

*A Listian Perspective upon Economic and Political Development
in the Netherlands East Indies.*¹

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Introduction

Friedrich List is conventionally cited as an early proponent of economic nationalism, state-led economic development and infant industry protection. In reference to East Asian development select parts of Friedrich List's work are often invoked to present some theoretical heritage to statist accounts of development within the region.² However List was concerned not simply with state direction, and restrictive trade and industry policies. List was in fact concerned with long-run national development. In 1841³ List theorised that nations should pass through a range of stages of economic development, and at the same time develop 'more perfect' political institutions. List argued that to catch-up with leading nations

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² J. Fallows (1993) 'How the World Works', in *The Atlantic Monthly*, December; G. White and R. Wade (1998) *Developmental States and Markets in East Asia*, New York, St Martin's Press., A. Leftwich, (1995) 'Bringing politics back in: towards a model of the developmental state', *Journal of Development Studies*, February., J. Brohman (1996), 'Postwar development in the Asian NICs: Does the neoliberal model fit reality?' *Economic Geography*, 72, 2., H. Chang(2002) *Kicking Away the Ladder*, Anthem Press, London., U. Sundhaussen (1997) Book Review of Hill, H. The Indonesian Economy since 1966, in *Australian Journal of International Affairs*, 51:3., M. Berger and M. Beeson (1998) 'Lineages of liberalism and miracles of modernisation: The World Bank, the East Asian trajectory and the international development debate' *Third World Quarterly*, 19:3., J. Matthews. and F. Argy (1999) *BICA Working Paper #1 Building Institutional Capacity in Asia.*,

³ F. List (1841) *National System of Political Economy*, Book 4, Longmans, Green and Co. London 1909 Edition, Translated Sampson S. Lloyd.

'backward' parts of the world would need to be integrated into the world economy, progress through modern agricultural production to industrial production, and all the while manage their trade and regulatory regimes according their particular stage of development. While he emphasised that the state needed to play a powerful unifying and guiding role in this process, he also believed that accountable political institutions, personal liberty and participatory political decision making were all both cause and effect of economic development.

In the Netherlands East Indies a powerful colonial state apparatus was installed which drove a series of distinct economic developments. The apparatus was a unifying force for economic development and was able to implement significant economic transformations. These initially included the state controlled development of plantation agriculture, the subsequent privatisation of the export-oriented economy, and a lengthy period of free trade. Later however, the commodity exporting economy was hurriedly refashioned to encourage local manufacturing and industrialisation with significant trade restrictions placed upon manufactured imports from Europe and in particular Japan. This presents a sequence of developments rather in keeping with a Listian prescription for economic and industrial development.

Of additional interest in the case of the Netherlands East Indies however, is the fact that the colonial regime also later embarked upon a raft of political and social reforms usually identified with the Ethical Policy. This saw the development of administrative, bureaucratic and political infrastructure as well as physical infrastructure. Education, consultation, and participation in government were all expanded for the local population. These developments will be considered in relations to List's prescriptions also.

A Listian Perspective

Krugman⁴ famously recommended that more people should read the works of Friedrich List. He said they should because "if they do they may wonder why this turgid, confused writer had become suddenly a favourite". In fact he complained of the rise of a new 'Cult of List'. At the time List's work was being represented anew by authors who were interested in the connection between the role of the state in economic development, trade and industry policy, and the rapid rise of the economies of East Asia. A prominent reference among these was Fallows⁵. In describing "How the World Works" Fallows argued that the rise of the economies of East Asia was founded upon understandings of economics that had been either lost or ignored in "Anglo-American thinking about economics". Further he noted that a

⁴ P. Krugman (1994) "Proving my Point", Foreign Affairs, July/August

⁵ J. Fallows, *op.cit.* p.14

“strange self-selectivity” of Anglo-American writers was especially well-illustrated by their relative neglect of the works and ideas of Friedrich List.

List was a German economist who wrote his most well-known works in the 1830s and 1840s. His view has often been defined, even by himself, in terms of his rejection of the work of classical economists like Adam Smith.⁶ Smith concerned himself with the benefits of international trade and a rather unfettered market mechanism for an increase in national wealth. He warned very pointedly about the risks and misallocation of capital attendant to government direction, promotion or protection of domestic industry. List concerned himself with national development, in particular industrialisation and the technological, educational, and social benefits that he associated with a modern industrial society. Far from denying a role for government in speeding this development, he argued that it was a fundamental duty of government to advance national development by whatever means possible. He highlighted the need to protect fledgling local industries by restricting imports of manufactured goods from countries that were already advanced industrial economies. List was especially cynical about Smith and other English free-trade oriented authors’ advocacy of free trade and limited government intervention and restriction at a time when British industry had already assumed a commanding competitive lead over nascent manufacturing industries in countries such as America and Germany. From this line of argument it is reasonable enough that List is often acknowledged as one of the foremost early economic nationalists and also one of the fathers of policies later recognised as infant industry policies. What is far less fair however is that List is also rather roughly associated with mercantilism, unlimited protectionism and is perceived almost as an advocate of autarky and authoritarianism.⁷ It is for this reason that it is not uncommon that experiences of national development such as Germany under Bismarck, Japan under the Meiji oligarchs, Indonesia under Sukarno, the Maoist economy in China, and the ‘developmental’ states of East Asia in general have been casually characterised as having followed as ‘Listian’ path.

These characterisations however do not fit well with any comprehensive review of List’s original works. Perhaps this is because as Hong⁸ observes, the works of List are very rarely read even among those who cite his name. Therefore it is from primary sources that three distinct sets of List’s concerns are described here to develop an accurate Listian perspective;

⁶ List rejected not just the conclusions and details of classical economists like Smith, but also their basic method. Like other members of the German Historical School his historical method was much more based upon deduction and not upon the theorising and induction of the classical economists.

⁷ See again footnote 1.

⁸ W. Hong (2002) *Catch-up and Crisis in Korea*, Edward Elgar, UK p.6

state leadership of economic development, institutional development and the regulation of trade and industry.

State Leadership of Economic Development – State Unity and Power

List stressed the paramount importance of state unity and leadership in development. He believed that prosperity depended upon a national capacity to pursue goals collectively over time. “United efforts...” of individuals across “successive generations ...to one common object” were required.⁹ So List concluded that “the unity of the nation form(s) the fundamental condition of lasting national prosperity ... (since) only where the interest of individuals has been subordinated to those of the nation, ...(have) nations been brought to harmonious development of their productive powers”. List was writing at a time when Germany was still divided into a collection of states whose economic relations were something of an ongoing “commercial feud”¹⁰ so he regarded state unity as an essential first step to the development of economic strategies that could only be applied at a national level.

List’s determination that national leadership was critical to development reflected his view that there was no other real locus of power in economic affairs that was capable of the required action. List noted¹¹ famously,

“Between each individual and entire humanity ... stands the THE NATION, with its special language and literature, with its peculiar origin and history, with its special manners and customs, laws and institutions, with the claims of all of these for existence, independence, perfection, and continuance for the future, and with its separate territory; a society which, united by a thousand ties of mind and of interests, combines itself into one independent whole, which recognises the law of right for and within itself, and in its united character is still opposed to other societies of a similar kind in their national liberty, and consequently under the conditions of the world maintains self-existence and independence by its own power and resources.”

When List concerned himself with the problem confronting nations that were yet to undergo the process of industrialisation or make the shift to a manufacturing based economy, he was unreserved on where the responsibility lay to bring about the transformation. In short, List

⁹ F.List *op.cit.* Book 2 p.132

¹⁰ This expression of the rivalry amongst German states to control and tax trade across their many borders is from Hirst, M. (1909) *Life of Friedrich List And Selections From His Writings*, 1965 edition Augustus M. Kelly, New York p.xv.

¹¹ F. List *op.cit.*, Book 2, p.141

was convinced that the nation was the pre-eminent organisational unit responsible for bringing about development in new or non-industrialised nations, it simply had to play a leading role.

Institutional Development- Economic Development and Political Institutions

While List's prescriptions for nationalist economic development have a slightly illiberal tone, List was in fact clear on the point that he strongly favoured the development of liberal political institutions as an important component of national development. This was not just a subjective position, he regarded liberal institutions as being indispensable in the process of state guided development. They were important for the maintenance of entrepreneurial zeal and opportunity, and they were important for the effective and accountable functioning of the state that he saw playing a commanding role in the economy.

He noted¹² that, "However industrious, thrifty, inventive, and intelligent, individuals may be they (can) not make up for the lack of free institutions. History ... teaches that individuals derive the greater part of their productive powers from the social institutions and conditions under which they are placed." And even more specifically,¹³

"The publicity of the administration of justice, trial by jury, parliamentary legislation, public control of state administration, self-administration of commonalities and municipalities, liberty of the press, liberty of association for useful purposes, impart to the citizens of constitutional states, as also to their public functionaries, a degree of energy and power which can hardly be produced by other means. We can scarcely conceive of any law or any public legal decision which would not exercise a greater or smaller influence on the productive power of the nation."

Unmistakably this list advocates transparent public administration and legal systems, effective, representative parliamentary democracy, decentralised political power, and freedom of speech. He was also a staunch advocate of constitutionalism.

He believed that over time national development was dependant upon a continuous connection between political and economic transformation.¹⁴ List suggested that not all

¹² *ibid.*, Book 1, p.87

¹³ *ibid.*, Book 2, p.113

¹⁴ The evolution of the state as an almost organic entity or process was something quite typical of many authors in the German Historical School tradition.

institutional arrangements were equal, and that not any arrangement was suitable for a program of state intervention in economic affairs. List recognised that since his vision required the state to intervene in far-reaching ways, it ought to be responsible and accountable. So, while emphasising that the state would be implementing policies that were in many ways restrictive he warned that restrictive policies would have to be “supported by progressive civilization and free institutions”.¹⁵ He proposed that for any chance of national development, government needed in the first instance to be strong government, but that over time, it should be increasingly ‘good’ government. He argued that even (perhaps especially) a state with the powerful regulatory authority needed for industrial development must nonetheless be evolving toward more ‘perfect’¹⁶ political and social institutions that guaranteed liberty, freedom of expression, bureaucratic accountability, and fair and transparent legal arrangements. The features of good government that he proposed are notably in keeping with contemporary debates about governance but were rather radical ideas in mid-nineteenth century Germany.¹⁷

Trade and Regulation and Economic Development

List saw national development as passing through a series of stages. He proposed that in the first stage nations must adopt free trade with more advanced nations as a means of raising themselves from a state of barbarism, and making advances in agriculture. In the next stage they must be “promoting the growth of manufactures ... and foreign trade by means of commercial restrictions”. And in the final stage, “...gradually revert() to the principle of free trade and unrestricted competition in the home as well as foreign markets so that agriculturists, manufacturers, and merchants may be preserved from indolence and stimulated to retain the supremacy which they have acquired”.¹⁸ From this it is clear that List was no simple protectionist. He advocated the use of general tariff protection to encourage domestic production of manufactured goods and modern industry. His emphasis on tariff protection reflected his concern to maintain an overarching set of economic incentives for production rather than particular schemes, or incentives for individuals, firms or groups. He well understood the risks of government intervention to misallocate resources, and acknowledged that there were losses incurred as consequence of trade restrictions, but he believed these would be more than offset by the manifold advantages of the development of local industry.

¹⁵ F. List *op.cit.*, Book 1 p.91

¹⁶ *ibid.*, Book 1 p.87

¹⁷ Radical enough in fact to get him imprisoned with hard labour, and then exiled.

¹⁸ *ibid.*, Book 1 p. 93

A Listian Perspective on the Netherlands East Indies

The fact that the work of List has become a popular reference when contemplating the development of East Asia is a recent phenomenon, and slightly surprising one given that his views on the region were rather dismissive. In fact he lamented of the region's prospects that,

“Wherever the mouldering civilisation of Asia comes into contact with the fresh atmosphere of Europe, it falls to atoms; and Europe will sooner or later find herself taking the whole of Asia under her tutelage... In this utter chaos of countries and peoples there exists no single nationality which is either worthy or capable of maintenance and regeneration. Hence the entire dissolution of the Asiatic nationalities appears inevitable, and a regeneration of Asia only possible by the introduction of Christian religion and of European moral laws and order, by European immigration, and the introduction of European systems of government”.¹⁹

List's direct concern with the region did not extend far beyond the consideration of how European traders and administrators should manage their own affairs in the region while they went about 'civilising' these 'barbarous' peoples.²⁰

Nevertheless as noted in the introduction, there are features of the development of the NEI that fit very well with a Listian account of economic and political development. There are also very significant divergences from the Listian framework which the framework still illuminates very usefully.

State-lead Development – The Arrival of the State

On the importance of the rise of the state in Indonesia, Dick²¹ notes that “The colonial state with its Napoleonic pedigree was arguably the most fateful technology transfer between Europe and the archipelago”. It was the effective force of the colonial state that brought about a transformation of the economic activity of the region through the mass mobilisation of local

¹⁹ *ibid.*, Book 4, p.336

²⁰ *ibid.*, Book 4 p.337. Of course soon afterward another Euro-centric economist Karl Marx was also somewhat casual in his efforts to analyse the 'Oriental' circumstance. At least within his lamentations of the 'idiocy of village life' he proposed a distinct 'Asian mode of production' to excuse the poor fit of the region within his historical schema.

²¹ In H. Dick, and V. Houben, J. Lindblad, Thee Kian Wee (2002) *The Emergence of a National Economy: An economic history of Indonesia, 1800-2000*, Allen and Unwin, Crows Nest. P.3

labour for the production of goods for export, the establishment of an extensive economic and physical infrastructure to support that production, and most enduringly, a centralised administration. Before the introduction of the colonial state the direct European impact on the economic affairs of Southeast Asia had begun in the early sixteenth century when Portuguese traders arrived in the region. At this time the region was already an important part of highly developed trade networks that linked China and East Africa, and which by extension already supplied the Middle East, the Mediterranean and much of Europe with high value goods from as far away as Japan. Local coastal kingdoms had arisen based on the control of passages and ports, and on the control over adjacent hinterlands. The Portuguese threw themselves into the local trade network to raise capital which they used to buy spices and became but one more set of participants plying the trade routes of the region. They were in no position to threaten any of the major states of the region and just inserted themselves into what has been described as an 'Asian World Economy' over which they initially had no control at all.²²

This changed with the rapid transformation of European commercial and military organisation and technology in the seventeenth century. Naval power and local alliances enabled the Portuguese and then the Dutch and British to impose increasing control over trading activities in Southeast Asia, and increasing rivalry amongst the Europeans themselves meant that they sought more and more exclusive trading arrangements. It was a gradual process by which the European intrusion progressed from free trade, to monopolistic trade, and only eventually to annexation and territorial conquest. This process was furthered by the Dutch between 1602 and 1798 through the Netherlands East India Company (VOC).²³ The company applied an unprecedented military capacity to the conduct of its commercial operations. The VOC's disruption to local trade arrangements contributed to the wasting away of previously powerful indigenous states. At the same time, direct conflict with local states and attempts to control local production as well as trade, increasingly transformed the VOC from merchant to landlord.²⁴ This transformation over-extended the capacity of the company as expenses in administration and military campaigning rose. The rising power of Britain in the region ended the VOC's military dominance and enabled other European traders to undermine profitable Dutch monopolies. Between 1795 and 1800 the VOC was bankrupted and all of its colonial possessions were taken over by the Dutch state. This brought about the rise of the centralised colonial state in the NEI.

²² C. Dixon, (1991) *Southeast Asia in the World Economy*, Cambridge University Press, Cambridge. p.61

²³ Also known as the Dutch East India Company - Vereenigde Oost-Indische Compagnie

²⁴ C.Dixon *op.cit.*, p.66

The Colonial State: Intervention and Transformation

The transfer of control to the Dutch state also gave rise to a centralised and focused approach to economic development. While the VOC had been an expansive, region-wide trading entity, the new colonial state became much more concerned with the question of how to exploit the resources of the specific territory that it now controlled in the most effective way. Primarily this question was one of how to develop the fertile island of Java and turn it into a profitable colony. The answer according to Houben²⁵ was that the new colonial state had to “provide() the means for an interventionist economic policy well beyond the modest fiscal systems in the contemporary Netherlands.” So, “Without regard to laissez-faire ideals, Java was subjected to an aggressive state which sought to mobilise the resources of the indigenous economy to its own advantage.” The most remarkable example of interventionist, state-led exploitation was the *Cultuurstelsel*²⁶ or CS. Unlike the activities of the VOC which to a large extent were an overlay on existing patterns of production, the CS was the creation by the state of a rather different system of production and collection and distribution. Despite the fact that debates about the merits of free trade were very topical in the Netherlands, it was decided that the state would directly ensure that production on Java would be made to contribute specifically those goods deemed likely to generate export revenues for the home country.

The *Cultuurstelsel* and Dutch Mercantilism

Under the CS the farming peasant population of Java would be required to produce commodities such as sugar, indigo and coffee. These crops would be delivered to government depots where they would be ‘bought’ at an officially stipulated price. The goods delivered were to be the equivalent of one fifth of the value of the farmers’ production. The Netherlands was not a highly industrialised country itself in the mid-nineteenth century, so it did not need to consume a great proportion of the goods produced under the CS. It did however profit greatly from the sale of the goods to other industrial centres.²⁷ The commodities ‘purchased’ on Java were transported exclusively on Dutch ships, and sold by auction in the Netherlands by a semi-private trading company in which the King was a major shareholder.²⁸ It was a well-sealed mercantile arrangement. Around the beginning of the CS in 1831 the Netherlands’ financial position was almost in ruin. Between 1832 and 1852 income from the colony was almost 19% of total income.²⁹ Between 1860 and 1866 one third of the Netherlands’ state

²⁵ V. Houben, in H. Dick *op.cit.*, p.63

²⁶ Also referred to as Cultivation System or CS.

²⁷ C. Dixon *op.cit.*, p.87

²⁸ V. Houben in H. Dick *op.cit.* p.86

²⁹ *ibid.* p.65

revenue was created through the culture system.³⁰ Booth³¹ notes however that the CS itself ensured that the domestic economy of Java captured very little benefit from the growth in exports. Had government revenues from the sale of crops and taxes been spent on productive infrastructure and on education, then the colony's subsequent economic development might have been very different. Instead, the spoils went to the provision of infrastructure and education to the citizens of metropolitan Holland where government had no need even to levy income tax. Nevertheless through the CS in particular the colonial state developed on Java a 'plantation economy' that achieved much of the export growth that it was intended to achieve.

Swing to Liberalism 1870 – Free Trade and Agro-industrial Development

Robison³² argues that "Beginning in the mid-nineteenth century, the mercantile nature of the colonial economic presence was transformed into an increasingly capitalist enterprise ... To secure an entry for private capital, the Dutch bourgeoisie first had to dismantle the state mercantile monopoly". The culture system was ended in 1870 with the passing of the Agrarian Law, and the period that followed until 1930 is quite conventionally referred to as the 'liberal period'.³³ There were a number of reasons that led to this change in the way that the state involved itself in the economy. The first was simply a growing influence of both economic and political liberalism in the Netherlands itself. This perhaps reflected both the 'growing strength of the Dutch industrial and financial bourgeoisie',³⁴ and the general ascendancy of Smith's ideas in many parts of Europe at that time.

The abolition of the CS heralded a departure from state intervention and organisation of production, toward free enterprise. It was argued that the extensive state involvement had been a transitional arrangement³⁵ and that the CS itself had just been a step toward a more liberal, market-driven economy. The agrarian law enabled Europeans to lease land from indigenous owners. The practical result was that the state-run culture system was superseded by the spread of corporate plantations. This transition to a free market economy was observed by Geertz³⁶ as a state hand-over to the Dutch merchants since they "did not create, as they later came to claim, the Netherlands East Indies estate economy. They bought it – and rather cheaply considering the social costs of its production". Private investment supported by large

³⁰ C. Fasseur (1992) *The Politics of Colonial Exploitation: Java, the Dutch and the Cultivation System*. Ithaca, NY. Cited H. Dick *ibid.* p.65

³¹ A. Booth, (1998) *The Indonesian Economy in the Nineteenth and Twentieth Centuries: A History of Missed Opportunities*, Macmillan, London. p.140

³² R. Robison, (1986) *Indonesia: The Rise of Capital*, Allen and Unwin, Sydney. p.6

³³ For example both H. Dick *op.cit.*, p.63 and Booth (1998) *op.cit.*, pp.141 and 215

³⁴ R. Robison *op.cit.*, p. 6

³⁵ A. Booth *op.cit.*, p.30

³⁶ C. Geertz, (1963) *Agricultural involution: the process of ecological change in Indonesia*, University of California Press, Berkeley. pp. 83-84

banking interests expanded agricultural plantation production to the Outer Islands, and also developed much expanded irrigation, railways, port facilities and processing capacity. It created, according to Geertz³⁷ “a comprehensive agro-industrial structure practically unmatched for complexity, efficiency and scale anywhere in the world.” The colonial state supported this development with the provision of infrastructure, but the agricultural economy had become a state-facilitated private concern.

The Colonial Economy and Local Institutional Development – The Development of the Indigenous Bureaucracy

The CS marked a forceful move by the colonial state to transform local production, and it adapted some important existing political and social institutions that had governed local populations since before the operations of the VOC. These long-standing local relations of production were incorporated into the colonial state’s own workings. In pre-colonial indigenous states village rice farmers had been required to labour for local rulers and forward roughly 40% of their produce as tax. This was a system of forced labour and forced crop delivery which was coopted first by the VOC and then by the colonial state. The Javanese ruling class, were the *priyayi*. Although the *priyayi* were the propertied class, it was their ability to compel labour and crop delivery that was the source of their own wealth and importance. Until the later part of the nineteenth century fertile land on Java was not scarce, and labour to make the land productive was the real limiting factor of production. While hereditary land ownership underpinned the feudal aristocracy in Europe, on Java the relationship between rulers and the ruled, the ruled being labour, was the source and means of power and wealth. Robison³⁸ describes the political and social relations that were attendant to local production,

“...appanage benefices and official position were granted and terminated by the king and never widely institutionalised as a legal right. The continuing centrality of the king as the personal dispenser of benefices, and in turn of the nobles and higher officials as dispensers of lesser benefices, gave politics a special character of personalised hierarchical relationships. Networks of personal loyalties focused around personal attachment to individual leaders and dispensers of benefices whose political fortunes decided the fate of a host of clients.”

³⁷ *ibid.*, pp.85-86

³⁸ R. Robison *op.cit.*, p.13

To supersede the ad hoc administrative arrangements of the VOC the Dutch were keen to develop a modern bureaucracy. This became a formal hierarchical structure³⁹ in which authority cascaded down through Residents to Assistant Residents to *controleurs*. This only functioned alongside a little-modified indigenous hierarchy⁴⁰ of *priyayi*. The *priyayi* hierarchy of aristocrats fitted alongside that of the Dutch with Regents, District Heads and Village Heads. It was the indigenous bureaucracy and their traditional powers of coercion that guaranteed the production and delivery of the goods that the colonial state demanded. Consequently the greater the intervention of the colonial state in the economy, the more important the administrative role of the *priyayi* became. Their role also evolved as the way in which the state intervened in the economy evolved. In the early period of the CS European and *priyayi* officials were both paid cultivation percentages, effectively commissions, according to the quantity of crops that they delivered up from their districts. That the *priyayi* were on commission has been seen as a measure of how they were drawn into ‘orbit’⁴¹ about the colonial administration and in doing so became much more the instrument of the colonial administration. Robison⁴² notes that the *priyayi* “chose the state rather than private landholdings as the basis of their economic and political position.” Consequently they were transformed from a class of large land owners into a class of ‘politico-bureaucrats’ as they were integrated into the machinery of the colonial state. This process was furthered with the ‘liberalisation’ or privatisation of the economy after 1870 when corporate plantations established control over land and the *priyayi* officials lost their cultivation percentages and became salaried employees of the state.⁴³ By the end of the nineteenth century the colonial state had established a centralised bureaucracy that had over time transformed, yet nonetheless preserved and co-opted traditional local political power.

The Ethical Policy, Dutch Liberalism and Indonesian Nationalism

By 1901 the colonial administration on Java had been consolidated, and soon thereafter its role was greatly expanded. A new ‘Ethical Policy’ was announced by the Queen to be implemented in the colony to ‘uplift’ the colony’s native population. This led to a huge expansion of government to perform many new functions that would now be recognised as ‘developmental’. The policy was intended to improve the living standards of ordinary

³⁹ *Binnenlands Bestuur*

⁴⁰ *Pangreh Praja*

⁴¹ H. Dick *op.cit.*, pp.65 and 73

⁴² R. Robison *op.cit.*, p.14

⁴³ Cultivation percentages were discontinued in 1868. It should be noted that by this time very significant population growth on the island of Java meant that labour was much less scarce. This would have undermined that role of the *priyayi* in mobilising previously labour for crop production.

Indonesians. These were recognised as much lower than those in the Netherlands despite the fact that the episodes like the CS had at least at times been so profitable for the home country. It has been argued that the last four decades of Dutch rule were ‘dominated by the theme of reform’ during which there was an emphasis on the modernisation of indigenous society.⁴⁴ The focus of the programs of the Ethical Policy was to be upon improving irrigation, education and emigration. Traditional village-level irrigation schemes would be replaced with coordinated modern systems. Education would fulfil obvious practical needs in administration but also bring about a general enlightenment that would bring indigenous society closer to par with that of the Dutch. Emigration was the forerunner to long running attempts to transfer Javanese population to establish outer island agriculture. A range of new government authorities sprang up with responsibilities under the Ethical Policy. These included the Department of Agriculture, Industry and Trade, the Department of Public Works, the Department of Education, the Agricultural Extension Service, and the Civil Medical Service.⁴⁵ The expansion in state-delivered specialist services expanded the bureaucracy from 154 000 to 212 000⁴⁶ between 1917 and 1928. Very many of these positions were filled by Indonesians as the bureaucracy became the career goal for educated locals. Lack of funding hampered the implementation of many of public works goals of the policy but Booth⁴⁷ argues that the policy with its developmental goals still resulted in the creation of a large and prestigious ‘developmental technocracy’ similar to those that were created in the post-war period in other countries. She argues that this large bureaucracy was not only the result of the Ethical Policy but of a century of intensive government involvement in the economy where at different times it had been involved in everything from regulation of trade and even production, to the development of infrastructure, and later the Ethical Policy.

While the Ethical Policy further expanded the developmental role of the state bureaucracy, it also led to disappointment with and opposition to the colonial regime. Lindblad⁴⁸ notes that the Ethical Policy gave impetus to the development of political consciousness in the small Indonesian intellectual elite. The disappointment stemmed from the fact that the Ethical Policy gave rise to expectations of both improved living standards and more political freedom, but it did not fulfil either. On the extension of greater political freedom, it might be observed that the Ethical Policy was in primarily about transforming a colonial territory that was expected to remain only that. Very few Dutch or Indonesians really imagined that the

⁴⁴ H. Benda, (1966) ‘The Pattern of Administrative Reforms in the Closing Years of Dutch Rule in Indonesia’ *Journal of Asian Studies*, Vol 25 p.238-9 cited in A. Booth *op.cit.*, p.155

⁴⁵ H. Dick *op.cit.*, p. 118

⁴⁶ A. Booth *op.cit.*, p.155

⁴⁷ *ibid.* p.155

⁴⁸ J. Lindblad in H. Dick *op.cit.*, p.121

Ethical Policy was to be a stepping stone to eventual independence. The Ethical Policy itself either by its design or failure laid little foundation for later democracy. Also the Dutch did little to develop the experience of Indonesians within higher levels of the bureaucracy. Certainly they did not deliberately implement any degree of self-government. Although the introduction of the *Volksraad*⁴⁹ in 1917 matched the liberal tone of the Ethical Policy, it has usually been seen as an attempt by the colonial administration to contain and manipulate Indonesian leaders and any nationalist aspirations that they might hold. It was only indirectly elected, endowed with only an advisory authority, and generally comprised of rather compliant participants. The *Volksraad* was boycotted by prominent and ambitious nationalists who sought to distance themselves explicitly from the colonial administration. These nationalists became a distinctive leadership stream aside from those traditional elites that had been co-opted into the colonial bureaucracy.⁵⁰ The colonial bureaucracy at this time was becoming only more strict in its concern for order, methodical administration and whatever social and political constraints and repression may have been necessary to safeguard those ends. It has been characterised as evolving ever more into a *beamtensstaat*⁵¹ as it grew.

The Dutch too were disappointed by the results of the Ethical Policy. After two decades it did not produce the transformation of indigenous living standards and society that had been hoped for. Moreover, the more liberal approach to local political development seemed to be producing some unsavoury results as ‘generalized nationalistic ideals became intertwined with pressures for an economic “new deal” for Indonesians.’⁵² The grievances of local Islamic traders about growing Chinese and Dutch merchant interference in the batik trade gave rise to the Sarekat Dagang Islam.⁵³ From its rather particular membership and aims the union grew rapidly in membership and range of political concerns. It grew and divided with a large membership eventually winding up in Communist Party ranks. As the Dutch became more and more wary of growing nationalist sentiment and nationalist organisations the trend toward liberal reform reversed and became increasing repression. Any opposition to Dutch rule was dealt with heavy-handedly, and this in turn galvanised an array of opposition groups. Uprisings by the Communist Party in West Java and West Sumatra in 1926 and 1927 aimed to bring down the colonial administration. The administration reacted with violent military force and the Communist leaders were imprisoned. In 1927 the Indonesian Nationalist Party

⁴⁹ People’s Council

⁵⁰ The distinction is especially noticeable by contrast. Members of Budi Utomo, a student group formed in the 1908 and recognised as perhaps the earliest nationalist group played considerable and cooperative role in the workings of the *Volksraad*. Its membership was quintessential *priyayi*.

⁵¹ That is the state’s paramount concern was strict bureaucratic administration

⁵² F. Golay, R. Anspach, M. Pfannes, and E. Ayal (1969) *Underdevelopment and Economic Nationalism in Southeast Asia*, Cornell University Press, Ithaca. p.118

⁵³ The Islamic Trading Union. Later Dangan Islam (Islamic Union)

(PNI) was formed by and around a young university graduate Sukarno, its explicit aim was Indonesian independence. With nationalist momentum building Sukarno was exiled and jailed for treason. Far from better aligning the societies of the Netherlands and the Netherlands Indies for a long future association, the Ethical Policy contributed to the rise of a range of indigenous groups and leaders who instead demanded rights and national independence.

Tariffs and Regulation – From Free Trade to Protection and Regulation

The end of the CS in 1870 was beginning of the liberal period in colonial trade. As noted previously, this was a time of changing attitudes and influence in the Netherlands that also brought about the privatisation of plantation production in the colonial economy. The role of the colonial state was therefore redirected toward the provision of support for expanded private investment and production of commodities, yet it developed no significant interest in any other sorts of local production or industry. In 1865 and 1872 tariff laws in the Netherlands were changed to abolish differential tariff duties and thereby remove specific local industry protection. These laws were to apply to the colony also. From the Dutch perspective there was perhaps even greater incentive to apply a free trade policy to the colony than to the home market. First, there was no concern about industrial development in the colony, second, it was desirable to make any inputs required to further private development of agriculture in the colony as cheap as possible. Also, there was always a risk that Britain might resort to forceful confrontation to extend its own free trade interest in the region.

Consequently, for sixty years between the early 1870s and 1930s, the NEI had an extraordinarily liberal trade regime. This did not perfectly suit Dutch trading interests operating from the Netherlands or within the NEI since it meant that Dutch exports to the colony had to compete with imports from other countries, Britain and Japan in particular. Nevertheless, to the extent that there was any concern at all about the flow of cheap imports into the colonial economy it was only in the context of their displacement of goods previously imported from the Netherlands. Initially this was not much of a problem given that Dutch exporters were already well-established and very familiar with the local market and its administrative arrangements. Against this minor concession, the benefits of the free trade regime for Dutch investment in the colony were great. The colonial state administration was well-established and basic law and order and commercial legal arrangements were all reliable. Costs of goods and the cost of living were low since there were almost no barriers to imports from any source. To encourage even further investment, the tax system allowed a large proportion of business profits to be retained within businesses or repatriated to the business owners if they were overseas. Capital was permitted both free entry and exit. Altogether the free trade regime was very a suitable regime for the expansion of a privately owned

agriculture export-oriented economy. At the same time it was very much less suitable for the establishment of local manufacturing industries or diverse industrialisation.

During this time it was the ‘outer islands’ that became the prominent source of exports while Java became more conspicuously the centre of imports. In the early period of colonial rule Java had been rapidly developed, but during the long free trade period it was left increasingly behind. Exports from the outer islands grew most strongly as non-agricultural exports such as tin and oil became more important. Outer island exports also grew as a consequence of the increased importance of new agricultural commodities such as rubber and copra relative to the traditional exports such as sugar, coffee and tobacco. By 1940 the outer islands with a population of around 25 million were producing two thirds of the agricultural products and almost all of oil and tin exports.⁵⁴ The lack of development on Java, with twice the population, was so stark during this period that Funrnivall⁵⁵ describes that it was “becoming an economic millstone around the country’s neck.”

Export production was able to expand rapidly driven initially by strong demand for specific commodities. This however made the economy increasingly vulnerable to international market conditions. In the 1920s the price of oil gradually declined, and price of rubber fell precipitously. Yet the result in both cases was a further expansion of production to maintain revenues despite the decreasing value of the product, and in turn, further commitment and exposure to changeable world commodity markets. Although there had been some diversification in the range of commodities exported during the period of export growth there was little industrial growth that was not directly related to commodity exporting industries. The industrialisation that did occur was very closely linked to the processing of agricultural exports or other commodities. The processing industries themselves required some level of service and support, and that gave rise to some local industries in basic equipment and machinery manufacture and repair. However processing plants tended to be widely dispersed throughout regional areas and did not employ a large labour force, so there was little agglomeration or economy of scale in these infant industries.⁵⁶

Lindblad⁵⁷ notes that it might ordinarily be expected that successfully expanding exports might extend local production possibilities and result in some substitution of imports with

⁵⁴ C. Dixon *op.cit.*, p.124

⁵⁵ J. Frunivall (1944) *Netherlands India: a study of plural economy*, Cambridge University Press. cited in H. Dixon *op.cit.*, p.124

⁵⁶ A. Booth *op.cit.*, p.36

⁵⁷ J. Lindbald (1994) ‘The Contribution of Foreign Trade to Colonial State Formation’, in R. Cribb (ed.), *The Late Colonial State in Indonesia: Political and Economic Foundations of the Netherlands Indies 1880-1942*, KITLV Press, Leiden. p.106

local production. In the case of the NEI this did not happen. This was partly because capital intensive industries such as oil mining created little local demand on account of their low wages and the import of most of their capital goods. Yet the lack of import-substituting industrialisation also reflected the liberal colonial trade regime that did not provide any protection whatsoever from massive imports of consumer goods. Dixon⁵⁸ puts it simply, although “The merits of industrial development in the colonies was the subject of official debate, most notably in the NEI ...the prevailing tariff situation and the prevailing interests of metropolitan capital largely precluded development under normal trading positions.” In 1915 the Governor-General investigated the potential of local import-substituting industrialisation. Despite the fact that the appointed committee recognised the increasing importance of expanding non-agricultural employment, and the fact that World War 1 provided significant impetus to nascent manufacturing, no deliberate policy to further local industrialisation was developed. The common conclusion of commentators on the tariff regime was that ‘the idea of protection is totally foreign’⁵⁹ and that both import and export tariffs were only ever to be levied to support state revenue, not deliberate local industrial development. After six decades of free trade there was no local capacity to manufacture even basic industrial products as superphosphates,⁶⁰ cotton yarn and textiles, iron or cement.⁶¹

The Late Rise of the Developmental State

The liberal trade regime crashed to an end with the depression of the 1930s and with an emergency recourse to government protection of the colonial market for manufactures. As noted above, crucial export industries in the NEI had managed commodity price declines in the 1920s with increased production, but when international investment and manufacturing production were cut sharply after the collapse of the major stock exchanges, a glut of commodities was created. Clearly this was a calamity for commodity export-oriented economies. As the commodity sector stalled so too did those few local industries that supported agricultural production and mineral extraction, and also the local processing industries.

With the onset of the depression the colonial government took far reaching control over agricultural imports, exports and production. The first major step was to limit sugar production, but controls of other commodities followed. Production volumes of major commodities were regulated, sometimes as part of international arrangements, but also

⁵⁸ C. Dixon *op.cit.*, p.115

⁵⁹ A. Booth *op.cit.*, p.216

⁶⁰ Especially remarkable given the huge agricultural concerns within the economy.

⁶¹ A. Booth *op.cit.*, p.38

unilaterally. The government eventually centralised buying and export of major crops and controlled prices locally. Agricultural imports were dramatically restricted with rice imports completely banned since prices were so low as to jeopardise the viability of local production. Production and distribution of food crops in general become much more the subject of government regulation.

However the liberal trade regime was not just destroyed by the collapse in exports, but also by a sudden fear of surging imports from Japan after the yen was massively devalued⁶² in late 1931. The Crisis Import Ordinance of 1933 indicates by its own title the gravity of its intent. Under the ordinance, the colonial government took on powers to heavily regulate imports. The application of the ordinance was intended to reduce the imports of Japanese manufactures and preserve the colonial market for Dutch exporters. Japanese imports had already established a significant toe-hold in the colonial market during World War 1,⁶³ but the colonial government had neither sought to protect the market for either Dutch or local industry at that time. In 1933 the response was very different. The colonial government now took on powers to impose quotas on general and specific categories of imports. Import licences were extensively managed to attempt to return to the previous import levels and sources. Between import bans, quotas and licensing, government took far reaching control over what was imported, by whom and from where. With the use of internal price controls it also determined the profitability of the sale of imported goods by select firms. The contrast with the previous liberal trade regime was stark.⁶⁴

Although import controls were mainly a response to Japanese displacement of Dutch goods in the colonial market, the dramatic government intervention did also protect local manufacturing and fostered a ‘burst of late colonial industrialisation’⁶⁵. This protection led to new local manufacturing albeit controlled by mainly foreign investors and local Chinese capitalists. New foreign investment in large-scale factory production led to sustained growth in manufacturing output and employment in the 1930s.⁶⁶ Extensive import substitution in place of many Japanese imports meant that by 1938 the colony was self-sufficient in consumer goods like shoes, cigarettes and frying pans and that significant production had begun in bicycles, batteries and margarine. Western firms like General Motors, Goodyear,

⁶² The yen was devalued by approximately sixty percent.

⁶³ Japan’s share of imports rose to 12% by 1920 and then held at that level. See H. Dick *op.cit.*, p.158

⁶⁴ In interesting indication of the government’s move away from a free trade policy was the change in the staffing of the Trade Section which increased from 20 in 1933 to 1000 by 1941. See H.Dick *op.cit.*, p.162

⁶⁵ H. Dick, *op.cit.*, p.161

⁶⁶ A. Booth, *op.cit.*, p.42

Unilever and Bata all established new production around Jakarta.⁶⁷ The manufacturing share of GDP increased by 50% between 1931 and 1939.⁶⁸ The growth of the local textile industry was a notable feature of this period although Dixon⁶⁹ suggests that this was not simply a consequence of tariff policy. He notes that during the depression many Chinese capitalists⁷⁰ had their traditional relationships with western firms culminated and sought new activities and outlets. They moved from being middlemen in petty commodity production into factory production. Between 1930 and 1937 the number of textile mills in Java jumped from just 19 to 1123.⁷¹ Other small scale industrialisation was directly encouraged by ordinances specifically for that end. In 1934 new industry regulations were enacted that introduced capacity controls to cap the scale of production and deliberately limit domestic competition to protect small-scale manufacturers.

Dick⁷² argues that in this period of far reaching government intervention foreign investment in concert with colonial banks, trading houses and management agencies ‘clawed back’ control of the colonial economy from Japanese competition and even ‘laid solid institutional foundations’ for rapid industrialisation. The crescendo of economic intervention and regulation was in the years just preceding the outbreak of World War 2. The Japanese threat to local trade became increasingly a potential regional military threat, and the need for the colony to become much more self-reliant in the production of basic industrial inputs became a planning imperative. It was important enough that direct government investment in cement production, spinning, aluminium refining, and chemical production were all planned. The colonial government was committed to direct intervention in industry. However, as it turned out, it did not get the chance to implement its crash industrialisation policy.

Another late addition to government economic control was expanded foreign exchange control. This measure in particular would become central to subsequent governments’ direction of the economy. Combined with direct controls over local prices and competition, production for local and export markets, distribution, import quotas and licensing it was perhaps the last major area into which government control could conceivably be extended. After decades of quite extreme commitment to laissez-faire development the colonial state had redirected its efforts to an intensively regulated, highly protectionist economy with managed local industrialisation, not just commodity production as its most important concern.

⁶⁷ H. Dick, *op.cit.*, p.160

⁶⁸ *ibid.*, p.161

⁶⁹ C. Dixon, *op.cit.*, p.119

⁷⁰ See R. Robison, *op.cit.*, pp. 20-21 on Chinese penetration of retailing, credit and distribution along side western commercial interests

⁷¹ See C. Dixon, *op.cit.*, p.119 and R. Robison, *op.cit.*, p. 24

⁷² H. Dick, *op.cit.*, p.162

Although it did not bequeath an industrialising economy to the independent Republic of Indonesia, it bequeathed the initiative, the extensive regulation, and a large and powerful bureaucracy associated with supporting one. Arguably the about-turn in economic policy in the late colonial period laid the foundations for an interventionist, developmental state, and speculation about how the experiment in state directed economic development might have progressed is popular⁷³. Dick contemplates, “it is plausible that in the 1940s the Netherlands Indies could have begun the kind of sustained industrial expansion that eventually occurred in the 1970s”.

Review

The colonial state in the NEI obviously brought about many of the types of changes that Friedrich List believed necessary for an underdeveloped part of the world to begin to catch-up to other leading states. Many of these tasks were those that List insisted that only a powerful unified state would be able to accomplish, and in fact should strive to accomplish. Many other developments however were significantly at odds with List’s prescriptions. Certainly, from a Listian perspective the colonial state did play a powerful, leading role in the economic transformation of the colony. From periods of direct intervention, to free trade and export facilitation, to intensive business regulation and trade protection, at various stages the state actively guided economic activity and achieved a significant degree of economic development.

The development of large scale, modern agriculture through initial state imposition and later support achieved what would have been for List, a critically important stage of economic development. List acknowledged that free trade with advanced nations was a means of development that would aid in the development of an agriculture-based economy. In the case of the NEI, the *Cultuurstelse* and the later privatisation of the agriculture sector achieved this on a grand scale. During the sixty years of free trade that followed the agricultural and other commodity exporting sectors of the economy expanded enormously and the economy of the NEI became very strongly tied into international markets. This however was achieved in the almost complete absence of any significant, deliberate development of an industrial sector. It might be argued that exactly the sorts of social benefits that List would have expected to flow from the eventual development of a more industrialised society were many of the kinds of social issues that the state instead sought to address through the Ethical Policy.

⁷³ See A. Booth, *op.cit.*, p.335 and H. Dick, *op.cit.*, p.162

The Ethical Policy was in fact designed to remedy some of the social underdevelopment that reflected the lack of industrial development in the colony. The Ethical Policy superficially addresses many of List's liberal political and social prescriptions. It was concerned with education, and 'enlightenment'. It was concerned with the infrastructure required of a more modern society and it spoke to the need for popular consultation and representation through a body like the *Volksraad*. But while the Ethical Policy would seem to accord with many of List's concerns, the reality of the *beamtenstaat* administrative arrangements at the time and its attendant repression would have been quite at odds with the 'more perfect' political institutions that List advocated. Conventional reflections upon List's pronouncements of the importance of a strong state, a unified state and the maintenance of a collective national interest might suggest that the *beamenstraat* with its emphasis upon bureaucracy and order and a 'developmental technocracy' might fit the Listian bill. But List's concerns for individual liberty, freedom of expression and freedom of the press ought to be remembered at this point. The nationalist leaders exiled and imprisoned at that time might arguably have been better advocates of Listian sentiment about political freedoms and national aspirations. And those aspirations were of course only accidentally encouraged by proponents of the Ethical Policy.

It was not until the depression of the 1930s and the rise of the Japanese economic and military threat that the government decisively ended its free trade policies and switched to a deliberate policy of protectionism to restrict Japanese manufactured imports, allow considerable import substituting industrialisation, and even draw up a crash program of local heavy industrialisation. Again, like the Ethical Policy, this superficially resembles a rather Listian process. With its emphasis upon local manufacturing developed behind state-imposed restraints upon imports it would seem to accord with the very best known Listian ideas. In fact this period has been occasionally described as a developmental state, a term which has quite often been identified as characterising a Listian model of development. In reality, the sudden shift in emphasis from free trade to protectionism and industrial development went far beyond any Listian prescription for state-guided industrialisation. With highly selective restrictions, variable rates of duties, licensing of production, imports, exports and exchange, and with a very strong emphasis upon exchange rate regulation, this period saw the creation of an increasingly powerful bureaucratic, intrusive, regulatory state. This was neither the type of state that List would have regarded as appropriate to pursue his tariff protection based industrialisation strategy, nor the type of economic strategy that List advocated.

As noted above, it has been argued that this developmental period 'laid solid foundations' for rapid industrialisation in soon-to-be Indonesia. In this very limited sense, the application of

protectionism and development of local industry might be considered somewhat Listian. However the departures from the more complete Listian framework are very significant indeed, and these departures and their consequences are usefully illuminated by the perspective since it shows just how far beyond List's ideas for practical state-led industrialisation they actually venture. The authoritarian, bureaucratic state, the extensive economic regulation, the complex manipulation of trade arrangements are also all well described by their departure from the Listian framework.

Of course many economic and institutional legacies of the colonial period were accepted by future governments of the Republic of Indonesia. Most particularly, state-guided or nationalist programs of local industrialisation in Indonesia remained absolutely central to economic, social and political development schemes under the periods of parliamentary democracy, Sukarno's Guided Democracy and Economy and Suharto's New Order. Reflections upon the type of institutional arrangements and political developments that can or should accompany such programs have long been central to academic discussions on these more recent periods of political and economic development in Indonesia. As highlighted throughout this consideration of the economic and political development of the NEI, these are precisely the kinds of matters with which the works of List were directly and systematically concerned. It is quite logical therefore that List's work on these matters is also worth serious attention in considering these later periods of development in Indonesia where so many of the issues remained the same.