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Monetary Policy in Colonial Indonesia and the Position of the Java Bank[1]

Abstract

Monetary developments between 1875 and 1940 are discussed on the basis of policies as implemented by the Java Bank in particular. Until 1914 a 'guilder' standard was maintained which allowed a continuous flow of silver from the Netherlands to the colony. Yet, at the same time, the expansion of the Indonesian export economy resulted in the development of a gold exchange system. After 1914 international financial transactions became more prominent and gold came to play a primary role. The gold standard was reintroduced in 1925 and retained until 1936 which ran contrary to the interests of the Indonesian export economy.

1. Introduction

Monetary developments in colonial Indonesia in the period 1875–1940 can be sketched with the help of economic theory. One of the important factors in those years was the relation between gold and money. In the period 1875–1914, as well as that from 1925 to 1936, the gold standard was used in colonial Indonesia, albeit in an indirect manner, while in the period 1914–1925 gold played an important role in monetary policy towards other countries and in the provision of currency in the colony itself.

For many years the period of the gold standard was seen as a time of tranquillity in the international financial economy. Apparently, this system consisted of the right mechanisms to be able to mollify fluctuations in financial transactions and to correct them. Consequently, many countries that had suspended the system at the outbreak of World War I returned to the gold standard as soon as possible after the war. Even after World War II the gold standard as a system was praised to the skies at times.

Post-war economic-historical research has emphasized that this positive impression of the effects of the gold standard rests on the experience of Western

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countries, in particular that of Great Britain. Alec Ford is the scholar who has pointed out that experiences with the gold standard in the period 1875–1914 differed widely. Those countries that produced and exported primary products experienced different effects. According to his research, to which I shall shortly return, in comparison to Great Britain, neither Canada nor Argentina experienced a stable monetary period during the years 1875–1914 (Ford, 1989).

This conclusion accords with the debate conducted in the 1930s in colonial Indonesia as to what the effect would be for Indonesia if the Netherlands held on to the gold standard (which it did until 1936). It was then pointed out that the economy of the Netherlands differed from that of the colony underlining the need to abandon the theory that a monolithic monetary policy could be pursued.

The theme of this article is to describe that very specific character of monetary development in colonial Indonesia in the period 1875–1940. Particular attention will be paid to the monetary policy pursued and the discussion that it aroused. Pivotal to this description is the Java Bank, which had operated as a bank of issue in colonial Indonesia ever since 1827/1828.

At the outset it should be made clear that economic development and monetary policy matters are treated at a macro level which means that the consequences of monetary policy are not revealed at the micro level. In other words, this article does not pay much attention to the ramifications of monetary policy for the individual Indonesian, be he an entrepreneur, a farmer, or just a consumer.

2. The debate on the gold standard

The debate about the gold standard concentrated primarily on its functioning focusing on matters such as was it due to the system itself or was it just during the period the system was in force that exchange rates were not subject to too great a pressure, and that instabilities in the balance of trade solved themselves relatively easily. It soon became obvious that adjustments were not always as easy as the simplicity of the system suggested.

The gold standard operated according to several rules (Fremdling & De Jong, 1989). First, when the gold standard was implemented the currency concerned was linked to a fixed amount of gold (parity), meaning that the gold ten guilder piece, the standard coin, was equal to 6.048 grammes of solid gold. The second rule was that legal tender must face no restrictions when converted into gold (convertibility). Finally, it ought to be possible to trade in gold; consequently there would be no restrictions on importing and exporting gold. If the participants in the system were to retain the system of a permanent ratio of currency and gold, it would be only a simple matter to restore the balance of trade were there a deficit or a surplus. Taking account of the above-mentioned rules, a deficit in the trade balance, for instance, would lead to an outflow of gold in order to restore the balance of payments. Then, the outflow of gold would lead to a decrease in the currency available which in turn would lead to a decrease in prices and income. The export goods would become cheaper resulting into an improved competitive position. Exports would then increase leading to an improved trade balance and an inflow of gold. As early as 1752 David Hume had already given this description of the working of the gold standard when he wrote about the working of the balance of trade (Eichengreen, 1985: ch. 2). Be that as it may, this is not sufficient to explain the monetary developments in the period 1870–1914.

There are two schools of research into the gold standard: the Keynesian interpretation and the monetarist explanation (Fremdling & De Jong, 1989: 90–91). Essential to the Keynesian interpretation of developments in international trade and international payments are changes in income and ensuing developments in supply and demand on an international scale.

The interpretation of the gold standard based on monetary economic theory argues that changes in the demand for currency and in the supply, lead to international movements on the gold market if the demand for and the supply of gold within a country is no longer in balance, but the commodities market does develop in a balanced way.

The British economist and economic historian Alec Ford, as I already mentioned, has contributed a great deal to the Keynesian interpretation of the working of the gold standard. His work goes further and is also of importance because of the attention he pays to the diverse experiences various countries had with the gold standard. On the basis of a comprehensive analysis of the experiences of both Great Britain and Argentina with the gold standard, Ford concludes that the encounters with the gold standard in less developed, primary products exporting, periphery countries such as Argentina differed from that of central countries such as Great Britain (Ford, 1962). In a country at the centre the fluctuations in the balance of trade could be met by changes in income and demand. In the periphery by contrast, enormous changes in income were necessary in order to allow income work as a means to make adjustments (Eichengreen, 1992).

Ford claims that the following elements determine whether the working of the gold standard was successful or not (Ford, 1962: 16–17):

(1) Is a country a creditor or a debtor country?
(2) Is a country an industrial or a primary-producing country, this with a view to the way export prices are determined?
(3) Are the fluctuations in national income determined by domestic investment activities (investment-induced) or by export receipts (export-induced)?
(4) What is the scale of the economy of the country concerned in comparison to the world markets in which it is involved?
(5) To what extent do imports respond to changes in income?
(6) How is a country financially organized? Where are the commercial banks located, in the centre or in the periphery? Is there a central bank, and if so, what powers does it have?

(7) What is the relation between the political structure of the country and economic interests? Do certain economic pressure groups play a dominant political role?
(8) Does a country have its own gold mines?

When these eight elements are applied to the comparison between Britain and Argentina, the purport of these questions becomes more evident. What this article is concerned about, is how colonial Indonesia scores in the years 1875–1940 when these eight questions are applied. At the end of the investigation will colonial Indonesia be described as a periphery country in a monetary sense, or did the situation there differ in certain ways from that in Argentina?

3. The Java Bank and the 'guilder' standard, 1875–1914

After many clashes in the first half of the nineteenth century, a law enacted in 1854 decreed that the Netherlands Indies should employ the same currency as the Netherlands. The Dutch guilder, and the Netherlands-Indies guilder were of equal value. The only factor that could cause a slight difference was the cost of transport from the Netherlands to colonial Indonesia or back.

The Java Bank was already empowered to act as a bank of issue and, consequently, to be charged with the distribution of paper currency in the colony. Dutch banknotes were never circulated in colonial Indonesia. A number of coins, particularly silver ones issued under the responsibility of the government was used in both economies. The Java Bank did have the right to issue banknotes, whilst at the same time it was a private banking institution able to operate on a commercial basis in such matters granting loans to business companies. To the very end the Java Bank succeeded in retaining its status as a private banking company, despite the fact that the Banking Law of 1922 gave the government the prerogative to supervise the activities of the bank. The government was entitled to appoint a governor of the board of directors as well as to have influence in the appointment of managers (De Bree, 1928: II, 561).

At an early stage, the colonial government had already taken steps to limit the activities of the Java Bank. In 1854, for instance, the Governor-General ordered a ceiling in the issue of banknotes by the Java Bank. In the period 1854–1859 a rather arbitrary limit between 5.25 and 6 million Netherlands-Indies guilders was determined upon and no cover ratio of any kind was demanded. From 1859 to 1874 the specified maximum was accompanied by the requirement of a cover ratio of 30 per cent and in the case of overspending of a 100 per cent cover in precious metals. This additional stipulation offered more possibilities. In that period the issue of notes increased from seven million in 1860 to 25 million in 1874 (Van Laanen, 1980: 34). The charter of 1875 abandoned the custom of indicating a ceiling and introduced a system of proportional cover. All debts that could be claimed on the Java Bank, including the issue of banknotes, had to be covered by 40 per cent mint coins or by currency material such as silver (Verrijn Stuart, 1934: 27). In this way, the various charters issued to the Java Bank increased the possibilities for issue of banknotes quite markedly.

When the Netherlands adopted the gold standard in 1875, the colony did not follow suit immediately. As recently as in December 1872, a Dutch state commission had declared that the silver standard could be maintained in Indonesia since, in the opinion of the commission, silver was preferred to gold in Asia. N.P. van den Berg, at that time president of the Java Bank, fervently advocated the gold standard for the colony as well, pointing out the instability of the value of silver. On 28 March 1877 a law was passed instituting the gold ten guilder piece as the standard coin (De Bree, 1928: II, 188–190). The value of that gold coin was set at 6.048 grammes of gold. Silver coins such as the guilder and the two and a half guilder hence were given a fixed value, by linking them to the gold ten guilder. Since the money circulating in colonial Indonesia consisted almost without exception of silver coins, the monetary system that existed in 1877 is usually described as the 'limping gold standard'.

It is important to note that, in the years leading up to 1914, a fixed rate between the Netherlands-Indies guilder and gold was not at issue in the monetary system of the colony. After 1877, as had, in fact, already been the case since 1854, the most important objective of monetary policy was to put the Dutch guilder on a par with the Netherlands-Indies guilder. A.M. de Jong, well-known as the official historian of the Nederlandsche Bank, prefers to speak of the *gulden standaard* (guilder standard) instead of the gold standard (De Jong, 1946: 676). In colonial Indonesia, gold was rarely resorted to as a means to eliminate the effects of an unstable balance of trade. A surplus in the balance of trade was settled with the Netherlands in silver.

Exports from colonial Indonesia flourished enormously from the end of the nineteenth century, leading to a long-term surplus in the balance of trade. The flow of silver to colonial Indonesia that resulted served the interests of both the Netherlands and the colony. The Dutch economy benefited because silver, which had become redundant as the result of the gold standard, could be used for payments in the colony. Consequently, the silver reserves of the Nederlandsche Bank were reduced in the period from 1903 to 1913 from 80 million guilders to 9.8 million guilders (De Jong, 1946: 681). For the Java Bank, the increase in its silver reserves meant that it could step up the issue of banknotes substantially. The colonial government in its turn could increase the amount of coinage that was in circulation. It was of particular importance that a good deal of currency was available, since this was the period in which effective Dutch authority was extended to practically all corners of the archipelago. This expansion of government authority went hand in hand with the introduction of the Netherlands-Indies currency throughout the entire archipelago. Inherent in this operation was that the 'bad money', namely various sorts of copper money, be excluded from circulation as much as possible by the instigation of a coinage purge. Foreign coins from Southeast Asia were barred as far as possible (Binnerts, 1921: 73).[2]

Silver was regularly transferred between the Netherlands and colonial Indonesia. According to Vissering, about 57.5 million guilders' worth of silver coins was transferred from the mother-country to its colony between 1906 and 1913. Export payments, especially those made by Dutch importers could also be paid with bills of exchange, which could be traded with the Java Bank after 1891. Bills that had been bought in colonial Indonesia could be exchanged in Amsterdam or elsewhere, or were retained as balance in the branch the Java Bank had established for that very purpose in Amsterdam. This possibility of buying and selling bills of exchange, known as the gold exchange system, grew in importance, especially when Indonesian exports took off in leaps and bounds. Initially, there were some restrictions, such as the value of outstanding bills of exchange could not exceed the metal balance of the bank for a period of more than two months. Then, in 1908, this requirement was relaxed, both in terms of the period and of the maximum amount, so that, in effect, the Java Bank could make good use of this trade. The restrictions concerning the bills of exchange were jettisoned completely in 1922. The development of the gold exchange system allowed the Java Bank to intervene in foreign financial transactions in the interest of its own financial position, which was particularly evident after the gold standard had been suspended in 1914 when the bank appeared capable of maintaining its own exchange rate in the buying and selling of bills of exchange. This was apparently so much the case that the Java Bank could choose to make practically no use at all of the discount policy as a means of influencing the movement of gold and currency. In the eyes of the bank, this was a conscious choice, as it preferred to aim at consolidating rates of discount in the interest of the economic development of the colony itself, making it possible to extend loans at low rates in colonial Indonesia (Verrijn Stuart, 1934: 32–35).[3] However, we must bear in mind that the Java Bank never achieved the position of the banker's bank. The nature of economic development emphasizing the growth of the export sector meant that all banks in Indonesia were faced with increasingly less financial means due to the tendency of companies in colonial Indonesia with their headquarters elsewhere to deposit their surpluses in accounts in their home countries, especially if there were earnings from the sale of export goods (Van Laanen, 1990: 250).

The regulations drawn up for colonial Indonesia ensured that the Netherlands-Indies guilder became a relatively stable currency. The link between the Netherlands-Indies guilder and the Dutch guilder was never subject to any pressure in the years leading up to World War I, due to the extensive movements

[2] A law enacted in 1899, and more particularly the Currency Law of 1912, stipulated which coins be used as legal tender. Article 16 of the latter law explicitly forbids the use of any other currency such as foreign copper, Mexican dollars, and Straits dollars. For a survey of purges of foreign currencies in colonial Indonesia in the period 1899–1930, see: Van Laanen, 1980: 27.

[3] Verrijn Stuart was critical of this policy. In his opinion bank rates that were too low would lead to a rise in prices.

Table 1. *Consequences of the gold exchange policy of the Java Bank, 1895–1939.*

	Gold as % of demand liabilities (a)	Official discount rate (b)	Exchange rate Batavia on Amsterdam (c)
1895	10.4	5.37	100.75
1900	17.9	4.50	101.06
1905	15.9	5.00	100.38
1910	11.3	3.50	100.13
1915	22.1	3.50	98.75
1920	43.1	3.50	97.38
1925	41.8	4.50	100.25
1930	44.0	4.65	100.44
1935	53.8	3.83	99.81
1939	45.8	3.00	99.63

(a) As of 31 March.
(b) Averages for financial years, *e.g.* 1895 = 1895/96.
(c) Averages for calendar years.

Source: Van Laanen, 1990: 253.

of silver and the increasing potential of the gold exchange system. The stable exchange rate in the trade of bills proves this (Table 1, column c). This enables the bank to keep up well with the economic recovery in colonial Indonesia. On the eve of World War I, the bank did much more than just keeping account of transfers. The step by step realization of a network of branches across Java, Sumatra and Celebes (Sulawesi) ensured that the bank was better equipped to play a central part in banking affairs. The introduction of giro traffic by the Java Bank in 1907, and of clearing between all leading banks in Batavia in 1909, leads to the conclusion that a financial infrastructure that was well-suited to the requirements of that era had been constructed.

4. Letting go of metal 1914–1925

As a result of World War I and the turbulent years that followed it, the exchange rate on bills was subject to large fluctuations. Generally speaking, the monetary system had been very much disturbed by the war. Country after country suspended the gold standard. In colonial Indonesia this step was taken on 7 August 1914 when a ban was issued on the export of gold. Agitated times followed. Trade links were increasingly subject to all kinds of pressure. The prospects of import for Indonesia deteriorated as the result of a continuing lapse in supply. Exporters in their turn could not dispose of their stocks.

The suspension of the gold standard did not lead to the abandonment of the objective of maintaining a fixed link between the Netherlands-Indies and the Dutch guilder, an objective which did not produce insurmountable problems. It was possible, during World War I as well as during the first period following it, to hold on to the aim of a stable low discount rate, evidenced by the fact that during the period 1915–1920 the discount rate remained at 3.5 per cent. After this period, the bank was forced to increase the rate as the confidence in the Netherlands-Indies guilder was falling (Table 1, column b). The fact that it was relatively easy for colonial Indonesia to maintain the rate of the two guilders has to be attributed to the unbroken success of the gold exchange policy. Thanks to a successful reorientation to salesmarkets other than the Netherlands it was possible to retain the level of exports to a large extent. Thus, the importance of the Netherlands decreased relatively for the flow of goods from colonial Indonesia. Whereas in 1900 38 per cent of the export found its way to the Netherlands, this had dropped to 16 per cent by 1929. Moreover, the imports entering colonial Indonesia showed a similar trend, for 36 per cent of the imported goods in 1900 came from the Netherlands, while in 1929 this was only 18 per cent (Haccoû, 1961: 245).

The steady growth of exports meant that the balance of trade showed an almost continual export surplus. The reorientation in the export section meant that payments in dollars were preferred but sterling was also acceptable, which enabled the Java Bank to trade bills in dollars and sterling. In the years leading up to 1925, foreign bills became increasingly vital, not only in number but also in importance with respect to the other activities of the bank.

This successful trade in bills allowed the Java Bank more and more room to manoeuvre, which was expressed in several areas (De Jong, 1946: 684–687):

(1) Credit loans extended by the bank in colonial Indonesia could be increased. There was a great demand for loans by companies, especially during the war.

(2) The bank was able to comply with requests from the colonial government to grant loans. The authorities made such extensive use of these possibilities, that, in 1921, the colonial government had to take measures in order to prevent problems for the Java Bank (Verrijn Stuart, 1934: 40–41).[4] As far as these loans are concerned, 1915 and 1919 turned out to be peak years (Van Laanen, 1980: 89–90).

(3) The amount of banknotes in circulation grew (Table 2). Hereby the cover ratio retained its level thanks to the inflow of precious metal. It must be noted that the cover ratio was reduced from 40 to 20 per cent in 1914, but the bank was almost never put into a position in which it had to use the margin between 40 and 20 percent.

(4) The position of silver as well as of gold changed dramatically (De Jong, 1946: 685–689). Starting in 1914, the silver reserves of the Java Bank dwindled visibly. Most of them were put into circulation, and the Netherlands did not have enough silver surplus to meet the needs of colonial Indonesia. Two manipulations were called for. First, the proportion of silver in the

[4] According to article 13 of the Java Bank Law of 1922, the colonial government was entitled to demand advance payments (De Bree, 1928: II, 558). Verrijn Stuart was of the opinion that, with reference to this article, one could speak of misfeasance on the part of the government.

Table 2. *Banknotes in circulation, 1914–1928.*

(millions of guilders)

1914	112.0
1915	118.1
1916	144.9
1917	157.9
1918	180.1
1919	214.3
1920	320.8
1921	328.8
1922	267.5
1923	269.4
1924	263.9
1925	279.5
1926	335.8
1927	316.0
1928	316.3

Source: Van Laanen, 1980: 89–90.

coins was reduced from 0.945 to 0.720. Second, 1919 marked the introduction of the use of 1 guilder and 2.50 guilder notes.

In international financial transactions, gold assumed a leading position. In colonial Indonesia, in the period before World War I, gold had played an unimportant role, as a result of the agreements with the Netherlands. All this changed after 1914 when the above-mentioned changes meant that gold was to play a primary role. The exchange trade in New York and London produced an inflow of gold. Apart from that, it was possible to purchase a substantial amount of gold from the Nederlandsche Bank, in the period 1916–1919 amounting to 85 million guilders (Vissering, 1923: 614). In 1919 when the Nederlandsche Bank stopped the sale of gold this move caused a great deal of irritation in Batavia. The Java Bank called a halt to its efforts to retain the parity of the Netherlands-Indies guilder with the Dutch guilder. From that moment the exchange rate fluctuated in a manner before never seen (Van Laanen, 1980: 28, 50). By acquiring gold in the United States, the Java Bank strengthened its position and decided to return to its role of intervention. When it proceeded to sell gold for dollars at a very profitable rate, and then in turn sold the dollars in the Netherlands at a great profit, a public controversy between the Nederlandsche Bank and the Java Bank ensued. This controversy was carried out between the boards of both banks in an extensive correspondence, albeit under the watchful eyes of both the government of the Netherlands Indies as well as the Ministry of Colonial Affairs in The Hague. The polemics were also pursued in several issues of the *Economisch-Statistische Berichten* (ESB) (Korthals Altes, 1987).[5] The co-opera-

[5] The debate was published in seven 'episodes' in: *Economisch-Statistische Berichten* (1923).

tion between both institutions remained strained until peace was signed in 1924, and the co-operation was restored to its former foating. The clash between the two is of importance in this case as it concerned the authority of the Nederlandsche Bank and of the Java Bank.

During the controversy G. Vissering, himself president of the Java Bank between 1906 and 1912, but at the moment president of the Nederlandsche Bank, reproached the Java Bank for treating the Netherlands as well as the Nederlandsche Bank in such a discourteous manner. This was not left unanswered by J. Gerritzen, then president of the Java Bank. Several issues were very significant. First, the Java Bank had sold gold, bought from the Nederlandsche Bank in the period 1916–1919, in return for dollars which in turn had been sold at a profit. This profitable transaction had taken place, as Vissering stated, using gold supplied by the Nederlandsche Bank in order to help the Java Bank to retain its level of gold stocks whilst expanding the issue of banknotes. Since the sale was meant to help the Java Bank, the price was deliberately below the level fo the free-market price for gold (ESB, 1923: 614). Vissering stated: 'We regret that it appears that the Java Bank appealed to our good fellowship when it needed gold and could not obtain it anywhere else, but referred to its independence as a colonial circulation bank when it could sell its surplus gold supply at a large profit elsewhere' (ESB, 1923: 615).

Gerritzen claimed that the delivery of gold concerned the payment of 'a lawful request resulting from the delivery of products which the Netherlands very much needed' (ESB, 1923: 626). Referring to many citations from annual reports of the Nederlandsche Bank, he argued that the issue of gold had been authorized in order to maintain the parity of the Dutch guilder with other foreign countries and not as 'aid to a sister-institution in the colonies' (ESB, 1923: 626). After Vissering had indicated the importance of attuning the gold policies to each other, he stated: 'We have asked the Java Bank to give account of what it has done with its gold' (ESB, 1923: 650).

In his reply, Gerritzen put his finger on the sore spot: 'An agreement of deposit between the Nederlandsche Bank and the Java Bank is used by Mr. Vissering to claim the right of the Nederlandsche Bank to demand a say in the gold policy of the Java Bank and in the management of that bank ... The Java Bank alone, as owner of the gold stock, has the right to decide what to do with its gold supply, when not all of it is needed to cover its obligations, and can be used for other ends. This matter is no business of any other circulation bank' (ESB, 1923: 673).

What this really boiled down to was a dispute over areas of responsibility. The Nederlandsche Bank considered it had the (moral) right to exert influence on the activities of the Java Bank but this right had not been formally assigned to the Nederlandsche Bank.

Another product of this fairly heated conflict was a debate on the topic of how much influence the government should have on the monetary policy of the Java Bank. The upshot of all this was that the Java Bank was allowed to retain the liberty to act independently in gold and exchange rate dealings, but that it would consult the colonial government in the conduct of its policy (Creutzberg, 1972–1975: III, 909). However, as stated earlier, the Bank Act of 1922 gave the colonial government the right to supervise the Bank, most particularly by appointing a government commissioner on the board of commissioners.

The conflict was soothed in 1924 when an agreement was reached about the use of profits made in transactions concerning the sale of gold. Eventually, the profits were placed in a reserve fund and used to enlarge the capital stock of the bank. The remainder was paid out as dividend to the shareholders.

In the debate engendered by this conflict, the Java Bank was also reproached by the Nederlandsche Bank for allowing the public debt in the colony to increase too much by continually taking advances. It was stated quite rightly that this was a case which primarily concerned the government in Batavia.

Finally, the debate also included the criticism that the Java Bank was responsible for a far too liberal supply of money. It is remarkable enough that in monetary elements dominated the debate but even more remarkable that the Keynesian ideas are also evident (Jacobs, 1926; Van Gelderen, 1924).

One particular monetary matter attracted enormous attention at the start of the 1920s, namely the idea of a monetary unity between the Netherlands and colonial Indonesia. In 1912 and in 1913 the suggestion of separating the currency in the two countries had been discussed. Vissering had then advised against such a step, but after World War I he thought the time had come to reconsider the matter. During the war, colonial Indonesia had succeeded in strengthening its economic position, and more pertinently, the Java Bank had emerged from the war as a very strong bank (Vissering, 1920: 366). In 1921 Vissering's reconsideration resulted in a 'state commission for the currency' charged with the task of studying the advantages and disadvantages of a separate currency. The final report of the commission was published on 6 March 1926. The first two conclusions of the commission were as follows (Advies, 1926: 77):

(1) Hold on to the existing monetary unity of currency in the Netherlands and the Netherlands Indies with regard to gold coins.
(2) Discontinue the existing uniformity of currency regarding the guilder and two-and-a- half guilder, but do this gradually by the recoinage of worn pieces and when introducing new mintage.

The separation of currency then only would apply to the silver coins. The advice of the commission was submitted to several institutions for comment. The Minister of Finance was not very enthusiastic. The *Raad van Indië* (Council of Netherlands Indies) and the Java Bank both commented on the proposals (Creutzberg, 1972–1975: I, 87–95). In the end, this proposal to separate the currency was not put into effect.

In retrospect, De Jong did not regret the fact that the separation of currency did not take place: 'A uniform currency between the two areas evolved in the course of time resulting in close ties, with all their idiosyncracies, between Indonesia and the Netherlands. We must not underestimate the idealistic importance of these ties. The severance of that which was essential to those ties, for the sake of rather unimportant material profit, would have been a psychological blunder' (De Jong, 1946: 698–699).

5. Under the leaden load of the golden guilder

The stable period after the gold standard had been reintroduced into colonial Indonesia in 1925 was threatened after 1929 when the economic crisis struck with great intensity. From 1925 to 1929 colonial economy thrived. Exports were high in 1925 but stagnated in the years which followed while imports inreased gradually. This led to a sharp decline in the surplus in the balance of trade, accompanied by an outflow of gold. The long-pursued policy of a stable bank rate was abandoned at the end of 1924 under the influence of such factors as the changes in interest rates abroad. By raising the official bank rate, the Java Bank acknowledged it as a means to exercise a hold on the exchange rates.

The crisis of the 1930s came as a blow to the colonial economy. Since colonial Indonesia was an economy exporting agricultural goods and raw materials, as well as falling into the category of a debtor country, it was comparatively more sensitive to an economic slump than countries with different circumstances. The prices of the export products fell rapidly and sharply, proportionately more than the prices of imported products, ushering a deterioration in terms of trade for colonial Indonesia (Table 3).

Table 3. *Wholesale prices of import and export goods and terms of trade, 1913–1939.*

(Index numbers, 1913 = 100)

	Import	Export	Terms of trade
1913	100	100	100
1925	172	146	85
1926	163	137	84
1927	157	130	83
1928	152	125	82
1929	151	123	81
1930	142	88	62
1931	112	66	59
1932	90	52	58
1933	78	43	55
1934	74	42	57
1935	72	41	57
1936	74	43	58
1937	98	54	55
1938	94	44	47
1939	95	47	49

Source: Gonggrijp, 1948: 11.

All cultivations experienced the consequences of the crisis. In these years, colonial Indonesia felt that it was very much bound to the Netherlands in a double sense. Financially and monetarially it was bound to the Netherlands as a result of monetary unity, which clashed with the economic interests of colonial Indonesia since the Dutch government resolutely hung on to the politics of the *gave gulden* ('sound guilder') even long after most countries had suspended the gold standard. For a debtor nation such as colonial Indonesia, this made it more difficult to compete in the world market since its products had become relatively expensive. Also to the detriment of colonial Indonesia, the capital costs of its debts–debts which for more than 80 per cent were in the hands of Dutch investors–had to be continued to be paid off in gold guilders. Furthermore, the political relationship was thrown into sharper focus in the years of depression as Batavia was restricted in its freedom of movement by several factors.

Colonial Indonesia was bound to the Netherlands by the burden of its debt. During the Depression, indebtedness to the Netherlands increased, since, stemming from the Conversion Law of 1931, long-term loans at a relatively high rate (especially dollar loans) could be converted into a guilder loan at a rate of 4 per cent, which was guaranteed by the Dutch state (Creutzberg, 1972–1975: III, 1098–1099). This process of conversion was at the expense of colonial Indonesia's right, obtained in 1912, to contract public loans independently.

All this while too, colonial Indonesia groaned 'under the leaden load of the golden guilder' (Meyer Ranneft, 1937: 296). Especially after the United States had devalued in 1933, some members of the *Volksraad* (People's Council) demanded that the Netherlands-Indies guilder be devalued, if necessary irrespective of the Netherlands. Reports of this request immediately caused a commotion in the Netherlands. The Minister of Colonial Affairs, first De Graaff and, later on, Colijn, as well as the Board of Directors of the Nederlandsche Bank, did all they could to suppress these tidings (Creutzberg, 1972–1975: III, no. 143, 144, 147).

Colijn, in particular, strongly rejected a devaluation limited to Indonesia: 'the Dutch and the Indies' monetary systems are so very much closely linked that one should look at this matter with regard to the Kingdom as a whole, and not only with regard to a part of it' (De Wal, 1968: 438). Colonial Indonesia had to wait until 26 September 1936 when the guilder was devalued.

The interests of the Netherlands and the colony–both seen at a macro level–increasingly failed to run parallel during the Depression. The economic ties between the Netherlands and colonial Indonesia were strengthened with the intention of obtaining an unassailable position for the Netherlands in the trade relations between the mother-country and its colony. The issue of the so-called 'Directives concerning the co-operation between the Netherlands and the Indies' (1936) confirmed the manoevering for 'imperial preferences' in the Netherlands (Creutzberg, 1972–1975: III, 1090–1092). This meant a step back in the field of financial and monetary policy for Indonesia. It was irrevocable evidence that colonial Indonesia was not free to stipulate its own monetary policy, attuned specifically to its peculiar problems.

6. Conclusion

In the period between 1875 and 1940 the export sector surged strongly ahead. In fact, the economy as a whole grew. More intensive international trade contacts and economic development in Indonesia demanded an adequate financial and monetary infrastructure. The commercial banks were expanding, especially after the reorientation in the aftermath of the economic slump at the end of the nineteenth century and in this the Java Bank was not left behind. The Java Bank, which was the bank of issue for banknotes, was able to strengthen its position substantially in the period discussed. It acquired more leeway in the issue of banknotes when what were, in fact, arbitrary limitations were withdrawn. The gold exchange policy, developed after 1891, became very familiar to the bank during World War I, a period in which it very much broadened its horizons abroad. The bank played a primary role in making the currency more uniform. The territorial expansions at the turn of the century contributed to making this a bigger job which could be settled thanks to the inflow of a great deal of silver in the form of growing export revenue. In 1922, the new charter of the Java Bank confirmed the headway in the position of the bank.

However, the Bank was unable to continue this trend in its development. The difference of opinion with the Nederlandsche Bank in 1922–1923 strengthened the Java Bank, but the dispute left neither party in doubt about what their relationship really amounted to. The crisis of the 1930s underlined to colonial Indonesia and the Java Bank that the colonial relationship between the Netherlands and Indonesia interfered with a free choice in monetary policy. The question of whether suspending the gold standard was a choice which would be advantageous to the colony was differently there. Was colonial Indonesia, indeed a periphery country in monetary matters? After examining the characteristics prevailing in colonial Indonesia with the aid of Ford's eight points enumerated at the beginning of this article, the reply has to be positive. Colonial Indonesia was a debtor country, in which the economic emphasis lay on the production of primary goods for export. Most investment came from abroad and concerned the export sector. The financial organization of colonial Indonesia was permitted to develop rationally but the Java Bank cannot be considered to have been a central bank in the sense that it achieved the position of a 'banker's bank'. There was also the matter of a relationship between an increase in income and the growth of exports allied with the presence of economic pressure groups in politics. These matters were very wide of the Argentine experience. Colonial Indonesia can, therefore, be described as a periphery country.

But this does not account for the colony's monetary policy. In contrast to Argentina, colonial Indonesia experienced stable monetary development which went hand in hand with rapid economic expansion during the period 1875–1914, even continuing until about 1921. The system of the guilder standard was not without its benefits in prosperous times. Not until the crisis of the 1930s did retaining the gold standard give rise to virtually insurmountable problems. At that time, colonial Indonesia wanted to take those steps which Argentina had taken several times in the period 1875–1914, namely suspending the convertibility of its currency for gold.

After 1945, the Indonesian government granted the Java Bank the right to operate as it had done before. It was only in 1951 that preparations were seriously put in hand to nationalize the Java Bank and on 1 July 1953 *Bank Indonesia* was founded (Wardhana, 1971: 343).

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