

INDONESIAN ECONOMICS

The Concept of Dualism in Theory and Policy



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FOREWORD

It cannot be said that the concept of economic dualism is unknown to scholars outside the Netherlands. Central to virtually the entire *oeuvre* of the late Dutch economist J. H. Boeke, it is discussed at length in various of his works in English as well as in those in Dutch.

At times, indeed, scholars at large have been prone to look upon the notion of dualism as the very be-all of Dutch economic policy in pre-war Indonesia. This is hardly more than natural, since for most students of the subject Dr Boeke's are practically the only extensive works on the Indonesian economy that are accessible: almost without exception, the other voices in the lively and stimulating discussion that raged in the Netherlands and Indonesia regarding the pertinence and applicability of the concept are available only in Dutch.

Though that discussion was carried on in terms that in many cases now seem outmoded, nonetheless much of it remains of value for present-day students of the economic situation, whether it be the situation in Indonesia or another of the countries now struggling with the vital need to accelerate their pace of economic development. The objective in planning this volume has been, by means of an extensive editorial introduction and an anthology of essays and addresses, to present a survey of the discussion on economic dualism, and so to place Boeke's views within their setting in Dutch economic thought.

Among the many persons who have willingly lent their assistance in the preparation of this volume, the editors would like to extend their grateful acknowledgement to Mme Henriette Boeke, who graciously gave permission for publication in English translation

of the four studies chosen from her late husband's writings. The editors are also deeply indebted to Dr G. Gonggrijp, Dr D. H. Burger, Mr Th. A. Fruin, and Mr H. ten Dam, who kindly consented to have their studies included and to read through the draft translation. Thanks are also due to Mr James S Holmes, who has translated the volume. Finally, mention should be made of the fact that publication of this book, like that of the preceding volumes in the series of 'Selected Studies on Indonesia', has been made possible by a grant of the Netherlands Organization for the Advancement of Pure Research (z.w.o.) to the Royal Tropical Institute.

THE EDITORS

Amsterdam, Summer 1960

BIOGRAPHICAL NOTES*

JULIUS HERMAN BOEKE (Wormerveer, near Amsterdam, 1884 – Oegstgeest, near Leiden, 1956) first studied Dutch literature at the University of Amsterdam, but after having passed his candidate's examination he changed to political science at the same university, completing his studies in 1909. The next year he took his doctor's degree at the University of Leiden, with Professor van Vollenhoven as his promotor. That same year he went to Indonesia, where he worked in the Department of Education (1910–1911) and taught government and economics at a secondary school in Batavia (1911–1914) before taking up a position with the popular credit service. There he was to remain for fifteen years, the last ten of them in the capacity of adviser. From 1924 to 1928 he was also professor of economics at Batavia Law School, and during roughly the same period he served as an editor of the journal *Koloniale Studiën* (Colonial Studies). In 1929 he returned to the Netherlands to occupy the newly created chair of tropical-colonial economics at the University of Leiden. During the German occupation the university was closed and Boeke was held as a hostage by the Nazis; in 1945–1946 he made a trip to Indonesia to help reconstruct higher education there. Aside from these interruptions Boeke occupied his Leiden post until 1954, over a period of a quarter of a century setting his stamp on the study of Indonesian economic phenomena.

DIONIJS HUIBERT BURGER (born Gorinchem, South Holland, 1900) matriculated at Leiden in 1918. After completing his studies in

* The reader is referred to the bibliography below, pp. 403–424, for a selective list of writings by these scholars, in which attention has been given especially to publications in English.

Indology he went to Indonesia, where he was appointed assistant inspector of agricultural affairs. In 1939 he took his doctor's degree at Leiden, with Professor Boeke as his promotor. In 1949 he was appointed professor of economics in the University of Indonesia Faculty of Law at Jakarta. He returned to the Netherlands the following year, and has now retired from public service.

HENDRIK TEN DAM (born Rotterdam, 1921) studied at Wageningen Agricultural University, where he took his degree in agronomy in 1949. Then going to Indonesia, he was appointed lecturer in the University of Indonesia Faculty of Agriculture at Bogor. After his return to the Netherlands in 1956 he was for a year guest lecturer in Southeast Asian sociology at Amsterdam University. Since that time he has been engaged in research for the Overijssel Provincial Community Development Authority.

CONRAD THÉODORE VAN DEVENTER (Dordrecht, 1857 - The Hague, 1915) studied Indology and law at Leiden University, taking his doctor's degree in 1879. He then went to Indonesia, where he first served in the judiciary, and from 1885 on practised law in Semarang. On his return to Europe in 1897, Van Deventer pursued his studies of the financial relations between the Netherlands and the Indies which led him to proclaim a Dutch 'debt of honour' and to advocate a new welfare policy for the colony. In 1904 he edited the first extensive survey of economic conditions on Java. A Liberal Democrat, he was for a number of years a member of the States General (Second Chamber, 1905-1909, 1913-1915; First Chamber, 1911-1913). His appointment as governor general of the Netherlands East Indies was under consideration when his career was cut short by death.

THOMAS ANTHONIE FRUIN (born Utrecht, 1890) studied law at Leiden University from 1908 to 1913. After practising law in Batavia for a few years, he became a civil servant, working with various branches of the popular credit service from 1920 to 1935. Returning to the Netherlands in 1935, he was appointed chairman of the Dutch Popular Credit and Anti-Usury Association, to

which position he returned in 1948 after serving as economic adviser to the Netherlands East Indies authorities in 1945-1946. In the early 'thirties Fruin was chairman of the progressive Stuw Group and editor of its magazine *De Stuw* (The Stimulus). From 1949 to 1958 he was a member of the town council of Amersfoort for the Dutch Labour Party, and also served for some time as alderman.

JACOB VAN GELDEREN (Amsterdam, 1891 - Amsterdam, 1940), after earning his secondary teacher's certificate in economics in 1910, obtained a position in the Amsterdam Municipal Bureau of Statistics. In 1919 he was chosen to establish a Central Bureau of Statistics in Indonesia, which he headed until 1932. In the late 'twenties he also began teaching economics at Batavia Law School, first as a guest lecturer, and from 1929 on as successor to the chair earlier held by Boeke. In 1932 he left Indonesia to become head of the Indies Crisis Affairs Section of the Colonial Ministry at The Hague. He continued to hold this post until 1937, when he was appointed professor of sociology at Utrecht University. In that same year he was elected a member of the Second Chamber for the Social Democratic Party. From his youth a zealous socialist and a regular contributor to socialist publications, he had also been chairman of the Indies Social Democratic Party for a number of years. He was a fervent anti-Nazi, but when the German invasion came he turned down the chance to flee the country at the price of leaving his wife and children behind, and upon the capitulation of the Netherlands he and his family chose to take their lives rather than face the anti-Semitic holocaust to come.

GEORGE LODEWIJK GONGGRIJP (born Nyalindung, Priangan, 1885) is the son of G. L. Gonggrijp, the later resident of Rembang who gained renown with his *Brieven van Opheffer* (Uplifter's Letters). In 1905 Gonggrijp, Jr matriculated in Indology at the University of Leiden. After finishing his studies, he became an administrative official in Indonesia, but returned to the Netherlands in 1919 to take up a position as lecturer at the Rotterdam School of Economics; three years later he was given such a post at the University

of Amsterdam as well. During this period he also became an editor of *Koloniaal Tijdschrift* (Colonial Journal), a function which he continued to hold until 1940. In 1926 Gonggrijp was appointed professor of colonial economics at Rotterdam, and in 1930 was named to a similar chair at Amsterdam. He retired from the two posts in 1956. In 1957 he was awarded an honorary doctor's degree by Amsterdam University.

GERARD HENDRIK VAN DER KOLFF (born Manado, 1893) studied at Wageningen Agricultural School, then in 1916 returned to Indonesia, where he worked as an agricultural extension official. In 1925 he obtained his doctor's degree from Wageningen with a dissertation on the economic aspects of smallholders' sugar-cane cultivation on Java. In the early 'thirties Van der Kolff was chosen for the position of registrar of cooperative societies in Indonesia. In 1935 he was nominated professor of economics at Batavia Law School, succeeding Van Gelderen, whose post he had filled in a temporary capacity from 1932 on. After having been interned during the war, he returned to the Netherlands, where he was appointed research fellow of the Royal Tropical Institute in Amsterdam. In 1956 he became Gonggrijp's successor as professor of tropical economics at the municipal university in the same town. During the ten years of its existence, he was an editor of the post-war journal *Indonesië* (Indonesia).

EDMUND PETER WELLENSTEIN (Batavia, 1880 – The Hague, 1934), after taking an engineering degree at Delft Technological Institute, returned to Indonesia as a civil servant early in the century. For some years he was an official of the State Railways; from 1920 until 1932 he served as a high-ranking official in the Department of Finance, filling such functions as auditor general, official commissioner of the Java Bank, and chairman of the Welfare Commission. In May, 1933, he was appointed director of the Department of Economic Affairs, which position he held at the time of his sudden death. An editor of *Koloniale Studiën* (Colonial Studies) from 1926 to 1932, he was the author of a number of articles on budgetary and other financial problems.

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INTRODUCTION

Chapter One

PRELUDE

The year 1870 was one of decisive importance in the history of Dutch colonial policy. In the long struggle between conservatives and liberals, the latter had gradually been able to consolidate their influence into a force which, from about 1860 on, set its stamp on colonial policy. Liberal attitudes in regard to the system of compulsory crops introduced by Van den Bosch in 1830 as the 'culture system' ranged from a desire to abolish it entirely to a willingness to tolerate a less stringent form of state exploitation purged of the culture system's abuses. But there was at least one point on which the liberals were agreed: that was the need for more elbow-room for private enterprise. Under liberal pressure, what is known as the Agrarian Law was enacted in 1870, even before authority passed out of the hands of the conservative minister of colonies, De Waal. The new law opened up the possibility for Western *entrepreneurs* to acquire land for plantations on which to grow commercial crops, either by renting it from the indigenous population or by obtaining it on a long-term lease from the central authorities. Moreover, the Indonesian peasants, whose title to their ground was protected by the new provision in the law prohibiting the sale of land to non-Natives, could thenceforward commit themselves to work on such plantations as free labourers. Simultaneously Minister de Waal sounded the death knell of the culture system by introducing a bill providing for its gradual abolition.

The liberals, of course, were in principle advocates of the *laissez-faire* policy which was then enjoying its heyday among western European economists. Abolition of all restrictions to free enterprise in production and trade was counted as the supreme wisdom. The unhampered development of economic activity would, it

was believed, not only cause the European plantations to flourish, but eventually would also lay the foundations for the economic advancement of the indigenous population. The establishment of Western-style, rationally operated plantations would have a stimulating effect on the Indonesian *tanis*, encouraging them to cultivate crops for the world market after the example of the European planters.

True, there were traits in the pattern of society in the Netherlands East Indies that were pronouncedly dualistic. A broad indigenous base supported a narrow non-indigenous superstructure which completely dominated it both politically and economically. In almost all legislation a distinction was made between 'Natives' and 'Europeans', and socially as well the two groups constituted distinct strata, which in most situations were kept strictly separated.

Persons who occupied themselves with colonial questions were by no means unaware of this dualistic structure in the Indies and other colonial territories. But there was at that time no field of economic study specifically oriented towards the colonial territories in the tropics and the dualistic social structure characteristic of them. According to orthodox theory, in their economic activities colonial peoples would not deviate even slightly from certain universally valid human economic principles and trends of historical development.

Hence in the study of *Koloniale politiek* (Colonial Policy) which appeared in 1877 from the hand of the most prominent Dutch economist of the day, N. G. Pierson,¹ it was assumed that the Javanese *tani* was susceptible to the same economic stimuli as the Westerner, and that there is such a thing as social progress manifesting itself throughout the world as an increase in individual freedom, the hallmark of higher civilization, at the expense of primitive social solidarity. For Pierson there was actually no such thing as a colonial policy *sui generis*, since in the colonial situation, as in every other, the essential thing was to keep the path open along which individual aspirations could freely develop. Consequently the agrarian policy which he recommended

to the government was essentially a passive one: the use of indirect methods to encourage small landownership without infringing upon the personal freedom of the Indonesian population. As a small landowner the Javanese would follow the example of the European planters once he was freed from the restrictive ties binding him to the village community.² Pierson's ideal was:

... a society which is not ruled by arbitrariness but law, and that is organized economically in such a way that it is in every person's interest to make use of his personal abilities and means of production.³

The notion that, given a situation of freedom, a harmony of interests would automatically develop apparently stood in the way of any clear realization that, in a dualistic society with two constituent groups in many respects unequal, antitheses will tend to increase if the authorities do not exercise a regulatory influence on relationships between the groups.

By the end of the nineteenth century, however, it must have become clear to even the most incurable optimist that precious little had come of the rosy expectations cherished by liberalism in its heyday, at least as regards prospects for the indigenous population of Indonesia. It was realized that, though the value of the products exported from Western-style plantations had increased by leaps and bounds, the indigenous level of welfare on Java was in fact not higher, but lower than at the outset of the liberal period. A number of years later the reasons for this 'diminishing welfare' were summarized briefly by G. Gonggrijp:

First: the welfare of a people is determined primarily by the ratio of the number of people on the one hand to the means of production (land and capital) on the other. On Java the ratio was (and is) unfavourable. There was hardly any indigenous capital, and the number of people per unit of land was growing precariously large: the number of consumers among whom the national product had to be divided was great, and individual proceeds were small.

Second: the welfare of a people is further determined by the use it makes of its means of production and its labour force. For various reasons, this left a great deal to be desired. No wonder! The after-effects of ages of repression, the low level of development and the restricted needs, the tropical sun and the gruelling climate, the feeling that what

had been saved was never safe (from either headmen and authorities, robbers and thieves, or the easy-going borrowing habits of relatives), and the enervating influence of maladies such as malaria, hookworm disease, and framboesia – all these could not but exert a crippling influence on any urge towards concentrated, regular effort.

Third: particularly in the economic field the low level of development had as a corollary the fact that the people did not know how to increase their proceeds either by forming associations of workers and lessors or by setting up cooperatives.

Fourth: proceeds were usually reduced even further by the system of advances.

Fifth: the burden of empire rested upon Java. In the Outer Islands the old policy of non-interference was still pursued, with the consequence that it was necessary to parasitize on Java in order to finance the administration of many of those regions. The Achin War (1873–1903), which cost millions, was paid for primarily by the people of Java.

Sixth: not only was it in the natural order of things for the greater share of profits made by private industry to be drained from the Indies, but the authorities failed to levy proper taxes on the profits of the concerns (limited companies) operating there. European and Native officials paid few direct taxes. The consequence was that there was no money available for a welfare policy worthy of the name.

Seventh: the principle of the culture system was broken with, but not the policy of the credit balance. Between 1867 (the year when the Indies Comptability Act went into effect) and 1877 a sum of 151 million guilders from Indies public funds and surpluses was transferred to the Netherlands treasury. This, of course, was another mortal blow to any welfare policy.

Eighth: in 1884 a crisis broke out as a result of measures artificially protecting the beet-sugar industry in Europe, and sugar prices fell to half their previous level. On Java the consequences of this crisis were aggravated by the *serai* disease attacking the sugar-cane. The result of the situation was that *entrepreneurs* had to practise the strictest economy, and frequently sought it along the path of least resistance: low wages and rents. The difficulties with which the sugar industry had to contend, the low level of profits, and the many losses were reasons why Java long had a bad reputation among Dutch investors and there was no great desire to invest capital there.

Ninth: not merely sugar prices but the prices of colonial products in general were low as a result of the fact that in countries on the gold standard the price level was on the decline in the period from 1873 to 1895 (just as had been the case in the period between the end of the Napoleonic wars and the middle of the century). This was also disadvantageous to the indigenous workers.

Tenth: in this period, and to a lesser extent also in the following one, the present was taxed for the future, since permanent works such as roads, bridges, and waterworks were constructed partly by means of compulsory services and partly with current funds (not obtained through loans).⁴

The existence of this phenomenon of ‘diminishing welfare’ was recognized officially in Queen Wilhelmina’s speech from the throne in 1901,⁵ and led in that period to a reappraisal of the economic policy pursued by the Dutch government. C. Th. van Deventer, the father of what came to be called the ‘ethical policy’, vigorously advocated an official policy actively aimed at protecting the Indonesian people from the harmful consequences of Western economic penetration and at providing them with positive training which would make the modern world economy accessible to them. The funds for this extensive task Van Deventer proposed to find in the grand total of the ‘favourable balance’ that had been transferred from the Indies to the Dutch treasury year after year during the second half of the nineteenth century.⁶

Van Deventer’s views were embodied in official policy only to a small extent. From his article “Een bemiddelingsvoorstel” (A Compromise Proposal), part of which is included in this volume,⁷ it is clear that by 1902 he had grown much more modest in his demands than in 1899, meanwhile adapting them more to the realities of practical politics. This article outlines in brief what he considered to be the task of the authorities within the framework of the ethical policy – not to act as a substitute for private enterprise, but as an indispensable complement to it. The section of the article reprinted here demonstrates the abundance and variety of legal measures which, taken all in all, Van Deventer felt would serve to lead the Indonesian people along the path to prosperity.

In later years the legend developed that Van Deventer had banked all his hopes on the triad education, irrigation, emigration.⁸ A study of the proposals made by Van Deventer at the time, however, reveals that the new economic policy he defended was in reality much more complex – besides these three objectives