Surplus Dutch Colonial Big Profits in Indonesia 1878-1942

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ABSTRACT

Objective – This study aims to analyse the Colonial Drain process to prove the colonial land profits based on the theoretical framework. The Surplus Colonial Profit is conceptualized through the term "colonial drain". The study uses historical economics based on the theories of Lenin Imperialism and Gramsci’s Hegemony.

Methodology/Technique – This research will draw upon both primary and secondary sources. The primary sources include official and organizational publications including The Netherlands-Indies. The secondary sources include all relevant published and unpublished materials collected from diverse sources.

Findings – The calculation of the surplus of colonial profits is scrutinized using historical causality by Gramsci’s Hegemony theory to strengthen the data where the profits are obtained from public and private companies, and beyond predictions, "private profits" became the biggest commodity.

Research Limitations / Implications – This research provides a basis for determining the direction of Indonesia's future economic development, and can also be a consideration of recent Indonesian lawsuits regarding Dutch debt, and can be a useful for reference material for further research.

Novelty – Royal Dutch wealth was obtained from international trade and shipping of goods to Europe and ranges from 5.29 billion in 1878-1939 in the trade, services, international shipping sectors for and from Indonesia. This means that about 1 billion guilders missed from the recording of previous research that was around 4.12 billion.

Type of Paper: Empirical.

Keywords: Colonial Drain; Profits; Surplus; Metropolitan Economics; Dutch.

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JEL Classification: N00, N.

1. Introduction

The concept of colonialism is closely related to "Colonial Drain", namely the depletion of wealth of a colony, with the right to branding resources in the colonial state. As a result of the loss of traders, and falling levels of competition, de-industrialization occurs (Bagchi, 2002).

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Colonial Surplus as expressed by Knight (1996, p.221) reveals the relationship of colonists with other colonies such as Britain and India, the USA and Latin America, Japan and Korea, the Netherlands and Indonesia. The surplus generated by Colonial Drain has little place in teaching materials for schools and other publications. That is quite surprising, although it is not unexpected on account of the benign view of imperialism that has developed among historical revisionists (Vickers, 2004, 15). Colonial Drain or economic drainage according to Bosma (2013, p.2), is part of the Atlantic exploration carried out by European countries. In this case, what if we changed the views of large companies such as the West Indies Compagnie (VOC) which is not a core company, but is only a minor part of the great narrative of the Dutch Colonial Empire?

The VOC became a plural economy of Dutch wealth (Furnivall, 1967, 65). Historians such as Anne Both, Ulbe Bosma and Van der Eeng agreed that the Dutch East India Compagnie (VOC, 1602 - 1799), cultivation system (1830 - 1870) and the Liberal Economic System (1870 - 1930) were part of the influential economic drainage for the imperial country, and the emergence of living standards and prosperity in the colonial country. The emergence of economic drainage is characterized by the exploitation of workers, natural resources, and capital stock (raw materials) through the company. Both the VOC and the WIC (Dutch West India Compagnie) became the economic power of maritime trade carried out by the Dutch. Immanuel Wallerstein (1980, p.38) considers that the first form of Hegemony of Gramsci's theory is the formation of large powers that are simultaneously productive, commercial, and have superior financial power that considers all forces to be in the hands of the colonial. Thus the following research questions are proposed:

1. What factors caused the colonial government to obtain a "surplus"?
2. How much profit did the Dutch gain during the colonization of Indonesia between 1878 - 1942?

2. Literature Review

2.1 The Concept of “Colonial Surplus”

This research adopts the Theory of Imperialism developed by Lenin and Knight. Knight explored the relationship between Indonesia and the Netherlands which resulted in the concept of "colonial drain". According to Lenin's theory, imperialism is considered a part of capitalist oppression, which is driven by economic forces. The capitalists tried to build investment from foreign trade and bring it to Europe. For Marxists like Lenin, capitalism equals the power to monopolize profits, profit or superprofit, most companies will lose the opportunity to gain profits because they are dominated by "Brand Industries" or companies that become icons. Hobson, who was inspired by Lenin's writings, referred to capitalism as being "immoral", and even had an impact on "de-industrialization" of the colonies. Knight (1996) saw East Indies (now Indonesia) obtain the highest profits with economic acceleration which is also high compared to Europe between 1500 - 1913, and better than all of the Asian regions with the exception of Japan between 1870 - 1930. In the concept of "Colonial Drain", Indigenous people will benefit less, colonies only become production land that is sent to the Netherlands and other countries in Europe, so that colonies enjoy more imports than exports of around 80% - 85% after 1930 (Van der Eeng, 1998, p. 22-30).

2.2 The Profit

The Dutch surplus profit is the result of excessive sales of exports by reducing the amount of imports. For example, between 1822 and 1839, the East Indies export surplus was recorded at 12.285 million guilders, out of a total profit of 14.5556 million guilders (Tran, 2005). This means that there are around 400,000 guilders that can be said to be private surplus from the colonial government. This includes the advantages of Non-Dutch traders who established their businesses in Indonesia. Researcher's refute that this cannot be fully trusted because Dutch historiography itself has no record of personal benefits made by non-Dutch people.
such as Arabs and Chinese who live in Indonesia. Beyond predictions, "private profits" became the biggest commodity for colonial profits. Korthals Altes claimed that between 1910 and 1926 profits increased from 25.7% to 33% in 1928 - 1939, or around 2.9 million guilders in 1878-1939. More detailed data can be seen from research by Polak (1979, p. 12) It was recorded that the Dutch royal wealth obtained from international trade and shipping of goods to Europe reached around 2.9 million guilders in 1878-1939.

Altes explains that these benefits came from management fees for trade, services, international shipping and from Indonesia, Dutch exports to Indonesia of around 75% of 2.9 million guilders, and trade in tropical products, etc., from the plantation, mining, manufacturing and international trade sectors. NP Van Den Berg (1907, p.1) notes that financial exploitation in the Asian region, particularly in the East Indies (Indonesia) originated from the exploitation of Britain against India which resulted in benefits to the mother country and strong protests from European civil society.

President De Javanesche Bank (1891-1912) published dozens of economic articles and the history of the Netherlands Indies about Britain's exploitation of India and the Netherlands against Indonesia, while Pierre Van der Eeng (2002, p.12) focuses more on calculating the amount of colonial profits. Based on the Gross National Product (GDP) per capita as an indicator of economic change, Indonesia experienced a rapid increase compared to the current population between 1900 and 1930. The Indonesian economy in 1970 focused on agriculture due to Dutch cultivation projects and commercialization between 1900 and 1930.

Industrial developments including manufacturing, mining, primary commodities, and construction, increased in the late 1930s as a consequence of manufacturing growth. This is because policies to increase the number of imports replace industrialization, resulting in a narrow de-industrialization due to the existence of industrial monopolies. This shows the strength of the Dutch Hegemony to strengthen wealth through political changes in mercantilism to the Liberals, by utilizing indigenous assets, taxes, management fees, and international trade.

3. Research Methodology

3.1 Estimates Profit

The Research applies a Historical Method with an economic approach, and a descriptive model. This is based on the fact that the research is categorized as a study of Historical Economy. Therefore, historical methods and equations of profit re the best way to address the subject matter. Historical methods basically consist of four stages including:

1. heuristics (collection of source materials);
2. external criticism (examining the authenticity of historical sources);
3. internal criticism (examining the credibility of information); and
4. historiography (composing a historical account by synthesizing credible historical facts).

(Gottschalk, 1986, p. 560 - 580).

This research will draw upon both primary and secondary sources. The primary sources include official and organizational publications in the Netherlands-Indies, which were published by the Department of Economic Affairs and the Economic Bulletin of Netherlands India, issued by the Department of Agriculture, Industry and Commerce. Equally important are Indisch Verslag and Economisch Weekblad voor Nederlandsch Indië. They were collected primarily from Leiden University Library. The secondary sources include all relevant published and unpublished materials collected from diverse sources, published by Amsterdam University, Australia University, and De Javanesche Bank. Surplus keuntungan kolonial dikur melalui kalkulasi pendapatan Belanda dari aktivitas ekspor – impor yang berada di totaling 12.285 million guilders might have been borne by the export surplus of 14.556 million (even after deducting the estimated
400 million for export duties included as exports). The results are shown in the table below; the items include: L Passage, Leace and Haj, Remittances to relatives Pensions (PLRP), Dividends and Trade Profits, Export and many more up to and including 1942.

3.2 Tables

Table 1. Colonial Surplus in Indies Balance of Payments of Dutch
1878 – 1942 (millions of guilders)

<table>
<thead>
<tr>
<th>Item</th>
<th>1878-79</th>
<th>1920-29</th>
<th>1878 - 1942</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consisting of Passage; Leave &amp; Haj, Remittances to relatives Pensions (PLRP)</td>
<td>35</td>
<td>1,361</td>
<td>3460</td>
</tr>
<tr>
<td>Private interests, Total private business Indies government expenditure ¼, Indies government debt interest, Misc. expenditure by Indies government in Netherlands</td>
<td>49</td>
<td>5060</td>
<td>10.231</td>
</tr>
<tr>
<td>Total current account surplus, and Export surplus</td>
<td>111</td>
<td>10.222</td>
<td>36.780</td>
</tr>
</tbody>
</table>

3.3 Illustrations

Figure 1. Colonial Surplus in Indies Balance of Payments current account
1878 – 1942 (millions of guilders)

4. Results

4.1 International Exchange Items of Colonial Surplus

Colonial financial drainage has been practiced since the establishment of the VOC company which became a great narrative of Dutch mercantilism. The relationship between the colony and the metropolis according to N.P. Van den Berg (president of De Javanesche Bank) are similar to the drainage that occurred in India. The dualistic thinking of the Dutch combined the old colonization of land tenure and liberal economic politics in 1870, due to the financial crisis following the German attacks at the end of the 20th century, which placed strong pressure on the Europeans from Humanitarian and Liberal forces to provide compensation to the natives. Violent debates concerning Dutch policy on Ethical Policies occurred among
historians. This policy was actually created by the Dutch to steal indigenous shares since the establishment of the Sugar Factory in the early 1920s (Thee Kian Wie, 1977, p. 41 - 59).

In 1870, the Netherlands began its investment of 500,000 guilders (f 500,000). To maintain its power, the Dutch carried out hegemony through nobles such as the wijkmeester (village head) as a client who was dependent on economic power, thus creating dominance and subordination of indigenous rights for land, resources, and socio-economic tools. This dependence is known as asymmetrical interdependence, hegemony that exceeds social power itself. Between 1877 and 1942, Dutch profits were obtained from several sectors, including those shown in the table below.

Table 2. Indonesia's contribution to Dutch national income (in million guilders)

<table>
<thead>
<tr>
<th></th>
<th>Annual Average</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1878 - 1930</td>
<td>1932 – 1935</td>
<td>1938 – 1942</td>
</tr>
<tr>
<td>Dividends</td>
<td>368</td>
<td>80</td>
<td>158</td>
</tr>
<tr>
<td>Management Cost, and pensions, money exchange</td>
<td>50</td>
<td>22</td>
<td>30</td>
</tr>
<tr>
<td>Private Profit</td>
<td>12</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Export and Import from and to Indonesia</td>
<td>85</td>
<td>36</td>
<td>64</td>
</tr>
<tr>
<td>Total Income for Belanda</td>
<td>6,000</td>
<td>4,700</td>
<td>5,150</td>
</tr>
<tr>
<td>Profit Industry in Indonesia</td>
<td>604</td>
<td>215</td>
<td>388</td>
</tr>
<tr>
<td>External profit Industri</td>
<td>50</td>
<td>0</td>
<td>40</td>
</tr>
<tr>
<td>Total Income</td>
<td>7,169</td>
<td>5,058</td>
<td>5,835</td>
</tr>
</tbody>
</table>


The data above shows that the amount of Dutch profits Indonesia obtained from stocks, exports, imports private companies, public companies, manufacturing industries, mining and management costs. Taxes experienced the highest increase in 1878 - 1930 as the beginning of liberal economic politics and factory opening for sugar and mining using ethical politics, which amounted to f 7169 million, experienced a decline in 1932-1935 to f 5058 million, and decreased slightly to f 5835 million at the end of 1942, as the Japanese came to Indonesia to take over one of the Royal oil subsidiaries Dutch Shell in Balikpapan, East Kalimantan.

This is even more so when we realize that the final estimate of the International Exchange colonial surplus is far in excess of the export surplus sum. This anomaly is dealt with by presenting the data and the explanation rules on the use of the export surplus as a method of analyzing the Indies colonial surplus. This is largely because a good balance of accounts exists but also because of other failings in the export surplus method; the colonial surplus may well exist whilst the export surplus is negative. This occurred in Indonesia from 1945 to 1949 when it is clear, despite an export deficit, sums of money were still being taken out equivalent to 3.2% of the Dutch GNP between 1947 and 1949, and returned profits averaged 100 million guilders annually from 1950 to 1953.

It must be said that using the export surplus method is a less demanding system. Unsurprisingly, “Private Profits” were the largest item in the current account of colonial surplus. This is despite the known fact that non-Dutch company profits are excluded regardless of the fact of inclusion in the balance of payments of substantial imports of British capital from 1910 onwards (Korthals Altes, 1987, p. 40 - 46). Between 1910 and 1926, these were equivalent to 25.7% of the total profits and 33% between 1928 and 39 (Korthals Altes, 1987, 46). For the earlier years we assume 25%, which is unlikely to be too high. We do not have at hand a complete run of the total profits except for the period between 1921 to 1939 from Polak (1979: 66). However, the complete figures for private profits and bonuses transferred to the Netherlands are shown in the balance of payments and if we utilize the ratio of total profits in the Polak study to transferred profits (1.69) for that
period and apply it throughout, we may arrive at a rough estimate of the total profits. Applying the percentages to total profits shows that the Surplus of Dutch Colonial gain for retained profits is 5.3 billion guilders between 1878 and 1942.

4.2 Equations

Cost Volume Profit:

\[ \text{Net Income (NI)} = \text{Total profit (Management Cost, Export – Import)} – \text{Total Cost} \]
\[ = \text{f 5.3 billion} – \text{f 500,000} \]
\[ = \text{f 5.29 billion} \]

Total of surplus profit Dutch Colonial in Indonesia is around f 5.29 billion from 1878 – 1942.

5. Discussion

5.1 The Colonial Profit

First, we discuss a pioneering presentation of the calculation of international and non-international transactions by former colonial officer J. B. D. Derksen. He later became one of the 20th century’s leading national income statisticians and was an active member of the Editorial Committee of the series “Indonesia’s Changing Economy” some of which is used in this paper. His calculations concerning Indonesia are included in Derksen (1946, p. 368 - 380). Derksen might be taken to be a more scientific, updated and expanded version of the data found in the polemical pamphlet by Jonkheer C. G. S. Sandberg. Derksen calculated amounts of money and indirect gains, as well as benefits to employment, that the Netherlands gained from Indonesia. A moment’s thought will show that this is not the same as the colonial surplus.

Unfortunately, at the time of his writing he had access to only nine years of data. He included almost everything he could find in his figures. As an arm-chair protagonist in the battle to keep Indonesia a Dutch possession, he felt he had to show how important Indonesia had been to the Netherlands. The contribution to Dutch shipping, Dutch incomes made from trade in tropical products, and secondary Dutch incomes made from the Indies were included in his calculation of what the Netherlands has gained from the Indies. Adding those to the balance of payments would provide an enormous “colonial surplus”. Total does not amount to a proper international exchange of colonial surplus, although it does include several international exchange elements, largely because he calculates the Netherlands’ gain as a country and not the surplus that stemmed from the Indies. Derksen uses the preliminary and incomplete balance of payment estimates compiled in the 1920s and 1930s.

It is an additional gain that would not have gone to the Dutch but for the existence of the colony and the conditions favoring Dutch shipping, such as subsidized government mail contracts. Certainly, this was a gain to (some of) the Dutch but, was it a loss to colonial Indonesia? It seems to be more of a loss by the shipping of other nations partly excluded from the trade. If we assume that those other shipping lines were more efficient than the Dutch and assume that they would have passed their efficiency gains to the consumer, then this would represent a loss to Indonesians. Therefore, this research excludes it from the colonial surplus. In this case have to figure out how much tax largesse did not fall to the Indies population and found its way into supporting colonial purposes. If we begin with the neutral proposition that government revenue and expenditure are collected and spent in accordance with the functions and aims of the particular state, in our case these must be the maintenance and furtherance of the colony itself including its defence from foreign powers outside and from native “rebels” inside. The results of the Surplus Dutch Colonial f 5835 juta in late 1942. Whilst those numbers are rough approximations, we must show them to indicate how large the real colonial surplus was. All in all, whether “standard” or “real”, the colonial surplus of Indonesia was significant.
6. Conclusion

This research indicates that the growth of the Dutch economy achieved a “surplus” from the beginning of its arrival. Whilst the Royal Dutch Shell company is only the 10th richest company in the world, the Dutch have long formed a Kingdom of Wealth. Royal Dutch Shell is the parent of an oil company whose material and workforce stems from colonies. Not only that, public companies such as maatschapajj (plantations), mining, international trade, and private companies (privately owned) also provide big profits for colonials.

Financial Drainage has become a contemporary issue due to strong protests from ex-colonial nations which has, in fact, caused Indonesia to become an underdeveloped country. If the opening of the VOC and WIC were the opening narrative for the formation of a colonial state, the economic crisis in the late 20th century, the cost of the war on Indonesia was not small. In contrast, the central attack against the Dutch was quickly handled by building strong infrastructure worth trillions of guilders which were taken from Indonesia. Colonialism was the dredging of human and natural resources without the permission of indigenous people for centuries.

When it came to power, the Dutch adopted a dualist system of Mercantilism and Liberalism which not only used its people as the bait for the Netherlands, but also gradually disposed of indigenous workers to their European friends. This resulted in de-industrialization and caused the decline of the local economy. Lenin referred this as 'immoral' and Gordon coined it "The Real Surplus". The real surplus comes from the initial capital of the Netherlands in 1870 worth f 500,000, and profits of f 5.25 billion. The surplus process is explained by some historians as the Dutch investment in Indonesia producing super normal returns of up to 200 percent in the past.

The colonial surplus originated from the colony's relationship with the colonial power which resulted in multiple benefits such as (1) the forced ownership of land rights such as land rent systems, (2) private companies that produce rubber, copra, coffee, and mining, (3) international trade, namely, production of goods which become icons of colonial surplus (including the International Exchange (including personal benefits of capital goods, land taxes, individual taxes) and International Exchange including foreign exchange, pension fees, mining, gas production) and so on. This includes the sum of the international trading and financial relationship between national corporations and individuals operating within the colony.

This is a measure of exploitation. After all, the international exchange element did go abroad to be used but the foreign income and the net colonial budget items stayed in Indonesia and were not used, at least not in the same way. Without the power of the colonial state through its budget which provided the means to coerce and persuade Indonesians to do what was required of them by the colonialists, profits would have dwindled into insignificance and foreign incomes lapsed to the level of those of the Indonesians. In other words, the colonial state used the budget to mobilize the forces necessary to sustain the surplus. This was not only to provide foreign nationals with a standard of living far higher than they could have obtained at home but simply to supply them with the subsistence of living (colonial style) whilst they created, whether directly or indirectly, colonial surplus. Therefore, it seems absolutely essential to retain the “real” colonial surplus in a proper assessment of the impact of exploitation and colonialism on the Netherlands East Indies, now Indonesia.

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Appendix A.

Calculation of the Years 1940 and 1942

International Exchange

The Netherlands had been occupied by Nazi Germany in May 1940 and after the fall of British Singapore the Dutch colonial authorities in the Netherlands East Indies surrendered to the Japanese in March 1942. Despite the paucity of data for 1940 and 1941 there was ample time for exports to be sent out of the colony. Imports had begun to tail off noticeably in 1940 and presumably continued to do so. The value of exports had risen from 760 million in 1939 to 883 million in 1940 (Korthals Altes, 1991, p.163) and the export surplus was about 450 million guilders in 1940. We have only provisional trade data for half of 1941 (Broek, 1942, p. 113). The estimated export surplus for 1942 of about 500 million guilders is taken partly on the basis of the volume of exports of rubber rising from 545,000 tons in 1940 to 650,000 tons in 1941. The annual average export surplus for those is f 5, 29 billion.