in mid-1899 there were a number of other encouraging signs for the Ministry. The Committee on Establishments had at last begun work, though as noted above, it was soon to lose some of its early enthusiasm. More importantly there were indications that the Ministry of Finance had almost achieved its major objective - the establishment of a system of relatively efficient and effective budget procedures. The King's outburst in January 1899 had, it was hoped, at last convinced the Ministers of the importance of submitting their preliminary expenditure estimates to the Ministry of Finance on time. In addition, despite Prince Mahit's pessimism, it does appear that the Ministries were beginning to co-operate more freely with the Ministry of Finance in amending and revising their estimates, and that the Council of Ministers in their budget discussions were concerning themselves much more with the major expenditure items. The principal evidence for this is that there were no longer any serious complaints from Prince Mahit to the King about a lack of co-operation from the Ministries over the budget<sup>57</sup>. There is also some small numerical evidence of improvement: whereas in 1898/99 the Ministries had been unable to spend 5.0 m. baht of the funds allocated to them, in 1899/1900 this was reduced to 3.0 m. baht<sup>58</sup>. This suggests that the Government was now capable of producing

56. Government expenditure rose from 14.91 m. baht in 1892/93 to 23.78 m. baht in 1898/99 R.F.A.B. 1903/04 pp. 24-25.

57. It must be admitted that with no records in the Archives of the meetings at the Ministry of Finance at which the preliminary estimates were discussed and amended in consultation with the Ministry involved, evidence on this point is somewhat slight.

58. R.F.A.B. 1903/04 p. 25.

a more accurate set of final expenditure estimates. But the evidence is sparse. It would perhaps be nearer the truth to suggest that by 1899 there were indications that even if the Ministries were not yet willingly accepting the strong influence of the Ministry of Finance over their budget allocations, the force with which Prince Mahit, supported by the King, was emphasizing the Ministry's authority and responsibility in the compilation of the budget, was at least beginning to make itself felt.

There was a further important aspect of the Ministry's attempts to improve the efficiency of its budgetary procedures - the development of a more effective and comprehensive system of audit and account. Clearly there was little benefit to be gained if the Ministry of Finance, having persuaded the Ministries to co-operate in compiling accurate and realistic expenditure estimates, were then to impose no check on their actual expenditure. As Rivett-Carnac was engaged from India to be Controller-General (even though within two months of his arrival in December 1898 he had been appointed Financial Adviser) it was one of his major responsibilities to reform the administration's audit and accounting methods. From 1899 the Ministry produced, quite literally, scores of regulations covering every conceivable financial transaction within the bureaucracy - regulations governing the compilation and presentation of accounts, regulations outlining the conditions upon which officials could draw salaries, sick leave rules, regulations governing the transfer of funds from one budget item to another, regulations governing the disbursement and accounting of travelling expenses<sup>59</sup>. In almost every case the regulations were based on similar regulations then in use in the British administration in India: indeed their introduction in Siam represented a determined attempt by the Ministry of Finance to impose western concepts of financial accountability into the Siamese bureaucracy. It is impossible to gauge with any degree of accuracy the effectiveness of the regulations<sup>60</sup>, yet there are some indications that they achieved at least some small degree of success. In the first place the Ministry of

59. A large number of these regulations are filed under Kh. 2 and F.F.A. 29. Each set of regulations was printed in book-form and distributed to the appropriate parts of the administration.

60. The evidence does not exist to make a detailed examination of this aspect of the Ministry's work possible.

Finance constantly impressed on the Ministries their obligation to account for all their expenditure and sources of funds<sup>61</sup>. Second, Rivett-Carnac made occasional references to an improvement in the Government's audit and accounting methods<sup>62</sup>. Lastly, it is possible that the fact that from the late 1890s the Ministries were spending a higher proportion of their allocations was due as much to the Ministries' realization that they would be liable to audit by the Ministry of Finance as to the administration's ability to compile accurate and realistic expenditure estimates in the first place. The dearth of evidence on this very important aspect of the Ministry's work is unfortunate<sup>63</sup>,

The budget for the following year, 1900/01, was prepared without any serious complications. Indeed it would appear that the Ministry of Finance found sufficient time to examine the estimates in more detail than had ever before been the case<sup>64</sup>, and still have the budget sanctioned by the King by 1 April<sup>65</sup>. It was the first time that the budget had been completed for the beginning of the Siamese year.

The improvement was maintained in 1901/02. For that year, for the first time, Prince Mahit's budget memoranda and correspondence were mainly concerned, indeed almost exclusively concerned, with the problems of the allocation of the Government's revenue resources - with the examinations and discussions as to which budget items should be cut or deferred. There was a strong contrast with the situation in the late 1890s when the Ministry's work had been dominated

61. For example, in the reports on the budget discussions for 1901/02 (N.A.Kh. 5. 1/14) it is noticeable that Mr. Florio, the head of the Accounts Department of the Ministry, invariably called upon Ministers to account for particular items of expenditure in their budget for the previous year.

62. R.F.A.B. 1901/02 p. 18.

63. The effectiveness of the Ministry of Finance's audit procedures in this period is further considered in Chapter VIII, pp. 316 - 318

64. Prince Mahit to King, 21 March 1900 N.A.Kh. 5. 1/11.

65. King to Prince Mahit, 1 April 1900 N.A.Kh. 5. 1/11. It is interesting to note that actual Government expenditure in 1900/01 was 31.84 m. baht (R.F.A.B. 1903/04 p. 25) compared with the estimate of 32.66 m. baht (Prince Mahit to King, 30 March 1900 N.A.Kh. 5. 1/11), a difference of 0.82 m. baht. This compares with the figures for unspent funds of 5.0 m. baht in 1898/99 and 3.0 m. baht in 1899/1900. Once again this suggests that the administration was now capable of producing more accurate and realistic estimates, and that the Ministry's accounting reforms were having some effect.

by the problems of budget procedures - the problems of persuading the Ministries and departments to abide by the Government's budget regulations<sup>66</sup>.

Perhaps the most significant feature of the budget discussions which took place in March 1901 was that, at least on the evidence available, there were very few serious disputes between the Ministry of Finance and the various Ministries and departments of the administration over where the amendments in the preliminary estimates should be made, and this despite the fact that in order to secure a budget surplus, a cut of 13.0 m. baht had to be made in the Ministries' original expenditure demands<sup>67</sup>. The virtual absence of serious disagreement can be explained by a number of possible factors<sup>68</sup>. First, though the Ministry of Finance proposed very large cuts in some estimates - a request from the Ministry of Public Works for 5.24 m. baht for railway construction was reduced to 2.0 m. baht - in fact both Prince Mahit and Rivett-Carnac were willing to discuss any item thoroughly and to accede to any budget request if the Minister's case was strong enough and forcefully put<sup>69</sup>. Second, it was common practice for the Ministry, whilst opposing a particular item in the estimates, to add the qualification that if during the year the appropriate Ministry should find itself with unspent funds, then after applying to the Ministry of Finance for permission those funds could be transferred to the rejected item.

Third, Prince Mahit and Rivett-Carnac refused to discuss requests for increases in salaries or increases in staff: in the event of such requests being made, the Minister was simply referred to the recommendations of the

66. 1901/02 was also the first year for which the Archives contain records of the discussions between the Ministry of Finance and the other Ministries over the preliminary expenditure estimates. Therefore some allowance has to be made for the fact that to some extent the changing nature of the Ministry's problems concerning the budget may simply reflect the appearance of this additional form of research material. However, the basic point - that after 1900-1901 the Ministry was much less concerned with problems of budget procedures - still stands.

67. Report on discussion of budget estimates of Ministry of War, 26 March 1901 N.A.Kh. 5. 1/14.

68. The following points are taken from the reports of the budget discussions held in March-April 1901 N.A.Kh. 5. 1/14.

69. For example, the Ministry accepted most of the navy's budget requests after the head of the navy had put up considerable opposition to some proposed cuts.

Committee on Establishments. Yet at the same time Prince Mahit left the Ministers a way out. Under the terms upon which the Committee had been set up the Ministers were allowed to apply to the King at any time for a revision of the Committee's recommendations: that option remained open. But in addition, in April 1900 the Ministry of Finance had been given permission by the King to decide any minor requests for revision itself, without reference to the throne<sup>70</sup>. As a result, when during the budget discussions in March 1901 a Minister was particularly intractable over a specific salary or staff item which the Ministry of Finance was reluctant to approve and still more reluctant to discuss at length<sup>71</sup>, the Minister was asked to accept the Ministry's recommendation for the time being, and then to submit another request at a later date: in effect the Ministry of Finance gave an undertaking to reconsider the issue once the work on the budget was completed.

However, the Committee on Establishments remained the corner-stone of the Ministry's procedures for dealing with requests for increases in staff and salaries. It was therefore significant that the Committee recommenced its investigations in February 1901. The General Adviser's Department was examined on 28 February 1901<sup>72</sup>, the Ministry of Public Works the following month<sup>73</sup>, the navy in September 1901<sup>74</sup>, and the army in December<sup>75</sup>, the Committee approving large increases in salaries and men for the last two departments. In 1902 the Committee once again came to a standstill, and once again the principal cause was the frequent absences of Prince Narit. The chairman argued that

70. Memorandum. The Baap-Pleeang-Plaang, or Proposition Statement for the Revision of Existing Establishments. Rivett-Carnac 11 April 1901 N.A.Kh. 5.1/13.

71. For example, the Ministry of Justice strongly opposed the proposal of the Ministry of Finance to cut its requests for increases in funds to finance the appointment of more judges.

72. Report of Committee: attached to Prince Mahit to King, 5 April 1901 N.A.Kh. 7/7.

73. Report of Committee: attached to Prince Mahit to King, 26 August 1901 N.A.Kh. 7/7.

74. Report of Committee: attached to Prince Mahit to King, 5 December 1901 N.A.Kh. 7/7.

75. Report of Committee: attached to Prince Mahit to King, 15 March 1902 N.A.Kh. 7/7.

his duties as Minister of Public Works left him with little time for the Committee<sup>76</sup>, though Prince Mahit suspected that Prince Narit's lack of enthusiasm reflected his anger with the high budget allocations demanded by the next Ministry to be investigated - the Ministry of Agriculture<sup>77</sup>. In December 1902, after Rivett-Carnac had threatened to resign from the Committee unless Prince Narit were replaced<sup>78</sup>, Prince Chanthaburi, the Controller-General, was appointed chairman<sup>79</sup>. The Committee limped on for several years, finally concluding its work in January 1905 with an investigation of the Ministry of War<sup>80</sup>.

The Committee on Establishments could hardly have fulfilled the hopes placed in it by Prince Mahit and Rivett-Carnac on its inauguration in 1899, though in the absence of detailed records it is difficult if not impossible to gauge its achievements and failures with any real accuracy<sup>81</sup>. Only on one point can it be said that the Committee's success was clear: it enabled the Ministry of Finance to prevent the budget discussions from being swamped by innumerable requests for increases in staff and salaries - it brought stability to that area of the budget. The importance of that achievement is first evident in the records of the discussions over the 1901/02 budget.

The fourth possible reason why there were few serious disputes between the Ministry of Finance and the Ministries during the 1901/02 budget discussions is that the Ministry reduced some of its own preliminary estimates: there could be no grounds on this occasion for the complaint that the Ministry was using its privileged position to protect its own budget. Finally, it has

76. Prince Narit to Rivett-Carnac, 3 September 1902 N.A.Kh. 7/9.

77. Prince Mahit to King, 10 December 1902 N.A.Kh. 7/9.

78. Rivett-Carnac to Prince Sommot, 9 December 1902 N.A.Kh. 7/9.

79. King to Prince Mahit, 17 December 1902 N.A.Kh. 7/9.

80. Report of Committee: attached to Prince Mahit to King, 16 March 1905 N.A.Kh. 7/9.

81. For example, there is no detailed information available on the recommendations of the Committee, only accounts of the overall changes recommended for each department. Neither is there any detailed evidence on the subsequent requests of the Ministries to have the recommendations of the Committee revised.

to be remembered that the discussions did not represent the final word on the budget. The completed budget still had to be approved by the Council of Ministers, and it was usual for some small amendments to be made to the expenditure estimates at that stage. Then it had to be sanctioned by the King. In other words there was still an opportunity - provided by the Government's budget procedures - for the Ministers to appeal against the earlier judgement of the Ministry of Finance<sup>82</sup>.

The 1901/02 budget was submitted to the King on 19 April 1901<sup>83</sup>, and sanctioned on 27th April<sup>84</sup>.

In 1901, as always, the Ministry attempted to estimate for a small revenue surplus but at the last moment its calculations were upset by news that the arbitrator appointed to settle a dispute between the Government and the original contractor for the Bangkok-Korat railway, Murray Campbell, had decided against the Siamese Government and had awarded the contractor compensation of £161,000 or 2.8 m. baht<sup>85</sup>. As a result, for the first time the budget provided for a revenue deficit - of 2.5 m. baht - the deficit being covered from the Treasury reserve. A projected deficit at that point was particularly unfortunate since in 1901/02 the Government had decided to introduce an important innovation - the publication of the budget estimates, coupled with a report by the Financial Adviser. Since one of the major objectives of publication was to bring to the notice of Europe the recent financial and administrative progress of Siam as a prelude to the raising of a European loan the deficit was an unhappy, though by no means disastrous, accident.

Rivett-Carnac presented his report to Prince Mahit for publication on 18 April 1901<sup>86</sup>. The actual content of the report calls for little comment since

82. The effectiveness of the budget procedures of the Ministry of Finance in this period - the extent to which the Ministry was successful in controlling the actual expenditures of the Ministries, is further considered in Chapter VIII pp. 315-324.

83. Prince Mahit to King, 19 April 1901 N.A.Kh. 5. 1/14.

84. King to Prince Mahit, 27 April 1901 N.A.Kh. 5. 1/14.

85. R.F.A.B. 1901/02 p. 2.

86. R.F.A.B. 1901/02 p. 1.

the Financial Adviser restricted himself largely to a detailed, somewhat dry description and analysis of each principal head of revenue and expenditure. Only occasionally did Rivett-Carnac introduce a more personal note - for example when he called once again for the Kingdom's railways to be constructed by means of a European loan<sup>87</sup>. And as was to be expected, his conclusion was suitably laudatory :

' ... the Government is in a remarkably strong financial position. The Revenues are showing themselves to be elastic and they are being rapidly got under better control. The expenditure, also, is being more and more devoted to improvements in the Administration of the Government with a view to the safety, convenience, and happiness of the people, while the audit and control of the disbursements by the Financial Department is becoming real and effective.' <sup>88</sup>

The Report of the Financial Adviser on the Budget was primarily an exercise in public relations, directed principally towards the Europeans both in Bangkok and in Europe itself. It is significant that copies of the report were sent to the foreign representatives in Bangkok, to all the Siamese missions abroad<sup>89</sup> and to Dr. Morrison, the Far East correspondent of the Times<sup>90</sup>. In September 1901 the Times published a long and by and large favourable report on the recent progress of Siam<sup>91</sup>.

There is little need to consider in detail the preparation of the budget for 1902/03 for the relative ease with which the estimates were compiled merely confirms the comparative stability and effectiveness of the budget procedures attained in the previous two or three years. Similarly Rivett-Carnac's second budget report, though it contains little of especial note, does, by its detailed analysis of every revenue and expenditure head, project an air of confidence in the relative effectiveness of the Ministry's control over the finances of the Government, a confidence which contrasts strongly with the fragility

87. R.F.A.B. 1901/02 p. 16.

88. ibid p. 18.

89. Memorandum: The publication of the budget. Rivett-Carnac. undated N.A.Kh. 5. 1/14.

90. Memorandum: Communication of Financial Statement to Dr. Morrison, the Times correspondent. Rivett-Carnac, 18 April 1901 N.A.Kh. 5. 1/16.

91. The Times 7 September 1901.

of the Ministry in budgetary matters in the middle and late 1890s. However, this view must be balanced by a further consideration. Though between 1896 and 1902 there occurred a considerable strengthening of the budget, accounts and audit procedures of the Ministry of Finance, great care must be taken not to exaggerate the actual effectiveness of the Ministry's control over the finances of the administration by the end of this period. In 1902, and even in 1910, some aspects of the Ministry's financial control remained weak, occasionally very weak. This is a complex consideration, involving as it does not only the actual budget, accounts and audit work of the Ministry of Finance but also the Ministry's responsibilities - and in some cases absence of responsibility - for other areas of the Government's financial administration. A more balanced assessment of the development of the financial control of the Ministry of Finance in these years must therefore be held over until the concluding chapter.

If the actual preparation of the 1902/03 budget calls for little comment, its content was of considerable significance. In its budget discussions with the Ministries that year, the Ministry of Finance found some difficulty in reducing the expenditure estimates so as to secure a revenue surplus<sup>92</sup>. Indeed it was found necessary to meet a 3.5 m. baht allocation for railway construction by drawing 1.5 m. baht from the Treasury reserves, the remaining 2.0 m. baht being covered by current revenue<sup>93</sup>. Thus for the first time the Ministry of Finance used the reserves built up in the late 1890s to avoid a budget deficit<sup>94</sup>. This was the first clear indication of what was to prove to be the Ministry's major budgetary problem after 1902: in future, with the rate of increase in Government revenue slowing down, yet legitimate requests for larger expenditure allocations increasing at an unprecedented rate, the administration had to decide its fundamental order of priorities for the allocation of its scarce

92. Prince Mahit to King, 10 April 1902 N.A.Kh. 5. 1/15.

93. R.F.A.B. 1902/03 p. 1. In fact the 1.5 m. baht was taken from a special reserve fund for public works projects, a fund formed from a revenue surplus in 1900/01.

94. This is leaving out of account 1901/02 when the reserves were used to pay compensation to Murray Campbell.

revenue resources. It was a decision which, as the 1900s progressed, became increasingly hard to make.

2. The Ministry of Finance and the Government's revenue collections : the establishment of the Bangkok Revenue Department and the Provincial Revenue Department, 1898 - 1899.

One of the most noticeable features of the work of the Ministry of Finance in compiling the budgets between 1896 and 1902 was that the Ministry concerned itself almost exclusively with the expenditure side of the Government's accounts. Revenue considerations were of course not ignored in this period. For example Prince Mahit had his share of difficulties with the major tax farms, principally the spirit monopoly<sup>95</sup>. In addition, as has already been noted, numerous financial regulations were issued in this period to govern the flow of revenue from the various parts of the Kingdom into the Treasury in Bangkok<sup>96</sup>. Yet it is significant that in all his budget correspondence with the King between 1896 and 1902, Prince Mahit invariably took the figure for estimated revenue for the particular year involved as given and gave all his attention to the difficulties attendant on the compilation and presentation of accurate expenditure estimates. Such apparent prejudice against the revenue aspects of its work ran counter to the provisions of the 1890 Act establishing the Ministry of Finance<sup>97</sup>, yet it was a prejudice that was apparent not only in connection with the Ministry's budgetary work but could also be seen in a policy developed in the late 1890s, principally by Prince Mahit, to divest the Ministry of Finance of the responsibility for actually collecting the Kingdom's revenue.

This policy was developed over a number of stages. First, in 1896, the Government introduced a distinction between the administration of financial and the administration of fiscal matters in the provinces - or at least in

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95. In 1900 the Bangkok spirit farmer ran into severe financial difficulties and the Ministry of Finance was forced to re-auction the contract the following year. Prince Mahit to King, 13 July 1900/24 February 1901 N.A.Kh. 14. 1kh/20.

96. See pp. 90-91

97. The first clause of the 1890 Act stated that the Ministry was to be responsible for, among other things, 'collecting the taxes throughout the whole Kingdom'.

those areas of the Kingdom where the thesāphibān system was in force<sup>98</sup>. In the early 1890s it was inevitable that as Prince Damrong pushed ahead with the creation of an effective system of provincial administration, the relatively weak Ministry of Finance had been unable to exert much influence outside the capital. For example, it was common practice for the superintendent commissioners (khāluang thesāphibān) to spend funds first and then request the approval of the Ministry of Finance afterwards. The measures taken in 1896 were designed to halt such practices and to improve the control of the Ministry of Finance over provincial expenditure: this was achieved by moving the financial commissioners (the khāluang khlang) from the Ministry of the Interior to the Ministry of Finance. From 1896 the khāluang thesāphibān had to go for their funds to the khāluang khlang, the representatives of the Ministry of Finance. At the same time the Ministry of the Interior assumed responsibility for fiscal matters in the provinces. Since the superintendent commissioners had in fact already begun to take over the collection of taxes from the local nobility and from the tax farmers, this did little more than confirm an existing arrangement.

The second stage in the development of this policy occurred in July 1898 when W. A. Graham, who held the post of adviser to the accounts department in the Ministry of the Capital<sup>99</sup>, wrote to Prince Mahit on the question of the collection of taxes in Bangkok Province<sup>100</sup>. Graham pointed out that during the few months in which he had been employed in the Ministry of the Capital the Ministry had taken over the collection of a number of those taxes<sup>101</sup>, and he expected that before long all revenue raised in the Province would be collected

98. Tej Bunnag The Provincial Administration of Siam from 1892 to 1915 D.Phil. thesis, Oxford 1968 pp. 187-189.

99. Prince Mahit to King, 21 July 1898 N.A.Kh. 14. 2/3. W. A. Graham, an Englishman, held a number of positions in the Siamese service in this period, including in the 1900s the post of Siamese Adviser to the State of Kelantan. He was also the author of perhaps the best contemporary reference book on the Kingdom, Siam: A Handbook of Practical, Commercial and Political Information, first published in 1912.

100. Memorandum: Remarks on the Khana. W. A. Graham, July 1898 N.A.Kh. 14. 2/3.

101. Graham specifically referred to the Ministry of the Capital assuming responsibility for the collection of fishery taxes in Bangkok Province: in fact in that same month, July 1898, it was intended to transfer responsibility for the collection of several garden and orchard taxes in the Province to the Ministry of the Capital. Prince Mahit to King, 21 July 1898 N.A.Kh. 14. 2/3.

by the Ministry, with the exception of the revenue from the tax farms which as always would remain the responsibility of the Ministry of Finance. The difficulty was that the Ministry of the Capital had no separate division of officials concerned solely with tax collections: as a result the collections were inefficient - no checks were imposed on the officials actually engaged in collecting the taxes, little or no planning went into the organization of the tax collections themselves. Therefore Graham suggested a revenue office should be established in the Ministry of the Capital, responsible for the collection of taxes in Bangkok Province - that is those taxes already collected by officials from the Ministry, or those to be transferred to the Ministry in the future. He ventured to suggest that he be made head of the new department.

Graham's proposal was welcomed by the King and Prince Mahit<sup>102</sup>. The Krom Sanphakon Nai, or Bangkok Revenue Department<sup>103</sup>, began work on 1 November 1898, and by the following year it was able to undertake the collection of some eight different land taxes<sup>104</sup>. At the same time Graham instituted much stricter methods of tax assessment, tax collection and audit: attempts were made to have tax arrears paid off and steps were taken to ensure that local officials, principally village headmen, by whom the taxes were actually collected, were paid adequate salaries or allowed adequate commission. If Graham's annual reports are believed most of these measures achieved some success.

The establishment of the Bangkok Revenue Department - concerned primarily with the collection of taxes on the land - within the Ministry of the Capital inevitably prompted a scheme for the creation of a similar department for the provinces. By 1899 the situation with regard to the collection of land taxes in the provinces was extremely confusing. According to the 1896 decision confirming the responsibility of the Ministry of the Interior for fiscal matters

102. Prince Mahit to King, 21 July 1898/King to Prince Mahit, 29 July 1898  
N.A.Kh. 14. 2/3. However, the King made it clear that the appointment of Graham as head of the department was to be regarded as a temporary measure to last until a Siamese official could be trained for the post.

103. Krom Sanphakon Nai translates literally as 'Inner Revenue Department' but 'Bangkok Revenue Department' would be the more accurate, explicit title as long as it is remembered that 'Bangkok' refers to the Province, not just the City.

104. Second Annual Report of the Bangkok Revenue Department r.s. 118 N.A.Kh.  
14. 1/3.

in the provinces, logically the taxes should have been entrusted to Prince Damrong's officials. However, it appears that the collection of land taxes in the provinces - or at least the most important of those taxes, the khāna<sup>105</sup> - remained the responsibility of the Ministry of Finance, for in 1897 Prince Mahit's Ministry had taken over the principal functions of the Ministry of Agriculture, now the Department of Agriculture within the Ministry of Finance<sup>106</sup>. However, the Ministry did not, or perhaps could not, take its responsibility for the collection of the khāna very seriously: the methods of land registration and assessment, the system of tax collection remained as grossly inefficient as apparently they had been under the old Ministry of Agriculture<sup>107</sup>. In March 1899 Rivett-Carnac proposed to Prince Mahit that the Ministry's responsibility for the administration of the land in the provinces - which involved not only the taxation of land but also its assessment and registration - be transferred to the Ministry of the Interior: he argued that the administration of the land could be carried out more efficiently and effectively by officials in Prince Damrong's Ministry for those officials, from Prince Damrong himself down, had a far greater knowledge of conditions in the provinces than any official attached to a more exclusively Bangkok-based Ministry<sup>108</sup>.

Prince Mahit supported the Adviser's proposals<sup>109</sup>, but Prince Damrong was less enthusiastic: it was clear that if the Ministry of the Interior was to be responsible for both the administration of the land in the provinces and the collection of land revenues, and if, unlike the Ministry of Finance, it was to take those responsibilities seriously, then it would involve the provincial bureaucracy in a considerable increase in work<sup>110</sup>. The matter was discussed between Prince Mahit, Prince Damrong and Rivett-Carnac in late July 1899<sup>111</sup>,

105. Memorandum. Rivett-Carnac, 18 March 1899 N.A.Kh. 14. 1/2.

106. Prince Mahit to King, 30 March 1897 N.A.K.S. 1/3.

107. Memorandum. Rivett-Carnac, 18 March 1899 N.A.Kh. 14. 1/2.

108. *ibid.*

109. Prince Mahit to King, 29 June 1899 N.A.Kh. 14. 1/2.

110. Prince Damrong to King, 18 July 1899 N.A.Kh. 14. 1/2.

111. Prince Mahit to King, 28 July 1899 N.A.Kh. 14. 1/2.

and eventually a compromise was reached. The Ministry of Agriculture was re-established with Čhao Phrayā Thēwētwongwiwat as Minister<sup>112</sup>. The Ministry was to be responsible for the settlement of land throughout the Kingdom, but responsibility for the collection of land taxes in the provinces was to be entrusted to the Ministry of the Interior until such time as the Ministry of Agriculture felt able to take over that function<sup>113</sup>. Therefore in late 1899 the Krom Sanphākōn Nōk, the Provincial Revenue Department, was established within the Ministry of the Interior.

In 1900 the responsibilities of the Bangkok and Provincial Revenue Departments were extended to cover the administration of the collection of the Chinese poll tax<sup>114</sup>, though their parent Ministries appear to have been responsible for the tax since at least the mid-1890s. In the 1900s increasing numbers of taxes were collected by both departments, in most cases taxes not connected with the land at all - capitation taxes, gambling fees, pawnbroker licences, fees to slaughter pigs<sup>115</sup>.

Therefore by the early years of the century the Ministry of Finance had absolved itself of responsibility for the actual collection of taxes within the Kingdom: in fact as early as 1897 the tax collecting divisions of the Ministry, the Krom Suai, Krom Sanphāsī, Krom Sanphākōn, were being broken up<sup>116</sup>.

112. King to Prince Mahit, 2 September 1899 N.A.Kh. 14. 1/2.

113. Prince Damrong to King, 9 September 1899 N.A.Kh. 14. 1/4.

114. Prince Damrong to King, 4 May 1900 N.A.Kh. 13. 1/6.

115. Accounts of the Provincial Revenue Department r.s. 121-133 (1902/03-1914/15) F.F.A. 5/1: Report of the Bangkok Revenue Department r.s. 126 (1907/08) N.A.Kh. 14. 1/7: Prince Damrong Ru'ang Tamnān kānlōekbōnia lae lōek huai (The Abolition of Gambling Dens and the Huai Lottery) Bangkok 1960 p. 48.

The total amount of revenue collected by the Provincial Revenue Department rose from 8.113 m. baht in 1902/03 to 18.559 m. baht in 1910/11 (Accounts of the Department r.s. 121-133). In this last year the Department was collecting about 30% of the total revenue raised by the Government. The Bangkok Revenue Department collected less - 0.702 m. baht in 1899/1900 (Report of the Department r.s. 126) rising to 2.641 m. baht in 1908/09 (Čhao Phrayā Yommarāt to King, 1 December 1909 N.A.Kh. 14. 1/7).

116. Prince Mahit to King, 30 March 1897 N.A.K.S. 1/3. After 1900 the only revenue collecting agency within the Ministry was the Customs Department, of course collecting taxes outside the Kingdom - on foreign trade - though from 1898 it was also responsible for the collection of inland transit duties around Bangkok, a responsibility which previously had been entrusted to the Krom Sanphāsī. Indeed, in the late 1890s the Krom Sanphāsī was absorbed into the Customs Department (Phrayā Anuman Rajadhon Tamnān Sunlakākōn (History of the Customs Department) Bangkok 1939, pp. 46-48).

The establishment of the Bangkok and Provincial Revenue Departments in 1898 and 1899 simply confirmed that, at least in the immediate future, the Ministry of Finance would not be responsible for the administration of tax collections. As far as the flow of revenue was concerned, the Ministry's principal responsibilities were to ensure, by the development of an effective system of accounts and audit, that all the tax receipts from taxes collected by officials in other Ministries were remitted in full to the Treasury, and to administer the Kingdom's tax farms.

There were basically two factors behind this development. First it is clear that Prince Mahit almost from the moment he was appointed Minister of Finance wished to absolve his Ministry of responsibility for the actual collection of the Kingdom's tax revenue: his enthusiastic advocacy of the establishment of the new revenue departments is well documented. And it is not difficult to follow the Minister's probable thinking behind this policy. In the late 1890s the Ministry of Finance was struggling with the problems of controlling the expenditure budgets of the administration: Prince Mahit did not want his Ministry's effectiveness in that respect hampered by additional major responsibilities, responsibilities which in any case it would have found difficult to fulfill.

This leads to the second and more fundamental factor. From its establishment in 1892 the Ministry of the Interior under Prince Damrong had been growing in effectiveness and influence: as a part of that process the Ministry had taken over some of the provincial responsibilities - for justice, education, forestry - of the Bangkok-based Ministries. The confirmation of the responsibility of the Ministry of the Interior for fiscal matters in the provinces in 1896, and the establishment of the Provincial Revenue Department in 1899, were merely another aspect of that process. In fact it is possible to see these developments as in the tradition of the pre-reform administration - a powerful Ministry attracting to itself increasing numbers of functions originally attributed to other parts of the administration, and in so doing blurring the functional differentiation of the Government structure. Indeed the emergence

of a dominating Ministry of the Interior, embracing territorial and functional responsibilities was to cause considerable problems for the Ministry of Finance in the later 1900s when the principal tax farms were abolished and the collection of those taxes passed to direct Government control.

There was a further, more general factor behind the bias of the Ministry of Finance in this period towards the expenditure side of the Government's finances. Briefly, the Ministry had to accept the Kingdom's tax structure as given, for the rates of tax levied in Siam were effectively frozen by the commercial treaties signed with the powers from the 1850s. There was very little room for re-negotiation of the tax rates and as a result the Government was able to increase the amount of revenue raised in the Kingdom only by working the existing tax structure more thoroughly and efficiently. Because it already had officials in the field, that was essentially a task for the Ministry of the Interior, and to a much lesser extent the Ministry of the Capital.

From the late 1890s the Bangkok and Provincial Revenue Departments, under the Ministries of the Capital and the Interior, carried through a number of major reforms in the Kingdom's fiscal administration. Strictly speaking these subsequent developments lie outside the scope of this present study where the primary concern is with the work of just the Ministry of Finance<sup>117</sup>. On the other hand the actual establishment of the two revenue departments outside the Ministry of Finance in 1898 and 1899 had a considerable influence on the development of the Ministry in the 1900s and consequently is of substantial interest in the present context: having virtually no direct control over the actual collection of the Government's internal tax income (at least until 1915) inevitably weakened the control of the Ministry of Finance over the expenditure of the administration - over the distribution of the Kingdom's tax income - and weakened the authority of the Ministry within the Government as a whole. Again this is a complex point on which a balanced assessment must wait until the concluding chapter.

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117. There are a number of references to the work of the Provincial Revenue Department between 1899 and 1915 in Tej Bunnag's The Provincial Administration of Siam from 1892 to 1915 D.Phil.thesis, Oxford 1968, especially pp. 153-154/219-221.

### 3. The Financial Advisers : Mitchell-Innes and Rivett-Carnac.

Some brief references have been made in the earlier sections of this chapter to the activities of Mitchell-Innes and Rivett-Carnac between 1896 and 1902. Their work and influence in Siam in this period must now be considered in more detail.

Mitchell-Innes was Financial Adviser from June 1896 to January 1899. During that period he was involved in work on the budget, on the signing of a Land Tax Agreement with Britain and a reduction in the number of inland transit duties, and on a proposal to raise a loan in Europe<sup>118</sup>. Even so his influence on the Ministry of Finance and on the Siamese Government as a whole was in fact quite limited. First, he had very little opportunity to be influential within the Ministry. Since Mitchell-Innes was the first European Financial Adviser to be appointed he could rely on neither tradition nor precedent to give his position authority and substance: neither was he assisted by the fact that within a year of his arrival in Siam Prince Mahit left on an extended tour of Europe, leaving Prince Narit as the apathetic acting Minister of Finance. But having said that, there can be little doubt that the major obstacle to the evolution of the influence and authority of Mitchell-Innes as Financial Adviser lay in the personality and character of the man himself. He was strangely unsuited to the position he held. At best it could be said that he had a distressing ignorance of the social and cultural attitudes and conventions of the Siamese - at worst he displayed, to Siamese eyes, an almost unbelievable arrogance.

Within two months of his arrival in Bangkok, Mitchell-Innes had undertaken a detailed examination of the fiscal and financial administration of the Kingdom, even going to the trouble of making an inspection tour of the inner provinces. In September 1896 he submitted two reports on his findings to Prince Mahit<sup>119</sup>. Both reports consisted of almost unrelieved criticism: most importantly,

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118. The Land Tax Agreement and the proposal to raise a loan will be considered in Chapter IV.

119. Report on the Financial System of Siam, Mitchell-Innes, 6 September 1896 N.A.Kh. 17. 3/1. Memorandum, Mitchell-Innes, undated (but mid-1896) N.A.Kh.1/16.

Mitchell-Innes underlined the current weakness of the Ministry of Finance :

'There does not exist a Ministry of Finance in the proper sense of the word; that is to say, a Department which directs and controls the finances of the country ... the revenue is collected partly by one Ministry, partly by another, while the local Treasuries are practically independent of the Ministry of Finance. This Ministry is indeed little more than an office for the receipt of portions of the Revenue and the payment of salaries.' 120

This told Prince Mahit and the King little that they did not already know. In fact, as the King informed the Adviser, it was precisely in order to assist in the reform of the financial administration, to sweep away its worst abuses, that the Government had engaged a European, who, it was hoped, would have the ability, expertise and ideas to make reform possible<sup>121</sup>. But Mitchell-Innes was noticeably lacking in constructive ideas: he offered none but the most general recommendations. And to make matters worse, the way in which he presented many of his criticisms betrayed his ignorance of local conditions and his unawareness of Siamese sensibilities. For example he ended one of his early reports as follows :

'I cannot close this report without a few remarks on a question vitally affecting the administration of this country. I mean the absence of a feeling of personal responsibility on the part of the public servants. It is not so much due to defects in the system of administration as to the wrong and harmful spirit which pervades the Government service. Each official thinks he has done his whole duty if he gives orders to his subordinates, while these in turn pass them on to their inferiors. But no one appears to think that it is his duty to do a thing himself, or to see that his order is carried out ... It is no doubt very pleasant to sit on a chair and give commands, but it is not the way to govern.

I cannot help thinking that this evil is due in a great measure to a feeling that it is undignified for a man in high position to work himself personally. Nothing can be more false than this idea. It can never be undignified for any man, prince, nobleman or commoner to do the duty that is entrusted to him, and it can never be undignified for him to look and see that his subordinates do theirs.' 122

This conceited exposition of the Victorian concept of an official's obligations, responsibilities and duties left absolutely no room for a recognition of the subtle ramifications and implications of the hierarchical structure of

120. Report on the Financial System of Siam, Mitchell-Innes, 6 September 1896  
N.A.Kh. 17. 3/1.

121. King to Mitchell-Innes, 8 September 1896 N.A.Kh. 1/16.

122. Memorandum, Mitchell-Innes, undated N.A.Kh. 1/16.

Siamese society. Again there can be little doubt that the King and Prince Mahit acknowledged the element of justice in the Adviser's remarks: it was a frequent complaint of the Minister that the officials in his Ministry showed little conscientiousness in their work<sup>123</sup>. Yet the fact that Mitchell-Innes demonstrated so little awareness of the deep-seated social and cultural factors which shaped the behaviour of officials, and perhaps more importantly, the fact that he delivered his criticisms in such an abrasive, condescending manner, must have jarred the sensibilities of the King and Prince Mahit.

Mitchell-Innes was warned of the dangers of his approach - though the warning came not from within Siam but from Lord Cromer in Egypt. Whilst agreeing with most of the Financial Adviser's diagnosis of the ills of the Siamese fiscal and financial administration, Lord Cromer advised Mitchell-Innes to show more restraint :

' ... in every country - and more especially in a country where the reformer is an alien, and the political aspect of financial questions should be very carefully weighed - you cannot afford to alienate all the upper classes. Whatever the arguments may be, I should advise moderation and as much respect as possible to vested interests in cases where you have to deal with an abuse of privilege.' <sup>124</sup>

This rather gentle warning from his distinguished mentor failed to have any appreciable effect on Mitchell-Innes. The following year, 1897, during the King's visit to Europe, he undertook a campaign to reform the operations of the Mint, a campaign which included demands for the dismissal of the Mint's Director, Phraya Phiphit Phokhaisawan. The inefficiency of the Mint had been a recurrent problem for the Ministry of Finance since the early 1890s<sup>125</sup>, and indeed in early 1897 Prince Mahit had acknowledged that many of the Mint's problems arose from the fact that the Director was an old man prone to long absences from his work on account of ill health<sup>126</sup>. Furthermore Phraya Phiphit was

123. Prince Mahit to King, undated, N.A.Kh. 5. 1/11.

124. Lord Cromer to Mitchell-Innes, 22 December 1896. Cromer Papers vol. 8 pp. 78-82 P.R.O. F.O. 633. It would appear from this letter that Mitchell-Innes sent Lord Cromer a copy of, at least, his 'Report on the Financial System of Siam'

125. Chapter II p. 62

126. Prince Mahit to King, 30 March 1897 N.A.K.S. 1/3.

unable to devote even his limited energies solely to the Mint, for he was also Director of the Krom Kep. Yet though he recognized Phrayā Phiphit's inadequacies Prince Mahit also acknowledged that the Director had served the King loyally for many years and that such loyalty could not, should not, be simply ignored. He therefore proposed to the King that Phrayā Phiphit give up his post at the Krom Kep but remain as Director of the Mint<sup>127</sup>. It was a pragmatic solution: in acknowledging Phrayā Phiphit's age and loyalty, tradition was respected; in reducing his responsibilities, efficiency was partly gratified.

It is doubtful whether Mitchell-Innes was fully aware of his Minister's attitude towards Phrayā Phiphit. In mid-1897 he began to urge Prince Narit, the acting Minister, to instruct the Director to increase the output of the Mint, but although Prince Narit saw Phrayā Phiphit, no definite action appears to have been taken<sup>128</sup>. Mitchell-Innes, suspecting that Prince Narit was not being sufficiently firm with the Director, then wrote to the Queen, the head of the Government in the absence of the King<sup>129</sup>. After describing in detail the inefficiencies of Phrayā Phiphit, he concluded :

'This alone is sufficient to show his utter incompetence and in my opinion he ought not to remain at the head of the Mint. He is an old man and it is time that he should retire with a suitable pension.' 130

This was followed by a reprimanding letter to Prince Narit :

'I cannot help thinking that in your desire to avoid trouble and to avoid giving pain to an old and trusted servant of the King, you are losing from sight the real interests of the country.' 131

In view of these two letters alone, there can really be little surprise that Mitchell-Innes did not stay in Siam beyond the three years of his initial contract. First, he had written to the Queen directly instead of through his superior, Prince Narit. Second, he appeared to have lost sight of the fact that he was an adviser to an independent Government - he was no longer in Cairo.

127. ibid.

128. Mitchell-Innes to Queen, 8 September 1897 N.A.Kh. 10/2.

129. ibid.

130. ibid.

131. Mitchell-Innes to Prince Narit, 15 September 1897 N.A.Kh. 10/2.

Finally, in a society where personal relationships were, and are, of primary importance, he had called for the dismissal of an old and respected official. The demand could only have appeared offensive to the Queen, the more so since it had come from a foreigner. Furthermore, Mitchell-Innes' error was compounded by the fact that earlier in that year Prince Mahit had attempted to solve the problem of the declining competence of Phrayā Phiphit without seriously offending the conventions of Siamese society. The Queen replied politely but vaguely to Mitchell-Innes, suggesting that his proposals, 'which you have kindly and dutifully given' would be carefully considered by the King on his return from Europe<sup>132</sup>.

In January 1898, with the King and Prince Mahit now back in Bangkok, Mitchell-Innes resumed his criticisms by expressing discontent with the work of none other than the Minister of Finance himself. It appears that at first Mitchell-Innes wrote to Prince Mahit severely criticizing the administrative system of the Ministry, though he offered no satisfactory recommendations for reform. The Minister, who had received numerous similar letters in the past from the Financial Adviser, did not bother to reply, whereupon Mitchell-Innes turned on the Minister himself. Within a few days a copy of Mitchell-Innes' complaints was in the hands of Prince Mahit<sup>133</sup>. The Minister now had an opportunity to express what was clearly a long-felt dissatisfaction with the work of Mitchell-Innes in Siam. In writing to the King Prince Mahit acknowledged that many of the criticisms which Mitchell-Innes had made of the Ministry's administrative system were justified: but, he added, it was clear that strenuous efforts were being made to secure improvements<sup>134</sup>. However, these recent

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132. Queen to Mitchell-Innes, 18 September 1897 N.A.Kh. 10/2. As far as Mitchell-Innes was concerned, that was the end of the matter. However, Phrayā Phiphit's health continued to decline and in December 1898 Prince Mahit suggested to the King that the time had come for the Director to resign (Prince Mahit to King, 10 December 1898 N.A.Kh. 20. 1/21) which Phrayā Phiphit did (Prince Mahit to King, 17 January 1899 N.A.Kh. 10/3).

133. The National Archives contain no record of Mitchell-Innes' criticisms: in fact the only references to the matter are contained in Prince Mahit's letter to the King, 20 January 1898 (N.A.Kh. 1/16) and even there the references are rather oblique. It appears that the Adviser wrote originally to either the King or Rolin Jacquemyns: in any event, the King and Prince Mahit soon had copies of the letter.

134. Prince Mahit to King, 20 January 1898 N.A.Kh. 1/16.

improvements - and further contemplated reforms - owed little or nothing to Mitchell-Innes. According to Prince Mahit, it was the Financial Adviser's practice to rush around picking on relatively trivial points, and then raise them as major issues: as a result, officials who were concentrating their time on one particular matter were being annoyed by an incessant stream of superficial interruptions from the Financial Adviser. He was also in the habit of weighing down the Minister with letters on these rather slight matters. In addition, Prince Mahit informed the King, Mitchell-Innes never committed himself firmly to one opinion but constantly altered his suggestions and recommendations.

Prince Mahit's criticisms did not end there. Mitchell-Innes' sole prescription for reform was to dismiss incompetent officials<sup>135</sup>. Prince Mahit pointed out to the King that he could not accept this, not because he held any particular respect for such officials, but rather because he recognized the loyalty in most of them. Such loyalty could not be discounted without causing considerable unrest in the bureaucracy<sup>136</sup>. There was also the point that the Government had too few sufficiently competent officials as it was without indulging in a major rationalization of the administration. Furthermore, though Mitchell-Innes may have wished to sweep away all that was sub-standard and inferior in the Government and the Kingdom, Prince Mahit argued that the Siamese people could not accept dramatic changes. The oppressive policy which Mitchell-Innes' recommendations implied may possibly have been viable in Egypt, he continued, but it was wholly out of place in Siam where reform was more selective and gradual. It was the Financial Adviser's failure to realize the restrictions under which the Siamese reform programme was working that made most of his ideas inappropriate in Siam, and eventually caused Prince Mahit to despair of ever receiving any useful advice from him. The Minister informed the King that no-one in the administration held any respect for Mitchell-Innes, not even Europeans such as W. A. Graham.

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135. There had been a clear illustration of this in 1897 with the demands of Mitchell-Innes for the dismissal of Phraya Phiphit.

136. Again the case of Phraya Phiphit provides a good illustration. In early 1897 Prince Mahit had merely reduced the responsibilities of the official, and it was not until the Director's health was really poor, late 1898, that he suggested that he resign.

The unmistakable implication of Prince Mahit's letter to the King was that Mitchell-Innes would have to leave Siam: but the Minister suggested a possible alternative :

'Your Majesty would allow me to resign as Minister of Finance, and Mitchell-Innes would be given the authority to manage matters to his own satisfaction for a specified period of time. If he succeeds in administering the Ministry with some order, then when I return to my position, I will follow the methods and regulations worked out by the Adviser.' <sup>137</sup>

By making this proposal Prince Mahit was strengthening his demand for the dismissal of Mitchell-Innes. There was almost no possibility that the King would agree to the appointment of the Adviser as de facto Minister of Finance: such an appointment would have had severe internal and external repercussions: there would, for example, have been strong opposition from the French to the appointment of an Englishman to such an important position in the Siamese Government. Yet it would be misleading to suggest that Prince Mahit was merely engaged in an elaborate bluff: the Minister assured the King that he was acting in all seriousness, and emphasized this by insisting that if the King were able to find another position for him in the Government, he would be pleased to leave the Ministry. And as noted above <sup>138</sup>, on several occasions in the early years of his long term as Minister of Finance Prince Mahit informed the King, apparently quite sincerely, that he had neither the ability or expertise to continue at the Ministry, and expressed the hope that the King would allow him to resign. If Prince Mahit was bluffing - and it is almost certain that in fact that was the major factor behind the proposal - then it is possible that the Minister would not have regretted to have seen the bluff called.

Prince Mahit remained as Minister of Finance. In April 1898 the King instructed Rolin Jacquemyns to see Mitchell-Innes, apparently in order to inform him that the Government was unwilling to extend his contract as Financial Adviser<sup>139</sup>. Mitchell-Innes then saw Prince Mahit and told him that on

137. Prince Mahit to King, 20 January 1898 N.A.Kh. 1/16.

138. See p. 86

139. Prince Mahit to King, 24 April 1898 N.A.Kh. 1/16. There is no evidence in the National Archives as to the exact nature of the King's instructions to Rolin Jacquemyns, nor as to the details of the conversation between the General Adviser and Mitchell-Innes.

completion of his home-leave - due in the middle of that year - he would not be returning to Siam. The conversation between the two men was friendly, Mitchell-Innes even agreeing to help the Siamese Government to find his replacement.

The exact course of events then becomes unclear. Mitchell-Innes left for Europe in mid-1898 and was involved in discussions with the Foreign Office in London over the abolition of the Schedule attached to the Supplementary Agreement of 1856<sup>140</sup>. Then in late 1898 the King learnt from Rolin Jacquemyns, who was then in Brussels, that Mitchell-Innes had been persuaded by Lord Cromer to delay his departure from the Siamese service<sup>141</sup>. On 31 October 1898 Mitchell-Innes left London to return to Bangkok<sup>142</sup>. It appears that on this voyage, possibly having called in at Egypt, he made his final decision not to continue his position in Siam, and to return to Lord Cromer's administration<sup>143</sup>. He reached Bangkok in late 1898, but after a stay of only a few weeks he officially ceased to be Financial Adviser on 31 January 1899, and finally left Siam on 2 February to take up his new post as Under-Secretary for Finance in Cairo<sup>144</sup>.

In view of their experience with Mitchell-Innes, it is perhaps rather surprising that the Siamese Government persisted with the post of Financial Adviser. On the other hand, the dispute had been with the man rather than with his position: to Prince Mahit at least, the Ministry still needed the experience and expertise of a European finance official<sup>145</sup>.

140. Mitchell-Innes to Gosselin, 24 September 1898 P.R.O. F.O. 69/185. These discussions eventually led to the Land Tax Agreement of 1900, to be considered in Chapter IV.

141. Rolin Jacquemyns to King, 16 October 1898 N.A. b. 2. kh/424.

142. Siamese Minister in London to Prince Devawongse, 31 October 1898 N.A. b. 2. kh. 1/35.

143. Prince Devawongse to Rolin Jacquemyns, November 1898 Telegram N.A. b. 2. kh/424.

144. Greville to Lord Salisbury, 2 February 1899 Desp. 4 P.R.O. F.O. 69/195. Mitchell-Innes subsequently went to the British Embassy in Washington - where he was Charge d'Affair for a short period - and then to the Embassy in Monte Video. He retired in 1919 and died in 1950 Foreign Office List 1951.

145. Prince Mahit to King, 24 April 1898 N.A.Kh. 1/16.

In May 1898 the Siamese Government had applied to the Government of India through the British Minister in Bangkok for the loan of a finance officer to be Accountant and Controller-General in Siam for a period of two years<sup>146</sup>. His duties in Siam would be to introduce a system of audit and account based upon the procedures in use in India, and to instruct Siamese officials in the details and the operations of that system. The Government of India put forward four candidates<sup>147</sup>, from whom Charles James Rivett-Carnac was chosen by Bangkok<sup>148</sup>. On the confirmation of his appointment, Rivett-Carnac wrote to Prince Damrong outlining the general nature of the reforms and measures he would propose upon his arrival in Siam<sup>149</sup>. The letter created a favourable impression in Bangkok, partly because most of Rivett-Carnac's proposals coincided with the Ministry of Finance's own ideas<sup>150</sup>, partly because the letter suggested, at least to Prince Mahit, a man of considerable enthusiasm and drive<sup>151</sup>, and partly because, in marked contrast to Mitchell-Innes, Rivett-Carnac had produced a series of precise, practical recommendations for reform. Indeed so favourable was the initial impression created by Rivett-Carnac that it appears that even before he arrived in Siam the Government was regarding him as the successor to Mitchell-Innes as Financial Adviser<sup>152</sup>.

146. Greville to the Secretary to the Government of India, Foreign Department, 12 May 1898 P.R.O. F.O. 69/185.

147. Deputy Secretary to the Government of India, Foreign Department, to Greville 11 July 1898 P.R.O. F.O. 69/185.

148. Greville to the Secretary to the Government of India, Foreign Department, 3 September 1898 P.R.O. F.O. 69/185. It appears that Rivett-Carnac was selected solely on the grounds that he was the most highly experienced candidate. Born in 1853 (interview with Mr. D. C. Rivett-Carnac, 18 January 1971), Rivett-Carnac had joined the Financial Department of the Government of India in May 1872. He held a series of accountant positions throughout India until November 1895 when he was transferred to Burma, becoming Deputy Auditor General in April 1898. This was the position he held when he applied for the post in Siam. The India List and the India Office List 1905.

149. Rivett-Carnac (Rangoon) to Prince Damrong, 23 September 1898 N.A. b. 2. kh. 1/35.

150. Prince Mahit to King, 15 October 1898 N.A. b. 2. kh. 1/35.

151. *ibid.*

152. Prince Devawongse to King, 23 November 1898 N.A. b. 2. kh/424.

Rivett-Carnac reached Bangkok on 3 December 1898<sup>153</sup> and immediately began work. According to Greville, the British Minister, within a few weeks of his arrival he had gained the confidence of even the King to a remarkable degree<sup>154</sup>. On 8 January 1899 Rivett-Carnac submitted a memorandum to the Minister of Finance on the future reform programme of the Ministry<sup>155</sup>. The programme, and more especially its manner of presentation, are worthy of note :

'Although I have only been in Siam for little more than a month, I can clearly see that, in regard to Finance, we have an enormous Programme of work before us, a Programme that will probably take several years to carry through, The task will be a Herculean one ... '<sup>156</sup>

Then the programme, a list of ten points ranging from the preparation of rules to govern the granting of pensions to officials, through the establishment of a proper and thorough check of the revenue, to the abandonment of the silver standard for the baht and the issue of <sup>a</sup>gold currency. Once again, in contrast to Mitchell-Innes, Rivett-Carnac did not indulge in a detailed criticism of the Siamese financial and fiscal administration but instead produced a series of practical recommendations for reform. The fact that the Government would find it difficult to accept some of the proposals in the near future - for example, a proposal for the establishment of a National Bank - was relatively unimportant. The crucial point was that in this early correspondence, and particularly in this memorandum, Rivett-Carnac had shown that he could use his considerable financial knowledge and experience to make practical recommendations for the modernization of the Siamese financial administration<sup>157</sup>.

There was a further significant feature of Rivett-Carnac's January 1899

153. Bangkok Times, 3 December 1898.

154. Greville to Gosselin, 4 January 1899 Private P.R.O. F.O. 69/195. In this respect it is important to note that Rivett-Carnac was significantly older and more experienced than his predecessor. In fact he was the same age as the King (46 in 1899) and had spent 26 years in the Indian Service. Mitchell-Innes had been 32 on his arrival in Siam.

155. Memorandum, Rivett-Carnac, 8 January 1899 N.A.Kh. 1/18.

156. *ibid.*

157. This point can be illustrated by a small but significant example. The large majority of financial regulations issued by the Ministry of Finance at the turn of the century were drawn up by Rivett-Carnac. In carrying out this detailed and lengthy task his intimate knowledge of the regulations in force in British India would have been invaluable.

memorandum that should be mentioned: it demonstrated his considerable enthusiasm for the tasks faced by the Ministry of Finance, his confidence that the problems would be solved. The opening paragraph of the memorandum, with its statement that 'we have an enormous Programme of work before us' makes it clear that Rivett-Carnac relished the challenge of his new post.

The favourable impression created by Rivett-Carnac within the first few weeks of his arrival in Siam was confirmed when Mitchell-Innes left Bangkok in February 1899: immediately Rivett-Carnac was appointed Financial Adviser, though he retained his position of Controller-General as well. Later that same month the Siamese Government asked the Government of India to extend his original contract to stay in Siam from two years to five<sup>158</sup>: the Government of India approved in June 1899<sup>159</sup>.

Certain aspects of Rivett-Carnac's work in the Ministry of Finance - on the compilation of the budgets, on the Committee on Establishments, on the preparation and issue of financial regulations - have been considered in the first section of this chapter: his role in the raising of Siam's first loan in Europe, and in the currency and exchange reforms of the 1900s will be covered in later chapters. However, at this point it would be useful to refer very briefly to Rivett-Carnac's interest in Siam's political situation, for this aspect of his activities was to bring him into conflict with people both within the Siamese Government and within the British Legation in Bangkok, and this in turn affected his influence as Financial Adviser.

Within a few months of his arrival in Siam Rivett-Carnac was regarding himself as the successor to Rolin Jacquemyns as General Adviser<sup>160</sup>. Rolin Jacquemyns had first arrived in Siam in 1892<sup>161</sup>, but by the end of the decade

158. Greville to Lord Salisbury, 28 February 1899, Despatch 13 P.R.O. F.O.69/195.

159. Deputy Secretary to the Government of India, Foreign Department, to Greville 14 June 1899 P.R.O. F.O. 69/202.

160. Indeed, in 1902, after the death of Rolin Jacquemyns, Rivett-Carnac told the British Minister that the King had entrusted to him 'the more important duties that now fall to the lot of the General Adviser', but that 'it is considered politically undesirable that I should be publicly appointed as General Adviser.' (Rivett-Carnac to Tower, 18 April 1902 P.R.O. F.O. 69/228).

161. Christian de Saint-Hubert Rolin Jacquemyns (Chao Phya Aphay Raja) and the Belgian Legal Advisers in Siam at the Turn of the Century J.S.S. vol. 53 July 1965 pp. 181-190.

worn out by his labours and by the climate, his health was extremely poor.

From 1899 he found it necessary to leave Siam at the beginning of every hot season<sup>162</sup>. The incapacity and absence of the General Adviser gave Rivett-Carnac an opportunity to intervene in political issues. This the Financial Adviser did on numerous occasions - a letter to the Foreign Editor of 'The Times' in December 1899 on the French threat to Siam<sup>163</sup>, a memorandum to the King on the same question in February 1902<sup>164</sup>, and meetings and discussions with the British Minister, Prince Damrong and Prince Devawongse on the Anglo-Siamese negotiations over the appointment of advisers to Trengganu and Kelantan, also in 1902<sup>165</sup>.

At first the British Legation was pleased that Rivett-Carnac, having apparently gained the confidence of the King, was likely to be in a strong position to influence the Siamese Government in the interests of Britain<sup>166</sup>. Indeed, at the request of Rivett-Carnac, Greville sought and obtained the permission of the Foreign Office for the Financial Adviser to give his advice to the Siamese Government on matters unconnected with finance<sup>167</sup>. However, within a few months Greville had revised his earlier opinion as to Rivett-Carnac's usefulness as a political adviser, arguing that he was altogether too indiscreet.<sup>168</sup> By 1902 Greville's successor, Tower, took an even stronger view of the Financial Adviser :

'Though I am personally on the best of terms with him, and have the highest admiration for his energy and ability, I cannot but feel that his impetuous and often tactless methods, and particularly his inability to be reticent on any subject which interests him, combine to

162. Stringer to Lord Salisbury, 11 April 1900 Desp. 27 P.R.O. F.O. 69/207.

163. Rivett-Carnac to Valentine Chirol, 14 December 1899. Enclosed in Greville to Lord Salisbury, 16 December 1899 Desp. 111 P.R.O. F.O. 69/197.

164. Great Britain, France and Siam. Minute by the Financial Adviser upon the present political situation, Rivett-Carnac, 13 February 1902. Rivett-Carnac to King, 14 February 1902 N.A. b. 2. kh/39.

165. Tower to Lord Lansdowne, 24 March 1902, Private. Lord Lansdowne's Private Papers, P.R.O. F.O. 800/142.

166. Greville to Lord Salisbury, 30 January 1899 Tele. 2 P.R.O. F.O. 69/198.

167. Lord Salisbury to Greville, 31 January 1899 Tele. 3 P.R.O. F.O. 69/198.

168. Greville to Gosselin, 22 May 1899, Private P.R.O. F.O. 69/196.

make the prospect of his being made General Adviser anything but an encouraging one.' 169

Not surprisingly, the attitude of British Ministers in Bangkok was echoed in the Foreign Office in London: in April 1902, on receipt of a memorandum by the Financial Adviser on the possibility of a renegotiation of the 1896 Anglo-French Convention on Siam, Lord Lansdowne wrote to Lord Curzon in India :

'I should like to call your attention to a somewhat inflated and ill-judged paper which has lately been produced by Rivett-Carnac. It does not seem to me that his position as financial adviser justified him in writing official essays as to the international relations of Siam. Could you not put a little water into his wine ?' 170

The attitude of the Siamese Government to Rivett-Carnac's political interests was more complex. On the one hand there is evidence that some of the Adviser's political memoranda were produced with the knowledge and perhaps encouragement of at least Rolin Jacquemyns<sup>171</sup> and that his advice on general matters was, indeed, sometimes sought. But there could be no question of the Siamese Government approving the de jure or de facto appointment of Rivett-Carnac as General Adviser. The fact that he was British - that fact alone - ruled out the possibility of the Government allowing him to take an active part in any negotiations which involved the principal European powers<sup>172</sup>. On the other hand, those Ministers upon whose interests Rivett-Carnac most frequently trespassed, Prince Damrong and, particularly, Prince Devawongse, were not disposed to take a kindly attitude towards Rivett-Carnac's political interests. Indeed in 1902 Prince Damrong and Prince Devawongse appear to have withheld from the Financial Adviser documents concerning the Siamese Malay States, documents which apparently the King had given Rivett-Carnac

169. Tower to Lord Lansdowne, 10 March 1902, Private. Lord Lansdowne's Private Papers. P.R.O. F.O. 800/142.

170. Lord Lansdowne to Lord Curzon, 10 April 1902, Private. Lord Lansdowne's Private Papers. P.R.O. F.O. 800/145.

171. Greville to Lord Salisbury, 16 December 1899, Desp. 111 P.R.O. F.O. 69/197.

172. Indeed it is interesting to note that the Siamese Government chose as Rolin Jacquemyns' successor an American, Edward Strobel: at that time the United States had few political interests in Siam.

permission to see<sup>173</sup>. Relations between Rivett-Carnac and Prince Devawongse were not improved when the Financial Adviser complained strongly to the King that Prince Devawongse was being obstructive in the negotiations over the Siamese Malay States, and then went on to advocate that the Minister of Foreign Affairs be dismissed<sup>174</sup>.

Therefore, in general, Rivett-Carnac was disliked by the British for his tactlessness and impetuosity, and to some extent distrusted on the Siamese side for his political interests. This ensured two points; first that Rivett-Carnac did not act in Siam as an arm of the British Government, protecting British political and financial interests; second, it meant opposition within the Siamese Government to a number of Rivett-Carnac's schemes, including some of his financial proposals, opposition from, in particular, Prince Devawongse.

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173. Tower to Lord Lansdowne, 24 March 1902, Private. Lord Lansdowne's Private Papers P.R.O. F.O. 800/142. Tower to Lord Lansdowne, 30 March 1902, Desp. 65 P.R.O. F.O. 69/228.

174. Tower to Lord Lansdowne, 30<sup>th</sup> March 1902, Desp. 65 P.R.O. F.O. 69/228.

## CHAPTER IV

The effective Ministry in operation : financial stringency, 1902 - 1906.

The last four years of Prince Mahit's term as Minister of Finance - 1902 to 1906 - were filled with major financial reforms and developments - among them the establishment of a Paper Currency Department, the adoption and operation of a gold-exchange mechanism for the baht, the collapse of important tax farms and the beginning of direct Government administration of those revenue sources, the emergence of the problem of substantial budget deficits, the raising of Siam's first loan in Europe, and a reduction in the amount of Government revenue derived from the gambling dens. In order to clarify the themes and events of this period it is proposed to reserve discussion of the currency and exchange, and tax farm developments, to Chapters VI and VII where, as noted at the end of the first chapter, those special topics will be considered for the whole of the period covered by this study. The present chapter will - again in line with the general structure of the study noted in Chapter I - concentrate on those themes which illustrate the chronological development of the Ministry of Finance as an influential department of Government, the relationship of the Ministry and its Minister with the rest of the administration. For the period 1902-1906 this means primarily examining the Government's budgetary problems and the related issue of the raising of a loan in Europe.

1. Budget stringency and the first European loan, 1902 - 1906.

Before considering in detail the debate which occurred within the Siamese Government from late 1902 to late 1904 over the raising of a loan in Europe, it is important to make two preliminary points. First, that the objective of such a loan was to finance the construction of the Siamese railway system and in particular a line from Bangkok to Chiangmai. Work on the first major line in the Kingdom - from the capital due north to Ayudhya and then north-east to Korat - had begun in the early 1890s, the Bangkok-Ayudhya section being opened

in March 1897<sup>1</sup>, the Ayudhya-Korat portion in December 1900<sup>2</sup>. In addition continuation of the line due north from Ayudhya towards Chiangmai was commenced in mid-1898<sup>3</sup>. In this early period construction was financed solely from current revenue - 14.4 m. baht in the seven years 1892/93-1898/99 alone<sup>4</sup>. That figure represented approximately 10 per cent of all Government expenditure over the same period. Clearly there were serious disadvantages in investing such a high proportion of the Government's current revenue resources in railway construction: for one thing, were the demands on the available revenue to increase substantially it was unavoidable that either other equally important Government projects would have to be postponed or abandoned, or some cuts imposed on the railway programme itself.

Second, the issue of the European loan could not be separated from the issue of Siam's political relations with the European powers. In this context it is important to note that this period - and more particularly the years 1895-1898 - saw the European powers engaged in a scramble for concessions in China, a scramble that appeared to be merely a prelude to what seemed the inevitable disintegration of the Middle Kingdom<sup>5</sup>. In this onslaught the offering of loans to the Chinese Government by the powers and the granting of concessions to Europeans to construct railways in China played an essential part. Between 1895 and 1898 China borrowed £47.82 m. from Britain, France, Germany and Russia on particularly onerous terms: the loans were secured on the customs revenue and the likin and salt tax revenues of certain provinces: furthermore, because the loans were long-term loans at relatively high rates of interest, the Chinese Government was contracted to repay £102.36 m. in interest and capital repayments. The spate of railway concessions began in

1. Report on the Traffic of the Nagara Rajasima Railway r.s. 116 (1897/98).
2. Report on the Traffic of the Royal Siamese State Railway r.s. 119 (1900/01).
3. Moss Blundell (British Engineer) to Bertie, 15 July 1898 P.R.O. F.O. 69/185.
4. R.F.A.B. 1903/04 PP. 24-25.
5. Except where otherwise noted, this paragraph is based on: John K. Fairbank, Edwin O. Reischaur, Albert M. Craig East Asia The Modern Transformation London 1965 pp. 468-475.

1896 when the Russo-Chinese Bank was allowed to undertake construction of a line across Manchuria. In 1899 the British and Chinese Corporation (formed the previous year by the Hongkong and Shanghai Bank and Jardine Matheson) obtained a contract to complete the Tientsin-Mukden-Newchwang railway<sup>6</sup>. These concessions which gave the bank or corporation involved a considerable economic interest in the area in which the line was being constructed, in effect divided the country into spheres of influence for the powers. They, allied with the loans, were undoubtedly the major tools of the imperialist encroachment.

The Siamese Government was almost certainly aware of these developments in China: it could hardly be encouraged by them. In this respect it is worth noting that the Hongkong and Shanghai Bank, a leading bank in the floating of Chinese loans, indeed, virtually the Chinese Government's banker<sup>7</sup>, was also the principal bank in Siam. Such considerations weighed heavily with the Siamese Ministers.

The first definite proposal for the raising of a European loan by Siam appears to have been made by Mitchell-Innes in December 1897<sup>8</sup>. The following year the proposal was discussed by the Council of Ministers and as a result Prince Mahit was instructed to make enquiries in Europe as to the terms and conditions upon which a loan could be raised<sup>9</sup>. In February 1899 the British Minister reported to London that the Siamese Government had decided to raise a loan of between £3.0 m. and £5.0 m.<sup>10</sup>. However, the report was premature. On 28 August 1899 the 'Bangkok Times' announced that the Government had decided to postpone its proposal to raise a loan in Europe, and instead to continue railway construction out of current revenue. The King told Rivett-Carnac that though he personally had been in favour of the loan, his opinion had not

6. Maurice Collis Wayfoong The Hongkong and Shanghai Banking Corporation London 1965 p. 72/p. 120.

7. ibid p. 76.

8. Memorandum on the negotiation of a loan. Mitchell-Innes, 28 December 1897 F.F.A. 25/21.

9. Chaloem Yonbunkoet Ngoenkū khrangrāek khōng prathētthai (Thailand's First Loan) Warasān Krombanchiklāng May 1961 pp. 43-51.

10. Greville to Lord Salisbury, 27 February 1899 Desp. 12 P.R.O. F.O. 69/195.

prevailed in the Government<sup>11</sup>: it would seem likely that the opposition within the Council to the proposal came from Ministers who feared the political complications of a foreign loan, for it was precisely those fears which divided the Ministers and prevented the Council from coming to a decision when the issue was revived in the early 1900s<sup>12</sup>. In 1899 there were also practical considerations: the Government had not yet published its budget and statement of accounts, a measure which Mitchell-Innes regarded as essential if European investors were to be made aware of Siam's recent financial, commercial and administrative progress, and were thereby to be attracted by a Siamese loan<sup>13</sup>. There was also the important point made by Rivett-Carnac at about this time that Siam could not raise a sterling loan whilst the baht remained on the silver standard, for with a depreciating currency the burden of interest and capital repayments would increase enormously over the number of years envisaged in a loan contract<sup>14</sup>.

For two or three years after the August 1899 decision to postpone the raising of a loan in Europe, the Government was able to continue financing railway construction from current revenue without serious difficulty. In April 1900 a start was made on the Bangkok-Petchaburi line<sup>15</sup>, and in May 1902 work was begun on the Lopburi-Paknampo portion of the northern railway<sup>16</sup>. This was a substantial programme: by 1900/01, the Government was investing 3.5 m. baht p.a. in railway construction, more than double the figure for the early 1890s<sup>17</sup>. However, in the budget for 1902/03 there were the first serious signs that this high level of expenditure from current revenue could no longer continue: in

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11. Greville to Lord Salisbury, 30 August 1899 Desp. 82 P.R.O. F.O. 69/196.

12. Unfortunately there is no record in the National Archives of the discussion which led to the decision to postpone the raising of a loan.

13. Memorandum on the negotiation of a loan. Mitchell-Innes, 28 December 1897 F.F.A. 25/21.

14. Note: Object of, and Reasons for Establishing a Gold Standard for Siam. Rivett-Carnac, 9 September 1899 F.F.A. 23/1.

15. Report on the Traffic of the Royal Siamese State Railway r.s. 122 (1903/04).

16. Report on the Traffic of the Royal Siamese State Railway r.s. 124 (1905/06).

17. R.F.A.B. 1903/04 pp. 24-25.

the estimates for that year only 2.0 m. baht of the 3.5 m. baht allocation for railway construction could be covered from the revenues, and the balance had to be met from the Treasury reserves<sup>18</sup>. Furthermore, in his report on the budget, produced in mid-1902, Rivett-Carnac announced that it was planned that the railway construction allocation would be cut to 3.0 m. baht in 1903/04 and 2.0 m. baht in 1904/05<sup>19</sup>. It was clear that the policy of construction from current revenue was being surrendered: it was finally condemned by events in July 1902.

On 25 July 1902 a rebellion broke out in the northern town of Phrae, a rebellion led by some 30 to 40 Shan bandits who seized the town, occupied Government offices, and murdered approximately 20 Siamese provincial officials<sup>20</sup>. Immediately troops were despatched from Phitsanulok and Nakon Sawan to the north, but communications were poor and it took three weeks for the Government to muster sufficient strength in the area to quell the rebellion: Government troops reoccupied Phrae on 14 August. Though the Shan rebellion was a relatively limited affair, it greatly disturbed the Government in Bangkok, for it demonstrated the comparative ineffectiveness of the Central Government's administration in that more distant part of the Kingdom and the consequent vulnerability of that area to the encroachments of the Colonial Powers. In this respect one of the most disturbing features of the rebellion for the Siamese Government was that it appeared that the British and French Consuls in nearby Nan had taken a very close interest in the uprising, and indeed may even have been involved in its instigation. Therefore the Shan rebellion had a considerable effect on the policies of the Bangkok Government: in particular it forced the Government to undertake two major programmes of expenditure, the first involving a large-scale modernization of the army - including the introduction of conscription<sup>21</sup> - and

18. R.F.A.B. 1902/03 p. 14.

19. *ibid.*

20. This reference to the Shan rebellion of 1902 is taken from a detailed analysis of the causes, course and consequences of the incident by Tej Bunnag Khabot ngiao mu'ang phrae r.s. 121 (The 1902 Shan Rebellion at Phrae) in Sangkhomsat parithat vol. 6 (Sept. 1968) pp. 67-80.

21. W. A. Graham Siam London 1924 vol. 1 p. 315.

the second involving a complete revision of its programme of railway construction. On 21 August 1902, exactly one week after the collapse of the rebellion, the King wrote to Prince Mahit informing him that it had been decided to push ahead as quickly as possible with the construction of the northern line as far as Uttaradit, the most northerly part of the line before it ran into the hills, and only some 30 miles south of Phrae<sup>22</sup>. A programme of construction was laid down which called for a virtual doubling of the funds allocated to the Railway Department each year: it appeared to make a European loan unavoidable.

Between August and December 1902 the Ministry of Finance prepared the ground for the raising of the loan. Rivett-Carnac produced a memorandum on the more technical aspects of the matter in which he outlined the loan conditions to which the Kingdom could agree<sup>23</sup>: in addition the Adviser saw the British Minister in an attempt to push his personal scheme for the Siamese loan to be shared between Britain and France<sup>24</sup>. Lastly, Prince Mahit had enquiries made at the Hongkong and Shanghai Bank in London as to the possible terms upon which Siam would be able to raise a loan<sup>25</sup>. On 18 December 1902 the Minister wrote to the King reviewing these developments, and suggesting that Rivett-Carnac be allowed to return to Europe to make tentative enquiries in person, though he emphasized that the Financial Adviser would be under the supervision of the Siamese Minister in Paris<sup>26</sup>. Copies of Prince Mahit's letter and Rivett-Carnac's August memorandum were sent by the King to all the senior Ministers for their views<sup>27</sup>: the King implied that he was in favour of the loan.

Over the following few months - from December 1902 to March 1903 - the Siamese Government engaged in a detailed, though often repetitious, internal debate over the probable advantages and disadvantages of raising a loan in

22. Prince Mahit to King, 18 December 1902 N.A.Kh. 25/1.

23. Memorandum, Lopburi-Paknampo-Uttaradit Railway loan. Rivett-Carnac, 28 August 1902, N.A.Kh. 25/1.

24. Archer to Lord Lansdowne, 27 August 1902 Desp. 155 P.R.O. F.O. 69/230.

25. Prince Mahit to King, 18 December 1902 N.A.Kh. 25/1.

26. *ibid.*

27. King to Prince Damrong, 20 December 1902 N.A.Kh. 25/3.

Europe. A considerable number of Ministers and senior officials took part in the debate - Prince Mahit, Prince Devawongse, Prince Narit (the Minister of Public Works), Herr Gehrts (the German Director of the Railway Department) and finally Phraya Suriyanuwat (the Siamese Minister in Paris).

These participants soon divided into two distinct groups, those who were opposed, or at least sceptical towards the raising of a foreign loan, and those who clearly favoured it. Undoubtedly the leader of the first group was Prince Devawongse. The Minister of Foreign Affairs pointed out that the Government's direct financial return from its investment in railway construction had up to that point been disappointingly low - about 3 per cent p.a.<sup>28</sup>. The Government was almost certain to pay at least 5 per cent p.a. interest on any loan in Europe. Therefore the loan/northern railway project would involve the Government in a direct financial loss, a loss which would have to be made good from other sources of revenue if the Kingdom was to avoid defaulting on its foreign loan. But Prince Devawongse was not opposed to the raising of a loan in Europe per se: if a loan could be obtained on terms sufficiently favourable to ensure the Siamese Government a direct financial profit from the scheme, then he approved. But if such terms could not be found Prince Devawongse wished the Government to attempt to raise the loan within Siam, even though he realized that an internal loan could be raised only with a relatively high rate of interest.

Prince Devawongse's reservations with regard to the wisdom of raising a foreign loan reflected his apprehension at the prospect of the Kingdom being indebted to European capitalists: he feared the possibility of the Government defaulting on its loan and the opportunity that that failure would provide for the powers to intervene in Siam's internal affairs. In short he saw a European loan as a possible threat to Siamese independence. In addition he was insistent that in any negotiations with European financiers the Government should make a point of offering the loan to as many institutions as possible: this would ensure that no European power could suspect that Siam was offering her loan to

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28. Prince Devawongse to King, 24 December 1902 N.A.Kh. 25/3.

a particular country for political rather than financial reasons, as well as guarantee that the Kingdom was aware of the best possible financial terms available. In this respect it is significant that Prince Devawongse, though he agreed with Prince Mahit's suggestion that Rivett-Carnac be allowed to return to Europe to make tentative enquiries for the raising of a loan, was adamant that the Adviser work under the instructions of, and be responsible to, the Siamese Minister in Paris, Phrayā Suriyā. The fact was that Prince Devawongse had heard that in a recent interview with a French journalist, Rivett-Carnac had apparently said that the Siamese Government would float the whole of the proposed loan in London<sup>29</sup>. It was possible that the journalist had misunderstood the Financial Adviser's remarks: but the effect of the incident was to strengthen the Minister's distrust of Rivett-Carnac, to strengthen his determination to prevent the Adviser from playing a serious part in any negotiations which could take place.

Prince Devawongse's misgivings as to the financial aspect of the loan/northern railway proposals were shared, and developed, by Prince Narit and Gehrts. They too were concerned about the low direct profitability from the construction of the Siamese railway system, which, Gehrts estimated, was unlikely to exceed 5 per cent pa. even under the most favourable circumstances<sup>30</sup>. Of course it was true that the railways would promote the commercial development of those parts of the Kingdom through which they ran, and for this reason, argued the Director, the direct financial return from railway construction could not be regarded as the sole, or even principal benefit derived from such an investment. Even so it was important not to construct the railways too far ahead of the immediate commercial requirements of the Kingdom.

'... it is my opinion that the railways of this country ought not to be built too quickly. The spending of an average of 3.5 m. [baht] yearly as done in the years 117 [1898/99] to 120 [1901/02] is in general quite sufficient for the effective development of the country and will ensure a better financial result than the spending of larger sums.' <sup>31</sup>

29. ibid.

30. Gehrts to Prince Narit, 20 January 1903 N.A.Kh. 25/3.

31. ibid.

The point of Gehrts' argument was that if the Government was willing to accept a slower rate of construction and was prepared to terminate the line well south of Chiangmai, then assuming that the Railway Department was still allocated 3.5 m. baht p.a. from the revenue for the coming six years, it would be possible to continue the programme of railway construction without resorting to a European loan. Prince Narit supported this argument, and added the point that even with a loan the northern railway would take five years to complete. Which was better, he asked - to delay one year or to become indebted to European financiers<sup>32</sup>?

Finally in this group there was Phrayā Suriyā in Paris. He too was concerned about the low direct return from the investment in the Siamese railways, and he argued that in the circumstances the Government would be better advised to invest the proceeds of a European loan in the establishment of a National Bank specializing in agricultural loans<sup>33</sup>. Indeed, Phrayā Suriyā suggested, the development of agricultural credit would act as a greater stimulus to cultivation - with all the subsequent benefits for the Government's revenue - than would the construction of the railways.

There was at least one major flaw in the arguments of Prince Devawongse, Prince Narit, Gehrts and Phrayā Suriyā. In late 1902 the Government had decided for political reasons to push ahead with the construction of the northern railway as quickly as possible: the Ministers and officials above had then concentrated their attention on the commercial considerations attendant on constructing that line by means of a European loan. Indeed, Phrayā Suriyā's suggestion that the proposed loan be used to establish a National Bank indicated the extent to which, within a matter of six months, some officials had lost sight of the original issue. In fairness Phrayā Suriyā recognized this contradiction. In writing to Prince Devawongse in March 1903 he concluded :

'Of course, if this railway policy is a political or strategical one then it must be carried out with all speed regardless of loss. And it does appear to be more of that than of a commercial nature.' 34

32. Prince Narit to King, 2 February 1903 N.A.Kh. 25/3.

33. Phrayā Suriyā to Prince Devawongse, 13 March 1903 F.F.A. 25/2.

34. *ibid.* My emphasis.

Indeed each of this group appear to have recognized that their arguments lost much of their validity if it was accepted that the construction of the northern railway was a political rather than a commercial enterprise.

The most forceful proponent of the European loan was without doubt Prince Mahit. However, in early 1903 his arguments were mainly defensive, countering the arguments of those sceptical of the measure. First, he pointed out that the benefits to be derived from the creation of a railway network linking the capital with the outer provinces were much broader than that suggested by narrow calculations of financial return: the political and commercial advantages of improved communications - the incentive to the development of trade (and the subsequent increase in the Government's revenue), the establishment of more effective administration in the areas of the Kingdom furthest from Bangkok - all had to be taken into account<sup>35</sup>. Second, he rejected Prince Devawongse's proposal for an internal loan: such a loan would be too expensive, and would in any case be taken up largely by European banks in Bangkok. Third, Prince Mahit argued that it was no longer possible to continue financing railway construction from current revenue, even at the pre-1902 level of 3.5 m. baht p.a., since the Ministry of Finance was now faced with mounting demands for funds for other important projects - the modernization of the army and the reconstruction and improvement of administration in the north in the wake of the Shan rebellion, to name just two<sup>36</sup>. Indeed, as noted above, in the budget for 1902/03 the Ministry had been able to maintain the 3.5 m. baht allocation for railway construction only by drawing 1.5 m. baht from the reserves: that budget had been drawn up before the outbreak of the Shan rebellion, before the August 1902 decision to increase expenditure on railway construction so as to complete the northern line as far as Uttaradit as rapidly as possible. In short the choice was not between constructing the line quickly from a loan or slowly from current revenue (as Prince Narit had argued): it was between constructing the line from a loan or abandoning the whole project. Finally, the Minister dealt with what was clearly the basic fear troubling Prince Devawongse, and

35. Prince Mahit to King, 25 December 1902 N.A.Kh. 25/1.

36. Prince Mahit to King, 5 February 1903 N.A.Kh. 25/3.

possibly Prince Narit as well - the fear that a European loan could threaten Siamese sovereignty. It was true, he argued, that a foreign loan brought with it some dangers as well as many advantages for the borrower, but there was clearly no absolute standard that dictated whether a loan was advisable or not. The Government had to make a decision based on its assessment of the situation facing Siam. In that respect, Prince Mahit continued, it had to be remembered that there would be considerable dangers in delaying making a decision if the capital was urgently required<sup>37</sup>. That danger was a curtailment of the Government's reform programme - a development which in itself would undermine the Government's attempts to maintain its independence.

At the same time as these arguments for and against the European loan were being drawn in Bangkok, as the opposing sides in the Council of Ministers were forming, the Government began its initial enquiries in Europe as to the terms upon which a loan could be raised. On 14 January 1903 Prince Mahit wrote to Phrayā Suriyā in Paris, outlining the conditions which the Government would accept on a loan of £1.0 m. and suggesting to the Minister that he attempt to find a reputable financier willing to assist in the raising of the loan<sup>38</sup>. Phrayā Suriyā was informed that he was also to be assisted by Rivett-Carnac, though the Minister was assured that only he would be responsible for the main negotiations and would have the authority to conclude any agreement. In February 1903 the Financial Adviser left Bangkok for Europe, a journey made necessary by the ill-health of Mrs. Rivett-Carnac who was in urgent need of a rest from the Siamese climate<sup>39</sup>. Before leaving Siam Rivett-Carnac strongly implied to the British Minister that he, the Adviser, would be negotiating the loan on behalf of Siam<sup>40</sup>: he hinted that he would like an interview with Lord Lansdowne when he reached London<sup>41</sup>. At an interview at the Foreign Office held

37. *ibid.*

38. Prince Mahit to Phrayā Suriyā 14 January 1903 N.A.Kh. 25/3.

39. Prince Mahit to King, 25 December 1902 N.A.Kh. 25/1.

40. Paget to Lord Lansdowne, 2 February 1903 Desp. 9 P.R.O. F.O. 69/245.

41. Paget to Langley, 11 February 1903 Private P.R.O. F.O. 69/245.

in late March 1903 - though not with the Foreign Secretary - Rivett-Carnac suggested that when the time came for the Siamese Government to raise her European loan he, though he had to

'... make a show of inviting international competition ... would do his utmost to secure that it should be actually placed in London.' <sup>42</sup>

In August 1902 Rivett-Carnac had argued for the loan to be split between London and Paris. Prince Devawongse and Prince Mahit were wise to entrust responsibility for the loan negotiations to Phrayā Suriyā.

However, in April 1903 the Government decided to postpone its decision on a European loan. The previous month the French Chamber of Deputies had refused to ratify the Franco-Siamese treaty of 1902<sup>43</sup>, and with Franco-Siamese relations under some strain it was felt by Phrayā Suriyā that a Siamese loan would receive little support in Paris<sup>44</sup>: yet it was feared that if the Siamese Government turned to Britain for the whole of her loan this would only aggravate the discord between Bangkok and Paris, making any future settlement even more difficult. On 24 April 1903 Prince Mahit telegraphed to Rivett-Carnac in London informing him that he was considering raising an internal loan of 20.0 m. baht underwritten by the European banks in Bangkok<sup>45</sup>. The Adviser immediately telegraphed back his opposition to the proposal, pointing out that with the exchange value of the baht not yet at its highest point, with a baht loan the Government would lose heavily when it came to make its interest and capital repayments to its European creditors with baht of a higher exchange value<sup>46</sup>. But negative criticism from the Financial Adviser was of no assistance: to Prince Mahit - at that point engaged in putting final touches to the 1903/04 budget estimates - it was

42. Memorandum, Interview with Mr. Rivett-Carnac. Campbell, 23 March 1903 P.R.O. F.O. 69/250.

43. Phrayā Suriyā to Prince Devawongse, 16 March 1903 Tele. N.A.Kh. 25/3. The 1902 Agreement limited the right of registration for French subjects who were Asian. This 'registration' issue was finally settled in 1904. Rong Syamananda A History of Thailand Bangkok 1971 p. 151.

44. Phrayā Suriyā to Prince Devawongse, 21 March 1903 F.F.A. 25/2.

45. Prince Mahit to Rivett-Carnac, 24 April 1903 Tele. N.A.Kh. 25/3.

46. Rivett-Carnac to Prince Mahit, 25 April 1903 Tele. N.A.Kh. 25/3.

clear that the Government desperately needed to raise additional funds from somewhere<sup>47</sup>.

Though the revenue estimates for 1903/04 were encouraging - an estimated collection of 45.54 m. baht compared with an estimate of 39.00 m. baht in 1902/03<sup>48</sup> - it was clear that the increase in revenue would be insufficient to cover the Government's expenditure demands. That year Prince Mahit was faced with the problem of finding funds for three major projects - the modernization of the army (which involved an estimate of 3.74 m. baht in 1903/04 -  $3\frac{1}{2}$  times the amount actually spent on the army in 1898/99<sup>49</sup>), the maintenance of forces in the north, including the costs of putting down the Shan rebellion, and the construction of the line to Uttaradit. The first two items could be covered by the expansion in the revenue: the third - railway construction - could not. The Railway Department had requested 6.0 m. baht in 1903/04 to continue its work on the northern railway: it should not be forgotten that despite the split within the Council over the raising of a European loan the Government was still pushing ahead as rapidly as possible with construction of the line to Uttaradit. Prince Mahit could find only 1.5 m. baht out of current revenue for the Railway Department<sup>50</sup>. The Minister telegraphed to Rivett-Carnac: how should the 4.5 m. baht deficit be covered<sup>51</sup>?

Rivett-Carnac replied on 1 May 1903<sup>52</sup>. The most advisable course would be to meet the projected deficit from the Treasury reserves: Prince Mahit was reluctant to draw further from the reserves<sup>53</sup>. The Government could sell some

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47. Prince Mahit to Rivett-Carnac, 28 April 1903 Tele. N.A.Kh. 25/3.

48. R.F.A.B. 1903/04 p. 20.

49. R.F.A.B. 1901/02 p. 22: R.F.A.B. 1903/04 p. 21.

50. Prince Mahit to King, 4 May 1903 N.A.Kh. 5. 1/18.

51. Prince Mahit to Rivett-Carnac, 28 April 1903 Tele. N.A.Kh. 25/3.

52. Rivett-Carnac to Prince Mahit, 1 May 1903 Tele. N.A.Kh. 25/3.

53. Prince Mahit to Rivett-Carnac, 30 May 1903 Tele. N.A.Kh. 25/3. From June 1902 to June 1903 the baht reserves of the Ministry of Finance fell from 9.3 m. to 3.7 m. (Bi-annual reports from Prince Mahit to King regarding the size of the Treasury reserves, N.A.Kh. 7/8). As will be explained later, such a large drop in the ~~reserves~~ threatened the ability of the Ministry to satisfy the demands of the banks for baht in connection with the financing of the foreign trade of the Kingdom.

of its European investments: the Minister was reluctant to do that as well. The Government could, after all, raise an internal loan, but, the Adviser warned, only as a last resort: but now it was learnt that the local branches of the European banks would decline to underwrite such a loan. The only feasible alternative was a European loan. In mid-June Rivett-Carnac telegraphed to Prince Mahit that the Hongkong and Shanghai Bank and the Chartered Bank were willing to underwrite a Siamese loan of £1.0 m. at 5 per cent and 89 or 90 nett, once the market was favourable<sup>54</sup>.

On 7 July 1903 Prince Mahit wrote a long and very important letter to the King, reviewing the budget situation facing the Ministry of Finance<sup>55</sup>. Most of the arguments advanced by the Minister in this letter were not new: the force with which they were put most certainly was. Prince Mahit began by emphasizing that the Government was already committed to investing heavily in several public works projects. 19.6 m. baht was required to construct the line to Uttaradit: to complete the line to Chiangmai would require a further 14.83 m. baht. In addition, a Dutch irrigation expert, van der Heide - engaged by the Siamese Government in 1902 - had just submitted his proposals for the development of irrigation facilities in the Chao Phraya valley<sup>56</sup>. The Ministry of Finance and the Ministry of Agriculture were at that moment considering the establishment of an enlarged Irrigation Department and the hiring of further irrigation engineers from abroad. The department would require substantial funds - 5.5 m. baht p.a. from 1906/07 - if van der Heide's proposals were to be implemented. There could be absolutely no question of the Government finding each year the high level of resources required for those two projects, simply from its current revenue.

Prince Mahit's fear was that faced with such a situation the Council of Ministers, instead of deciding to proceed with the raising of a European loan, would repeatedly postpone making a decision until the public works projects were abandoned.

54. Rivett-Carnac to Prince Mahit, 17 June 1903/24 June 1903 Tele.N.A.Kh.25/3.

55. Prince Mahit to King, 7 July 1903 N.A.Kh. 25/3.

56. van der Heide General Report on Irrigation and Drainage in the Lower Menam Valley Bangkok, 1903.

'If we wait [in proceeding with the public works projects] until we have the funds, then I must ask how many more eras will we wait: and then finally, where will the money come from? ... I feel that in this matter, our mistake is that we hesitate: we do not make a quick, definite decision. In this situation ... we will eventually collapse into confusion and disarray.' 57

Prince Mahit then outlined the terms offered by the London banks and reported by Rivett-Carnac. The effective rate of interest was a little over 6 per cent p.a., which compared favourably with the terms obtained by China, Japan and Turkey in recent loans. All the same, the Minister admitted, the Government could expect at best a direct capital return of only 4 per cent p.a. from the investment of the proceeds of the loan in railway construction. Yet an immediate financial loss could be avoided: according to van der Heide, the irrigation schemes which he proposed - by charging the farmers for the use of irrigation water and by the sale of land newly opened up by the irrigation works - would give a capital return of 10 per cent p.a. Prince Mahit suggested that if a portion of the European loan, on which the Government would be paying approximately 6 per cent p.a., were to be invested in van der Heide's schemes, the net profit of almost 4 per cent p.a. could be used to cover the loss from the construction of the northern railway.

But the Minister of Finance always returned to his central argument: if there was any further delay in raising the loan in Europe, then the Ministries of Public Works and Agriculture would have to be instructed to abandon - or at least severely curtail - their railway construction and irrigation schemes. The Ministry of Finance was already finding it necessary to use the reserves to keep the first of those projects in motion, and yet if the current rate of expenditure was continued without the support of a loan, the Treasury would be bankrupt in 1904/05. Of that the Minister was convinced.

It was an impassioned letter. Prince Mahit's annoyance, his frustration with the pedantic, leisurely and frequently irrelevant debate on the loan being carried on by the Ministers, was overwhelmingly clear. With considerable force, yet only slight exaggeration, he had demonstrated the seriousness of the Government's financial position. Remarkably, the letter appears to have had little immediate effect on the attitudes of Prince Mahit's colleagues.

The reply to Prince Mahit came from Prince Devawongse<sup>58</sup>. It was a disappointing letter, devoted largely to restatements of earlier points, and to relatively trivial criticisms of Prince Mahit's numerical calculations. There were, however, one or two points of interest. First, Prince Devawongse had examined van der Heide's report in some detail: the Dutchman's proposals envisaged the construction of a system of irrigation canals in the Central Plain, the principal aim being to ensure an optimum supply of irrigation water in the Chao Phraya valley each year<sup>59</sup>. However, the cost of van der Heide's proposals was very high: the full programme was estimated to cost 47.0 m. baht spread over twelve years, though there was a less ambitious scheme which was to cost 28.0 m. baht. Yet the engineer estimated that the value of the rice crop lost during a year in which the supply of rainwater was very poor was more than the full cost of his programme<sup>60</sup>: it followed that within a matter of a few years the revenue which the Government could have lost through a series of poor harvests would more than cover the cost of the investment. Prince Devawongse still thought the cost of the programme very high: in addition he was sceptical whether the Government's return from its investment - particularly from the sale of irrigation water and newly irrigated land that was envisaged by van der Heide - would be as good as the engineer's report had suggested and as Prince Mahit had accepted. In short, the Minister argued that rather than commit itself to an expensive programme of irrigation works, the Government should proceed only with those projects which were certain to provide a substantial direct financial return. The irrigation report should be abandoned and van der Heide himself replaced. Prince Devawongse's views at this point were important, not simply because they meant the rejection of Prince Mahit's idea that the return from the investments in irrigation could be used to cover the loss

58. Prince Devawongse to King, 18 July 1903 N.A.Kh. 25/3.

59. For a detailed examination of van der Heide's proposals see: James C. Ingram Economic Change in Thailand 1850-1970 Stanford 1971, pp. 81-83/196-202. For a more general discussion of irrigation projects in the Lower Menam Valley see: Leslie E. Small Historical Development of the Greater Chao Phya Water Control Project: An Economic Perspective J.S.S. vol. 61 January 1973 pp. 1-24.

60. van der Heide General Report on Irrigation and Drainage in the Lower Menam Valley p. 147.

on the construction of the northern railway, but more particularly because they were the first clear indication of what was to be the Siamese Government's attitude in that period to large-scale irrigation programmes and van der Heide's irrigation report.

Second, Prince Devawongse suggested that Prince Mahit had not seriously considered the alternative to raising a loan in Europe - a less ambitious public works programme. He proposed that the Government construct a limited railway system, limited to lines which would be financially profitable, though other outlying areas of the Kingdom would be served by road and track. Again it appears that Prince Devawongse would not really recognize that the northern railway was being built as rapidly as possible primarily for political and administrative reasons. In general, at no point in his letter did Prince Devawongse demonstrate that he had really grasped the essential argument being put forward by the Minister of Finance, nor that he was fully responsive to the urgency with which it was being made.

Prince Mahit replied quickly to Prince Devawongse's criticisms<sup>61</sup>. He was prepared to give way in only one area: he would accept a reduction in the Government's irrigation programme to a scheme which would cost only 24.0 m. baht spread over six years: he was even prepared to postpone a decision on the irrigation proposals altogether, and devote the whole of the proposed European loan to railway construction. The crucial point, the point he had repeatedly emphasized, was that a European loan was urgently required if the Government was to maintain its policy of constructing as rapidly as possible the northern line as far as Uttaradit.

Prince Mahit's letter exhausted the debate in Bangkok. The Minister had already made his strongest plea for the loan in his earlier letter to the King on 7 July. All the arguments had been made - and restated. It was evident that the Council of Ministers was seriously, virtually irreconcilably, split over the question of the foreign loan, and that the drawn-out debate was doing little to shake Prince Mahit and Prince Devawongse and their supporters from their respective positions. The Council of Ministers met on 13 August 1903.

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61. Prince Mahit to King, 28 July 1903 N.A.Kh. 25/3.

Prince Devawongse had two contributions to make: first, he attacked Prince Mahit, arguing that the Minister of Finance had published inadequate accounts of the Government's financial position, so that it was impossible to obtain any reliable figures as to the size of the reserves<sup>62</sup>. Second, he argued that

'... whilst the revenues of the Government are still sufficient to meet [the Government's] needs, I do not think it would be appropriate ... to rush out and borrow money from abroad as is being proposed here.' <sup>63</sup>

It was true that the Ministry of Finance had been able to budget for a small revenue surplus for 1903/04: but as Prince Devawongse failed to acknowledge, that surplus had been achieved only by allowing the Railway Department 1.5 m. baht from current revenue in that year, instead of the 6.0 m. baht requested. The Minister of Foreign Affairs could not, or would not, grasp that simple fact of the Government's budget situation. However, the influence of Prince Devawongse in the Council was sufficient to prevent the Government reaching a decision: it appears that the King, in the absence of agreement, ordered the appointment of a committee of Ministers to examine the various public works projects of the Government and to consider how they were to be financed<sup>64</sup>. A decision on the loan and on van der Heide's report was postponed. Yet at the same time it was decided to continue with the rapid construction of the line to Uttaradit. The allocation of 6.0 m. baht to the Railway Department was retained, 4.5 m. baht coming from the Treasury reserves<sup>65</sup>. A further 3.0 m. baht was to be drawn from the reserves to cover part of the army's expenditure.<sup>66</sup>

62. Prince Mahit to King, 14 August 1903/ Prince Devawongse to King, 24 August 1903 N.A.Kh. 5. 1/19.

63. Prince Devawongse to King, 24 August 1903 N.A.Kh. 5. 1/19.

64. Unfortunately, the only source of information on this meeting of the Council is Prince Devawongse's letter to the King (24 August 1903 N.A.Kh. 5. 1/19). Nor is there any further information on the committee, apart from a reference in June 1904 (Note by King, 10 June 1904 N.A.Kh. 25/7) which stated that the committee comprised Prince Mahit, Prince Devawongse, Prince Damrong, Prince Narit and Chao Phrayā Thewet, and that then - June 1904 - it had not completed its work. In view of the composition of the committee it is unlikely that its discussions differed greatly in content from the debate in which those Ministers had been engaged since December 1902.

65. R.F.A.B. 1903/04 p. 12.

66. Williamson to Rivett-Carnac, 29 August 1903 Tele. F.F.A. 25/2.

To appreciate the full consequences of the decisions taken at the meeting of the Council in August 1903 it is necessary to refer briefly to a related issue - the management of the Kingdom's exchange mechanism. In November 1902 Siam had abandoned the silver standard and adopted a gold-exchange standard<sup>67</sup>. Under the new exchange mechanism one of the principal obligations of the Ministry of Finance was to ensure that the Treasury always held sufficient reserves of baht coin to meet all the demands of the Bangkok banks in connection with the financing of the trade of the Kingdom. Were the Ministry to fail in that obligation, the Kingdom's trade could grind to a halt. In November 1903 Rivett-Carnac, now returned from leave in Europe, submitted a long memorandum to Prince Mahit on the Government's cash reserves<sup>68</sup>. He argued that the Government could not allow its reserves to fall below 22.0 m. baht without endangering trade. In November 1903 they were down to 18.0 m. baht, and the 4.5 m. baht set aside for railway construction in 1903/04 had still to be withdrawn. It was possible, Rivett-Carnac argued, that by March 1904 the cash balances could be as low as 12.0 m. baht.

The consequences were therefore clear. The more the Ministry of Finance, in the absence of a European loan, drew on the Treasury reserves to cover the cost of the railway construction programme, the greater the threat to its ability to secure sufficient baht to support the foreign trade of the Kingdom. Therefore, if the Council of Ministers failed to reach a decision with regard to the loan the possibility was that either the railway construction programme would have to be cut or the Treasury would be bankrupted - or both. And then that the foreign trade of the Kingdom would be severely disrupted.

In order to prevent further dramatic falls in the level of cash reserves Rivett-Carnac recommended a series of relatively drastic measures: first, that there be no increased allocations above those already sanctioned in the budget - in particular, he noted, no additional expenditure on irrigation :

'Before we can think of a great Irrigation Scheme, we must provide funds for the strategic Railways which are essential if the out-lying Provinces are to be properly governed. Those railways must

67. This reform will be covered in some detail in Chapter VI.

68. Memorandum by the Financial Adviser upon the Cash Balances of the Government. Rivett-Carnac, 25 November 1903 F.F.A. 30/6.

be constructed out of borrowed capital and I am altogether averse to borrowing money for Irrigation at present, in addition to money for Railway Construction. Such a course would be rash in the extreme.' 69

It will be evident from an earlier section that this was not the blow that caused the rejection of van der Heide's proposals. There had been relatively little enthusiasm for the report from Prince Devawongse and the Council of Ministers, and even Prince Mahit had eventually been prepared to support only a limited scheme. The report had been effectively shelved in August 1903: the following November Rivett-Carnac was merely restating and agreeing with that earlier decision<sup>70</sup>.

Second, the Financial Adviser recommended that in future all expenditure on the armed forces be met entirely from current revenue. Finally, he wanted impressed on all Ministers the need for strict control over their budgets. It was forceful advice, bluntly put. But the important point to note is that the previous July Prince Mahit had presented the same general argument, perhaps even more strongly, and yet had failed to convince the Council of the seriousness of the financial situation. Rivett-Carnac's memorandum had no more success.

Prince Mahit again wrote to the King in December 1903<sup>71</sup>. The Minister's immediate object was to obtain the King's approval for the withdrawal of a further 3.4 m. baht from the Treasury to cover the projected budget deficit for 1903/04: but his principal aim was to draw the attention of the King once again to the dangers of the Government's financial position, particularly the alarming rate at which the reserves were disappearing. The King called a meeting of senior Ministers, Prince Damrong, Prince Devawongse and Prince Mahit, though for reasons which are not clear the Minister of Finance was unable to attend<sup>72</sup>. The withdrawal of the additional funds from the Treasury was approved<sup>73</sup>, but again a definite impression was given that on the wider issue the Ministers

69. *ibid.* My emphasis.

70. This is an important point which will be taken up in the final chapter: it shows that the Siamese Ministers, not the Financial Adviser, were responsible for the rejection of van der Heide's schemes.

71. Prince Mahit to King, 19 December 1903 N.A.Kh. 5. 1/21.

72. Prince Sommot to Prince Mahit, 16 January 1904 N.A.Kh. 5. 1/21.

73. King to Prince Mahit, 26 January 1904 N.A.Kh. 5. 1/21.

were still failing to acknowledge the full implications of the case being put by Prince Mahit.

But the issue was now moving towards its climax. In May 1904 Prince Mahit was working on the budget estimates for 1904/05. Revenue for the year was estimated at 47.5 m. baht, but because of heavy demands for resources from, in particular, the Ministry of the Interior<sup>74</sup>, and the army and the navy, total expenditure for 1904/05 was put at 57.389 m. baht - a projected deficit of 9.889 m. baht<sup>75</sup>. Prince Mahit was forced to cover the deficit in the only way open to him. In 1904/05 the full expenditure allocation of the Railway Department - 6.0 m. baht - and the total cost of constructing a new arsenal for the army - 3.9 m. baht - were to be met from the reserves. This implied a drop of almost one half in the Government's cash reserves over the year. If during that year, the Minister warned, the Government was faced with a sudden crisis - the collapse of a major tax farm, an unexpected call for further expenditure - they would be in very serious financial trouble. One immediate consequence would be that the Government would be unable to satisfy the demands of the banks for baht<sup>76</sup>. The budget estimates, the withdrawals from the Treasury, the reduction in the size of the reserves by virtually one half, were sanctioned by the King without apparent comment<sup>77</sup>.

The argument was repeated by Prince Mahit in a further letter to the King on 8 June 1904<sup>78</sup>. By 31 March 1905 the reserves would be down to 10.0 m. baht: Rivett-Carnac regarded 22.0 m. baht as the minimum safe level for the Government's cash reserves. Furthermore, if the Government maintained its current level of expenditure - its railway expenditure - the reserves would disappear altogether in 1906 or 1907. There was absolutely no alternative, he urged, but to raise

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74. The allocation of the Ministry of the Interior in 1904/05 was 10.988 m. baht compared with an actual expenditure of 6.588 m. baht in 1903/04. R.F.A.B. 1905/06 p. 18.

75. Prince Mahit to King, 9 May 1904 N.A.Kh. 5. 1/22.

76. ibid.

77. King to Prince Mahit, 17 May 1904 N.A.Kh. 5. 1/22.

78. Prince Mahit to King, 8 June 1904 N.A.Kh. 25/7.

a loan in Europe. On receiving this latest letter from his Minister of Finance the King wrote to Prince Damrong asking him whether the committee established in August 1903 to look into the financing of the Kingdom's public works projects had completed its investigations<sup>79</sup>. Prince Damrong replied that it had not: in fact Prince Damrong argued that the whole issue, in effect the issue as to whether to raise a European loan or not, could not be separated from the question of Siam's political relations with the European Powers<sup>80</sup>. Therefore it was felt that the opinion of the General Adviser, Edward Strobel, should be sought. The King agreed, and all the relevant documents were sent to Strobel<sup>81</sup>.

The decision to refer the matter to the General Adviser was taken not only, or perhaps not even primarily because it was felt that the European loan was a political issue. Rather it was an attempt to break the deadlock in the Council of Ministers, between Prince Mahit, who favoured the loan, and Prince Devawongse and Prince Narit who opposed it. The disagreement between these groups concerned not simply the terms upon which a loan could be raised, despite the fact that much of their debate had centred around a delicate balancing of the possible direct financial return from the railway and irrigation projects against the effective rate of interest on a loan. It was essentially a disagreement between those who regarded a loan as the only means by which the Government's reform programme could be continued without inviting financial collapse, and those who regarded it as a dangerous intrusion of foreign interests, a serious threat to Siamese sovereignty.

The inability of the Council of Ministers to reach a decision was a matter for considerable concern. Given the reform programme which the Government had set itself - in particular the rapid construction of the northern railway and the modernization of the army - and the financial constraints which it had accepted - the required level of cash balances - Prince Mahit's case was unanswerable. Yet despite almost two years of virtually constant argument, the Council

79. Note by Ming, 10 June 1904 N.A.Kh. 25/7.

80. Prince Damrong to King, 17 June 1904 N.A.Kh. 25/7.

81. King to Prince Damrong, 22 June 1904 N.A.Kh. 25/7.

of Ministers as a whole remained unconvinced. The Minister of Finance lacked sufficient political influence to overcome the opposition of the cautious prominent members of the Council, despite the fact that the King himself appears to have favoured the European loan. Indecision implied that no loan would be raised - and probable financial collapse. Therefore, at the suggestion of Prince Damrong, the Government appealed outside its own circle, to a foreign adviser. Strobel's major qualification in the circumstances was that he was impartial: he was an American (and in this period American banks were too intent on developing the home market to interest themselves in a Siamese Loan), and he was not attached to the Ministry of Finance. In contrast, the only other outsiders to whom the Council could have turned, Rivett-Carnac and his successor, Williamson, were British (and the Hongkong and Shanghai Bank was a major contender for the loan) and were employed in the Ministry of Finance.

Strobel submitted his report on 25 October 1904<sup>82</sup>. First he pointed out that when the matter of the loan had first been raised - in late 1902 - it had been possible to argue that the northern railway could be constructed from current revenue, though of course with a European loan construction would have been quicker. By 1904 the financial situation had radically altered: the Government had run into a series of budget deficits, and was finding it impossible to procure sufficient funds from current revenue to finance its public works projects - witness the fact that in 1904/05 the entire allocation for railway construction had had to be covered from the reserves. Therefore a loan was now essential if the Government was to continue with the construction of the northern railway. Second, Strobel referred to Rivett-Carnac's November 1903 memorandum advocating a minimum cash reserve of 22.0 m. baht, and the fact that in October 1904 the reserves stood at 16.2 m. baht: he therefore suggested that a European loan was also essential in order to restore the cash balances to their minimum safe level. Third, the General Adviser had a word of encouragement for those who feared the political dangers of raising a loan in Europe :

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82. Memorandum by the General Adviser on the Question of the Loan. Strobel, 25 October 1904 N.A.Kh. 25/5.

'The states which become involved in serious difficulties are those ... which borrow money with great recklessness, spend it with great recklessness and thereby become exposed to the intervention of foreign powers on behalf of their subjects who have loaned money and are unable to obtain any settlement. If, however, loans are made only because absolutely necessary and well within the capacity of the country to meet its obligations and with a proper financial administration, there is no danger resulting from a foreign loan; and it is only on the assumption that these conditions exist (as I believe they do) in Siam that I proceed to discuss the question.' <sup>83</sup>

Finally, Strobel suggested, the Council of Ministers should reach a decision quickly, 'since the question has been discussed from every possible point of view.'

Within a few days Strobel's memorandum was supported by one from the Financial Adviser, who was now Williamson.

'... the loan has now become an absolute necessity, as the drain from the reserves which has been taking place for the last seven months has already weakened it very considerably, and if this is allowed to continue much longer, the financial administration of the Government will be in serious danger.' <sup>84</sup>

This was plain speaking from both Strobel and Williamson, made more effective by the fact that neither of them was prone to exaggeration. But their argument was not new: Prince Mahit had been making exactly the same points to his colleagues, with equal emphasis, for over a year.

The Council of Ministers met on 18 November 1904<sup>85</sup>. From the outset the King made it clear that they were there to make a decision, and that he wanted that decision to be one in favour of the loan. However, Prince Narit attempted to argue that it would be preferable to build the northern line slowly out of current revenue, but the argument was dismissed by Prince Mahit. The meeting was dominated by the King who argued that the need to raise the loan had been established beyond doubt, and that conditions were now favourable for negotiating that loan<sup>86</sup>. Prince Devawongse, from whom some opposition could have been

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83. ibid.

84. Memorandum, Proposed Loan for Railway Construction, Williamson, 1 November 1904 F.F.A. 25/2.

85. Report on the meeting of the Council of Ministers, 18 November 1904 N.A.Kh. 25/8.

86. About this time - late 1904 - Siam and France reached a partial settlement of their political differences (D.G.E. Hall A History of South-East Asia London 1968 pp. 699-700) and the way was open for the floating of at least part of the loan in Paris. There was now no danger of Anglo-French rivalry for the Siamese loan ruining a political settlement between Paris and Bangkok.

expected, merely sought assurances from the Minister of Finance that Siam would be able to meet all the interest and capital repayments on the loan, and then agreed with the decision being sought by the King. In short, the King, strengthened by the memorandum from Strobel, broke the deadlock in the Council. At the end of the meeting Prince Mahit and Prince Devawongse were made responsible for the raising of the loan.

Before briefly considering the actual negotiation of the 1905 loan, some reference should be made to Rivett-Carnac's departure from Siam, for as noted above, by late 1904 he was no longer Financial Adviser. During Rivett-Carnac's leave in Europe in 1903, his wife had become seriously ill<sup>87</sup> and by the time the Adviser was due to return to Bangkok, in September 1903, it was clear that she had not long to live<sup>88</sup>. Rivett-Carnac sailed for Siam alone at the beginning of October on the understanding that he would return to Europe immediately his wife's condition warranted it<sup>89</sup>. There could be no question of him continuing as Financial Adviser for more than a few months, and therefore on his return to Bangkok Rivett-Carnac sought to ensure himself another post in the Siamese Government - a post in Europe. He had a rather grandiose image of what that post could be. First he would be a financial agent for the Government in Europe - administering the Government's foreign investments, inviting tenders for the supply of goods for the Ministries in Siam, organizing the payment of interest charges on the proposed loan<sup>90</sup>. Second, he saw himself as a public relations agent for the Siamese Government in Europe - writing anonymous letters to the press about Siam, cultivating the interest of M.P.s, newspaper editors, businessmen, in Siamese affairs in an attempt to encourage British public support for Siam in her disputes with the French<sup>91</sup>. In order to execute that role, Rivett-Carnac argued, it was necessary that he be allowed complete access to

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87. Rivett-Carnac to Prince Sommot, 27 March 1903 Tele. N.A. b. 2kh/40.

88. Correspondence between Rivett-Carnac and Prince Sommot, September 1903 N.A. b. 2kh/40.

89. *ibid.*

90. Memorandum upon the Financial Work of the Siamese Government in Europe, 30 November 1903, Rivett-Carnac N.A.Kh. 1/37.

91. *ibid.*

the papers dealing with the Kingdom's political relations with the European Powers<sup>92</sup>. Such a suggestion was anathema to the Government, and in particular to Prince Devawongse. For Rivett-Carnac to spread intimate details of the latest Franco-Siamese negotiations all over the British press would be disastrous. However, the Government was prepared to employ Rivett-Carnac in the former role<sup>93</sup>. In January 1904 the Financial Adviser left Siam to take up his appointment as Financial Agent in Europe<sup>94</sup>: it was understood that all communications he addressed to the press had to be cleared first with Phrayā Suriyā, and that in any statements he made on political matters he was to make it clear that he was expressing merely his own opinion. It was also agreed that the Government could call him back to Siam for two months each year<sup>95</sup>. His successor in Bangkok was W. J. F. Williamson, an officer who had been transferred from the Financial Department of the Government of India to Siam in May 1900 to assist in the Controller-General's Office, and to organize the establishment of the Paper Currency Department<sup>96</sup>. He had been acting Financial Adviser during Rivett-Carnac's absence in Europe in 1903.

As it turned out, despite being transferred to London, Rivett-Carnac played a very small role in the actual negotiation of the European loan. The negotiations were entrusted to Phrayā Suriyā in Paris<sup>97</sup>. By early 1905, when the negotiations could begin in earnest, the principal competitor for the loan was a partnership of the Hongkong and Shanghai Bank and the Banque de

92. Memorandum. Press Campaign by the Financial Agent in Europe for H.S.M.G. Rivett-Carnac, 2 December 1903 N.A.Kh. 1/37.

93. Memorandum. Conversation between Prince Mahit and Mr. Rivett-Carnac regarding the appointment of the latter as Financial Agent in Europe. Rivett-Carnac, 12 January 1904 N.A.Kh. 1/37.

94. Paget to Lord Lansdowne, 16 January 1904 Desp. 5 P.R.O. F.O. 69/254.

95. Memorandum. Rivett-Carnac, 12 January 1904 N.A.Kh. 1/37.

96. Stringer to Lord Salisbury, 27 February 1900 Desp. 17 P.R.O. F.O. 69/206. Walter James Franklin Williamson had joined the Indian Service in June 1888, his first post being with the Burma Police. He then held various appointments in Hyderabad and Madras as a finance officer. In June 1896 he was promoted to Assistant Accountant-General in Madras, and this was the post he held when he was engaged by the Siamese Government. India Office List 1928.

97. Report on the meeting of the Council of Ministers, 18 November 1904 N.A.Kh. 25/8.

L'Indo Chine<sup>98</sup>. However, Phrayā Suriyā began by throwing open the loan to as many European countries as possible, inviting offers from banks in Belgium, Switzerland, Holland, Denmark and Germany. The response was discouraging. Each bank required either the customs revenue or the already-completed section of the railway as security<sup>99</sup>. Rivett-Carnac then approached the Hongkong and Shanghai Bank<sup>100</sup> but the London bank offered only 92 nett at 5 per cent p.a. though with no security<sup>101</sup>.

On 30 January 1905 Phrayā Suriyā wrote to Axel Johnson, the Siamese Consul in Stockholm, and asked him for his assistance<sup>102</sup>. Johnson had been involved in earlier preliminary enquiries. The Consul immediately contacted a business associate, K. A. Wallenberg, a prominent Stockholm banker who had been involved in floating many public loans in Scandinavia, and the three men - Phrayā Suriyā, Johnson and Wallenberg - met in Paris on 13 February and immediately began negotiations with the Hongkong and Shanghai Bank and the Banque de L'Indo Chine, now in partnership. Within three days agreement had been reached. The banks offered 90½ nett at 4½ per cent p.a.: it was understood that the Danish Landtmanna Bank, of which Wallenberg was a director, would underwrite a small part of the loan. Phrayā Suriyā immediately telegraphed to Bangkok, asking permission to close the negotiations with those terms<sup>103</sup>. He also telegraphed to the Siamese Consul in Berlin enquiring whether the German banks were willing to improve on their earlier offers, but the Germans turned down this last opportunity to participate in the loan<sup>104</sup>.

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98. In June 1904 Phrayā Suriyā had asked the Paris bank whether it was now willing to consider underwriting a Siamese loan. The bank consulted its Government and decided to share the loan with the H.S.B. (Beckett to Lord Lansdowne, 4 October 1904 Desp. 57 P.R.O. F.O. 69/255). The London bank, after consulting the Foreign Office (Ewen Cameron to Campbell, 10 June 1904 P.R.O. F.O. 69/260) accepted the arrangement (Beckett to Lord Lansdowne, 4 October 1904 Desp. 57 P.R.O. F.O. 69/255).

99. Phrayā Suriyā to Prince Devawongse, 23 March 1905 N.A.Kh. 25/5.

100. Rivett-Carnac to Prince Mahit, 10 March 1905 N.A.Kh. 25/6.

101. Phrayā Suriyā to Prince Devawongse, 28 February 1905 Tele. N.A.Kh. 25/5.

102. Axel Johnson to Prince Devawongse, 18 April 1905 N.A.Kh. 25/5.

103. Phrayā Suriyā to Prince Devawongse, 16 February 1905 Tele. N.A.Kh. 25/5.

104. Phrayā Suriyā to Prince Devawongse, 23 March 1905 N.A.Kh. 25/5.

Prince Mahit favoured acceptance of the terms offered<sup>105</sup>. Phrayā Suriyā was on the spot and if he felt that the best possible terms had been obtained, then his judgement had to be accepted. The King agreed, but suggested that despite the urgency the Council of Ministers would have to be consulted<sup>106</sup>. The Council met on 27 February. Prince Devawongse reported that he had recently received a visit from the Belgian Minister in Bangkok who had informed him that a syndicate of Brussels banks wished to tender for the loan. But Prince Mahit and the King were determined not to allow any difficulties to intrude at this late stage - no one could improve on the terms before them. It was agreed to send a telegram of acceptance to Phrayā Suriyā<sup>107</sup>.

The final details of the loan contract were negotiated in London by Phrayā Suriyā and Rivett-Carnac: the negotiations were completed on 9 March 1905<sup>108</sup> and the contract signed ten days later<sup>109</sup>. The loan was for £1.0 m., bearing interest at  $4\frac{1}{2}$  per cent p.a. and issued at  $95\frac{1}{2}$ . It could be redeemed by the Siamese Government after ten years, but had to be repaid after not more than 40: the loan was secured on the general credit of the Kingdom. The loan was issued on 24 March 1905, and within one hour the lists were closed<sup>110</sup>, the issue being over-subscribed eight times<sup>111</sup>.

'The credit of Siam has been instantaneously and firmly established and has proved to be much better than that of any other Asian Power, '

boasted Rivett-Carnac<sup>112</sup>. Certainly no one could deny that Siam, with her first

105. Prince Mahit to King, 25 February 1905 N.A.Kh. 25/5.

106. King to Prince Mahit, 26 February 1905 N.A.Kh. 25/5.

107. Report on the meeting of the Council of Ministers, 27 February 1905 N.A.Kh. 25/8. Despite his raising the matter of the offer from the Belgium banks, there is no suggestion that Prince Devawongse was attempting to delay the signing of the loan contract: the Minister appears to have accepted at the Council meeting in November 1904 that the loan would be raised. However, the determination of the King and Prince Mahit to have the matter settled in February 1905 is very clear.

108. Phrayā Suriyā to Prince Devawongse, 9 March 1905 Tele. N.A.Kh. 25/5.

109. Axel Johnson to Prince Devawongse, 18 April 1905 N.A.Kh. 25/5.

110. Rivett-Carnac to Prince Mahit, 24 March 1905 N.A.Kh. 25/5.

111. R.F.A.B. 1905/06 p. 7.

112. Rivett-Carnac to Prince Mahit, 24 March 1905 N.A.Kh. 25/5.

European loan had obtained remarkably favourable terms<sup>113</sup>. Several minor factors contributed to the success of the 1905 loan. First, a relatively small sum had been borrowed, and hence the probability of Siam defaulting on her payments was correspondingly reduced. This in turn encouraged the confidence of European investors in the issue. Second, the London and Paris banks had agreed to reduce the rate of interest from 5 per cent p.a. to  $4\frac{1}{2}$  per cent p.a. through fear, unwarranted fear as it turned out, of German competition for the loan<sup>114</sup>. Third, in early March 1905 the British Government reduced Bank Rate from 3 per cent to  $2\frac{1}{2}$  per cent and this made Siamese stock that much more attractive to London investors when it was issued<sup>115</sup>. Fourth, in mid-1905 political relations between Siam and the major European Powers were more settled than they had been for several years: undoubtedly that influenced European confidence in a Siamese loan.

But there can be little doubt that the principal reason why Siam was able to obtain such favourable terms on her first loan was because, as Prince Mahit himself put it :

'the careful financial administration of the past few years and the policy of publishing an annual statement of the budget figures, have not been without their effect on financial circles in Europe.' <sup>116</sup>

The awareness by European investors of the recent progress in Siam's financial administration also explains to a considerable extent why the loan contract contained no stipulations for specific security. The banks and investors were confident that Siam would meet all the charges on the loan, and

<sup>113</sup>. In 1904 and 1905 Japan raised three large loans in Europe, on terms ranging from  $93\frac{1}{2}$  (gross) at 6 per cent to 90 at  $4\frac{1}{2}$  per cent: all three were secured on either the customs revenue or the tobacco monopoly revenues. Admittedly, all were relatively short-term loans, raised to finance the war with Russia (T. F. M. Adams A Financial History of Modern Japan Tokyo 1964 p. 46) so perhaps the comparison with the Siamese loan is unfair. But the most recent Chinese loan had been issued at 91 and 5 per cent p.a. (Phrayā Suriyā to Prince Devawongse, 28 February 1905 Tele. N.A.Kh. 25/5): Siam's loan,  $95\frac{1}{2}$  at  $4\frac{1}{2}$  per cent p.a., with no special security, could certainly stand comparison with that.

<sup>114</sup>. Memorandum. Siamese Loan of £1.0 m. Campbell 9 March 1905 P.R.O. F.O. 69/269. The banks had originally intended to offer Siam 87 or 88 nett at 5 per cent (Beckett to Lord Lansdowne, 4 October 1904 Desp. 57 P.R.O. F.O. 69/255).

<sup>115</sup>. Rivett-Carnac to Prince Mahit, 10 March 1905 N.A.Kh. 25/6.

<sup>116</sup>. Prince Mahit to Rivett-Carnac, 4 May 1905 F.F.A. 25/2.

confident that the loan would be used wisely.<sup>117</sup>

In this context it is important to note that the employment by the Siamese Government of a European Financial Adviser, a man who, if one judged solely from his published report on the budget held considerable influence in Siam, probably did much to reassure European investors of the safety of their investment. Nor should the influence in Europe of the frequent reports in 'The Times' by that paper's Peking correspondent on the current progress of the Kingdom be under-estimated, nor that of such favourable books as the one by Cecil Carter<sup>118</sup>. Perhaps Siam's affairs were not so unknown in Europe as apparently her Government sometimes thought they were.

The success of the loan was regarded as a personal triumph for Phraya Suriyā. In April 1905 he returned to Bangkok at the end of his term as Siamese Minister in Paris, and was presented with the First Class Order of Merit and a 'magnificent' residence by the King<sup>119</sup>: in addition the Council of Ministers voted him 40,000 baht in recognition of his services in Paris. In June 1905, in a re-shuffle of ministerial posts following the resignation of the Minister of the Palace, he replaced Prince Narit as Minister of Public Works<sup>120</sup>. Within a year he was Minister of Finance.

The full proceeds of the 1905 loan came to £905,000, which was equivalent to 14.5 m. baht<sup>121</sup>. Immediately, the 6.0 m. baht drawn from the reserves to meet the expenditure budget of the Railway Department in 1904/05 was repaid to the Treasury: in retrospect the Ministry of Finance had borrowed from the reserves in 1904 in anticipation of the European loan<sup>122</sup>. A further 5.8 m. baht

117. It is significant that although there was no legal obligation for the Government to make provisions for the repayment of the loan until 1911, it was nevertheless decided to establish a sinking fund immediately - in 1905 - using the profits from the railway (R.F.A.B. 1905/06 pp. 7-8). The Government was ensuring its ability to honour its obligations with regard to the repayment of the loan.

118. A. Cecil Carter (ed.) The Kingdom of Siam New York 1904.

119. Bangkok Times, 1 June 1906.

120. Bangkok Times, 15 June 1905.

121. R.F.A.B. 1905/06 p. 7.

122. Prince Mahit to King, 17 May 1905 N.A.Kh. 5. 1/24. The funds drawn from the reserves in 1904 to cover the cost of the army arsenal were not repaid.

was set aside for railway construction in 1905/06 so that in that year none of the expenditure of the Railway Department was covered by current revenue. The remaining proceeds of the loan were invested in Prussian and Egyptian stock until they were required<sup>123</sup>.

There was little of particular note in the budget estimates for 1905/06. In sending the estimates to the King, Prince Mahit expressed some concern that the Government's revenue could suffer, partly because the prospects for the year's rice harvest were poor, and partly because a number of the major tax farmers had bid dangerously high for their contracts<sup>124</sup>: even so the Ministry confidently estimated revenue for the year at 53.0 m. baht, an increase of 5.5 m. baht on the estimate for 1904/05. Expenditure was estimated at 52.87 m. baht, the major increase again being for the army<sup>125</sup>. The estimates were approved by the Council on 20 May 1905 without discussion or comment<sup>126</sup>.

However, the compilation of the budget for the following year - 1906/07 - brought familiar problems. Revenue was estimated at 54.7 m. baht, expenditure at 54.43mbaht, only a very slight increase over the figures for 1905/06. The Railway Department was allocated 7.25 m. baht, though no part of this sum could be met from current revenue: at the same time, after the large allocations to the Department in 1904/05 and 1905/06, only 5.8 m. baht was left from the proceeds of the 1905 loan. Once again the Ministry of Finance was forced to call on the Treasury reserves to cover the expenditure of the Government's major public works project<sup>127</sup>. Already in 1905 the Government's cash balances had suffered further serious depletions when the Bangkok Government had made special loans to Kelantan, Kedah and Perlis<sup>128</sup>. In April 1906 Prince Mahit wrote to the King arguing that within a year the Government would have to raise a further loan<sup>129</sup>; but this was a problem for the Minister's successor.

123. Prince Mahit to Rivett-Carnac, 11 May 1905 Tele. F.F.A. 25/2.

124. See Chapter VII.

125. Prince Mahit to King, 17 May 1905 N.A.Kh. 5. 1/24.

126. Report on the meeting of the Council of Ministers, 20 May 1905 N.A.Kh.5.1/2

127. Prince Mahit to King, 18 April 1906 N.A.Kh. 5. 1/25.

128. R.F.A.B. 1906/07 p. 9.

129. Prince Mahit to King, 18 April 1906 N.A.Kh. 5. 1/25.

## 2. Revenue and the closure of the gambling dens.

The budgetary difficulties faced by the Ministry of Finance in the period 1902 to 1906 were essentially on the expenditure side. The same had been true in the early years of Prince Mahit's term as Minister - from 1896 to 1902 - though, as was described in Chapter III, in that earlier period the Ministry's problem had been essentially that of persuading the other departments of the Government to abide by the procedures laid down for the compilation of the expenditure budgets<sup>130</sup>. From 1902 the problem was that the Government wished to finance a series of major projects which were beyond its immediate means. The Ministry of Finance could maintain reasonable control over the allocations of the Ministries and departments: it could not provide sufficient funds to finance all their expenditure programmes.

From 1902 until 1905 the Ministry of Finance never had cause to be seriously concerned about the stability of the revenue. There was, it is true, increasing uneasiness over the financial precariousness of some of the major tax farms, but the Ministry did not have to face the actual collapse of one of its principal sources of revenue until mid-1905<sup>131</sup>. From the second half of the 1890s the Government had enjoyed a very rapid growth in its revenue, partly as a result of improved administration and improved methods of tax collection, partly as a result of an increase in the prosperity of the people. This rapid growth continued into the following decade. Between 1902/03 and 1906/07 Government revenue increased from 39.15 m. baht to 57.01 m. baht, an

130. In his budget letters to the King after 1902, it is remarkable how little Prince Mahit referred to problems of procedure in the compilation of the estimates. Indeed, in submitting the 1906/07 budget, the Minister went so far as to acknowledge the co-operation and understanding of the Ministers in discussing and compiling the estimates (Prince Mahit to King, 18 April 1906 N.A.Kh. 5. 1/25). The only serious difficulty experienced by the Ministry in this respect appears to have been the familiar one of the Ministries submitting their preliminary estimates behind schedule, with the result that the Ministry submitted the completed budget a month or two after the beginning of the new year. Prince Mahit made periodic attempts to overcome these delays - principally by introducing new methods by which the preliminary estimates were submitted to the Ministry, and new forms for the estimates - but success was slight (Prince Mahit to King, 4 May 1903 N.A.Kh. 5. 1/18; 18 April 1906 N.A.Kh. 5. 1/25). Eventually the annual tardiness in the completion of the budget appears to have become accepted as unavoidable.

131. See Chapter VII.

increase of 17.86 m. baht in the space of only four years<sup>132</sup>. That was the situation facing the Ministry of Finance - a continuing rapid expansion in revenue, but an even greater increase in Government expenditure. It was against that background that the Ministry took steps to abolish one of the Kingdom's principal sources of revenue - the gambling farms.

The policy of closing the gambling dens had been initiated by Prince Narāthip in the late 1880s: however, the closures ordered by Prince Narāthip had all been concentrated in the Bangkok area. It was not until mid-1898 that attention was directed towards the dens outside the capital: in May of that year Prince Damrong and Prince Mahit decided to abolish all the provincial gambling farms where the revenue was small, or where the existence of the dens was found to be encouraging crime<sup>133</sup>. At the same time the regulations which had been framed for the Bangkok dens since 1888 - concerning such matters as the forms of gambling allowed, the hours for which the dens could remain open, and the restriction of gambling to licenced dens - were extended to the provinces<sup>134</sup>. At the annual meetings of the Provincial Governors in Bangkok in 1899<sup>135</sup> and 1900<sup>136</sup> the Governors proposed the closure of additional dens in their areas: the Ministry of Finance accepted most of the proposed closures.<sup>137</sup>

In fact, the effect of the Government's gambling den policy from the late 1880s to 1901-02 was simply to bring gambling under greater control - to restrict

132. Taking the 20 years 1892/93 to 1911/12, the Government's revenue increased as follows :

1892/93	15.37m. <u>baht</u>	1906/07	57.01m. <u>baht</u>	<u>Source:</u> R.F.A.B. Series
1896/97	20.64 m. <u>baht</u>	1911/12	61.49 m. <u>baht</u>	
1901/02	36.15 m. <u>baht</u>			

Therefore the major increase in revenue took place in the decade 1896/97-1906/07, and within that period the years 1901/02-1906/07. The dramatic reduction in the rate of increase in the revenue receipts did not occur until after the resignation of Prince Mahit in 1906.

133. Prince Mahit to King, 11 May 1898 N.A.Kh. 14. 1kh/8(g).

134. Prince Damrong Ru'ang tamnān kānlōekbōnbia lae lōek huai (The Abolition of Gambling Dens and the Huai Lottery) Bangkok 1960 p. 47.

135. Prince Mahit to King, 21 December 1899 N.A.Kh. 14. 1kh/12(g).

136. Prince Mahit to King, 12 December 1900 N.A.Kh. 14. 1kh/15 (g).

137. In fact, Prince Mahit accepted virtually all the proposed closures up to 1899/1900, but considerably less after that date, for fear of the effect on the revenue.

legal gambling to a relatively few, strictly regulated establishments. This had two related consequences. First, it assured the Government of a higher proportion of the full value of its gambling revenue: indeed, the revenue from gambling increased from 1.832 m. baht in 1892/93 to 5.244 m. baht in 1900/01.<sup>138</sup> Therefore tighter control over the Kingdom's gambling dens did not lead to a reduction in the Government's dependence on that morally reprehensible source of revenue - quite the opposite. Second, there is very little evidence that the restrictionist policy pursued up to 1901 actually reduced the amount of legal gambling carried on in the Kingdom, though judging by the preambles to its gambling legislation the Government was very concerned about the moral effects of such activity on the Chinese and Siamese populations: indeed the high level of Chinese immigration during this period - that alone - would have implied an increase in the amount of gambling. At the same time it was clear that at some point the restrictionist policy would begin to bite - that the continued closure of gambling dens would lead to a reduction in the Government's revenue, and in the level of legal gambling. In the early 1900s Prince Mahit felt that that point had been reached.

In August 1903 Prince Damrong proposed to the King that the Government should consider reducing, if not abolishing, all the provincial gambling farms<sup>139</sup>. This proposal was discussed by Prince Damrong with Prince Mahit over a period of 15 months<sup>140</sup> until finally, on 15 December 1904, they presented their views to the Council of Ministers<sup>141</sup>. As was to be expected, Prince Mahit's major fear concerned the difficulty of finding alternative sources of revenue to compensate for the loss of income from the provincial gambling dens - approximately 4.0 m. baht p.a. In reply Prince Damrong proposed that the alternative revenue could be raised principally through an increase in the rates of land tax. In fact the Minister of the Interior wished to see the Bangkok dens closed at the

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138. R.F.A.B. 1903/04 pp. 22-23.

139. Prince Damrong to King, 4 August 1903 N.A.Kh. 14. 1kh/18(g).

140. Prince Damrong to Prince Sommot, 13 February 1904/King to Prince Damrong, 14 February 1904 N.A.Kh. 14. 1kh/18(g).

141. Report on the meeting of the Council of Ministers, 15 December 1904 N.A.Kh. 14. 1kh/18(g).

same time as those in the provinces, otherwise, he argued, all the gamblers and criminals in the Kingdom would flock to the capital once the provincial dens disappeared. The loss of revenue involved in closing the Bangkok dens - approximately 3.0 m. baht p.a. - would be made good, Prince Damrong suggested, principally by an increase in import duties, an increase which would have to be negotiated with the Treaty Powers.

Prince Mahit was very reluctant to agree to the closure of the Bangkok dens. The sudden removal of all opportunities for legal gambling in the Kingdom would be certain to disturb, in particular, the Chinese population and could even lead to riots. Furthermore, were it to be decreed that in future only the Chinese were to be allowed to gamble, the effect would be to turn Bangkok into a Chinese city overnight. Prince Mahit's caution had an effect: the Council of Ministers decided to defer a decision on the Bangkok dens but to proceed with the abolition of those in the provinces<sup>142</sup>.

Immediately Prince Damrong instructed F. C. Giles, the head of the Provincial Revenue Department, to prepare detailed proposals for raising additional revenue from the land tax to replace that to be lost by the abolition of the provincial dens<sup>143</sup>. In this the Siamese Government was to take advantage of the provisions of a Land Tax Agreement signed with Britain in 1900. Under this agreement Britain had agreed to the abolition of the 'Schedule of Taxes on Garden-Ground, Plantations, or Other Lands' which was attached to the Supplementary Agreement drawn up with Sir Harry Parkes in May 1856. According to the treaty signed with Sir John Bowring in 1855, British subjects purchasing or renting real property in Siam were to 'be subject to the same taxation that is levied on Siamese subjects'<sup>144</sup>. Similar clauses existed in each of the commercial treaties signed by Siam. The agreement signed with Parkes repeated the assurance over equal taxation, but then went one stage further in insuring

142. ibid.

143. Memorandum containing proposals as to the manner in which revenue can be raised to supply the deficiency which will be caused by the abolition of gambling in the Provinces, F. C. Giles 7 January 1905 F.F.A. 2/2 N.A.Kh. 14. 1kh/18(g).

144. Article 4 of the Anglo-Siamese Treaty of 1855.

that British subjects would not be vulnerable to the introduction of high land taxes: the attached schedule stipulated the exact rates of taxation to be levied on the various trees, crops and types of land covered in the original treaty clause<sup>145</sup>. Though the Schedule appeared only in the agreement with Britain, the other Powers benefitted from its provisions by virtue of most-favoured-nation clauses in their own treaties with Siam<sup>146</sup>.

From the Siamese point of view the Schedule was clearly iniquitous. First, it was obsolete: in the 40 years following the signing of the agreement the value of silver baht in which the tax was assessed had fallen more than 100 per cent, whilst the value of agricultural products had increased by some 300 per cent: as a result the real value of the revenue raised from the land had been dramatically reduced<sup>147</sup>. Furthermore, as the Schedule allowed for an assessment of the number of trees liable for tax only once in each reign, inevitably, with the current reign in its fourth decade, some people were being taxed for trees or crops which no longer existed, whilst new plantations escaped taxation altogether. Second, and more importantly, the Schedule froze the level and structure of land taxation in Siam, preventing the Government from raising what it felt was a justifiable proportion of its revenue from the land<sup>148</sup>.

Negotiations with Britain over the abolition of the Schedule were begun in mid-1898, negotiations in which both Mitchell-Innes and Rivett-Carnac played an important role<sup>149</sup>. Eventually the British Government agreed to the abrogation of the Schedule in return for an alternative assurance that British subjects would not be vulnerable to high rates of land taxation: at the suggestion of

145. For example: 'Mango trees: one fuang per tree p.a. (section 1): Pineapples: one fuang per 1,000 plants p.a. (section 2)'.

146. In effect the tax restrictions also applied to the Siamese population: see Chapter I, p. 15 fn. 3

147. Memorandum. Rivett-Carnac 31 August 1899, N.A.Kh. 14/21. According to Rivett-Carnac, in many instances by 1899 the tax on fruit trees represented less than 1% of the profit to the owner.

148. Rivett-Carnac pointed out that whereas in Burma the revenue derived from the land was approximately 27.0 m. rupees p.a., in Siam it was equivalent to just over 2.0 m. rupees p.a. (Memorandum, 31 August 1899 N.A.Kh. 14/21).

149. Memorandum on the subject of increased taxation, Mitchell-Innes, 21 May 1898 N.A.Kh. 17. 3/2. Memorandum, Rivett-Carnac, 31 August 1899 N.A.Kh. 14/21.

Rivett-Carnac the Siamese Government gave an undertaking that in no case would the taxation on land in the Kingdom exceed that on similar land in Burma<sup>150</sup>. The agreement was signed in September 1900<sup>151</sup>.

In 1905 Giles proposed that the freedom allowed by the 1900 agreement be used to sweep away the existing land tax system in the Kingdom. In future the land would be divided into six classes according to the fertility of the soil, the price of rice in local markets, the ease of communications with the market, and distance from the rice mills. The rates of taxation would rise from a minimum of 24 atts per rai (the maximum rate under the old system) to 1 baht per rai, with approximately half the land in the Kingdom taxed at the top rate<sup>152</sup>. Giles estimated that under the new system the land tax would raise 6.2 m. baht p.a., an increase of 3.7 m. baht p.a. on the yield from the existing land tax structure.

Giles' proposals for the land tax and the related issue of the Government's policy towards the abolition of the Kingdom's gambling dens were discussed by the relevant Ministers in late 1904 and early 1905<sup>153</sup>, culminating at a meeting held at the Ministry of Finance on 14 January 1905 attended by the Ministers of Finance, the Interior, the Capital and Agriculture, by Giles, and Lawson, the Bangkok Commissioner of Police<sup>154</sup>. It was decided to close the remaining dens in the Kingdom gradually, over a period of three years. In 1905/06 all the provincial dens which yielded less than 50,000 baht in 1904/05 were to disappear: the remaining provincial dens would be closed in 1906/07. The Bangkok dens were to be abolished in 1907/08. At the suggestion of Prince Damrong the closure of the Bangkok dens was to be linked to an application to the Treaty Powers for a renegotiation of the restrictions on the taxation of the Kingdom's

150. Memorandum, Rivett-Carnac 31 August 1899 N.A.Kh. 14/21.

151. Archiv to Lord Salisbury, 22 September 1900 Desp. 63 P.R.O. F.O. 69/208. There was one small amendment to the safeguard proposed by Rivett-Carnac: taxation on land in Siam was not to exceed that levied on similar land in Lower Burma, the reason being that the tax rates in Lower Burma were uniform, those in Upper Burma were not.

152. Giles, Memorandum, 7 January 1905 F.F.A. 2/2 N.A.Kh. 14.lkh/18(g).

153. Prince Mahit to King, 9 January 1905 N.A.Kh. 14. lkh/18(g).

154. Prince Mahit to King, 16 January 1905 N.A.Kh. 14. lkh/18(g).

foreign trade: in that way, if the Powers refused to allow an increase in the duties they, not the Siamese Government, would be responsible for the continued existence of the Bangkok gambling dens. Prince Damrong was convinced that this moral lever would be effective. Finally the meeting approved the tax increases designed to cover the losses resulting from the abolition of the provincial dens in 1905/06 and 1906/07 - principally the reorganization of the land tax, but also increases in the rates of capitation tax in Chumphon, Nakon Sritammarat and Puket, and the reform of the Fishery Tax<sup>155</sup>. Two days later the scheme was passed by a full meeting of the Council of Ministers<sup>156</sup>. Time was short: within three months the first stage of closing the smaller provincial dens would come into operation. On 18 January 1905 Strobel was instructed to prepare for the negotiations with the Treaty Powers<sup>157</sup>.

In 1905/06 all save 22 provincial farms were closed, and the number of Bangkok dens reduced to 13<sup>158</sup>. In many provinces the closure of the gambling dens was cause for several days of public celebration, often led by the Provincial Governor<sup>159</sup>. Messages were received from anti-gambling leagues and from missionary societies throughout the world<sup>160</sup>. The last of the provincial dens were closed, as planned, during the year 1906/07.

Inevitably the Government's revenue from gambling dropped dramatically, from a peak of 6.87 m. baht in 1904/05 to 3.60 m. baht in 1906/07. But as was intended, the loss was easily covered by the increases in the revenue from the land tax and fishery taxes: revenue from that head, which had stood at 3.61 m. baht in 1901/02 and 4.72 m. baht in 1905/06, jumped to 8.37 m. baht in 1906/07 and then to 8.56 m. baht in 1907/08<sup>161</sup>. By reducing its revenue from gambling,

155. ibid.

156. Report on the meeting of the Council of Ministers, 16 January 1905 N.A.Kh. 14. lkh/18(g).

157. King to Prince Devawongse, 18 January 1905 N.A.Kh. 14. lkh/18(g).

158. Prince Damrong Ru'ang tamnān kānlōekbōnbia lae lōek huai (The Abolition of Gambling Dens and the Huai Lottery) Bangkok, 1960 pp. 49-50.

159. Prince Damrong to Prince Sommot 27 April 1906 N.A.Kh. 14. lkh/18(g).

160. Hamilton King (U.S. Minister in Bangkok) to Prince Devawongse, 20 April 1905 N.A.Kh. 14. lkh/18(g).

161. R.F.A.B. Series.

by making good that loss by increasing its revenue from the land, the Government had achieved an important objective: it had begun to lessen its dependence on what the Government itself regarded as a particularly obnoxious source of revenue. It had begun to remove a social evil without damaging the revenue. There remained the 13 farms in the capital.

By late 1905 Strobel was prepared to approach the Powers officially with the request for a renegotiation of the Commercial Treaties<sup>162</sup>. The General Adviser thought that the Siamese case would be strengthened if the Powers were informed that the Government intended to use the proposed increase in import duties not simply to close the Bangkok dens but also to abolish certain inland transit duties and export taxes which were considered harmful to trade. In January 1906 each of the Powers was informed of the Siamese Government's proposals and given the obligatory 12 months' notice of the Government's intention to renegotiate the Treaties<sup>163</sup>. Strobel then left for the United States on leave with the intention of visiting each of the major European capitals on his way back to Bangkok, and of taking up the negotiations in earnest on his actual return to Siam<sup>164</sup>. In reply to the Siamese note the French Government made it clear from the beginning that they would require a substantial quid pro quo for a renegotiation of their commercial treaty with the Kingdom: it was suggested that Siam might consider making some concessions over Battambong<sup>165</sup>. The French reply was almost certainly echoed in private by the other Powers. When the official Siamese note was received in London in February 1906, the Foreign Office quickly prepared a list of possible quid pro quo - the granting to British subjects of the right to hold land in the Chiangmai area, the dredging of the bar at the mouth of the Chao Phraya River, the erection of buoys

162. Strobel to Prince Devawongse, 4 December 1905 N.A.Kh. 17. 3/6.

163. Enclosed with: Strobel to Prince Devawongse, 4 December 1905 N.A.Kh. 17. 3/6.

164. Strobel to Prince Devawongse, 4 December 1905 N.A.Kh. 17. 3/6.

165. Memorandum of a conversation between the Siamese Minister in Paris and M. Boissonnas (French Foreign Ministry), 22 February 1906. Enclosed with Prince Devawongse to Prince Sommot, 12 April 1906 N.A.Kh. 17. 3/6. Under the terms of her 1893 Agreement with France, Siam was required to remove all her forces from the Cambodian Province of Battambong. Thereafter the French Government frequently applied diplomatic pressure to Siam to abandon all her claims to sovereignty over the Province: this Siam did in 1907.

and markers along the Siamese coast, and an undertaking not to increase export duties<sup>166</sup>.

But the Siamese proposals were never put to the Powers. When Strobel visited London in January 1907 there is no record of the matter being discussed at least officially<sup>167</sup>. However, when the Adviser returned to Bangkok he suggested to the British Minister that perhaps an agreement allowing for an increase in the Kingdom's import duties could be worked into a larger agreement by which the Siamese Malay States would be transferred to Britain<sup>168</sup>. It would appear that when the Siamese Government realized that each of the Powers would demand substantial concessions from Siam in return for a renegotiation of the commercial treaties, it was decided to abandon the strategy arrived at in early 1905<sup>169</sup>. It was not simply that each individual concession made by Siam would, when taken together, have implied a considerable sacrifice on the part of the Kingdom: perhaps more importantly, agreement with each Power - the careful balancing of quid pro quo against quid pro quo - had to be reached at approximately the same time, and by 1907/08, when the Bangkok dens were to be closed. It was clearly an impossible task. Instead, Britain and Siam came to an agreement over the transfer of the Siamese Malay States in 1909 that involved no concessions over the import tariff. Similarly, in 1907, Siam surrendered the Cambodian Provinces of Battambong and Siemrap to France, but in return for the abandonment by France of her claims for extra-territorial jurisdiction over her Asiatic subjects, not for concessions with regard to the commercial treaty<sup>170</sup>.

The failure to renegotiate an increase in import duties meant, of course, that the Bangkok dens remained open after 1907/08. The point had been put firmly by Williamson a few years earlier :

166. Minute attached to: Raja Nuprabrandh (Siamese Minister in London) to Sir Edward Grey, 5 February 1906 P.R.O. F.O. 371/131.

167. Memorandum, Conversation with Mr. Strobel. Malay Peninsula Railway. Campbell, 16 January 1907 P.R.O. F.O. 371/385.

168. Strobel to Paget, 1 July 1907 P.R.O. F.O. 371/331.

169. None of the records in Bangkok, in the National Archives, the Ministry of Finance, and the Ministry of Foreign Affairs, offer an explanation as to why the Government made no attempt to renegotiate the commercial treaties as originally intended.

170. D. G. E. Hall A History of South-East Asia London 1968 pp. 700-701.

'State regulated gambling is, doubtless indefensible on moral and other grounds, but the practical administrator has to take facts as he finds them ... The question in Siam is entirely one of ways and means, and the Government, having once put its hand to the plough in the matter of progress on modern lines, cannot afford for merely sentimental considerations, to cripple the administration by voluntarily surrendering so large a portion of its annual income as the abolition of the Gambling Farms would entail.' 171

- a severely practical view, and clearly one shared by Prince Mahit.

However, it was only a matter of a few years before the Siamese Government found 'the ways and means' to complete the reform initiated by Prince Narāthip in the late 1880s, and although this is a matter outside the immediate scope of this chapter, it would be as well to consider it briefly here. In January 1909 when the Bangkok gambling farms for 1909/10 came up for auction, their number was reduced from 13 to 11, and then in 1910/11, to 9.<sup>172</sup> Even so the Government managed to maintain the level of its revenue from gambling<sup>173</sup>, largely because as other tax farms were abolished - the spirit and opium farms as well as the other dens - the tax farm syndicates were forced to compete for an increasingly smaller number of gambling dens<sup>174</sup>. In 1911/12 the number of dens was cut to five.<sup>175</sup> According to W. A. Graham, at about this time an informal anti-gambling league was formed in Siam to press the Government for the final abolition of the gambling farms in the Kingdom, and for the abolition of the important farmed lottery the 'Huai'.<sup>176</sup> In 1913/14 and 1914/15 there were large budget surpluses, amounting to almost 20.0 m. baht, and the

171. R.F.A.B. 1904/05 p. 7.

172. Prince Chanthaburi to King, 30 January 1909/22 February 1910 N.A.Kh. 14. 2kh/10.

173. The revenue from gambling was 3.07 m. baht in 1908/09, and 3.43 m. baht in 1910/11.

174. Prince Chanthaburi to King, 3 March 1910 N.A.Kh. 14. 2kh/10.

175. Prince Damrong Ru'ang tamnān kānlōekbōnbia lae loek huai p. 51.

176. W. A. Graham Siam vol. 1 London 1924 p. 340. Although the Huai was an important source of revenue (yielding 3.06 m. baht in 1910/11) no mention has been made of it until this point, principally because for the period covered by this study, it operated without causing the Ministry of Finance any serious problems. For a detailed study of the Huai see: B. O. Cartwright The Huey Lottery in The Siam Society 50th Anniversary Commemorative Publication, Bangkok 1954 vol. 1 1904-1929 pp. 131-149. The article is based on Prince Damrong's work noted above: Ru'ang tamnān kānlōekbōnbia lae loek huai (The Abolition of Gambling Dens and the Huai Lottery) Bangkok 1960.

Government took the opportunity to use the large increase in its reserves to abolish the lottery in April 1916<sup>177</sup>. The remaining Bangkok gambling dens were finally closed in April 1917<sup>178</sup>.

### 3. The resignation of Prince Mahit, May 1906: the 'Book Club'.

Prince Mahit resigned as Minister of Finance at the end of May 1906<sup>179</sup>. In the earlier part of that year his health had become very poor - partly as the result of his having to deal with a major crisis in the operations of the opium monopoly in 1905 - and he was forced to seek leave of absence from the Ministry. Prince Chanthaburi, the Controller-General, became acting Minister of Finance<sup>180</sup>, and indeed it was he who had carried out most of the work on the compilation of the 1906/07 budget<sup>181</sup>. Therefore the official announcement in mid-1906 that Prince Mahit had resigned for reasons of ill-health<sup>182</sup> was not unexpected. Yet it was suggested at the time - principally by the Bangkok Times<sup>183</sup> - that Prince Mahit had found it necessary to resign on account of his interest in a business enterprise known as the 'Book Club'.

The 'Book Club' - it was actually called the 'Book Club' in Siamese - was founded by Prince Mahit in October 1904: it was in fact a bank<sup>184</sup>. It would appear that Prince Mahit's principal objective in establishing the 'Book Club' was to attempt to break the European monopoly of banking institutions in Siam. It is perhaps significant that the plans for the bank began to take shape in

177. R.F.A.B. 1916/17 p. 5.

178. R.F.A.B. 1917/18 p. 3. In fact the growth of revenue from other sources covered the revenue lost by the abolition of the remaining farms, and there was no need to use the reserves.

179. Bangkok Times, 29 May 1906.

180. Rivett-Carnac to Prince Chanthaburi, 31 March 1906 F.F.A. 1/2.

181. Prince Mahit to King, 18 April 1906 N.A.Kh. 5. 1/25.

182. Bangkok Times, 6 June 1906.

183. Bangkok Times, 29 May 1906.

184. Unless otherwise noted, the whole of this section is based on an official publication of the bank, now known as the 'Siam Commercial Bank' Thiralu'k wanpoet sammakngEn yai thankhAnthaiphAnitchamkat (A Commemorative Volume on the opening of a new head office for the Siam Commercial Bank) August 1971.

mid-1903, only some six months after the Ministry and the European banks had been in dispute over the way in which the Government had abandoned the silver standard<sup>185</sup>. The bank was called the 'Book Club' for several reasons: first, Prince Mahit feared that the Siamese population, unfamiliar with banking institutions, would be reluctant to deposit their money in a business calling itself a bank: they would be amused and intrigued by a 'Book Club'. Second, the Europeans in Siam would assume that the enterprise was some form of public library: therefore, were the 'Book Club' to fail the managers of the enterprise would suffer relatively slight embarrassment and would be able at some point in the future to revive the bank, undoubtedly under yet another guise<sup>186</sup>.

The 'Book Club' began business on 4 October 1904 in a building belonging to the Privy Purse Department. The bank was under the administration of Prince Mahit, though it would appear that at this early stage the general public were unaware of the very close involvement of the Minister of Finance with the new enterprise<sup>187</sup>. It was a success. In early 1906 Prince Mahit decided that it was safe to remove the facade of the 'Book Club' title, and to reveal the true character of the business. In April of that year the 'Book Club' was formed into a company, and some 3,000 shares were issued in order to raise more capital: almost 600 shares were purchased by two European banks, the Deutsche Asiatische Bank and the Danish Landtmanna Bank, of which K. A. Wallenberg, the Stockholm banker who had assisted Phraya Suriyā in the final negotiations of the 1905 loan was a director. Then Prince Mahit appointed a committee of seven - including three European employees of the German and Danish shareholders - to administer the daily business of the bank from April 1906. From that date the 'Book Club' was recognized as a banking institution mainly concerned with advancing capital on land mortgages, but also involved in exchange business<sup>188</sup>.

185. See Chapter VI.

186. As far as the European community was concerned, the ruse was unsuccessful. On 3 October 1904 the Bangkok Times reported that the 'Book Club' was 'a general commission agency, a bank and other things'. The newspaper was, however, misled by the name in another sense: on 16 February 1906 it informed its readers that 'Book Club' was a corruption of a Pali word!

187. Bangkok Times, 3 October 1904.

188. Paget to Sir Edward Grey, 14 May 1906, Tele. 4 P.R.O. F.O. 371/132.

It was at that point that Prince Mahit ran into difficulties. According to the British Minister, Paget, the Minister of Finance used his official position to support his new bank against the established European banks<sup>189</sup>. For example, an undue proportion of the Government's business was given to the 'Book Club': in addition, many of the Government's accounts at the Hongkong and Shanghai Bank and the Chartered Bank were transferred to the Siamese Bank. It was also alleged by Paget that Prince Mahit used his influence to persuade the more important local customers of the European banks, such as the opium farmer and wealthy Chinese rice-millers, to move their accounts to the 'Book Club'. The Foreign Office in London felt that these were insufficient grounds for an official complaint, for it was argued that the Siamese Government were free to place their banking business with any institution they liked<sup>190</sup>. But a private complaint was made by Paget to the Assistant General Adviser, Westengard. The next the British Minister heard was that the whole matter had been laid before the King by Prince Devawongse, that Prince Mahit had denied all accusations of malpractice, but faced with an unsympathetic Council of Ministers, had resigned<sup>191</sup>. In a letter to Paget, Westengard added the view that Prince Mahit had resigned in order 'to shield the Government from any annoyance or difficulty'<sup>192</sup>.

It is extremely unlikely that Prince Mahit was forced to resign because of this controversy involving the 'Book Club'. It was hardly a serious matter: even if Paget's accusations were justified, this was certainly not malpractice on a large scale. However, it is possible that Prince Mahit's opponents in the Council used the embarrassment caused by the British Minister's allegations as a lever to force the resignation of the Minister of Finance: in other words, that the 'scandal' was the immediate cause but not the fundamental factor behind Prince Mahit's departure. Undoubtedly in mid-1906 the Minister had

189. Paget to Sir Edward Grey, 15 May 1906 Desp. 30 P.R.O. F.O. 371/132.

190. Minute attached to: Paget to Sir Edward Grey, 15 May 1906 Desp. 30 P.R.O. F.O. 371/132.

191. Paget to Sir Edward Grey, 30 May 1906 Desp. 34 P.R.O. F.O. 371/132.

192. Westengard to Paget, 1 June 1906. Enclosed with: Beckett to Sir Edward Grey, 12 June 1906 Desp. 37 P.R.O. F.O. 371/132.

opponents in the Council - perhaps Prince Devawongse, resentful of Prince Mahit's success in floating the European loan, following their forceful debate on the issue between 1902 and 1904. But the record gives no suggestion as to who those opponents might have been, or even whether there was such a move against Prince Mahit in 1906.

On balance the available evidence suggests that Prince Mahit resigned simply because of poor health. The ten years at the Ministry had been years of considerable achievement, but they had also placed a tremendous strain on the Minister, particularly since even from his first days at the Ministry his general health had been suspect. The struggle in the late 1890s and early 1900s to force the Ministries to accept the pre-eminence of the Ministry of Finance in budgetary matters, the decision to abandon the silver standard in late 1902 and the subsequent responsibility of administering a gold-exchange mechanism, the exhausting debate over the European loan from 1902, the crisis in the opium and spirit farms in 1905 and 1906, were only the major demanding problems which he had had to face. The small controversy over the 'Book Club' was but the final difficulty which, coming as it did only a month or two after his enforced absence from the Ministry on sick leave, persuaded Prince Mahit that the time had come to step down.

He lived just long enough to see the 'Book Club' complete its transformation into a bank. On 30 January 1907 the 'Book Club' received a Royal Charter and became the Siam Commercial Bank, the first indigenous bank in the Kingdom. Within three months Prince Mahit was dead: he died of consumption on 15 April 1907, aged just 44<sup>193</sup>.

193. Ratchasakunwong (Royal Genealogy) Bangkok 1969. Bangkok Times, 16 April 1907.

## CHAPTER V

The Ministry disunited and revived, 1906 - 1910

The King appears to have had little difficulty in finding a successor to Prince Mahit, and undoubtedly this contributed to his willingness to allow the Minister to resign. The new Minister of Finance was Phrayā Suriyā. His qualifications for the post were impressive. First he was widely credited with the successful negotiation of the 1905 European loan. In addition he had had some experience of financial administration, having in the 1890s worked in some of the northern treasuries as an official of the Ministry of the Interior<sup>1</sup>. He was also well acquainted with European financial and administrative methods, an increasingly important qualification for a Minister of Finance as the responsibilities of the Ministry - for the exchange mechanism, for loans - brought it into greater contact with the world outside Siam. Phrayā Suriyā had been educated in Penang and Calcutta and had spent many years in the Siamese Legations in Europe, finishing as Siamese Minister in Paris<sup>2</sup>. He had had ministerial experience, at the Ministry of Public Works from mid-1905. Finally, in view of the impressive welcome he had received from the King and the Council of Ministers on his return from Paris in 1905<sup>3</sup>, it would appear that he was widely respected within the Government. There was every indication that his appointment as Minister of Finance from June 1906 would be a success.

In fact it was a dramatic failure. By January 1908 - a mere eighteen months after his appointment - all but one of his major policies was either in ruin or facing severe criticism in the Council of Ministers; he had greatly antagonized the King and Prince Damrong; his relations with the Financial Adviser, Williamson, had deteriorated to the point where the Adviser was no longer being consulted and perhaps most seriously, by 1908 Phrayā Suriyā had lost the confidence and co-operation of the officials in his own Ministry.

1. At Athawuthikēn Bukkhon samkhan kheng thai (Important Thai People) Bangkok 1962.

2. ibid.

3. Chapter IV p. 148

However, Phrayā Suriyā's record at the Ministry did contain one notable success, which it would be convenient to consider first: appropriately it involved the scene of the Minister's previous major triumph - a European loan.

### 1. The European loan of 1907

When Phrayā Suriyā became Minister of Finance in June 1906, the Government was already committed to raising its second loan in Europe<sup>4</sup>. By the beginning of the year 1906/07 only 3.713 m. baht was left of the 14.5 m. baht borrowed in 1905, yet in the 1906/07 budget inherited by Phrayā Suriyā from Prince Mahit, 7.25 m. baht had been allocated to the railway construction programme, none of it from current revenue.

The actual raising of the second European loan was a relatively straightforward matter. At times there was some vagueness in the Government with regard to the size of the proposed loan and the specific uses to which it was to be put, but there was none of the debilitating hesitancy that had marked the Government's discussion over the first loan. The 1907 negotiations were complicated by just one factor - concern by the British Government that Siam would use the proceeds of the loan to finance the construction of the southern railway into the Malay Peninsula. There was a fear in London and Singapore that the construction of that line would be entrusted to the German-dominated Siamese Railway Department, or that German banks would succeed in underwriting a major part of a loan devoted to the building of the southern line: in either case, German influence in the Peninsula could be expected to grow and rival British interests in the area. The issue was confused by the fact that from mid-1906 two Englishmen, R. W. Duff (who already had substantial investments in the Siamese Malay States) and L. T. Leonowens, the son of Anna Leonowens, placed before the Siamese Government a series of proposals for the survey, construction and financing of the peninsular railway<sup>5</sup>: both men were acting on behalf of

4. Prince Mahit to Phrayā Suriyā, 1 June 1906 N.A.Kh. 3/2.

5. Beckett to Sir Edward Grey, 27 June 1906 Desp. 43 P.R.O. F.O. 371/182. Memorandum on the proposal of the Siamese Government to construct a Railway in the Siamese Malay Peninsula, and the suggested publication of the Secret Convention with Siam of 1897. Foreign Office, London. 31 December 1906 Printed. P.R.O. F.O. 371/385.

London financiers. Though there was some doubt as to the extent of the financial resources of these groups<sup>6</sup>, the British Minister in Bangkok, Beckett, appears to have favoured their proposals as a means of excluding German involvement in the construction of the southern line<sup>7</sup>.

In mid-1906 Prince Damrong made a tour of the southern provinces<sup>8</sup> and on his return to Bangkok argued at a meeting of the Council of Ministers that on political and economic grounds the Government should proceed as quickly as possible with the construction of the railway connecting the capital with the South<sup>9</sup>. However, the Minister - remembering the Government's experience with Murray Campbell over the building of the Korat line in the 1890s - was opposed to construction by concessionaires such as Duff and Leonowens and instead suggested that the southern railway be constructed by means of a European loan. Though the Council accepted the recommendations of the Minister of the Interior, no details were settled: there was no decision as to whether any of the proceeds of the immediate European loan would be set aside for this particular line, nor was there any discussion of the inevitable British opposition to construction of that line by the Railway Department.

In August 1906 Phrayā Suriyā wrote to Axel Johnson asking for his assistance in the negotiation of the Government's second European loan, which was to be for £2.0 m.<sup>10</sup> When Beckett heard of the imminence of the loan, he saw Westengard - the acting General Adviser - and sought assurances that the construction of the peninsular line would be carried out either by Siamese or British officials. Westengard replied that the Siamese Government had as yet taken no decision contrary to the wishes of Britain<sup>11</sup>. Negotiations with the European banks began in October. On this occasion the Government was faced with a syndicate

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6. Minutes attached to: Beckett to Sir Edward Grey, 31 October 1906 Desp. 98 P.R.O. F.O. 371/182.

7. Beckett to Sir Edward Grey, 31 October 1906 Tele. 16 P.R.O. F.O. 371/182.

8. Foreign Office Memorandum. 31 December 1906 P.R.O. F.O. 371/385.

9. Report of the meeting of the Council of Ministers, 25 September 1906 N.A.Kh. 25/6.

10. Phrayā Suriyā to Axel Johnson, 27 August 1906 F.F.A. 25/3.

11. Foreign Office Memorandum. 31 December 1906 P.R.O. F.O. 371/385.

of the Hongkong and Shanghai Bank, the Banque de L'Indo-Chine and the Deutsche-Asiatische Bank: the London and Paris banks had earlier agreed to join forces with the Berlin bank through fear that if they attempted to exclude the Germans, the Deutsche-Asiatische would offer very favourable terms to Siam and take the whole loan for itself<sup>12</sup>. Preliminary enquiries - conducted principally by Rivett-Carnac - produced an offer of 92½ (nett) at 4½ per cent p.a. from the syndicate<sup>13</sup>, but Phrayā Suriyā preferred to wait until the market improved<sup>14</sup>. In the meantime it would appear that attempts were made to encourage the members of the syndicate to make individual offers for the loan in competition with their partners, but with no success<sup>15</sup>.

Phrayā Suriyā reviewed the progress of the negotiations in a letter to the King on 7 December 1906<sup>16</sup>. The Minister argued that it was evident that European investors were as yet not prepared to take up a Siamese loan bearing only 4 per cent p.a., as he had at first hoped, unless the issue price was very low. Therefore the Government would have to accept a loan at 4½ per cent p.a., the same rate as applied to the 1905 loan. The only matter to be settled was whether the British-French-German syndicate could be induced to offer more than the 92½ (nett) they had proposed to the Government the previous month.

Phrayā Suriyā then dealt at length with the question of the financing of the peninsular railway and the proposals of Duff and Leonowens. Like Prince Damrong the previous September, Phrayā Suriyā was not prepared to consider either scheme: both Duff and Leonowens, he argued, had asked for many privileges and concessions (for example the right to supply all the materials and equipment for the line) and it was Government policy to avoid any unnecessary stipulations with regard to their European loans. Furthermore, both men represented unproven financial concerns: were the Government to come to an agreement with them its standing with the established European banks could only suffer, making it

12. Memorandum. Interview with Mr. Townsend of the H.S.B. Campbell, 19 October 1906 P.R.O. F.O. 371/182.

13. Rivett-Carnac to Phrayā Suriyā, 23 October 1906/2 November 1906 Tele. F.F.A. 25/3.

14. Phrayā Suriyā to Rivett-Carnac, 8 November 1906 Tele. F.F.A. 25/3.

15. Rivett-Carnac to Phrayā Suriyā, 5 November 1906 F.F.A. 25/3.

16. Phrayā Suriyā to King, 7 December 1906 N.A.Kh. 25/9.

considerably more difficult to raise additional loans in the future. In fact in late November 1906 the Minister had already told Leonowens that the Government could not consider contracting out the construction of the peninsular railway<sup>17</sup>, though both Duff and Leonowens continued to press their cases<sup>18</sup>.

The Minister of Finance then informed the King that although he wished to wait until the money markets in Europe improved before the loan was finally negotiated, the Government could not delay for too long. By the end of the year - 31 March 1907 - not only would the proceeds of the 1905 loan be exhausted, but the Ministry would again be calling on the Treasury reserves to cover the allocation for railway construction. There was, Phraya Suriya continued, another important consideration. In late 1902 the Government had adopted a gold-exchange standard for the baht, but since that time it had been found necessary to repeatedly revalue the currency in response to rises in the world price of silver. The Minister suggested that by the establishment of a gold/sterling exchange fund the Government would be able to control fluctuations in the baht/sterling rate. Phraya Suriya therefore proposed that a part of the proceeds of the forthcoming loan be set aside for such an exchange fund<sup>19</sup>. It is important to note that this proposal was made at a rather late stage in the discussions: in fact, it would appear that it was at about this time that the Government decided to increase the size of the loan from the original £2.0 m. to £3.0 m.<sup>20</sup>. However, according to Duff, Phraya Suriya's suggestion had little support in the Council of Ministers: indeed, he reported to Beckett that Prince Damrong intended to oppose the use of the loan to support exchange on the grounds that it was Government policy not to raise loans for

17. Beckett to Sir Edward Grey, 29 November 1906 Desp. 113 with enclosures. P.R.O. F.O. 371/385.

18. Correspondence between Leonowens and Phraya Suriya, December 1906 F.F.A. 25/3.

19. This is a matter which must await discussion in Chapter VI. It is sufficient to note here that the primary purpose of an exchange fund would be to reduce short-term fluctuations in the market rate for the currency: it could have no direct effect on the long-term official parity of the currency.

20. Phraya Suriya to King, 7 December 1906 N.A.Kh. 25/9.

unproductive purposes<sup>21</sup>. Finally in his letter to the King, Phrayā Suriyā reported that K. A. Wallenberg, who had played an important part in the negotiations for the 1905 loan, had recently arrived in Bangkok and was willing to assist in the current negotiations<sup>22</sup>. The King approved the Minister's proposals and actions<sup>23</sup>.

On 8 December Wallenberg, acting on the instructions of the Minister of Finance, met the Bangkok managers of the Hongkong and Shanghai Bank and the Banque de L'Indo-Chine, who were representing all three banks in the syndicate, and put before them the Government's terms<sup>24</sup>. The conditions that applied to the 1905 loan would also apply to the new contract, with one important addition: the Siamese Government would undertake to maintain the exchange value of the baht at its current rate -  $13\frac{1}{3}$  baht : £. The banks were given three days in which to accept the terms<sup>25</sup>. On hearing of these developments in Bangkok, the Foreign Office in London immediately contacted the Hongkong and Shanghai Bank and explained that it was feared that the loan was to be used in part to finance the construction of the peninsular railway by the German-dominated Railway Department: the Bank was asked to delay the negotiations until some assurance had been obtained from the Siamese Government on that point<sup>26</sup>. At the same time Beckett was instructed to discover whether any portion of the

21. Duff to Beckett, 6 December 1906: enclosed with: Beckett to Sir Edward Grey, 19 December 1906 Desp. 118 P.R.O. F.O. 371/385. There is no evidence in the National Archives to support Duff's assertion. However, since the debate in 1903-1904 over the first loan had centred on the probable direct financial return from the investment of the loan in railway construction, there were likely to be doubts about the use of a significant portion of this loan to establish an exchange fund, where the return would be the indirect and intangible benefits to trade of a stable exchange.

22. Wallenberg was a member of a party accompanying Prince Waldemar of Denmark on a visit to Siam (Foreign Office Memorandum, 31 December 1906 P.R.O. F.O. 371/385). However, it is unlikely that Wallenberg's presence in Bangkok at this juncture was entirely coincidental.

23. King to Phrayā Suriyā, 8 December 1906 N.A.Kh. 25/9.

24. Beckett to Sir Edward Grey, 19 December 1906 Desp. 119 with enclosures P.R.O. F.O. 371/385.

25. Townsend (London Office of H.S.B.) to Campbell, 11 December 1906 P.R.O. F.O. 371/182.

26. Minutes attached to: Townsend to Campbell, 10 December 1906 P.R.O. F.O. 371/182.

loan was intended for the southern railway: if it were, he was to urge the Siamese Government to raise a separate loan for that line, unless they would give an undertaking not to allow the Railway Department into the Peninsula<sup>27</sup>. Beckett saw Phrayā Suriyā on 9 December and Prince Devawongse the following day<sup>28</sup>. The Siamese Ministers were not sure whether any of the proceeds of the loan would be devoted to the southern line: Westengard, whom Beckett saw later, doubted whether it would. Furthermore, the British Minister gained the impression that the Siamese Government would not insist on the construction of the line by their own Railway Department<sup>29</sup>. Yet it was clearly impossible for Beckett to obtain firm assurances in the time available. Eventually the Foreign Office allowed the British Bank to comply with the Siamese conditions: the fear that the Deutsche-Asiatische Bank could leave the syndicate at any time and make an individual bid for the whole of the loan was strong<sup>30</sup>. The crucial point illustrated by these last minute negotiations was that the Siamese Government, though willing to intimate to Beckett that it would not act against the wishes of Britain with regard to the Peninsula, was not prepared to give a written undertaking with regard to either the uses of the proposed loan or to departmental construction of the southern railway.

The negotiations were completed in the last days of December 1906. The terms were 93 1/4 (nett) at 4½ per cent p.a.<sup>31</sup> compared with 90½ (nett) at 4½ per cent p.a. for the 1905 loan. Significantly, at the request of Phrayā Suriyā, the contract contained no reference to the use of part of the proceeds of the loan to support exchange: instead the Minister was to give some assurance on this point in a separate letter to the banks<sup>32</sup>. The loan contract was

27. Sir Edward Grey to Beckett, 11 December 1906 Tele. 22 P.R.O. F.O. 371/182.

28. Beckett to Sir Edward Grey, 12 December 1906 Tele. 22 P.R.O. F.O. 371/182. Beckett to Sir Edward Grey, 19 December 1906 Desp. 119 and enclosures P.R.O. F.O. 371/385.

29. Beckett to Sir Edward Grey, 19 December 1906 Desp. 119 P.R.O. F.O. 371/385.

30. Townsend to Campbell, 11 December 1906 P.R.O. F.O. 371/182.

31. Bangkok manager of the H.S.B./Banque de L'Indo Chine to Phrayā Suriyā, 31 December 1906 F.F.A. 25/3.

32. Bangkok manager of the H.S.B. to Williamson, 29 December 1906 F.F.A. 25/3.

a loan contract and nothing more. In explaining the terms to the Council of Ministers on 31 December, Phrayā Suriyā emphasized that the Government was giving only a general undertaking to the banks that it would use a portion of the loan to support exchange: the Government was giving no indication of the size of the proposed exchange fund nor of the rate at which the baht would be stabilized<sup>33</sup>. The Council approved the terms negotiated with the syndicate<sup>34</sup> and the contract was signed in London on 19 January 1907<sup>35</sup>. Four banks underwrote the £3.0 m. loan, the Hongkong and Shanghai Bank, the Banque de L'Indo Chine (£1.0 m. each), the Deutsche-Asiatische (£0.75 m.) and a Scandinavian syndicate (£0.25 m.)<sup>36</sup> - the latter reflecting Wallenberg's role in the negotiations. It was issued five days later, being over-subscribed four times<sup>37</sup>.

One final general point must be made about the raising of the 1907 loan, and indeed the 1905 loan as well. Throughout the negotiations the Siamese Government attempted to minimize - indeed erase - the political implications of the loans. The most clear example of this was the refusal of the Government to consider any loan which involved Siam offering specific security - the completed sections of the railway, or the customs revenue - or involved granting trade concessions - for example in the supply of railway materials. Nor would Siam negotiate seriously with other than the most reputable European banks - not with Duff or Leonowens. But the same theme is evident elsewhere: the employment of a Swedish financier, a neutral as far as Siam was concerned, to assist in the negotiations, rather than Rivett-Carnac who on first sight would appear to have been the most obvious choice as negotiator. The decision in 1907 to give a separate, unofficial, and rather vague undertaking to the banks

33. Though on 8 December Wallenberg had informed the banks that the rate would be held at 13 1/3 baht:£ (Bangkok manager H.S.B. to London Office, 10 December 1906 Tele. P.R.O. F.O. 371/182) and Phrayā Suriyā had told Leonowens that the fund would be for £2.0 m. (Beckett to Sir Edward Grey, 29 November 1906 Desp. 113 and enclosures P.R.O. F.O. 371/385).

34. Report of the meeting of the Council of Ministers, 31 December 1906 N.A.Kh. 25/8.

35. Phrayā Wisut to Prince Devawongse, 19 January 1907 Tele. N.A.Kh. 25/9.

36. Townsend to Campbell, 31 December 1906 P.R.O. F.O. 371/182.

37. Phrayā Wisut to Prince Devawongse, 24 January 1907 Tele. N.A.Kh. 25/9.

to use part of the loan to support exchange, rather than having a more specific agreement written into the loan contract. The refusal to give a written assurance to the British Government that part of the 1907 loan would not be used to finance construction of the peninsular railway. Yet the loans remained very much political issues. The most clear indication of that was the reluctance of the Siamese Government in 1904 to negotiate with Britain alone whilst relations with France were strained. Given the political and commercial interests of the European Powers in Siam, such political ramifications were, of course, unavoidable. Therefore, in effect, there was a strong contradiction between the wish of the Siamese Government to make the raising of European loans a purely business transaction, and the inescapable intrusion of political considerations. Indeed it was this conflict that was at the root of the deadlock in the Council of Ministers in 1903-1904, as the Government debated the wisdom of employing European capital to further its reform programme.

The remaining policies pursued by Phrayā Suriyā were considerably less successful. Indeed within months of his appointment his measures began to attract criticism from both within and outside the Government: gradually the criticism gathered momentum as opposition to one particular aspect of his policies encouraged disapprobation of other parts of his programme and it finally reached its climax in the first two months of 1908. Again, detailed consideration of currency and exchange reform, and developments with regard to the major tax monopolies must be held over to Chapters VI and VII, though because of the considerable controversy generated by Phrayā Suriyā's policy in those areas a brief reference to the principal points in dispute will be given when considering the Minister's resignation in February 1908. Here the concern will be with the development - the regression - of the Ministry of Finance under Phrayā Suriyā: this process will be traced with reference to the Ministry's budgetary work for it was in this aspect of his responsibilities that the Minister clearly demonstrated two of the major characteristics which contributed to his failure - a tendency to antagonize his ministerial colleagues, and a tendency to panic when faced with difficult financial and administrative problems.

2. The budget and the attempt to extend financial control, 1906 - 1908.

The budget for 1906/07 - which covered almost the whole of the first year of Phraya Suriyā's term as Minister of Finance - was inherited by the new Minister from Prince Mahit. Though Prince Mahit had been able to estimate for a small revenue surplus in 1906/07, on closer inspection the Government's budget position was far from satisfactory. In the first place the small revenue surplus for 1906/07 had been achieved only by charging the whole of the expenditure allocation for railway construction - some 7.25 m. baht - to the loan account, despite the fact that at the beginning of the year the account held only 3.713 m. baht<sup>38</sup>. More importantly, whilst total revenue receipts had risen from 46.04 m. baht in 1904/05 to 51.65 m. baht in 1905/06, in compiling the estimates for 1906/07 the Ministry of Finance had allowed an increase of only 1.7 m. baht in the revenue estimate as compared with the estimate for the previous year<sup>39</sup>. There were more specific areas for concern with regard to the revenue: 1906/07 was to see the disappearance of the last of the provincial gambling dens, and 1907/08 the closure of the capital's dens, though in both cases alternative sources of revenue had been, or were going to be, prepared. In addition, crises in the opium and spirit farms in 1905 had not only threatened the Government's immediate revenue but had also made it clear that the tax farming syndicates could no longer be relied upon to provide such a large proportion of the Government's revenue as they had in the past. Yet whilst there were fears for the continued expansion and stability of the Kingdom's revenue receipts, there were no indications that the Government's programme of administrative reforms and public works projects would automatically adjust to the restriction in the availability of resources. The prospect of substantial budget deficits had, of course, been a salient feature of the early years of the decade, but Phraya Suriyā was faced with a considerably more difficult situation than that which had confronted Prince Mahit. First, Prince Mahit had been able, as a first line of defence, to draw on the accumulated reserves built up in the late 1890s to cover his deficits: by 1906 the reserves were considerably

38. R.F.A.B. 1906/07 p. 3/p. 9.

39. R.F.A.B. 1906/07 pp. 1-3.

below their minimum safe level. Second, and more fundamentally, Prince Mahit had enjoyed substantial increases in revenue receipts in almost every year he had to prepare a budget: for Phrayā Suriyā it was clear that the period of rapidly rising revenues had come to an end.

In the circumstances the first course for the Ministry was to examine whether the Treasury was receiving the full value of its revenues. In late March 1906 Rivett-Carnac wrote to Prince Chanthaburi, who was acting Minister of Finance during the illness of Prince Mahit, pointing out that there was no effective accounting check on the revenues received from the Kingdom's tax farmers<sup>40</sup>. The following month a European accountant employed in the Ministry of Finance, Ramsay, was given responsibility for checking that area of the Government's receipts<sup>41</sup>, and in October 1906 he submitted his first report<sup>42</sup>. Ramsay's investigations had uncovered a quite appalling state of affairs. At the end of August 1906 the total arrears of the tax farmers had been 7.66 m. baht: furthermore, out of a sum of 4.74 m. baht, which were the arrears still owing for just 1905/06, no less than 3.36 m. baht - or approximately 70 per cent - was not covered by security deposited with the Ministry of Finance by the farmers. Ramsay also reported that only about 16 per cent of tax farm payments were paid to the Ministry on time: finally, it appeared that in recent years there had been no check on the revenues received from the tax farmers in the provinces. Ramsay's report provides important, and rare, evidence that at least in this respect many of the audit and account procedures introduced by the Ministry of Finance from the late 1890s had not taken root in the administration<sup>43</sup>.

Some action was taken as a result of the report. First Phrayā Suriyā introduced several changes in the regulations under which the tax farms

40. Rivett-Carnac to Prince Chanthaburi, 31 March 1906 F.F.A. 1/2. At this point Rivett-Carnac was acting Financial Adviser whilst Williamson was on leave in Europe.

41. Prince Chanthaburi to Mèm Anuwongse, 5 April 1906 F.F.A. 1/2.

42. Memorandum. Inspection of the Chao Cham Nuan Accounts. Williamson, 31 October 1906 F.F.A. 1/2.

43. See Chapter VIII, pp. 312-315

were auctioned, the main effect of which was to increase the security requirements for the farmers from the equivalent of two months' instalments to three<sup>44</sup>. Second, steps were taken to charge farmers interest on their arrears in order to encourage more prompt payment in the future<sup>45</sup>. But by themselves those two measures could achieve little, and throughout the remainder of Phrayā Suriyā's term as Minister the total arrears of the tax farmers grew steadily larger, rising to 10.37 m. baht in September 1907<sup>46</sup>. Over 90 per cent of the arrears related to the years 1905/06 and 1906/07, and approximately 50 per cent were not covered by security<sup>47</sup>. Williamson viewed this situation with increasing dismay: in July 1907 he wanted the matter discussed by the Council of Ministers<sup>48</sup>, and in November he urged that it be reported to the King<sup>49</sup>, but the Financial Adviser's complaints went unheeded. The immediate responsibility for receiving the instalments from the tax farmers rested with Mqm Anuwongse, the head of the Accounts Division of the Ministry of Finance, but it is difficult to see why Phrayā Suriyā failed to obtain more efficient administration from Mqm Anuwongse in this matter. It is possible that the Minister was simply unable to bring effective pressure on his subordinate, for by mid-1907 Phrayā Suriyā had so antagonized the senior officials in his Ministry - including Mqm Anuwongse - over the administration of the opium monopoly, that many were acting independently of him<sup>50</sup>. The effects of the steady build-up of the farmers' arrears were clear: not only was the Treasury deprived of its rightful revenues, but the farmers increasingly ignored their contractual obligations to the Government and in so doing brought the Ministry of Finance into disrepute.

Phrayā Suriyā's principal policy for increasing the flow of revenue into the Treasury was considerably more controversial. At the end of the 1890s, by

44. Phrayā Suriyā to King, 27 December 1906 N.A.Kh. 14/27.

45. Memorandum. Revenue Farms. Williamson. 26 December 1906 F.F.A. 1/2.

46. Memorandum. Revenue Farms Arrears. Williamson. 30 November 1907 F.F.A. 1/2.

47. Memorandum. Arrears of Revenue Farms. Williamson. 6 July 1907 F.E.A. 1/2.

48. *ibid.*

49. Memorandum. Revenue Farms Arrears. Williamson. 30 November 1907 F.F.A. 1/2.

50. See Chapter VII. pp. 291-302.

the creation of the Bangkok Revenue Department under the Ministry of the Capital and the Provincial Revenue Department under the Ministry of the Interior, the Ministry of Finance had been absolved of direct responsibility for the actual collection of almost all the taxes in the Kingdom which were collected by Government officials<sup>51</sup>. Phrayā Suriyā did not want those functions returned to his Ministry, but he did want to extend the influence of the Ministry of Finance over the collection of those revenues. In December 1906 the Minister wrote to Prince Damrong enclosing a letter from the King to Prince Mahit written in February 1897 concerning the functions and responsibilities of the Ministry of Finance<sup>52</sup>. The King's letter had confirmed the sole responsibility of the Ministry of Finance for the Government's financial administration, and, of particular interest in 1906, had confirmed the right of the Ministry to investigate and examine without obstruction any work of the other Ministries and the provincial administration that in any way touched on finance. On the authority of that letter, Phrayā Suriyā informed Prince Damrong, the Krom Samruat (the Investigation Department) of the Ministry of Finance would be carrying out investigations of the financial work of the other Ministries.

Prince Damrong complained to the King<sup>53</sup>. Whilst he recognized the necessity for officials from the Ministry of Finance to carry out an audit of the finances of the whole administration, and to oversee the internal audit and accounts procedures employed in other Ministries, the Minister of the Interior was opposed to any attempt by Phrayā Suriyā to extend the administrative control of the Ministry of Finance over the work of the rest of the Government. He argued that the 1897 instructions to Prince Mahit, quoted by Phrayā Suriyā, had been given at a time when the Government's administration was relatively unsophisticated, and he warned that if Phrayā Suriyā persisted with his policy there was certain to be friction between the Ministry of Finance and the other Ministries.

On 13 December Prince Damrong and Phrayā Suriyā met to discuss the issue

51. See Chapter III pp. 98-104.

52. Prince Damrong to King, 6 December 1906 N.A.Kh. 1/44.

53. *ibid.*

but their discussions exacerbated rather than smoothed over the dispute<sup>54</sup>.

Phraya Suriya explained that his aim was for officials from the Krom Samruat to undertake periodic investigations of the revenue-collecting departments of the Government - in effect principally the Provincial Revenue Department attached to the Ministry of the Interior. If the Krom Samruat discovered any irregularities or inefficiencies, it would report them to the Minister of Finance who would then bring them to the notice of the appropriate Minister. Prince Damrong replied that for relatively junior officials from the Ministry of Finance with no practical experience of administering revenue collections to investigate and criticize the work of more senior and experienced officials from the Ministry of the Interior could only lead to friction between the two Ministries, and a fall in the efficiency and enthusiasm of the revenue-collecting officials. If Phraya Suriya was concerned about the effectiveness of the Government's revenue collections, Prince Damrong continued, then he would be better advised to bring his concern to the attention of the Ministers with direct responsibility for those collections.

Williamson gave his opinion on the matter at the end of December 1906<sup>55</sup>. He took a middle line. On the one hand he emphasized the importance of an independent audit of the revenue collections, whereas Prince Damrong had tended to argue that internal audits of the provincial collections carried out by inspectors appointed by the Provincial Revenue Department itself were sufficient. The Financial Adviser also argued that such an audit could be carried out efficiently only by officials making an on-the-spot examination of the collections. On the other hand Williamson disagreed with his own Minister when he argued that in order to avoid friction between the Ministries of Finance and the Interior, the officials from the Krom Samruat would have to restrict themselves to carrying out an audit and make no attempt to actively interfere in the work of the other Ministry.

Phraya Suriya remained unmoved. On 7 February 1907 he wrote to the King to argue once again that the Krom Samruat had to have authority to undertake

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54. Prince Damrong to Prince Sommot, 14 December 1906 N.A.Kh. 1/44.

55. Memorandum. Duties of the Samruat Department. Williamson, 29 December 1906 N.A.Kh. 1/44.

more than an audit of the revenue collection accounts<sup>56</sup>. He pointed out - with some justification - that if a revenue-collecting official simply pocketed a part of the receipts (leaving no reference in the accounts) then the Krom Samruat, by merely looking at the accounts, would be unable to detect the fraud. The dispute between Phrayā Suriyā and Prince Damrong eventually came before the Council of Ministers on 11 February 1907<sup>57</sup>. No compromise or solution was found. At one point Prince Damrong suggested that the Provincial Revenue Department be transferred to the Ministry of Finance, but it is impossible to say whether the proposal was a serious one or not: certainly the King immediately rejected the idea. There was also a suggestion from Phrayā Sukhum Naiwinit, the Minister of Public Works, that an audit department, independent of all Ministries, be established. This Phrayā Suriyā firmly rejected for it implied his Ministry losing one of its major responsibilities. Finally the King suggested that Phrayā Suriyā should prepare a more detailed outline of his proposals, and there the dispute was left to simmer for the remainder of the year.

There can be little doubt that the Minister of Finance's wish to extend his authority over the revenue-collecting agencies of the administration was prompted primarily by his concern over the Government's budget position. The depth of that concern was revealed when he presented his first - indeed his only - budget to the King in March 1907<sup>58</sup>. In fact, it could even be said that the 1907/08 estimates betrayed an element of panic in the Minister's financial planning. After achieving an actual revenue collection of 51.65 m. baht in 1905/06, and budgeting for 54.7 m. baht in 1906/07, the Ministry of Finance estimated revenue for 1907/08 at 50.7 m. baht. For the first time since the Government had instituted western-style budgets in the early 1890s the Ministry of Finance was expecting a drop in revenue. There were two main reasons for this pessimistic outlook: first a poor monsoon in 1906 and consequently

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56. Phrayā Suriyā to Prince Sommot, 7 February 1907 N.A.Kh. 1/44.

57. Report on the meeting of the Council of Ministers, 11 February 1907 N.A.Kh. 1/44.

58. Phrayā Suriyā to King, March 1907 N.A.Kh. 5. 1/25.

restricted rice exports in late 1906 and early 1907 meant that the internal economy would be depressed during 1907/08. There were therefore significant cuts in the revenue estimates for the tax farms, for land and fishery taxes, customs and railway traffic receipts, compared with the estimates for 1906/07<sup>59</sup>. Second, Phrayā Suriyā argued that according to preliminary figures for the actual revenue receipts in 1906/07, Prince Mahit's estimates for that year had been dangerously optimistic, particularly with regard to the opium revenue. Furthermore, in January 1907 the Ministry of Finance had abolished the opium farm and placed the monopoly under Government control, and Phrayā Suriyā was unwilling to assume that the opium revenue would be particularly large in the first complete year of Government administration.

With regard to the expenditure side of the budget, the Ministries had originally submitted allocation requests totalling 65.76 m. baht to the Ministry of Finance. The Ministry had been able to reduce those original demands, but only to 56.26 m. baht. As a result Phrayā Suriyā's budget estimates for 1907/08 showed an estimated revenue deficit of 5.56 m. baht. On only one previous occasion had the Government's published budget shown an expected deficit: that was in 1901/02 when at the last moment the estimates had been upset by the announcement that the Murray Campbell arbitration case had gone against the Siamese Government<sup>60</sup>. In submitting and explaining his estimates to the King, Phrayā Suriyā made two particular points. First, he suggested that the Government proceed with a proposal first made by Prince Mahit in 1905 to collect the Chinese poll tax on an annual instead of triennial basis. Second, Phrayā Suriyā returned to his proposal for expanding the authority of the Krom Samruat: he suggested that the Department, in conjunction with the Accounts Department of the Ministry of Finance, undertake a detailed examination of the expenditure of each Ministry in an attempt to curb some of the administration's extravagances.

The estimates for 1907/08 and the two proposals made by Phrayā Suriyā to

59. R.F.A.B. 1907/08 pp. 4-8.

60. See Chapter III pp. 46

the King came before the Council of Ministers on 19 March 1907<sup>61</sup>. The Ministers accepted Phrayā Suriyā's argument with regard to the Chinese poll tax, and it was proposed to collect the tax on an annual basis from 1908/09. They were less enthusiastic over Phrayā Suriyā's attempts to expand the influence of the Ministry of Finance over their expenditure budgets. Prince Damrong argued that inspections of expenditure along the lines suggested by the Minister of Finance would achieve little, and that reductions in the estimates could be made only by the heads of the Ministries attempting to make their administrations more efficient. But Phrayā Suriyā pursued his point, at the same time making it clear that his main concern was the - in his view - high cost of collecting the Government's revenue - a clear reference to the work of Prince Damrong's Ministry. But Prince Damrong headed off the Minister of Finance by proposing the establishment of a small independent committee to examine the expenditure of the Government. At that point the King intervened, arguing that the only way in which Government extravagance could really be reduced was by the issue of clear instructions from the throne detailing each Ministry to be frugal. However, the King was on the point of leaving Siam on his second visit to Europe: it was decided to let the matter rest until after his return<sup>62</sup>.

But during the King's absence Phrayā Suriyā kept alive the issue of the pre-eminence of the Ministry of Finance with regard to the Government's finances by reviving a matter which had caused Prince Mahit considerable difficulty in the late 1890s, but which in recent years had dropped from view - the inability of the Government to complete the budget by the beginning of the Siamese year in April. On 8 October 1907 Phrayā Suriyā wrote to the Crown Prince proposing that the Government's budget regulations - with some additional clauses - be re-issued<sup>63</sup>. The new regulations outlined in considerable detail the time-table for the compilation of the budget - preliminary expenditure estimates were to be submitted to the Ministry of Finance by 31 December, the budget discussions

61. Report on the meeting of the Council of Ministers, 19 March 1907  
N.A.Kh. 5. 1/25.

62. King to Phrayā Suriyā, 21 March 1907 N.A.Kh. 5. 1/25.

63. Phrayā Suriyā to the Crown Prince, 8 October 1907 N.A.Kh. 5. 1/25.

between the Ministry of Finance and the other Ministries were to be completed by 25 February, the completed budget was to go to the King before 15 March. With each clause Phrayā Suriyā added the threat that if a particular Ministry failed to abide by the time-table the Ministry of Finance would have the authority to reject its estimates and use its budget allocations for the previous year instead. The Council of Ministers approved the issue of the new regulations on 10 October<sup>64</sup>.

The dispute between Phrayā Suriyā and Prince Damrong over the authority of the Ministry of Finance to interfere in the internal financial administration of the other Ministries came to a head after the King's return from Europe. The final clash was sparked off by what was really the fundamental issue - increasing concern with regard to the Government's financial position. On 7 December 1907 Williamson submitted a long memorandum to Phrayā Suriyā on the current state of the Kingdom's finances<sup>65</sup>. It was a disturbing document. The Financial Adviser pointed out that during the course of 1907/08 the Ministry of Finance intended to draw 9.5 m. baht from the Treasury reserves, of which 5.5 m. baht would be to cover the budget deficit for the year: this would leave only 14.5 m. baht in the reserves at the beginning of 1908/09. Furthermore, there were indications that the Government was heading for another budget deficit in 1908/09 of approximately 3.5 m. baht, which would reduce the reserves to 11.0 m. baht. In November 1903 Rivett-Carnac had recommended a minimum cash reserve level of 22.0 m. baht, but since that time the exchange value of the baht had risen, so that in 1907 an equivalent reserve would contain 17.0 m. baht: in Williamson's view that remained the minimum safe level for the cash reserves. By March 1908 the Treasury reserves would be 2.5 m. baht below that figure.

The Adviser continued :

'Without wishing to be at all alarmist, I feel it my duty to inform the Government that I regard the present position as one of considerable gravity, and unless a steady and combined effort is made for the next few years, the country may find itself in serious financial difficulties.' <sup>66</sup>

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64. Report on the meeting of the Council of Ministers, 10 October 1907  
N.A.Kh. 5. 1/7.

65. Note by the Financial Adviser on the present financial position in Siam.  
Williamson. 7 December 1907 N.A.Kh. 5. 1/25 F.F.A. 30/8.

66. *ibid.*

Williamson proposed that a committee be appointed to investigate possible new sources of revenue, such as the introduction of a stamp duty: but as the Adviser realized it would take time to impose additional taxes, particularly if the consent of the Treaty Powers was required. The only alternative was for the Government to impose much stricter control over its expenditure.

'As long as the revenue was expanding, we could afford to be more lenient to the demands of the departments, but the time has come, if we are to recover financial equilibrium without re-course to drastic measures, when the present rather extravagant tendencies must be firmly put a stop to.' 67

Williamson suggested that one immediate measure which the Government could take would be to end the practice whereby Ministries, having spent only a part of their expenditure allocations under one head transferred the excess funds to another of their projects which had not been sanctioned by the Ministry of Finance. In future all unspent allocations under each separate head should be returned to the Treasury.

Finally, Williamson explained,

'My object in writing this Note has been to bring to the notice of His Majesty and the Cabinet, in as straightforward and simple a manner as possible, the urgent necessity which exists for a careful and prudent management of the finances of the Kingdom for the next few years.' 68

Williamson's memorandum was sent to the King by Phrayā Suriyā - who supported the Adviser's proposals<sup>69</sup> - and the matter was discussed by the Council of Ministers on 23 December 1907<sup>70</sup>. Surprisingly, Phrayā Suriyā did not attend the meeting: no explanation was given for his absence. The debate was monopolized by Prince Damrong. First he rejected virtually all the Williamson/Phrayā Suriyā suggestions: the Government could not increase the rates on existing taxes since with regard to the most important of those taxes - the taxes on land - this had already been done. The Powers would oppose the imposition of new taxes. Finally attempts to cut the expenditure allocations of the Ministries would only lead to a deterioration in the efficiency of the

67. ibid.

68. ibid.

69. Phrayā Suriyā to King, 17 December 1907 N.A.Kh. 5. 1/25.

70. Report on the meeting of the Council of Ministers, 23 December 1907 N.A.Kh. 5. 1/25.

administration: expenditure could be restrained only by reorganizing and rationalizing Government departments. Then Prince Damrong turned on the Minister of Finance.

'Phrayā Suriyā has proposed that all the ministers be instructed to economize, to hold down expenditure: we hear this request every year but it never works because the ministers have no faith in the Minister of Finance. The reason for that is whilst the Ministry of Finance inspects and cuts the expenditure of all the other ministries, it does not inspect its own. Whatever it wants to spend, it spends. The expenditure of the Ministry of Finance is grossly extravagant. If the Ministry shared in the sacrifices of the other ministries then Government expenditure could be held down.' 71

The King then intervened: since Phrayā Suriyā was not at the meeting the dispute would have to be held back for another occasion.

But Prince Damrong maintained the pressure on the Minister of Finance. On 4 January 1908 he wrote to the King requesting permission to appoint two additional inspectors in the Provincial Revenue Department to check the collection of revenue in the provinces<sup>72</sup>. By strengthening internal inspections by the Department's own officials it could be said that Prince Damrong was attempting to forestall Phrayā Suriyā's plan to expand the authority of the Ministry of Finance over the revenue-collecting departments of the administration. Prince Damrong's proposal was discussed by the Council of Ministers on 6 January<sup>73</sup>. As was to be expected, Phrayā Suriyā opposed the appointments, but in so doing he came under criticism from the King himself. The King suggested to Phrayā Suriyā that his Ministry was finding it difficult to carry out its existing responsibilities with regard to checking the expenditure estimates:

71. Report on the meeting of the Council of Ministers, 23 December 1907 N.A.Kh. 5. 1/25. Unfortunately Prince Damrong gives no examples of the 'Extravagance' of the Ministry of Finance. The budget figures do not support his claim. The actual expenditure of the Ministry of Finance was 1.17 m. baht in 1900/01 (3% of total Government expenditure), 1.47 m. baht (2.8%) in 1905/06. Phrayā Suriyā had estimated 1.8 m. baht (3.5%) in 1907/08. In the same years the Ministry of the Interior claimed 20%, 19% and 22% of the Government's resources. Of course, 'extravagance' can be determined only by comparing a Ministry's actual expenditure with the cost of it efficiently discharging its responsibilities - clearly, a somewhat subjective proposition. Therefore there remains the possibility that Prince Damrong had firm evidence of Phrayā Suriyā's extravagance.

72. Prince Damrong to King, 4 January 1908 N.A.Kh. 14. 1/7.

73. Report on the meeting of the Council of Ministers, 6 January 1908 N.A.Kh. 1/45.

in particular, he noted, the Ministry found it impossible to examine in sufficient detail all the requests from the Ministries for increases in salaries and positions. The implication was that the Ministry of Finance did not possess the administrative machinery or personnel to carry an expansion of its accounting and investigative responsibilities on the lines envisaged by Phraya Suriya. In addition, the King noted, the other Ministries were certain to oppose the intrusion of the Ministry of Finance into their work, particularly since it was widely suspected that the Ministry would not impose the same parsimonious standards on itself as it imposed on others.

At that point Prince Damrong advanced the proposal that a separate Inspection Department be established, independent of all other departments in the Government, with authority to investigate all suspected cases of Government extravagance and to determine salary rates and appointments for the whole administration. The idea was developed by the King a few days later<sup>74</sup>. He proposed that the Krom Samruat and the Krom Sarabanchi (Accounts Department) be removed from the Ministry of Finance and established as a separate Government Department. The new Department would have the authority to examine the work of any Ministry or department and to discuss with the head of that department possible improvements in the administration under his control. It would be able to recommend that specific Government projects be commenced, or hurried along, or halted, depending on the availability of funds. It would have the right to cut the budget of any department where it was shown that the salary bill was excessive, or to increase the flow of funds to any department which had insufficient officials or resources. Any disputes between the new Inspection Department and the Minister or head of a department would be referred to the King.

If acted upon these proposals would have emasculated the Ministry of Finance: they implied the virtual removal from the Ministry of its prime function - overall responsibility for the administration of the Government's revenue and expenditure. In effect the Ministry of Finance would have reverted

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74. Note by the King, January 1908 N.A.Kh. 1/44.

to the position which it had held at the beginning of the reign - a storehouse for the Kingdom's treasure. Whether the King and Prince Damrong seriously intended to implement the proposals is doubtful: it is more likely that the idea was put forward to counter Phrayā Suriyā's attempts to push the authority of the Ministry of Finance over the existing pragmatically determined lines dividing the responsibilities and functions of each of the Ministries. When Phrayā Suriyā resigned the proposals were dropped.

One further criticism of Phrayā Suriyā's budgetary policies should be noted - the criticism that the Government's disturbing financial position, and particularly the drop in the revenue estimates for 1907/08 and possibly 1908/09 as well, was due to a considerable extent to maladministration on the part of the Ministry of Finance. The complaint was heard at several of the meetings of the Council of Ministers in January and February 1908 when Phrayā Suriyā's position as Minister of Finance was under attack from all sides. On 3 February Prince Damrong argued that the bids for the tax farms for 1908/09 were depressed because of collusion amongst the farmers<sup>75</sup>. Ten days later he suggested that the lottery monopoly was in difficulties because Phrayā Suriyā had failed to consult other, more experienced, people with regard to the administration of the farm: this state of affairs had arisen, Prince Damrong explained, because Phrayā Suriyā had lost the goodwill and co-operation of his subordinate officials.<sup>76</sup> The King was more forthright still: the Government's revenue from the farms was likely to fall because the Minister of Finance was lacking in ability.

At the centre of this criticism was Phrayā Suriyā's own pessimistic assessment of the Government's financial position for 1907/08 and to a lesser extent for 1908/09. When the Minister produced the budget estimates for 1907/08 showing an expected revenue deficit of 5.56 m. baht there were two immediate damaging consequences. First, he laid himself open to the charge that he was incapable of administering the Government's finances. Second, it encouraged him in his attempt to expand the authority of the Ministry of Finance, it

75. Report on the meeting of the Council of Ministers, 3 February 1908  
N.A.Kh. 14. 1kh/28.

76. Report on the meeting of the Council of Ministers, 13 February 1908,  
N.A.Kh. 26/15.

encouraged his demand that his Ministry be allowed to investigate thoroughly - his critics would have said control - the administration of the revenue collections throughout the Kingdom, and the expenditure allocations of each Ministry in the Government. As has been shown, inevitably this policy brought him into conflict with Prince Damrong whose Ministry was not only responsible for the collection of a significant proportion of the Government's revenue but which also claimed one of the largest expenditure allocations in the budget.

Yet ironically Phrayā Suriyā's 1907/08 estimates had exaggerated the Government's financial difficulties. When the accounts for that year were closed it was shown that instead of an expected revenue deficit of 5.56 m. baht the actual deficit was only 0.68 m. baht. Actual expenditure was virtually as it had been estimated, but the revenue receipts had been seriously under-estimated. An expected revenue of 50.7 m. baht had in fact turned out to be an actual collection of 55.82 m. baht. However, it must be pointed out that the revenue receipts for 1907/08 were still lower than those for the previous year, and that the Government had suffered its first fall in revenue since the establishment of the modern Ministry of Finance.

Responsibility for the budget miscalculations rested with Phrayā Suriyā. It would appear that the poor monsoon rains of late 1906, the crises in the opium and spirit monopolies - including the transfer of the opium monopoly to Government control in January 1907 - coupled with the realization that the era of rapidly increasing revenue was near its close, frightened the Minister and his officials whilst they were engaged in compiling the estimates for 1907/08. They acted hastily, and they over-reacted.

### 3. The resignation of Phrayā Suriyā, February 1908.

In the final two or three months of his term as Minister of Finance, Phrayā Suriyā's position became increasingly embattled as he was forced to defend himself in the face of mounting criticism in the Council of Ministers. Between 23 December 1907 and 13 February 1908 Phrayā Suriyā attended no less than nine meetings of the Council at which he was heavily censured by either

the King or Prince Damrong. The extreme hostility of the criticism can be judged by the following two quotations. First the King :

'The important point is not to pay attention to what Phrayā Suriyā says. He does not lie, but he lacks intelligence and discrimination. It is apparent that [his abilities] are below normal. If the revenue falls it is due to the lack of stability of Phrayā Suriyā rather than to the fault of anyone else. People despise the Minister rather than wish him harm. Because of his lack of stability, the Chinese feel contempt for him, officials in his own Ministry despise him. He is laughed at. He only trusts people who are not trustworthy. As a result the Kingdom suffers a loss of revenue.' 77

and then Prince Damrong :

'From what I have seen of the Ministry of Finance no-one will co-operate with Phrayā Suriyā: furthermore no-one has faith in him, no-one right through from the tax farmers to the Europeans.' 78

In essence there were two criticisms of the Minister. First that he frequently pursued policies with an almost fanatical determination, spurning the co-operation of colleagues and the assistance of subordinate officials and advisers; inevitably he antagonized both groups. For example, as was shown in the previous section, Phrayā Suriyā consistently pushed his proposals for an extension of the authority of his Ministry over the actual collection of the Government's revenue throughout the Kingdom, provoking the determined opposition of Prince Damrong. There are other instances. In mid-1906 the Minister, ignoring the advice of the Financial Adviser, Williamson, proceeded with a scheme to establish the baht as the principal currency in circulation in Puket, and thereby created a very severe, though brief, baht shortage in the capital. In January 1907 he abolished the opium farm without first really consulting the other Ministries involved - again principally the Ministry of the Interior - as to the details of the Government administration that was to replace it: he then proceeded to develop a pattern of Government administration that attempted to minimize the responsibility of Prince Damrong's Ministry in the operation of the monopoly outside the capital, much to the annoyance of the

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77. Report on the meeting of the Council of Ministers, 3 February 1908  
N.A.Kh. 14. lkh/28.

78. Report on the meeting of the Council of Ministers, 13 February 1908  
N.A.Kh. 26/15.

Minister of the Interior<sup>79</sup>.

However, the most damaging consequence of Phrayā Suriyā's determined insularity was not that he antagonized the other Ministers - and in turn the King - but that he provoked the opposition of his own officials. After a sharp exchange in October 1906 over the baht shortage, Williamson and the Minister appear to have maintained only a tenuous working relationship. More seriously, Phrayā Suriyā's policy with regard to Government administration of the opium monopoly differed in important respects from that advocated by the Ministry's senior official specializing in the monopoly, Mqm Chao Piya Phakdi: in particular they disagreed over the rate at which the Chinese concessionaires and distributors who had played a substantial role in the operation of the monopoly whilst it had been farmed could be removed from the Government administration of the enterprise. In fact Phrayā Suriyā simply rode roughshod over the views of his official, whilst Mqm Chao Piya Phakdi retaliated by ignoring his Minister's instructions. In short the internal unity of the Ministry of Finance began to break up<sup>80</sup>.

The second basic criticism of the Minister was that he lacked stability and financial expertise. It was suggested that faced with a crisis he tended to panic, and this in turn caused him to make errors of financial management. Again some of these points were demonstrated in the previous section dealing with Phrayā Suriyā's response to the Government's budget problems: but again the Minister's shortcomings also revealed themselves in other aspects of his work. For instance, his decision to abolish the opium farm in 1907 and his proposals for Government administration of the monopoly referred to above, were hastily arrived at without adequate preparation, and clumsily executed. Another example is provided by the fact that during his term as Minister Phrayā Suriyā

79. Again it must be emphasized that these incidents are raised at this point merely to demonstrate the criticisms that were levelled against Phrayā Suriyā: for a detailed analysis of these controversies see Chapters VI and VII.

80. In his autobiography FU'n khwām lang (Reviving the Past: Bangkok 1967-1968, 2 vols.) Phrayā Anuman Rajadhon refers to another incident in which Phrayā Suriyā apparently antagonized one of his senior officials. In this case it appears that Phrayā Suriyā ordered the dismissal of an official in the Customs Department without informing the Director of that Department, Prince Phrōm. As a result Prince Phrōm eventually resigned. Phrayā Anuman records that he next heard that Phrayā Suriyā himself had, with the King's approval, resigned his position (vol. 2, p. 354).

pursued a policy of revaluing the baht (again against the advice of Williamson) which, taking place as it did during a trade depression, was almost certainly ill-timed. Furthermore, as will be argued in the following chapter, the Minister's exchange policy as a whole was frequently based on muddled and illogical premises, which suggested an imperfect grasp of the principles involved.

After the last of the Meetings of the Council in early 1908 at which these and the other miscalculations and shortcomings of the Minister of Finance were exposed, Phrayā Suriyā received a letter from the King.

'I can see that the Ministry of Finance is in considerable difficulties ... it is disunited and the Minister is making mistakes. Subordinate officials are doing no work. The Minister has no expertise in the work of his Ministry, so everything he does is really just an experiment - he works by trial and error. Outsiders think that he does not have the authority to control the Ministry ... matters which should cause no difficulty, cause difficulty: problems which should not arise, arise. It is apparent that the Minister is ignorant of his work and that his stability is doubted by everyone ... Because of these shortcomings [in the Minister] the Government's revenue has fallen greatly, and there have been considerable difficulties with the budget.' 81

But the King also acknowledged that Phrayā Suriyā had achieved a great deal in his earlier posts, principally as Siamese Minister in Paris: however, there was now a danger that those earlier successes would be obliterated by the current run of failures.

'Therefore I think that I must give you a confidential warning ... if you feel that you cannot bring unity [to the Ministry] and cannot correct your mistakes, then you would be advised to leave the Ministry and take up some other work ... I am giving you this advice with kindness and with the hope that I can help you in the future.' 82

The final paragraphs of the King's letter were almost consoling, but Phrayā Suriyā could not have mistaken the central point of the letter as a whole. The following day he left the Ministry of Finance<sup>83</sup>.

The reasons for Phrayā Suriyā's failure as Minister of Finance are complex and not easy to unravel. First it must be acknowledged that he had to contend

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81. King to Phrayā Suriyā, 14 February 1908 N.A.Kh. 3/2.

82. *ibid.*

83. Phrayā Suriyā to King, 15 February 1908 N.A.Kh. 3/2.

with more than his share of ill-fortune. He arrived at the Ministry just at the time when the period of rapid expansion in the revenues was coming to a close: the immediate problems of the revenue were intensified by the poor monsoons of 1906 and 1907. Within six months of his taking office the syndicate administering the Government's major source of revenue - the opium monopoly - collapsed and the Minister was faced with the problem of taking over the huge operation on behalf of the Government. Furthermore, in the wake of the financial collapse of large numbers of syndicates over the previous two or three years, there were now few tax farmers to compete for the remaining tax farm contracts, and inevitably this had a depressing effect on the bids. With regard to the exchange mechanism, it was Phrayā Suriyā's misfortune that he had to contend first with an almost unprecedented rise in the price of silver, then from early 1907 a dramatic drop in the price - and at a time when the rice trade was depressed. These were considerable difficulties.

Clearly they overwhelmed the Minister of Finance. In a letter written on the day he resigned Phrayā Suriyā explained to the King how he had virtually lost control of the problems facing the Ministry :

'I had been at the Ministry of Finance for only a few days when I could see what a tremendous amount of work there was to do. There were numerous deficiencies in the administration which I had to try to rectify ... yet I was constantly having to deal with trifling matters, so I had insufficient time to deal with the more important problems facing the Ministry. It was then my misfortune that all the major problems came to a head at the same time and I could not find time to consider each of them carefully.' 84

Phrayā Suriyā then described in detail the difficulties he had had in coping with each of the crises which had arisen - the baht shortage in late 1906, the collapse of the opium farm, the virtual impossibility of finding sufficient farmers to bid for the tax farms :

'When these problems were arising I remained silent - hesitated to inform you - because I feared that you would be displeased and would take it as a sign that I was disheartened with my work and was about to give up.' 85

It would appear that this reluctance to confide his fears and difficulties

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84. ibid.

85. ibid.

to the King was a major factor behind Phrayā Suriyā's increasingly introverted and insular administrative behaviour noted above. But there may have been another factor. When Phrayā Suriyā became Minister of Finance in 1906, eight of the twelve ministerial positions were held by members of the royal family: in addition, of the four non-royal Ministers all except Phrayā Suriyā occupied relatively unimportant Ministries - Agriculture, Public Instruction and Public Works<sup>86</sup>. Furthermore, Phrayā Suriyā was a member of the Bunnag family. His father was Phrayā Montrisuriyawong (Chum Bunnag) - who had been head of the Royal Pages Corps earlier in the reign - and his grandfather was Somdet Chao Phrayā Borommahāprayūrawong (Dit Bunnag) - the head of the Kalāhōm from 1830 to 1851 and the head of the Phra Khlang from 1822 to 1851<sup>87</sup>. He was a nephew of the ex-Regent. There is no evidence to suggest that either consciously or subconsciously the King's brothers and sons worked for the removal of Phrayā Suriyā simply because he was a noble, and in particular a Bunnag. Indeed when the Government came to consider the appointment of Phrayā Suriyā's successor the King was particularly anxious to appoint another Minister of Finance of non-royal blood<sup>88</sup>. Furthermore, other members of the Bunnag family had held ministerial positions for long periods of time in the reformed administration, for example Chao Phrayā Phatsakorawong (Phen Bunnag) at the Ministry of Public Instruction from 1892 to 1902<sup>89</sup>: and of course Phrayā Suriyā himself had been appointed Minister of Finance in the first place. Yet the fact remains that Phrayā Suriyā held an important post in a Council of Ministers dominated by the royal family, and it is possible that this at least encouraged the Minister's insularity: once things began to go wrong for Phrayā Suriyā, he possibly found it difficult to seek the assistance he so clearly needed from

86. D. K. Wyatt The Beginnings of Modern Education in Thailand, 1868-1910 Ph.D thesis, Cornell, 1966, Appendix A.

87. Lamdap rātchinikun bāng chāng (Genealogy of the Royal Maternal Line 'Bang Chang') 2nd ed. Bangkok 1919. D. K. Wyatt Family Politics in Nineteenth Century Thailand J.S.E.A.H. vol. 9 no. 2 September 1968 pp. 208-228. Akin Rabibhadana The Organization of Thai Society in the Early Bangkok Period, 1782-1873, Cornell Date Paper 74, Ithaca 1969, Appendix F and pp. 200-201.

88. See the following section.

89. D. K. Wyatt Ph.D. thesis Appendix A.

the inner circles of the royal family and in particular from the King: the last quotation above can be interpreted as an admission of that fact.

In any event whether driven by natural inclination or force of circumstances, as his term as Minister of Finance progressed Phrayā Suriyā increasingly came to pursue his own policies, rejecting the suggestions of the Financial Adviser, avoiding discussions with other members of the Council of Ministers and even senior officials in his own Ministry. Yet Phrayā Suriyā's stubborn independence would not have had the damaging consequences which it did have if his policies had been viable and practical. As it was he was finally undermined by his own lack of financial expertise, and perhaps more importantly, by his lack of composure in dealing with the large number of major problems which crashed down on him.

4. The appointment of the new Minister of Finance, Prince Chanthaburi, February, 1908.

The resignation of Phrayā Suriyā left the Ministry of Finance in a most demoralized condition. Not since the mid-1890s - with first the resignation of Prince Narāthip and then the two lifeless ministries of Prince Narit and Prince Sirithat Sangkat - had it been so lacking in authority, both inside and outside the Government. The Ministry even found its internal disunity a topic for discussion in the editorial columns of the Bangkok Times<sup>90</sup>. The King and the Council of Ministers were therefore very anxious to appoint Phrayā Suriyā's successor with the least possible delay, to install a new Minister with sufficient forcefulness and ability to enable him to restore unity to the Ministry of Finance, to regain the confidence of the merchant and banking community of Bangkok and the tax farmers in the Government's financial administration, and to deal with the most pressing problem facing the Ministry in early 1908 - that of the Government's deteriorating budget position.

It took the Council almost two hours of intense discussion to reach a decision with regard to the new appointment<sup>91</sup>. It is significant that the

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90. Bangkok Times, 27 February 1908.

91. Report on the meeting of the Council of Ministers, 17 February 1908  
N.A.Kh. 3/2.

King wanted the new Minister to be a member of a noble family, for, as he explained to the Council, if Phrayā Suriyā were to be succeeded by one of the King's brothers or sons it could well appear that the Minister of Finance had been driven from office by the royal family. However, when the Council came to draw up a list of the qualifications required of the new Minister - considerable financial and fiscal expertise, knowledge of accountancy, the ability to speak European languages, coupled with the capacity to work harmoniously with his officials and the other Ministers - they could think of no official of noble birth who would fit those requirements. The King then suggested that Prince Devawongse be moved from the Ministry of Foreign Affairs to the Ministry of Finance; but who would have taken over Prince Devawongse's old post?

Eventually the Council of Ministers was left with two candidates. First Prince Narit, who had been Minister of Finance on two previous occasions (from 1893 to 1894 and then as acting Minister during Prince Mahit's absence in Europe in 1897), and was at that point Minister of the Palace. But Prince Narit, who was at the meeting, declined the position, arguing that he lacked the ability to deal with the Ministry's myriad problems and that he could not speak a European language: he was berated by Prince Damrong for his lack of enterprise. The second candidate was one of the King's sons, Prince Chanthaburi. Born in 1874 he had gone to Europe in 1885 as one of the first group of King Chulalongkorn's sons to be educated in the West<sup>92</sup>. On his return to Siam in 1895 he had been appointed Director-General of the Education Department: in April 1902 he had become Controller-General in the Ministry of Finance<sup>93</sup>, the position he held on the resignation of Phrayā Suriyā in February 1908. He had had one short spell as acting Minister of Finance - in early 1906 when Prince Mahit had been forced by ill-health to take leave of absence. However, the King was reluctant to promote his son to the position of Minister in his own right for he felt that Prince Chanthaburi lacked sufficient authority to be able to hold his own in the rigours of intra-Government debate<sup>94</sup>. Undoubtedly the King was influenced in this assessment by memories

92. D. K. Wyatt The Politics of Reform in Thailand Yale 1969 p.148/pp.180-181.

93. ibid p. 296.

94. Report on the meeting of the Council of Ministers, 17 February 1908 N.A.Kh.<sup>3/2</sup>.

of Prince Chanthaburi's fairly undistinguished record as head of the Education Department<sup>95</sup>.

But Prince Chanthaburi had the strong support of Prince Damrong. Gradually the Minister of the Interior led the Council to a compromise solution. Prince Chanthaburi would be appointed acting Minister of Finance so that if he proved incapable of holding the position it would be possible to remove him with much less disruption than if the appointment were to be a permanent one. During this trial period Prince Narit would be authorized to exercise a general supervision over the work of the Ministry and to offer advice to the acting Minister.<sup>96</sup> The presence of Prince Narit was intended to restore the confidence of outsiders in the effectiveness of the Ministry's administration<sup>97</sup>. However, the dual leadership of the Ministry of Finance lasted for only a few weeks: by the end of March 1908 Prince Chanthaburi had proved his ability to govern the Ministry on his own, and from 1 April he was confirmed as a full Minister<sup>98</sup>, the first of King Chulalongkorn's sons to reach a ministerial position.

As it turned out the King need not have been concerned about his son's administrative abilities. Prince Chanthaburi became one of the most distinguished and perhaps the most powerful Minister of Finance of the period of the absolute monarchy. He remained at the Ministry until January 1923, a period of almost fifteen years, and during that time he proved to be a persistent, though ultimately unsuccessful, critic of King Wachirawut's personal and governmental extravagance<sup>99</sup>. However, here it is not intended to consider Prince Chanthaburi's ministry in any detail for that would take the study far beyond the early development of the Kingdom's financial administration, and beyond the early years of the history of the modern Ministry of Finance.

95. D. K. Wyatt op. cit. pp. 267-292/pp. 295-296.

96. Bangkok Times, 20/21 February 1908.

97. Report on the meeting of the Council of Ministers, 17 February 1908  
N.A.Kh. 3/2.

98. King to Prince Chanthaburi, 24 March 1908 N.A.Kh. 3/2.

99. This conflict between King Wachirawut and Prince Chanthaburi is covered in some detail in Stephen L. W. Greene Thai Government and Administration in the Reign of Rama VI (1910-1925) Ph.D. thesis, London 1971.

Instead it is intended to concentrate on just his first two years at the Ministry - which will take the study up to the end of the reign of King Chulalongkorn in 1910 - for those two years saw not only the virtual completion of two of the most important reforms initiated and developed by Prince Chanthaburi's two predecessors - the abolition of the tax farming system and the establishment of a gold exchange standard - but also the final emergence of the budgetary problems which were to be such a feature of the reigns of Rama VI and Rama VII. As usual discussion of the exchange and tax farm reforms will be reserved for Chapters VI and VII, though at this point it must be noted that in both those areas Prince Chanthaburi quickly brought order to the confusion left by Phrayā Suriyā. First the new Minister promoted a Gold Standard Act which finally fixed the exchange value of the baht in terms of gold. Second, Prince Chanthaburi settled the pattern of Government administration of the opium monopoly - along the lines suggested by Mom Chao Piya Phakdi - and also proceeded with the abolition of the spirit farm. In all three reforms Prince Chanthaburi brought stability and authority to the Ministry's work. This present chapter, however, will concentrate on the budgetary problems faced by the new Minister in the opening years of his term at the Ministry of Finance.

##### 5. Budget problems, 1908 - 1910.

Most of the groundwork on the budget for 1908/09 had been completed by Phrayā Suriyā before he resigned in mid-February 1908. The estimates as presented to the King by Prince Chanthaburi the following month showed an expected revenue of 58.70 m. baht with expenditure at 60.59 m. baht - an estimated deficit of 1.89 m. baht<sup>100</sup>. Furthermore, the whole allocation for railway construction - 6.0 m. baht - was to be met from the proceeds of the 1907 loan. The figures for estimated revenue and expenditure showed substantial increases over the estimates for the previous year - 8.0 m. baht for revenue and 4.33 m. baht for expenditure. However, a substantial portion of those

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100. Prince Chanthaburi to King, 16 March 1908 N.A.Kh. 5; 1/26.

increases was attributed to the fact that in 1908/09 for the first time the Ministry of Finance was including a figure for the gross receipts from the opium monopoly to balance the Government's increased expenditure on the opium monopoly administration: when the monopoly had been farmed the Ministry had inserted into the accounts - on the revenue side - merely the figure for the Government's net profit. Prince Chanthaburi estimated that after allowance had been made for that change in the compilation of the accounts the effective increase in the Government's revenue in 1908/09 over 1907/08 was only 3.81 m. baht.

The Minister of Finance submitted the budget to the King on 16 March 1908.<sup>101</sup>. Though he described in detail the various increases and cuts made in the estimates, Prince Chanthaburi attempted no general analysis of the Government's budgetary position: instead he simply drew attention to some three or four particularly important points, points which were to be thoroughly analysed and discussed over the following two years. First, he argued that the Army and Navy could be allowed no further increases in their budget allocations. In 1901/02 those two departments had been responsible for 3.91 m. baht, or a little over 10 per cent of the Government's total expenditure. The expansion and modernization of the Kingdom's forces from that year meant that by 1907/08 they had been allocated 13.9 m. baht, or some 23 per cent of the Government's total expenditure. Prince Chanthaburi wanted no further expansion in the allocations under those heads for at least five years: in fact he had already secured the agreement of the Minister of War to restrict the Army and Navy estimate to 13.9 m. baht for 1908/09. Second, Prince Chanthaburi noted the reduction in the estimate for the Irrigation Department - from 1.26 m. baht in 1907/08 to 0.95 m. baht in 1908/09 - an allocation that would allow the Department merely to complete those limited projects which it had already begun. The sums involved were small, yet the cut showed that the Government was moving towards the final rejection of van der Heide's large-scale irrigation programmes. Third, by early 1908 the northern railway was in operation as

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101. ibid.

far as Phitsanulok<sup>102</sup>: however, there was increasing concern that the stretch of line to the south, from Phitsanulok to Nakon Sawan, was proving unprofitable because the region through which the line passed was commercially underdeveloped.<sup>103</sup> Inevitably this raised the question as to whether the Government should not halt construction of the line well south of Chiangmai, at least until the financial position of the Kingdom improved. At the meeting of the Council of Ministers on 23 March 1908 it was decided that the Minister of Public Works would undertake an investigation of the profitability of the northern railway above Nakon Sawan.<sup>104</sup>

However, the most important point made by Prince Chanthaburi in submitting the 1908/09 budget to the King concerned the allocation of the Government's revenue between three main classes of expenditure - ordinary expenditure (salaries, civil servants' expenses - the cost of keeping the administration in operation), extraordinary expenditure (for example, funds for the purchase of materials for public works projects<sup>105</sup>, for the purchase of weapons), and special expenditure (for example, the allocation of the Privy Purse Department, payments to the Lao chiefs, and the payments made in connection with the European loans). In the 1908/09 estimates ordinary expenditure accounted for 71 per cent of total expenditure, extraordinary expenditure for 7 per cent and special expenditure for 22 per cent. From these figures, the Minister argued, it was clear that a disproportionate amount of the Government's revenue was devoted to the salaries of officials and administrative expenses. This was of course an old problem: in the late 1890s it had led to the creation of the Committee on Establishments. Prince Chanthaburi drew attention to a further disturbing point: a comparison of the original expenditure requests of the Ministries with the allocation actually sanctioned by the Ministry of Finance showed that it was much easier for the Ministry to cut the relatively

102. R.F.A.B. 1908/09 p. 4.

103. Report on the meeting of the Council of Ministers, 23 March 1908  
N.A.Kh. 5. 1/26.

104. *ibid.*

105. Except for materials for railway construction which were paid for from the proceeds of the European loans.

small extraordinary expenditure than the overwhelmingly large ordinary expenditure. The Ministries had asked for 44.56 m. baht for ordinary expenditure: this was cut to 43.17 m. baht. Extraordinary expenditure requests had been squeezed from 8.07 m. baht to 4.41 m. baht. Whilst in 1908/09 the large allocation for ordinary expenditure reflected in part the fact that the Government had had to appoint large numbers of new officials to take over the administration of the opium monopoly, the following two years were to show that cutting the high administrative costs of the Government was in fact a long-term, deep-seated problem for the Ministry of Finance.

The following year, 1909/10, saw a significant new feature in the way in which the budget was presented. In submitting the estimates to the King on 17 March 1909<sup>106</sup>, Prince Chanthaburi undertook a detailed analysis of the Government's budgetary position and outlined a budget strategy for the following five years: previously Ministers of Finance had almost exclusively restricted themselves to a description of the budget problems of the current year. The estimated revenue for 1909/10 was 63.0 m. baht, an increase of 4.3 m. baht over the estimate for 1908/09. However, Prince Chanthaburi argued that a major part of that increase was accounted for by once-for-all increases under certain revenue heads. For example, in 1909/10 the Government was scheduled to collect the triennial Chinese poll tax: in fact it was to be the last year in which the tax would be collected for the Government felt that it discriminated excessively between the Chinese and Siamese in the Kingdom - discriminated against the Siamese in that they had to pay a capitation tax every year, discriminated against the Chinese in that unless they paid an additional fee they had to wear a prominent wrist-seal to show that they had been taxed<sup>107</sup>. From 1910/11 all races in Siam were to pay an annual capitation tax of 6 baht per head<sup>108</sup>. Further once-for-all increases in revenue in 1909/10 could be found under the heads for the khāsuai (a form of capitation

106. Prince Chanthaburi to King, 17 March 1909 N.A.Kh. 5. 1/27.

107. R.F.A.B. 1909/10 p. 6.

108. Notification. Abolishing the affixing of sealed wristlets of twine on Chinese. 26 March 1909 F.F.A. 5/2.

tax which for the first time was to be collected in five major provinces in Central Siam), for the orchard tax (where the authorities were undertaking a reassessment of the number of trees liable for the tax, the first such survey for 27 years<sup>109</sup>) and for forest dues (because 1909/10 was expected to be a good floating season). Prince Chanthaburi estimated that in the absence of those abnormal factors the revenue estimate for 1909/10 would have shown an increase of only 1.4 m. baht over 1908/09, and he took that figure as the expected annual increase in revenue for the following few years<sup>110</sup>.

Expenditure for 1909/10 was estimated at 62.92 m. baht. Again the largest allocation - 44.82 m. baht or 71 per cent - was attributed to ordinary expenditure. Extraordinary expenditure received even less funds than it had in 1908/09 - 3.75 m. baht in 1909/10 compared with 4.41 m. baht. Indeed, Prince Chanthaburi admitted that the Ministry had been able to secure the small estimated revenue surplus of 0.07 m. baht in 1909/10 only because it had been prepared to cut the Ministries' original requests for extraordinary expenditure from 9.44 m. baht to the sanctioned 3.75 m. baht. Furthermore, by a series of detailed calculations the Minister showed clearly that there was a tendency for almost all the increases in the Government's revenue to be swallowed up by larger allocations for Government salaries and administrative expenses, leaving a smaller and smaller proportion of the Kingdom's resources for special and extraordinary expenditure. At the same time, Prince Chanthaburi warned, there were certain to be unavoidable increases in at least special expenditure over the coming five years, since from 1909/10 the Government would have to begin repaying the capital on the 1905 sterling loan.

There was therefore an extremely strong case for restraint in Government expenditure, particularly in ordinary expenditure. Prince Chanthaburi put forward a number of practical proposals. First, he repeated his call for a

109. Report on the meeting of the Council of Ministers, 23 July 1908, N.A.Kh. 14. 1/7. R.F.A.B. 1909/10 p. 5.

110. The Minister ignored the possibility that the Government could enjoy such once-for-all increases in revenue every year. Indeed over the period 1910-1919 the revenue increased not by the expected 14.0 m. baht but by 29.32 m. baht (James C. Ingram Economic Change in Thailand 1850-1970 Appendix B). Even so Prince Chanthaburi was correct on the basic point - that by the late 1900s the Government had seen the end of the era of very rapid increases in its revenue.

restriction on military expenditure, suggesting that the Ministry of War be allocated only 25 per cent of the Government's resources for the coming five years. Even if that period saw a substantial increase in revenue, the Minister argued, he would want to see the additional funds used to expand the Government's reserves rather than used to purchase additional military equipment or increase the size of the armed forces. Second, Prince Chanhaburi announced that he was in the process of directing an amalgamation of the Government's survey divisions and a rationalization of the Survey Department itself: the consequent reduction in the salary and expenses allocation of the Department would bring a saving of 0.3 m. baht p.a. Third, the Government had finally come to a decision with regard to van der Heide's irrigation schemes.

As was described in Chapter IV, van der Heide's 'General Report on Irrigation and Drainage in the Lower Menam Valley' had aroused relatively little enthusiasm when it had been submitted to the Government in early 1903, and when the Government debate over the European loan had broken down in August 1903 the report was put aside. When the loan debate was resumed the following year van der Heide's scheme was virtually ignored, largely because it was realized that the whole of the proceeds of the proposed loan would be required to finance railway construction. However, in 1904 a properly constituted Irrigation Department was established employing seven European irrigation engineers: a five-year programme of irrigation works was established involving the dredging and improvement of existing canals, the carrying out of repair work on locks and dykes, and the survey of water levels throughout the Central Plain as a preparation for the possible implementation of van der Heide's proposals, then still officially being considered by the Government<sup>111</sup>. The Department was to receive a budget allocation of 0.6 m. baht p.a. over the five-year period, a pitiful sum compared with the 5.0 or 6.0 m. baht p.a. envisaged by van der Heide for his twelve year programme<sup>112</sup>.

111. R.F.A.B. 1904/05 p.11.

112. In fairness 0.6 m. baht p.a. compared favourably with the sums set aside for irrigation work in the preceding few years: 1901/02 - 0.04 m.: 1902/03 - 0.03 m.: 1903/04 - 0.13 m. Furthermore the Department's actual expenditure consistently exceeded the original estimate : 1905/06 - 0;91 m. : 1906/07 - 1.22 m.

Understandably van der Heide - now head of the Irrigation Department - resented a programme which merely allowed for the improvement of existing irrigation works. In March 1906 he submitted a further scheme to the Government involving an expenditure of 24.1 m. baht spread over four years<sup>113</sup>. The Council of Ministers refused to commit itself<sup>114</sup>. Undeterred van der Heide submitted two still smaller schemes in 1908 which together were to cost only 6.0 m. baht. These too were rejected<sup>115</sup>. By early 1909 there was a strong feeling within the Government that van der Heide's irrigation proposals should be finally, conclusively, scrapped. Williamson was a notable exponent of this view<sup>116</sup>. In March 1909 at a meeting attended by Prince Chanthaburi, Chao Phraya Thewet (the Minister of Agriculture), Williamson and van der Heide, it was decided not only to reject all plans for large-scale irrigation works, but also in the interests of economy, in effect to disband the Irrigation Department itself<sup>117</sup>. All survey work was to cease, and over the following ten years irrigation officials would be restricted to completing the few minor schemes already begun, and then maintaining the existing irrigation facilities. The extraordinary expenditure of the Department would be cut from 0.5 m. baht p.a. to 0.3 m. baht p.a., and Prince Chanthaburi expected commensurate savings in ordinary expenditure once the staff of the Department had been reduced. In April 1909 van der Heide carried out the reorganization of the Irrigation Department's activities and arranged for the dismissal of most of the Department's engineers: he then resigned and left Siam<sup>118</sup>.

It could hardly be said that Prince Chanthaburi's proposals with regard to the Ministry of War, the Survey Department and the Irrigation Department

113. Note. In regard to the cost of the Irrigation scheme at reduced capacity. van der Heide. 12 March 1906 F.F.A. 18/5.

114. James C. Ingram Economic Change in Thailand 1850-1970 pp. 197-198.

115. Memorandum. Further proposed schemes of Irrigation Department. Williamson. 14 August 1908 F.F.A. 18/4.

116. Memorandum on the financial position created by the present and prospective public indebtedness of the Government. Williamson. 27 February 1909 F.F.A. 16/1.

117. Prince Chanthaburi to King, 17 March 1909 N.A.Kh. 5. 1/27.

118. van der Heide to Chao Phraya Thewet 3/19 April 1909 F.F.A. 18/5.

were likely to be very effective in restraining the growth of the Government's expenditure, and in particular, its ordinary expenditure. In fact the main practical effect of the proposals was to rule out the possibility of a large increase in expenditure on irrigation in the near future: the immediate cuts were negligible. The Minister was to return to the problem the following year.

Finally, in submitting the 1909/10 estimates to the King, Prince Chanthaburi confirmed a decision already taken by the Government to halt construction of the northern railway just north of Uttaradit - a point the Railway Department expected to reach by November 1910. Undoubtedly the decision was taken in the light of the Ministry of Public Works' investigation of the profitability of those sections of the line already in operation, and in view of the fact that in order to complete the line to Chiangmai the Government would have to raise a further loan of £1.5 m. Prince Chanthaburi pointed out that as it was by 1912/13 the interest payments and capital repayments on the two existing loans would be almost 3.0 m. baht p.a.: for the Government to take on another loan would mean that it would make a severe loss on the northern railway, particularly as the Uttaradit-Chiangmai stretch could not be expected to give a very good direct financial return. The 1909/10 budget was sanctioned by the King on 26 March 1909<sup>119</sup>.

The following year, 1910/11, Prince Chanthaburi ran into some difficulty whilst compiling the estimates, and on 13 March 1910 he wrote to the King for assistance<sup>120</sup>. Prince Chanthaburi explained that the Ministry of Finance had completed its processing of the preliminary expenditure requests submitted by the Ministries, and yet the Government still appeared to be heading for a revenue deficit of almost 8.0 m. baht. The Minister argued that two factors in particular made it difficult for his Ministry to keep down Government expenditure. First, that the Government was having to find more and more funds in order to service its foreign debt. Second, that since the Ministries were now submitting their expenditure demands in a much more orderly fashion than they

119. King to Prince Chanthaburi, 26 March 1909 N.A.Kh. 5. 1/27.

120. Prince Chanthaburi to King, 13 March 1910 N.A.Kh. 5. 1/28.

had in the past, there was now very little room for the Ministry of Finance to make cuts without seriously affecting the programmes and policies of the administration.

Prince Chanthaburi was not able to submit the 1910/11 budget to the Council of Ministers until 6 May 1910<sup>121</sup>. Even then the Minister was able to present only an interim set of estimates<sup>122</sup>. The meeting of the Council was opened by the King who gave a lengthy and detailed analysis of what was now clearly the crucial budgetary problem facing the Government - the fact that a very high proportion of the Kingdom's resources was absorbed by the allocations for official salaries and administrative expenses. According to the King the root of the problem lay with the unwillingness of the Siamese to make their living in commerce or business: the ambition of a large portion of the native population was to find employment in the Government service. In the pre-reform bureaucracy the administration had been able to absorb large numbers of officials, largely because no salaries were paid: instead officials had been expected to make their living by kin mu'ang - by retaining a portion of the King's revenue which passed through their hands, and by prizing payments from non-officials for services rendered. With the reform of the bureaucracy from the late 1880s those conditions had radically altered. By introducing a mass of regulations - particularly financial regulations - to govern the administrative behaviour of officials, the opportunities for kin mu'ang had been reduced: at the same time, by paying officials salaries the need to kin mu'ang had been, in theory at least, obviated. It was clear, the King continued, that once the Government began to meet the costs of running the bureaucracy directly, it became increasingly difficult for it to absorb large numbers of new recruits without drastically reducing the allocation of resources to important Government projects.

The problem was accentuated by several other factors. First, in the pre-reform administration it was usual for each department to engage considerably more officials than the work of the division strictly required: this tendency

121. Report on the meeting of the Council of Ministers, 6 May 1910  
N.A.Kh. 5. 1/28.

122. Prince Chanthaburi to King, 3 May 1910 N.A.Kh. 5. 1/28.

had been carried over into the post-reform bureaucracy, with the result, the King argued, that in every Ministry there was a significant number of officials with little or no work to do, yet who were still entitled to a Government salary<sup>123</sup>. Second, the Government was faced with a very large salary bill not simply because there were too many officials, but also because the rates of pay in the Siamese service were higher than for corresponding positions in the bureaucracies of neighbouring countries. There were two reasons for this, the King explained: first Siam had been forced to employ a large number of European officials who demanded to be paid well. The Government, not wishing to discriminate between European and Siamese officials in its employ, had therefore found it necessary to pay the latter more than otherwise it would have done. Second and more fundamentally, as the Siamese were reluctant to make their living from commerce, the majority of families whose men had Government positions were almost totally dependent on the Government salary: therefore the Government had to be prepared to pay them adequately.

The Government was therefore faced with a difficult problem. When submitting the 1908/09 and 1909/10 budgets to the King, Prince Chanthaburi had clearly shown that unless the administration found a way to reduce the proportion of its resources allocated to salaries and administrative expenses - or at least found a way to prevent the proportion from increasing - the Government's important reform programme, and particularly its public works projects, could be severely harmed by being starved of funds. Yet there were considerable social and even political obstacles to reducing the level of ordinary expenditure, to reducing the number of Government officials. As the King argued at the meeting of the Council of Ministers in May 1910, what was really needed was a change of attitudes: for the Siamese to begin to look upon commerce and business as acceptable ways of making a living and to stop regarding Government service as the only honourable, secure source of employment: for the Government itself to cease appointing large numbers of lower-grade officials for whom frequently it had no particular work.

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123. One explanatory point must be made. The King's concern was with the large number of relatively untrained, low-grade officials. The argument should not obscure the fact that the Government still suffered from a serious shortage of well-educated, capable officials in the higher levels of the administration.

The King then called on Prince Chanthaburi to present his provisionally completed estimates for 1910/11. Revenue for that year was estimated at 64.25 m. baht, an increase of only 1.25 m. baht over the estimate for 1909/10. Estimated expenditure from revenue was put at 64.24 m. baht to produce a negligible revenue surplus. Ordinary expenditure accounted for 74 per cent of total expenditure from current revenue. (Originally the Ministries had requested a total of 63.3 m. baht under this head, a sum which if sanctioned would have absorbed virtually the whole of the revenue.) A further 6.86 m. baht for a water-works project for Bangkok and the completion of the northern railway as far as Uttaradit was to be met from the proceeds of the 1907 loan. Finally, 2.56 m. baht was to be drawn from the reserves to begin construction of the peninsular railway<sup>124</sup>. Total Government expenditure for 1910/11 was estimated at 73.67 m. baht.

The Council of Ministers then discussed and approved a three-stage scheme for cutting Government expenditure. First, each Minister would impose a 3 per cent cut in the ordinary expenditure of his Ministry, the cuts being secured mainly by dismissing redundant staff. Second, each Minister would conduct a thorough examination of the functions and staff of his administration in an attempt to improve the efficiency of his Ministry. Finally, the Ministers as a whole would undertake an examination of the entire Government structure in order to decide which Government projects could be safely postponed and also

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124. In March 1909 an agreement had been signed between the Government of the Federated Malay States and the Siamese Railway Department by which the former advanced Siam a loan of £4.0 m. for the construction of the peninsular railway. The agreement formed a part of a much wider agreement whereby four of the Siamese Malay States were transferred to Britain (See: Thamsook Numnonda Negotiations Regarding the Cession of Siamese Malay States, 1907-1909 J.S.S. July 1967 vol. 55 pt. 2 pp. 227-235). The Railway Department could take up portions of the loan as required, and it is interesting to note that taking advantage of that arrangement the Department delayed using the loan for as long as possible - the first instalment not being called for until July 1911 (Prince Devawongse to Peel - British Minister in Bangkok, 6 March 1911 F.F.A. 25/7). The point was that from 1910/11 the Government had to commence repaying the capital on the 1905 loan, and from 1912/13, that on the 1907 loan as well. From 1912/13 the total debt payments of the Government would be 2.97 m. baht p.a. (Memorandum on the financial position created by the present and prospective public indebtedness of the Government. Williamson. 27 February 1909 F.F.A. 16/1) so clearly the Ministry of Finance wished to postpone having to pay interest on the 1909 loan for as long as possible. It was for this reason that in 1910/11 the first allocations for the peninsular railway were covered from the reserves.

in order to secure some amalgamation of departments in an attempt to reduce the number of officials. In discussing this three-stage scheme the King repeatedly emphasized that the objective was to reduce unnecessary expenditure: no cuts were to be made which would result in a deterioration in the effectiveness or efficiency of the Government administration.

Two particular points of relevance for the future emerged from the Government's analysis of its budgetary problems in 1908-1910. First, that in the absence of the development of new sources of revenue - which waited upon the renegotiation of the commercial treaties with the Powers - the Government had to impose strict control over its own expenditure if its long-term financial stability was to be guaranteed. As the Bangkok Times noted in an editorial in February 1908:

'... what is wanted now is a strictly conservative policy - four years' steady administration to let things adjust themselves ... and several years of conservative policy, free from heroic finance, with expenditure kept carefully below income, should end the present unsettled state of affairs.' <sup>125</sup>

Yet just at the point when frugality was required King Chulalongkorn died and was succeeded by his son, King Wachirawut, who by his unwillingness or inability to be a strong head of the administration for any significant length of time, and more particularly by his personal wastefulness, set the tone for governmental extravagance. The first two years of his reign alone saw over 6.0 m. baht spent on the funeral of his father, and on the second, major coronation of the new King <sup>126</sup>. On his death in November 1925 King Wachirawut had personal debts totalling over 10.0 m. baht, almost half of which were owing to the Government Treasury <sup>127</sup>. In fact King Wachirawut was saved from the most serious consequences of his extravagance partly by a series of unexpectedly good revenue collections in the mid-1910s <sup>128</sup>, and partly because Prince Chanthaburi stood between the King and his more extreme expenditure demands <sup>129</sup>.

125. Bangkok Times, 27 February 1908.

126. Stephen L. W. Greene Thai Government and Administration in the Reign of Rama VI (1910-1925) Ph.D. thesis, London, 1971 p. 94.

127. *ibid.* p. 416.

128. R.F.A.B. 1915/16 and 1916/17.

129. Stephen L. W. Greene op. cit. pp. 288-306/pp. 344-345.

It was left to King Prachathipok to restore financial stability - at considerable political risk to his throne.

Second, the budget discussions of the last three years of the reign of King Chulalongkorn brought to the fore the considerable problem of the very high proportion of Government resources being devoted to salaries and administrative expenses. In 1908-1910 the Government was able to skirt round this problem and achieve a balanced budget by cutting extraordinary expenditure - by halting the construction of the northern railway at Uttaradit and by dismantling the Irrigation Department. But for King Chulalongkorn's successors the problem grew more acute as the proportion of ordinary expenditure increased and as the demands for extraordinary expenditure became more insistent. A memorandum written by Williamson in March 1924 illustrates the point well.

'For a good many years past, there has been a tendency for the expenditures to consist more and more of salaries and contingencies while the allotments for extraordinary expenditures i.e. administrative public works and the like, have now been curtailed to a minimum. The position, therefore, now is that it is almost impossible to economize expenditures in any way which was possible fifteen years ago, by making heavy cuts in the extraordinary grants in order to meet the necessity for economy which has arisen. The budget consists now to so large an extent of kan pracam (i.e. ordinary or current) items, that there is practically no scope for reductions ... unless the tendency is checked there will be a danger of nearly the whole of the disbursements of the government consisting of salaries and contingencies - leaving practically nothing for permanent works, whether of a developmental or administrative character.' 130

Again it was King Prachathipok who had to face up to the problem. In the late 1920s a large number of officials were dismissed as a part of the Government's retrenchment measures following the reign of King Wachirawut, and then from early 1932, as the effect of the world depression was felt in Siam, a second round of dismissals and salary reductions was imposed<sup>131</sup>. By taking the action which he did King Prachathipok finally revealed the full extent of the problem originally raised by King Chulalongkorn in May 1910. For the majority of educated Siamese the Government service - including the armed forces - remained the only acceptable source of employment. By restricting

130. Memorandum. Williamson. 27 March 1924 F.F.A. 37/24. Quoted by Greene pp. 393-394.

131. Rong Syamananda A History of Thailand Bangkok 1971 pp. 171-172.

recruitment into the civil service and the army and navy, the Government, in effect, was asking increasing numbers of Siamese to find their livelihood from commerce and business, sectors traditionally dominated by the Chinese. In practice therefore, the Government's economy measures closed the door on the only major area of employment for educated Siamese, and in so doing provided much of the social and political disaffection which led to the 1932 coup against the absolute monarchy.

## CHAPTER VI

Currency and exchange reform, 1885 - 1910

The currency and exchange reforms promoted by the Ministry of Finance in the period covered by this study divide into three basic categories - the introduction of a Government paper currency, the adoption of a gold-exchange standard for the baht, and attempts to make the baht the principal coin in circulation in the southern provinces of the Kingdom.

The issue of a Government paper currency from September 1902 can be dealt with briefly, though a few essential points about the scheme must be made<sup>1</sup>. First, the issue was a considerable success: the total value of Government notes in circulation increased almost continuously from late 1902 until the end of the decade so that by 1910 it exceeded 17.0 m. baht, though it would appear that the notes were in widespread use only in the central provinces of the Kingdom. Second, the notes greatly facilitated the actual conduct of trade and of Government financial business: the following description by Jacob Child, the American Minister in Bangkok in the late 1880s, vividly underlined the difficulties experienced in carrying out those activities in Siam without currency notes.

'it was no novel sight to see eight or ten coolies on their way to the banks or mercantile houses carrying large sacks of silver coin, and frequently boat-loads of ticals are seen on their way up the river to pay for teak and rice; and cart-loads, escorted by soldiers on their way from the interior, taxes to be paid into the royal treasury, frequently from ten to fifteen in the train, all heavily loaded, each drawn by a couple of bullocks.'<sup>2</sup>

Finally, it is significant that the Ministry of Finance insisted on a high reserve for the Government note issue. The 1902 Act establishing the Paper Currency Department stipulated that the reserve had to equal the full value of notes in circulation, though at the discretion of the Minister of Finance 25 per cent of the reserve could be invested: in 1906 this ratio was increased to 50 per cent, but this still meant that at least half the note

1. I have considered this topic in some detail in an article in the J.S.S. (vol. 60, July 1972 pp. 23-44) 'Paper Currency: The Government Note Issues in the Reign of King Chulalongkorn'. The following points are taken from that article.

2. Jacob T. Child The Pearl of Asia Chicago 1892 p. 328.

issue was backed with coin. These high reserve levels, particularly cash reserve levels, guaranteed the convertibility of the notes in all but the most disastrous circumstances, but it also tied up a significant proportion of the Government's resources, about 8.5 m. baht by 1910. This is a point which will be considered in some detail in the concluding chapter.

The major concern of this present chapter will be to examine the Ministry of Finance's exchange policy: on several occasions this area of the Ministry's work became closely involved with the third category of reforms outlined above - the southern currency schemes - and therefore it will be practical to consider both subjects together.

#### 1. The abandonment of the silver standard, November - December 1902.

The exchange system in operation in Siam from the opening of the Kingdom to foreign trade in the 1850s until late 1902 was in essence quite simple. During those parts of the year when the export trade was flourishing - principally between November and April when the rice crop was brought down to Bangkok to be milled and exported - there would be a strong demand from rice-millers and exporters for baht with which to pay the farmers for their crop. The millers and merchants would obtain their baht from the Bangkok Treasury in exchange for imported silver, either in the form of bullion or Mexican and British dollars. The Treasury would use this stock of silver to mint baht coins, the baht being given to the merchants and millers when they next came to the Treasury with silver dollars or bullion. Conversely, when the export trade was relatively slack and the call was for dollars to pay for imports, merchants would come to the Treasury with baht and purchase dollars from the stock which had not been reminted. Until the late 1880s the exchange of baht and dollars was carried on directly with the merchants and millers, but with the establishment of branches of the European banks in Bangkok at the end of the century the exchange business passed into the hands of those specialized agencies<sup>3</sup>. As far as the authorities were concerned this exchange/monetary

3. Branches of 3 European banks were opened in Siam in this period: The Hongkong and Shanghai (1888), The Chartered (1894) and the Banque de L'Indo-Chine (1897). Paul Sithi-Annuai Finance and Banking in Thailand. A Study of the Commercial System 1888-1963 Bangkok 1964 p. 33.

mechanism required little interference or adjustment. The principal responsibility of the Treasury was a technical one - to ensure that it always had a sufficient stock of coins to meet the demands of the merchants and millers (later the banks).

The baht/dollar exchange rate was fixed from 1857 at 5 baht : 3 \$, the rate being determined by the relative silver content of the two coins<sup>4</sup>. Similarly the exchange value of the baht in relation to non-silver currencies was also determined by the intrinsic values of the coins, in the case of sterling by the relative value of the gold sovereign and the silver value of the baht measured in terms of gold. It followed that fluctuations in the world price of silver (measured in terms of gold) were reflected in fluctuations in the baht/sterling exchange rate, a fall in the price of silver causing a depreciation of the baht against sterling. In fact in the last quarter of the nineteenth century the price of silver fell rapidly, partly the result of an increase in the supply of the metal following the discovery of new deposits principally in Mexico and Nevada, partly the result of a fall in the demand for silver as, following the example of Germany in 1871, virtually all the major trading countries in the world which were still on the silver standard adopted a gold standard<sup>5</sup>. The price of silver slumped from 60½d. per ounce in 1870 to 28 1/4d. per ounce in 1900<sup>6</sup>. Inevitably during this period the silver-based baht depreciated against sterling - from 8 baht : £ in 1870 to 15.6 baht : £ in 1895<sup>7</sup>.

The virtually continuous and substantial depreciation of the baht had several important damaging consequences for the Kingdom. First, the fluctuations in the exchange introduced an element of speculation into Siam's trade with gold-based countries: merchants' careful calculations of profit margins were frequently thrown into confusion by changes in the baht/sterling rate.

Second, with the exchange value of the baht falling, Siam found herself having

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4. James C. Ingram Economic Change in Thailand 1850-1970 p. 150.

5. See: R. G. Hawtrey The Gold Standard in Theory and Practice 5th ed. London 1947 Chapter 3.

6. Whitaker's Almanac (The figures given are for the average yearly price of silver per standard Troy ounce in the London market).

7. James C. Ingram op. cit. Appendix D.

to pay increasingly more in terms of baht to secure the same sterling value of imports: this was a particularly important consideration once it was realised that almost all the capital goods imports necessary for the Kingdom's public works projects - particularly the railway construction programme - came from the gold-standard powers of Western Europe. At the same time a significant proportion of Siam's exports - particularly rice - went to Asian markets, and were therefore presumably paid for in dollars, with which the baht maintained a fixed relationship<sup>8</sup>. Therefore the Kingdom suffered an increase in the baht price of her imports without securing any advantage in the form of an improved competitive position for her exports. Finally, whilst Siam remained on the silver standard it was irresponsible for the Government to consider raising a loan in Europe: if the baht continued to depreciate rapidly whilst the loan was being repaid, the burden of the Government's interest payments and debt repayments would increase enormously. Furthermore, European capitalists were discouraged from investing in Siam for fear of seeing their profits wiped out by a fall in exchange.

These considerations did not become really important until the 1890s. In the first place, until the early 1890s the rate of depreciation was quite slow: but then there was a sudden large fall in the price of silver (which forced both India and Russia off the silver standard) and after that point the fall in the value of the baht was quite dramatic<sup>9</sup>. Second, it was not until the 1890s that the Government's reform programme and its public works schemes really got under way: inevitably as the baht cost of imports rose there was increasing concern that the Government's ability to import essential goods would be restricted, and that these programmes and schemes would be threatened.

In August 1899 Rivett-Carnac wrote to Prince Mahit outlining the dangers of Siam remaining tied to the silver standard: he proposed that the baht be

8. James C. Ingram Thailand's Rice Trade and the Allocation of Resources, in: C. D. Cowan (ed.) The Economic Development of South-East Asia London 1964 pp. 102-126. p. 104/p. 107.

9. Until 1879 the rate was held at 8.0 baht:£. It dropped to 10.0 baht:£ by 1890 but then slumped to 17.1 baht:£ in 1899. James C. Ingram Economic Change in Thailand 1850-1970 Appendix D.

placed on a gold basis, the opportunity also being taken to revalue the currency<sup>10</sup>. Though the Minister of Finance accepted Rivett-Carnac's arguments and suggestions<sup>11</sup>, he was unable to secure the consent of the Council of Ministers to the implementation of the Adviser's proposals. The principal opponent of the measure was Prince Devawongse: it would appear that the Minister of Foreign Affairs feared that the Treasury would be unable to maintain the exchange value of the baht at the higher level proposed by Rivett-Carnac, and that in the confusion which would inevitably follow the collapse of the scheme the Government would be brought into dispute with the European banks, a dispute in which the banks would certainly be supported by their legations. The Council discussed the issue twice in September 1899 but Prince Devawongse's influential standing within the Ministers was sufficient to ensure that his caution prevailed over the forceful advocacy of Prince Mahit<sup>12</sup>.

Between late 1899 and early 1902 the fall in the price of silver, and consequently the depreciation in the exchange value of the baht came to a temporary halt: indeed in 1900 the baht actually appreciated against sterling<sup>13</sup>. But then there was a further dramatic drop in the price of silver and by November 1902 the baht had fallen to 21.00 baht : £<sup>14</sup> from an average of

10. Memorandum. Closing of the Royal Mint to the free coinage of silver dollars. Proposals made by the Financial Adviser. Rivett-Carnac. 22 August 1899 F.F.A. 23/1. Rivett-Carnac's proposals were continued in two further memoranda of 9 and 11 September 1899 F.F.A. 23/1.

11. Prince Mahit to King, 23 August 1899 N.A.Kh. 10/7.

12. Memorandum. Rivett-Carnac. 9 September 1899 N.A.Kh. 10/7. Unfortunately no record of these meetings of the Council exists in the National Archives: nor do the available documents make clear the exact reasons for Prince Devawongse's opposition to the measure at this stage. However, it should be noted that at exactly this time - August-September 1899 - Prince Devawongse's influence was instrumental in securing the rejection of another of Rivett-Carnac's major proposals - the raising of a European loan (Chapter IV pp. 41-42). Prince Devawongse's well-documented dislike of the Financial Adviser may have been a potent factor in both issues.

13. James C. Ingram Economic Change in Thailand 1850-1970 Appendix D.

14. Ministry of Finance to banks, legations, newspapers informing them of the abandonment of the silver standard, November 1902 F.F.A. 23/1. At its lowest point in 1902, the baht was worth about 40% of its value in 1890 in terms of gold. James C. Ingram Thailand's Rice Trade and the Allocation of Resources p. 113 fn. 1.

16.75 baht : £ in 1900. There were prospects of further falls. On 19 November 1902 Rivett-Carnac again approached Prince Mahit with the proposal that Siam should abandon the silver standard and at the same time revalue the baht<sup>15</sup>. In particular he emphasized the crucial point that if the Government failed to halt the depreciation of its currency, within a short time the baht cost of capital goods imports could become prohibitive and the essential public works projects begun in the 1890s could grind to a standstill. The following day Prince Mahit wrote to the King enclosing the Adviser's memorandum, and again recommending the immediate adoption of Rivett-Carnac's proposals<sup>16</sup>. The Minister informed the King that on the abandonment of the silver standard the baht would be revalued to 17 baht : £. Later, as financial, commercial and political circumstances allowed, the baht would be gradually revalued. When the exchange value of the baht had reached what was felt to be an appropriate level, then it would be finally fixed in relation to gold by the promulgation of further legislation.

On this occasion Prince Devawongse accepted the arguments put forward by Prince Mahit and Rivett-Carnac and supported the scheme<sup>17</sup>. The necessary legislation was rapidly approved by the Council of Ministers<sup>18</sup>, and the 'Royal Mint Amendment Act' was promulgated on 25 November 1902<sup>19</sup>. With the passing of this Act it was decreed that the Treasury would no longer accept silver dollars or silver bullion for coining into baht: the same day a notification was issued stating that in future the Treasury would sell baht only in exchange for sterling paid into the account of the Siamese Government with

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15. Memorandum. A Gold Standard for Siam, Rivett-Carnac 19 November 1902 F.F.A. 23/1.

16. Prince Mahit to King, 20 November 1902 N.A.Kh. 26/13.

17. Prince Devawongse to King, 22 November 1902, N.A.Kh. 26/13. However it is perhaps significant that Prince Devawongse used this occasion to bring to the notice of the King a rather acrimonious dispute which he had lately been having with Rivett-Carnac over an unrelated issue - the treaty rights of the Bangkok Government to tax trade in the Siamese Malay States. Such references provide evidence of the ill-feeling that often blew up between the Minister and the Adviser.

18. Prince Mahit to Prince Sommot, 22 November 1902 N.A.Kh. 26/13.

19. Enclosed with Prince Mahit to King, 24 November 1902, N.A.Kh. 26/13.

the Hongkong and Shanghai Bank in London. The new exchange rate, the rate at which the Treasury would sell baht for gold or gold-based currencies, was fixed at 17 baht : £, a revaluation of approximately 23 per cent<sup>20</sup>.

The Government's measures provoked a storm of protest from the three European banks in Bangkok. Each bank held a significant proportion of its funds in dollars in Hongkong and Singapore: consequently with the revaluation of the baht they stood to lose heavily when they came to reimport those funds into the Kingdom and exchange them back into Siamese currency<sup>21</sup>. The managers of the banks saw Rivett-Carnac on 27 November to ask whether the Government would compensate them for these losses: the Financial Adviser was adamant that the Government would not. Immediately the disagreement flared up into a major dispute between the Government and the European banks. On the Government side the principal participant was Rivett-Carnac: at his interview with the managers on 27 November he responded to the banks' calls for compensation by arguing that the measure just effected was to be regarded as a normal fluctuation in the exchange rate and that the banks, as exchange banks, would have to accept their losses, just as they had enjoyed their profits when the rate had moved in their favour. Indeed, he argued, as the Ministry of Finance had discussed the proposal with the banks when it had first been raised in 1899<sup>22</sup>, the Government had given every indication of its intentions: if the banks had now been caught unawares by the Ministry's action, that was hardly the fault of the Siamese Government. Finally, the Adviser repeatedly reminded the managers that when the Government of India had abandoned the silver standard in 1893 it had refused to pay compensation to the banks<sup>23</sup>.

20. Prince Mahit to King, 29 November 1902 N.A.Kh. 26/13.

21. Memorandum. Interview between Managers of Local Banks and Financial Adviser regarding the closing of the Mints, Rivett-Carnac, 28 November 1902 F.F.A. 23/1.

22. Memorandum. Closing of the Royal Mint to the free coinage of silver dollars. Proposals made by the Financial Adviser, Rivett-Carnac, 22 August 1899 F.F.A. 23/1.

23. In fact the Indian and Siamese cases were not strictly comparable: in India the closing of the mints in 1893 had not been followed by an immediate revaluation of the currency. See, K. N. S. Nambudiripad A Short History of Indian Currency Poona 1955, p. 58.

Yet in this dispute the European banks were able to bring tremendous pressure to bear on the Siamese Government<sup>24</sup>. Most effectively the managers threatened to refuse to purchase baht at the new rate fixed by the Government and so prevent the financing of the export of the rice crop<sup>25</sup>: indeed it appears that at one point the banks actually carried out that threat and refused all exchange business<sup>26</sup>. Furthermore, in late November 1902 a meeting was held between the banks and the principal rice-millers at which, according to Prince Mahit, the managers sought to have the export of the rice-crop held back in order to increase the pressure on the Government<sup>27</sup>. It is doubtful whether the banks could have successfully brought the foreign trade of Bangkok to a halt for any significant length of time: yet it was within their power to inflict considerable damage on trade - and hence on the Government's revenue - for a short period. Second, both the Hongkong and Shanghai Bank and the Chartered Bank despatched their more senior Singapore managers to Bangkok to confront the Siamese Government<sup>28</sup>. Finally, on 4 December the manager of the Chartered Bank refused to honour a baht cheque drawn by the Ministry of Finance on the Government's deposits at the bank, even though the cheque could easily be covered<sup>29</sup>.

The dispute between the Government and the European banks was finally settled on 19 December 1902. The terms were as follows :

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- 24. In fact the dispute involved only the two British banks: the Banque de L'Indo-Chine decided to settle separately through the French Minister in Bangkok.
  - 25. Memorandum. Interview between Managers of Local Banks and Financial Adviser regarding the closing of the Mints. Rivett-Carnac, 28 November 1902 F.F.A. 23/1.
  - 26. Rivett-Carnac to Frederick Vernay (Siamese Legation, London), 12 January 1903 F.F.A. 23/1.
  - 27. Prince Mahit to King, 29 November 1902 N.A.Kh. 20; 1/22.
  - 28. Manager of H.S.B. (Bangkok) to Rivett-Carnac, 2 December 1902 F.F.A. 23/1.
  - 29. Prince Mahit to King, 6 December 1902 N.A.Kh. 20. 1/22. This was a rash move by the bank and Rivett-Carnac retaliated by threatening to withdraw the Government's account. The incident was smoothed over only after the London managers of the bank sent a formal apology to the Government for the action of their local manager. A few months later the Financial Adviser succeeded in having the manager removed from Bangkok. Correspondence in F.F.A. 23/1.

1. The Ministry of Finance agreed to fix the Treasury selling rate for the baht at 20 baht : £, instead of the 17 baht : £ originally announced on 25 November. This rate would be maintained for at least three months unless the price of silver rose to the extent that the Singapore quotation for the dollar exceeded 1/7d. In that case the baht would be revalued by a proportionate amount<sup>30</sup>. The exchange value of the baht would not be affected by a fall in the quotation of the dollar. Furthermore, the Ministry gave an assurance that any future revaluations of the baht would be gradual so as not to disturb unnecessarily the trade of the port<sup>31</sup>.
2. The banks were to be allowed to import dollars and exchange them at the Treasury at the old rate of 5 baht : 3 £ up to the limit of the total amount of Government deposits with them on 26 November 1902. In addition dollars on their way to Bangkok when the mints were closed were also to be exchanged at the rate of 5 baht : 3 £.
3. For their part the banks agreed to drop all claims against the Government for compensation.

On the basis of this last point Rivett-Carnac argued that the Government had triumphed in its dispute with the European banks: writing to an official in the Siamese Legation in London in early 1903 he asserted that the banks

'tried to bluff the Government out of their measure by putting enormous claims for compensation but when they saw that I was not to be frightened, they promptly came to amicable negotiations ... the Banks here caved in.'<sup>32</sup>

Few would have agreed with that assessment of the settlement reached<sup>33</sup>.

30. The Singapore quotation for the dollar was used merely to indicate changes in the price of silver - the dollar remaining on the silver standard.

31. Memorandum. Gold Standard Scheme. Rivett-Carnac, 11 December 1902 F.F.A. 23/1.

32. Rivett-Carnac to Frederick Vernay, 12 January 1903 F.F.A. 23/1.

33. Williamson did not agree. In his 'Outline of the Currency History of Siam 1902-1923' which appeared in instalments in 'The Record' between October 1923 and January 1924, he wrote: '... it is evident that the Banks obtained complete satisfaction, and that the Ministry of Finance admitted at least a moral claim on their part to be saved any loss resulting from the action of the Government in altering the rate of exchange.'

If the banks had agreed to drop all claims for compensation then this was largely because the Government's concessions had reduced their losses to such an extent that there was hardly anything for which to claim compensation<sup>34</sup>. In effect the banks had been able to outmanoeuvre the Government, principally because they could threaten to bring the foreign trade of the Kingdom to a standstill.

In that case the Government - in effect Rivett-Carnac - was unwise not to have sought the co-operation of the European banks in the implementation of the measures designed to remove Siam from the silver standard in November 1902<sup>35</sup>. The seriousness of the misjudgement was compounded by the fact that when, in August 1899, Rivett-Carnac had first raised the proposal to abandon the silver standard, he had discussed his scheme with the banks and even gone so far as to put to them exactly the same terms for the importation of dollars at the old rate as was agreed in December 1902<sup>36</sup>. Furthermore, when Prince Mahit wrote to the King less than a week before the actual abandonment of the silver standard he acknowledged that the banks were liable to suffer as a result of the Government's measures, and again it was proposed that as soon as the change was effected the banks were to be informed that for a period of three months they were to be allowed to redeem the value of the Government's baht deposits with them at the rate of 5 baht : 3 £<sup>37</sup>. It is very difficult to explain this inconsistency in the attitude of the Ministry of Finance<sup>38</sup>.

34. The banks still stood to lose with regard to the baht deposits of their non-Government customers: these losses would have been relatively small since after mid-December 1902 the revaluation of the baht was only approximately 5%, not over 20% as originally intended.

35. At the interview on 27 November between the banks and the Adviser, Rivett-Carnac did not even admit that the banks would suffer a financial loss as a result of the Government's measure. Memorandum. Rivett-Carnac, 28 November 1902 F.F.A. 23/1.

36. Memorandum. Closing of the Royal Mint to the free coinage of silver dollars. Proposals made by the Financial Adviser. Rivett-Carnac, 22 August 1899 F.F.A. 23/1.

37. Prince Mahit to King, 20 November 1902 N.A.Kh. 26/13.

38. No documents were found in either the National Archives or the Ministry of Finance which throw light on this point: there is not even a reference to the unmistakable similarity between the December 1902 agreement and the proposals of August 1899. As a result this paragraph is based largely on conjecture.

It is possible that since the measure was introduced very rapidly in November 1902 there was a breakdown of communication within the Ministry: that by the time Prince Mahit was ready to confer with the banks, as was his apparent intention, he found himself committed to the uncompromising stand being adopted by the Financial Adviser in the face of the banks' demands for compensation. It is also possible that between 1899 and 1902 Rivett-Carnac - perhaps after studying the way in which the Government of India had carried through the abandonment of the silver standard in 1893 - changed his mind as to the attitude to be adopted towards the banks. But whatever the explanation, there can be little doubt that the handling of relations with the exchange banks by the Ministry of Finance and Rivett-Carnac during this most crucial currency reform was sadly unsubtle<sup>39</sup>.

## 2. The gold-exchange standard in operation, December 1902 - November 1905.

The new exchange mechanism which emerged from the 'Royal Mint Amendment Act' of 25 November 1902, the ministerial notification of the same date establishing the Treasury selling rate, and the agreement with the banks the following month, was somewhat complicated. In essence Siam had adopted a gold-exchange standard: this meant that the Government had to maintain a large reserve of foreign currencies whose exchange value was fixed in terms of gold, principally sterling, and the Ministry of Finance had to undertake to buy and sell baht against those currencies at a fixed rate<sup>40</sup>. In this way Siam was able to fix - indirectly - the exchange value of the baht in terms of gold. At the same time the Government could alter the exchange value of the baht, as trade conditions allowed, by announcing a new rate at which the Treasury would sell baht against foreign gold-based currencies. But there was one major complication. After November 1902 the principal coin in circulation in Siam remained the baht - a silver coin. Therefore it was possible that

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39. Though it must be admitted that once the dispute was at its height the banks were not averse to using the most forceful methods to get their way.

40. A classic treatment of the gold standard is R. G. Hawtrey's The Gold Standard in Theory and Practice 5th ed. London 1947: see pp. 60-62 for his theoretical outline of the gold-exchange standard.

if the world price of silver were to rise substantially, in time the intrinsic value of the baht could exceed its exchange value. In those circumstances it would become profitable for merchants to buy baht with, say, sterling, melt them down and export them as silver bullion. If unchecked this operation would eventually drain the Kingdom of its currency. The Government could prevent this only by ensuring that the exchange value of the baht remained above its intrinsic value: in turn this could be guaranteed either by reducing the silver content of the coin or alternatively, and more simply, by increasing its exchange value. It was with this in mind that the Ministry of Finance had inserted into its agreement with the banks in late 1902 the clause which stated that were the price of silver to rise to the point where the Singapore quotation for the dollar exceeded 1/7d. then the baht would be revalued by a proportionate amount. In short, under certain circumstances, the exchange value of the baht remained as firmly linked to increases in the price of silver as it had prior to November 1902. However, it should be noted that since a fall in the price of silver was no threat to the currency (indeed it reduced the danger of the intrinsic value of the baht exceeding its exchange value) after November 1902 the exchange value of the baht was no longer responsive to falls in the silver price.

It is therefore ironic that at about the time the Siamese Government abandoned the silver standard - a measure necessitated by an almost unbroken drop in the world price of silver from 1870 - the price of silver should begin a pronounced, if temporary, rise<sup>41</sup>. The increase in the silver price was immediately reflected in a rise in the Singapore quotation for the dollar to above 1/7d. and hence in a revaluation of the baht. On 17 December 1902 - before the banks had formally accepted the Government's terms - the Treasury selling rate for the baht was advanced to 19.75 baht : £<sup>42</sup>. Thereafter the baht was gradually revalued in response to the increased quotation for the dollar, in response to the rise in the price of silver.

41. The average price per ounce in the London market rose from 24 1/8d. in 1902 to 30 3/16 in 1907 (Whitaker's Alamanac). By 1902-1903 all the major trading powers (except China) had left the silver standard: it was then to be expected that some recovery from the dramatic price falls of the previous decades would occur.

42. Memorandum. Gold Standard Scheme. Rivett-Carnac 17 December 1902 F.F.A.23/1.

Table 1. Treasury selling rate for the baht, December 1902 - February 1904.

<u>Date of Change</u>	<u>Treasury rate (Baht per £)</u>
17 December 1902	19.75
30 December 1902	19.50
2 March 1903	19.25
5 March 1903	19.00
11 March 1903	18.75
22 July 1903	18.25
5 August 1903	18.00
12 August 1903	17.75
22 August 1903	17.50
27 August 1903	17.25
25 September 1903	17.00
6 February 1904	16.67

Source : Memorandum on the Currency History of Siam 1902 - 1923, Williamson, June 1923 F.F.A. 30/22

By fixing the value of the baht in February 1904 at the unusual figure of 16.67 baht : £ the Ministry of Finance was in fact re-establishing the traditional rate of 5 baht : 3 \$ with the dollar. In his Report on the budget for 1904/05 Williamson suggested that this could be taken as an indication that the baht had reached its optimum level against sterling, unless, he added, 'unforeseen circumstances' arose<sup>43</sup>, almost certainly a reference to a necessity for further revaluations if the world price of silver continued to rise. By this final revaluation the baht had returned to the value it had held against sterling in 1896 - 1897, prior to the dramatic depreciations of 1898/99 and 1902. Over the period December 1902 to February 1904 the baht had been revalued slightly over 20 per cent against sterling: some of the ground lost in the 1890s had been regained.

However, the responsibilities of the Ministry of Finance with regard to the operation of the new exchange mechanism extended far beyond the relatively

43. R.F.A.B. 1904/05 p. 13.

simple matter of making the necessary adjustments in the Treasury selling rate for the baht. Most importantly the Ministry was also largely responsible for controlling the supply of baht to the banks in such a way as to minimize throughout the year the fluctuations in the market rate around the basic Treasury rate. For example, during the rice-export season when there was a very strong demand for baht, the Ministry was required to meet all the calls from the banks for Siamese coin: failure by the Ministry of Finance to meet all those demands would almost certainly lead to a shortage of baht in the market, and hence to a rise in the baht's market rate. In those circumstances it would become more expensive for merchants and millers to finance the export of the rice-crop: if there was a very tight restriction on the supply of baht, the cost could become prohibitive and the export trade could come to a standstill. Conversely, when the banks held more baht than they could usefully employ - usually between April and November - it was expected that the Treasury would buy baht with sterling to hold up the market rate.

Both operations implied a substantial increase in the degree of financial and administrative management required of the Ministry of Finance. Prior to November 1902 responsibility for meeting a large demand from the market for baht had rested primarily with the European banks, who would import silver dollars and present them to the Treasury for recoining into baht. After November 1902 that responsibility shifted to the Ministry of Finance. From that time the Mint coined baht not from silver dollars but from silver bullion. The bullion was bought in Europe with the proceeds of the sterling paid into the account of the Government in London by the exchange banks, in exchange for baht in Bangkok. In other words, from late 1902 the Ministry was responsible first for ensuring an adequate supply of bar silver to the Mint, second for the efficiency of the Mint's coining operations, and overall responsible for ensuring that the Treasury maintained a sufficient reserve of baht coins, either from the supply provided by the Mint or from other sources such as the provincial treasuries or the revenue receipts.

In the first few months of the operation of the gold-exchange mechanism from December 1902 until March 1903 - the Ministry of Finance found it very difficult to fulfill that responsibility. At the root of the Ministry's difficulties was the inefficiency of the Royal Mint. This had been a recurrent problem since at least the early 1890s. A new Mint, with modern machinery, was opened in February 1903<sup>44</sup> but, for reasons which are not altogether clear, the production of baht coins continued to be erratic<sup>45</sup>. Inevitably the poor performance of the Mint affected the size of the Treasury reserves. The Treasury had over 13.3 m. baht coins in December 1901: this dropped to 9.3 m. in June 1902 and by December of that year, immediately after the establishment of the gold-exchange standard, the Treasury could muster only 1.6 m. baht coins<sup>46</sup>. But in late 1902 and early 1903 the Ministry's basic problem with the Mint was compounded by the fact that the rice-exports of that season were the largest (in terms of both volume and value) since the reopening of the Kingdom to trade in the 1850s<sup>47</sup>: inevitably there was an unprecedented demand for baht.

Under the new exchange mechanism the Ministry of Finance was obliged to cover all those demands. As Williamson - acting Financial Adviser during the absence of Rivett-Carnac in Europe - reminded Prince Mahit in early February 1903,

'... having closed the Mint and advertised that ticals will be sold against gold deposits in London, we are bound to accept all offers of this nature.'<sup>48</sup>

The Ministry of Finance attempted to meet this situation as best it could. In February 1903 the Mint was instructed to increase its output of

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44. R.F.A.B. 1903/04 p. 16.

45. King to Prince Mahit, 25 October 1903 N.A.Kh. 26/13.

46. Bi-annual reports from Prince Mahit to King regarding size of the Treasury reserves. N.A.Kh. 7/8.

47. James C. Ingram Thailand's Rice Trade and the Allocation of Resources, Appendix A, in C. D. Cowan (ed.) The Economic Development of South-East Asia London 1964.

48. Memorandum. Williamson. 13 February 1903 F.F.A. 23/1. My emphasis.

baht as quickly as possible<sup>49</sup>; at the same time the provincial treasuries were asked to send all their excess baht to the Treasury in Bangkok<sup>50</sup>. In both cases the response was poor. Therefore, unable to meet the demands of the market for baht immediately the Ministry was forced to come to agreements with the banks to sell them baht whenever they became available. The banks were willing to accept such forward contracts: it enabled them to use their own reserves of baht confident that the Siamese authorities would replenish them in the near future. Moreover, as the banks would eventually receive the baht from the Treasury at the rate in force when the forward contracts were signed, and since there was every prospect of the baht being revalued between the time the contract was made and the time the baht were delivered, the banks stood to make substantial immediate profits from the arrangement. By the middle of March 1903 the banks had purchased over 21.4 m. baht in forward contracts (equivalent to £1.095 m.) and assured of a plentiful supply of baht at relatively cheap rates in the future made no more demands on the Treasury<sup>51</sup>.

A number of points of particular interest arise from this episode. First, the forward contract arrangements enabled the banks to protect themselves against possible future losses as a result of the revaluation of the baht: in other words by agreeing to make such forward contracts with the banks, the Ministry of Finance accepted the responsibility, first promoted in December 1902, to save the banks from any losses as a result of increases in the exchange value of the currency<sup>52</sup>. However, it is clear that in making forward contracts to the value of over 21.4 m. baht the banks substantially overstated their needs. As early as May 1903 Williamson was attempting to persuade the banks to cancel at least some of the contracts<sup>53</sup>. The knowledge in the market

49. Phraya Phiphit to Mqm Chao Piya Phakdi, 28 February 1903 F.F.A. 23/1.

50. Memorandum. Ticals for the Banks. Williamson, 2 March 1903/Memorandum. Mqm Chao Piya Phakdi, 24 February 1903 F.F.A. 23/1.

51. Memorandum on the Currency History of Siam 1902-1923, Williamson, June 1923 F.F.A. 30/22.

52. ibid.

53. Williamson to H.S.B. (Bangkok), 29 May 1903 F.F.A. 23/1.

that the banks had agreed to accept such a large volume of baht in the near future had the effect of depressing the market rate: moreover, if when the Treasury had sufficient baht to pay off the forward contracts it had attempted to pressurize the banks into taking delivery at that point, the market rate for the baht could have been pushed very low. In short, as long as the forward contracts remained effective there was a considerable danger of the Ministry of Finance losing control of the exchange situation. Furthermore, since the exchange position could change rapidly there always remained the alternative danger that the banks would suddenly demand baht from the Treasury and that the Ministry, embarrassingly, would be unable to meet those demands. It would be unproductive to examine here the intricate details of the week-to-week administration of the exchange market for this period: it is sufficient to note that it was not until June 1904 that the Ministry persuaded the banks to cancel their outstanding forward contracts<sup>54</sup>, and not until April 1905 that the depressing effect of those contracts was removed from the operation of the exchange. The essential point was that the difficulties resulting from the signing of the forward contracts ultimately derived from the failure of the Ministry of Finance to meet all the demands of the banks for baht immediately, during the 1902/03 rice-export season.

It is also worth noting at this point that the Ministry of Finance was faced with the problem of baht shortages only at infrequent intervals. Clearly it was a phenomenon which could arise only during the export season when there was a strong demand for baht, yet it was by no means an annual occurrence. For example, the Ministry was able to survive the 1903/04 season (despite a relatively low level of baht reserves in the Treasury and despite the Mint being short of bar silver<sup>55</sup>) and cover all the demands for baht, principally because the 1903 rice harvest was on a considerably smaller scale than that of the previous year. Moreover, as will be shown later, the Ministry was

54. Memoranda: Cancellation of contracts with Banks, 15 June 1904/Further cancellation of Banks' contracts, 8 July 1904, Williamson: with attached notes. F.F.A. 23/1.

55. Memorandum. Liquidation by Government of Forward Purchases of Ticals by Banks. Williamson, 14 November 1903. F.F.A. 23/1.

226

faced with baht shortages particularly when its policies in other fields led to a dramatic reduction in the level of the Government's coin reserves.

From mid-1903 until mid-1905 the most important exchange problem confronting the Ministry was that the market rate for the baht consistently lagged behind the advancing Treasury rate<sup>56</sup>. In early 1904 this encouraged some criticism of the Ministry of Finance from the business and trading community of Bangkok: it was suggested that the Ministry's failure to make its Treasury rate effective implied the partial failure of the Government's November 1902 measures<sup>57</sup>. The depression of the market rate was of course due in part to the existence of the forward contracts, but there was a more fundamental factor at work. In the Financial Adviser's Report for 1904/05 Williamson pointed out that for any country engaged in revaluation of its currency, a substantial length of time was required for a contraction of the number of coins in circulation to take place, and for wages and prices to adjust to the new, higher exchange level<sup>58</sup>. During the period of adjustment it was inevitable that on occasions there would be too many coins in circulation, and that consequently there would be a tendency for the exchange value of the currency in the market to be depressed. Williamson noted that in the case of India the market rate for the rupee had actually fallen in the years immediately following the closing of the mints in June 1893 and that it had taken until early 1899 for the intended rate of 15 rupees : £ to become effective.

Significantly the Financial Adviser then proceeded to argue that not only was the initial depression of the market rate for the baht not a matter for immediate concern, but on the contrary that it was a development to be welcomed :

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56. There are no figures available for the actual market rates over this period. However, in the year 1903/04 the average market rate was 18.28 baht £ (R.F.A.B. 1904/05 p. 15): in the same period the Treasury rate rose from 18.75 baht : £ to 16.67 baht : £.

57. R.F.A.B. 1904/05 pp. 14-15.

58. *ibid.*

'Any considerable appreciation of the value of the tical, unless counteracted by an increased demand for rice, either for home or foreign consumption, must result in lower tical prices being paid to the producers [59] and it is of importance that the change should be gradual in order that the general lowering of prices all round may enable the cultivator to receive for his produce, the same value as formerly.' 60

In Williamson's view the relatively retarded rise in the market rate over 1902/03 and 1903/04 represented about as fast a revaluation as was desirable. In other words, the implication was that the large advance in the Treasury selling rate in the two years following the abandonment of the silver standard - a large advance necessitated by the rise in the price of silver - had been too dramatic for the economic and commercial circumstances of the Kingdom. Siam's rice producers had been shielded from too sudden a drop in their baht earnings by the fact that the market rate for the baht had consistently lagged behind the Treasury rate.

### 3. Further revaluation, November 1905.

Inevitably this raised an important question: what should be the final parity of the baht under the gold-exchange system? In February 1904 the Treasury rate had been fixed at 16.67 baht : £, corresponding to the old baht/dollar rate of 5 : 3. However, by late 1905 two factors had arisen which made a further revaluation likely. First at that time the Singapore Government was engaged in abandoning the silver standard: the methods adopted involved the introduction of a new gold-based coin - the Straits dollar - with a higher exchange value than the British and Mexican dollars, which were to be demonetized in the S. S. and F. M. S.<sup>61</sup>. In November 1905 the exchange value of the Straits dollar had as yet not been finally fixed, and with further revaluations of the dollar expected there was no longer any benefit in the Siamese Government maintaining the cumbersome rate of 16.67 baht : £:

59. This is a theoretical point which will be considered in some detail in the next section.

60. R.F.A.B. 1904/05 pp. 14-15.

61. See Chai Hon-Chan The Development of British Malaya 1896-1909 2nd ed. London 1967, Chapter 2.

it was more sensible to move the rate to a more convenient figure for exchange calculations with sterling<sup>62</sup>. Second, and more importantly, the world price of silver was continuing to rise: as yet it had not reached the point where it became profitable to melt down silver baht and export them as bullion, but the trend was disturbing.

In November 1905 the Government was able to call on the advice of both Williamson and Rivett-Carnac in Bangkok - Williamson as the Financial Adviser though he was about to go to Europe on leave, Rivett-Carnac as Financial Agent but to be acting Financial Adviser during Williamson's absence. Williamson was opposed to a revaluation of the currency at that point<sup>63</sup>, principally because, as he had stated in his budget report for 1904/05, he feared that too dramatic a revaluation of the baht would have adverse effects on the rice trade. This point was to be developed by Rivett-Carnac. Moreover, Williamson felt that the price of silver had not yet reached danger levels.

However, the major contribution came from Rivett-Carnac. On 14 November 1905, in a long memorandum to Prince Mahit, the Financial Agent set out the arguments for and against further revaluations of the baht:<sup>64</sup> his arguments were not only of immediate concern but were also to have considerable relevance in the coming three years. Rivett-Carnac began by pointing out that in December 1902 the Ministry had given an undertaking to the banks that future changes in the exchange rate would be of a gradual character so as to avoid any serious dislocation of trade. Therefore, at the most they were considering only a small revaluation. The principal advantages of a revaluation were clear. First, it would protect the currency against the rise in the price of silver; second, it would increase the sterling value of the Government's revenues and baht reserves, and reduce the baht costs of imports from Europe and the baht value of the Government's interest payments on the 1905 loan. On the other

62. Memorandum. Government selling price of Ticals. Rivett-Carnac, 14 November 1905 F.F.A. 23/2. N.A.Kh. 26/13.

63. Memorandum. Proposed Forward Purchases of Ticals by Banks. Williamson, 3 November 1905 F.F.A. 23/2.

64. Memorandum. Government selling price of Ticals. Rivett-Carnac, 14 November 1905 F.F.A. 23/2. N.A.Kh. 26/13.

hand any revaluation, however small, tended to disrupt existing trading agreements and the Financial Agent suggested that it would be particularly unwise to risk a dislocation of trade at a time when the Kingdom was enjoying considerable prosperity. But there was one particularly strong argument against a revaluation of the currency - the argument advanced by Williamson.

'... the chief thing to look at is how the change would affect the paddy cultivator upon whom the whole prosperity of the Kingdom practically rests. If the value of the tical be raised the cultivator will obtain a less number of ticals for his crops while his expenses and his taxation will remain the same, calculated in ticals, as they are now. Thus upon his shoulders would fall the burden of any change. Further, it must be remembered that by the recent amendment of the Land Revenue Acts the taxation upon land has been increased [65] while if the tical value be enhanced, the cultivator will pay a larger revenue for his land than he did before the new Act was passed while he will be actually receiving a smaller number of ticals for his crops. This is a very serious obstacle to any greatly enhanced valuation of the tical.' 66

Briefly stated, this was to be the major argument against further revaluations of the baht during Phrayā Suriyā's term as Minister of Finance from June 1906 until February 1908.

But in November 1905, on balance Rivett-Carnac was in favour of a small revaluation. The prospects for the rice harvest were good so the farmers were likely to be in a strong enough financial position to absorb some of the adverse effects of a revaluation: some protection against the advancing price of silver was required: finally, it would be an opportunity to abandon the

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65. A reference to the highest rates of land tax introduced in 1905 to compensate for the loss of revenue caused by the closure of the provincial gambling dens. See Chapter IV.

66. Memorandum. Government selling price of Ticals. Rivett-Carnac, 14 November 1905 F.F.A. 23/2 N.A.Kh. 26/13. A brief reference to the theoretical aspects of this question must be made. The distribution of the burden of a revaluation is determined by the structure of the market, on both the demand and supply sides. In the case of Siamese rice exports, Rivett-Carnac's analysis would appear to be broadly correct. Rice, a relatively homogeneous product, sold in a very competitive market: it was therefore unlikely that the burden of the revaluation could have been shifted to the foreign customer, in the form of higher foreign currency prices for Siamese rice. On the supply side it would seem that the relatively few well-organized rice-millers in the Bangkok area would have been able to impose virtually the whole drop in the baht value of the crop onto the thousands of unorganized rice farmers in the Kingdom. However these market forces could have been upset by, for example, the development by some foreign customers of an attachment to the particular strain of rice produced in Siam, or by the growth of small up-country mills which broke the monopsonist position of the Bangkok millers. But in the absence of very refined data it would be impossible to show the actual force of those factors, though it is unlikely that they would have had much influence in the present case.

cumbersome rate of 16.67 baht : £. On 17 November 1905 the Treasury selling rate was advanced to 16.00 baht : £<sup>67</sup>. Rivett-Carnac's memorandum was fully discussed within the Government during the following month<sup>68</sup>. The Financial Agent argued that the new rate should be regarded as the final one, unless the price of silver continued to rise<sup>69</sup>. In addition the General Adviser, Edward Strobel, took some trouble to underline Rivett-Carnac's warning that the burden of revaluations would almost certainly be borne by the rice culti-vator<sup>70</sup>. No one disagreed.

#### 4. The exchange policy of Phrayā Suriyā, 1906 - 1908.

It is extremely difficult to provide an adequate outline and assessment of the exchange policy of Prince Mahit's successor as Minister of Finance, Phrayā Suriyā. Part of the difficulty derives from the fact that the new Minister had a tendency to omit important stages in his argument when writing to the King and his ministerial colleagues on the Kingdom's exchange position<sup>71</sup>. It is possible that in such correspondence Phrayā Suriyā was merely summarizing arguments which he had dealt with at length in earlier, often casual, meetings, where no written record was kept. Yet the frequency of the non sequitur, the occasionally contradictory elements in his policies, and the frequent inadequacies of his arguments suggest as a more plausible explanation that by and large Phrayā Suriyā had an imperfect grasp of the principles of exchange policy.

67. Memorandum on the Currency History of Siam 1902-1923. Williamson, June 1923. F.F.A. 30/22.

68. King to Prince Devawongse, 5 December 1905 N.A.Kh. 26/13.

69. Prince Mahit to King, 2 December 1905 N.A.Kh. 26/13.

70. Strobel to Prince Devawongse, 12 December 1905 N.A.Kh. 26/13.

71. One small example must suffice. In writing to the King on 22 June 1906 (N.A.Kh. 26/13) Phrayā Suriyā argued that the Government should fix the exchange value of the baht (by issuing a gold coin) as quickly as it could because of the baht coin shortage in the Treasury. The Minister offered no explanation of the connection between the two points. It is possible to reach a more coherent view of Phrayā Suriyā's ideas by examining his official correspondence as a whole, and in particular by studying two letters on financial policy which he wrote to Prince Devawongse when he was Siamese Minister in Paris, 9 October 1903/28 November 1904 N.A.Kh. 26/13.

Either that or the Minister's grasp of the subject was confused by his tendency to act hastily and without adequate forethought when confronted with a major problem.

Within a few weeks of his appointment as Minister of Finance Phrayā Suriyā wrote to the King outlining his immediate policy with regard to the exchange<sup>72</sup>. Most importantly he wanted a further revaluation of the baht, even though only six months previously there had been general acceptance within the Government of the current rate of 16 baht : £. Phrayā Suriyā's first argument was by far the most compelling: by June 1906 the price of silver had almost reached the point where the Kingdom's currency was in danger of being melted down and exported as bullion. Second, he argued that a revaluation would make it easier for the Government to build up its gold reserves, an objective of considerable importance to the Minister. However, Phrayā Suriyā's reasoning at this point was not altogether clear: on occasions in this letter he appears to argue that a revaluation of the currency would increase the purchasing power of the baht by a substantial amount with regard to all goods, both imported and domestically produced. The impression is given that the Minister was carried away with the prospect of increasing the wealth of the Kingdom - both Government and cultivators - by simply changing the Treasury selling rate for the baht. This was brought out when Phrayā Suriyā argued that although the rice farmers would receive less baht for their crop as a result of the revaluation (the principal point emphasized by Rivett-Carnac in November 1905), in fact they would also benefit substantially from an increase in the purchasing power of the baht following the revaluation

72. Phrayā Suriyā to King, 22 June 1906 N.A.Kh. 26/13.

of the currency<sup>73</sup>.

Second, Phrayā Suriyā argued that the Government's gold-standard scheme would require the issue of a gold coin: it was for this reason that the Minister was eager to increase the size of the Government's gold reserves. In Phrayā Suriyā's view the Siamese were reluctant to hold their wealth in the form of silver, since its price was so unstable<sup>74</sup>: therefore if a gold coin were to be issued the people would exchange their holdings of silver baht for the new coin, so increasing the volume of silver baht in circulation. This would, according to the Minister, effectively solve the problem of baht shortages with which the Ministry was occasionally faced<sup>75</sup>. But perhaps more importantly, Phrayā Suriyā regarded the issue of a gold coin, finally fixing the exchange value of the baht, as the culminating point of the Government's gold-standard scheme, the essential measure needed to consolidate the policy begun in November 1902<sup>76</sup>.

73. The theoretical background to this point requires some attention. It was argued above (footnote 66) that a revaluation of the baht would have almost certainly resulted in a fall in the baht income of the rice farmers. However, to some extent the fall in the farmers' baht income would have been partially off-set by price changes. For example, one effect of a revaluation of the baht would have been a fall in internal prices in Siam, principally because the major Siamese export - rice - was also a major item in internal production and consumption. Moreover, a revaluation would also have secured a reduction in the baht price of imports, though the effect of this on the real income of the rice cultivators would have depended, first on the extent to which the fall in the baht price was passed on to the consumers (rather than cornered by import merchants in the form of increased commission charges) and second, the proportion of the rice farmers' income spent on imported goods. However, despite these considerations, there is no reason to doubt that the burden of the baht revaluations was borne - to a greater or lesser extent - by the cultivators: they received less baht for their crop whilst they were required to pay the same number of baht to the Government in taxes. (In effect, with regard to the interest and capital repayments on the European loans, the baht revaluations ensured a shift in the burden of debt payment from the Treasury to the rice cultivators.) Though, on the whole, Phrayā Suriyā appears to have appreciated that point, on the evidence available it would seem that he then misinterpreted the - admittedly complex - effects of the revaluation of the baht on internal prices and on the price of imports to the Siamese cultivator - the overall effect on the real income of the rice farmers.

74. Phrayā Suriyā to Prince Devawongse, 9 October 1903 N.A.Kh. 26/13.

75. This is a possible explanation of the connection between baht shortages and the issue of a gold coin noted in footnote 71.

76. Of course the gold-standard mechanism adopted by a particular country could take several forms - a gold-specie standard, a gold-bullion standard, a gold-exchange standard - and need not necessarily have involved the issue of a gold coin. See: R. G. Hawtrey The Gold Standard in Theory and Practice London 5th ed. 1947 pp. 57-62.

Phrayā Suriyā's proposals were laid before the Council of Ministers on 25 June 1906 and approved after very little discussion<sup>77</sup>. The Minister was instructed to make preliminary enquiries to have gold coins produced at a European Mint. A few days later the King approved the revaluation of the baht to 15 baht : £<sup>78</sup> and the new rate came into force on 14 August.

Two months later Phrayā Suriyā was faced with his first serious exchange crisis - one involving an acute shortage of baht in the Treasury. The crisis had been gathering strength since mid-1906: as early as June the Minister had informed the King that the Ministry of Finance could raise a mere 1.1 m. baht, yet the banks would require over the export season 5.0 m.<sup>79</sup> The shortage had its immediate cause in two factors. In October 1904 the Ministry of Finance had issued a notification withdrawing from circulation the old form of baht coin, the bullet-shaped baht, and giving the public one year in which to exchange their holdings of the old coin for the modern flat baht<sup>80</sup>. As a result the Treasury and the Mint were inundated with bullet-shaped baht<sup>81</sup>. This placed a considerable strain on the Ministry's reserves of modern baht coins, since flat baht or notes had to be found for every old baht brought in for exchange: moreover, whilst it was slowly recoining the old baht into flat baht the Mint was not adding to the total volume of coins in circulation. When the deadline for the receipt of bullet-shaped baht passed in October 1905 large volumes of the coin remained in the possession of the population and therefore in August 1906 Phrayā Suriyā reopened the Treasury to the exchange of old baht for a further period<sup>82</sup>. The second immediate factor was a decision taken by Phrayā Suriyā in June 1906 to proceed with a scheme to make the baht the principal coin in circulation in Puket, the Siamese island just off the

77. Report on the meeting of the Council of Ministers, 25 June 1906 N.A.Kh. 26/13.

78. King to Phrayā Suriyā, 29 June 1906 N.A.Kh. 26/13.

79. Phrayā Suriyā to King, 22 June 1906 N.A.Kh. 26/13.

80. Prince Mahit to King, 5 October 1904 N.A.Kh. 26/13.

81. Prince Mahit to King, 27 April 1905 N.A.Kh. 26/13.

82. Phrayā Suriyā to King, 28 August 1906 N.A.Kh. 26/15.

south-west coast of the Siamese portion of the Malay Peninsula. The background to this decision requires a little discussion.

In the late nineteenth and early twentieth centuries the most common coins in circulation in the south of Siam were the British and Mexican dollars, reflecting the fact that most of the trade of the area was with Singapore and Penang rather than with Bangkok. In particular the important tin-mining areas of the south were wholly dependent for the processing of their tin on the Straits Trading Company's smelting works at Pulau Brani, off Singapore Island, and then after 1902 at Butterworth in Province Wellesley<sup>83</sup>. There were no tin-smelters in Siam itself. The Bangkok Government could hardly regard this domination of the colonial currency in the south with equanimity, if for no other reason than that it underlined the tenuous nature of the political control exercised by the Central Government over that part of the Kingdom. On the other hand, prior to the financial and provincial administration reforms of the 1890s there was little possibility of the Bangkok Government successfully ousting the dollar from the south and replacing it with the baht. The issue came to a head in mid-1903 when the Singapore Government announced that it intended to abandon the silver standard and adopt a gold standard by issuing a new gold based coin, the Straits dollar: the British and Mexican dollars were to be demonetized in the S. S. and F. M. S. and, at least whilst the new Straits dollar was being introduced, their importation into the colony prohibited. Export of the Straits dollar was also to be prohibited during the change<sup>84</sup>. As a result the southern Siamese provinces found themselves in the position of having as their principal currency a coin which was shortly to be demonetized by their chief trading partners and yet which in the intervening period could not be exchanged for the new coin intended for those same states<sup>85</sup>.

83. Chai Hon-Chan The Development of British Malaya 1896-1909 2nd ed. London 1967 p. 170.

84. *ibid*, p. 92.

85. Williamson to Paget, 21 March 1904. Enclosed with: Paget to Lord Lansdowne, 22 March 1904 Desp. 21 P.R.O. F.O. 69/254.

Clearly the British and Mexican dollars had to be demonetized in the south at the same time as they were demonetized in the F. M. S. and S. S., but opinion in Bangkok was divided as to whether they should be replaced by the Straits dollar or the baht. There was strong opposition from, in particular, Prince Mahit, Phraya Suriya and Rivett-Carnac to the continued use of the dollar in the southern provinces<sup>86</sup>: yet there were cogent arguments against their alternative proposals for the introduction of the baht. First, an outright prohibition on the use of the old dollars coupled with the introduction of the unfamiliar baht was certain to disrupt the trade of the area<sup>87</sup>. Far more importantly, the Bangkok Government had insufficient reserves of baht coins to give such a scheme any chance of success. It was not simply a case of providing sufficient baht to replace dollars already in circulation in the south, for as long as the economic interests of the region were orientated towards Singapore and Penang there was certain to be a continuous and considerable inflow of dollars. That the Government was in no position to flood the south with baht for several years was the point most strongly emphasized by Williamson. In January 1905, when Prince Mahit was momentarily tempted to proceed with the scheme, the Financial Adviser warned :

'If it is decided to proceed at once in the direction of introducing the tical ... we must be prepared to place some millions of ticals in the province named. This, I have no hesitation in saying, we are not in a position to do. We are at present in the throes of a conversion of round ticals [bullet-shaped baht] into flat ones, and at the rate at which the Mint is now working, the recoinage will take months if not years. In the meantime, the stock of flat ticals held by the [Paper] Currency [Department] and the Treasury is none too large for trade and Government requirements in Bangkok and the tical-using provinces, and we have none to spare for a large currency operation in the Monthon of Puket.'<sup>88</sup>

Williamson favoured the introduction of the new Straits dollar into the south - at least Puket - as the only immediately practical alternative<sup>89</sup>, and

86. Rivett-Carnac to F. C. Giles, 5 November 1903 F.F.A. 23/3.

87. Siamese Consul in Singapore to Williamson, 5 October 1903 F.F.A. 23/3.

88. Memorandum. Williamson, 16 January 1905. Quoted in: Memorandum. Shortage of ticals in the Treasury. Williamson, 18 October 1906 N.A.Kh. 26/15 F.F.A. 23/2.

89. Beckett to Sir John Anderson, 12 October 1904. Enclosed in: Beckett to Lord Lansdowne, 12 October 1904 Desp. 61 P.R.O. F.O. 69/255.

it appears that the Financial Adviser's caution was at first an effective restraining influence. The British and Mexican dollars were demonetized in the F. M. S. and S. S. in September 1904<sup>90</sup>, and in early 1905 Williamson appears to have persuaded Prince Mahit to allow the Straits Trading Company to exchange the old dollars in the southern provinces for the newly-issued Straits dollar<sup>91</sup>, at least as a temporary measure until there were sufficient baht in the Bangkok Treasury to proceed with a baht scheme.

But in November 1905 Williamson left Siam for England on leave<sup>92</sup>, and his position was temporarily filled by Rivett-Carnac. In May 1906 the acting Financial Adviser visited Puket - the major trading centre in the south - to prepare a report on the currency situation in that province. As was to be expected he strongly advised that the Government take urgent steps to make the baht the principal coin in circulation in Puket<sup>93</sup>: Rivett-Carnac's visit to the province and the presentation of his report were carried out with considerable haste<sup>94</sup> for he was almost certainly aware that Williamson would strongly oppose his recommendations<sup>95</sup>. There is every indication that Rivett-Carnac wanted the Puket currency scheme well under way by the time Williamson returned to Siam.

Phrayā Suriyā's first letter to the King concerning exchange policy - in June 1906 - had concentrated on the difficulties faced by the Ministry as a result of the baht shortages in the Treasury: yet within one week Phrayā Suriyā accepted Rivett-Carnac's principal recommendations with regard to the Puket currency scheme<sup>96</sup>. It was decided that from 1 April 1907 all official

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90. Chai Hon-Chan op. cit. p. 94.

91. Prince Mahit to King, 21 January 1905 N.A.Kh. 26/14. Rivett-Carnac to Phrayā Ratsadā (High Commissioner in Puket) 10 March 1906 F.F.A. 23/3. The export of the Straits dollar from the S.S. and F.M.S. was permitted once sufficient coins were in circulation in the colony.

92. Bangkok Times, 2 November 1905.

93. Rivett-Carnac to Prince Mahit, 31 May 1906. Enclosed with: Beckett to Sir Edward Grey, 29 August 1906 Desp. 70 P.R.O. F.O. 371/133.

94. Phrayā Suriyā to King, 17 July 1906 N.A.Kh. 26/13.

95. Rivett-Carnac to Phrayā Ratsadā, 10 March 1906 F.F.A. 23/3.

96. Phrayā Suriyā to King, 26 June 1906 N.A.Kh. 26/13.

financial transactions in Puket would be made in baht. The Council of Ministers accepted Phrayā Suriyā's proposals<sup>97</sup>. It was clearly a disastrous policy. In June 1906 the Bangkok Treasury held only 2.7 m. baht coins and of those 0.9 m. were demonetized bullet-shaped baht<sup>98</sup>: inevitably the first consignment of baht for the south contained less than half the amounts requested by Rivett-Carnac in his May report<sup>99</sup>. Within a matter of weeks it was clear that Phrayā Suriyā, with the encouragement of Rivett-Carnac, had precipitated a severe currency shortage in the capital and that the Ministry of Finance would find it extremely difficult to cover the demands of the banks for baht during the coming rice export season<sup>100</sup>. It was at that point that Williamson returned from leave and resumed his position as Financial Adviser. He immediately suggested that the 1902 Paper Currency Act be amended so as to reduce the statutory reserve cash requirement from 75 per cent to 50 per cent of the total value of notes in circulation: it was hoped that this would release 3.0 m. baht for Puket, leaving the Bangkok Treasury reserves to meet the demands of the banks in Bangkok<sup>101</sup>, but an examination of the Paper Currency Department reserves revealed that half the reserve was in the form of demonetized bullet-shaped baht. Instead of releasing 3.0 m. baht the amendment of the 1902 Act had secured only 1.5 m.

Faced with the prospect of a severe dislocation to the trade of the port, Williamson wrote to Phrayā Suriyā on 18 October 1906<sup>102</sup>. The Financial Adviser forcefully emphasized that despite the inadequacy of the Government's reserves - and he estimated that the Treasury had only 2.75 m. baht at its disposal to meet demands of 5.0 m. baht in the immediate months - the Ministry had to ensure

97. King to Phrayā Suriyā, 29 June 1906 N.A.Kh. 26/13.

98. Bi-annual reports from Ministry of Finance to King on the size of the Treasury reserves. N.A.Kh. 7/8.

99. Phrayā Suriyā to King, 26 June 1906 N.A.Kh. 26/13.

100. Memorandum. Shortage of ticals in the Treasury, Williamson, 18 October 1906 N.A.Kh. 26/15: F.F.A. 23/2.

101. Phrayā Suriyā to King, 17 July 1906 N.A.Kh. 26/13.

102. Memorandum. Shortages of ticals in the Treasury, Williamson, 18 October 1906 N.A.Kh. 26/15: F.F.A. 23/2.

that the banks were freely supplied with baht.

'The Government, by closing the Mint to the free coinage of ticals has made itself responsible for the due supply of currency to the Banks ... For the Government to fail in this important obligation simply means that the export trade is hampered, for the Banks, unless they are able to obtain currency freely (as they have a right to do) will, in order to protect their own stock of ticals put up rates higher and higher i.e. offer fewer and fewer ticals to the merchants who come to them to sell their bills for produce to be exported. All this is simply the ABC of banking finance, but it requires to be stated in order to show what the effect on trade is, if the Government fails in its duty of supplying funds freely for the vitally important export business of the Country.' 103

The Financial Adviser was equally forceful in pin-pointing the immediate cause of the impending crisis :

'... in my opinion the decision taken last May to proceed at once with the scheme for introducing a tical currency in Puket was unfortunate. This scheme had been on the tapis for years past, but I had invariably advised the Government to defer its adoption until such time as our tical balances in Bangkok admitted of its being taken up without inconvenience.' 104

In order to extricate the Ministry from the impending crisis Williamson recommended that the Privy Purse Department be asked to exchange its reserves of flat baht for the bullet-shaped baht held in the Ministry. Unless this was done, he warned, the Ministry would have to restrict the supply of baht to the banks, which would be a 'confession of failure on the part of the Government in regard to one of its most important duties - the supply of currency.'<sup>105</sup>

Phrayā Suriyā disagreed. On 19 October the banks were informed that the Treasury would be unable to cover any part of their demands for baht immediately.<sup>106</sup> The same day the Minister saw Williamson and told him that he intended to revalue the baht once again, though as yet he was unwilling to specify the new rate<sup>107</sup>. On 22 October Williamson again wrote to Phrayā Suriyā: for a usually detached, unemotional man it was a letter of remarkable forcefulness :

103. ibid.

104. ibid.

105. ibid.

106. Note, 19 October 1906. Attached to Williamson's 18 October 1906 memorandum F.F.A. 23/2 N.A.Kh. 26/15.

107. Williamson to Phrayā Suriyā, 22 October 1906 N.A.Kh. 26/15.

'If you have definitely made up your mind, contrary to my advice, to raise the exchange value of the tical still higher, then the proper course is to fix your rate, and say what it is, but whatever the rate may be from time to time, we must sell ticals freely at that rate. I am absolutely certain that this is the correct policy, and as the present rate is 15 tics: $\text{£}$ , I hold that we are not justified in refusing to give the Banks any more ticals at that rate.' 108

If the Ministry failed to meet that obligation,

'... This will spell disaster to the rice-millers and paddy merchants, and the Government will be directly responsible for any failures which may occur. I would, therefore, earnestly ask you to reconsider your recent decision, as I am sure that it will lead to trouble if persisted in ... the good of the Government and the well-being of the Kingdom are my only concerns.' 109

This bitter clash between the Minister and the Adviser could not be kept from the King and on 22 October Phrayā Suriyā wrote to the Throne enclosing his recent correspondence with Williamson<sup>110</sup>. In reply the King stated that although he clearly understood the arguments put forward by the Minister and the Financial Adviser, his knowledge of finance was not sufficient to enable him to judge the merits of the opposing cases<sup>111</sup>. On the other hand, since Phrayā Suriyā was the official who had to carry responsibility for the actions of the Ministry of Finance, the King was inclined to support the Minister: however, he suggested that Phrayā Suriyā discuss the issue with Prince Devawongse, which the Minister of Finance did<sup>112</sup>. Phrayā Suriyā and Prince Devawongse were in agreement on every point. First, that in view of the continuing rise in the price of silver the baht would have to be revalued: they suggested that the Treasury selling rate be advanced from 15 baht :  $\text{£}$  to 13 1/3 baht :  $\text{£}$  - a substantial revaluation, but Phrayā Suriyā was reasonably confident that it would not damage the rice trade. Second, Phrayā Suriyā and Prince Devawongse emphatically rejected Williamson's argument that the Ministry of Finance was under an obligation to satisfy immediately all the demands of

108. ibid. Williamson's emphasis.

109. ibid.

110. Phrayā Suriyā to King, 22 October 1906 N.A.Kh. 26/15.

111. King to Phrayā Suriyā, 24 October 1906 N.A.Kh. 26/15.

112. Phrayā Suriyā to King, 31 October 1906 N.A.Kh. 26/15.

the banks for baht. If the banks needed baht to finance trade they would have to raise them from other sources, for example by encouraging people to deposit more baht with them by offering higher rates of interest on deposit accounts. And yet the Ministers were not fully confident in their stand for they also suggested that the Ministry of Finance should be prepared to sell the banks sufficient baht to prevent dislocation of the export trade. Phrayā Suriyā proposed that in order to carry this out the Ministry would have to borrow from the stock of flat baht in the Privy Purse Department. Apart from one or two details this was precisely Williamson's advice which the Minister had ignored three days previously.

This apparent contradiction in Phrayā Suriyā's exchange policy - on the one hand forcefully denying Williamson's contention that the Ministry was obliged to meet all the demands of the banks for baht immediately, yet then acknowledging that the financial viability of the port's merchant community and the continued economic progress of the Kingdom depended on the banks receiving an unrestricted supply of currency - was soon made clear. On 19 October the banks were informed that no more baht would be sold by the Treasury until all the cash demands of the Government's own administration were first met<sup>113</sup>. Three days later the Ministry made substantial forward contracts with the banks: the baht were delivered on 14 November<sup>114</sup>. It is possible that Phrayā Suriyā and Williamson disagreed only over timing - that the Minister refused to accept that the banks' demands had to be met immediately, that the Ministry was at the beck and call of the European banks. Or perhaps Phrayā Suriyā was angered by Williamson's insistence on the word 'obligation'. To the Financial Adviser it was a sacred tenet of banking finance that the Government freely supply the banks with currency: to the Minister it appeared to be merely a device to ensure the continued high profits of the banks<sup>115</sup>. But whether an obligation or merely prudent policy

113. Phrayā Suriyā to King, 22 October 1906 N.A.Kh. 26/15.

114. Memorandum on the Currency History of Siam 1902-1923. Williamson, June 1923 F.F.A. 30/22.

115. In his letters Phrayā Suriyā frequently implied a dislike of the domination of the foreign trade of Bangkok by the European banks, merchant houses and shipping lines, particularly the fact that the profits of those concerns were sent out of the Kingdom.

the end result was the same - all the demands of the banks for baht had to be promptly satisfied. The King accepted the report of Phrayā Suriyā and Prince Devawongse<sup>116</sup> and on 2 November 1906 the Treasury selling rate was raised to 13 1/3 baht : £. It was officially stated that the revaluation was necessary in view of the rise in the price of silver<sup>117</sup>.

It was at about this point - late 1906 - that Phrayā Suriyā's exchange policy began to run into serious difficulties. Though in October 1906 the Ministry of Finance had been faced with the threat of a critical shortage of baht - a situation largely of its own making - the crisis was short-lived. Indeed, within a matter of weeks the Ministry was faced with the opposite problem - an excess of baht in the market and consequently a depressed market rate of exchange<sup>118</sup>. So severe was the depression that for the remainder of Phrayā Suriyā's term as Minister of Finance - from December 1906 until February 1908 - the Ministry had to sell a substantial volume of sterling to the banks in order to support the exchange. For this the Ministry used part of the proceeds of the 1907 loan in accordance with the undertaking given to the British, French and German banks in this respect, at the time the loan had been signed. During the period April 1907 to March 1908 alone, some £536,000 was sold to support exchange<sup>119</sup>.

Several factors contributed to the emergence of this new problem. Most importantly the monsoon rains in 1906 and 1907 were poor: consequently the value of rice exports in the 1906/07 and 1907/08 seasons was lower than that in the record seasons of 1904/05 and 1905/06. Inevitably there was a drop in

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116. King to Phrayā Suriyā, 1 November 1906 N.A.Kh. 26/15.

117. Bangkok Times, 2 November 1906. This is a suitable point to make a brief reference to the fate of the currency scheme in Puket. In fact evidence on the outcome of the venture is very sparse but it would appear that at the end of the decade, although the baht was in greater use in the area, it was unable to challenge the dominance of the dollar - particularly in the market place. Subsequent currency schemes along the east coast of the Peninsula (Notifications in F.F.A. 23/10) achieved no more success. This is hardly surprising: whilst there was a limit on the number of baht coins the Bangkok Treasury could spare for the south, and whilst the economy of the south remained orientated towards Singapore and Penang the dollar was virtually invincible.

118. Bangkok Times, 28 December 1906.

119. Memorandum on the Currency History of Siam 1902-1923, Williamson, June 1923 F.F.A. 30/22.

the demand for baht to finance the export of the rice crop. Furthermore, by raising the Treasury rate to 13 1/3 baht : £, the Ministry had ensured that the same sterling value of trade could now be financed with less baht coins. Second, the banks' reserves of baht had been greatly increased as an indirect result of the November 1906 revaluation: with the drop in the domestic price of foreign goods there had been a sudden surge of imports, paid for in either sterling or dollars. Bangkok's import merchants had obtained their supplies of foreign currency from the banks in exchange for baht<sup>120</sup>. Third, the merchant community of Bangkok was convinced that in advancing the rate to the new level the Ministry of Finance had seriously overvalued the currency, and that within a short time the baht would have to be devalued: there was therefore a tendency for traders to delay purchasing baht from the banks in anticipation of that fall. This became a very potent factor in the exchange situation from about mid-1907 when the world price of silver, which had been rising steadily from late 1902, began to drop dramatically<sup>121</sup>. The fall in the silver price meant that there was now no possibility of the Ministry of Finance being forced to revalue the baht to protect the currency, as had been the case since December 1902: on the contrary, it meant that the Ministry could now safely devalue the baht without exposing the currency to the risk of being melted down and exported as bullion. Inevitably from mid-1907 the merchant community, convinced that Phrayā Suriyā had made a serious error in revaluing the baht in late 1906, was alive with rumours that the Minister would now reverse his policy: from that time the speculation against the baht was intense<sup>122</sup>.

The confusion in the exchange market was exacerbated by two factors. First Phrayā Suriyā, far from contemplating a devaluation of the baht was intent on further revaluations<sup>123</sup>. In April 1907 he told the Council of Ministers that he

120. Phrayā Suriyā to King, 19 May 1907 N.A.Kh. 26/15.

121. After reaching a peak of 32d. per ounce in January 1907 the price of silver dropped to 25d. per ounce in December 1907. Bangkok Times, 1 February 1908.

122. Bangkok Times, 3 January 1908. Annual Diplomatic and Consular Report from H.M.'s Consuls in Siam 1909 (for 1907) XCVIII pp. 33-66.

123. Bangkok Times, 2 November 1906.

hoped to raise the rate to 12 baht : £ during the coming export season<sup>124</sup>: indeed in December 1907 a small step in that direction was taken when the rate was advanced to 13 baht : £, though the immediate reason for the change was a technical one<sup>125</sup>. It was widely known - and feared - within the merchant community that Phrayā Suriyā wished to revalue the baht to 12 baht : £, so when the proposed change was first announced it was widely assumed that the rate was to go to that level<sup>126</sup>. The Ministry of Finance was forced to issue denials and explanations in order to restore stability to the market.

Second, the difficulties in the exchange - or to put it another way, the difficulty experienced by the Ministry of Finance in making the Treasury rate effective in 1907 and early 1908 - were exacerbated by the frequent revaluations of the baht. After each change in the Treasury rate a period of time was required for the volume of coins in circulation and for prices and wages to adjust to the new rate: yet between November 1902 and December 1907 the Ministry of Finance had revalued the baht no less than 16 times, principally in order to protect the currency against the rise in the price of silver<sup>127</sup>. The market rate had never been given sufficient opportunity to adjust to a stable Treasury rate. In other words, by mid-1907 - with Phrayā Suriyā apparently intent on pursuing further revaluations of the currency, with the world price of silver falling rapidly, with the export trade depressed because of poor monsoons, and with the merchant community convinced that most of the difficulties of trade were due to mismanagement of the exchange by the Ministry of Finance - the exchange situation had all the uncertainty that had characterized it prior to November 1902.

Criticism of Phrayā Suriyā's exchange policy - in particular his determination to push the exchange value of the baht constantly higher - was first

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124. Report on the meeting of the Council of Ministers, 29 April 1907  
N.A.Kh. 26/15.

125. Bangkok Times, 2 December 1907. The change was made in connection with the gold-standard legislation then being prepared by Phrayā Suriyā (and to be considered later). It was found that at the current rate of 13 1/3 baht:£ it was impossible to state in Siamese weights the exact amount of gold in a proposed 10 baht gold coin (Note, Williamson, 2 December 1907 F.F.A. 23/2).

126. Bangkok Times, 23 July 1907.

127. Memorandum on the Currency History of Siam 1902-1923, Williamson, June 1923 F.F.A. 30/22.

voiced by Williamson during his clash with the Minister in October 1906. But the Adviser got the worst of that dispute and it appears that his opinion on exchange policy was never again sought by Phrayā Suriyā. The complaint was then taken up by the merchant community from late 1906 and by April 1907 had begun to find its way into the inner circles of the Government<sup>128</sup>. In May 1907 Phrayā Suriyā came under pressure from the Council of Ministers - in particular from Prince Damrong - to write to the King (who was then in Europe) to explain his exchange policy, and in particular to answer criticism that the advance in the Treasury rate was harming the competitive position of Siamese exports and placing an intolerable burden on the rice farmer (by ensuring that he received less baht for his crop)<sup>129</sup>. The Minister denied the accusations. He maintained that although certain sections of the port's trade were depressed - particularly that concerned with rice sales to China - overall the foreign trade of the Kingdom was buoyant: indeed the Minister argued that the high level of export and import values, which he noted for the previous few months, were due in the main to the recent revaluations of the currency, though he offered no clear evidence or supporting argument to back this statement. Phrayā Suriyā also implied that an improvement had been secured in the position of the rice farmers as a result of the revaluations - through a fall in the baht price of imports<sup>130</sup>.

Yet the very large sales of sterling to the banks from the Ministry of Finance from mid-1907 emphasized that the exchange and trade situation was not as healthy as the Minister had tried to suggest: the charge persisted that Phrayā Suriyā had overvalued the currency. By the time the King returned to Bangkok in late 1907 there was a widespread lack of confidence in Phrayā Suriyā's exchange policy both inside and outside the Government. Clearly rapid action was needed but the King was in a difficult position. On the one hand his knowledge of finance was not great and so he was forced to rely on the advice of

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128. Report on the meeting of the Council of Ministers, 29 April 1907  
N.A.Kh. 26/15.

129. Phrayā Suriyā to King, 19 May 1907 N.A.Kh. 26/15.

130. See pp 23-25 for Phrayā Suriyā's earlier presentation of this argument.

others. Yet to the King there appeared to be no one in the Council of Ministers with an adequate grasp of the principles involved in the administration of the exchange<sup>131</sup>. In addition the King could not turn to the Financial Adviser for impartial guidance since Williamson had earlier taken a strong stand against his Minister's policy. In late 1904 the Government had been faced with a similar basic conflict of opinion within the Council - on that occasion with regard to the raising of a European loan. The deadlock had been broken by calling on the General Adviser to give his considered judgement: the same course was adopted in January 1908. The King asked Strobel whether it would be advisable for the Government to carry out an investigation into the effects upon trade of the recent revaluations of the baht, the object being to decide whether there was any case for a devaluation of the currency<sup>132</sup>.

In his reply to the King, Strobel argued that since too great an appreciation in the exchange value of the baht was almost certain to injure the export trade of the Kingdom, Williamson had been correct in mid-1906 in recommending that the Ministry consider carefully the probable effects on trade of an advance in the Treasury rate, before the baht had been actually revalued in August and in particular in November 1906. And yet, the General Adviser admitted, because of the abnormal trade conditions of the previous eighteen months it was extremely difficult to determine the extent to which the export trade had been actually affected by the revaluations of late 1906, or indeed whether it had been affected at all. There could be no doubt that the rice trade had suffered as a result of the poor monsoons of 1906 and 1907: in addition rice exports to China had been severely inhibited by the recent confusion in the Hongkong exchange<sup>133</sup>. It was possible, suggested Strobel, that once these temporary difficulties passed the export trade would adjust to the higher exchange value of the baht. But the General Adviser was in no doubt that having revalued the

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131. King to Phrayā Suriyā, 11 January 1908 N.A.Kh. 26/15.

132. Memorandum on Exchange, Strobel, 9 January 1908 N.A.Kh. 26/15.

133. At that time Hongkong was still on the silver standard. Therefore when the price of silver began to fall in 1907 the Hongkong quotation for the dollar dropped with it. The result was a sharp revaluation of the baht against the dollar in Hongkong, pricing Siamese rice out of the China market.

baht - even if the currency was now perhaps temporarily overvalued - the Government was committed to maintaining the new rate :

'The system now existing in Siam is known as the Gold Exchange system. Under this system, the Government fixes the rate of value of the monetary unit and assures the public that it will do all in its power to keep the monetary unit at that rate of value and that it has provided the necessary reserves abroad for that purpose ... Once a Government has done this, it has assumed towards the public a moral obligation. Trusting to the assurances of the Government, contracts are made and ordinary business is conducted on the belief that the monetary unit is to retain the value at which it has been publicly fixed by the Government. This is now the situation in Siam, and by an attempt to change the present value of the tical, or even by appointing a committee for the purpose of inquiring into the question, the Government would really be guilty of a deception towards the public.' 134

As soon as it became known that the Government was weakening in its resolve to maintain the value of the baht, then exporters would cease trading in anticipation of the devaluation and investors would withdraw their capital from the Kingdom for fear of incurring losses through a drop in the rate. With money flowing out of Siam but none coming in the Government would be forced to devalue whether it wished to or not. There was no reason, barring an unforeseen misfortune such as successive crop failures, Strobel concluded, why the Government should not be able to maintain the rate at the current level. Throughout 1907 the rate had been held in adverse circumstances by the Ministry of Finance selling sterling, and there were now indications that the trade situation was improving. In short, even if the revaluations had been hasty and ill-conceived, 'the Government should not even consider the possibility of reducing the value of the tical.' 135

Strobel had discussed the exchange situation with both Phrayā Suriyā and Williamson whilst preparing his memorandum for the King<sup>136</sup>, and all three had agreed that in view of the persistent rumours in the capital that the Government was on the point of devaluing the baht, the Ministry of Finance should issue a statement reaffirming its determination to maintain the parity of the currency<sup>137</sup>.

134. Memorandum on Exchange, Strobel, 9 January 1908 N.A.Kh. 26/15.

135. ibid.

136. ibid.

137. King to Phrayā Suriyā, 11 January 1908 N.A.Kh. 26/15.

A notification over the signature of Phrayā Suriyā to that effect appeared in the Bangkok papers on 13 January 1908<sup>138</sup>. The uncertainty in the exchange market subsided.

Strobel's memorandum, whilst leaving open the question as to whether the revaluations of the baht in late 1906 had had any serious harmful effect on the export trade of the Kingdom, made it quite clear that the manner in which Phrayā Suriyā had pursued his revaluation policy was open to criticism. In his final days as Minister of Finance, Phrayā Suriyā felt it necessary to answer that point. On 8 February 1908 he wrote to the King explaining that in the past he had avoided becoming involved in any discussions with regard to his exchange policy for the simple reason that he believed that few people were able to understand fully the intricacies of the subject, and furthermore that it was difficult to explain his policies adequately to people who were not experts in the field<sup>139</sup>. This admission provides another example of Phrayā Suriyā's insularity which was noted in Chapter V, an insularity which, as suggested earlier, played a significant part in Phrayā Suriyā's failure at the Ministry of Finance. The result of his silence, the Minister admitted, was that on the one hand the achievements of his policy - for example, the fact that the revaluations had secured a reduction in the baht value of the Government's sterling payments in Europe in connection with the payment of interest on the 1905 and 1907 loans - had not been fully recognized, and that on the other hand he had been unjustly accused of causing a trade depression. Phrayā Suriyā emphasized that in his view the recent difficulties experienced by the export trade of the Kingdom were due primarily to the poor rice harvests of 1906 and 1907 and the depreciation of the dollar in Hongkong which made the export of Siamese rice to China difficult. But within a matter of days he was no longer Minister: the criticisms of his exchange policy fed the general attack on the Minister in the Council and led to his removal from office.

138. Bangkok Times, 13 January 1908.

139. Phrayā Suriyā to King, 8 February 1908 N.A.Kh. 26/15.

5. A re-examination of Phrayā Suriyā's exchange policy.

Before leaving this complex subject it would be instructive to consider just two aspects of Phrayā Suriyā's exchange policy in more detail. First, the crux of the criticism levelled against the Minister by the merchant community of Bangkok - that by advancing the Treasury selling rate from 16 baht : £ in August 1906 to 13 baht : £ in December 1907 the Ministry of Finance seriously damaged the Kingdom's rice export trade.

There can be little doubt that during Phrayā Suriyā's period as Minister of Finance there was a significant fall in the volume and baht value of rice exports - as the attendant table shows. However, the table also makes it clear

Rice Exports/Exchange Rate : 1900 - 1910/11

Year	<u>Rice Exports</u>		<u>Exchange</u>
	Volume (tons 000s)	Value ( <u>baht</u> m.)	Change in Treasury selling rate for <u>baht</u> against sterling
1900	414.5	37.50	not available
1901	684.9	60.28	not available
1902	798.5	69.86	not available
1903	585.3	56.67	19.50 <u>baht</u> :£ to 17.00 <u>baht</u> :£
1904	845.1	81.11	17.00 <u>baht</u> :£ to 16.67 <u>baht</u> :£
1905/06	865.1	83.13	16.67 <u>baht</u> :£ to 16.00 <u>baht</u> :£
1906/07	859.4	81.92	16.00 <u>baht</u> :£ to 13.33 <u>baht</u> :£
1907/08	795.8	75.58	13.33 <u>baht</u> :£ to 13.00 <u>baht</u> :£
1908/09	918.4	79.39	no change
1909/10	952.9	85.08	no change
1910/11	1,046.9	91.06	no change

Sources : James C. Ingram Thailand's Rice Trade and the Allocation of Resources in The Economic Development of South-East Asia C. D. Cowan (ed) London 1964 pp. 102-126 Appendix A. Annual Diplomatic and Consular Reports from H. M.'s Consuls in Siam. Memorandum on the Currency History of Siam 1902 - 1923, Williamson, June 1923 F.F.A. 30/22.

that compared with the previous poor rice export season - 1903 - the fall in the volume and baht value of rice exports in 1906/07 and 1907/08 was relatively slight. The relative mildness of the 1906/07 - 1907/08 depression is further emphasized when it is pointed out that in a trade depression which occurred

in 1911/12 - 1912/13 the figures for the volume and value of rice exports were some 50 per cent and 30 per cent respectively below the figures achieved in 1910/11<sup>140</sup>. It is also evident from the table that there was little correlation between the size of rice exports in a particular year and advances in the Treasury rate. Whilst the exchange rate was being raised from 19.50 baht : £ to 16.00 baht : £ the Kingdom's rice trade experienced both the depression of 1903 and the record exports of 1904 and 1905/06. Moreover, with the rate finally fixed at 13.00 baht : £ the rice trade experienced both the severe depression of 1911/12 - 1912/13 referred to above, and a record export season in 1913/14<sup>141</sup>. The poor volume of rice exports in 1911/12 - 1912/13 was due principally to a failure of the monsoon in those years<sup>142</sup> and indeed there seems little reason to doubt that significant fluctuations in the volume of rice exports during this period as a whole were due in the main to the changing fortunes of the monsoon. Therefore Phrayā Suriyā's claim that the difficulties experienced by the rice trade during his period as Minister of Finance were primarily the result of inadequate monsoon rains, and had relatively little to do with the revaluations of the baht which were then taking place, had some justification. In a sense the period 1908 - 1919 vindicated Phrayā Suriyā. Until the exchange mechanism was overwhelmed by a dramatic rise in the price of silver after the 1914 - 1918 War<sup>143</sup>, the Ministry of Finance was able to maintain the Treasury rate at 13 baht : £ with relative ease. Indeed, throughout most of the period - the exception of course being the depression years of 1911/12 - 1912/13 - the Treasury accumulated a large volume of sterling from its sales of baht to the banks<sup>144</sup>.

140. James C. Ingram Thailand's Rice Trade and the Allocation of Resources in The Economic Development of South-East Asia C.D.Cowan (ed) London 1964 pp.102-126 Appendix A.

141. ibid. The baht value of rice exports was 91.06 m. baht in 1910/11, 65.84 m. in 1911/12, 65.32 m. in 1912/13 and 98.70 m. in 1913/14.

142. James C. Ingram Economic Change in Thailand 1850 - 1970 p. 83.

143. See the following section.

144. The banks made their first purchases of baht since late 1906 in March 1910 when they sold the Treasury £40,000 (R.F.A.B. 1910/11 p. 11). Between April 1914 and November 1918 the Treasury issued 104.3 m. baht, equivalent to £8.02 m. (Memorandum on the Currency History of Siam 1902-1923, Williamson, June 1923 F.F.A. 30/22).

It should also be noted in Phrayā Suriyā's defence that Siam was not the only Asian power faced with severe speculation against its currency in 1907 and 1908. For example, from October 1907 the Government of India was faced with a substantial drop in the demand for rupees, partly the result of the partial failure of Indian harvests earlier in the year, partly the result of a sudden decline in foreign demand for Indian produce following a financial collapse in the United States<sup>145</sup>. In one year the sterling reserves of the Government were reduced from £30.9 m. to £11.15 m. but even the heavy sales of sterling could not prevent the exchange value of the rupee falling well below par. Furthermore, the Singapore Government, whose gold-standard scheme was being implemented at approximately the same time as that of Siam, had to contend with violent speculation in exchange between the time the new gold-based Straits dollar was introduced (September 1904) and when its exchange value was finally fixed (January 1906)<sup>146</sup>.

Yet these considerations - the relative mildness of the 1906 - 1907 depression in Siam, and the fact that other Asian powers experienced exchange difficulties in this period - should not obscure the important point that during the export seasons of 1906/07 and 1907/08 the Siamese rice trade still had to contend with an adverse and confusing exchange situation. Furthermore, it can be argued that the difficulties in the exchange were to a considerable extent the result of the policies and measures pursued by Phrayā Suriyā. First in October 1906, by refusing to accept that the Ministry of Finance had an obligation to meet all the demands of the banks for baht immediately - and by proceeding with a currency scheme in Puket which threatened to provoke a serious currency crisis in the capital - Phrayā Suriyā undermined the confidence of the banks in their ability to finance the export of the Kingdom's rice crop. Second by revaluing the baht in August 1906 and then again in the November of the same year - the two revaluations increasing the exchange value of the currency by approximately 15 per cent - the Ministry gave paddy prices and

145. K. N. S. Nambudiripad A Short History of Indian Currency Poona 1955 pp. 93-95. Vera Anstey The Economic Development of India 4th ed. London 1952 p. 414.

146. Chai Hon-Chan The Development of British Malaya 1896-1909 2nd ed. London 1967 pp. 94-95.

cultivators' incomes insufficient time to adjust to those and earlier advances in the rate<sup>147</sup>. Finally by making it be known that he intended to raise the exchange value of the baht to 12 baht : £ at a time when the merchant community of Bangkok felt that the existing rate of 13 1/3 baht : £ represented an overvaluation of the currency, and at a time when the price of silver was falling, Phrayā Suriyā undoubtedly contributed to the nervousness of the exchange. The confusion of the exchange in 1906/07 and 1907/08, coupled with the slight drop in the volume of rice exports in those years was sufficient to push several rice millers into financial difficulties<sup>148</sup> - particularly those supplying the China market where the trade also had to contend with the fluctuations in the Hongkong exchange. In addition 1906/07 saw the introduction of the new rates of land tax under the law of 1905, and the imposition of this additional financial burden on the rice cultivators at that particular point - though clearly no fault of Phrayā Suriyā - had an undoubted depressing effect on the rice trade<sup>149</sup>. In other words, even if it is accepted that in the long run the rate of 13 baht : £ did not represent an overvaluation of the currency, the Ministry of Finance would have been better advised to have revalued the baht after 1908 when the export trade was flourishing and when there was a strong demand for the currency, rather than at a time when trade had still not fully adjusted to the earlier revaluations, when a poor monsoon had produced a drop in rice exports, and when the rice farmers were faced with the first increase in the rates of land tax for over 50 years.

To that argument Phrayā Suriyā would have replied that in the second half of 1906, faced with the continuing rise in the price of silver he had no choice but to revalue the baht in order to protect the currency. In fact there was an alternative - to debase the baht. The Governments of the Philippines and the Straits Settlements - which were also attempting to establish a gold standard

147. Annual Diplomatic and Consular Reports from H.M.'s Consuls in Siam 1908 (for 1906) CXV pp. 705-734.

148. Annual Diplomatic and Consular Reports from H.M.'s Consuls in Siam 1909 (for 1907) CXVIII pp. 33-66. Phrayā Suriyā to King, 8 February 1908 N.A.Kh.26/15.

149. Annual Diplomatic and Consular Reports from H.M.'s Consuls in Siam 1908 (for 1906) CXV pp. 705-734.

with a silver coin - protected their currencies in 1906 by reducing their silver content rather than by revaluation<sup>150</sup>, and the merchant community of Bangkok appear to have expected Siam to follow that example<sup>151</sup>. But Phrayā Suriyā rejected this alternative, principally because he believed that the Siamese population would lose faith in a baht which had become merely a token coin<sup>152</sup>. This was hardly a strong argument: the fact that the people had accepted the introduction of a Government paper currency in 1902 and the demonetization of the bullet-shaped baht in 1904 with relatively little difficulty and at the end of the decade were to adjust to the introduction of an entirely unfamiliar system of small denomination coins suggests that the debasement of the silver baht could have been carried out with little serious opposition from the public. However, as Williamson explained in his report on the budget for 1907/08, there was a further argument against debasement: a reduction in either the fineness or the weight of the silver content of the baht would have involved the Ministry of Finance in an extensive recoining operation<sup>153</sup>, far beyond the existing capabilities of the Royal Mint. But the decision to retain the current specifications for the silver content of the baht - a decision confirmed by the Gold Standard Act of 1908 - was to have serious consequences for the future operation of the exchange mechanism, a point which will be considered in the following section.

#### 6. The introduction of the Gold Standard Act, November 1908.

Phrayā Suriyā left one important legacy for his successor from his exchange policy - a draft Gold Standard Act. The draft act had been prepared in early 1907<sup>154</sup>. Its most important points were as follows<sup>155</sup>:

150. Bangkok Times, 28 December 1906. Chai Hon-Chan op. cit. p. 95.

151. Bangkok Times, 15 February 1907.

152. ibid.

153. R.F.A.B. 1907/08 p. 11.

154. Phrayā Suriyā to Prince Sommot, 26 March 1907 N.A.Kh. 26/15.

155. The following quotations are taken from an English version of the draft. In March 1907 the Thai translation had not been completed (Phrayā Suriyā to Prince Sommot, 26 March 1907) which strongly suggests that the draft was prepared by Williamson.

1. 'The theoretical unit of the Siamese Monetary System shall be the gold tical of 54 centigrammes of pure gold.' By introducing in theory - though not necessarily issuing - a gold coin containing a specified amount of gold, the Government was fixing the exchange value of the currency in relation to other gold-based currencies, principally sterling.
2. 'The silver tical containing 13.5 grammes of pure silver shall, under this Act, have a value equal to the aforesaid 54 centigrammes of pure gold.' In other words, under Siamese law the exchange value of the silver baht would correspond exactly to that of the theoretical gold baht, whatever the intrinsic value of the silver coin.
3. Provision was made for the minting and issue of silver baht and gold coins by the Treasury only in exchange for gold, either coined or in bars or gold leaf, in the proportion of 54 centigrammes of pure gold for one baht. The obligation to issue silver coins in exchange for gold was to cease when the value of the silver in each baht coin exceeded the value of 54 centigrammes of pure gold.<sup>156</sup>.
4. Provision was made for the creation of a separate exchange fund to maintain the market value of the currency near its official parity.
5. A 1 baht and 10 baht gold coin were to be issued.

The draft act had been briefly discussed by the Council of Ministers in April 1907<sup>157</sup>, but no decisions were taken, partly because the King was in Europe and partly because the Council was clearly unwilling to approve such an important piece of legislation whilst Phrayā Suriyā's exchange policy as a whole was a matter of controversy. However, the Minister was able to complete much of the essential groundwork for the issue of the Act. He placed orders

156. A familiar problem - the danger of the intrinsic value of the silver baht exceeding its exchange value. This is an important point, and one which will be dealt with at the end of this section.

157. Report on the meeting of the Council of Ministers, 29 April 1907 N.A.Kh. 26/15.

for the production of the gold coins at the Paris Mint and for the minting of a new subsidiary decimal coinage in Brussels<sup>158</sup>. In May 1907 he opened a Government account with the National Provincial Bank in London, an account that was intended solely for the Ministry's exchange transactions and was clearly the embryo of the exchange reserve fund envisaged in the gold standard legislation<sup>159</sup>.

In April 1908 Williamson proposed to the new Minister, Prince Chanthaburi, that the Ministry proceed with the promulgation of Phrayā Suriyā's act<sup>160</sup>. The Adviser argued that the existence of the draft act was common knowledge among the Bangkok business community and if the Government were to drop the measure now, this could be interpreted as a sign that the Ministry was weakening in its resolve to support the exchange. Second, the passage of the act would finally fix the exchange value of the baht in terms of gold, and the uncertainty, rumour and speculation that had constantly threatened the stability of the Treasury rate since 1906 would be removed. These were strong arguments: since the close of the 1907/08 rice export season, the Ministry of Finance had been hard pressed to support the exchange<sup>161</sup>. In May 1908 Prince Chanthaburi was forced to set aside a further £500,000 from the proceeds of the 1907 loan to support the rate<sup>162</sup>, which meant that of the £2.797 m. raised in 1907, £1.432 m. had been ear-marked for the exchange reserve fund and for the minting of the new coins to be introduced under the gold standard scheme<sup>163</sup>. In response to this measure the European banks had agreed not to sell sterling drafts on London below a certain rate<sup>164</sup>.

158. Prince Chanthaburi to King, 13 October 1908 N.A.Kh. 10/9.

159. Phrayā Suriyā to King, 7 May 1907 N.A.Kh. 20. 1/22.

160. Memorandum, Gold Standard Act, Williamson, 17 April 1908 F.F.A. 23/8.

161. Prince Chanthaburi to King, 18 May 1908 N.A.Kh. 26/16.

162. Report on the meeting of the Council of Ministers 18 May 1908 N.A.Kh. 26/16. The transfer of an additional £0.5 m. to the exchange account was regarded as merely a temporary measure: when the Treasury recommenced purchasing sterling from the banks, the £0.5 m. was to be repaid to the railway construction fund.

163. Prince Chanthaburi to King, 18 May 1908 N.A.Kh. 26/16.

164. Memorandum, Arrangement with the Banks for support of Exchange, Williamson, 16 January 1911 F.F.A. 23/2.

On 4 November 1908 Prince Chanthaburi submitted the Gold Standard Act to the King<sup>165</sup>. The Act was essentially the same as that drafted by Phrayā Suriyā and Williamson in 1907, except that whereas Phrayā Suriyā had left provision for raising the Treasury selling rate to 12 baht : £, Prince Chanthaburi decided to leave it unaltered at 13 baht : £. The legislation was approved by the King without amendment<sup>166</sup>, and was promulgated on 11 November 1908<sup>167</sup>. Those clauses of the Act concerned with the issue of new coins did not come into force immediately, the reason being that in November 1908 the decimal satang coins and the gold coins being minted in Europe had still not arrived in Siam<sup>168</sup>. However, by May 1909 the Government had received sufficient satang to be able to demonetize the old copper att and solist<sup>169</sup>.

The adoption of a gold exchange standard for the baht, a measure completed by the passing of the Gold Standard Act in November 1908, was a major achievement of the Ministry of Finance in this period. Until the exchange mechanism was overwhelmed by a currency and trade crisis some 11 years later, it insured the trade of the Kingdom against sudden, arbitrary fluctuations in the Treasury selling rate, and it assured the Government that the baht value of its sterling payments in Europe - principally those made in connection with the 1905 and 1907 European loans - would not increase. In fact it secured all the benefits of a stable exchange so clearly stated by Rivett-Carnac when he had initiated the measure by closing the Mint to the free coinage of silver almost six years previously. The 1908 Act set the seal on the Government's gold exchange standard policy in two important respects. First, obviously, it fixed the exchange value of the baht at 13 baht : £. Second, it gave the exchange reserve fund, which had been in existence in effect since early 1907, legal sanction: after the passing of the Act the fund could not be regarded, either by the Ministry of Finance or the public, as merely a temporary expedient to maintain the

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165. Prince Chanthaburi to King, 4 November 1908 N.A.Kh. 26/16.

166 King to Prince Chanthaburi, 6 November 1908 N.A.Kh. 26/16.

167. Prince Chanthaburi to King, 4 November 1908 N.A.Kh. 26/16.

168. Prince Chanthaburi to King, 13 October 1908 N.A.Kh. 10/9.

169. Prince Chanthaburi to King, 3 May 1909 N.A.Kh. 26/16.

exchange value of the currency during a difficult period<sup>170</sup>. It guaranteed the ability of the Government to maintain the parity of the baht at its declared level in all but the most abnormal trading conditions. On the day that the exchange reserve fund was legally constituted it consisted of the baht equivalent of just over 12.1 m. baht, so 12.0 m. baht was taken as the statutory size of the fund<sup>171</sup>. The fund was to be kept completely separate from all other Government accounts and reserves.

The ten-baht gold coin regarded by Phraya Suriyā as a very important element in the scheme was never minted. However, this did not jeopardize the successful operation of the gold standard mechanism: it was essential only that the exchange value of the baht was expressed in terms of gold and that the Ministry of Finance had adequate reserves to maintain that exchange value.

One last point with regard to the Siamese Government's gold standard scheme needs to be made. The 1908 Gold Standard Act did not guarantee the Government against being forced to revalue the currency in the future: the silver content of the baht remained unaltered and as a result the currency remained vulnerable to large rises in the price of silver. An exchange reserve fund, no matter how large, was no protection in those circumstances. This point was dramatically confirmed towards the end of the following decade. In 1916 the price of silver began to rise and soon passed the point - 39d. per ounce - at which it became profitable to export the currency as bullion. The Government's first line of defence was to prohibit the export of silver in 1917, but in 1919 the price of the metal rose very rapidly - from 49½d. per ounce to 82½d. per ounce in eight months<sup>172</sup> - and between September and November 1919 the Government was forced to revalue the baht four times, from 13 baht : £ to 9.54 baht : £. The

170. R.F.A.B. 1909/10 p. 9. Bangkok Times, 20 November 1908.

171. Note on the creation of the Gold Standard Reserve Fund, Williamson, 27 February 1911 F.F.A. 23/14. Memorandum on the Currency History of Siam, 1902-1923, Williamson, June 1923 F.F.A. 30/22. The important question as to whether the Government was justified in establishing such a large fund to support exchange will be considered in the concluding chapter, as part of a wider discussion of the Government's allocation of its resources.

172. R.F.A.B. 1920/21 p. 10.

rate would have gone still higher had not the Government decided to reduce the silver content of the coin in January 1920<sup>173</sup>.

At the same time the Ministry of Finance was faced with a very large demand from the banks for sterling. In part this was a consequence of the baht revaluations and the drop in the baht price of imports. More importantly in 1919 the Government was forced to prohibit the export of rice - principally because of the failure of the rice crop - and the banks no longer requiring baht to finance the export of the crop returned them to the Treasury by purchasing sterling. From November 1919 the Treasury's sales of sterling were effected at the rate of 9.54 baht : £ yet most of the Government's sterling holdings had been originally secured when the rate had been 13 baht : £. To minimize its sales of sterling, the Ministry needed to devalue the baht by a substantial amount. This would also have had the effect of reducing the level of imports.

Therefore the Government was faced with the unenviable choice of revaluing the baht and protecting the currency, or devaluing and protecting the sterling reserves. In principle the Government decided for the former and in 1920/21 alone the Treasury sold £5.0 m. to the banks: in practice the Ministry tried to steer a middle path and in so doing failed to revalue the baht sufficiently to protect the currency and undoubtedly a considerable volume of coins left the Kingdom despite the ban on the export of silver. The Government lost much of its sterling reserves and its currency. There were other costs, not least of which was the fact that in 1922 and 1924 the Government raised two loans in Europe at high rates of interest in order to rebuild its sterling reserves<sup>174</sup>.

The dilemma which confronted the Government in 1919 - 1920 as to whether to revalue or devalue the currency would not have arisen if in 1908, or at some later date, the Ministry of Finance had significantly reduced the silver content of the baht. With the baht converted to a token coin the Ministry

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173. *ibid.*

174. For a fuller account of this crisis, based on the Files of the Financial Adviser, see James C. Ingram Economic Change in Thailand 1850-1970 pp. 155-161. Unless otherwise noted the account above is based on that of Professor Ingram and Williamson's Memorandum on the Currency History of Siam, 1902-1923 F.F.A. 30/22.

could have met the trade crisis of 1919 - 1920 by devaluing the currency without having to concern itself with the rising price of silver. Indeed, it is extremely difficult to see why the Ministry of Finance did not debase the currency in the late 1900s: the fact that the Government had been forced to revalue the baht repeatedly over the period from late 1902 to late 1906 in response to increases in the price of silver had clearly shown the difficulties which could arise in attempting to operate a gold exchange mechanism with a silver currency<sup>175</sup>. The principal argument against reducing either the fineness or the weight of the silver content of the baht was that apparently such an operation would have placed a severe strain on the capabilities of the Royal Mint<sup>176</sup>. If this consideration weighed most heavily with Prince Chanthaburi and Williamson when they finally came to prepare the gold standard legislation in 1908 then, with hindsight, it was a serious misjudgement - a major flaw in one of the most important and complex financial reforms promoted during the reign of King Chulalongkorn.

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175. The Bangkok Times, which supported the Government's gold standard policy during the difficult period 1906 - 1908, assumed that when the Gold Standard Act was finally issued the silver content of the baht would be reduced. Bangkok Times, 6 December 1906/15 February 1907.

176. R.F.A.B. 1907/08 p. 11.

## CHAPTER VII

The collapse and abolition of the tax farm system, 1885 - 1910.

A system of tax farming - where the monopoly right to collect a particular tax or to sell a particular item or service is leased by the Government to a private individual for a specific period of time - was a comparatively recent innovation in Siam. It first appeared during the reign of Rama II (1809-1824) when the system was applied with respect to the manufacture and sale of spirits, the operation of certain types of gambling den, and the collection of taxes on shops<sup>1</sup>; then in the 1830s and 1840s it was extended to almost 40 sources of revenue<sup>2</sup>. The development of this form of revenue collection in Siam at this point was due to two main factors. Most importantly the reign of Rama III (1824-1851) saw a significant reduction in the King's monopsonist/monopolist control over the foreign trade of the Kingdom, a control which had provided the Crown with a major part of its cash income in the earlier reigns of the Bangkok period. The dismantling of this system of royal trading was partly the result of pressure from the 1820s from western merchants and diplomats to have all restrictions on the foreign trade of the Kingdom removed, and partly the result of a realization within Siam itself that, hide-bound by royal monopolies, the Kingdom would be unable to compete with aggressive western merchants - particularly in third markets. Indeed it was even feared that the trading enterprises undertaken in the name of the King would become an actual drain on the treasury<sup>3</sup>. With the reduction in royal trading alternative sources of cash income had to be found. Second, the reign of Rama III also saw a significant increase in the level of Chinese immigration into Siam and undoubtedly among the immigrants were Chinese well versed in the principles and administrative methods of tax farming, long familiar in

1. Walter F. Vella Siam under Rama III New York 1957 p. 23. G. William Skinner Chinese Society in Thailand Cornell 1957 p. 123. Neon Snidvongs The Development of Siamese Relations with Britain and France in the Reign of Maha Mongkut 1851-1868 Ph.D. thesis London 1961 p. 28.

2. Neon Snidvongs op. cit. p. 28.

3. ibid pp. 22-25/p. 128.

China itself. Initially, the Chinese took over several of the royal trading monopolies<sup>4</sup>, but increasingly they developed interests in what were to be the major tax farms of the fifth reign - the opium, spirit, gambling and lottery monopolies. Indeed the opium monopoly, which came into existence in 1851, was established following a petition from a group of prominent Chinese to Rama IV asking the King to legalise the sale of opium in Siam and requesting the sole right to prepare and sell the drug in the Kingdom<sup>5</sup>. It is possible that the creation of other tax farms was due, at least in part, to similar pressure from Chinese tax farmers and merchants.

In the second half of the nineteenth century two basic types of tax farm developed in Siam. First, that where the tax farmer collected a specific tax or duty - for example the tax on fishing implements - at rates laid down by the Government. The farmer undertook to pay the Government a stipulated sum agreed before the tax was actually collected: the amount of revenue collected above that figure represented the farmer's profit. The second type of tax farm, and by the end of the century by far the more important, was that where the farmer was granted in return for an agreed payment to the Government, the monopoly right to perform a certain service or to sell a certain product in a specified area for a specified period of time. The most notable examples of this type of farm were the opium, spirit, gambling and lottery monopolies. All the tax farmers were appointed by public auction, the contract for the farm going to the highest bidder. It is important to note that virtually all the farms demanded extensive administration. Very few farmers were involved in simply collecting a specific tax: most farms, and all the principal farms, could be operated only by an organization capable of, for example, administering gambling dens or the preparation and sale of opium throughout a major part of the Kingdom.

4. G. William Skinner op cit. p. 118.

5. Prince Damrong Tamnān phāsi Ekkōn bāng yāng (The History of some Taxes): in Latthi thammām tāng tāng Bangkok 1963 pp. 143-264. Tamnān phāsi fin (History of the Opium Tax) pp. 233-243.

By the 1890s and 1900s almost half the Government's revenue was derived from the tax and monopoly farms, as the following table shows :

Table 1. Contribution of tax and monopoly farms to Government revenue  
1895/96 - 1905/06 (m. baht)

	1895/96	1900/01	1905/06
Total Revenue	18.074	35.611	51.657
Opium Farms *	2.567	5.432	10.260
Spirit Farms	2.589	3.412	4.100
Gambling Farms	2.778	5.244	5.732
Lottery Farms	1.219	1.524	2.391
Approximate % contribution of 4 monopolies to total revenue	50%	43%	43%
Miscellaneous Farms **	0.803	0.966	0.512

Sources : R.F.A.B. 1903/04 pp. 22-23; 1907/08 p. 19.

\* These figures for the opium, spirit, gambling and lottery farms should be used with care. First, in some cases the figure quoted includes not only the rental from the farm but also income collected by the Government itself: for example the figure for opium includes the Government's profit from the importation of raw opium by the Customs Department and its sale to the farmers. Neither does the figure given always include all the revenue from that source: for example, with regard to the gambling monopoly the revenue from betting licence fees (whether collected by officials or by the farmer, it is not clear) is frequently quoted separately or included with 'miscellaneous fees'. However, the importance of such statistical complexities should not be exaggerated: they simply mean that the figures above do not give an exact indication of the proportion of the Government's revenue actually collected by the farmers.

\*\* This includes such items as the Boats and Shops farm, the Chinese Cakes farm and the Bird's Nest farm. The 1895/96 and 1900/01 figures are almost certainly under-estimates: in those years some taxes - in particular land and fishery taxes - were still partially farmed out, but since it is impossible to determine the proportion of such revenues collected by the farmers, no figure under this head can be included. By 1905/06 such taxes were either entrusted solely to officials (certainly the case with the land and fishery taxes), or had been abolished. The important point is that it is impossible to give an accurate figure for the proportion of the Government's total revenue collected by tax farmers.

The table also makes it clear that of the revenues derived from the tax farms, a very high proportion came from the opium, spirit, gambling and lottery monopolies. Indeed in the last of the years noted above, 1905/06, the revenue from the opium monopoly, at 10.26 m. baht, was by far and away the largest

single source of income for the Government: for comparison the most important non-farm source of revenue in 1905/06 was that derived from customs duties - 5.56 m. baht. To make the same point another way, in 1905/06 the revenue derived from the opium monopoly was sufficient to cover the entire expenditure of the Ministries of Foreign Affairs, the Capital, Finance, Justice, and Public Works, or alternatively the entire expenditure of the Ministry of the Interior including expenditure on the provincial administration. The Government's heavy dependence on the major tax farmers in the 1890s and 1900s is clear, but it was a dependence heightened by the fact that it was precisely in those decades that the Government - committed to an extensive reform programme - particularly required an expanding yet secure flow of income.

However, it was the Government's misfortune that these decades also saw the tax farm structure in Siam become increasingly unstable. From the mid-1890s many of the principal tax farmers found it progressively more difficult to make sufficient profit from the major monopolies to enable them to cover their commitments to the Treasury, and inevitably the Ministry of Finance was forced to consider abolishing the farms and introducing revenue collections and administration of the monopolies by direct government agency in order to protect the administration's sources of income. It is these two related developments which are the principal concern of this chapter.

Because there were so many tax and monopoly farms, each with its own peculiar structure and problems of administration, it is clearly impossible to consider in detail the history of each of them in this period. Therefore it is proposed in the following section to give a general discussion of the defects and weaknesses of the tax farm system as a whole in Siam in the 1890s and 1900s: at the same time some attention will be paid to the general problems faced by the Ministry of Finance when it came to consider the abolition of the farms. This general discussion will be based on a consideration of the opium, spirit, gambling and lottery monopolies - the principal farms. Then in the second and third sections these general points will be illustrated by a detailed examination of the collapse of the opium farm and the development of government

administration of the monopoly over the period 1905 to 1910. In the final section a brief reference will be made to the abolition of the other principal farms in the 1900s and the final disappearance of the tax farm system in the sixth reign.

#### 1. The defects and weaknesses of the tax farm system.

From the point of view of the Siamese Government, perhaps the major defect of the tax farm system at the end of the nineteenth century was that, as was noted earlier, the administration was so dependent upon it for such a large proportion of its revenue. In fact the degree of dependence was even greater than was suggested above. First, it was usual for the principal farms to be so auctioned that one tax farmer, or rather one syndicate of farmers, could gain control of a particular tax or monopoly for a large area of the Kingdom: moreover it was quite common for one syndicate to bid successfully for a major contract of a particular monopoly and then by coming to agreements with the farmers controlling the other parts of the farm or by having its individual members themselves bid for the other sections of the farm, to gain effective control over the monopoly throughout virtually the whole Kingdom. This was particularly the case with the opium monopoly. Clearly in those circumstances there was always the danger that if the syndicate ran into financial difficulties, the whole or at least a major part of the Government's revenue from that source was immediately at risk. Furthermore, it was not unusual for one farmer or syndicate to have interests in a number of farms: for example one of the principal members of the syndicate which gained control of virtually all the opium sales in Siam in April 1905, Luang Maitriwanit, was also a major partner in the group which held the contract for the Bangkok spirit farm from April 1901 to March 1906<sup>6</sup>. Or again Phra Phiphit, who administered the Bangkok spirit farm prior to 1901, also had interests in several provincial spirit farms, a number of Bangkok gambling dens and owned

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6. Prince Mahit to King, 2 February 1905 N.A.Kh. 14. lk/24. Luang Maitriwanit and Phraya Boribun Kosakon to King, 28 April 1906 N.A.Kh. 14. lkh/28.

204

several rice mills<sup>7</sup>. Again the danger was that if one section of a farmer's business interests ran into difficulties his financial position as a whole, and consequently a whole series of Government revenues, were placed in jeopardy. In short, the Government was dependent for its major sources of revenue on a small number of extremely powerful syndicates - certainly less than ten, involving perhaps less than 30 tax farmers: furthermore, because of their interlocking interests the syndicates were precariously interdependent.

The fact that relatively few powerful syndicates competed for a small number of highly profitable contracts was in turn one of the principal reasons for the increasing instability of the tax farm system in this period. In the first place, the considerable profits to be made from the farms and the patronage associated with the position of an important tax farmer encouraged intense rivalry between the syndicates competing for control of the major monopolies: indeed no stratagem, legal or illegal, was ignored in attempts by incumbent farmers to retain their contracts, nor by rival groups in their attempts to ruin the current syndicate. Such rivalry reached its peak on almost every occasion a major contract came up for reauction. At such times a common ruse for a defeated opium or spirits syndicate was for it to sell off at very low prices its remaining stock of opium or spirits to the public, so ruining the monopoly for its successor. This was illegal. According to the regulations governing the administration of such monopolies, within 15 days of the auction of a contract the incoming farmer was expected to examine the stock of his predecessor, make an estimate of its size and reach an agreement with the retiring farmer as to the amount of compensation to be paid for the spirit or opium already in the retail market. In addition the retiring farmer was obliged to sell his remaining unsold stock to the incoming syndicate at prices fixed by the Government. But with so many retail outlets to be covered it was impossible for a new syndicate to complete its inspection of the retiring farmer's stock and sales in the time available: therefore it was the usual practice for the size of the existing stocks and sales to be 'estimated'

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7. Prince Mahit to King, 13 July 1900 N.A.Kh. 14. 1kh/20.

by a process of bargaining between the old and new farmers.<sup>8</sup> Clearly the opportunities for a retiring syndicate to deceive its successor - to sell it only a fraction of its actual stock, or to pay it compensation for far less opium or spirit than already existed in the retail market - were considerable: consequently there was always a possibility that an incoming syndicate would find that, having been deceived by the old farmer, its own sales of opium or spirit were ruined in the opening months of the contract. In short, even when a defeated syndicate did not ignore the law altogether and simply sell off its remaining stock to the public, the opportunities still existed for rival spirit and opium syndicates to inflict considerable financial damage on each other during the transfer of a contract. Indeed, as will be shown in the following section, the use of such tactics was a major factor in the collapse of the opium monopoly in 1905. However, it should be noted that comparable sharp practices developed with respect to other farms: for example in the case of the huai lottery - a lottery where the public were required to foretell the particular character previously selected by the farmer for that day - a retiring farmer frequently ran the risk of his senior employees transferring their allegiance to the incoming farmer in the final days of his contract. In that event the old farmer could lose heavily if his successor was informed of the selected characters for those last few days<sup>9</sup>.

Second, the intense rivalry between the syndicates for control of the major farms eventually led the syndicates to enter exceptionally high bids for the contracts. On most occasions the Government was clearly pleased to see such a development since obviously it implied an increase in the revenue from that particular source. Yet in some cases, in its determination to secure a contract, a syndicate would bid more for a farm than the farm could actually bear: consequently within a matter of months the syndicate would either default on its payments to the Government or run into serious financial

8. Prince Sirithat Sangkāt to King, 25 April 1896 N.A.Kh. 14. 1kh/12.

9. B. O. Cartwright The Huey Lottery The Fiftieth Anniversary Commemorative Publication of the Siam Society, Bangkok 1954, vol. 1 pp. 131-149, p. 135.

difficulties. Again this point is demonstrated by the history of the opium monopoly in the mid-1900s.

The rivalry between the tax farming syndicates was given a particularly sinister and violent edge by the fact that each of the principal syndicates was closely associated with a particular Chinese secret society<sup>10</sup>. Each major syndicate was thereby supported by an organization well versed in the violent practices of gang-rule: rival syndicates were physically threatened not to participate in the auctions for the farms, the operations of incumbent syndicates were disrupted and opposing farmers intimidated. At the same time a secret society would attempt to protect the interests of its own syndicate against the equally violent attacks of other groups. In return for such physical protection and support the Chinese secret societies received a proportion of the profits from the administration of the farms: indeed it was one of their major sources of income. In this period the Siamese authorities constantly feared that the violent rivalry between the Chinese secret societies could easily erupt into large-scale rioting which the police would find difficult to control: indeed such a riot occurred in June 1889<sup>11</sup>. It is therefore likely that for the Government one of the attractions of the abolition of the tax farm system and the consequent disappearance of the farming syndicates was that it would remove one of the major economic props of the Chinese secret societies in Siam<sup>12</sup>.

The financial stability of the monopoly farms in this period was further undermined by the fact that each monopoly had to contend with strong competition from an illegal trade in its specific field of interest. This was notably the

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10. G. William Skinner Chinese Society in Thailand, Cornell 1957, p. 140.  
Phonakun Angkinan Botbât chaochîn nai prathetthai nai ratchasamai phrabat somdet phra chunlaechomklao chaoyuhua (The Role of the Chinese in Siam during the Reign of King Chulalongkorn) Bangkok 1972 p. 51/p. 57.

11. Phonakun Angkinan op. cit. p. 55.

12. The relationship between the farming syndicates and the Chinese secret societies was an important indication of the fact that almost invariably the tax farmers in Siam were of Chinese origin. However, it should be noted that the majority of farmers were given Siamese titles and took Siamese names - for example, Phraya Thip Kosa, Luang Sawami Phakdi. In the fifth reign the lottery and gambling farmers were automatically given the rank of luang. Skinner argues that this was an attempt by the Government to secure the loyalty of the Chinese élite (Skinner op. cit. pp. 153-154).

case with the opium and spirit monopolies. The legal sales of almost every opium syndicate were damaged by a continuous traffic in smuggled opium entering the Kingdom either from French Indo-China over the Mekong river in the north, or through Chantabun in the east<sup>13</sup>, or from Penang in the south<sup>14</sup>. For the spirit syndicates the main threat came from the output of numerous illicit stills scattered throughout the Kingdom: in particular the sales of the Bangkok spirit farmer were frequently threatened by the illegal production of spirit by a community of Vietnamese in the Samsen district of the capital<sup>15</sup>, an enterprise which neither the police nor the forces of the syndicates themselves could successfully control<sup>16</sup>. The problems of illicit trade were exacerbated by the fact that in many instances the small concessionaires attached to the syndicates - such as the opium den managers and spirit retailers - were themselves the principal outlets for illegal opium and liquor. In most cases the concessionaires were liable to heavy fines by the syndicates if they failed to sell a stipulated amount of opium or spirits over a specific period. In fact because of the considerable illegal trade in opium and spirits these concessionaires frequently failed to sell their stipulated quotas, and so were repeatedly fined. But in order to pay the fines the concessionaires were forced to become outlets for illegal opium or spirits, and this in turn aggravated the basic problem. Eventually a situation was reached where the concessionaires were making substantial profits from their illicit trade - certainly sufficient to cover the fines levied by the main syndicate - while the syndicate itself was pushed deeper into financial difficulties by the growth in the traffic in illegal opium or spirit. The important point was that because it was relatively easy to smuggle opium into Siam, and relatively easy to establish stills

13. Petition from Phraya Thip Kosa syndicate to King, 20 December 1906  
N.A.Kh. 14. 1k/33.

14. Prince Devawongse to Prince Sommot, 30 November 1892 N.A.Kh. 14. 1k/7.

15. Prince Mahit to King, 20 February 1901 N.A.Kh. 14. 1kh/20.

16. The Vietnamese community, determined to maintain its illegal, though highly profitable, industry, established a complex network of barriers on the main bridges into the village which made a surprise entry by the police almost impossible: raids by boat were repulsed by fire-arms and stones. Eric St. John Lawson (Bangkok Commissioner of Police) to Prince Naret, 27 July 1905/6 December 1905 N.A.Kh. 14. 1kh/25.

in secluded parts of the Kingdom, the Siamese authorities could do comparatively little to protect the syndicates and maintain the monopolies against such illegal trade.

Therefore in the 1890s and 1900s the Ministry of Finance was faced with extremely powerful, yet increasingly unstable tax farming syndicates. However, the situation was made considerably worse by the fact that once a syndicate actually ran into financial difficulties and was unable to meet its commitments to the Treasury, the Ministry could do relatively little to protect its revenue. According to the law, if a farmer failed to pay a certain number of monthly instalments for his farm (usually two consecutive months), the Ministry was obliged to confiscate the farm and reauction the contract. If the farm attracted a lower bid on reauction - and usually it did since clearly the existing farmer had lost money on the enterprise - the retiring farmer was liable for the whole of the Government's loss. At first the Ministry of Finance would confiscate the security which each syndicate had to deposit with the Government on taking over a farm, but if necessary the Ministry was empowered to seize all the farmer's property in order to secure payment. The difficulty was that if a syndicate had been forced to abandon a contract because it was in financial difficulties, it was unlikely to be able to meet its debts in connection with the reauction of the farm. In short, there would be little benefit in applying the law. However, there were two complicating factors. First, since the syndicates rarely revealed the true picture of their financial operations, the Ministry of Finance was sceptical whenever a farmer declared himself unable to meet his commitments to the Government: there were sufficient examples of supposedly bankrupt syndicates successfully bidding for new contracts within months of abandoning their old one to feed the Ministry's scepticism, to arouse suspicion that the farmer was simply making less profit than he had originally hoped. Second, if the Ministry of Finance failed to enforce the law against defaulting farmers there was always the fear that other syndicates would be encouraged to abandon their contracts at the first sign of financial difficulty. As it was the farmers seemed little

concerned to pay their monthly instalments to the Treasury in full and on time: in 1906 it was reported that only 16 per cent of all tax farm payments were paid to the Government by the stipulated date<sup>17</sup>.

These were the principal defects of the tax farming system in this period. But for the Government the system had other important failings. First, there was concern that the major monopoly farms involved the promotion of notable social vices - gambling, liquor consumption and opium smoking: there was particular concern with regard to gambling, partly because it was felt that the gambling dens encouraged crime, partly because gambling was the only one of the three vices which involved the Siamese population to a large extent. It was obviously in the syndicates' financial interest to employ every device and subterfuge to encourage the population to gamble, drink and smoke more opium than it would otherwise have done<sup>18</sup>. Yet although the Government welcomed the expansion of its revenue consequent upon such increased consumption, unlike the farmers it was inevitably concerned about the social consequences of such a development. The fact that the Chinese secret societies were so closely involved with the administration of these monopolies only added to the authorities' disquiet. Second, with regard to those farms where the farmer was concerned with the collection of a specific tax or duty, again the financial interests of the syndicate and the welfare of the community as a whole were often in conflict. In order to make as much profit as possible from such a contract, a tax farmer needed to search out every individual liable for the particular tax in their district, and harass them for payment: oppression and injustice were in the nature of the system. The Government's fear was that such practices could easily provoke serious disturbances within the Kingdom, particularly as the tax farmers were almost invariably Chinese and were taxing a predominantly Siamese population.

This is a fairly imposing list of weaknesses, though it is important to remember that no tax or monopoly farm exhibited all these failings. Indeed most of the smaller farms caused the authorities few problems, and even such

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17. Memorandum: Inspection of the Chao Cham Nuan Accounts. Williamson, 31 October 1906 F.F.A. 1/2.

18. G. William Skinner op. cit. p. 121.

an important monopoly as the lottery farm provoked only minor administrative difficulties for the Ministry of Finance in this period. In fact the only farms to be seriously threatened by such problems as illegal trade and fierce rivalry between the syndicates were the opium and spirit farms - though of course they were also the most profitable farms for the Government. Moreover it is important to note that the tax farm system did secure several significant advantages for the authorities. First, it greatly simplified a part of the Government's budget procedures: as soon as the farms for a particular year had been auctioned, the Ministry of Finance had a relatively accurate assessment of the revenue from those sources for the coming year. Of much greater importance, the tax farm system removed a considerable and wide-ranging administrative burden from the Government for, as has been shown above, the tax farmers undertook such complex administrative operations as the preparation, distribution and sale of opium throughout the whole Kingdom. When, in the late 1890s, the Ministry of Finance first seriously considered the abolition of the principal monopolies, the immediate question was whether the Government had the administrative machinery capable of taking over all those responsibilities.

Until the mid-1900s the concensus of opinion within the Government was that it did not<sup>19</sup>. In particular it was felt that the administration contained insufficient numbers of qualified, suitable officials to administer the monopolies throughout Siam: there was in any event a shortage of officials with a general administrative training, but in addition very few, if any, of those would have had a detailed knowledge of the operations of the principal monopolies. Moreover, there was a fear that since western-style concepts of financial propriety had only recently begun to be introduced into the bureaucracy, it was possible that the placing of control of such a lucrative enterprise as, say, the opium monopoly, into the hands of comparatively unqualified officials would lead to a dramatic increase in the embezzlement and mismanagement of the revenues. There was a danger that an inefficient and corrupt administration of the monopolies by officials would secure a lower

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19. Prince Mahit to King, 11 August 1905 N.A.Kh. 14. lk/28.

and more unstable revenue than that produced by the financially ailing tax farm syndicates.

## 2. The collapse of the opium monopoly, 1905 - 1907.

Most of the defects and weaknesses of the tax farming system outlined in the preceding section were apparent in the operations of the opium monopoly, the single most important source of revenue for the Government. Not surprisingly therefore from as early as the late 1880s successive Ministers of Finance made determined efforts to amend the structure and operations of the monopoly to give it greater stability. The measures taken by Prince Narathip in 1889 - 1890 and Prince Sirithat Sangkāt in 1895 - 1896 in this respect have already been considered in Chapter II<sup>20</sup>. Similar measures were promoted by Prince Mahit: for example, for the auction for the 1902/03 - 1904/05 contracts the Minister reorganized the structure of the monopoly, creating seven separate farms including one large farm covering the central portion of the Kingdom<sup>21</sup>. At the same time renewed efforts were made to regulate the supply of raw opium to the syndicates in order to prevent the farmers building up large stocks of the drug which they could then release onto the market at the end of their contracts in an attempt to damage rival syndicates. Yet it was clear that the problems which periodically threatened the stability of the opium syndicates could be neither removed nor seriously modified by legislation: the tax farm system had developed inherent weaknesses which by the mid-1900s had inevitably led the syndicates to the point of collapse.

At the January 1902 auctions for the 1902/03 - 1904/05 opium monopoly contracts, control of the major central farm was won by a syndicate led by Luang Sawāmi Phakdi and Phraya Thip Kōsa<sup>22</sup>. In addition, Phraya Thip Kōsa

20. See pp. 40-43/65-67

21. Prince Mahit to King, 20 November 1901 N.A.Kh. 14. lk/23. The reorganization had several specific objectives: for example the central area of the Kingdom was auctioned as one contract because it had been found that with several individual farmers covering the area the Government's total return from the monopoly was substantially reduced.

22. Prince Mahit to King, 14 January 1902 N.A.Kh. 14. lk/24.

272

was also involved with a group which gained control of the Puket farm<sup>23</sup>. In March 1903 the central farm syndicate took over the Phrae and Nan farms in the north<sup>24</sup>: moreover, in late 1903, at the suggestion of Phrayā Thip Kōsā, Prince Mahit agreed that when the opium farms came up for reauction in 1905 the central farm and the whole of the northern farms would be combined and auctioned as one contract<sup>25</sup>. Inevitably as the contract period of the Luang Sawāmi Phakdi/Phrayā Thip Kōsā syndicate drew to a close, the situation surrounding the opium monopoly became increasingly tense. The possible return from the proposed central/northern farm was now so huge that fierce rivalry between the incumbent syndicate and its rivals for the new contract was expected: indeed during its period of tenure the incumbent syndicate had built up a considerable reserve stock of opium and was clearly prepared to use it against its competitors. When, in early 1905, Prince Mahit announced that in an attempt to increase the size of the opium revenue to meet the expansion in the Government's expenditure - particularly on the army and navy - the Ministry of Finance would allow an increase in the retail price of opium from 1 April 1905<sup>26</sup>, an even more aggressive conflict was guaranteed. The Minister took the precaution of issuing a notification reiterating the essential points of the opium legislation governing the auction of the contracts.<sup>27</sup>

The auctions for the 1905/06 - 1907/08 contracts were held at the Ministry of Finance on 31 January 1905<sup>28</sup>. The contract for the amalgamated central/northern farm went to a syndicate led by Luang Sunthān Kōsā, Luang Damrong Thamasān and Luang Maitriwānit: they bid 8.8 m. baht p.a., an increase of practically 3.2 m. baht p.a. over the combined bid for the central and northern farms in 1902. Even after allowance has been made for the fact that an increase in the bid was expected as a result of the raising of the retail

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23. Phrayā Thip Kōsā to King, 7 May 1908 N.A.Kh. 14. lk/33.

24. Prince Mahit to King, 13 March 1903 N.A.Kh. 14. lk/25.

25. Prince Mahit to King, 19 December 1903/2 January 1904 N.A.Kh. 14. lk/25.

26. Prince Mahit to King, 5 January 1905 N.A.Kh. 14. lk/23.

27. ibid.

28. Prince Mahit to King, 2 February 1905 N.A.Kh. 14. lk/24.

opium price, it was still a staggeringly high bid - a clear indication of the fierce rivalry between the syndicates for control of the farm. Luang Damrong Thamasan was also involved with the syndicate that won control of the farms in Chumphon and Nakon Sritammarat, so that in effect members of one syndicate were responsible for the administration of the opium monopoly throughout the whole Kingdom with the exception of Puket, Udorn and the north-east. The total bid for all the farms came to 9.67 m. baht p.a. (compared with 5.8 m. baht p.a. in 1902) of which members of the main syndicate were responsible for 9.44 m. baht p.a. Inevitably there were doubts in informed circles as to whether the syndicate, pledged to pay such a high rental, could make any profit from the monopoly<sup>29</sup>.

On 2 February 1905 the new central farm syndicate wrote to Prince Mahit requesting protection against possible retaliation by the outgoing farmers<sup>30</sup>. In particular they sought assurances that officials from the Ministry of Finance would carry out a thorough inspection of the accounts and opium stock of the retiring farmers, and would take steps to ensure that that stock was disposed of in the correct legal manner. The Minister replied that as far as the law allowed those inspections and supervisions would be carried out<sup>31</sup>. On 30 March 1905, the penultimate day of the old contract, a letter was published in a Bangkok paper, the 'Siam Observer', alluding to a small flaw in the opium regulations<sup>32</sup>. The relevant clause in those regulations was as follows :

'The outgoing Opium Farmer shall, on the expiration of his term, deliver his opium to the official furnished with these regulations. (If any person whosoever holds any quantity of opium) let him make a true statement of the quantity whether belonging to him or held in trust by him within 15 days ... '

The quotation above is a translation of the Siamese original. In the English translation of the regulation then in use in the British Consular Court,

29. Bangkok Times, 3 February 1905.

30. Syndicate to Prince Mahit, 2 February 1905 N.A.Kh. 14. lk/27.

31. Prince Mahit to Prince Sommot, February 1905 N.A.Kh. 14. lk/27.

32. The letter was signed 'Opium Holder': in fact it originated from the retiring syndicate.

the section here placed in brackets had been accidentally omitted. The Siamese regulation made it clear that every person who held opium at the termination of a contract had to declare their holdings to the officials from the Ministry of Finance supervising the transfer of the farm. In this way an accurate estimate could be made of the value of the opium already in circulation when the new farmer took over the contract and the new farmer would be recompensed by the retiring syndicate on the basis of that estimate. The effect of the omission in the British Consular Court version, as the letter to the 'Siam Observer' pointed out, was to remove from those opium smokers who were British subjects any legal obligation to declare their holdings of opium. In other words it was possible for the outgoing syndicate to sell their stocks of opium to persons enjoying British extraterritorial privileges and so flood the market with opium without contravening the law. The assurances given to the incoming syndicate by Prince Mahit in February 1905 were therefore valueless. In late March and early April the Luang Sawāmi Phakdi/Phrayā Thip Kōsā syndicate put 600,000 taels of opium into circulation without compensating the new farmers<sup>33</sup>: none of the old syndicate's stock was sold to the incoming group<sup>34</sup>. The sales of the new syndicate were ruined.

The new opium syndicate contained two main groups - a Bangkok-based section, including Luang Thamasān, Luang Sunthēn Kōsā and Luang Maitriwānit, and a party of Penang farmers led by Chia Choo Yew. The syndicate was financed largely from Penang and indeed it was on account of this outside alliance that the Bangkok farmers had been in a position to bid so highly for the contract. With this disastrous beginning to its term the syndicate began to break up. On 6 April Chia Choo Yew took over the actual management of the farm from the Bangkok farmers, though the farmers retained their interest in the enterprise<sup>35</sup>. In May the rift became deeper. The Penang group refused to make any more of

33. Strobel to Prince Devawongse, 6 August 1905 F.F.A. 6/3. This was equivalent to 50,000 lbs of opium.

34. Case in the British Consular Court: Rex v Serang Ali. May 1905. Enclosed with: Prince Mahit to King, 29 July 1905 N.A.Kh. 14. lk/28.

35. Bangkok-based farmers to Mqm Anuwongwaraphan, 6 April 1905, N.A.Kh. 14. lk/28.

their capital available to the farm on the grounds that the Bangkok partners had not yet invested their agreed share in the concern. On the other side the Bangkok group was reluctant to put their limited capital in a farm managed by Chia Choo Yew<sup>36</sup>. As the time approached for the syndicate to make its second monthly payment to the Ministry of Finance it became increasingly clear that unless the farmers overcame their disunity they would be unable to meet their obligations to the Government.

On 15 and 16 May a minor member of the syndicate, Phra Phakdi and then Chia Choo Yew himself called on Prince Mahit to intervene<sup>37</sup>. The Minister replied that he had no right to interfere in the internal affairs of the syndicate, but that in view of the importance of the opium monopoly to the Government's revenue he was willing to call the members of the syndicate to a meeting at the Ministry of Finance<sup>38</sup>. The meeting was held on 17 May under the chairmanship of Mom Chao Piya Phakdi, a senior official of the Ministry with a particular responsibility for the opium monopoly<sup>39</sup>. It was soon clear that no compromise between the two factions was possible and that in accordance with the law the contract would have to be reauctioned. However at the request of the syndicate the Ministry of Finance agreed to restrict the reauction to the incumbent group. At the resale of the monopoly on 20 May control of the farm went to a group led by Phra Phakdi which bid 8.64 m. baht p.a., a drop of 0.16 m. baht p.a. compared with the bid for the central contract in January 1905. Phra Phakdi discarded some of the original Bangkok members of the syndicate, replacing them with two new Bangkok farmers: however, the financial resources of the syndicate still came from the Penang group led by Chia Choo Yew. In effect the reauction of the farm merely achieved a small realignment of the factions within the original syndicate: the basic division between the Bangkok and Penang groups remained.

36. Prince Mahit to Prince Sommot, 25 May 1905 N.A.Kh. 14. lk/28.

37. Prince Mahit to Prince Sommot, 17 May 1905 N.A.Kh. 14. lk/28.

38. King to Prince Mahit, 19 May 1905 N.A.Kh. 14. lk/28.

39. Prince Mahit to Prince Sommot, 25 May 1905 N.A.Kh. 14. lk/28.

Within a matter of weeks the divergent interests of the various factions in the syndicate were again making themselves felt: in particular the Penang group expected that their dominant financial interest in the concern would give them almost unhindered control of the farm<sup>40</sup>. Clearly under those conditions it was impossible for the syndicate to administer the monopoly effectively and over the period April to June 1905 it lost 0.84 m. baht<sup>41</sup>. In part these losses were due to the fact that the syndicate was under contract to pay an extremely high rental on the farm and yet there could be little doubt that the basic cause of the syndicate's financial difficulties, and in turn its disunity, was that its opium sales had been severely damaged by the action of the retiring syndicate the previous April in flooding the market with cheap opium.

In late July 1905 the syndicate wrote to Prince Mahit requesting a reduction in the rental on the farm<sup>42</sup>. The Minister was unsympathetic. He argued that since all the members of the syndicate were experienced farmers they had been in a good position to judge the financial state of the monopoly before they bid for it. Furthermore, the Minister suggested, they could not complain that the rental was too high for it was to be expected that as the Kingdom prospered so the cost of the opium monopoly rights would increase. Prince Mahit argued that the substantial losses of the syndicate were principally a reflection of their own poor administrative skills and therefore not a just cause for complaint. As regards the crucial point that the syndicate's difficulties really stemmed from the machinations of Luang Sawāmi Phakdi and Phraya Thip Kōsa, Prince Mahit, whilst accepting that the incoming syndicate's sales had indeed been ruined by the action of the retiring farmer in flooding the market with cheap opium, placed the blame on the current syndicate for failing to check thoroughly the size of the old farmer's stock. The Minister's argument showed a real, or feigned, ignorance of the full facts of the situation - a genuine, or contrived, unawareness of the Ministry's responsibilities in the matter. Finally, Prince Mahit pointed out that if the syndicate failed

40. Prince Mahit to King, 28 August 1905 N.A.Kh. 14. 1k/28.

41. Prince Mahit to King, 29 July 1905 N.A.Kh. 14. 1k/28.

42. *ibid.*

to pay the full value of the instalments on the farm, then according to the law the Ministry of Finance would have no alternative but to reauction the monopoly, making the retiring farmers responsible for any losses incurred by the Government.

After paying only half the June instalment on the monopoly the syndicate could make no payment in July<sup>43</sup>. Immediately the Minister recommended to the King that the contract be reauctioned and the date was set for 7 August. By this time the strains of the crisis were beginning to have an effect on the Minister's health and he urged the King to put Prince Narit in charge of the reauction. But Prince Mahit was allowed no respite. In early August the Bangkok group of the syndicate approached the Ministry with a new set of proposals: they were willing to pay the full contract price for the farm if the Ministry would extend their contract for a further year, until March 1909<sup>44</sup>. Their hope was that the additional year would give them an opportunity to make good their current losses. Prince Mahit was willing to accept these revised terms. He acknowledged that by reauctioning the monopoly the Government would suffer immediately by a fall in the value of the farm: then, by attempting to confiscate the property of the retiring syndicate in order to cover the Government's losses the Ministry would become entangled in endless litigation that would leave the syndicate bankrupt and the Government still without full compensation. It made more sense simply to extend the contract of the current syndicate.

There was one stumbling block - the Penang group refused to support the terms proposed by their Bangkok partners<sup>45</sup>, for they were intent on a far more advantageous settlement. In the first week of August Chia Choo Yew saw Ralph Paget, the British Minister, and informed him that his group were considering bringing legal action against the Siamese Government for breach of contract<sup>46</sup>. He argued that Siamese law clearly stated that on the transfer

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43. Prince Mahit to King, 1 August 1905 N.A.Kh. 14. lk/28.

44. Prince Mahit to King, 5 August 1905 N.A.Kh. 14. lk/28.

45. Mqm Chao Piya Phakdi to Hart (Assistant Financial Adviser), August 1905 F.F.A. 6/3.

46. Strobel to Prince Devawongse, 6 August 1905 F.F.A. 6/3.

of the opium farm to a new syndicate, each person holding opium had to declare his opium to the incoming farmer, who was then compensated by the retiring syndicate for the amount of the drug already in circulation. Because of the discrepancy between the British Consular Court version of the law and the Siamese original, the Luang Sawāmi Phakdi/Phrayā Thip Kōsa syndicate had been able to circumvent that stipulation and flood the market with opium without compensating their successors. As a result the Siamese Government had failed to maintain the monopoly position of the new syndicate - as their contract with the syndicate stated they would - and the farmers had been ruined. On 9 August Chia Choo Yew, accompanied by his lawyer, saw Strobel and put forward the terms of the Penang group for a renegotiation of the contract - principally an extension of the syndicate's contract until March 1909 and the offer of a 3.0 m. baht interest free credit from the Government to the farmers<sup>47</sup>. It was clear that the Penang group were taking up a strong bargaining position.

That same day Strobel saw Prince Mahit<sup>48</sup>. The General Adviser was adamant that they would have to avoid legal action at all costs. The Government was indeed guilty of breach of contract. Moreover there was every likelihood that legal action would result in the syndicate being awarded very high damages, based not simply on their actual losses but also on inflated estimates of future profits. Strobel's advice was that the Ministry attempt to have the Penang group bought out by a syndicate of Siamese farmers<sup>49</sup>, and he told the Minister that in fact it was rumoured that Phrayā Thip Kōsa himself was willing to do this if the Government would meet half the cost<sup>50</sup>. Phrayā Thip Kōsa's strategy was becoming clear: after losing control of the farm at the January 1905 auctions he had used a hitherto unnoticed flaw in the British Consular Court version of the opium regulations to bring ruin on his successors. He

47. Memorandum. Strobel. 10 August 1905 N.A.Kh. 14. 1k/28.

48. Memorandum. On the Possible Liability of the Siamese Government on a Claim presented by British Subjects interested in the Opium Farm. Strobel. 10 August 1905 N.A.Kh. 14. 1k/28: F.F.A. 6/3.

49. Memorandum. Strobel. 10 August 1905 N.A.Kh. 14. 1k/28.

50. Prince Mahit to King, 11 August 1905 N.A.Kh. 14. 1k/28. Furthermore, on 5 August 1905 the Bangkok Times reported that the old farmer was willing to re-assume control of the opium monopoly if the rental was reduced.

was now moving into position to reclaim the monopoly. Prince Mahit made no comment.

The Minister of Finance, already in poor health, was considerably shaken by the prospect of the Kingdom facing damaging legal action on account of a small flaw in the British Consular Court version of the opium regulations. On 11 August he reviewed the recent developments in a letter to the King<sup>51</sup>. The Minister argued that it was essential that the Government secure the withdrawal of the Penang group from the farm. First, were the Ministry to agree to a settlement on the terms put by Chia Choo Yew, an unwelcome precedent would be created: if in the future the farmer ran into financial difficulties the Ministry of Finance would inevitably come under considerable pressure to revise yet again the terms upon which he held his contract. Second, the opinion within the Ministry was that Chia Choo Yew was incapable of administering the monopoly effectively: therefore it was inevitable that in time the incompetence of the Penang management would lead to further financial difficulties. In those circumstances the syndicate would repeatedly petition the Ministry for still easier terms, supporting their petitions with the threat of legal action over the original breach of contract in early 1905. Through Luang Sophonphetcharaton, a Bangkok member of the syndicate and also a business associate of the Minister of Finance himself<sup>52</sup>, Prince Mahit had discovered the terms upon which the Penang group were willing to withdraw - 935,800 baht. He suggested to the King that it would be impossible to find any individual farmer willing to meet that cost: even Phraya Thip Kosa had offered to take over the interest of the Penang group only if the Government covered half the cost of the shares. The alternative was for the Government to purchase the Penang shares itself and to appoint an official to represent its interest in the syndicate.

There was another consideration. As Prince Mahit argued in his letter to the King, the events of the previous six months had again emphasized that

51. Prince Mahit to King, 11 August 1905 N.A.Kh. 14. lk/28.

52. Luang Sophonphetcharaton was closely involved with the establishment of the 'Book Club'. See pp. 160-161

the only way for the Government to ensure the future stability of its opium revenue was for it to abolish the farm and to take over for itself the monopoly rights to sell opium in the Kingdom. The revenue from the monopoly was now so large that few syndicates had the capital resources to bid for the contract: indeed, principally because of the malevolent ploys of rival syndicates it was clear that at that point no group had the resources to administer the whole of the opium monopoly alone. Of course one solution was to divide the monopoly into a number of smaller individual farms, each farm commensurate with the financial resources of the farmers, but as Prince Mahit argued, experience had shown that such division inevitably led to a considerable drop in the Government's total revenue from the monopoly<sup>53</sup>. In short the system was on the verge of collapse.

There remained one difficulty - was the Government administration sufficiently effective and efficient to take over the management of the monopoly? Prince Mahit was confident that the administration - particularly the provincial administration - had now progressed to the point where the Government could at last consider taking over those responsibilities. The Minister's major fear was that the officials had had no direct experience of managing the monopoly, but it was this problem which he intended to solve by having the Government buy out the Penang group. By allowing the current syndicate to continue administering the opium farm for, say, a further four years, but with Government officials in place of Chia Choo Yew and his shareholders, the Ministry of Finance would have an opportunity to train officials and to prepare equipment and buildings for the time when complete control of the monopoly would pass to the Government<sup>54</sup>. Prince Mahit's long letter was discussed and approved by the King, Prince Damrong, Prince Devawongse and Phraya Suriya<sup>55</sup>.

Immediately Prince Mahit saw Luang Sophon<sup>56</sup>. The farmer informed him that

53. This was largely a matter of economies of scale: the complex administrative structure of the principal opium syndicates meant that they could operate economically only if they controlled a large part of the monopoly.

54. Prince Mahit to King, 11 August 1905 N.A.Kh. 14. lk/28.

55. King to Prince Mahit, 12 August 1905 N.A.Kh. 14. lk/28.

56. Prince Mahit to King, 13 August 1905 N.A.Kh. 14. lk/28.

the Bangkok group were in no position to take an active part in any scheme to buy out their Penang partners: indeed each member of the group was so short of capital that they were using the funds invested in their other business concerns to pay off their debts in connection with the opium farm. Neither did any of them wish to become involved with Phraya Thip Kosa. It was clear that all the capital required to buy out Chia Choo Yew and his colleagues would have to come from the Government. Prince Mahit proposed that the actual purchase of the Penang shares be carried out by Luang Sophon - with the Government's funds - and that some of the shares would be set aside for members of the Bangkok group. The remaining shares would be held in the names of the officials appointed to the farm by the Ministry, principally Mom Chao Piya Phakdi, who, Prince Mahit suggested, would administer the monopoly when the Government finally took it over completely.

On 15 August Strobel saw Paget and Chia Choo Yew's lawyer and informed them that the Government was willing to buy out the Penang shareholders for 752,800 baht - the sum they had actually invested in the farm<sup>57</sup>. The following day Chia Choo Yew accepted these terms and in return agreed to drop all claims for breach of contract<sup>58</sup>. The Penang shareholders were paid immediately by Luang Sophon who was then reimbursed by the Government: in effect the Government bought off the Penang farmers<sup>59</sup>. But Chia Choo Yew was not to be denied his litigation: he sued Luang Sophon and the remainder of the Bangkok partners on the grounds that his three-year contract as manager of the opium farm had been prematurely terminated<sup>60</sup>. He won<sup>61</sup>.

But the withdrawal of the Penang group - though saving the immediate situation - still left the Ministry of Finance with some very considerable problems. By taking over the interests of the Penang farmers, the Ministry

57. Strobel to Prince Mahit, 15 August 1905 F.F.A. 6/3.

58. Strobel to Prince Mahit, 16 August 1905 N.A.Kh. 14. 1k/28.

59. Williamson to Phraya Suriya, 21 March 1907 F.F.A. 6/9.

60. Bangkok Times, 23 August 1905.

61. Bangkok Times 6 December 1905.

discovered that it had committed itself to spending almost 3.5 m. baht on the monopoly within the first three months alone<sup>62</sup>. In addition there was little prospect of the farm making a profit for at least several months. Furthermore, the Ministry found it difficult to place much confidence in its partners: for example Phra Phakdi was reputed to be bankrupt and Luang Sophon was engaged in attempts to administer the northern farm as a separate, profitable concern for himself. In fact the Bangkok farmers were understandably eager to retire. At the end of August 1905 Luang Sunthon Kosa and Phra Phakdi petitioned the King for permission to leave the syndicate on the grounds that they were financially ruined<sup>63</sup>. They argued that as the Penang shareholders - British subjects - had been allowed to withdraw from the enterprise without financial loss, it was unjust to expect them - Siamese subjects - to remain and bear the whole cost of the syndicate's failure. The King instructed Prince Mahit to treat their case sympathetically<sup>64</sup>.

In the circumstances the Government's obvious course of action would have been to assume complete responsibility for the administration of the opium monopoly immediately, instead of waiting the three or four years originally envisaged by Prince Mahit in his letter to the King on 11 August. There were two arguments against that. First, as Prince Mahit had recognized in that earlier letter, the Ministry of Finance required that period of three years to prepare and train its officials and to organize the necessary buildings and machinery<sup>65</sup>. Second, since the Ministry was now reluctant to administer the monopoly for three years in partnership with the Bangkok farmers because of the large sum of money it would have to invest in the farm, then it was unlikely that the Government would consider accepting sole responsibility for the monopoly immediately. In short, a new syndicate had to be found to farm the monopoly for at least three years - until the Government was prepared to

62. Prince Mahit to King, 28 August 1905 N.A.Kh. 14. lk/28.

63. Luang Sunthon Kosa to King, 27 August 1905/Phra Phakdi to King, 28 August 1905 N.A.Kh. 14. lk/31.

64. King to Prince Mahit, 30 August 1905 N.A.Kh. 14. lk/31.

65. Prince Mahit to King, 28 August 1905 N.A.Kh. 14. lk/28.

take it over. Phrayā Thip Kōsā could now step forward: he had successfully taken his revenge on those farmers who had defeated him at the January 1905 auction.

In late August 1905 Prince Mahit, acting on his own initiative, invited Phrayā Thip Kōsā to discuss the conditions upon which he would consider taking over the monopoly<sup>66</sup>. After considerable bargaining, the terms were settled. The rental would be 8.8 m. baht p.a., the sum bid by the original April 1905 syndicate, and the contract would run for five years (April 1905 to March 1910) instead of the usual three. The Ministry would allow Phrayā Thip Kōsā a credit of up to 2.0 m. baht to be used for the payment of the monthly rental on the farm, the credit to be repaid in the final two years of the contract. Phrayā Thip Kōsā was to be responsible for the Government's losses incurred in connection with the previous syndicate - 1.2 m. baht. This sum was to include the 752,800 baht paid to Luang Sophōn in connection with the withdrawal of the Penang farmers. Finally the Ministry insisted that the farm be administered solely by Siamese subjects<sup>67</sup>.

In a letter to the King on 28 August, Prince Mahit defended his action in privately inviting Phrayā Thip Kōsā to take over the opium monopoly - rather than publicly reauctioning the farm in accordance with the law - on the grounds that, first, only Phrayā Thip Kōsā had the capital resources to make a serious bid for the contract, second, that since the Government was losing 24,400 baht a day in lost opium revenue the new syndicate had to be appointed quickly, and finally, the private approach to Phrayā Thip Kōsā allowed the Ministry to make a complex agreement with the new syndicate that gave Luang Sunthon and Phra Phakdi the opportunity to withdraw without losing too much money<sup>68</sup>. However, the signing of the agreement was a considerable risk for both the Ministry of Finance and Phrayā Thip Kōsā and his partners. On the syndicate's side there were two major dangers: first they had agreed to administer the monopoly on

66. Williamson to Phrayā Suriyā, 21 March 1907 F.F.A. 6/9. Phrayā Thip Kōsā's partners in this group were drawn from the pre-April 1905 syndicate, including Luang Sawāmi Phakdi and Phra Phibun.

67. Prince Mahit to King, 28 August 1905 N.A.Kh. 14. lk/28.

68. *ibid.*

quite severe terms - in particular, at a very high rental - and second, there was no guarantee that the same combination of circumstances that had ruined the preceding syndicates would not also act against Phrayā Thip Kōsā. On the other hand, in view of the fact that Prince Mahit had agreed to the withdrawal of the Penang farmers on easy terms and had approached Phrayā Thip Kōsā to ask him to consider taking over the farm, the new opium syndicate was reasonably confident of the assistance and indeed generosity of the Minister of Finance if they were ever to run into financial difficulties<sup>69</sup>. As far as the Government was concerned the risk was whether Phrayā Thip Kōsā could efficiently and profitably administer the opium monopoly long enough for the Ministry of Finance to prepare itself for the eventual take-over of the farm by the Government<sup>70</sup>.

The agreement failed. Almost from the first the Phrayā Thip Kōsā syndicate lost money. First, the opium farm was by now so huge that the farmers were forced to sub-let many provincial areas to local Chinese concessionaires - the yikongsi - with the usual condition that if the yikongsi failed to sell a stipulated quantity of opium over a specific period they would be heavily fined<sup>71</sup>. But the yikongsi soon found it more profitable to become outlets for illegal opium and the sales of the Bangkok syndicate inevitably suffered<sup>72</sup>.

69. Phrayā Thip Kōsā to King, 7 May 1908 N.A.Kh. 14. lk/33.

70. This is a suitable point to draw attention to the fact that despite the major crises in the opium monopoly in 1905, paradoxically the opium revenue for 1905/06, at 10.26 m. baht was considerably higher than it had been in any previous year. This apparent discrepancy can be explained by several factors. First, the Ministry of Finance did not allow any of the syndicates to fall seriously into arrears: though the syndicates may have been perpetually on the verge of collapse, the revenue was protected by the reauction of the farm. Second, at the January 1905 auction of the opium farm, the successful bid was far in excess of any previous bid for the monopoly: therefore, though the actual payments of the syndicates may have fallen below the amount they had bid, the Government's revenue still increased. However, from the Ministry of Finance's point of view the more important figure was that for the bids, for it was that which was used in compiling the budget estimates: were the rental actually received to fall a long way below the bid the Government could have been faced with a serious unplanned budget deficit. Lastly, it hardly requires emphasizing that though the revenue from the farms may have been increasing the Government was more concerned that the instability of the syndicates was constantly threatening its principal sources of revenue.

71. Report on a meeting at the house of Phrayā Suriyā, 24 December 1907 N.A.Kh. 14. lk/39. In order to avoid confusion with the main Bangkok syndicate the Thai word for these local farmers will be used - yikongsi.

72. For an analysis of this development see p. 247

Second, in late 1905 Phrayā Thip Kōsā saw his own ruse employed against him when Phra Phakdi and Luang Sunthon, seeking revenge, put their remaining stock of opium onto the market<sup>73</sup>. Third, the syndicate's sales were further damaged by an increase in the trade in smuggled opium, much of it being conducted through Chantabun<sup>74</sup>. Finally, the farmers' business suffered as a result of the closure of the remaining provincial gambling dens between 1905 and 1907<sup>75</sup>, for the two vices tended to go hand in hand. It was clearly impossible for Phrayā Thip Kōsā to meet the very high instalment payments on the farm in such adverse circumstances.

In October 1906, barely one year after taking possession of the farm, the new syndicate informed the King that they were in financial difficulties and asked for a revision of the terms of their contract<sup>76</sup>. The King forwarded the petition to the new Minister of Finance, Phrayā Suriyā, and instructed him to deal very carefully with this latest crisis in the opium monopoly<sup>77</sup>. The Ministry of Finance made no immediate response so on 20 December 1906 the syndicate again petitioned the King<sup>78</sup>. They proposed either that the Government agree to a reduction in the rental to 7.2 m. baht p.a. or they would retire from the farm. Phrayā Suriyā would not agree to a reduction in the rental<sup>79</sup>. Even with lower payments there was no guarantee that the syndicate would not continue to fall into arrears. Moreover, Phrayā Thip Kōsā had no additional security to offer the Ministry and was in effect asking to be allowed to continue with the monopoly on the basis of good faith alone. Given

73. Report on a meeting at the house of Phrayā Suriyā, 23 December 1907  
N.A.Kh. 14. lk/39.

74. Petition from Phrayā Thip Kōsā syndicate to King, 20 December 1906  
N.A.Kh. 14. lk/33.

75. Petition from Phrayā Thip Kōsā syndicate to King, 8 October 1906  
N.A.Kh. 14. lk/33.

76. *ibid.*

77. King to Phrayā Suriyā, 10 October 1906 N.A.Kh. 14. lk/33.

78. Petition from Phrayā Thip Kōsā syndicate to King, 20 December 1906  
N.A.Kh. 14. lk/33.

79. Phrayā Suriyā to King, 31 December 1906 N.A.Kh. 14. lk/35.

the importance of the opium revenue and the notoriously precarious financial state of the syndicate, the Ministry demanded something more tangible than that. Phrayā Suriyā reported to the King that he had made discreet enquiries among the remaining tax farmers and learnt that on reauction the opium contract could fetch as little as 6.5 m. baht p.a., compared with the 8.8 m. baht p.a. which Phrayā Thip Kōsā had agreed to pay in August 1905. The fact was that as a result of the debilitating crises of the previous 18 months no syndicate was in a position to take up the contract on terms acceptable to the Government. It was therefore out of the question to reauction the farm: in any case in the current state of the monopoly there was every likelihood that a new syndicate would itself collapse within a matter of months. In short the point had been reached where the Ministry had no alternative but to abolish the farm.

In late December 1906 Phrayā Suriyā and Mqm Chao Piya Phakdi produced a set of proposals for Government administration of the farm<sup>80</sup>. The essential point of their scheme was that in future all opium dens would receive their supplies of prepared opium solely from a Government-administered Opium Factory. The dens in Bangkok City would collect their opium directly from the Factory, those in Bangkok Province would be supplied by officials, whilst those in the remainder of the Kingdom would be supplied either by officials or more frequently by local Chinese concessionaires. Phrayā Suriyā and Mqm Chao Piya Phakdi proposed that responsibility for suppressing opium smuggling be divided between the Customs Department, which would cover the Bangkok area, and the Ministry of the Interior which would be responsible for the remainder of the Kingdom. However, these proposals were as yet incomplete - more a basis for further discussion than a scheme capable of immediate implementation.

Phrayā Suriyā outlined his ideas to the Council of Ministers on 31 December 1906, but since Prince Damrong was absent in the north-east on an inspection tour, nothing could be settled on a matter which was certain to involve the Ministry of the Interior<sup>81</sup>. However, Prince Damrong was informed by telegraph of Phrayā Suriyā's proposals and immediately replied that he

80. *ibid.*

81. Report on the meeting of the Council of Ministers, 31 December 1906  
N.A.Kh. 14. lk/32.

487

supported the abolition of the opium farm<sup>82</sup>. Therefore on 10 January 1907 the Council of Ministers approved just the basic proposal put by Phrayā Suriyā - that in future the opium monopoly would be administered by the Government<sup>83</sup>. Two days later, the King writing from Ayudhya instructed Phrayā Suriyā to discuss the matter with the other Ministries concerned and produce a more detailed scheme showing, for example, the responsibilities of the Ministry of the Interior under the new administration and how the Ministry of Finance proposed to deal with the arrears of the farmers<sup>84</sup>.

However, it soon became apparent that the Minister of Finance intended to implement his proposals with the least possible delay. In replying to the King on 16 January, Phrayā Suriyā pointed out that almost 6.4 m. baht was still owing to the Government from the operations of the opium monopoly<sup>85</sup>. Unless the Government acted quickly and made an example of Phrayā Thip Kōsa other syndicates would be encouraged to be lax in their payments: with another budget deficit in prospect for 1907/08 the Ministry could not allow these arrears to build up. Phrayā Suriyā was not too concerned to settle the details of the Government administration before the farm was abolished, arguing that it would be sufficient to allow the pattern of administration to evolve after responsibility for the operation of the opium monopoly had passed to the Government. The King's reply was immediate and forceful<sup>86</sup>. Once again he insisted that before the opium farm could be abolished, regulations covering all the operations of the monopoly under Government administration had to be drawn up and issued to all relevant departments: the responsibilities of each Ministry in the administration of the opium monopoly had first to be clearly defined. The King was adamant: the Minister should explain his proposals

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82. Phrayā Si Sahathēp to King, 3 January 1907 N.A.Kh. 14. lk/35.

83. Memorandum. Crown Prince. 10 January 1907 N.A.Kh. 14. lk/35. It appears that the King was at the Bang-pa-in Palace and therefore that the Crown Prince was given the opportunity to chair this meeting of the Council of Ministers.

84. King to Phrayā Suriyā, 12 January 1907 N.A.Kh. 14. lk/35.

85. Phrayā Suriyā to King, 16 January 1907 N.A.Kh. 14. lk/35.

86. King to Phrayā Suriyā, 18 January 1907 N.A.Kh. 14. lk/35.

fully to Prince Damrong (who had still not returned to Bangkok) and Prince Naret. He concluded with a piece of advice :

' ... your urgent calls for action bring no benefit at all. You must use the recognized procedures of the administration - they will yield quicker results.' <sup>87</sup>

It was against that background that on 19 January 1907 M<sup>om</sup> Chao Piya Phakdi and M<sup>om</sup> Udom, accompanied by a large contingent of officials and police, went to the Bangkok offices of the opium syndicate and took possession of the monopoly on behalf of the Government<sup>88</sup>. The preparation of opium was temporarily halted but sales were continued by clerks from the Ministry of Finance. Phraya Thip K<sup>os</sup>a and his colleagues, Luang Sawami Phakdi and Phra Phibun, were instructed to transfer all their property and possessions to M<sup>om</sup> Chao Piya Phakdi and M<sup>om</sup> Udom<sup>89</sup>. It was officially reported that the farm had been taken over by the Government at the request of the syndicate<sup>90</sup>. That same day Phraya Suriy<sup>a</sup> telegraphed to almost every provincial governor instructing them to confiscate all the opium, cash and property in their area which belonged to the syndicate, and to make arrangements for the continued distribution of opium to the dens<sup>91</sup>. Then Phraya Suriy<sup>a</sup> informed the Ministry of the Interior of the measures he had taken and asked Phraya Si Sahath<sup>ep</sup> to despatch further instructions to the provinces in support of his original telegrams<sup>92</sup>.

Not surprisingly Phraya Si Sahath<sup>ep</sup> was taken aback by this unilateral action on the part of the Ministry of Finance. The Ministry of the Interior had had no opportunity to consider the instructions outlined in Phraya Suriy<sup>a</sup>'s

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87. ibid.

88. Bangkok Times, 21 January 1907. It should be noted that the Government took possession only of that part of the monopoly administered by the Phraya Thip K<sup>os</sup>a syndicate. The remaining farms in Puket, Udon and the north-east continued in operation.

89. Petition from Phraya Thip K<sup>os</sup>a syndicate to King, 6 February 1907 N.A.Kh. 14. 1k/33.

90. Bangkok Times, 21 January 1907. And so in a sense it had for in their October and December 1906 petitions to the King, the syndicate had stated their desire to abandon the farm if the Government would not renegotiate their contract.

91. Phraya Si Sahath<sup>ep</sup> to Prince Sommot, 20 January 1907 N.A.Kh. 14. 1k/35.

92. Phraya Suriy<sup>a</sup> to Phraya Si Sahath<sup>ep</sup>, 19 January 1907 N.A.Kh. 14. 1k/35.

telegrams to the provincial governors before they were sent<sup>93</sup>. Moreover it had been understood by Phrayā Si Sahathēp that the Council of Ministers would make no final decisions with regard to the Government's administration of the monopoly until Prince Damrong had had a chance to present his views on the issue<sup>94</sup>. The Deputy Minister was also concerned by the vagueness of Phrayā Suriyā's instructions - were the provincial governors to confiscate just the opium and property of the syndicates, or were the instructions to apply to every individually owned opium den as well: was machinery and equipment to be seized: could property belonging to foreign nationals be confiscated: were the provincial authorities to be responsible for the sale of opium in the future<sup>95</sup>? The number and importance of each of these queries bore out the justice of the King's earlier warning to the Minister of Finance. Therefore Phrayā Suriyā was forced to send a further set of telegrams to the provincial governors, clearing up the earlier ambiguities<sup>96</sup>. It was explained that all supplies of prepared opium were in future to come from the Government-administered Opium Factory in Bangkok and the governors were instructed to reach temporary agreements with their local yikongsī for the distribution of that opium to the dens in their area, making the best terms and conditions they thought possible. In time officials from the Ministry of Finance would visit their area and explain the new methods to be employed under the Government administration of the monopoly. Only after Phrayā Suriyā's second telegram had been sent did Phrayā Si Sahathēp send his instructions to the provinces in support of the requests of the Ministry of Finance<sup>97</sup>.

There is no evidence that the King gave his approval for the seizure of the opium farm on 19 January 1907: indeed, in view of his instructions to Phrayā Suriyā the previous day it is unlikely that he in fact did so. It would

93. Phrayā Si Sahathēp to Prince Sommot, 20 January 1907 N.A.Kh. 14. lk/35.

94. King to Phrayā Si Sahathēp, 1 January 1907 N.A.Kh. 14.lk/35.

95. Phrayā Si Sahathēp to Phrayā Suriyā, 19 January 1907 N.A.Kh. 14. lk/35.

96. Phrayā Suriyā to Phrayā Si Sahathēp, 20 January 1907 N.A.Kh. 14. lk/35.

97. Phrayā Si Sahathēp to Prince Sommot, 20 January 1907 N.A.Kh. 14. lk/35.

seem that Phrayā Suriyā ordered the abolition of the opium farm at that point solely on his own initiative<sup>98</sup>. It is difficult to explain the Minister's action. The King and the Council of Ministers, including Prince Damrong, had agreed that the opium farm should be abolished, and the King had merely insisted that adequate preparations be made before that measure was implemented. It is possible that Phrayā Suriyā wished to avoid detailed discussions of his proposals with Prince Damrong for fear that the Ministry of the Interior would demand overall responsibility for the administration of the opium monopoly outside Bangkok. This was certainly to be a major point of dispute in the coming year but could hardly have been important in January 1907, for Phrayā Suriyā placed immediate responsibility for the opium monopoly in the provinces in the hands of officials from the Ministry of the Interior, though admittedly this was only a temporary arrangement until the Ministry of Finance was prepared to introduce new methods of administration. And then there was Phrayā Suriyā's argument that the financial disorganization of the Phrayā Thip Kōsa syndicate demanded rapid action from the Government<sup>99</sup>: but the matter was not so urgent that the Minister could not have found time to discuss his instructions to the provincial governors with Phrayā Si Sahathēp before the telegrams were actually sent, and could not have waited for Prince Damrong's return to Bangkok. Perhaps the most that can be said is that the incident provides yet another example of Phrayā Suriyā's tendency to act hastily when confronted with a major problem. However, the Minister's unwillingness to follow the instructions of the King in January 1907 was not a temporary aberration: within a year he was to do virtually the same again.

<sup>98</sup>. It must be admitted that this conclusion is disturbed by one point. If Phrayā Suriyā acted in the manner described, he was guilty of ignoring the King's clear instructions - a serious offence. Yet there is no record of the King having censured the Minister. There are several possible explanations for this lack of supporting evidence. First that the King reproved his Minister verbally. Second that the King accepted the 'fait accompli'. Alternatively it is possible that the King did give his permission for the seizure of the farm on that day, but that it was given by word of mouth. But there is one further important consideration: writing to the King on his resignation (15 February 1908 N.A.Kh. 3/2) Phrayā Suriyā virtually admitted that he had been in a great hurry to seize the farm and that therefore the Ministry had acted without adequate preparation.

<sup>99</sup>. Phrayā Suriyā to King, 16 January 1907 N.A.Kh. 14. lk/35.

### 3. Government administration of the opium monopoly, 1907 - 1910.

From January 1907 responsibility for the administration of the opium monopoly was vested in an Opium Department. The Department was ultimately under the control of the Minister of Finance, though day-to-day administration was carried out by Mqm Chao Piya Phakdi, assisted by Mqm Udom and Mqm Anuwongse<sup>100</sup>. One of the first duties of the Department was to attempt to extract from the Phraya Thip Kosa syndicate the 6.4 m. baht that it reportedly owed the Government. It was an impossible task: when the farm had been seized on 19 January the farmers had transferred all their possessions to the Ministry of Finance - they were bankrupt. Moreover, the fact that the syndicate had collapsed before the termination of their contract meant that many of the clauses of the August 1905 agreement were thrown into dispute: what value was to be placed on the equipment and opium seized by the Government in January 1907: what was the exact status of the 2.0 m. baht credit advanced to the syndicate in August 1905<sup>101</sup>? The arguments dragged on until May 1912 when a Royal Commission on Revenue and Expenditure considered the matter<sup>102</sup>. At that point Phraya Thip Kosa was said to owe the Government 4.19 m. baht but after Williamson and Mqm Chao Phrom had asked for clemency this was reduced to 0.35 m. baht<sup>103</sup>.

The first six months of Government administration saw very few changes in the actual methods used to operate the monopoly. The processes for preparing the opium, the system of accounts and checks - for example, the practice of fining yikongsi which failed to sell their agreed quota of opium - were essentially the same as those employed by the opium farmers<sup>104</sup>. In the

100. Bangkok Times, 25 January 1908.

101. Petition from Phraya Thip Kosa syndicate to King, 6 February 1907  
N.A.Kh. 14. lk/33.

102. Report from Royal Commission on Revenue and Expenditure. May 1912  
F.F.A. 6/9.

103. Indeed W. A. Graham and Phraya Ratsada urged that the debt be cancelled altogether on the grounds that the contract signed by Phraya Thip Kosa and Prince Mahit in August 1905 represented a calculated attempt by the Ministry of Finance to maintain the farm just long enough for the Government to prepare itself for the administration of the monopoly. It was therefore unfair that the whole cost of the failure of that attempt be borne solely by the syndicate. By 1912 all the members of the syndicate were dead.

104. Mqm Chao Piya Phakdi/Mqm Udom to Phraya Suriya, 18 March 1907  
N.A.Kh. 14. lk/35.

circumstances this was inevitable for the Ministry had been largely unprepared for the decision to abolish the farm<sup>105</sup>. In January 1907 there had been little choice but to instruct the provincial governors to make the best arrangements they could to maintain opium sales. Yet as far as the availability of officials and funds allowed, some experiments were attempted. For example, in Ayudhya, Nakon Sawan and Ratburi the distribution of opium to some dens was administered by provincial officials from the Ministry of Finance, and in the north the same responsibilities were entrusted to officials from the Ministry of the Interior<sup>106</sup>.

Phraya Suriya and Mom Chao Piya Phakdi were agreed that this period of relatively lax administration of the opium monopoly by the Ministry of Finance would last only so long as it took the Ministry to prepare itself for the reform of the monopoly. But they were in strong disagreement over the nature and extent of the reforms to be introduced once this initial period had passed: in particular there was a considerable dispute with regard to the methods to be employed in distributing the opium to the dens in the provinces. The dispute was a complex one, with both Phraya Suriya and Mom Chao Piya Phakdi occasionally slightly shifting their ground, but the central point at issue was relatively clear. On the one side Phraya Suriya was determined to see the yikongsi removed from the operations of the monopoly. It was his intention that in October 1907 the temporary contracts made with the yikongsi for the distribution of opium to the provincial dens would be terminated and that from that date Government officials would be directly responsible for the distribution of prepared opium to all the dens in the Kingdom<sup>107</sup>. The Minister took this strong line because he believed that the trade in illegal opium was financed principally by the Chinese community in Siam, opium being smuggled into the Kingdom by Chinese trading companies and then distributed to the dens

105. The Opium Department was unprepared to the extent that it did not fix salary rates for its officials until June 1907. No salaries were paid until then, though the arrears were later made up. Mom Chao Piya Phakdi/Mom Udom to Phraya Suriya, 25 October 1907 N.A.Kh. 14. lk/39.

106. Report on a meeting at the house of Phraya Suriya, 23 December 1907 N.A.Kh. 14. lk/39.

107. Phraya Suriya to King, 25 November 1907 N.A.Kh. 14. lk/39.

by the yikongsi along with their supplies of legal opium. In other words if the Government were to take effective measures against opium smuggling - and the profitability of the monopoly depended to a considerable extent upon the success of such measures - the Chinese had to be removed from every level of the opium monopoly's operations and be replaced by salaried Siamese officials. In late September 1907 Phrayā Suriyā informed the governor of Ratburi Province that from 1 October the contracts of the yikongsi in his area were to be terminated and in future the sale of opium to the dens would be handled by officials<sup>108</sup>. Officials were also to undertake the inspection of dens and the registration of addicts. Copies of these instructions were sent to every provincial governor<sup>109</sup>.

Mqm Chao Piya Phakdi and Mqm Udom acknowledged that the first six months of Government administration had indeed shown that the continued employment of the yikongsi was tending to harm the opium revenue, and they accepted that eventually the Chinese would have to be replaced by officials<sup>110</sup>. But they were convinced that at that point the Ministry of Finance simply did not have sufficient numbers of trained officials to enable it to disenfranchise the yikongsi immediately. Indeed they argued that in his haste to introduce his new methods in Ratburi Province Phrayā Suriyā had caused a 50 per cent drop in the Province's opium sales. Mqm Chao Piya Phakdi and Mqm Udom tentatively suggested that Government officials could take over the distribution of opium at the provincial level during 1908/09, but that the distribution at the district level would remain in the hands of concessionaires for some time after that.

However, it soon became clear to Mqm Chao Piya Phakdi and Mqm Udom that they were having little influence on the Minister's thinking: as a result, from mid-1907 they simply ignored his instructions. A long list of ministerial orders - most of them concerning the opium administration in Ratburi Province -

108. Phrayā Suriyā to Phrayā Prasitsongkhram, 26 September 1907  
N.A.Kh. 14. 1k/39.

109. Phrayā Suriyā to King, 10 December 1907 N.A.Kh. 14. 1k/39.

110. Mqm Chao Piya Phakdi/Mqm Udom to Phrayā Suriyā, 25 October 1907  
N.A.Kh. 14. 1k/39.

were not implemented<sup>111</sup>. For a time it was difficult for Phrayā Suriyā to take any action against his subordinates since the King was in Europe, but when the King returned to Siam in November 1907 the Minister of Finance asked for permission to remove the two officials from their posts and to appoint himself as Director of the Opium Department. The King, perhaps remembering the way in which Phrayā Suriyā had engineered the seizure of the opium farm the previous January, refused to be rushed into a decision: he asked for more information on the experiments in Ratburi, Ayudhya and Nakon Sawan which involved the use of officials to distribute opium to the dens<sup>112</sup>. In his reply to the King, Phrayā Suriyā described the objectives behind his policy and the operations in Ratburi, Ayudhya and Nakon Sawan in great detail, but he failed to provide the accounts and figures of the monopoly's operations that the King had specifically requested and from which he could make an independent assessment of the Minister's policy<sup>113</sup>.

In the latter half of December 1907 a series of six meetings was held at the residence of Phrayā Suriyā to consider the recent history of the opium monopoly, to determine the methods to be employed in administering the monopoly in the future, and to draw up the necessary legislation governing the operations of the monopoly<sup>114</sup>. The meetings were initiated and organized by Phrayā Suriyā and were attended only by officials from the Ministry of Finance. Inevitably the discussions brought the dispute between Phrayā Suriyā and his senior officials in the Opium Department to a head.

Phrayā Suriyā's arguments were mainly theoretical. He had read widely and studied in detail the methods by which opium was sold in neighbouring countries: he quoted extensively from international opium reports which argued that on grounds of morality and efficiency, responsibility for the administration of opium sales should not be contracted out to private

111. Phrayā Suriyā to King, 25 November 1907 N.A.Kh. 14. lk/39.

112. King to Phrayā Suriyā, 27 November 1907 N.A.Kh. 14. lk/39.

113. Phrayā Suriyā to King, 10 December 1907 N.A.Kh. 14. lk/39.

114. Reports on meetings at the house of Phrayā Suriyā, 16, 23, 24, 26, 28, 30 December 1907 N.A.Kh. 14. lk/39.

individuals. In contrast, Mqm Chao Piya Phakdi was essentially pragmatic; he saw the problem as one of the availability of resources (principally of honest and capable officials) in relation to requirements, and he emphasized that there was virtually no difference between administering the opium monopoly through corrupt yikongsi and having it inadequately administered by dishonest officials. And again, Phraya Suriyā, quoting the experience of French Indo-China and the Dutch East Indies, argued that the responsibilities for selling opium and for searching out illicit opium had to be entrusted to two separate groups of officials: provincial officials from the Ministry of Finance would distribute the opium to the dens and collect the opium revenue, whilst policing duties would fall to the Ministry of the Interior. Mqm Chao Piya Phakdi replied that since each branch of the administration was still relatively weak compared with the European administrations in Asia, to divide responsibility for the operation of such a large enterprise as that of the opium monopoly would cause major problems of co-ordination and would undoubtedly impair the Government's control<sup>115</sup>.

With each succeeding meeting the gap between Phraya Suriyā and Mqm Chao Piya Phakdi widened. On the Minister's side apprehension with regard to the consequences of continued Chinese involvement in the operations of the monopoly became increasingly fanatical, and at one point he declared a determination to remove the Chinese even from the management of the individual opium dens<sup>116</sup>. On the other side the Director, whilst admitting that Phraya Suriyā's proposals were probably the only long-term solution to the problems of the monopoly, insisted again and again that practical considerations ruled out their immediate implementation<sup>117</sup>. Any chance there may have been for compromise between these two views was lost as both men began to see the dispute increasingly in personal terms: it became a matter of honour and face<sup>118</sup>. However,

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115. Report on a meeting at the house of Phraya Suriyā, 16 December 1907  
N.A.Kh. 14. lk/39.

116. Report on a meeting at the house of Phraya Suriyā, 24 December 1907  
N.A.Kh. 14. lk/39.

117. Report on a meeting at the house of Phraya Suriyā, 26 December 1907  
N.A.Kh. 14. lk/39.

118. This observation was made in an unsigned letter to the King, 23 December 1907 N.A.Kh. 14. lk/39.

in the short term Mqm Chao Piya Phakdi was in the minority: on 26 December the meeting agreed with the proposals of the Minister<sup>119</sup>.

The remaining two meetings of the series were devoted solely to the preparation of regulations to govern the future administration of the opium monopoly<sup>120</sup>. On 1 January 1908 Phraya Suriyā sent the regulations and reports of the meetings at his residence to the King with the request that the regulations be sanctioned<sup>121</sup>. He gave an assurance that there were sufficient officials available to make the introduction of his proposals feasible. Finally the Minister again stated his intention to remove Mqm Chao Piya Phakdi from his post as Director of the Opium Department.

The King was extremely annoyed. 'I am just astonished ! You have totally misunderstood what I wanted.'<sup>122</sup> The King explained to his Minister in the most elementary manner the procedure by which he expected Government policy and legislation to be formulated, a procedure based on discussion at every level of the administration, beginning from within the individual Ministry and proceeding up to the Council of Ministers under the chairmanship of the King. Phraya Suriyā had ignored this: the Ministries of the Interior and the Capital had not been consulted and the Council of Ministers had had no opportunity to discuss the principles behind the policy being pursued by the Ministry of Finance. As a result, in the King's view the opium regulations produced by the Ministry were riddled with imperfections and ambiguities. Phraya Suriyā was instructed to abandon these regulations and to present a set of general proposals for the administration of the opium monopoly to the Council of Ministers. The King concluded :

'... it is almost the end of the year and we are still wasting time. The whole exercise was a complete waste. Make your proposals quickly !'<sup>123</sup>

119. Report on a meeting at the house of Phraya Suriyā, 26 December 1907  
N.A.Kh. 14. lk/39.

120. Report on a meeting at the house of Phraya Suriyā, 28/30 December 1907  
N.A.Kh. 14. lk/39.

121. Phraya Suriyā to King, 1 January 1908 N.A.Kh. 14. lk/39.

122. King to Phraya Suriyā, 1 January 1908 N.A.Kh. 14. lk/39.

123. ibid.

The Minister tried to defend himself arguing that the discussions held at his residence in December 1907 represented merely the first stage in the formulation of the Government's policy, and he pointed out that the reports on those discussions had been sent to Prince Damrong<sup>124</sup>. At the same time the Minister was forced to admit that the draft regulations had not been sent to the Ministry of the Interior because, he explained, he feared that the preparation of that legislation was already taking up too much time. These were hardly satisfactory explanations and it was difficult to avoid the conclusion that, despite strong denials to the contrary from Phrayā Suriyā, his intention had been to avoid any discussion of his proposals with the other Ministries.

On 3 January 1908 the correspondence between the King and Phrayā Suriyā and the reports of Mqm Chao Piya Phakdi and Mqm Udom on the administration of the opium monopoly since January 1907 were presented to the Council of Ministers<sup>125</sup>. The meeting was dominated by the King. First he drew attention to the conflict of opinion between Phrayā Suriyā and Mqm Chao Piya Phakdi over the employment of Chinese yikongsI in the future administration of the opium monopoly. Second, the King argued that despite the instructions given to him in November 1907 Phrayā Suriyā had still failed to provide any figures showing the results of the experiments in Ratburi, Ayudhya and Nakon Sawan involving the sale of opium to the dens by officials. There was therefore very little impartial evidence upon which the Council could decide between the rival arguments of Phrayā Suriyā and the Director of the Opium Department, and upon which they could approve or amend the Minister's draft regulations. So Phrayā Suriyā was instructed by the King to reopen his discussions with Mqm Chao Piya Phakdi on the methods to be employed in the future administration of the opium monopoly: on this occasion the Ministers of the Interior and the Capital were to be allowed to contribute to the formulation of Government policy. In order to simplify Phrayā Suriyā's task as much as possible the Council even went to the length of drawing up a series of questions for him

124. Phrayā Suriyā to King, January 1908 N.A.Kh. 14. lk/39.

125. Report on the meeting of the Council of Ministers, 3 January 1908 N.A.Kh. 14. lk/32.

to consider - how were the yikongsi to be disbanded: what measures were to be taken against opium smuggling: and perhaps most important of all, what would be the responsibilities of the Ministry of the Interior under the new opium monopoly administration ?

This meeting of the Council of Ministers must have been a humiliating experience for Phrayā Suriyā. The considerable amount of time and effort which he had devoted to the affairs of the opium monopoly over the previous few months had been simply swept aside and he had been instructed to begin again from first principles: moreover, he now had to consult with Mōm Chao Piya Phakdi, his subordinate and main critic. That meeting was the effective end of Phrayā Suriyā as Minister of Finance, though in fact he was to remain in office - under increasing attack - for a further six weeks.

On 9 January the Council of Ministers were discussing a report by the Crown Prince on a visit he had made to Nakon Sawan when Phrayā Suriyā took the opportunity to emphasize that in the past the opium administration in that Province had suffered because the distribution of opium to the dens had been contracted out to an extremely corrupt yikongsi<sup>126</sup>. The comment brought to the surface a latent dispute between Phrayā Suriyā and Prince Damrong over the functions and responsibilities of the Ministry of the Interior in the future administration of the opium monopoly outside Bangkok. It was a dispute which was fired partly by Phrayā Suriyā's earlier poorly disguised endeavours to exclude Prince Damrong from the formulation of the Government's opium administration policy, and partly by a parallel conflict - that concerning Phrayā Suriyā's attempts to impose detailed investigations by the Ministry of Finance on the work of the Provincial Revenue Department<sup>127</sup>. In this particular case Phrayā Suriyā's view was that the Ministry of Finance needed the assistance of the Ministry of the Interior to operate the monopoly in the provinces - particularly to suppress opium smuggling - even though overall responsibility for the administration of the monopoly would be entrusted to

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126. Report on the meeting of the Council of Ministers, 9 January 1908  
N.A.Kh. 14. 1k/32.

127. See Chapter V pp. 175-185

the Ministry of Finance<sup>128</sup>. To Prince Damrong this proposal implied that the Ministry of Finance would simply use his officials for work for which it lacked sufficient resources. The Ministry of the Interior would carry responsibility for the administration of the monopoly in the provinces but would have none of the executive power. Prince Damrong could not accept that<sup>129</sup>. Phrayā Suriyā found no support in the Council of Ministers. At one point it was argued that since the Ministry of the Interior already had sufficient officials in the provinces, it would be preferable to give the Ministry almost complete responsibility for the opium monopoly outside Bangkok rather than sanction the appointment of yet more civil servants to the Ministry of Finance. At the end of the meeting the King gave Phrayā Suriyā a simple choice: either give the Ministry of the Interior an active role in the administration of the opium monopoly in the provinces or the Government would have to continue to use the yikongsi. The Minister accepted the former.

The new proposals of the Ministry of Finance - based on the guidelines set by the Council of Ministers on 3 January - were submitted to the King by Phrayā Suriyā on 11 January<sup>130</sup>. The proposals had been compiled by Mqm Chao Piya Phakdi<sup>131</sup>: on almost every point his pragmatic approach was in evidence:

1. Beginning in mid-1908 a start would be made in terminating the contracts of the yikongsi for the sale of opium to the provincial dens, their place being taken by trained Government officials. The pace at which this would be carried out would be determined by the availability of capable officials. The yikongsi would be retained in those areas - principally isolated districts - where the volume of opium sales was not sufficient to justify the appointment of a Government official.

128. Report on the meeting of the Council of Ministers, 3 January 1908  
N.A.Kh. 14. lk/32.

129. Report on the meeting of the Council of Ministers, 9 January 1908  
N.A.Kh. 14. lk/32.

130. Programme for Government administration of the opium monopoly. Enclosed with: Phrayā Suriyā to King, 11 January 1908 N.A.Kh. 14. lk/39.

131. Report on the meeting of the Council of Ministers, 13 January 1908  
N.A.Kh. 14. lk/32.

2. Responsibility for reducing the level of opium smuggling would be divided between the Ministry of the Interior (for the provinces), the Customs Department (for the Gulf of Siam), and a special police force attached to the Opium Factory (for the dens in Bangkok City).

3. An attempt would be made to reduce the number of opium dens but only to the extent that Government sales of opium were not harmed. Ultimately the dens would be managed by Siamese officials.

4. With regard to the delicate point as to the relative responsibilities of the Ministry of the Interior and the Ministry of Finance for the administration of the monopoly in the provinces, Mom Chao Piya Phakdi seems to have aimed for a carefully balanced compromise. On the one hand Phraya Suriya's suggestion that the Opium Department would be responsible for the sale of opium to the dens at the province level, and that it would call for the assistance of the Ministry of the Interior in searching out smuggled opium, was accepted. At the same time it was recognized that the provincial governors held ultimate responsibility for the administration of their province and therefore that they had authority over officials from the Ministry of Finance - and hence from the Opium Department - working in their area. As a result they were entitled to oversee the work of the Opium Department officials, and if they were dissatisfied could ask the Minister of Finance to remove them. In short, the two Ministries would have to co-operate over the administration of the provincial monopoly.

Before these basic proposals were submitted to the Council of Ministers the King saw Phraya Suriya privately to question him on this last point<sup>132</sup>. The Minister explained that his opposition to allowing the Ministry of the Interior more than minimal responsibilities with regard to the opium monopoly was based on the belief that responsibility for the Government's revenue should be the concern of only the Ministry of Finance. He referred to the days of the pre-reformed administration when responsibility for collecting the

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132. Report on the meeting of the Council of Ministers, 13 January 1908  
N.A.Kh. 14. lk/32.

Kingdom's revenue had been divided among the various principal Ministries, when those Ministries had retained a portion of the revenues they collected, and when as a result the Treasury had been starved of cash. When asked by the King whether there were any reasons why the current Ministries should not forward all their revenues immediately to the Treasury, Phrayā Suriyā pointed out that the revenue from the land tax - which was collected by the Ministry of the Interior - was in serious arrears, though under pressure from the King he was forced to admit that the basic problem there lay with the failure of the rice farmers to pay the tax on time. The King then pointed out that in fact the Ministry of Finance itself had a very poor record in this respect: the principal tax farms, for which Phrayā Suriyā was directly responsible, had been allowed to accumulate massive arrears<sup>133</sup>.

Mqm Chao Piya Phakdi's proposals and the King's conversation with Phrayā Suriyā were reported in detail to the Council of Ministers on 13 January 1908<sup>134</sup>. The resulting discussions, though long, brought the Government no nearer a decision and the meeting eventually broke up when the King suggested that Mqm Chao Piya Phakdi be invited to explain his proposals in person to the Council. The subsequent meeting of the Ministers on 20 January was the longest 4 1/4 hours - and certainly as far as Phrayā Suriyā was concerned the most bitter of the series<sup>135</sup>. He had no alternative but to watch his subordinate outline the Ministry's proposals, proposals which he was unable to support. In fact the meeting added little to the debate. The Minister of Finance made it clear once again that he was unwilling to share executive control of the monopoly in the provinces with Prince Damrong, though he wished to employ officials from the Ministry of the Interior mainly for policing duties<sup>136</sup>. He insisted that divided responsibility would lead to conflict.

133. See Chapter V pp. 174-175

134. Report on the meeting of the Council of Ministers, 13 January 1908  
N.A.Kh. 14. 1k/32.

135. Report on the meeting of the Council of Ministers, 20 January 1908  
N.A.Kh. 14. 1k/32.

136. To that suggestion the King's reply was: 'Impossible ! It would be the same as allowing you to administer the Ministry of Education. Impossible !'

In contrast Prince Damrong emphasized that with co-operation between the provincial governors and the Opium Department under Mqm Chao Piya Phakdi the monopoly in the provinces could be effectively administered.

However, by the end of the meeting one basic point had been settled: the King and Council of Ministers were agreed with Mqm Chao Piya Phakdi that until the administration could secure sufficient numbers of trained, honest officials, the Opium Department would have to employ the yikongsi to distribute opium to most of the provincial dens. Phraya Suriyā's plans to expel all Chinese from the operation of the monopoly immediately had been rejected. Moreover, it was apparent that the concensus of opinion within the Government was in favour of Mqm Chao Piya Phakdi and Prince Damrong's rather vague proposal that the opium monopoly outside Bangkok could be administered only through co-operation between the Ministries of Finance and the Interior: this would be the case particularly when the sale of opium to the provincial dens was placed in the hands of Government officials. In short, in January 1908 the major barrier to the development and definition of the Government's policy with regard to the future administration of the opium monopoly was the continued presence of Phraya Suriyā as Minister of Finance.

In fact in late January 1908 Phraya Suriyā was removed from the direct administration of the opium monopoly and the Opium Department came under the sole authority of Mqm Chao Piya Phakdi assisted by Mqm Anuwongse<sup>137</sup>. The following March Mqm Chao Piya Phakdi was relieved of his duties as Under-Secretary of State at the Ministry of Finance so as to enable him to devote all his time to the Opium Department, and Mqm Udom became Under-Secretary<sup>138</sup>. By this time Phraya Suriyā had of course resigned.

It was left to Prince Chanthaburi to bring some stability and direction to the Ministry of Finance's administration of the opium monopoly. First he abolished the three remaining, relatively small opium farms - those in Puket, Udon and the north-east - the Puket farm coming under the control of the local

137. Bangkok Times, 25 January 1908;

138. Bangkok Times, 5 March 1908.

governor assisted by an official from the Opium Department in April 1908, the Udon and north-east farms passing to Government control in April 1909 at the termination of the farmers' contracts<sup>139</sup>. So from 1 April 1909 every opium den in the Kingdom received its supply of legal prepared opium either directly or indirectly from the Government Opium Factory in Bangkok - the opium farmer passed into history.

Second, the Ministry of Finance finally secured the immediate arrangements for the distribution of opium from the Bangkok Opium Factory to the provincial dens. On 25 February 1908 the monopoly right to distribute the Government-prepared opium in the Provinces of Ayudhya, Nakon Sawan, Prachinburi, Ratburi, Nakon Chaisi and Korat were auctioned at the Ministry of Finance<sup>140</sup>. The contracts went to the yikongsi which undertook to sell the most opium in a particular province during the coming year. Their supplies of opium were to be carefully regulated, with heavy fines imposed on any yikongsi which sold less than it had contracted to sell. The distribution of opium remained the responsibility of Government officials only in those areas where the monopoly had in fact been administered by the Ministry of the Interior since January 1907 - including Chumphon and Nakon Sritammarat - and Phitsanulok where the yikongsi were unwilling to bid for the contract on account of the large volume of illegal opium which constantly flowed into the area from the north. However, even in provinces where the distribution of opium was carried out by officials it was usual for small yikongsi to supply the more remote dens<sup>141</sup>.

At the same time Prince Chanthaburi did not lose sight of the fact that the employment of the yikongsi was to be regarded as only a temporary expedient. In September 1908 he suggested to Prince Damrong that they should be actively considering the abolition of the yikongsi, and he proposed a scheme whereby the distribution of opium to the provincial dens would be entrusted to officials

139. Prince Chanthaburi to King, 29 December 1908 N.A.Kh. 14. lk/39.  
R.F.A.B. 1909/10 p. 7.

140. Mōm Chao Piya Phakdi to Prince Chanthaburi, 5 March 1908 N.A.Kh. 14. lk/41.

141. It is perhaps worth repeating at this point that in Bangkok the dens collected their supplies of prepared opium directly from the Opium Department.

from the Ministry of the Interior working in co-operation with the Opium Department<sup>142</sup>. The proposal was discussed at a meeting between the Ministers of Finance and the Interior in early 1909 and it was provisionally agreed to terminate all the yikongsi contracts in the coming March<sup>143</sup>. However, it was then decided to abolish the Kingdom's spirit farms from the end of the year 1908/09, and it was felt that to impose responsibility for both reforms on the provincial officials in the same year would create serious administrative difficulties. Yet even without the intrusion of the abolition of the spirit farms it is unlikely that the Ministry of Finance would have continued with the proposal to terminate the yikongsi contracts at that point: as it was the Ministry was finding considerable difficulty in filling the existing posts in the Government opium administration<sup>144</sup>. In March 1909 only in Prachinburi, where the spirit farm had already been abolished, was the yikongsi contract terminated.

By 1910 the yikongsi remained in operation in Ayudhya, Nakon Sawan, Phitsanulok, Korat, Nakon Chaisi and Ratburi Provinces<sup>145</sup>. According to the reports of Mqm Chao Piya Phakdi there were considerable difficulties in controlling the activities of the concessionaires, but the Government could still not guarantee a sufficient supply of capable, trained officials to contemplate their final disenfranchisement. In fact it was not until April 1918 that the last of the yikongsi contracts was terminated and the distribution of opium from the Opium Factory in Bangkok to all the Kingdom's dens became the responsibility of Government officials<sup>146</sup>. The fact that it took 11 years to

142. Prince Chanthaburi to King, 5 September 1908 N.A.Kh. 14. lk/43. Though the exact details of the various schemes put forward for the administration of the opium monopoly are difficult to determine, it does appear that Prince Chanthaburi's proposal differed in one important respect from the earlier one of Mqm Chao Piya Phakdi. Prince Chanthaburi was prepared to allow the Ministry of the Interior to distribute opium to the provincial dens: Mqm Chao Piya Phakdi had suggested that this would be carried out by the Opium Department working under the general supervision of the Ministry of the Interior.

143. Mqm Chao Piya Phakdi to King, 16 February 1909 N.A.Kh. 14. lk/44.

144. R.F.A.B. 1910/11 p. 4.

145. Prince Chanthaburi to King, 11 January 1910 N.A.Kh. 14. lk/47.

146. Krom Phra Chanthaburi (mu'a damrong tamnæeng sënabodi krasuang phrakhlang) Prince Chanthaburi as Minister of Finance. By officials of the Ministry of Finance. Bangkok 1931 p. 306.

find sufficient officials of adequate calibre to carry out the distribution of opium to the provincial dens plus the fact that in 1918, with the disappearance of the yikongsi, the Kingdom's opium sales dropped by 10 per cent<sup>147</sup> suggests that if Phrayā Suriyā's plan to terminate all the yikongsi contracts at a stroke in late 1907 had been adopted, the Government's opium revenue could well have been ruined. Later events had amply justified Mqm Chao Piya Phakdi's opposition to his Minister's sweeping proposals. After 1918 the role of the private Chinese individual or syndicate in the operation of the opium monopoly was restricted to the management of the opium dens, but then from 1928 the Government began to install officials in the dens to take over the actual retail sales of the drug<sup>148</sup>.

With the abolition of the opium farm over the period 1907 to 1909 and the imposition of direct Government control over the production of all legal opium in the Kingdom, the Government increasingly turned its attention to the moral and health aspects of opium smoking. Indeed, as early as September 1908 the King publicly declared that it was the Government's policy to work towards the complete abolition of opium smoking in Siam<sup>149</sup>. However, the first important step towards the implementation of this policy was not taken until 1918 when the authorities began to close a large number of the Kingdom's opium dens and impose a much tighter control over the remaining establishments<sup>150</sup>. This was followed in 1921 by an Opium Law which required opium smokers to obtain a special licence if they wished to smoke outside an opium den and also contained provisions for the registration of all opium smokers<sup>151</sup>.

However, the Government's restrictionist policy was not forcefully applied: indeed, several clauses of the 1921 Law - mainly those dealing with the registration of opium smokers - were not put into operation for several years and

147. R.F.A.B. 1918/19 p. 4.

148. R.F.A.B. 1928/29 p. 9.

149. Instructions to Delegates to Joint Opium Commission to be held at Shanghai, 1909. F.F.A. 6/5.

150. R.F.A.B. 1923/24 pp. 14-15.

151. R.F.A.B. 1923/24 p. 15.

some never came into force at all<sup>152</sup>. The Government's caution was understandable. First, in the early 1920s opium sales were still providing the Government with over 20 per cent of its revenue<sup>153</sup>. Second, any success achieved by measures taken to discourage Chinese born in Siam from becoming addicted to opium - measures such as the registration of all opium smokers - was almost certain to be outweighed by the arrival of established addicts among the new immigrants from China<sup>154</sup>. Finally, there was always a strong possibility that in the absence of a very effective customs and police force attempts to curb legal opium smoking would merely result in a burgeoning of illegal dens and a massive growth in opium smuggling. From the late 1920s the Government appears to have pursued the more limited objective of simply keeping the worst excesses of the opium trade under control<sup>155</sup>. In fact opium continued to be a significant source of Government revenue right until the late 1950s when Field Marshal Sarit declared opium smoking once more illegal in Siam<sup>156</sup>.

#### 4. The abolition of the tax farm system

The dismantling of the remaining three monopoly farms can be dealt with quite briefly. Indeed, the abolition of the gambling and lottery farms - the provincial gambling dens being closed in 1905/06 and 1906/07, the last of the Bangkok dens disappearing in 1917 and the huai lottery being abolished in 1916 has already been considered in some detail in Chapter IV<sup>157</sup>. At this point it should merely be noted that whereas after the abolition of the opium and spirit farms, opium and rice spirit continued to be sold and taxed in Siam, with the abolition of the gambling and lottery farms the forms of gambling operated by those farms became illegal in the Kingdom. It would appear that

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152. ibid/R.F.A.B. 1927/28 p. 11.

153. R.F.A.B. 1923/24 p. 2.

154. The period 1918-1931 saw the highest level of Chinese immigration into the Kingdom. G. William Skinner Chinese Society in Thailand Cornell 1957 p. 172.

155. R.F.A.B. 1929/30 p. 9.

156. Frank C. Darling Thailand and the United States Washington 1965 p. 194.

157. See pp. 150 - 160

the Siamese authorities took this more severe attitude towards the gambling and lottery farms principally because, as has been noted earlier, the Siamese population were particularly addicted to gambling; opium smoking and rice spirit consumption were mainly Chinese vices.

The difficulties faced by the Kingdom's spirit farmers in the 1890s and 1900s were essentially the same as those which confronted the opium syndicates - competition from an illegal trade in their product and rivalry between the farmers for control of the major contracts - though in general they troubled the spirit syndicates less than the opium farmers. However, the spirit monopoly had its own particular problems. Most importantly, though the spirit farmers were merely expected to collect the duties on the production and sale of liquor in the Kingdom and were forbidden by law to own distilleries, in practice most spirit farmers were also rice spirit producers. This had two consequences: first the farmers invariably failed to tax their own production to the full and as a result the revenue suffered. Second, having control over stocks of liquor enabled the farmers to release spirit onto the market at low prices in order to secure the ruin of a rival - in much the same manner as that used by the opium syndicates.

Despite the various problems facing the spirit monopoly, the actual collapse of the spirit farm was considerably less dramatic than that of the opium farm. This was due mainly to the fact that, in contrast to the opium monopoly, the spirit monopoly was divided into a considerable number of individual farms with no farmer controlling more than a relatively small part of the whole monopoly. Moreover, the institution of Government administration of the spirit monopoly was carried through with a degree of preparation and forethought that contrasts strongly with the precipitate manner in which the Government's administration of the opium monopoly was assembled.

There were two crises in the spirit monopoly, both involving the main Bangkok farm. In July 1900 the Bangkok spirit farmer defaulted on his payments to the Treasury<sup>158</sup>, and eventually in March 1901 the Ministry of Finance was

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158. Prince Mahit to King, 13 July 1900 N.A.Kh. 14. 1kh/20.

forced to reauction the farm<sup>159</sup>. Then in November 1905 the new syndicate controlling the Bangkok farm (which included Luang Maitriwānit, already greatly in trouble over his interest in the opium farm) ran into financial difficulties<sup>160</sup>, and once again a solution could be found only in reauctioning the contract<sup>161</sup>. The second failure of the Bangkok spirit farmer, coming on top of the collapse of the opium syndicates in 1905, encouraged the Ministry of Finance to prepare the way for the introduction of Government administration of the spirit revenue. In April 1907 an experiment was inaugurated in Prachinburi Province when Government officials began to supervise the distillation of local spirits and the collection of the excise duty without the intervention of the farmer<sup>162</sup>. The experience gained in Prachinburi proved to be invaluable when the Ministry of Finance came to deal with the abolition of the spirit farms throughout the Kingdom.

The detailed proposals for this major reform were presented to the King by Prince Chanthaburi towards the end of December 1908<sup>163</sup>. The proposals had been drawn up after a series of meetings between the Ministry of Finance and the Ministry of the Interior, held during the 1908 meeting of the provincial governors in Bangkok: the contrast with Phrayā Suriyā's attempted exclusion of the Ministry of the Interior from the determination of Government policy with regard to the opium monopoly needs no underlining. When the contracts for the principal spirit farms expired on 31 March 1909 the Government was well prepared to take over from the farmers responsibility for the collection of the excise duty on local spirits and the collection of license fees to distill and retail liquor. In each province an official from the Ministry of the Interior was made responsible for the collection of the spirit revenue:

159. Prince Mahit to King, 24 February 1901 N.A.Kh. 14. 1kh/20.

160. Phrayā Boribūn and Luang Maitriwānit to Prince Mahit, 13 November 1905 N.A.Kh. 14. 1kh/28.

161. Prince Mahit to King, 24 January 1906 N.A.Kh. 14. 1kh/28.

162. R.F.A.B. 1907/08 p. 5. Phrayā Suriyā to King, 11 January 1907 N.A.Kh. 14. 1kh/31.

163. Prince Chanthaburi to King, 29 December 1908 N.A.Kh. 14. 1kh/31.

with regard to the excise duty in Bangkok, the collection was at first entrusted to an Opium and Spirit Department under the administration of M<sup>om</sup> Chao Piya Phakdi (the Department also being responsible for the revenue as a whole)<sup>164</sup>, but from October 1909 those responsibilities were transferred to the Customs Department, leaving M<sup>om</sup> Chao Piya Phakdi concerned only with the opium administration<sup>165</sup>. In April 1909 the Government did not assume any responsibility for the production of spirit in the Kingdom<sup>166</sup>: in effect the authorities restored the separation of spirit distilling and spirit taxation which had been lost under the farm system, with from April 1909 the disenfranchised spirit farmers concentrating their interests on distilling<sup>167</sup>. However, the spirit farmer did not completely disappear in 1909<sup>168</sup>. In Udon, the north-east and Petchabun the farms remained in operation until March 1910 and in isolated parts of the north the farm system was retained for a number of years after that. Finally, it should be noted that with the disappearance of the principal spirit farms in 1909 the spirit revenue doubled<sup>169</sup>, though this was probably as much a comment on the inefficiency and corruptibility of the farmers as on the improved administrative methods of the Government.

In the last year of the reign of King Chulalongkorn, 1910/11, 6.77 m. baht or approximately 10 per cent of the Government's total revenue, was collected by tax farmers: of that 6.77 m. baht, 6.5 m. came from the remaining gambling and lottery farms<sup>170</sup>. A mere five years earlier, in 1905/06, the farmers had

164. Prince Chanthaburi to King, 29 December 1908/19 July 1909  
N.A.Kh. 14. 1kh/31.

165. Prince Chanthaburi to King, 25 October 1909 N.A.Kh. 14. 1kh/31. Prince Chanthaburi as Minister of Finance p. 349. Phraya Anuman Rajadhon Tamnān sunlakṣāṇ p. 122.

166. Whereas the Government did take over the actual preparation of opium in 1907.

167. Phraya Anuman Rajadhon op cit. p. 120.

168. Prince Chanthaburi as Minister of Finance p. 343.

169. Spirit Revenue 1906/07-1911/12 (m. baht)

1906/07	3.9	1908/09	3.2	1910/11	6.1
1907/08	3.9	1909/10	5.9	1911/12	6.0

Source: R.F.A.B.

170. R.F.A.B. 1912/13.

collected over 40 per cent of the Government's total revenue. In the short period from the closure of the provincial gambling dens in 1906/07 to the abolition of all the principal spirit farms in 1909/10, the tremendous power of the Chinese tax farming syndicates had been broken: with the disenfranchisement of the syndicates a major source of income for the Chinese secret societies was removed and after 1910 their power in Siam began to wane<sup>171</sup>. The remaining farms soon disappeared. The Chinese cakes tax was collected by officials from 1910/11<sup>172</sup> and the birds' nest tax came under Government control a few years later. The lottery and remaining gambling dens disappeared in 1916 and 1917. By 1919 the whole of the Government's revenue was collected by salaried officials<sup>173</sup>.

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171. G. William Skinner Chinese Society in Thailand p. 166.

172. R.F.A.B. 1910/11 p. 7.

173. Note by the Ministry of Finance on the present fiscal position of Siam. Williamson, 9 August 1919 F.F.A. 30/17.

## CHAPTER VIII

The Ministry of Finance and the early development of modern financial administration in Siam

When King Chulalongkorn died in October 1910 the Ministry of Finance had been in existence for a mere two decades: it had been an effective component of the administration for only a little over half that period. However, even in such a short lifetime the Ministry had carried through major changes in the financial administration of the Kingdom - a budgetary system whereby the Ministry compiled and then published an annual statement of the Government's revenue and expenditure had been instituted; the principal tax farms had been abolished and in some cases replaced with revenue collections by direct government agency; innumerable financial regulations had been issued in an attempt to enforce western concepts of financial propriety within the bureaucracy; the Government had raised loans in Europe in 1905 and 1907 to enable it to continue with its internal reform programme; a Government paper currency had been issued; and finally, by 1908 the exchange value of the baht had been fixed in relation to gold. Even such a brief reiteration of the major financial reforms which have been described and analysed in the preceding chapters serves to emphasize the achievement of the Ministry of Finance in its early years.

However, any considered judgement of the work of the Ministry of Finance in this period must go beyond a bald statement of the principal financial reforms promulgated by the Ministry, and attempt to assess the effectiveness of those reforms and the consequent influence of the Ministry on the early development of Siamese financial administration. This is the first concern of this concluding chapter. Three general points will be considered : first, to what extent did the western-based concepts of financial propriety supposedly advocated by the Ministry of Finance become accepted within the Siamese bureaucracy ? Second, how effective was the Ministry of Finance in this period

in controlling the finances of the whole administration - to what extent had the Government created a strong, centralized financial agency ? Finally, an examination will be made of the conservative financial and monetary policy developed by the Ministry of Finance over the two decades up to 1910.

### 1. The financial ethos of the bureaucracy.

To give a satisfactory judgement with regard to the first of the three points raised above is exceptionally difficult. From its establishment in 1890 the Ministry of Finance prepared and issued an almost constant stream of financial regulations, instructions and manuals designed to regulate the attitudes of officials towards the Government's monies under their authority - to impose financial accountability on officials<sup>1</sup>. At the same time provision was made for the payment of salaries to officials in order to reduce or remove their reliance on the practices of kin mu'ang. Unfortunately the documentary material on which this study is principally based - being in the main the correspondence between the King and his Ministers of Finance and not the internal records of the Ministry itself<sup>2</sup> - provide virtually no direct evidence as to the effect of those measures on the administrative behaviour of the main body of subordinate officials<sup>3</sup>: there merely exists some slight evidence at ministerial level.

Of the five Ministers of Finance to resign in the period covered by this study, two left office attended by accusations or rumours of financial

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1. Some examples of such regulations and instructions were given in Chapter II, see pp. 48

2. The nature of the primary source material used for this study is discussed in the Bibliography, see p. 354

3. There is a further, rather elementary, point. Even if it could be shown that western-based accounts and audit procedures were enforced throughout the Siamese administration in this period, this could not be taken to mean that all financial practices inimical to those procedures had been eliminated. For example, it is quite possible for the accounts to be correctly drawn up and audited, and yet for unofficial payments - which of course would never appear in the accounts - still to be made. On the other hand an effective accounts and audit system would clearly reduce the opportunities for the misuse of official funds, and hence would impose a greater degree of financial accountability on officials.

impropriety - Prince Narāthip in 1893 and Prince Mahit in 1906<sup>4</sup>. Moreover, there were cases of other Ministers resigning in somewhat similar circumstances: for example, in 1902 the Minister of Public Instruction, Chao Phrayā Phatsakorawong, resigned after it had been disclosed that he had spent some of his Ministry's funds on unauthorized official projects and on his own personal business<sup>5</sup>. Yet in each of these three cases the Minister's resignation was prompted at least in part by other considerations. In the early 1890s Prince Narāthip had angered the King and the other Ministers by his uncompromising and clumsy treatment of the budget requests of his colleagues; Prince Mahit was in poor health and was exhausted after ten demanding years at the Ministry of Finance; and Chao Phrayā Phatsakorawong had failed to provide the effective leadership of his Ministry expected by the King<sup>6</sup>. In other words, the financial misdeeds (either alleged or proven) of these Ministers would appear to have been at most the occasion rather than the cause of their departure from office. Moreover, as Professor Wyatt points out, there were also instances of senior officials having engaged in financial irregularities - Chao Phrayā Phatsakorawong himself in the Customs Department in the early 1890s and the Minister of Agriculture, Chao Phrayā Surasakmontri in 1893 - and yet who continued to hold high position<sup>7</sup>. In short, rigid adherence to western-based standards of financial propriety was not demanded at the highest levels of the administration; indeed, wide departures from those standards was possibly quite common. It is unlikely that the subordinate levels of the administration provided a significantly different picture. Indeed it could hardly be expected that the pre-reform financial attitudes and methods (as described in the opening chapter) would have been swept aside, or perhaps even seriously modified within a matter of two decades.

There are two other important considerations. First, with the creation

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4. The rumours surrounding the resignation of Prince Mahit were on a very small scale: indeed the only evidence on this point comes from the despatches of the British Minister. See pp. 162-163.

5. David K. Wyatt The Politics of Reform in Thailand p. 295.

6. *ibid* p. 297.

7. *ibid* p. 296.

of the new government structure inaugurated in April 1892 and the subsequent evolution of a more effective administration of the Kingdom, the people were faced with a more intrusive and pervasive bureaucracy than they had ever previously experienced. In their daily lives they increasingly came into contact with various government officials - tax collectors, forestry experts, settlement officers, police and judicial officials, irrigation experts. As the official contacts between the administration and the people expanded, so the opportunities for officials to oppress the people, to force payments from the population for privileged treatment or favours granted, inevitably increased. Indeed, in British Burma a similar expansion in the western administrative machinery from about 1900 - an expansion that brought the authorities into touch with almost every aspect of the lives of the people - led to a burgeoning of oppression and corruption on the part of subordinate officials, a situation that was clearly exposed by a Bribery and Corruption Inquiry Committee which reported in 1941<sup>8</sup>. Undoubtedly the high incidence of corruption and administrative irregularity in the administration in Burma was due in large part to the breakdown of traditional systems of authority and social order in the country following the annexation of Upper Burma in 1886 and the subsequent imposition of an alien, and hence imperfectly understood, legal system<sup>9</sup>: therefore the Burmese experience cannot be taken as a reliable guide to developments in Siam<sup>10</sup>. Yet the original point remains: with the increasing involvement of the Government administration in the ordinary affairs of the people, at least the opportunity was given for the system of kin mu'ang to maintain its vitality.

8. See: John F. Cady A History of Modern Burma Cornell 1958 pp. 409-412. J. S. Furnivall Colonial Policy and Practice Cambridge 1948 pp. 170-178. The 1941 Report noted: 'to put it plainly, if justice were done, a very large proportion of all the public servants of the country would be in jail.' (Quoted by Furnivall op. cit. p. 174).

9. John F. Cady op. cit. pp. 125-182.

10. It is worth noting that there occurred a similar expansion in government administration in Java in this period, but, according to Furnivall, this did not lead to a growth of official corruption (Furnivall op. cit. pp. 269-271). Moreover Furnivall notes that in Burma, the Irrigation Department appeared to be less corrupt than most other parts of the administration, principally because its functions and usefulness were appreciated by the people and because it was staffed mainly by Burmans (Furnivall op. cit. p. 177).

This view is balanced by the second consideration. It is doubtful whether the very large expansion of the Government's revenue in the period 1892-1910 could have been achieved if all officials had continued to claim a proportion of the Government monies passing through their hands as their own: it is doubtful whether the authorities could have established Government administration of the opium and spirit monopolies, or ensured the relatively efficient administration of such departments as the Paper Currency Department, the Railway Department or the Bangkok Customs House unless they could have relied on the existence of at least a significant number of officials who had eschewed the financial practices of the pre-reform administration. However, as was noted earlier in this section, the existing materials provide no means of determining the proportion of officials and Ministers who could be said to have accepted the new western-based financial ethos, nor, perhaps more interestingly, the extent to which the subordinate levels of the bureaucracy, whilst maintaining an allegiance to kin mu'ang were influenced by the stream of financial regulations and manuals that issued from the Ministry of Finance. To that extent the question must remain an open one<sup>11</sup>.

## 2. The authority of the Ministry of Finance.

Over the period 1892-1910 there was a very considerable increase in the control of the Ministry of Finance over the finances of the administration. The point can be illustrated in a number of ways - by comparing the clumsy and obdurate manner in which Prince Narathip compiled the budget estimates in the early 1890s with the ordered and skilful manner in which they were

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11. There is a considerable temptation when faced with such paucity of data to refer to studies of modern Thai administrative behaviour - Fred W. Riggs Thailand The Modernization of a Bureaucratic Polity Honolulu 1966/William J. Siffin The Thai Bureaucracy: Institutional Change and Development Honolulu 1966/James N. Mosel Thai Administrative Behaviour in William J. Siffin Toward the Comparative Study of Public Administration Bloomington 1957. The temptation is perhaps best resisted, for there are clear dangers in attempting to apply such descriptions and analyses of the contemporary administration to an earlier period, particularly when that earlier period was one of considerable change in which the traditional Siamese administration first came into major contact with western financial methods and attitudes.

drawn up by Prince Chanthaburi at the end of the reign; by comparing the extremely detailed accounts of the Government's finances published in the Budget Report of the Financial Adviser for 1910/11 with the Ministry of Finance's relative ignorance of the details of the Ministries' expenditure during the terms of Prince Narit and Prince Sirthat Sangkāt in the mid-1890s; and by tracing the increasing accuracy of the Ministry's budget procedures, particularly during the first half of Prince Mahit's period as Minister of Finance<sup>12</sup>. However, even in the late 1900s there were still serious inadequacies in some areas of the Ministry's financial control.

First, the Ministry's audit procedures were weak: indeed the 1890 Act establishing the Ministry of Finance made no provision for the creation of a department exclusively charged with carrying out an audit of the Government's accounts<sup>13</sup>. Even at the beginning of the Sixth Reign, the Government still lacked a clearly defined audit department<sup>14</sup>. As a result, although the Ministry of Finance could compile detailed accounts of the estimated future expenditure of the Ministries and had the administrative machinery to ensure that each Ministry drew just its permitted allocation from the Treasury, it could not check that those allocations were spent strictly in accordance with the sanctioned estimates. In other words, although the Ministry had authority over the broad allocation of funds to the Ministries and departments, it lacked control over the detailed distribution of the Government's resources<sup>15</sup>.

Two illustrations will support the point. First, Williamson, in a memorandum

12. See Chapter III for the development of the Ministry's budget procedures under Prince Mahit. One possible way of demonstrating the increasing accuracy of those procedures is to compare budget estimates with budget actuals over a number of years (see pp. 41-65) though it must be admitted that since the Ministry's audit methods were relatively weak (a point to be considered below) there must be reservations concerning the accuracy of the Government's figures for actuals.

13. See Chapter II pp. 45-46 and also Wichai Prasangsit Prawatsanphākōn (A History of Taxation) Bangkok 1971 pp. 306-309. However, it appears that under the 1890 Act some audit responsibilities were entrusted to the Krom Truat.

14. Stephen L. W. Greene Thai Government and Administration in the Reign of Rama VI (1910-1925) Ph.D. thesis London 1971 p. 50.

15. Therefore the possibility must be admitted that the Ministries were more willing to accept the budget allocations set for them because they knew that those estimates could be at least partially circumvented: in short, a false sense of authority would have attached to the extremely detailed way in which the Ministry of Finance had prepared the estimates.

written in December 1907, drew attention to the fact that Government departments were in the habit of transferring any unspent funds which they had accumulated (usually secured under the provisions for salaries and administrative expenses) to those of their projects and schemes which had failed to attract budgetary allocations from the Ministry of Finance when the estimates were drawn up<sup>16</sup>. As a result, departments were able to finance projects which had not been fully considered and authorized by the Ministry of Finance (and subsequently by the Council of Ministers). Moreover, the practice implied that total Government expenditure was higher than it would have been if each department had been compelled to return all unspent funds under each head to the Treasury. Second, it would appear that in the early 1910s most Ministries and departments maintained individual accounts with the Bangkok banks<sup>17</sup>: the practice had also been prevalent in the mid-1890s<sup>18</sup>. The existence of such accounts implied that the Ministries were failing to use their budget allocation immediately it was drawn from the Treasury, or failing to deposit with the Ministry of Finance all revenues collected under their auspices. By so developing concealed sources of funds - individual treasuries, in the manner of the pre-reform administration - the Ministries were able to avoid close scrutiny of their actual expenditure by the Ministry of Finance and to undermine the Ministry's control over the detailed allocation of resources. Clearly, the existence of effective audit procedures would have done a great deal to curb such practices<sup>19</sup>. At the same time it must be acknowledged that the available records give little indication of the extent of such practices - the amount of

16. Memorandum. Note by the Financial Adviser on the present financial position in Siam. Williamson, 7 December 1907, F.F.A. 30/8 N.A.Kh. 5. 1/25.

17. Memorandum. Williamson, 21 July 1914 F.F.A. 29/G13.

18. See pp. 62

19. Unfortunately the available documents suggest no explanation for the absence of an audit department in this period, though undoubtedly one reason for the weakness of the audit was the acute shortage of trained officials - accountants and auditors - to check the cash flows throughout the administration. It is also possible that in the Fifth Reign the Ministers were unwilling to approve the establishment of a strong audit department simply because it would have enabled the Ministry of Finance to achieve stricter control over their expenditure. Certainly when Phraya Suriya attempted to impose more effective external audit procedures on the revenue collections of the Ministry of the Interior he was strongly repulsed by Prince Damrong. See pp. 115-185

unspent funds transferred to unauthorized projects, the size of the individual bank accounts maintained by Ministries and departments. Therefore whilst recognizing those limitations to the authority of the Ministry of Finance over the expenditure of the administration, these should not be exaggerated: the final emphasis must be on the undoubted strengthening of the Ministry's procedures for compiling the expenditure estimates in this period, a process described in detail in the opening section of Chapter III.

In any event, the limitations of the Ministry of Finance's control over the Government's revenue were considerably more serious. The Ministry's weakness in this respect was principally a consequence of the Government's decision taken in the mid-1890s to abandon the basic functional division of the Ministries' responsibilities originally laid down at the beginning of the decade<sup>20</sup>. In effect, an extremely powerful Ministry of the Interior was created which took over many of the functional responsibilities of the rest of the administration for the area of the Kingdom outside the capital. For example, between 1896 and 1899, four functionally-based departments came under the authority of the Ministry of the Interior - the Forestry Department, the Mines Department, the Provincial Gendarmerie and, of particular significance in the present context, the Provincial Revenue Department<sup>21</sup>. The establishment of the Provincial Revenue Department in 1899 had been foreshadowed by the creation of the Bangkok Revenue Department (under the Ministry of the Capital) the previous year. By the end of the Reign those two departments were directly responsible for the collection of approximately one third of the Government's total revenue<sup>22</sup>. Moreover, with the abolition of the opium and spirit farms in the late 1900s, the Ministry of the Interior assumed an important role in the collection of the opium and spirit revenues outside the capital.

20. However, it should be noted that the functional division of the Ministries' responsibilities was not strictly applied in the early 1890s. For example until 1894 provincial administration itself remained divided between the MahEtthai and the KalEhdm Tej Bunnag The Provincial Administration of Siam from 1892 to 1915 D.Phil. thesis Oxford 1968 pp. 125-126/p.144.

21. Tej Bunnag op. cit. p. 150.

22. Accounts of the Provincial Revenue Department r.s. 121-133. Chao Phraya Yommarat to King, 1 December 1909 N.A.Kh. 14. 1/7.

The establishment of the Provincial and Bangkok Revenue Departments under the Ministries of the Interior and the Capital in the late 1890s implied a partial return to the pre-reform structure of administration - where the finance divisions of the administration were scattered throughout the Government - and a clear movement away from the creation of a strong, centralized financial agency as envisaged in the 1890 Ministry of Finance Act<sup>23</sup>. Since the Ministry of Finance had virtually no control over the collection of a significant proportion of the Government's revenue, the authority of the Ministry over the administration's finances as a whole was inevitably weakened: not only was the Ministry unable to command directly all the resources raised in the Kingdom, but also, as a consequence, it could not completely control the use of those resources. The practice referred to earlier of the Ministries maintaining individual accounts with the Bangkok banks has some significance here. It would seem that the revenue-collecting departments of the administration not under the authority of the Ministry of Finance would occasionally place a part of the revenue receipts in those accounts instead of paying them directly, in full, into the Treasury<sup>24</sup>. The practice would enable those departments, or their parent Ministry, to finance projects for which the Ministry of Finance had refused to sanction funds in the budget. The Ministry of Finance, with incomplete control over the revenues, consequently had incomplete control over the expenditure of the administration<sup>25</sup>.

A further, more general point can be made with regard to the emergence

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23. It will be remembered that the opening clause of the 1890 Act declared 'The Ministry of Finance is responsible for receiving, disbursing and maintaining the whole income and treasure of the Government, for maintaining accounts, and for collecting the taxes throughout the whole Kingdom.' (my emphasis)

24. Regulation issued by the Minister of Finance regarding the keeping of Banking Accounts by Government Departments, May 1914 F.F.A. 29/G13.

25. Again it should be noted that the records give no indication of the importance of the Ministries' bank accounts, and no indication of the extent to which revenues were retained by the Ministries and not submitted directly to the Treasury. However, since the existence of the bank accounts is referred to on only one occasion in the records (in 1914) this would suggest that these practices occurred on a relatively small scale. In other words, it is possible that even though the Ministry of Finance had virtually no direct control over the collection of a significant proportion of the revenues, most of the tax income raised in the Kingdom was in fact forwarded promptly to the Treasury.

of an extremely powerful Ministry of the Interior from the mid-1890s. With the Government and administration dominated by Prince Damrong and his Ministry, it was very difficult for any Minister of Finance to attain sufficient political weight to develop his Ministry's control over the Government's finances, and in particular the revenue. Two examples will underline the point. First, it required the active intervention of the King in support of Prince Mahit in the late 1890s to ensure that the administration, including the Ministry of the Interior, acknowledged the authority of the Ministry of Finance in compiling the annual expenditure budget<sup>26</sup>. Second, and more significantly, when Prince Mahit's successor, Phraya Suriyā, attempted to acquire greater control over the revenues - by proposing that the Ministry of Finance be allowed to examine and audit the revenue collections carried out by the Provincial Revenue Department, and by demanding that, in the wake of the collapse of the opium farm, the Ministry of Finance have full responsibility for the operation of the Government opium administration in the provinces<sup>27</sup> - he was repulsed, principally by the determined opposition of Prince Damrong. Moreover, it is significant that Prince Chanthaburi, acknowledging the balance of political power within the Government at the end of the Fifth Reign, made little attempt to impose any audit on the work of the Provincial Revenue Department and also allowed the Ministry of the Interior to assume a major part of the responsibilities for the administration of the opium revenue outside the capital.

It is therefore clear that the development of the Ministry of Finance as a strong, centralized financial agency, with equal authority over the expenditure and revenue of the whole administration, waited in the first instant upon the weakening of the Ministry of the Interior. This shift in the balance of power between the two Ministries occurred in the opening years of the Sixth Reign. First, the weakness of the Ministry of Finance's authority with regard to the collection of the revenues was revealed by a special committee appointed

26. See pp. 82-83

27. See pp. 175-185/242-302

in March 1912 to investigate the Kingdom's revenue and expenditure<sup>28</sup>. As a result of the committee's report, a Budget Administration Law was promulgated in 1913 which gave the force of law to the procedures and time-table for the preparation, submission, amendment and sanction of the annual revenue and expenditure estimates - until that point the procedures merely having the force of departmental regulations - and also made provision for the Ministry of Finance to sanction additional funds, or approve the transfer of funds from one head to another, during a financial year<sup>29</sup>. But the most dramatic increase in the authority of the Ministry of Finance occurred as a result of the re-organization of the Government structure in 1915 following the resignation of Prince Damrong as Minister of the Interior. The major part of that reorganization involved the transfer of the Provincial Revenue Department from the Ministry of the Interior, and the Bangkok Revenue Department from the Ministry of the Capital to the Ministry of Finance: there the two departments were combined and renamed simply the Krom Sanphakon (the Revenue Department)<sup>30</sup>. Henceforth the collection of virtually all the Kingdom's revenue came under the direct authority of the Ministry of Finance. That same year also saw the establishment of a properly constituted Audit Department (Krom Truat Ngoen Phaen Din) within the Ministry<sup>31</sup>, and a strengthening of the Ministry's accounts departments by the amalgamation of the Krom Sarabanchi and Krom Truat into a Krom Bunchiklang<sup>32</sup>.

With the resignation of Prince Damrong and the dismantling of his Ministry, the structure of the administration moved back towards the basic functional differentiation that had been the original objective in the early 1890s. In 1915 the Ministry of Finance, at least in theory, achieved full responsibility

28. Stephen L. W. Greene Thai Government and Administration in the Reign of Rama VI (1910-1925) Ph.D. thesis London 1971 pp. 160-164.

29. Krom Phra chanthaburi mu'a damrong tamnaeng senebodi krasuang phrakhlang (Prince Chanthaburi as Minister of Finance) Bangkok 1931 p. 71. R.F.A.B. 1914/15 p. 6.

30. Wichai Prasangsit Prawatsanphakon (A History of Taxation) Bangkok 1971 pp. 338-339.

31. Wichai Prasangsit, ibid. pp. 332-336. Stephen L. W. Greene Thai Government and Administration in the Reign of Rama VI (1910-1925) p. 239.

32. Wichai Prasangsit Prawatsanphakon pp. 336-338

for the administration of the Government's revenue and expenditure: moreover, the promulgation of the 1913 Budget Administration Law and the creation of the Krom Truat Ngoen Phaen Din and the Krom Banchiklang in 1915 undoubtedly implied a considerable strengthening of the Ministry's control over the administration's finances, compared with the situation which had held at the end of the Fifth Reign. As a result, in the late 1910s and early 1920s the Ministry, and the Minister, Prince Chanthaburi, moved to a position of pre-eminence in the Government. However, it is important to note that at precisely that point the authority of the Ministry was undermined by the personal and official extravagance of King Wachirawut; whilst Prince Chanthaburi attempted to hold a rough balance between the revenue and expenditure of the Government, he was pressurized by the King for more funds for the construction and upkeep of new royal residences and for the maintenance of the King's various associations such as the 'Wild Tigers'.<sup>33</sup> Moreover, though the Minister of Finance opposed high military expenditure, the Ministry of War and the Navy, departments close to the King's heart, continued to receive large budget allocations, and to spend above them.<sup>34</sup> In the words of a recent study of the reign of King Wachirawut, to the King Prince Chanthaburi 'was not a capable minister seeking to maintain the nation's financial stability, but a culpable minister seeking to undermine the King's puissance'.<sup>35</sup> Prince Chanthaburi left the Ministry of Finance in January 1923 having ultimately failed to restrain the extravagance of the King.<sup>36</sup>

The essential point to be drawn from this very brief reference to the development of the Ministry of Finance in the Sixth Reign is that even after 1915 when the Ministry had achieved control over the collection of the Government's revenue and had strengthened its audit and accounts procedures, its authority as the sole agency ultimately responsible for the Government's

33. Stephen L. W. Greene Thai Government and Administration in the Reign of Rama VI (1910-1925) pp. 288-297/342-346/399-401.

34. *ibid.* pp. 165-169/391.

35. *ibid.* p. 422.

36. *ibid.* p. 381.

finances remained incomplete. Its ability to control the detailed distribution of the Kingdom's resources and its ability to act as the final arbiter as to the level of Government expenditure could always be undermined - before 1915 by the relative weakness of the Ministry within the Government compared with, in particular, the Ministry of the Interior, and after 1915 by King Wachirawut. In short, in this period, effective, centralized financial control was not fully achieved in the Siamese administration.

In this context it is interesting to note the views of a foreign economic adviser to the Thai Government on the influence of the Ministry of Finance in compiling the annual budget estimates in a much later period - the 1950s.

'The Finance Ministry for its part does not have, in practice, the authority to rule out some projects altogether in order to permit other more important projects to be done adequately and at an adequate developmental pace. Hence the Finance Ministry's Budget Committee is necessarily reduced to "nibbling" at the requests for funds emanating from other Ministries. No executive officer has antecedently made the more drastic decisions to accept or reject certain projects in toto. The Finance Ministry has no authority to do so.'<sup>37</sup>

In his Thailand: the Modernization of a Bureaucratic Polity, Fred W. Riggs explains this weakness of the Ministry of Finance's budgetary authority in the 1950s in terms of his analysis of the modern Thai political-bureaucratic system. He argues that when, as in modern Thailand, politics is centred on intra-bureaucratic competition and conflict, it is almost inevitable that a strong finance agency - whether embodied in the Ministry of Finance or in such institutions as the Prime Minister's Office - will fail to emerge. Indeed such an agency - capable of determining the allocation of the Government's resources - would not be allowed to emerge, for that would give that component of the administration a dominating advantage in any intra-bureaucratic dispute<sup>38</sup>. The same basic analysis could perhaps be applied, with reservations, to the earlier period. It is possible to view the internal politics of the latter half of the reign of King Chulalongkorn essentially in terms of inter-ministerial competition and conflict. In that case, the outcome of

37. Quoted in: Fred W. Riggs Thailand: the Modernization of a Bureaucratic Polity Honolulu 1966 p. 332.

38. Fred W. Riggs op. cit. especially pp. 329-338.

major political questions such as the allocation of scarce resources would be determined principally by the relative political and administrative weight of the Ministers and Ministries themselves: the Ministry of Finance, competing with all the other Ministries for resources, was not allowed to achieve a permanent, dominating authority in financial matters in the Government.

In any event, it is clear that the relatively weak centralized financial control characteristic of Thai government in the 1950s was not a recent phenomenon. It is a feature of Thai government that can be traced back to the early development of modern Siamese financial administration in the Fifth Reign, and ultimately to the pre-reform administration with its dispersal of finance departments throughout the Government.

### 3. A conservative financial and monetary policy.

The majority of important financial measures promoted by the Ministry of Finance during the period covered by this study were prepared with substantial care and introduced only after considerable debate and consideration<sup>39</sup>. This was particularly true of those measures which involved Siam's relations with the European powers - the abandonment of the silver standard (a measure first proposed in 1899 though not acted upon until November 1902) and the raising of the first sterling loan in 1905 (a step preceded by a detailed, intense two-year debate in the Council of Ministers). However, the same cautious, conservative approach was also evident in the Government's allocation of its resources among its various projects, schemes and reserves. It is this order of priorities which is the primary concern of this present section.

The period 1892 to 1910 saw a very considerable expansion in the resources available to the Government; not only did the annual revenue receipts rise from 15.378 m. baht in 1892/93 to 63.509 m. baht in 1910/11, but the Government also succeeded in borrowing £8.63 m. (or almost 120.0 m. baht at current rates

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39. Though not all: for example, Phraya Suriyā's abolition of the opium farm in January 1907 was pushed through with undue haste and lack of preparation.

of exchange) from abroad<sup>40</sup>. However, in his now standard book on the modern economic history of Thailand, Economic Change in Thailand 1850 - 1970, Professor James Ingram criticizes the Siamese Government for being too cautious and conservative in its deployment of the increased resources at its command. Basically his criticism has two complementary aspects. First, Professor Ingram draws attention to the Siamese Government's policy of maintaining high cash reserve levels. For example, when the Government began to issue a paper currency in 1902, the full value of notes in circulation was backed in coin. Later, the Minister of Finance was permitted to invest 25 per cent and then 50 per cent of the reserve in first-class foreign securities<sup>41</sup>. In 1910 the value of notes in circulation exceeded 17 m. baht; this meant that the Ministry had to maintain a coin reserve of at least 8.5 m. baht - or slightly over £600,000 at the current rate of exchange - to safeguard the note issue. Furthermore, in 1907 the Government created a gold standard reserve fund to maintain the exchange value of the baht: this additional reserve was established from the proceeds - at first one-third, and then a half - of the £3.0 m. 1907 loan<sup>42</sup>. When the exchange reserve fund was legally constituted in November 1908 its statutory size was fixed at 12.0 m. baht, or a little under £1.0 m.<sup>43</sup>

This leads to the second aspect of Professor Ingram's criticism. He argues that by tying up such a large proportion of its resources in these two reserve funds, inevitably the Siamese Government was forced to limit its expenditure on programmes and projects which would have contributed greatly to the economic development of the Kingdom. In particular the Government was unable, or unwilling, to devote more than a very small percentage of its

40. This figure includes the £4.63 m. loan from the F.M.S. to Siam in 1909 for the construction of the Bangkok-Malaya border railway.

41. James C. Ingram Economic Change in Thailand 1850-1970 Stanford 1971 p. 154/171. See also my article in the J.S.S. (July 1972 pp. 23-44) Paper Currency: The Government Note Issues in the Reign of King Chulalongkorn.

42. James C. Ingram op. cit. p. 171. The transfer of an additional £500,000 to the exchange fund was only a temporary measure: this additional sum was returned to the railway construction fund as soon as the Treasury found itself buying rather than selling sterling: see pp. 254 fn. 162.

43. See pp. 256

resources to the various irrigation projects presented to it by the Dutch irrigation expert, van der Heide<sup>44</sup>. When the Council did allocate funds to projects of a developmental character, it invariably preferred to finance the construction of a railway network rather than the expansion of irrigation facilities.

The essence of Professor Ingram's criticisms is contained in his analysis of the Government's deployment of its 1907 sterling loan :

'Of the net proceeds of £2,797,500, £932,500 was earmarked for the exchange-stabilization fund, and another £500,000 was temporarily pledged to that fund. This left only £1,365,000 for capital investment, and £930,000 had already been used for railway construction. The remainder was also allocated to the railways. In short, irrigation could not be financed because over half of the 1907 loan was used to support the exchange. The irrigation schemes were rejected.'<sup>45</sup>

In other words, the Siamese Government gave a higher priority to the stabilization of the exchange rate than it did to the commercial development of the Kingdom through the implementation of irrigation schemes. In Professor Ingram's own words :

'The interests of foreign banks and foreign bondholders were thus placed above national interests such as development and utilization of resources. The consistent policy of maintaining high liquid reserves reflects the determination of the government to meet international obligations and to maintain the international position of the currency in spite of domestic economic needs. To this end the wealth of the nation was devoted.'<sup>46</sup>

Although there can be no serious disagreement with Professor Ingram's description of the conservative financial and monetary policy pursued by the Siamese Government in the period covered by this study, nor with the illustrations he uses to demonstrate that policy, his criticisms of the Government's allocation of its resources cannot be fully sustained. In general his analysis pays insufficient attention to the factors which contributed to the establishment and development of that policy in the final two decades of the reign of

44. The rejection of van der Heide's schemes, the dismantling of the Irrigation Department and the resignation of van der Heide from the Siamese service in 1909 have been considered in Chapter V. See pp. 100-101

45. James C. Ingram op. cit. p. 198. My emphasis. He also outlines this analysis on pp. 173-174.

46. ibid. p. 173.

King Chulalongkorn. The shortcomings of Professor Ingram's criticisms can be shown first by reference to the two major demands on the Government's resources dealt with above - the exchange reserve fund and van der Heide's irrigation programme.

The creation of the exchange reserve fund in early 1907 and its legal establishment in November 1908 through the promulgation of the Gold Standard Act, have been considered in detail in Chapter VI. A few points from that description are worth re-emphasising. First, the exchange reserve fund as originally constituted contained £0.932 m., one-third of the proceeds of the 1907 loan. Throughout 1907 and the beginning of 1908 the fund was used to purchase baht in order to support the exchange value of the currency during a trade depression and a period of severe speculation in the exchange markets. In May 1908 Prince Chanthaburi added a further £500,000 to the reserve fund to support the baht. When the Gold Standard Act was passed the following November, the fund stood at the equivalent of 12.0 m. baht and this figure was taken for the statutory size of the Gold Standard Exchange Fund. Therefore, in those initial years, the size of the exchange reserves was determined by the requirements of trade, based on the practical experience of supporting the exchange during a period of depression. In short, the volume of resources devoted to the exchange fund was no more than was required for the fund to discharge its function, at least in the late 1900s. However, as Professor Ingram points out, the Exchange Reserve Fund was an additional reserve, over and above the existing paper currency reserve, and it was difficult to envisage a combination of circumstances where the Government would require the full resources of both funds - of baht, foreign currencies and foreign securities - to meet either a run on the paper currency or heavy speculation in the exchange.<sup>47</sup> Yet there may have been good administrative reasons for maintaining separate exchange and paper currency reserve funds. If the reserves of the Government had been held in a single, general Treasury fund, there could be no guarantee that the foreign exchange reserves would not be used for such

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47. James C. Ingram op. cit. p. 171/173.

items as the purchase of imported capital goods, or the upkeep of Siamese missions abroad. Perhaps the only effective way to ensure that the Government constantly maintained sufficient reserves of foreign currency to support the baht was to establish a distinct exchange fund for that purpose<sup>48</sup>.

Finally, it must be emphasized that the establishment of an adequate exchange reserve fund was essential to the smooth operation of the gold-exchange standard adopted by Siam. In turn the maintenance of the exchange value of the baht at a stable parity with gold secured a number of important benefits for the Kingdom - it encouraged the development of foreign trade, it enabled the Government to raise sterling loans without fear that the baht value of its interest and debt repayment would be increased by a drop in exchange and it maintained the Government's ability to import capital goods essential for its important public works projects. In brief, the adoption of the gold-exchange standard - the establishment of the exchange reserve fund - were almost essential for the continued development and prosperity of the Kingdom and for the financing of the Government's various reform programmes. It is possible that by investing a considerable proportion of its loan proceeds in the exchange reserve fund, the Government gave as much encouragement to the development of the Kingdom's resources - at least in the short run - as it would have done if those funds had been devoted to irrigation works<sup>49</sup>.

With regard to the various irrigation schemes proposed by van der Heide and rejected by the Government in this period, there is space for only a few essential points. Most importantly, van der Heide's proposals appear to have

48. This point is raised because in 1910 Williamson wrote a memorandum to Prince Chanthaburi (Memorandum, Gold Standard Fund, 19 December 1910, F.F.A. 23/14) pointing out that £150,000 had been illegally withdrawn from the exchange reserve fund at the National Provincial Bank in London to cover payments in connection with the railway construction programme. The sum was repaid. Without the strict legal provisions surrounding the use of the exchange reserve fund and the maintenance of a separate reserve, it is possible that the foreign currency holdings of the Government would have been continually raided in this manner.

49. Therefore when Professor Ingram argues that by giving higher priority to the stabilization of the exchange rate than to irrigation 'The interests of foreign banks and foreign bondholders were ... placed above national interests such as development and utilization of resources' (p. 173) he fails to acknowledge the considerable commercial benefits the Kingdom derived from the fixing of the exchange value of the baht in relation to gold.

been far too ambitious for the Siamese Government. At about the time he submitted his original report to the Minister of Agriculture in 1903, the Government was just entering a period of financial difficulty: its policy of financing public works projects solely from current revenue had collapsed in 1902 and the construction of the northern railway was being partially financed from the Treasury reserves. The Ministry of Finance was forecasting a deficit in the estimates: the Government's debate over the raising of a European loan was just getting under way. Clearly under those circumstances it would have been unreasonable to expect the Ministers to have been receptive to an irrigation programme costing 47.0 m. baht at full capacity. Moreover, it is probable that the Government's first impression of van der Heide's ideas created a resistance to his later schemes. Even his 1906 proposals would have cost 24.1 m. baht<sup>50</sup>, though his final schemes in 1908 were budgeted for just 6.0 m. baht<sup>51</sup>. Yet even those reduced schemes were presented by van der Heide as short-term projects, capable of being incorporated into the full scheme which, he believed, the Government would ultimately sanction. It is possible that a small, self-contained scheme to demonstrate the effectiveness of irrigation works in Siam would have done much to overcome the opposition which had undoubtedly built up in the Council of Ministers to the report as a whole<sup>52</sup>. Second, though van der Heide expected his schemes eventually to pay for themselves through the imposition of lock fees, the sale of newly-irrigated land and the sale of irrigation water, it is very doubtful whether his projects could have financed themselves directly in this way<sup>53</sup>. In a country where traditionally land was free to anyone with the energy to clear it and where irrigation water from existing canals was available to any

50. Note. van der Heide, 12 March 1906 F.F.A. 18/5.

51. Memorandum. Further proposed schemes of Irrigation Department. Williamson, 14 August 1908 F.K.A. 18/4.

52. In a letter to the King on 17 March 1909 (N.A.Kh. 5. 1/27) Prince Chanthaburi complained that van der Heide almost invariably submitted a number of irrigation schemes to the Ministry of Finance for consideration all at one time - all the schemes being relatively large-scale and all being interdependent, having an important role in his full irrigation programme for Siam.

53. James C. Ingram op. cit. p. 199 fn. 11.

farmer who wanted it, there were clear objections to the Government charging the people for those commodities<sup>54</sup>. In short, the direct return from the irrigation schemes was almost certain to be much less than van der Heide anticipated<sup>55</sup>. Finally, it was feared that the implementation of any large-scale irrigation project would produce a number of undesirable side-effects: for example, it was suggested that such a project would make the Chao Phraya River less navigable from Ayudhya to the Gulf and would also make the river salty for up to six months of the year<sup>56</sup>. It is possible that the Government's rejection of van der Heide's proposals was based on an exaggerated fear of the practical difficulties involved in their implementation, an underestimate of the direct financial returns they would secure, or even a misunderstanding of their objectives, but the Government's opposition was no less real for that. Enough has been said to show that in the 1900s the case in favour of the immediate implementation of a major irrigation scheme was far less clear cut than in retrospect it can be made to appear<sup>57</sup>.

There remain three more general points to be made with regard to the Siamese Government's allocation of its resources in this period. First, despite the four-fold increase in revenue receipts between 1892 and 1910, and despite the raising of foreign loans in 1905, 1907 and 1909, it is clear that from the early 1900s the Government was very short of resources to cover its proposed reform programme. The occasional budget deficits from 1901/02, the recurrent problem of falling reserve levels, and, at the end of the 1900s, the emerging problem of an increasing proportion of the Government's expenditure being absorbed by allocations for salaries and administrative expenses<sup>58</sup>,

54. In the Dutch East Indies irrigation water was supplied free of charge; however, in British India a water-rate was levied. J. S. Furnivall Netherlands India Cambridge 1939 p. 323.

55. Even if the schemes could be made to pay for themselves within a few years, this still left the Government with the problem of finding 5 m. to 6 m. baht p.a. to finance the projects in the first place.

56. Note in regard to the various particulars of the irrigation scheme at reduced capacity. r.s. 125 F.F.A. 18/5.

57. See Ingram op. cit. pp. 199-200 for an analysis of some of the factors that may have contributed to the rejection of van der Heide's proposals. Also Leslie E. Small Historical Development of the Greater Chao Phya Water Control Project: an Economic Perspective. J.S.S. vol. 61 pt. 1 January 1972 pp. 1-24.

58. See pp. 191- 208

provide firm evidence of that. The Siamese Government was faced with the basic economic problem - how to allocate scarce productive resources between numerous important competing projects. This leads to the second point: throughout the whole of this period, the overriding objective of the Siamese Government was to maintain the independence of the Kingdom in the face of the threat from the European powers. Virtually all Government policies, measures and decisions have to be seen in the light of that consideration. Therefore in the allocation of its resources the Government gave priority to those projects which would contribute most to the protection of the Kingdom's sovereignty. Priority was given to the maintenance of high reserve levels in order to secure the Government against insolvency in all but the most disastrous circumstances. The Ministers were determined that neither Britain nor France would feel it necessary to intervene in the internal affairs of Siam because of financial irresponsibility on the part of the Government: the convertibility of the paper currency, the stability of the exchange mechanism and the ability of Siam to cover its foreign debt obligations were therefore given the highest priority. Moreover, as was argued earlier, the adoption of the gold-exchange standard - and the consequent establishment of an exchange reserve fund - was almost essential if Siam were to raise the foreign loans and import the capital goods that were required for the continuation of her reform programmes. Priority was also given to the construction of railways linking Bangkok with the more distant regions of Siam in order to secure the more effective government of the whole Kingdom from the capital; the railways promised a clear strategical and administrative benefit. In comparison, though large-scale irrigation schemes would have undoubtedly encouraged the general economic development of the Kingdom, it could not be said that they would have directly contributed as much to the maintenance of Siamese independence. Therefore in the 1890s and 1900s the order of priorities adopted by the Siamese Government in the allocation of its resources can be explained with reference to the Kingdom's external political position, faced as it was

by powerful colonial administrations on all sides<sup>59</sup>. However, when after the 1914-1918 War, the threat to Siam from the neighbouring British and French regimes began to ebb, so the factors which had contributed most to the early development of Siam's conservative financial and monetary policy began to lose their potency. Therefore Professor Ingram's criticisms of that policy - and its development from the 1920s<sup>60</sup> - may have more validity for that later period.

There is one final, rather fundamental point: any analysis of the early development of Siam's conservative financial and monetary policy must take into account the accepted economic ideas of the time, particularly those prevalent in the other, predominantly colonial, administrations of Asia. For example, it is worth noting that the policy of maintaining very high currency reserve levels was pursued in this period not only by Siam but also by the Straits Settlements. In 1900 the Straits Settlements authorities established a Currency Board system under which the Board was legally obliged to redeem any amount of Straits Settlements currency notes with sterling: in practice, every unit of Straits Settlements money was backed by an equivalent amount of British currency, though up to one half of those reserves could be invested in British or Commonwealth (not Straits Settlements) securities<sup>61</sup>. By these provisions fixity of exchange between the Straits dollar and sterling - and hence the rest of the world's gold-based currencies - was guaranteed, and this exchange stability was essential for an economy like that of the Straits

59. Professor Ingram acknowledges that the Siamese Government's policy of maintaining high reserve levels was determined principally by the very real fear of foreign intervention.(p. 170) but he fails to give this consideration sufficient weight in his overall analysis. If in retrospect it is said that the Government was too cautious - devoted too high a proportion of its resources to reserves - then undoubtedly the Government would have argued that it had erred on the right side. Almost any price was worth paying to protect the independence of the Kingdom.

60. James C. Ingram op. cit. p. 171/pp. 181-182. It need only be noted here that Siam raised loans totalling £5 m. in 1922 and 1924 at high rates of interest, primarily to restore the Treasury reserves to the high levels maintained prior to the 1919-1921 exchange crisis.

61. Lim Chong-Yah Economic Development of Modern Malaya Kuala Lumpur 1967 pp. 222-224/230. In fact a commission reporting in the 1930s recommended a 115% reserve ratio. (p. 224 fn. 1).

Settlements so dependent on external trade and investment<sup>62</sup>. On the other hand the Currency Board system had a number of disadvantages: perhaps most importantly it tied up a considerable proportion of the colony's funds in liquid assets and securities (most of which were purchased on the London market), funds which, it could be argued, would perhaps have found better economic and social uses by being invested in the colony itself. The parallel with Siam's decision to place a higher priority for the use of its resources on maintaining the exchange value of the baht than on the development of irrigation works, requires no emphasis.

It is also significant that in British Malaya - indeed in all the colonial regimes in the region - in this period, a central axiom of financial policy was to budget for a small revenue surplus on ordinary account each year. In fact it was also an established principle of financial policy in the metropolitan economies themselves - balanced budgets, a frugal attitude towards expenditure, the maintenance of substantial reserves. It was exactly this financial orthodoxy that Siam, attended by British Financial Advisers brought up in this tradition, pursued<sup>63</sup>. Yet underlying much of Professor Ingram's analysis of Siam's financial policy in this period seems to be a basic adherence to the economic tenets of a more recent period - an acceptance of the development aims and strategies for the Third World that have emerged since 1945<sup>64</sup>. In particular his analysis appears to be based on an acceptance of the overriding importance of economic growth for the 'developing nations' and

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62. It was not until 1938 that the Malay States actually participated in the Currency Board scheme: however, since the Straits Settlements currency also circulated in the Peninsula, the Malay States clearly benefited from the stability of exchange achieved by the system in this earlier period. Lim Chong-Yah p. 224.

63. Both Rivett-Carnac and Williamson had, of course, been in the Indian Service before their appointment to Siam, and it is interesting to note that a strong emphasis on balanced budgets, an avoidance of unnecessary public debt, the maintenance of large reserves and a constant determination to restrain government expenditure were outstanding features of Indian financial administration in the period following the abolition of the East India Company in 1858 and the institution of the post of Secretary of State for India. See S. Bhattacharyya Financial Foundations of the British Raj Simla 1971 esp. chapter 3 and R. J. Moore Sir Charles Wood's Indian Policy 1853-66 Manchester 1966 esp. chapters 7&11.

64. Professor Ingram makes just one brief reference to the fact that Siam's financial policy at the beginning of the twentieth century merely reflected the economic orthodoxies of the time (p. 174).

a belief that all resources - foreign loans, export earnings, reserves - be fully utilized to promote that growth. Siam's financial and monetary policy in the early twentieth century cannot be judged by those criteria: economic growth was not of sole, overriding importance to the Kingdom, and the devotion of resources to development projects to the detriment of the maintenance of high reserves and balanced budgets was financial heresy<sup>65</sup>.

#### 4. The British Financial Advisers.

In his analysis of Siam's conservative financial and monetary policy and of the influences which contributed to the evolution of that policy, Professor Ingram places considerable emphasis on what he sees as the power and authority of the British Financial Advisers within the Siamese Government. For example, he points out that Williamson was a strong critic of van der Heide's irrigation schemes and quotes from a memorandum written by the Adviser in August 1908 :

'To my mind it has not yet been satisfactorily shown that new irrigation works are required in Siam, except as feeders to already existing systems, owing to the want of sufficiently dense population, and I have consequently always been opposed to the Government committing itself to any of Mr. van der Heide's ambitious projects.' <sup>66</sup>

Furthermore, Professor Ingram argues that the 'British Financial Advisers largely decided whether additional foreign loans were wise or not.'<sup>67</sup> He emphasises that the Advisers constantly urged the Government to maintain a high level of reserves and insisted on the importance of framing the budget so as to make certain that a surplus was achieved<sup>68</sup>. Finally, in considering

65. One exception to this orthodoxy should be noted. In the Philippines from 1911 up to 50% of the Gold Standard Fund could be made available to provincial and municipal governments for public works programmes: but it is also perhaps significant that in the 1920s the Filipino exchange reserves were almost entirely lost as a result of a substantial portion of them being deposited with the Philippine National Bank, from where they were used for agricultural and industrial loans (W. Cameron Forbes The Philippine Islands Boston 1928 vol. 1. p.276, vol. 2 p. 272/536-538). It should also be emphasised that the generally accepted restriction on the use of reserves for public works projects did not prevent heavy investment in such projects by some colonial regimes. For example the British administration in Malaya was able to develop an extensive infra-structure from the late nineteenth century, and maintain a high level of reserves, principally as a result of a very rapidly expanding revenue from tin and rubber exports.

66. James C. Ingram Economic Change in Thailand 1850-1970 p. 198.

67. ibid. p. 200.

68. ibid. p. 197.

the various limitations imposed on Government expenditure, Professor Ingram refers to

'the restraining influence of the Financial Adviser, who was one of the most powerful figures in the government until about 1930. Without his approval a foreign loan could probably not have been marketed successfully, and the government could scarcely have carried out any financial measures to which he had strong objections.' 69

Moreover he sees the conservative influence of the British Financial Advisers in Siam as assisting, consciously or not, the policy of the British Government in the region :

'The principal aim of British policy was to maintain order and stability, and to prevent anything from disturbing or endangering her trade or investments. Maintenance of the status quo in Thailand also meant that she would remain a buffer between French and British possessions in Southeast Asia, thus eliminating the need for military expenditures to protect Burma on the east and Malaya on the North. A conservative financial policy in Thailand was a safe, simple, and unimaginative means to this end.' 70

However, on several occasions Professor Ingram modifies this basic view of the influence of the British Financial Advisers. Again referring to Williamson's role in the rejection of van der Heide's irrigation projects, he argues that

'We cannot put the blame for the postponement of irrigation works from 1903 to 1916 on Williamson alone. No doubt there were many other officials who disapproved of the scheme ... All we wish to assert here is that the Financial Adviser did exert a conservative influence in the determination of capital expenditures. However, because of his position, the influence was probably a powerful one ... Since about 1930 the government has of its own volition followed rather conservative policies. Probably it has preferred such policies.' 71

And, pushing the qualification a little further :

'the conservative policy was not forced on an unwilling government. The government itself desired the policy, although the particular forms it sometimes took may have been inspired by the Financial Adviser or, through him, the British government.' 72

In these qualifications and reservations to his basic argument, Professor Ingram almost certainly gets nearer to an accurate assessment of the influence

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69. ibid. p. 196. My emphasis.

70. ibid. p. 173.

71. ibid. p. 202. My emphasis.

72. ibid. pp. 172-173.

of the British Financial Advisers in Siam in the period up to 1910<sup>73</sup>. First there are a number of points of detail. With regard to van der Heide's irrigation schemes, it is clear that when the Dutch expert submitted his original report to the Siamese Government in early 1903, the Ministers read it with relatively little enthusiasm: Prince Devawongse in particular was not impressed with van der Heide's proposals<sup>74</sup>. The first adverse comment on the report from The Financial Adviser appeared towards the end of 1903 when the Government's basic attitude on the issue had already formed<sup>75</sup>. There is no evidence that Williamson's later opposition to large-scale irrigation works in 1906 and 1908 marked a new departure in Government thinking. It is also clear that although both Rivett-Carnac and Williamson were strong proponents of the raising of a European loan in the early 1900s, neither of them played an important part in forcing the Government to come to its final decision on the loan in late 1904. If any Adviser could have been said to have had a crucial influence on that final decision, it was Strobel<sup>76</sup>. Furthermore, neither Rivett-Carnac nor Williamson took any significant part in the actual negotiation of the 1905 loan (nor of the 1907 loan): nor is there any evidence that the 'approval' of the Advisers was necessary to ensure that the sterling loans were 'marketed successfully'<sup>77</sup>. Lastly, the actual decision to use part of the proceeds of the 1907 loan to support the exchange was almost certainly taken by Phrayā Suriyā and the Council of Ministers without the active involvement of Williamson. Indeed since Phrayā Suriyā and Williamson had strongly disagreed over the Ministry's exchange policy in October 1906, it is possible that the Adviser was not even consulted. In

73. It is worth noting at this point that for his study Professor Ingram had access only to the Files of the Financial Advisers and not to the Thai documents now held in the National Archives. Therefore his basic view of the influence of the Financial Advisers is derived almost solely from an examination of the Advisers' own papers.

74. See pp. 134-135

75. Memorandum by the Financial Adviser upon the cash balances of the Government. Rivett-Carnac, 25 November 1903 F.F.A. 30/6.

76. See pp. 140-143

77. See James C. Ingram Economic Change in Thailand 1850-1970 p. 196.

short, the Thai documents make it clear that on these issues at least, the Financial Advisers did not have the influence on specific decisions that Professor Ingram suggests.

This leads to a more general point. It was argued in section 3 above that the evolution of Siam's conservative financial and monetary policy in this period can be explained, first by reference to the principal political objective of the Siamese Government up to the outbreak of war in Europe in 1914 - the preservation of the Kingdom's sovereignty - and second, in terms of the financial and monetary orthodoxies of the time. In brief there is no need to explain those policies and measures principally in terms of the powerful influence of cautious, unimaginative Financial Advisers. Undoubtedly the Financial Advisers were conservative in outlook, but in this they merely supported the conservative, cautious inclinations of the Siamese Ministers. If they had consistently opposed the basic policies favoured by the Ministers - for example, had fully supported van der Heide's projects - then undoubtedly the sovereign Siamese Government would have found a way to dispense with their services.

The view that the British Financial Advisers enjoyed limited influence in the determination of Government policy in Siam, at least up to 1910, can be supported by two further points. First, by and large the Financial Advisers did not enjoy the full confidence of either the Siamese Government or the British Ministers in Bangkok, a confidence that was essential if they were to have developed a powerful position in Siam. This was certainly true of Rivett-Carnac. His eagerness to pronounce on Siam's external political problems - as for example in early 1902 - earned him the hostility of both the Siamese and British foreign ministries<sup>78</sup>. In addition the Siamese Government never lost sight of the fact that Rivett-Carnac was British; they therefore expected that in the last analysis he would defend British rather than Siamese interests. This was certainly one of the major reasons why Rivett-Carnac was allowed to play no significant role in the negotiations for

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78. See pp. 115-118

the 1905 and 1907 loans. Yet paradoxically it was believed on the British side that the Adviser occasionally showed more concern for Siamese rather than British interests<sup>79</sup>. In addition it was felt by some British Ministers in Bangkok that Rivett-Carnac was too impetuous to be brought fully into their confidence<sup>80</sup>.

Second, there was at least one occasion in this period when the Minister of Finance and the Financial Adviser disagreed over a major policy; that was in October 1906 when Williamson opposed Phraya Suriya's proposals to revalue the baht and severely criticized the decision taken earlier in the year to proceed with the Puket currency scheme<sup>81</sup>. It is significant that in this conflict the Minister of Finance received the support of the King and the Council of Ministers, and Williamson had to withdraw - though later his opposition appears to have been vindicated. Moreover there were several occasions when the Financial Adviser's recommendations, though accepted promptly by the Minister of Finance, took a considerable time to gain the approval of the Government as a whole. This was the case with both the abandonment of the silver standard and the raising of the first loan in Europe.

Therefore in the period up to 1910 the Financial Advisers' effective influence on the determination of Siamese financial and monetary policy was limited, and their executive power non-existent<sup>82</sup>. Nevertheless they fulfilled two important functions in the Siamese Government. First, they were the originators of ideas and proposals; the proposal to abandon the silver standard and adopt the gold standard, and the proposal to raise a European

79. Beckett to Sir Edward Grey, 29 August 1906, Desp. 70 and attached minutes. P.R.O. F.O. 371/133.

80. This was the view of, in particular, Tower, the British Minister in Bangkok in early 1902; see pp. 116-117.

81. See pp. 137-141.

82. On this point the views of another British adviser to the Siamese Government, J. G. D. Campbell (the Adviser to the Education Department 1899-1901) are of interest: 'In Siam ... an adviser is an adviser, and nothing else. He may have a certain amount of executive and constructive work to do, but any new scheme or proposal he suggests has to be approved at any rate by his Minister, and if it is a matter of importance, may even require the sanction of the Cabinet Council or of his Majesty himself.' J. G. D. Campbell Siam in the Twentieth Century: Being the Experiences and Impressions of a British Official London 1902 p. 169.

loan both originated from the Advisers. Yet whether their ideas were taken up, or when and how, was purely a matter for the Siamese Ministers in whose hands alone rested the executive power. The Financial Advisers could recommend or even demand a particular course of action, but in the last analysis they remained merely advisers. Second, the Financial Advisers were the Siamese Government's principal source of western financial expertise. Not only did Rivett-Carnac and Williamson advise the Government on the technical aspects of, for example, raising capital in the European money markets, the operation of a gold-exchange standard mechanism and the issue of a Government paper currency, but they were also instrumental in drafting many of the financial regulations, acts, instructions and notifications issued by the Ministry of Finance in this period. In such work the Financial Advisers' long experience in the financial administrations of British India and British Burma was of particular value to the Siamese Government.<sup>83</sup>.

##### 5. Siam's financial reforms and administration 1885 - 1910 in an Asian setting.

An attempt was made above to place the evolution of Siam's financial and monetary policy in the late nineteenth and early twentieth centuries in the context of the financial and monetary orthodoxies prevalent in other Asian administrations at that time. The aim of this final section is to place the early development of the Siamese financial administration as a whole and the promotion of specific financial and monetary reforms by the Siamese Government in this period, in that wider Asian setting.

The first point to note is that many of the principal financial and monetary reforms introduced by the Siamese Government in this period were at the same time being promoted by the majority of colonial regimes in South-East Asia and indeed by governments, independent and colonial, throughout Asia. For example, Siam abandoned the silver standard in November 1902: in this

83. The western budget, audit and accounts procedures which Rivett-Carnac and Williamson were instrumental in introducing in Siam had been developed in British India from the 1860s. See S. Bhattacharyya Financial Foundations of the British Raj Simla 1971 chap. 2.

she was preceded by India, and of course Burma in 1893<sup>84</sup>, and Japan in 1897<sup>85</sup>, and followed by the Philippines<sup>86</sup> and the Straits Settlements<sup>87</sup> in 1903. The Dutch administration in the East Indies adopted a gold-standard basis for the currency at about the same time<sup>88</sup>. Indeed in this period China and French Indo-China were the only Asian states to remain on the silver standard<sup>89</sup>. Such a concerted move from silver to gold was hardly surprising. In the second half of the nineteenth century, these states had been thrust into the rapidly expanding international economy - most of them through the imposition or consolidation of colonial rule, Siam and Japan by the advent of Sir John Bowring and Commodore Perry respectively and the subsequent development of political and economic contact with the west. Consequently as the gold price of silver dropped rapidly at the end of the century, so the foreign trade of those states was hampered to the extent that they traded with gold standard powers in the west, and then in Asia itself. The same commercial and economic factors which forced Siam off the silver standard in November 1902 also forced most of her neighbours to take the same action<sup>90</sup>.

Similarly, the Siamese Government's decision to abolish the opium farm in 1907 and to institute direct Government administration of the monopoly - with, it was hoped, a much tighter control over the consumption of the drug in the Kingdom - can be seen as part of a much wider anti-opium movement throughout the region. In the Philippines, the American administration abolished the opium farm in the early 1900s, 'as repugnant to American practice'

84. V. Anstey The Economic Development of India 4th ed. London 1952 p. 410/  
Alleyne Ireland The Province of Burma Boston 1907 vol. 2 chap. 11 esp. pp. 527-528.

85. G. C. Allen A Short Economic History of Modern Japan revised ed. London 1972 p. 52.

86. W. Cameron Forbes The Philippine Islands Boston 1928 vol. 1 p. 274

87. E. W. Kemmerer A Gold Standard for the Straits Settlements Political Science Quarterly vol. 19 no. 4 December 1904 pp. 636-649.

88. Forbes op. cit. vol. 1 p. 275.

89. C. Robequain The Economic Development of French Indo-China London 1944 p. 145. French Indo-China remained tied to silver until 1930.

90. However it is interesting to note that whereas in the Straits Settlements much of the pressure for the abandonment of the silver standard came from European commercial groups - principally the Singapore Chamber of Commerce (Kemmerer op. cit. esp. pp. 638-640) - in Siam the decision to abandon silver in 1902 appears to have been taken by the Government alone, uninfluenced by commercial opinion.

and theory of government' and from March 1908 the sale and use of the drug and its derivatives were made illegal except for medicinal purposes<sup>91</sup>. In or about 1900 the Dutch authorities in the East Indies took over the opium farms from the Chinese farmers partly because, almost inevitably, the farmers had been attempting to spread the opium habit among the population, and partly in order to curb the economic power of the Chinese community in the Indies<sup>92</sup>. In Malaya, the opium import duty farms were abolished in Perak in 1895, Selangor in 1900 and Negri Sembilan in 1901<sup>93</sup>: the monopoly of importing, preparing and selling opium came under government control in the Straits Settlements in 1910 and in the F.M.S. in 1911<sup>94</sup>. A further manifestation of the anti-opium movement in this period was the fact that in 1907 British India - a major supplier of opium - came to an agreement with China whereby the export of opium to the latter was to be annually curtailed and eventually abolished<sup>95</sup>. In fact in this period there were also recurrent campaigns against opium smoking in China itself<sup>96</sup>.

The anti-opium movement in Asia from the late nineteenth century derived much of its momentum from agitation within political and public circles in Europe. In the Westminster Parliament in the early 1890s there was strong criticism of the British Government's policy of allowing opium to be consumed in the colonies and of the farming out of the opium revenue<sup>97</sup>: then in every year between 1906 and 1913 questions were raised in the House concerning government policy with respect to opium (and also gambling) in Malaya<sup>98</sup>. International co-operation in the control of the opium trade began with a conference at Shanghai in 1909 which in turn cleared the way for the first

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91. W. Cameron Forbes The Philippine Islands vol. 1 p. 248 and fn. 3.

92. J. S. Furnivall Netherlands India Cambridge 1939 p. 265/412-413.

93. Wong Lin Ken The Malayan Tin Industry to 1914 Tucson 1965 pp. 192-193.  
Lim Chong-Yah Economic Development of Modern Malaya Kuala Lumpur 1967 p. 257.

94. Wong Lin Ken op. cit. p. 226.

95. V. Anstey The Economic Development of India p. 20.

96. Wong Lin Ken op. cit. p. 221.

97. ibid. p. 191.

98. ibid. p. 221 fn. 174.

international opium convention held at The Hague in 1912<sup>99</sup>. There can be little doubt that the traditional Siamese dislike of opium smoking was strengthened by this anti-opium movement. One of the most important aims of the Siamese Government in this period was to persuade the treaty powers to relinquish the extra-territorial privileges of their subjects in the Kingdom. The powers were likely to agree to such a concession only when they were convinced that Siam had modernized her administration - and in particular her judicial administration - sufficiently for her to be accepted within the community of 'civilized' nations. For the Siamese Government to bring opium sales under its direct administration and to announce its long-term aim to suppress the consumption of the drug in the Kingdom, was a clear sign to the powers of Siam's good intentions. Similarly the decision in 1905 to close the Kingdom's gambling dens was due to a considerable extent to a desire on the part of the Government to shed its 'backward' image<sup>100</sup>.

Yet in abolishing the opium farm in 1907 the Siamese Government was clearly not acting solely in response to anti-opium agitation in the west. Direct government administration of the opium monopoly was instituted in the first instance simply because the farms had ceased to be financially viable; as a more general consideration, the Siamese Government wished to abolish its tax and monopoly farms because by the end of the nineteenth century it regarded the farm system as an inefficient and, for the people, oppressive way of collecting the Kingdom's revenue. Again similar considerations were also evident in some of the colonial regimes in South-East Asia in that period. For example, in the Dutch East Indies the Government took over the pawnshop farms at the turn of the century, partly because it was felt that under private Chinese control the pawnshops were not allowing the local population just terms<sup>101</sup>.

99. Siam sent delegates to both conferences; correspondence in F.F.A. 6/5.

100. It is interesting to note that according to the British Minister in Bangkok, Greville (Private letter to Bertie, 28 September 1899, PRO F.O. 69/197) the King was reluctant to have the budget published in the late 1890s partly because he disliked advertising the fact that the Government obtained a sizeable proportion of its revenue from gambling, liquor and opium.

101. J. S. Furnivall Netherlands India p. 265/412.

In the F. M. S. and Straits Settlements the system of revenue farming had been defended in the early 1900s as being the least expensive and most practical way of collecting revenue from the Chinese population, but by the end of the decade official opinion was beginning to accept that the system did not raise as much revenue as in theory could be expected<sup>102</sup>. In January 1909 the pawnshop and spirit farms were abolished; in December 1912 the gambling farm disappeared and gambling was declared illegal<sup>103</sup>. In other words in the modern, western-based administrations developed in Siam, British Malaya and the Dutch East Indies in this period, it was accepted that the collection of revenue by direct Government agency was the most effective, efficient and least oppressive method of securing the Government's tax income<sup>104</sup>.

This general theme can be developed a little further. In the period from about 1870 the colonial administrations in South-East Asia expanded, both geographically and functionally. For example, British territorial authority was extended to Upper Burma from 1886; then from about 1900 the functional responsibilities of the British administration in Burma were expanded by the creation of agricultural, veterinary, justice, police, health and other specialist departments<sup>105</sup>. Similarly, Dutch rule was extended further into Sumatra and the outer islands in the last quarter of the nineteenth century; then, under the impetus of the 'Ethical Policy', specialist Government agencies, similar to those being established in British Burma, were created<sup>106</sup>. The same expansion of government administration occurred in Siam in this period; first a territorial expansion as the more distant regions of the Kingdom were brought under the effective control of Bangkok<sup>107</sup> and then a functional expansion

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102. Wong Lin Ken The Malayan Tin Industry to 1914 p. 192.

103. ibid. p. 222.

104. It is interesting to note that when Kedah was transferred from Siamese to British sovereignty in 1909 the British administration dismantled all the revenue farms in the state and instituted revenue collection by officials. Rupert Emerson Malaysia New York 1937 pp. 243-244.

105. J. S. Furnivall Colonial Policy and Practice Cambridge 1948 pp. 72-73.

106. J. S. Furnivall Netherlands India Cambridge 1939 pp. 265-266/344-345.

107. See Nigel J. Brailey The Origins of the Siamese Forward Movement in Western Laos 1850-92 Ph.D. thesis London 1968. Tej Bunnag The Provincial Administration of Siam from 1892 to 1915 D.Phil. thesis Oxford 1968.

with the creation of specialist Ministries and departments in the 1890s.

Clearly the development of a financial administration and the introduction of specific financial and monetary reforms along the lines considered in the main body of this study were an integral part of the establishment of such relatively powerful and sophisticated Government structures. For example, these complex administrative systems could be operated efficiently only by incorporating within them effective budget, accounts and audit procedures. It was also in the interests of efficiency that officials be paid salaries rather than be remunerated on an ill-defined commission basis<sup>108</sup>. Moreover, these administrations could achieve stability only if their major sources of revenue were under direct Government authority instead of being farmed out to private individuals. At the most elementary level such sophisticated Government structures could operate only if there were a uniform coinage and currency note issue in circulation<sup>109</sup>. The development of these financial techniques and the introduction of such reforms were equally important in the expansion of the Siamese and colonial administrations of South-East Asia from the end of the nineteenth century<sup>110</sup>. The fact that the geographical and functional extension of the Government structure was undertaken in Siam primarily in order to protect the sovereignty of the Kingdom and in Malaya, Burma and the East Indies primarily, though not solely, in the interests of commercial and economic development, has no bearing on the issue.

However, it is important to note that in the creation of a complex

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108. The payment of salaries to local officials was a feature of most colonial regimes in Asia in this period: Rupert Emerson Malaysia p. 457; J. S. Furnivall Netherlands India p. 193; W. Cameron Forbes The Philippine Islands vol. 1 p. 266. Indeed in the 1860s King Mindon of Burma attempted to introduce the payment of regular salaries to princes and officials: John F. Cady A History of Modern Burma Cornell 1958 p. 101.

109. In most South-East Asian colonial regimes in this period the authorities assumed the sole monopoly right to issue a paper currency; for example Malaya in 1900 (Lim Chong-Yah Economic Development of Modern Malaya pp. 222-223). In India arrangements were made to place control of the currency circulation in the hands of the Government in the 1860s (R. J. Moore Sir Charles Wood's Indian Policy 1853-66 Manchester 1966 pp. 230-238).

110. The development of western budget, accounts and audit procedures in India from the 1860s has already been noted (fn. 83). There is also evidence of their institution in the Philippines (Forbes op. cit. vol. 1 p.127/248) and the Dutch East Indies (Emerson op. cit. pp. 392-393) a few decades later.

western-based administrative structure and the promotion of attendant reforms and projects, Siam had considerably less resources at her disposal than did the neighbouring colonial regimes. First the Kingdom could command less capital resources. In part this was due to the fact that the Siamese Government placed less emphasis on commercial and economic development than did the colonial administrations. More importantly, the fiscal restrictions placed on Siam by the commercial treaties signed with the western powers from the 1850s prevented the Siamese Government from raising more than a relatively small income from trade and from the land<sup>111</sup>. Even so the Siamese Government's revenue rose four-fold between 1892 and 1910, but this was still far from sufficient to cover all the administration's pressing needs. The clearest indication of the Siamese Government's capital shortage in this period was, of course, the fact that the Kingdom had to raise capital abroad in order to continue with its programme of railway construction: in contrast, in the F. M. S. in the 1890s and 1900s the British administration was able to undertake a large-scale railway construction programme, financed to a considerable extent with the income from the export duty on tin<sup>112</sup>. Moreover, despite enormous increases in expenditure the F. M. S. authorities were able to secure significant revenue surpluses throughout most of this period<sup>113</sup> and even, in 1909, advance the Siamese Government over £4.0 m. for the construction of the

111. Two brief examples will illustrate the point. First, in 1900/01 the revenue from customs duties accounted for approximately 10% of total Government revenue in Siam (R.F.A.B. 1903/04 p. 23): in the F.M.S. in 1900 the income from the export tax on tin alone contributed about 45% of total revenue (Lim Chong-Yah Economic Development of Modern Malaya pp. 47-48). Second, according to Rivett-Carnac (Memorandum, 31 August 1899, N.A.Kh. 14/21), the revenue derived from the land in Burma was some 13 times greater than that raised from the land in Siam. This was in the late 1890s, before the raising of the rates of land tax in Siam in 1905. However, even in 1910/11 the land and fishery taxes in Siam still contributed only 12% of total revenue (R.F.A.B. 1912/13).

112. Lim Chong-Yah op. cit. pp. 47-49/272-276. Over the period 1884-1937 the F.M.S. Government spent \$228 m. on railway construction; over 75% of that sum came from ordinary revenue, the balance from loans and working profits.

113. Lim Chong-Yah op. cit. p. 48.

Peninsula railway south from Bangkok<sup>114</sup>. One further important consequence of the Siamese Government's shortage of resources was that it imposed an additional strain on the administration's embryo budget procedures; it tested to the full the Ministers' ability to work together.

The second and more serious shortage facing the Siamese Government in this period was the shortage of competent officials, trained in western financial and administrative methods. The colonial regimes could call on experienced, expert personnel of their own to establish budget, accounts and audit procedures and to implement basic financial reforms; the Siamese Government on the other hand had to attempt to evolve those financial techniques with officials heavily imbued with the traditional Siamese attitudes of kin mu'ang and with, at least initially, little knowledge of western financial methods. In Malaya, Burma and the Dutch East Indies, western-based financial administrations were developed with European officials throughout the senior grades and with Indian and sometimes Chinese clerks familiar with European audit and accounts systems occupying many of the subordinate

positions<sup>115</sup>. Siam had at her disposal few European finance officers, the majority British officials recruited from the Indian Service. That the Siamese Government, and in particular the Ministry of Finance and its principal Minister in this period, Prince Mahit, managed to achieve as much as they did in the creation of a western-based financial administration and in the introduction of specific financial reforms with such shortages of personnel and capital, should stand as the final measure of their achievement.

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114. The construction of the Burmese railway network was financed by allocations from the Indian budget (John F. Cady A History of Modern Burma pp. 162-163), the French Indo-China system largely by means of loans raised in France (C. Robequain The Economic Development of French Indo-China p. 90).

115. Rupert Emerson Malaysia p. 239; F. S. V. Donnison Public Administration in Burma London 1953 p. 66.

## STATISTICAL APPENDICES

TABLE I - Government Revenue and Expenditure, 1892/93 - 1910/11.

TABLE II - Government Revenue from Spirits and Opium - farms and government administration, 1892/93 - 1910/11.

TABLE III - Government Revenue from the Gambling and Lottery Farms, 1892/93 - 1910/11.

TABLE IV - Government Revenue from Land and Fishery Taxes, Customs, and Chinese Poll Tax, 1892/93 - 1910/11.

TABLE V - Government Expenditure on Railway Construction and Irrigation, 1892/93 - 1910/11.

TABLE I

Government Revenue and Expenditure, 1892/93 - 1910/11 (in baht\*)

Year	Revenue	Expenditure from Revenue **	Expenditure from Loan Account	Total Expenditure
1892/93	15,378,114	14,918,977	-	14,918,977
1893/94	17,389,673	18,174,504	-	18,174,504
1894/95	17,534,469	12,487,165	-	12,487,165
1895/96	18,074,690	12,685,698	-	12,685,698
1896/97	20,644,501	18,482,716	-	18,482,716
1897/98	24,808,002	23,996,626	-	23,996,626
1898/99	28,496,030	23,787,582	-	23,787,582
1899/1900	29,902,366	27,052,718	-	27,052,718
1900/01	35,611,307	31,841,258	-	31,841,258
1901/02	36,157,963	36,646,558	-	36,646,558
1902/03	39,152,125	39,028,040	-	39,028,040
1903/04	43,458,817	43,908,902	-	43,908,902
1904/05	46,046,404	46,634,654	4,986,976	51,621,630
1905/06	51,657,539	50,035,524	4,216,765	54,252,289
1906/07	57,014,806	56,837,461	5,580,604	62,418,065
1907/08	55,826,532	56,503,204	6,432,287	62,935,491
1908/09	60,859,509	58,378,548	4,294,892	62,673,440
1909/10	62,679,402	58,844,619	not available	not available
1910/11	63,509,181	61,482,491	3,713,012	65,195,503

Source : Reports of the Financial Adviser on the Budget, 1901/02 - 1912/13.

\* rounded to the nearest baht.

\*\* This is not necessarily a figure for expenditure from current revenue. In most years the figure would include expenditure from the reserves - from the accumulated revenue surpluses of previous years.

TABLE II

Government Revenue from Spirits and Opium - farms and government administration  
1892/93 - 1910/11 (in baht\*)

Year	<u>Spirits</u>		<u>Opium</u>	
	Revenue from Farms	Government Administration	Revenue from Farms	Government Administration
1892/93	2,303,173	-	2,477,563	-
1893/94	2,158,447	-	2,480,072	-
1894/95	2,298,508	-	2,443,044	-
1895/96	2,589,974	-	2,567,284	-
1896/97	2,773,735	-	2,513,860	-
1897/98	3,128,429	-	2,871,510	-
1898/99	3,680,057	-	2,935,243	-
1899/1900	3,730,060	-	4,568,623	-
1900/01	3,412,734	-	5,432,230	-
1901/02	4,353,108	-	5,072,705	-
1902/03	3,859,394	-	7,080,637	-
1903/04	4,142,889	-	6,972,780	-
1904/05	4,499,640	-	6,403,003	-
1905/06	4,100,099	64,397	10,260,961	-
1906/07	3,818,342	129,417	7,693,670	1,173,387
1907/08	3,216,623	744,389	1,705,708	7,946,824
1908/09	2,191,822	1,018,510	363,333	14,151,120
1909/10	not available	not available	not available	not available
1910/11	130,016	6,130,570	-	11,517,213

Source : Reports of the Financial Adviser on the Budget, 1901/02 - 1912/13

\* rounded to the nearest baht.

TABLE III

Government Revenue from the Gambling and Lottery Farms, 1892/93 - 1910/11  
(in baht\*)

Year	Gambling Farms	Lottery Farms
1892/93	1,832,261	901,761
1893/94	1,976,431	937,019
1894/95	2,283,306	1,036,868
1895/96	2,778,000	1,219,360
1896/97	2,948,903	1,221,520
1897/98	4,224,268	1,192,061
1898/99	4,676,977	1,400,779
1899/1900	4,678,174	1,621,082
1900/01	5,244,522	1,524,747
1901/02	5,460,546	1,909,933
1902/03	4,566,225	1,997,530
1903/04	5,546,012	2,077,472
1904/05	6,879,526	2,291,109
1905/06	5,732,517	2,391,489
1906/07	3,604,538	2,697,947
1907/08	3,506,815	2,889,948
1908/09	3,076,542	3,184,870
1909/10	not available	not available
1910/11	3,431,197	3,069,759

Source : Reports of the Financial Adviser on the Budget, 1901/02 - 1912/13

\* rounded to the nearest baht.

TABLE IV

Government Revenue from Land and Fishery Taxes, Customs, and Chinese Poll Tax,  
1892/93 - 1910/11 (in baht\*)

Year	Land and Fishery Taxes**	Customs	Chinese Poll Tax***
1892/93	1,179,415	1,743,092	109,537
1893/94	1,884,811	2,555,952	36,258
1894/95	1,679,293	2,276,723	342,703
1895/96	1,293,026	2,141,048	122,843
1896/97	1,815,716	2,302,433	-
1897/98	1,730,194	2,646,679	437,180
1898/99	3,067,984	2,638,099	91,271
1899/1900	3,001,146	2,909,188	14,846
1900/01	3,433,814	3,059,789	785,387
1901/02	3,613,532	4,725,962	5,141
1902/03	3,674,767	4,684,985	1,030
1903/04	3,533,670	4,535,194	837,058
1904/05	4,537,425	5,521,090	1,812
1905/06	4,728,964	5,565,335	-
1906/07	8,370,108	5,974,495	896,400
1907/08	8,569,799	5,634,025	149
1908/09	8,149,283	6,074,563	-
1909/10	not available	not available	not available
1910/11	8,337,475	6,373,834	-

Source : Reports of the Financial Adviser on the Budget, 1901/02 - 1912/13

\* rounded to the nearest baht.

\*\* From 1892/93 to 1900/01 the figure for land and fishery taxes is derived from three separate revenue heads in the Reports of the Financial Adviser on the Budget - 'Paddy Land Tax', 'Taxes on Orchards, Gardens and Plantations', and 'Fisheries'. From 1901/02 a single figure for 'Land and Fishery Taxes', covering the three heads above, is quoted in the Financial Adviser's Report.

\*\*\* The large annual variation in the revenue under this head is due to the fact that until and including 1909/10 the tax was collected on a triennial basis. From 1910/11 the tax was abolished and replaced by a uniform capitation tax imposed on both Chinese and Siamese in the Kingdom.

TABLE V

Government Expenditure on Railway Construction and Irrigation,  
1892/93 - 1910/11 (in baht\*)

Year	Railway Construction	Irrigation**
1892/93	2,119,852	-
1893/94	1,127,547	-
1894/95	1,431,374	-
1895/96	1,530,924	-
1896/97	1,592,623	-
1897/98	3,185,736	-
1898/99	3,416,726	-
1899/1900	2,920,736	-
1900/01	3,501,892	-
1901/02	4,361,076	-
1902/03	2,787,996	18,007
1903/04	3,069,952	138,863
1904/05	4,986,976	607,823
1905/06	4,216,765	873,744
1906/07	5,580,604	1,195,690
1907/08	6,432,287	1,147,664
1908/09	4,293,867	952,460
1909/10	not available	not available
1910/11	3,220,924	604,045

Source : Reports of the Financial Adviser on the Budget, 1901/02 - 1912/13.

\* rounded to the nearest baht.

\*\* Until the establishment of a properly constituted Irrigation Department in 1903 no separate figures are available for government expenditure on irrigation. For the period 1892/93 to 1901/02 expenditure under this head was included in a single figure for the total expenditure of the Ministry of Agriculture.

Note on Statistical Appendices.

The absence of figures for 1909/10 in the majority of tables above is due to the following reasons. The 'Report of the Financial Adviser on the Budget for 1911/12' (which would be the source for actuals for the year in question) is missing from the series of Reports held in the National Library in Bangkok. The Public Record Office in London also holds copies of the Reports (enclosed with despatches from the British Minister in Bangkok to the Foreign Secretary) but unfortunately whilst the above Tables were being compiled, the relevant file was on loan to a government department. However, some of the figures for 1909/10 have been secured from other Reports in the series.

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The major source of research material used for this study was the National Archives in Bangkok, a division of Thailand's Department of Fine Arts. When the research for this study was carried out, in 1971 and 1972, the National Archives was situated in a part of the old National Library, in the grounds of Wat Mahāthat, close to the Grand Palace. The archives consist almost entirely of the administrative correspondence and official records accumulated in the Royal Secretariat from the mid-1880s (from the creation of the modern government administration) until the end of the absolute monarchy in 1932. After the Revolution of 1932 these records were transferred to the Cabinet Secretariat and over the period 1936 to 1956 passed into the custody of the Department of Fine Arts.

The documents in the National Archives relevant for this study consist primarily of the correspondence between King Chulalongkorn and his successive Ministers of Finance over the period 1885 - 1910, and records of the meetings of the Council of Ministers when financial subjects were under discussion, in this case for the period 1892 - 1910. In essence the records of the correspondence between the King and his Minister of Finance consisted of letters or reports from the Minister to the King (almost invariably in type-written form from the mid-1890s) and the King's reply, either as a pencilled draft or as a copy of the original. However, in the majority of cases these letters and reports had enclosed with them communications with other parts of the administration - for example, correspondence between the Ministry of Finance and another Ministry; internal memoranda prepared within the Ministry of Finance by officials or the Financial Adviser; or letters between other Ministers and the King.

In other words, this study is not based on the internal records of the Ministry of Finance for this period; such records are at present not open to

scholars - indeed it is not certain whether they are still in existence. As a result it is possible to examine the internal administration of the Ministry of Finance in this period only to the extent that that administration is revealed in the communications between the King and the Minister and the accompanying enclosures (as, for example, was the case during the term of Phraya Suriya when the Minister's disputes with his senior officials and the Financial Adviser were eventually brought to the notice of the King). The nature of the source material available in the National Archives implies that the study must be concerned primarily with the position of the Ministry of Finance within the Siamese administration, the changing relation of the Ministry of Finance to the other Ministries, during the second half of the reign of King Chulalongkorn.

In citing documents from the Thai National Archives I have followed the National Archives classification scheme introduced in the late 1960s, prefacing each citation with the initials 'N.A.'. The materials for the second half of the reign of King Chulalongkorn have been organized by the Archives, first according to Ministry and then by subject within each Ministry. Hence the initials 'Kh' denote a series of files concerning the Ministry of Finance (the Phra Khang). The number immediately following indicates a series of files concerned with a particular general subject (for example N.A. Kh. 26/ 'Currency and Exchange'), and the final number denotes the file within that series (for example, N.A. Kh. 26/14 'Introducing the baht into the Malayan Provinces').

The list that follows contains only those files cited in the main body of the study. The total number of files in each series, and this would virtually correspond with the number of files examined in that particular collection during research, is shown immediately after the main heading of the series. The two dates which appear after the reference to each individual file denote the dates of the earliest and latest documents in that file, as stated in the National Archives index.

Ministry of FinanceKh. 1/ Ministry of Finance, Miscellaneous. (48 files)

- 1/5 Concerning the administration of the Ministry of Finance.  
20 November 1890 - 24 February 1893.
- 1/9 Prince Narathip's opinion on the administration of the Army.  
26 April - 14 May 1892.
- 1/16 Mr. Mitchell-Innes' employment in the Ministry of Finance.  
15 August 1896 - 9 May 1898.
- 1/18 Organizing the departments of the Ministry of Finance.  
10 November 1896 - 29 April 1897.
- 1/37 Mr. Carnac's opinion on the Royal Treasury.  
[The position of Financial Agent in Europe.]  
7 December - 24 December 1903.
- 1/44 Concerning the establishment of a Krom Samruat or Krom Truat.  
6 December 1906 - 8 January 1908.
- 1/45 Concerning officials inspecting the collection of revenue.  
6 January 1908.

Kh. 2/ Notifications and Laws. (8 files)

- 2/1 Additional legislation concerning taxation.  
1 April 1890.
- 2/2 Act concerning the Krom Kep; coins, paper currency, gold and silver ornaments, precious stones.  
13 December 1890.

Kh. 3/ Appointment of Ministers and Officials. (2 files)

- 3/1 Prince Narathip resigns from the Ministry of Finance and Prince Narit is appointed Minister. Prince Sanphasit becomes Minister of Public Works and Prince Sommot becomes Director of the Privy Purse Department.  
17 March - 21 March 1893.  
Note : Committee investigates the budget of the Ministry of Finance.
- 3/2 The position of Minister of Finance; the resignation of Phraya Suriyanuwat.  
29 May 1906 - 28 March 1908.

Kh. 5. 1/ The Central Office of the Ministry of Finance.  
The General Budget of the Government. (28 files)

5. 1/2 The Budget - Miscellaneous.  
8 February 1893 - 15 December 1896.

- 5.1/3 The Budget for r.s. 111.  
28 June 1892.
- 5.1/4 The Budgets for the Kingdom for r.s. 112, 113, 114.  
22 January - 6 October 1895.
- 5.1/5 The Budgets for the Kingdom for r.s. 115, 116.  
24 January 1896 - 2 February 1898.
- 5.1/7 The Budget - Miscellaneous.  
30 January 1898 - 9 May 1899.
- 5.1/8 The Budget for the Kingdom for r.s. 117.  
10 March - 5 May 1898.
- 5.1/10 The opinion of Mr. Mitchell-Innes on the form of the Budget, r.s. 117.  
9 September 1898 - 31 March 1899.
- 5.1/11 The Budgets for the Kingdom for r.s. 118, 119.  
11 April 1899 - 3 November 1900.
- 5.1/13 Changes in the form of the Budget.  
19 October 1900 - 11 April 1901.  
Note : includes regulations concerning the disbursement of funds  
from the Ministry of Finance, Bangkok.
- 5.1/14 Government revenue and expenditure, r.s. 120.  
31 March - 31 August 1901.  
Note : includes the Report of the Financial Adviser upon the Budget  
of the Kingdom of Siam, r.s. 120; various accounts, r.s. 120.
- 5.1/15 The Budget for the Kingdom - General.  
10 April 1901 - 21 August 1902.
- 5.1/16 Request for permission to forward the report on the Budget to the  
newspapers for publication.  
1 May - 4 May 1901.
- 5.1/18 The Budget for r.s. 122.  
4 May - 9 May 1903.
- 5.1/19 Prince Devawongse draws attention to incorrect budget accounts.  
11 August - 24 August 1903.
- 5.1/21 The level of Government expenditure outside the Budget.  
19 December 1903 - 22 January 1904.
- 5.1/22 The Budget for the Kingdom for r.s. 123.  
9 May - 27 October 1904.
- 5.1/24 The Budget for r.s. 124.  
17 January 1906.
- 5.1/25 The Budgets for the Kingdom for r.s. 125, 126 - General.  
18 April 1906 - 23 December 1907.  
Note : includes various reports and accounts on the Budgets.
- 5.1/26 The Budget for r.s. 127.  
16 March - 7 October 1908.

5.1/27 The Budget for r.s. 128.  
 17 March - 16 October 1909.  
 Note : includes various reports and accounts on the Budget.

5.1/28 The Budget for the Kingdom for r.s. 129.  
 15 March - 7 May 1910.

Kh. 5.2/ Budgets of the various Ministries. (9 files)

5.2/1 The Budgets of the Krom Sanphāsī and Krom Sanphākōn.  
 11 March 1893.

5.2/2 Committee investigates the Budget of the Ministry of Finance.  
 17 March 1893.

Kh. 7/ Investigation Department. (10 files)

7/1 Committee examines the administration in various Departments.  
 16 October 1896 - 17 January 1900.

7/4 Report of the Committee on Establishments on the Ministry of  
 the Interior.  
 1 February - 6 February 1900.

7/5 Report of the Committee on Establishments on the Ministry of  
 Finance.  
 7 March - 11 March 1900.

7/7 Committee on Establishments examines the salary structure of  
 the various Ministries.  
 5 April 1901 - 16 March 1902.

7/8 Reports on the size of the Treasury reserves.  
 6 May 1902 - 30 June 1910.

7/9 Committee on Establishments examines the salary structure of  
 the various Ministries.  
 9 December 1902 - 19 March 1905.

Kh. 9.1/ Privy Purse Department, Legislation. (1 file)

9.1/1 Privy Purse Department Act.  
 20 October 1890 - 7 November 1893.

Kh. 10/ The Mint Department. (9 files)

10/1 Concerning copper coins and foreign coins (The Mint).  
 4 March 1891 - 29 August 1892.

10/2 The Mint - Miscellaneous.  
 26 April 1893 - 21 April 1899.

- 10/3 Phrayā Norat Rātchamānit resigns from the Mint and is succeeded by Phrayā Phōkhaisawan.  
19 December 1894 - 6 December 1895.
- 10/7 The adoption of the Gold Standard; concerning the seizure of counterfeit coins.  
17 August 1899 - 1 November 1900.
- 10/9 Copper atts, nickel atts, gold coins.  
21 June 1906 - 3 February 1909.

Kh. 10.1/ The Mint, Notifications and Legislation. (2 files)

- 10.1/1 The Mint Act r.s. 111.  
6 January - 8 March 1893.

Kh. 11/ Paper Currency Department. (12 files)

- 11/1 Concerning paper currency.  
6 June - 13 June 1898.
- 11/2 Ordering new currency notes and destroying old notes.  
7 August 1901 - 20 October 1910.
- 11/3 Concerning the King's speech on the inauguration of the Government's paper currency scheme.  
6 September - 19 September 1902.
- 11/4 Monthly reports of the Paper Currency Department.  
October 1902 - September 1910.
- 11/6 Paper Currency Department - Miscellaneous.  
7 August 1903 - 10 July 1909.
- 11/7 The arrest of people who made counterfeit currency notes; rewards for those who carried out the arrest; destruction of the counterfeit notes.  
19 November 1903 - 5 August 1910.
- 11/8 Prince Phongsā and Nāi Phēng make counterfeit currency notes.  
20 November 1903 - 13 June 1908.
- 11/9 Concerning the annual reports of the Paper Currency Department.  
21 June 1904 - 18 December 1908.  
Note : includes the annual reports for r.s. 122, 123.
- 11/10 Purchasing stock and consols.  
20 December 1905 - 3 September 1907.
- 11/11 Persons in Java are making counterfeit Siamese currency notes.  
12 October - 21 October 1909.

Kh. 11.1/ Paper Currency Department, Notifications and Legislation. (4 files)

11.1/1 Government paper currency, notifications and legislation.  
22 January 1890 - 19 January 1893.

11.1/3 Concerning the Paper Currency Act and ministerial notifications.  
24 June - 7 September 1902.

Kh. 13.1/ Poll-tax Department; Chinese poll-tax. (9 files)

13.1/1 Concerning the Chinese poll-tax.  
25 April - 9 October 1891.

13.1/5 Concerning the Chinese poll-tax, r.s. 116.  
4 June 1894 - 17 May 1898.

13.1/6 Concerning the Chinese poll-tax and wristseals in various provinces.  
9 February - 17 May 1900.

Kh. 14/ Taxation. (31 files)

14/3 The Treasury; concerning revenue collected under the authority  
of the Kalâhôm.  
July 1886 - 26 November 1892.

14/21 Memorandum concerning a request to abolish the taxation schedule  
attached to the Treaty of 1856.  
29 September - 3 October 1899.

14/27 Additional [taxation] legislation.  
10 January - 28 December 1906.

Kh. 14.1/ Revenue Departments. (7 files)

14.1/2 The transfer of the Krom Sanphâkön nôk [Provincial Revenue  
Department] to the Ministry of the Interior.  
29 June - 28 July 1899.

14.1/3 Published reports on the revenue collections undertaken by the  
Bangkok Revenue Department in the Ministry of the Capital.  
13 July 1899 - 16 March 1901.  
Note : includes copies of the various reports of the Department.

14.1/4 The Department of Agriculture and the Krom Sanphâkön; concerning  
their relationships with the Ministry of the Interior. (Transfer  
of the Krom Sanphâkön to the Ministry of the Interior.)  
9 September - 10 September 1899.

14.1/7 The Krom Sanphâkön, Bangkok Province.  
18 December 1902 - 1 December 1909.  
Note : includes the Report of the Bangkok Revenue Department,  
r.s. 126.

- Kh. 14.lk/ Opium. (49 files)
- 14.lk/1 Opium tax.  
8 March - 28 March 1890.
- 14.lk/4 Opium tax.  
1890/91 - 1892/93.
- 14.lk/7 Administration of the opium tax in the Western Coastal Provinces.  
12 January 1892 - 26 January 1893.
- 14.lk/10 Concerning the opium revenue in the capital and the provinces.  
20 March 1893 - 3 September 1897.
- 14.lk/11 Concerning the opium revenue in the capital and the provinces.  
17 June 1893 - 13 January 1896.
- 14.lk/23 Notification concerning the auction of the opium farms; arrangements for the support of the opium farms.  
20 November 1901 - 8 January 1905.
- 14.lk/24 The issue of official documents appointing the opium farmers.  
14 January 1902 - 28 May 1905.
- 14.lk/25 Phrayā Thip will purchase opium from the lord of Chiang Tung and inspect the measures taken to curb opium smuggling in the Western Lao Provinces.  
13 March 1903 - 2 January 1904.
- 14.lk/27 The opium farmers request protection when they take over the farm.  
2 February - 8 February 1905.
- 14.lk/28 The involvement of Chia Choo Yew with the opium farm; the collapse of the Penang group; later plans are made for government administration of the opium monopoly, r.s. 124.  
17 May - 26 September 1905.
- 14.lk/31 Phra Phakdi and Luang Sunthon Kōsā request permission to leave the opium farm; request that they be allowed not to lose any money by such action.  
27 August - 30 August 1905.
- 14.lk/32 Reports on the meetings of the Council of Ministers when the opium farm was discussed; includes discussion of the requests from opium farmers for leniency.  
2 September 1905 - 18 February 1908.
- 14.lk/33 Opium tax.  
8 October 1906 - 7 May 1908.
- 14.lk/35 Programme for government administration of the opium monopoly, r.s. 125.  
31 December 1906 - 30 March 1907.
- 14.lk/39 Programme for government administration of the opium monopoly.  
27 November 1907 - 29 December 1908.

- 14.lk/41 Reports on the administration of the Government Opium Factory.  
9 March 1908 - 22 July 1909.
- 14.lk/43 Measures taken to curb opium smoking.  
5 September - 15 September 1908.
- 14.lk/44 Opium revenue in Prachinburi Province.  
7 October 1908 - 10 July 1909.
- 14.lk/47 Allowing officials to take over the work of the opium  
yikongsI at the provincial level.  
11 January - 12 January 1910.

Kh. 14.lkh/ Spirit. (39 files)

- 14.lkh/2 Official documents concerning illicit spirits.  
January 1889 - 21 August 1891.
- 14.lkh/12 Phra Phibūn complains that the Ministry of Finance failed  
to issue a receipt for a payment made in respect with the  
spirit farm.  
7 April - 25 April 1896.
- 14.lkh/20 Phra Phiphit is in debt to the Government in connection  
with payments on the spirit farm.  
13 July 1900 - 17 August 1903.
- 14.lkh/25 The seizure of illicit spirit in the Vietnamese community  
in Samsen.  
18 May 1903 - 10 January 1906.
- 14.lkh/28 Phrayā Boribūn and Luang Maitriwānit, the spirit farmers  
in Bangkok for r.s. 123 - 125 ask permission to return the  
farm; request a reduction in their arrears.  
24 May 1905 - 29 June 1909.
- 14.lkh/31 Arrangements for government administration of the spirit  
revenue.  
11 January 1907 - 13 August 1910.

Kh. 14.lkh/ (g) Gambling. (21 files)

As was explained on p. 43 fn. 19, the suffix (g) has been  
added to this series of files to differentiate it from the  
series concerned with the spirit revenue.

- 14.lkh/1(g) Concerning the gambling dens in Bangkok Province.  
31 October 1889 - 15 November 1891.
- 14.lkh/8(g) Notification concerning the reduction in the number of  
gambling dens in the provinces, r.s. 117.  
11 May - 16 May 1898.
- 14.lkh/12(g) Concerning requests to close the gambling dens in various  
provinces; involves 29 districts.  
21 December - 27 December 1899.

14.lkh/15(g) Concerning requests to close gambling dens, r.s. 120.  
12 December - 16 December 1900.

14.lkh/18(g) The closure of gambling dens; other taxes [to replace revenue lost through the closure of the dens].  
24 September 1901 - 21 January 1910.

One further file is included in this series though it has been incorrectly indexed in the National Archives.

14.2kh/10 [Concerns the closure of gambling dens in Bangkok in 1909 and 1910.]

Kh. 14.2/ Krom Sanphāsī (Revenue Department). (3 files)

14.2/2 The Krom Sanphāsī; abolition of the system of tax farming and the introduction of revenue collection by officials.  
23 January 1894 - 17 December 1898.

14.2/3 Mr. Graham presents a memorandum on the collection of taxes by the Ministry of the Capital, r.s. 117.  
14 May - 21 July 1898.

Kh. 14.2k/ Krom Sanphāsī; various taxes. (50 files)

14.2k/8 Concerning the boats, shops and house tax.  
27 November 1893 - 16 December 1895.

14.2k/19 Concerning taxes on sugar [includes the Inland Transit Duties Act of r.s. 111]  
28 August 1897 - 10 July 1900.

Kh. 17.3/ Customs Department; Taxation and the Foreign Powers. (6 files)

17.3/1 Concerning the amendment of the schedule of taxes attached to the British Treaty; including the opinion of Mr. Innes.  
24 November - 27 November 1896.

17.3/2 Request to amend the British Treaty with respect to the limitations on the collection of taxes.  
31 May - 17 July 1898.

17.3/6 Concerning taxes which involve the Foreign Powers.  
10 December 1901 - 2 March 1910.

Kh. 20/ The Banks. (9 files)

20/2 The Chartered Bank (requests permission to issue its own currency notes).  
12 March - 15 May 1898.

20/3 Indo-China Bank.  
14 April - 23 April 1899.

Kh. 20.1/ The Banks; the deposit and withdrawal of Government funds.  
(22 files)

- 20.1/12 Concerning the depositing of funds in the banks.  
28 January - 8 May 1893.
- 20.1/21 (Employing funds in the Treasury to earn interest);  
depositing Government funds in banks abroad.  
10 December 1898 - 27 December 1899.
- 20.1/22 The deposit and withdrawal of funds from the banks.  
12 June 1901 - 30 October 1908.

Kh.25/ The Government raises foreign loans. (9 files)

- 25/1 Borrowing funds for railway construction.  
18 December 1902 - January 1903.
- 25/3 Borrowing funds for the construction of the northern railway.  
18 December 1902 - 5 August 1903.
- 25/5 Raising a foreign loan for the construction of the northern  
railway.  
17 July 1903 - 3 September 1905.
- 25/6 Raising a loan within the Kingdom.  
28 April 1904 - 21 April 1906.
- 25/7 Raising a foreign loan for the construction of the northern  
railway.  
8 June - 24 June 1904.
- 25/8 Reports on the meetings of the Council of Ministers; discussions  
on the raising of foreign loans, r.s. 123 - 125.  
18 November 1904 - 31 December 1906.
- 25/9 Raising of the later £3 m. loan.  
7 December 1906 - 28 January 1907.

Kh.26/ Currency and Exchange. (16 files)

- 26/13 The exchange rate and gold.  
18 April 1901 - 10 August 1906.
- 26/14 Introducing the baht into the Malayan Provinces.  
8 March 1904 - 1 January 1908.
- 26/15 The exchange rate and gold.  
18 August 1906 - 19 February 1908.
- 26/16 The exchange rate and gold.  
18 May 1908 - 24 January 1910.

Ministry of Agriculture (K.S.; Kasēt)

K.S. 1/3      Concerning the transfer of the Ministry of Agriculture to the Ministry of Finance.  
March - April 1897.

Fifth Reign; Miscellaneous.

Foreigners.

- b. 2kh/39      Rivett-Carnac.  
February 1902.
- b. 2kh/40      Rivett-Carnac.  
1901 - 1903.
- b. 2kh/424      Mitchell-Innes.  
1898 - 1902.
- b. 2kh.1/35      The appointment of Rivett-Carnac.  
1898 - 1899.

2. Files of the Financial Adviser, Ministry of Finance, Bangkok.

The documents contained in the Files of the Financial Adviser consist of the official correspondence, memoranda and general records of the British Financial Advisers in Siam, covering the period from 1896 to 1950 - from the appointment of the first Adviser, Mitchell-Innes, to the resignation of the last, W. M. A. Doll. When the research for this study was carried out these documents were held in the Library of the Ministry of Finance, just within the main south gate of the Grand Palace. In citing documents from the Files of the Financial Adviser I have followed the Library's classification scheme, prefacing each citation with the initials 'F.F.A.'. The number immediately following indicates a series of files concerned with a particular general subject (for example, F.F.A. 6/ 'Opium') and the final number denotes the file within that series (for example, F.F.A. 6/3 'Difficulty with Opium Farmers, 1905').

The list that follows contains only those files cited in the main body of the study.

F.F.A. 1/ Revenue and Taxation - General.

1/2 Arrears in collection of farms' revenue, 1906 - 1909.

F.F.A. 2/ Land, House and Fishery Taxes.

2/2 Increase of Paddy Land Tax, 1905.

F.F.A. 5/ Capitation and Poll Taxes.

- 5/1 Notes on 'Suey' and 'Lek' and the old systems of compulsory service, or money payments in lieu thereof. (F. H. Giles, W. A. Graham) 1899.
- 5/2 Laws relating to the Chinese Poll Tax (merged with the Capitation Tax from r.s. 129).

F.F.A. 6/ Opium.

- 6/1 Translation of Laws relating to the Opium Monopoly, up to r.s. 125 (1906).
- 6/2 Method of Opium Purchases by Government, 1902.
- 6/3 Difficulty with Opium Farmers, 1905.
- 6/5 International Opium Commission Shanghai, 1909.
- 6/9 Settlement of Accounts with the late Opium Farm, 1908 - 1912.

F.F.A. 9/ Inland Transit Duties.

9/1 Inland Transit Duties (Phasi Phai Nai) Act r.s. 111 (1892).

F.F.A. 16/ Railways and Highways.

16/1 Southern or Peninsular Line, 1908 - 1914.

F.F.A. 18/ Irrigation and Waterworks.

18/1 J. van der Heide's Report on Irrigation and Drainage in the Lower Menam Valley, 1903.

18/4 Mr. J. Homan van der Heide's proposal for construction of Pasak Canal on East bank and new irrigation canals on West bank, 1908.

18/5 Mr. van der Heide's Irrigation Projects, 1908 - 1909.

F.F.A. 23/ Currency and Exchange.

- 23/1 Gold Exchange Standard Scheme, 11 September 1899 - 18 April 1905.  
Privy Purse Accounts with Banks, 26 December 1902 - 26 January 1903. (4 files)
- 23/2 Exchange arrangements with Banks, May 1905 - August 1919.  
(2 files)
- 23/3 Currency in Monthon Puket, from 1903.
- 23/8 Notes on proposed gold currency, 1906 - 1908.
- 23/10 Prohibition on importation of certain kinds of dollars into Monthons Patani, Srithamaraj and Chumphon, 1909.
- 23/14 Gold Standard Reserve Fund, from 1909 - 1910.

F.F.A. 24/ Paper Currency.

- 24/8 Circulation of Bank Notes in Siam, 1910.

F.F.A. 25/ Loans.

- 25/2 4½% Sterling Loan of £1 m., 1905.
- 25/3 4½% Sterling Loan of £3m., 1907.
- 25/7 4% Sterling Loan of £4,630,000 (originally £4,000,000) for construction of the Southern Railway, 1909.
- 25/21 Some remarks by Mr. Mitchell-Innes on borrowing by Oriental Countries (with note by Sir Edward Cooke 19 August 1925).

F.F.A. 29/ Financial Laws and Regulations.

- 29/G13 Prohibition of keeping Banking accounts by Government Departments, 1914.

F.F.A. 30/ Special Reports, Articles and Memoranda.

- 30/6 Cash Balances of the Government, (Mr. Rivett-Carnac) 1903.
- 30/8 Note by Financial Adviser on the Present Financial Position in Siam, 1907.
- 30/17 Note by Ministry of Finance on the present fiscal position of Siam, 1919.
- 30/22 Memorandum on the Currency History of Siam, 1902 - 1923.

F.F.A. 38/ Government Departments' Annual Reports.

38/C Reports of Paper Currency Department, r.s. 121 (1902-1903) to r.s. 129 (1910-1911).

3. Hongkong and Shanghai Bank, Bangkok Branch.

The records of the Hongkong and Shanghai Bank in Bangkok consulted in the course of research consisted of a number of letter books dating from the earliest years of the Bank's operations in Siam - from 1888 until the early 1890s. The correspondence recorded in the letter books concerns primarily the arrangements for the establishment of the branch in 1888 and the granting of permission by the Siamese Government for the bank to issue its own paper currency the following year. These records have not been classified or indexed by the bank.

4. Library of the Ministry of Foreign Affairs.

One file in the Library's archives was consulted :

M.F.A. Section 15; Treaties.

Attempt to renegotiate the treaties with the Powers; with reference to the schedule of taxes, 1905.

5. National Library, Bangkok.

The National Library in Bangkok has custody of the records of the first half of the reign of King Chulalongkorn, the period from 1868 until the mid-1880s. The records consist principally of accordian-folded black books. Of the documents consulted those from the following two series were of greatest relevance to the present study :

čhotmāihet r. 5 (National Library, Fifth Reign)

163/2 Concerning the sending of money to the Treasury.

35/39 Regulations for officials in the Finance Office.

6. Public Record Office, London.

Documents from the following series were consulted during research and have been cited in the main body of the study :

- F.O. 17 China, General Correspondence.
- F.O. 69 Siam, General Correspondence.
- F.O. 371 General Correspondence, Political.
- F.O. 628 Embassy and Consular Archives, Siam, Correspondence.
- F.O. 633 Private Collections : Cromer Papers.
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PAPER CURRENCY :  
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**PAPER CURRENCY :  
THE GOVERNMENT NOTE ISSUES IN THE REIGN  
OF KING CHULALONGKORN**

by

Ian G. Brown

Towards the end of 1888, a branch of the Hongkong and Shanghai Banking Corporation was established in Bangkok.<sup>1</sup> At about the same time, the Bank received permission from the Siamese Government to issue its own Bank Notes in Siam, and in early 1889 Government Offices were instructed to receive the Bank's Notes in payment for taxes and duties.<sup>2</sup> These Notes were not the first Paper Currency to be issued in the Kingdom. Paper Money, issued by the Government, had first appeared in Siam as early as 1853 and there had been three separate Issues in the Fourth Reign alone.<sup>3</sup> In the Fifth Reign there had been only one previous Issue, in the 1870's. For many years prior to that, the trade of the Kingdom had been disturbed by the appearance of large numbers of counterfeit 1 att tin coins. In 1874, the King decided to replace these tin coins with coins minted from copper but there was some delay whilst the machinery for the production of the new coins was assembled. During this period, 1 att paper notes were issued but they were withdrawn from circulation in 1876 when the new copper atts appeared.<sup>4</sup> Therefore the Note Issue of the Hongkong and Shanghai Bank at the end of the 1880's was the first major Issue of the Fifth Reign.

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- 1) Maurice Collis, *Wayfoong The Hongkong and Shanghai Banking Corporation* (London, 1965), pp. 90-93.
  - 2) Prince Devawongse to J.R.M. Smith (Manager of the Hongkong and Shanghai Bank, Bangkok). 31st December 1888. Records of the Bangkok Branch of the Hongkong and Shanghai Bank held in the Bank in Bangkok. (At first only the Customs House was instructed to receive the new Notes but this was later extended to the other Government Departments.)
  - 3) R.S. Le May, *The Coinage of Siam* (Siam Society, 2nd Ed., 1961), pp. 100-104.
  - 4) Ibid. pp. 117-119.

The appearance of the Bank's Notes in Bangkok soon proved to be of considerable benefit to trade.<sup>5</sup> The value of Siam's Foreign Trade had risen from approximately 20 million baht a year at the beginning of the Fifth Reign to over 40 million baht in the early 1890's.<sup>6</sup> With the value of trade growing at that rate, merchants and traders had found it increasingly inconvenient to convey large volumes of baht coins in the course of their business. By 1910, the annual value of Siam's Foreign Trade was to have risen to over 170 million baht.<sup>7</sup> Such a rapid growth in the Commerce of the Kingdom would have been practically impossible without the existence of a Paper Currency.

#### Prince Narathip's Scheme 1890-1893

Within two years of the appearance of the Notes issued by the Hongkong and Shanghai Bank, the Government began to consider issuing its own Paper Currency. Almost certainly the Government had been encouraged by the success of the Bank's Issue. During October 1890 the matter was discussed between the King and Prince Narathip Praphanphong, the acting Minister of Finance, and as a result of the discussions, an order was placed with a German printer, Giesecke and Devrient of Leipzig for some notes.<sup>8</sup> Almost four million notes were ordered with a face value of 19.2 million baht. Some two years were spent discussing technical points with the German printers and it was not until January 1893 that the first consignment of notes reached Bangkok. On the arrival of the notes, Prince Narathip proposed to the King that the scheme be inaugurated on the 1st April 1893.<sup>9</sup> The Acting Minister's idea was that at first the Notes would be issued only in Bangkok, at the Bangkok Treasury and at the Bangkok Customs House. He foresaw considerable difficulty in introducing the scheme outside the Capital

5) Sir Henry Norman, *The Peoples and Politics of the Far East* (London, 1895), p. 429.

6) James C. Ingram, *Economic Change in Thailand Since 1850* (Stanford, 1955). Appendix C. Statistics of Foreign Trade.

7) Ibid.

8) Prince Naradhip to King. 1st November 1890. National Archives, Bangkok (henceforth N.A.) Files of the Ministry of Finance for the Fifth Reign (henceforth Kh.) 11.1/1.

9) Prince Naradhip to King 16th January 1893 N.A. Kh. 11.1/1.

because at that time, the Provincial Administration of the Government was insufficiently established to ensure a constant supply of Notes, and the convertibility of those Notes, in the Provinces. However, if the Notes issued in Bangkok were to find their way into the Provinces, they were to be accepted as legal tender by the Tax Farmers. As the Provincial Administration improved, so the scheme would gradually be extended outside the Capital. The speed at which the Notes became accepted as a medium of exchange by the people was to depend solely on the willingness of the public to exchange their coins for notes at the Bangkok Treasury and Bangkok Customs House. As regards the existing Note issue of the Hongkong and Shanghai Bank, Prince Narathip was adamant that on the appearance of the Government's Notes, the Bank's right to continue issuing Notes had to be withdrawn. If the Bank were to continue to issue its own Notes after the inauguration of the Government scheme, then it would be difficult for the Ministry of Finance to determine the total value of Paper Money in circulation. However, the Hongkong and Shanghai Bank had issued a large volume of Notes since its establishment in Siam and to suddenly force the Bank to withdraw its Notes could involve the Bank in a substantial loss. Therefore Prince Narathip proposed to the King that there be a transitional period from the date of the inauguration of the Government's scheme and that in that period, the two types of Notes would remain in circulation but that the Hongkong and Shanghai Bank's Notes would gradually be withdrawn.

Prince Narathip drafted the necessary Act, Notifications and Regulations and the whole scheme was presented to the Cabinet on 19th January 1893.<sup>10</sup> Prince Damrong immediately expressed concern over the existing Note issue of the Hongkong and Shanghai Bank. He feared that once the Government issued its own Paper Currency, the Notes of the Hongkong and Shanghai Bank would be returned to the Bank in such large numbers that it would perhaps be difficult for the Bank to redeem all the Notes in cash immediately. In that case, replied Prince Narathip, the Government could come to the assistance of the Bank by lending it cash for a period of six months at 7%. The Cabinet had no other amendments to make to Prince Narathip's scheme so the Act was approved.

10) Meeting of the Cabinet : Report. 19th January 1893 N.A. Kh. 11.1/1.

On 6th March 1893, the King wrote to Prince Narathip proposing a few changes in the Legislation as approved by the Cabinet,<sup>11</sup> but by that time the Cabinet was in the middle of a serious crisis.<sup>12</sup> At the end of March, Prince Narathip was replaced by Prince Naritsaranuwattiwong.<sup>13</sup> With the appointment of a new Minister of Finance and with a continuing crisis that was to make Cabinet Government ineffective for almost two years, Prince Narathip's scheme was forgotten.

#### **Prince Mahit's Scheme 1898-1902**

In March 1898, the Chartered Bank of India, Australia and China, which had established a branch in Bangkok soon after the Hongkong and Shanghai Bank, received permission from the Government to issue Bank Notes in Siam, and the Notes first appeared later that year.<sup>14</sup> The third European Bank to be established in Bangkok, the Banque de L'Indo Chine, began issuing its own Notes in April 1899.<sup>15</sup> Meanwhile the idea of a Paper Currency Issue by the Government had been revived in 1898 by Prince Mahit Ratchaharithai who had become Minister of Finance two years previously.<sup>16</sup> At the request of the Minister, the British Financial Advisor, Alfred Mitchell-Innes, submitted a long memorandum on the subject,<sup>17</sup> but whilst not rejecting the idea of a Paper Currency issue by the Government, he was much less enthusiastic for the scheme than was Prince Mahit. Before his appointment as Financial Advisor in Siam, Mitchell-Innes had worked in the British Administration in Egypt and the notoriously bad history of financial mis-management in Egypt at that time clearly influenced Mitchell-Innes' thinking on the subject. In his memorandum, he stressed how important it was that the Government maintain an adequate cash reserve for the Paper Currency, so that at any time, the Government would be able to meet any demands from the public that their Notes be exchanged back into cash. If the Government

11) King to Prince Nadhip : 6th March 1893 N.A. Kh. 11.1/1.

12) David K. Wyatt, *The Politics of Reform in Thailand* (Yale, 1970), pp. 94-101.

13) Bangkok Times, 22nd March 1893.

14) Meeting of the Cabinet : Report 3rd March 1898 N.A. Kh. 20/2.

15) Prince Devawongse to King 22nd April 1899 N.A. Kh. 20/3.

16) Prince Mahit to King 6th June 1898 N.A. Kh. 11/1.

17) Memorandum on the issue of a Government Paper Currency. Mitchell-Innes.  
Undated. N.A. Kh. 11/1,

were to find itself in a position where it was unable to exchange the public's holdings of Notes into cash—that is, if ever the Government were forced to declare its Notes 'inconvertible'—then the faith of the public in the value of the Notes would be shaken and this could eventually lead to the collapse of the Paper Currency Scheme. Mitchell-Innes pointed out that the collapse of the Currency System in Egypt had contributed to the reasons which had led to British intervention. In England, the Paper Currency had been declared inconvertible by Parliament in 1797 and this had led to 24 years of currency problems before convertibility had been re-established in 1821. In France, Austria and Russia, the inconvertibility of the Paper Currency had in each case caused considerable financial difficulty. In Mitchell-Innes' view, based on the experience of England, France and Germany, an adequate cash reserve would be 60% of the value of Notes in circulation.

Mitchell-Innes was not entirely convinced of the benefit to be gained by the Government issuing its own Paper Currency either. In the first place, the Government Notes would have to compete against the Note issues of the European Banks in Bangkok. Furthermore, the experience of the Banks had suggested that a Paper Currency was not very popular with the public. According to the Manager of the Hongkong and Shanghai Bank, the Notes of his Bank were used exclusively in Bangkok: the total value of Hongkong and Shanghai Bank Notes in circulation was only slightly more than one million baht, and the Bank felt that it would be difficult for it to expand its issue above that level. Mitchell-Innes considered whether it would be possible for the Government to promote the use of its Notes by paying the salaries of Civil Servants in the new Paper Currency instead of in coins. He doubted, however, whether this would be successful. With the smallest denomination of the proposed Notes being 1 baht, the Civil Servants would find it much easier to use small copper atts for their daily expenditure. If Civil Servants were to be paid in Notes in an attempt to promote the Government's Paper Currency Issue, then the Notes would be immediately exchanged for coins at the nearest Government exchange post and the Notes would come rapidly flowing back into the Treasury. Mitchell-Innes believed that the Government's Notes would make slow progress in Bangkok and could perhaps, in time, spread out into the Provinces: however, he considered

that the Government would be able to maintain only some 2-3 million baht of its Notes in circulation. If this were so, then it meant that the Government would be unable to use its Note issue to finance any of its expenditure. To a limited extent, a Government could pay for some items of expenditure—particularly Public Works Programmes—with its own Notes. However if this method of financing expenditure be resorted to on a large scale, the result is rapid inflation. However, Mitchell-Innes felt that in the case of Siam, the limitation on the use of this method was not so much the danger of generating an inflation, but rather the fact that not a sufficient volume of Notes could be maintained in circulation. Indeed, with the current cost of the Railway Construction Programme for the Kingdom estimated at 50.0-60.0 million baht, it was difficult to see how any significant part of the Government's Public Works Programme could be financed by this cheap method.

Mitchell-Innes' Memorandum was sent to the King by Prince Mahit<sup>18</sup> but the King, feeling that he lacked sufficient knowledge of the subject to be able to discuss it in detail, suggested to the Minister that a decision be delayed until the Cabinet had time to consider the proposal.<sup>19</sup> However, the following year, 1899, it was decided to proceed with the scheme. An officer in the Financial Department of the Indian Civil Service, W.J.F. Williamson, was engaged to work in the Comptroller-General's Office and to assist in the setting up of a Paper Currency Department within the Ministry of Finance. Williamson arrived in Bangkok in May 1900 and immediately began work preparing a suitable office, framing a code of rules and arranging for the printing and supply of the Notes.<sup>20</sup> At one stage it was suggested that some old Paper Notes of the Government be used in the new scheme.<sup>21</sup> Unfor-

18) Prince Mahit to King 6th June 1898 N.A. Kh. 11/1.

19) King to Prince Mahit 13th June 1898 N.A. Kh. 11/1.

There is no indication in the National Archives' Documents of whether the Cabinet discussed Prince Mahit's scheme at this stage or not. Nor is there any account of the discussions which took place the following year and which led to the decision to establish a Paper Currency Department.

20) Report of the Financial Advisor on the operations of the Department of Paper Currency R.S. 121 (1902-03). Files of the Financial Advisor (henceforth F.F.A.), Ministry of Finance, Bangkok. 38/C.

21) Prince Mahit to King 7th August 1901. N.A. Kh. 11/2.

tunately it is not made clear to which 'old notes' this refers. It is possible that it included the notes ordered by Prince Narathip some ten years earlier and which had been stored in the Ministry of Finance following the abandonment of the earlier scheme.<sup>22</sup> But the description of the old Notes does not always fit that of the Notes ordered by Prince Narathip so that it is probable that it was considered using Notes dating back to the Fourth Reign. (It is even conceivable that the notes referred to belong to an earlier scheme about which nothing else is known.) But, whatever the identity of the old Notes, Williamson decided that they could not be used as in many cases the printing on the Notes had faded, and the notes were not uniform in design or lettering (which confirms the impression that it was contemplated using old Notes from various previous Issues).<sup>23</sup> Once it was decided to order new notes, Prince Mahit instructed that all the old Notes held by the Ministry of Finance be burnt.<sup>24</sup> (When this was carried out in July 1902 under the supervision of Williamson, it was discovered that the Ministry held many more old Notes than were accounted for in its records: it was as well that the idea to use the old Notes in the new scheme was discarded). The new Notes were ordered from Thomas de La Rue, the first order being for 8.0 million baht's worth of Notes. It was hoped at first that enough Notes would arrive to inaugurate the scheme in January 1902<sup>25</sup> but proofs had to be called for from the printers several times so sufficient Notes did not reach Bangkok until August 1902.

Meanwhile in the previous June, Prince Mahit had submitted a draft of the Paper Currency Act to the Cabinet.<sup>26</sup> As with Prince Narathip's abortive scheme of almost ten years before, the main problem concerned the existing Note issues of the European Banks in Bangkok. In the first draft of the Act, the Banks were given a period of time following the promulgation of the Act during which they had to withdraw their Notes from circulation. They were also forbidden to issue new

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22) Sir Henry Norman, *The Peoples and Politics of the Far East* (London, 1895), p. 429.

23) Prince Mahit to King 7th August 1901 N.A. Kh. 11/2.

24) Prince Mahit to King 25th July 1902. N.A. Kh. 11/2.

25) Report of the Financial Advisor on the operations of the Department of Paper Currency. R.S. 121 (1902-03) F.F.A. 38/C.

26) Meeting of the Cabinet: Report. 16th June 1902. N.A. Kh. 11.1/3.

Notes. But in framing a clause in the Act which would effectively prevent the Banks from maintaining their Notes in circulation, it was found difficult to avoid infringing on the Bank's right to use Bills of Exchange, Drafts, and Promissary Notes which are close substitutes of Bank Notes. At the suggestion of Prince Devawongse, the clause was omitted from the final version of the Act. Instead, in answer to a request by the Government, the Banks voluntarily agreed to withdraw their Notes from circulation once the Government Notes were issued.<sup>27</sup> Prince Mahit resubmitted the Act to the Cabinet on 23rd June 1902<sup>28</sup> and the Paper Currency Act was approved by the King the following day.<sup>29</sup>

The Act established the Paper Currency Department as a division of the Ministry of Finance with the Director of the Department directly responsible to the Minister of Finance. The function of the Department was to administer the exchange of Notes and coins and to maintain the Paper Currency Reserve. This Reserve had to equal the Total value of Notes in circulation although at the discretion of the Minister of Finance 25% of the reserve could be invested. (In other words, the amount of coins held as a Reserve for the Paper Currency had to be at least 75% of the value of Notes in circulation). It was also stated in the Act that any profit made by the Department from the Note Issue or from its investments was to be handed over to the Treasury.

#### **The Opening of the Paper Currency Department-September 1902**

By August 1902, sufficient notes had been received from the printers to inaugurate the scheme. Prince Mahit decided that in order to publicise the event as much as possible, the opening of the Department should be marked by a special ceremony attended by the King<sup>30</sup> and Rivett-Carnac, the new Financial Adviser was entrusted with the task of drafting the King's speech. This speech was to cause some temporary confusion. In his first draft, the Financial Adviser had required the King to read out the whole Paper Currency Act, together with the Ministerial

27) ເຄີມ ຍາງນູ້ເກີດ : ກຣະຍາກົມໄທຍ (Bangkok, 2506). p. 196.

28) Meeting of the Cabinet : Report 23rd June 1902. N.A. Kh. 11.1/3.

29) King to Prince Mahit. 24th June 1902 N.A. Kh. 11.1/3.

30) Prince Mahit to King 6th September 1902 N.A. Kh. 11/3.

Notifications and Regulations. But, he had also added a point that was not contained in any of the Legislation—that all Government Departments had been instructed to receive the new Notes as payment for taxes and duties. This involved an important point for Prince Mahit. The Minister felt that it would be preferable to avoid giving the impression that the Government Notes were being forced on the public; he had decided that it would be better if the public were allowed to exchange their coins for Notes as and when they wished to do so. In that way the note issue would perhaps expand more slowly but more safely—there would be less chance of the value of notes in circulation growing so fast that the Government would find it difficult to maintain the required Reserve level. So even though the relevant Government Departments had indeed been instructed to accept the new Notes,<sup>31</sup> Prince Mahit did not want the fact publicized. Rivett-Carnac's final version of the King's speech was much shorter and contained no references to the Legislation.<sup>32</sup> As it turned out, when the Department was opened on 19th September 1902, the King was indisposed and his place was taken by Prince Phanuphunduwongse.<sup>33</sup> The guests present at the opening ceremony took the opportunity to exchange their coins for the new Notes and almost 4,000 baht of the new Notes were issued. The Department was opened for ordinary business on 23rd September 1902 and on that day alone, the public exchanged 62,410 baht for Notes.<sup>34</sup> At first four denominations of Notes were issued, 5, 10, 20 and 100 baht. It was felt that notes with a value above 100 baht would not be taken up by the public<sup>35</sup> though later 1,000 baht notes were issued. 1 baht Notes were not issued because of the large number of baht coins in circulation at the time.<sup>36</sup>

### Paper Currency Department 1902-1903

By the end of October 1902, the value of Government Notes in circulation was 1,014,040 baht. By the end of March 1903, 6 months after

31) Prince Mahit to King : undated—but early September 1902. N.A. Kh. 11/3.

32) Prince Mahit to King 18th September 1902. N.A. Kh. 11/3.

33) Bangkok Times, 22nd September 1902.

34) Report of the Financial Advisor on the operations of the Department of Paper Currenco. R.S. 121 (1902-03) F.F.A. 38/C.

35) Meeting of the Cabinet : Report. 16th June 1902 N.A. Kh. 11.1/3.

36) เอกลัม ยงบุญเกิด : กระชากปืนไทย (Bangkok, 2506). p. 197,

the opening of the Department, the figure had risen to 3,479,105 baht and after a full year's operation, the value of Government Notes in circulation was 6,349,600 baht.<sup>37</sup> These figures had been achieved despite the fact that Mitchell-Innes had earlier estimated that at first the Government would be able to maintain only 2.0-3.0 million baht in circulation. Furthermore, the Note issue of the Government exceeded that of the Hongkong and Shanghai Bank as early as December 1902, and in the following month, the Government issue exceeded the total issue of all three European Banks combined.<sup>38</sup> In addition, as was made clear when Prince Mahit objected to the first draft of the King's speech prepared by Rivett-Carnac, the Government was making no attempt to force its Notes into circulation. As Williamson noted in the first report of the Paper Currency Department "Even officials, who draw salaries and allowances at the Treasury, have been, and continue to be, at perfect liberty to receive either notes or coins at their pleasure".<sup>39</sup> There may even have been a restriction on the rate of expansion of the Government Note issue since even the Treasury could only obtain its Notes by purchase in cash from the Currency Office. Undoubtedly one reason for the rapid rise in the value of Government Notes in circulation was the voluntary agreement by the European Banks to withdraw their own Notes. But as Williamson pointed out in his Report, the Banks, in one way, benefited by the replacement of their own Notes with the Government Issue.

"At times when money is plentiful, Banks and other large holders of coin are glad to keep a portion of their cash balances in notes, representing as they do, considerable value in small bulk and economy of storage room, while in seasons of monetary scarcity all notes not actually required for business purposes can be immediately converted into coin by presentation at the Currency office. This is a convenience which the Banks could not obtain by the exclusive employment of their own paper."<sup>40</sup>

37) Monthly Reports of the Paper Currency Department to the Minister of Finance. N.A. Kh. 11/4. (See Table 1.).

38) Memorandum. Circulations of Bank Notes in Siam. Williamson 2nd April 1910 F.F.A. 24/8.

39) Report of the Financial Advisor on the operations of the Department of Paper Currency R.S. 121 (1902-03) F.F.A. 38/C.

40) Ibid.

By December 1909, the total value of outstanding notes of the European Banks had fallen to 62,103 baht and most of these notes were those issued by the Hongkong and Shanghai Bank.<sup>41</sup>

It March 1903 Williamson left the Department to become Financial Adviser, replacing Rivett-Carnac who was leaving Siam. Prince Rajani assumed the post of Director of the Paper Currency Department but in September 1903 he was transferred to another post within the Ministry of Finance, though he remained nominally the head of the Department. Phra Suwan Phakdi became Acting Director.<sup>42</sup>

#### **Forged Notes : November 1903**

Within three months, the Department was faced with its first serious crisis. On 18th November 1903, the Hongkong and Shanghai Bank informed Williamson that forged Government Notes had been handed in at the Bank. Immediately Williamson and Eric St. J. Lawson, the Commissioner of Police for Bangkok went to the Bank.<sup>43</sup> The Notes were good forgeries but once the differences were known, they were easily detectable. (The most noticeable fault of the forgery was that the word 'Limited' in 'Thomas de La Rue Limited' was printed 'Limitep'). The other two European Banks, the Gambling and Lottery Farmers, the Customs Department and the Railway Department were all immediately informed of the existence of the forgeries by Lawson. Meanwhile Prince Mahit had been told and had made arrangements to inform the Provinces and to have a Notification placed in the Newspapers announcing the existence of the forgeries and describing how the forged notes could be recognised.<sup>44</sup> The forgers were rapidly traced. Six men were involved, four Japanese, all of whom had already been involved in counterfeiting Notes for release in China, and two Siamese, one of whom had been instrumental in passing the forged Notes, the other having financed the scheme. The first arrests were made within three days of the discovery

41) Memorandum. Circulation of Bank Notes in Siam. Williamson 2nd April 1910 F.F.A. 24/8.

42) Report on the Paper Currency Department for R.S. 122 (1903-04) F.F.A. 38/C.

43) Eric St. J. Lawson. to Prince Nares Votariddhi 24th November 1903. N.A. Kh. 11/8.

44) Prince Mahit to King 19th November 1903. N.A. Kh. 11/7.

of the forgeries and within a week all six were apprehended.<sup>45</sup> It was estimated by Lawson that they had printed 1.2 million baht's worth of Notes though most of them were still in Japan where they had been produced.<sup>46</sup>

The quick arrest of the forgers, the fact that relatively few Notes were released (and were quickly traced and withdrawn) and the fact that the forged Notes were comparatively easy to detect, meant that Public confidence in the Paper Currency was hardly affected. The total value of Government Notes in Circulation, which had stood at 6,471,715 baht at the end of October had by the end of November fallen to 6,337,385 baht but by the end of January 1904, the figure had risen to 6,487,800 baht.<sup>47</sup> (It is quite probable that this slight decline in the value of Notes in circulation during November–December 1903 was due to seasonal factors rather than the forgery episode since similar phenomena are noticeable at the end of 1904 and 1905—see the section below on the Paper Currency Amendment Act 1906). The two Siamese were heavily punished; one, a junior member of an important Siamese family was temporarily banished from Bangkok and stripped of all rank whilst the other was sentenced to twenty years imprisonment. The four Japanese however escaped lightly; under the 1898 Siam-Japan Treaty they were tried in Japan. The leaders were fined the equivalent of about 100 baht each, the others being fined about 50 baht each. Lawson was dismayed at the lightness of the sentences and wrote to Prince Nares<sup>48</sup> "Comment on this peculiar form of 'Justice' is needless. I do not think it will be very long before some more Japanese start this very safe and profitable business again".<sup>49</sup> The Police Commissioner's fears were unfounded.

45) Bangkok Times, 21st November 1903.

46) Phra Suwan Phakdi in his Report on the Paper Currency Department for R.S. 122 (1903-04) put the figures of forged notes much lower. He said that only 100,000 baht had been printed and 25,000 baht released.

47) Monthly Reports of the Paper Currency Department to the Minister of Finance N.A. Kh. 11/4.

48) Eric St. J. Lawson to Prince Nares 9th May 1904 N.A. Kh. 11/8.

49) Prince Devawongse, the Minister of Foreign Affairs made enquiries into the punishment received by the Japanese. On 28th June 1904, the Japanese Government introduced an ordinance making forgery punishable by 9-11 years hard labour. N.A. Kh. 11/8.

In 1906 there were two minor incidents involving attempts to pass crudely forged Notes in Gambling Houses<sup>50</sup> and in 1909, the Acting Siamese Consul in Singapore reported that it was rumoured that Siamese Notes had been printed in Java and were on their way to Bangkok; but nothing was ever seen of the Notes in Siam.<sup>51</sup> None of these cases compared with the November 1903 episode, and none of them seriously affected the public's confidence in the Government issue.

#### Paper Currency Department 1904-1905

At the end of 1904, the value of Government Notes in circulation, which had been increasing steadily since the inauguration of the Paper Currency Department in September 1902, increased substantially. In October 1904, the Ministry of Finance issued a Notification demonetizing the bullet-shaped baht coins, which had not been minted since the Fourth Reign. Under the Notification, the Public were allowed a period of time in which to exchange their holdings of the old coins either for flat baht at the Treasury, or for Notes or the Paper Currency Department. Between November 1904 and March 1905 the value of Notes in circulation increased by 2,089,860 baht. During the same period, the Department received 1,606,648 bullet-shaped baht which were exchanged for an equivalent value of Notes.<sup>52</sup> Over the whole period October 1904 to October 1905, the total value of bullet-shaped baht exchanged at the Department was 2,726,906 baht. These coins were then exchanged for flat baht at the Treasury and were added to the cash Reserve of the Paper Currency Department.<sup>53</sup>

In his Report on the operation of the Department in R.S. 123 (April 1904-March 1905), the Acting Director, Phra Suwan Phakdi concluded that the "Note issue is now in a flourishing condition" and that the Scheme was now well enough established for it to be safe to invest a portion of the Cash Reserve as allowed under the 1902 Act. It had been intended to do so in 1903 but the forgery case in November of that

50) Prince Chantaburi to King 6th March 1906;

Prince Nares to King 28th June 1906 N.A. Kh. 11/7.

51) Prince Devawongse to Prince Sommot 12th October 1909 N.A. Kh. 11/11.

52) Report on the Paper Currency Department for R.S. 123 (1904-05) F.F.A. 38/C.

53) Report on the Paper Currency Department for R.S. 124 (1905-06) F.F.A. 38/C.

year had upset the arrangements.<sup>54</sup> Throughout 1904, the market rate of exchange of the baht was low. As a result it was not found possible to remit money out of the country at a satisfactory rate of exchange in order to purchase investments.<sup>55</sup> The incentive to invest part of the Cash Reserve was very strong. By 1905, the total value of Notes in circulation exceeded 11.0 million baht and the whole of this amount was backed by holdings of cash in the Paper Currency Department. If a portion of the Reserve were invested, then the earnings on those investments could contribute to the cost of administering the Department: no income was being earned on the Reserve whilst it remained totally in the form of coin. At the end of 1905, with the Exchange rate favourable for the remittance of money out of the country, almost exactly 25% of the Reserve was invested in 2½% British Consols and 3½% Indian Gold Stock.<sup>56</sup> The annual earnings on the investment was expected to be about 70,000 baht or more than twice the cost of administering the Department.<sup>57</sup>

#### **Paper Currency Amendment Act. 1906**

Within a year of making these investments, the new Minister of Finance, Phraya Suriyanuwat proposed to the King that the 1902 Paper Currency Act be amended so that up to 50% of the Reserve could be invested.<sup>58</sup> The Minister had examined the accounts of the Department and estimated that the maximum value of coins which the Department had to pay out at any one time in exchange for returned Currency Notes, was only approximately 10% of the total value of Notes in circulation. It was normal that in October to December of each year, substantial amounts of Notes would be returned to the Department and exchanged for baht coins, the reason being that in those months, the rice crop was harvested and rice-millers found that the Provincial rice-farmers preferred to be paid in coins rather than in Notes. On the other hand, the Paper Currency Department was, since December 1905, holding in coins,

54) Report on the Paper Currency Department for R.S. 122 (1903-04) F.F.A. 38/C.

55) Report on the Paper Currency Department for R.S. 123 (1904-05) F.F.A. 38/C.

56) Prince Mahit to King 20th December 1905. N.A. Kh. 11/10.

57) Report on the Paper Currency Department for R.S. 124 (1905-06) F.F.A. 38/C.

58) Phraya Suriyanuwat to King 2nd October 1906 N.A. Kh. 11/10.

75% of the value of Notes in circulation. Furthermore, since the early 1900's, the Ministry of Finance had been finding it increasingly difficult to meet the rapidly rising expenditure of the Government out of current Revenue. In those circumstances, it was unwise to maintain too large a non-interest-earning Cash Reserve for the Paper Currency. If the Minister of Finance could invest up to 50% of the Reserve, that would allow the Minister to invest 6.0 million baht which at 2½% p.a., would yield interest at the rate of 150,000 baht a year.<sup>59</sup> After paying the administrative expenses of the Department, any profit was, under the 1902 Act, handed over to the Treasury and became part of the General Revenue Fund. There was a further, more pressing reason why Phraya Suriyanuwat proposed amending the 1902 Act to allow up to 50% of the Paper Currency Reserve to be invested. There was at the time an acute shortage of baht coins in the Treasury, so acute that the Banks were unable to find enough coins to finance trade satisfactorily. The shortage was caused first of all by the poor output of coins from the Mint; in particular, the Mint was unable to remint the demonetized bullet-shaped baht into flat coins at anything like the required rate. Secondly, the Government was trying to introduce the baht into its Southern Provinces where for many years the Straits Dollar, and before that, the Mexican Dollar, had been the main currency in use. This necessitated sending large amounts of baht coins into the Peninsula, principally to Puket. The Minister argued that if he were allowed to invest an additional 25% of the Paper Currency Reserve, this would release approximately 3 million baht which could be sent to Puket leaving enough coins in the Bangkok Treasury to satisfy the demands of the European Banks.<sup>60</sup>

Phraya Suriyanuwat also proposed to the King that every year the investments held by the Paper Currency Department be re-valued to determine their current market value. It was probable that after the investments were made, their market value, *in terms of baht* could alter either as a result of a change in the market value of the shares, or as a result of a change in the exchange rate, or as a result of both. If the Department were ever forced to sell some of its investments, it was possible, therefore that the amount of baht the Department would receive

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59) Phraya Suriyanuwat to King 2nd October 1906 N.A. Kh. 11/10.

60) Phraya Suriyanuwat to King 17th July 1906 N.A. Kh. 26/13.

could be less than the amount it had originally paid out to purchase the stocks. In that case, the value of the Reserve would be less than the value of Notes in circulation. At a time when the Minister of Finance was authorized to invest only up to 25% of the Reserve, such changes in the baht value of the investment of the Department were not that important. But now that it was proposed that up to 50% of the Reserve be invested, it was possible that substantial falls in the baht value of the Reserve could occur. Phraya Suriyanuwat suggested that in those cases where the baht value of the investments had fallen, the Treasury would make good the loss to the Paper Currency Department. Alternatively, if the baht value of the investment increased, the Department was obliged to transfer the balance to the Treasury. The King approved of Phraya Suriyanuwat's suggestions and the Paper Currency Amendment Act came into force on 9th October 1906.<sup>61</sup>

Later in the month, whilst the three million baht ear-marked for Puket was being transferred from the Paper Currency Department to the Treasury, Williamson discovered that almost half the coin Reserve of the Department was held in bullet-shaped baht which had been demonetized two years previously.<sup>62</sup> Not only did this discovery have serious implications for the Puket Currency Scheme, in that only half the coins could be used in the Province, but it also meant that if the Paper Currency Department were ever faced with a large public demand for its Notes to be converted back into coin, the Department would be severely hampered by the fact that half its coin Reserve consisted of demonetized coins which were absolutely useless as money.<sup>63</sup> However, since Phraya Suriyanuwat had earlier shown that in normal circumstances, the Department required only about 10% of its Reserve, there was not too much cause for alarm. Meanwhile, in November 1906, some more British Consul Stock was added to the investments of the Department and in January 1907, German Imperial Stock and Siamese Stock were purchased. This brought the total value of the investments to 5,310,378 baht or just over 40% of the value of Notes in circulation. Further purchases of these

61) King to Phraya Suriyanuwat. 9th October 1906. N.A. Kh. 11/10.

62) Memorandum. Shortage of ticals in the Treasury 18th October 1906 N.A. Kh. 26/15.

63) *Ibid.*

stocks were made in the following years to bring the proportion of invested Reserve up to 50%. The earnings on these investments were substantial. In the year April 1907 to March 1908 (R.S. 126) they yielded 183,326 baht : the costs of running the Paper Currency Department in the same year was 29,232 baht. The balance was transferred to the Treasury.<sup>64</sup>

In August 1907 Williamson carried out the first valuation of the investments of the Department in accordance with the 1906 Amendment Act. He estimated that the baht value of the investments had fallen from their original market value by 707,016 baht. Of this fall, 255,234 baht was due to falls in the value of the stocks and the rest was due to a rise in the exchange value of the baht.<sup>65</sup> (That a rise in the exchange value of the baht could lead to a fall in the baht value of the investments can perhaps be best explained in the following manner : at the end of 1905, the exchange value of the baht in terms of Pounds Sterling was a little over 17 baht to the Pound. If the Government had purchased £1,000 worth of stock in London at that rate, the equivalent baht value of the investment would have been just over 17,000 baht. By 1908, the baht had been revalued several times and stood at 13 baht to the Pound. If the Government were then to have sold that stock—and assuming that there had been no change in the market value of the stock,—then the Government would have received only 13,000 baht in return.) Accordingly, on 10th October 1907, the Treasury paid the Paper Currency Department 707,016 baht.<sup>66</sup> A further revaluation took place in July 1909 as a result of which a further 154,232 baht were transferred from the Treasury to the Department.<sup>67</sup>

#### **Transfer of the Paper Currency Department to the Comptroller General's Office 1909**

The existence of the Paper Currency Department as a separate division within the Ministry of Finance came to an end in May 1909

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64) Report on the Paper Currency Department for R.S. 126 (1907-08) F.F.A. 38/C.

65) Memorandum. Depreciation of Currency Investment. Williamson. 19th August 1907 N.A. Kh. 11/10.

66) Report on the Paper Currency Department for R.S. 126 (1907-08) F.F.A. 38/C.

67) Prince Chantaburi to King 8th July 1909. N.A. Kh. 11/6.

when the Department was transferred to the Comptroller-General's Office. The Minister of Finance, who by that time was Prince Chantaburi Norinat, explained to the King that under the old system, it was found that even quite small matters, which should have been dealt with within the Department, were being referred all the way up to the Minister. By transferring the Department to the Comptroller-General's Office, these matters would in future be dealt with by the Comptroller-General, though the Minister of Finance would of course still have ultimate responsibility for the operations of the Department. In addition, the merger would provide an opportunity to reduce the staff of the Paper Currency Department and in this way a small reduction in the salary bill of the Ministry could be made. Prince Chantaburi added that the new system was the one in force in India.<sup>68</sup>

There was, however, a more compelling reason for the abolition of the Department as a separate division of the Ministry of Finance. Prince Chantaburi, writing privately to the King<sup>69</sup> informed him that the Director of the Paper Currency Department Phra Suwan Phakdi had over the years borrowed a substantial sum of money, much of it from people who also were employed in the Ministry of Finance. There was no doubt that Phra Suwan Phakdi could meet these debts but that to do so he would have to sell some of his holdings of land. This would take time and meanwhile the Director's creditors were becoming impatient. Both the Minister and the Director felt that any scandal, however unjustified, could seriously damage the credibility of the Paper Currency Scheme. Therefore Phra Suwan Phakdi had asked Prince Chantaburi for permission to resign in order to arrange for the settlement of his debts. The Minister had agreed to this and had made arrangements for an allowance to be paid to him until another position, preferably in the Ministry of Finance, could be found. Prince Chantaburi felt that in the circumstances, less of a disturbance would be apparent to the Public—and hence less of a risk of Public disquiet—if the Paper Currency Department were transferred to the Comptroller-General's Office than if there were a change of Director. The transfer took place on 19th May 1909.<sup>70</sup>

68) Prince Chantaburi to King 17th May 1909 N.A. Kh. 11/6.

69) Prince Chantaburi to King 17th May 1909. Private Letter N.A. Kh. 11/6.

70) King to Prince Chantaburi 18th May 1909 N.A. Kh. 11/6,

### Conclusion

In conclusion I want to consider just two aspects of the Government's Paper Currency Schemes in this period. Firstly, to consider why Prince Narathip in 1890 and more particularly Prince Mahit in 1898-99 felt it necessary for the Government to issue its own Paper Currency since Notes issued by the Banks were already in circulation and were greatly assisting trade: and secondly to consider some of the reasons for the success of the Paper Currency Department from 1902.

(i) There are perhaps three reasons why the Government would have wished to replace the Notes issued by the European Banks with its own Issue. In the first place, it may simply have felt that it was undesirable that the Paper Money in circulation in Siam should bear anything other than the name of the Siamese Treasury. Secondly, the Notes in circulation before 1902 were used almost solely in Bangkok. To a large extent this was due to the fact that the daily expenditure of the Provincial rice-farmer was so small that it was found more convenient to use the small copper coin then in circulation, the att. This preference for the att would also have acted against the spread of the Government Notes into the Provinces after 1902, particularly in view of the fact that the lowest denomination Note issued by the Government was five baht. But in the long run, as the Provincial Administration grew stronger under Prince Damrong's Ministry of the Interior, as the authority of the Central Government in Bangkok over the Provinces became tighter, so it was probable that a Government-issued Paper Currency would have a greater chance of success outside the Capital than Notes issued by the foreign Banks in Bangkok which lacked a net-work of offices in the Provinces. Indeed there are indications that even in the short-run, within three or four years of the inauguration of the Government scheme, Government Notes were used to a far greater extent outside Bangkok, than ever the issues of the European Banks had been.<sup>71</sup> Finally, the issuing of a Paper Currency can be, as the Banks were well aware when they asked the Government's permission to issue Notes, a highly profitable commercial undertaking.

71) Paper Currency Notes were sent to Pattani in 1907 as part of the Ministry of Finance's scheme to replace the use of the Straits Dollar in those Provinces with the baht. It is unlikely that the Notes would have been sent if it were suspected that they were unacceptable to the local population.

(ii) Throughout most of the period 1902-1909, the total value of Government Notes in use—and by December 1909, the figure had risen to 16,776,930 baht<sup>72</sup> was far in excess of what was originally believed could be achieved. Just prior to the introduction of the Government Note Issue in September 1902, the three European Banks had just over three million baht in circulation.<sup>73</sup> Mitchell-Innes's estimate had been that at first the Government would be able to maintain only 2-3 million baht in circulation though his calculation was based on the assumption that the Notes of the Banks would not be withdrawn. Prince Mahit had originally ordered only 8.0 million baht's worth of Notes from Thomas de La Rue so further orders had to be placed in January 1905<sup>74</sup> and October 1906.<sup>75</sup> This success of the Government's Paper Currency Scheme was due to a considerable extent to the fact that the Notes were introduced at a time when the Commerce of the Kingdom was rapidly expanding though there was a brief trade depression in 1907-08; as the value of trade increased, so the demand for Paper Notes, together with the demand for other kinds of money, grew. Also, the existence of Paper Money in circulation in Bangkok for many years prior to 1902, undoubtedly helped familiarize the Public with Paper Notes before the establishment of the Paper Currency Department. In addition, since the Notes of the European Banks were gradually withdrawn after 1902, the Government's Notes once they appeared faced very little direct competition.

Finally in the establishment of the Paper Currency Department in 1902 and in the operation of the Department in the years that followed, the Government proceeded with a great deal of caution. Firstly, the cash reserve level stipulated in the 1902 Act—75% of the total value of Notes in circulation—was higher than that recommended by even Mitchell-Innes in 1898. The figure was brought down to 50% only after Phraya Suriyanuwat had shown that in its normal operations, the Department did not need to maintain such a large volume of coins in

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72) Monthly Reports of the Paper Currency Department to the Minister of Finance. N.A. Kh. 11/4.

73) Memorandum. Circulation of Bank Notes in Siam. Williamson. 2nd April 1910 F.F.A. 24/8.

74) Prince Mahit to King 3rd January 1905 N.A. Kh. 11/2.

75) Phraya Suriyanuwat to King 8th October 1906 N.A. Kh. 11/2.

reserve; and when the Treasury had become desperately short of baht coins. The total reserve—coins plus investments—was maintained at 100% of the value of Notes in circulation throughout this period. (Indeed the clause in the 1906 Amendment Act providing for the periodic revaluation of the Department's investments illustrates how much care the Government was taking to maintain the total Reserve at 100%). On the other hand, as Williamson discovered in 1906, approximately half the coin held in Reserve were in the form of demonetized bullet-shaped baht, and even though this was mainly due to the failure of the Mint to remint the old coins at a satisfactory rate, the fact remains that in an extreme crisis, the Department would have been short of coins. But for the normal, day to day work of the Department, the coin Reserve was more than adequate. Secondly, the Government made no attempt to force its Notes into use; the value of notes in circulation was determined solely by the Public's willingness to exchange it's coins for Notes at the Paper Currency Department. These two features of the scheme—the high Reserve level and the fact that the Government's Notes were not forced into circulation—explain to a large extent the confidence of the Public in the Government's Notes—and hence the success of the Issue.

TABLE 1

*Value of Government Notes in Circulation :**October 1902—October 1909*

<i>Date : —(figure is for last day of each month)</i>	<i>Value of Government Notes in Circulation in baht.</i>
October 1902	1,014,040
January 1903	3,355,995
April 1903	N.A.
July 1903	5,569,490
October 1903	6,471,715
January 1904	6,487,800
April 1904	6,983,060
July 1904	7,850,930
October 1904	8,533,260
January 1905	9,753,540
April 1905	10,893,095
July 1905	11,339,140
October 1905	10,825,035
January 1906	10,856,915
April 1906	12,116,075
July 1906	12,858,245
October 1906	11,497,275
January 1907	13,245,660
April 1907	16,057,820
July 1907	15,520,375
October 1907	15,617,530
January 1908*	14,289,505
April 1908	14,982,165
July 1908	13,480,905
October 1908	15,572,985
January 1909	16,156,270
April 1909	17,590,690
July 1909	17,506,315
October 1909	17,171,560

Source : Monthly Reports of the Paper Currency Department to the Minister of Finance. N.A. Kh. 11/4.

\*The fall in the value of Notes in circulation in 1908 was a result of the trade depression in Siam in 1907-08.