Currency and the Economy of Netherlands India, 1870–95

The **Institute of Southeast Asian Studies (ISEAS)** was established as an autonomous organization in 1968. It is a regional research centre for scholars and other specialists concerned with modern Southeast Asia, particularly the many-faceted problems of stability and security, economic development, and political and social change.

The Institute's research programmes are the Regional Economic Studies (RES) programme, Regional Strategic and Political Studies (RSPS) programme, Regional Social and Cultural Studies (RSCS) programme, and the Indochina Programme (ICP).

The Institute is governed by a twenty-two-member Board of Trustees comprising nominees from the Singapore Government, the National University of Singapore, the various Chambers of Commerce, and professional and civic organizations. A ten-man Executive Committee oversees day-to-day operations; it is chaired by the Director, the Institute's chief academic and administrative officer.

Within the RES, the **ASEAN Economic Research Unit** is an integral part of the Institute. The Unit was formed in 1979 in response to the need to deepen understanding of economic change and political developments in ASEAN. A Regional Advisory Committee, consisting of a senior economist from each of the ASEAN countries, guides the work of the Unit.

The **Project on the Economic History of Southeast Asia** was established in 1988 by the Research School of Pacific Studies of the Australian National University, Canberra. It is premised on the conviction that the varied contemporary economic performance of Southeast Asia cannot be understood without reference to the past, and that a concentration on this neglected area will provide an important input into Southeast Asian Studies on the one hand, and a better understanding of the development process on the other.

This paper in the Data Paper Series: Sources for the Economic History of Southeast Asia is published in conjunction with the ASEAN Economic Research Unit of ISEAS. To provide the data necessary for broader economic work, the series will make available in English, and in contemporary metric measures, statistical data, contemporary description, and pioneering scholarship currently inaccessible to most analysts because of the diversity of languages, measures and locations in which they are found. The project welcomes translations of sources and long statistical time series.

DATA PAPER SERIES
Sources for the Economic History of Southeast Asia
No.5

Currency and the Economy of Netherlands India, 1870–95

a reprint of
The Financial and Economical Condition of Netherlands India since 1870 and the Effect of the Present Currency System

by

N.P. van den Berg

Originally published by
The Hague, Netherlands Economical and Statistical Society, 1895 (Third edition)

**With an introduction by
Pierre van der Eng**

ECONOMIC HISTORY OF SOUTHEAST ASIA PROJECT
Research School of Pacific Studies
Australian National University
Canberra

INSTITUTE OF SOUTHEAST ASIAN STUDIES
Singapore

Published by
Institute of Southeast Asian Studies
Heng Mui Keng Terrace
Pasir Panjang
Singapore 119596

The responsibility for facts and opinions expressed in this publication rests exclusively with the authors and their interpretations do not necessarily reflect the views or the policy of the Institute or its supporters.

Cataloguing in Publication Data

Berg, Norbert Pieter van den, 1831–1931.
Currency and the economy of Netherlands India, 1870–95: a reprint of "The financial and economical condition of Netherlands India since 1870 and the effect of the present currency system". (Data paper series. Sources for the economic history of Southeast Asia; no. 5).

1. Currency question – Indonesia – History.
2. Finance – Indonesia – History
3. Indonesia – History – 1798 – 1942.

I. Title.
II. Title: The financial and economical condition of Netherlands India since 1870 and the effect of the present currency system.

DS511 A81D no. 5 1996 sls 95-113242

ISBN 981–3055–19–7

Printed in Singapore by Prime Packaging Industries Pte Ltd.

CONTENTS

Appendices:

INTRODUCTION

Pierre van der Eng[1]

In July 1886 the government of British India asked its consul in Batavia, N. McNeill, for a review of monetary policies and economic conditions in the Netherlands Indies. The silver-based Indian rupee had depreciated continuously against the gold-based pound sterling since 1872. The depreciation increased the burden of India's financial commitments to Great Britain to such a degree that by 1878 the government of India considered the option of basing the Indian monetary system on gold, while retaining its silver currency.[2] The advantages of basing the rupee on gold were not obvious, because India's growing trade in Asia was largely conducted in silver. A changeover to the gold standard could create a disadvantage for Indian producers in their competition with producers in countries with a silver standard.

At that time, Netherlands India was the only country in Asia where the gold standard had been introduced, in 1877. Unlike India, colonial Indonesia did not have its own currency; it used the Dutch guilder as its standard coin. The silver standard was not just abandoned in Indonesia because the Netherlands had done so. The gold standard had in fact been introduced in the Netherlands two years earlier. It was on the ardent advice of N.P. van den Berg, the president of the Java Bank (De Javasche Bank), the central bank of colonial Indonesia, that the gold standard was also introduced in Indonesia. Van den Berg's advocacy appears to have contradicted the general opinion on monetary standards in Asian countries. All Asian countries, except Indonesia, continued to adhere to the silver standard, despite the rapid depreciation of silver.

The Indian government chose to proceed along two paths to solve its monetary problems.[3] It participated in international conferences to achieve an international agreement about measures to stem the depreciation of silver. It also had several committees to study monetary issues and the options

---

1. I gratefully acknowledge that this introduction benefited from extensive comments by F.W. Diehl and W.G. Huff.

2. H. W. Hanna, *et al.*, *Stability of International Exchange: Report on the Introduction of the Gold-Exchange Standard into China and Other Silver-Using Countries* (Washington: Government Printing Office, 1903), p.300.

3. B.R. Tomlinson, "Exchange Depreciation and Economic Development: India and the Silver Standard, 1872-1893" in *The Emergence of A World Economy, 1500-1914*, edited by W. Fisher et al. (Wiesbaden: F. Steiner, 1986), pp.413-427.

open to India. In 1886 the British consul in Batavia was explicitly asked "to obtain an expression of the views of Mr. Van den Berg" (*p.II*).[4] The president of the Java Bank was well known as the author of several publications on financial and economic subjects, including the monetary situation in British India.[5] Within four months his extensive report, which is reprinted in this volume, was on its way from Batavia to India.

About the Text

The request by the government of India for information on the economic and monetary situation in Indonesia in 1886 should be read in the context of international monetary change, which will be explained in brief below. The main text of the reprinted publication is a letter by Van den Berg to the British consul in Batavia. This text was initially printed in two editions in 1886 and 1887 for private circulation. A new edition was published for the members of the Netherlands Economic and Statistical Society in 1895. For that occasion Van den Berg updated the original text with new quantitative data. He also added footnotes and a supplement.

A major reason to reprint the 1895 version here is that it is an original and well written contribution to the discussion about currency systems and monetary policy in the late nineteenth century. It sheds light on the complexity of the issues, the way the Dutch authorities handled them and on the role of Van den Berg in this process. Dutch monetary policies were not widely understood outside the Netherlands and Indonesia at the time (*p.69*). Hence, the Indonesian case has been given a stepmotherly treatment in international monetary historiography and the importance of monetary policy is not widely appreciated in the study of the economic history of colonial Indonesia.[6]

Another reason is that the document goes well beyond monetary policy. Van den Berg discusses fiscal policy (*pp.2-24*), foreign payments and

---

4. Page numbers in italics refer to the pages in the text of the book, as reprinted in this volume.
5. *Bankwezen en Banken in Britsch-Indië. Eene Geschiedkundige Schets* (Batavia: Van Dorp, 1866); "Muntwezen en Geldsomloop in Britsch-Indië" in *De Muntquaestie met Betrekking tot Indië* (Batavia: Bruining & Wijt, 1874), pp.177-284. A short bibliography of Van den Berg's publications is included at the end of this introduction.
6. L.B. Yeager (*International Monetary Relations: Theory, History, and Policy* [New York: Harper & Row, 1976]) discusses monetary changes in Asia in the late 19th and early 20th century, but does not mention Indonesia. J.S. Furnivall (*Netherlands India. A Study of Plural Economy* [Cambridge: Cambridge University Press, 1939]) does not even mention the adoption of the "limping standard" in his authoritative history of Indonesia.

trade (*pp.24-41*) and domestic economic activity (*pp.41-47*), before elaborating on colonial monetary policies (*pp.47-60*). Moreover, the appendices contain a range of statistics for the period 1871-95. Both the discussions and the factual information are of significant interest to those students of Indonesian economic history who are unfamiliar with the Dutch language or who do not have access to primary sources.

About the Author[7]

Norbertus Petrus van den Berg (1831-1917) was a man of many talents and outstanding capacities. During 1845-49 he was educated at the commerce department of the Erasmus Gymnasium in his native Rotterdam. He did not graduate, because he had to replace his brother in his father's firm. But in his spare time Van den Berg continued to further his interest in history and economics.

In 1855 Van den Berg left his father's company and took up a junior position in Indonesia at the Nederlandsche Handel-Maatschappij in Batavia. He was gradually promoted to the position of secretary of the Board of Directors. In that capacity he was asked to write a paper about the monetary situation in Indonesia. The result was two anonymous small publications on the issue (see below) and a more extensive one under his own name in 1863. This last publication established his name in the banking world. A year later he moved to the newly established Netherlands East Indies Trading Bank (Nederlandsch-Indische Handelsbank), where he became director of the main representative office of this Dutch bank in Batavia. At that time the demand for financial services was increasing with the gradual development of private Western enterprise in colonial Indonesia. This changing demand induced Van den Berg to enhance his knowledge by studying banking in British India. He published a study on that topic in 1866 and three years later on the role of the Java Bank.

7. This biography is based on articles by J. Gerritzen in *Koloniale Studiën*, 1 (1916/17) pp.431-434; G. Vissering in *Encyclopaedie van Nederlandsch-Indie* (The Hague: Kolff/Brill, 1940, third edition), Vol.1, pp.75-78; D.A. Imhülsen *Biografisch Woordenboek van Nederland. Derde Dee,* edited by J. Charité (The Hague: Instituut voor Nederlandse Geschiedenis, 1989), pp.44-46.

N.P. van den Berg (1831-1917)

Source: L. de Bree, *Gedenkboek van de Javasche Bank. 1828 - 24 Januari - 1928* (Weltevreden: Kolff, 1928), Vol.2, p.165.

Given his ardent support for the establishment of monetary and financial institutions in Indonesia, which would suit the needs of rapidly developing private enterprise in the colony, Van den Berg's appointment as president of the Java Bank was widely applauded in 1873. During his presidency, Van den Berg raised his public profile immediately with a plea to the Dutch government not to limit the change to the gold standard to the Netherlands, but to extend it to Indonesia. He published extensively on this issue, and did not shy away from several other controversial issues, for instance, the use of Indonesian public revenue for expenditure by the Dutch treasury in the Netherlands. He discussed the financial relation between Indonesia and the Netherlands in his 1885 tract "Debit or Credit" *(Debet of Credit)*, in which he calculated that the Dutch government was on a net basis still indebted to Indonesia, largely because of the transfers of net revenue from the cultivation system during 1831-77. He raised this issue again in his revised report to the British consul of 1886 (*p.10*).

Van den Berg also played an important role in academic and social life in colonial Batavia. Among other things he was vice-president of the Batavia Chamber of Commerce and president of the Batavia Association of Arts and Science (Bataviaasch Genootschap van Kunsten en Wetenschappen). His academic contributions were acknowledged with an honorary doctorate from the Faculty of Law of the University of Leiden in 1875 and membership of the Dutch Royal Academy of Sciences in 1892.

In 1889 Van den Berg returned to the Netherlands to take up an appointment as director of De Nederlandsche Bank in Amsterdam. In 1891 he became the bank's president, until his retirement in 1912. His list of publications is evidence of a continued active interest in Indonesia. In 1893 Van den Berg was invited to become Governor-General of Netherlands India - an indication of the wide acknowledgement accorded to his capabilities and knowledge of the colony. However, Van den Berg declined this invitation, preferring to remain president of the Dutch central bank.

International Payments and Monetary Standards in the Nineteenth Century

During the nineteenth century, national currency systems were generally either based on gold or silver, or on both metals. Currency units equated an amount of either metal, which was defined and guaranteed by the government under whose authority the currency was issued. The settlement of international payments was generally based on the value of gold and silver. The conversion rate of currencies depended therefore largely on the precious metal content of currencies and/or on the value of silver in terms of gold.

The international demand for money for both domestic and foreign transactions expanded with increasing economic activity and foreign trade, especially in Europe and North America. The increasing acceptance of bank notes alleviated to a large extent the rising domestic demand for money, because licensed circulation banks were required to have only a predetermined share of the total nominal value of circulated notes in their vaults in the form of bullion. However, with the growth of the value of international trade, gold and silver were increasingly required for the settlement of international payments.

Despite fluctuations in the demand and supply of gold and silver, the international rate of exchange between the two metals remained relatively stable during 1550-70. International payments between countries with currencies based on either silver or gold were therefore hardly inconvenienced. Given that gold was more valuable than silver, the relative cost of transporting gold was lower than that of silver. Hence, gold became increasingly the preferred medium for international payments in Europe and North America during the nineteenth century. However, silver continued to be preferred in Asia, where the value of commercial transactions was generally lower than in Europe and North America.

Currency systems in Asian countries were largely based on silver. Silver currencies prevailed in Asian trade, both within and between countries. India had the rupee, Thailand the baht, Indonesia the guilder, while other Asian countries had either the Mexican dollar or coins of comparable weight and silver content. The use of silver coins with a fixed weight and a nominal value equal to its intrinsic metal value underpinned domestic and international Asian trade. Silver money and unminted silver fulfilled the same role, although minted silver was preferred, because of the guaranteed fineness and the uniform weight of the coins. It was therefore possible for different silver coins to circulate alongside each other, especially in trading areas. For instance, the Indian rupee, the Spanish and Mexican dollars and also the Dutch rixdollar were used next to one another in the Straits Settlements. However, the most widely preferred currency in Asia was the Mexican dollar.[8]

---

8. A.P. Andrew, "The End of the Mexican Dollar", *Quarterly Journal of Economics*, 18 (1904) : 321-353; Chiang Hai Ding, "Silver Dollars in Southeast Asia", *Asian Studies*, 3 (1965) : 459-469.

The Monetary System in Nineteenth Century Indonesia.[9]

Colonial Indonesia had the Dutch guilder as legal tender. In the Netherlands the silver guilder was formally linked to gold until 1847. But silver guilders hardly circulated in Indonesia. They had been driven out of circulation by large amounts of copper token coins and silver certificates, which circulated at inconvenient variable rates of exchange. Commodity exports were at that time largely handled by the Dutch Trading Company (Nederlandsche Handel-Maatschappij) for the Dutch government. Exports were mainly auctioned in Europe and part of the proceeds was reserved for the expenses of the colonial government in Indonesia. It sold bills of exchange drawn on this reserve to entrepreneurs who wanted to import goods from Europe. There was a trade in bills drawn on private banks, but this was less important.

Towards 1850 it became increasingly clear that Indonesia's monetary system was inadequate for both domestic use and for the expanding international financial traffic. After the Netherlands changed to the silver standard in 1847, an attempt was made to bring the monetary system in Indonesia onto a sound footing with the Coinage Act of 1854. Large amounts of silver guilders were shipped to Indonesia for circulation. However, guilders soon leaked out of the economy in substantial amounts. One reason was that the civil war in the United States impeded the supply of cotton to Great Britain during 1861-65. Textile manufacturers started to import increasing quantities of cotton from British India. The demand for rupees increased and pushed the exchange rate between the rupee and the pound sterling up. The rate rose to such an extent that it became profitable to sell Indian sterling bills to banks in Batavia. The return on such bills in terms of the silver contained in guilders was higher than in rupees, despite the cost of shipping guilders to India and having them minted as rupees. In addition, there was a relative shortage of Mexican dollars in Southeast Asia, because of short-term increases in the value of China's exports of silk and tea. This also encouraged the sale of Singaporean sterling bills to Batavia. The drain of silver guilders caused a shortage of money and high interest rates in

9. The discussion here can only be very brief and is necessarily incomplete. Supplement I (*pp.61-68*) also contains a brief monetary history of Indonesia until 1875 and explains the role of the Java Bank. Two concise overviews of monetary policy and banking in colonial Indonesia in English are: J.T.M. van Laanen, *Changing Economy in Indonesia. Volume 6: Money and Banking 1816-1940* (The Hague: Nijhoff, 1980), pp.11-52; P.W. Klein, "Dutch Monetary Policy in the East Indies 1602-1942: A Case of Changing Continuity" in *Money, Coins and Commerce: Essays in the Monetary History of Asia and Europe (From Antiquity to Modern Times)*, edited by E.H.G. van Cauwenberghe (Leuven: Leuven University Press 1990), pp.419-453.

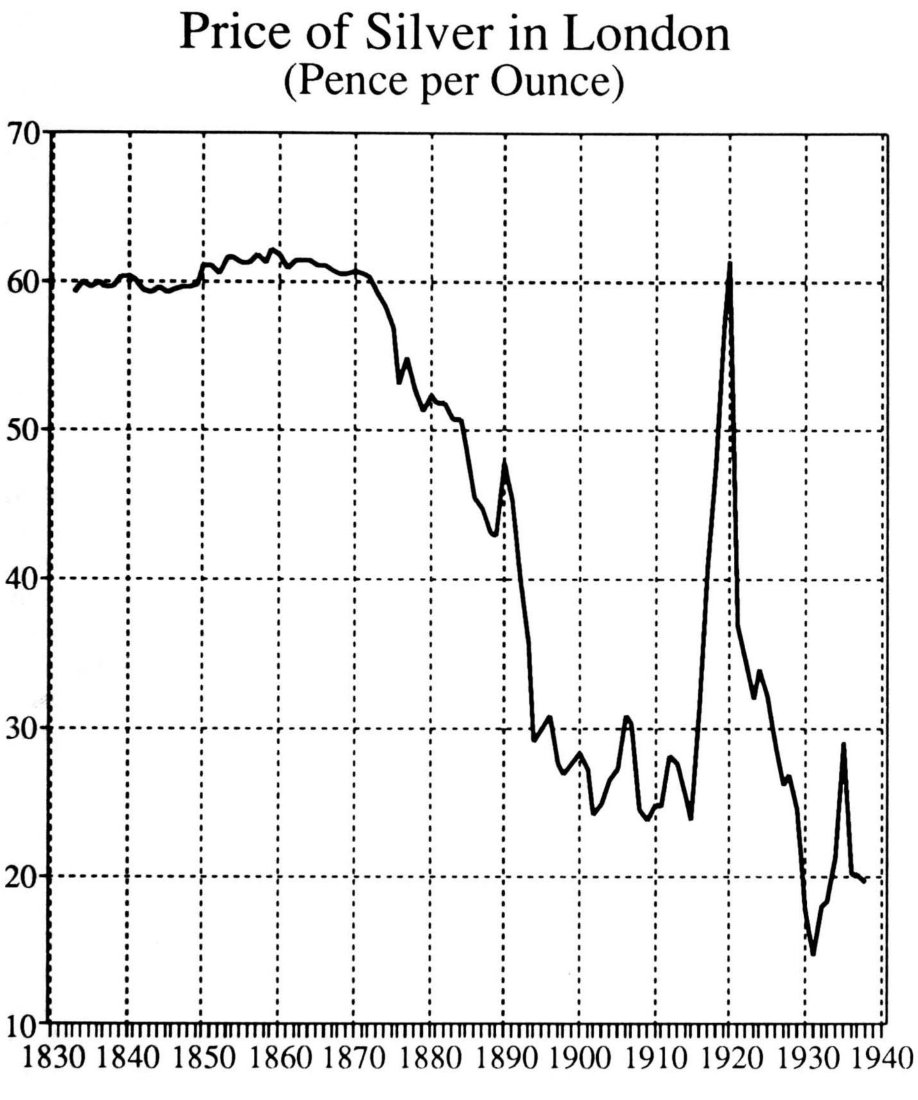
Indonesia. This situation continued until 1869. The discount rate of the Java Bank decreased and the inflow of silver guilders was expected to be absorbed by the domestic economy, thus stabilizing the monetary situation in Indonesia.

In the late 1860s and early 1870s the world production of silver increased substantially after the discovery of new silver ore deposits, while gold production declined at the same time. Figure 1 shows that the international price of silver started to fall in the 1870s. Consequently, several European countries, which still were on a bi-metallic or silver standard soon changed to a gold standard. These countries then shed demonetized silver onto the world market and accelerated the depreciation of silver.

Newly unified Germany restricted the minting of silver coins in 1871 and accepted the gold standard in 1873. Given the very important Dutch trade contacts with Germany, the Dutch government had to contemplate a change of the monetary system. A special commission advised favorably in 1872, but it took until 1875 before the Dutch parliament actually decided to accept gold as the monetary standard (*pp.69-70*). Van den Berg argued strongly against the wavering of the Dutch government (*pp.48-49*). Moreover, he voiced objections against the recommendation of the 1872 commission to fix the value of silver guilders against gold in the Netherlands, but not in Indonesia.[10] The president of the Java Bank argued that parity of the two currencies could not be sustained if the guarantee was not extended to Indonesia.

In 1875 the Dutch government introduced a ten guilder gold coin as legal tender. It maintained a bi-metallic system in principle, because silver coins remained legal tender. But the free minting of silver was abolished and the production of silver guilders for the Dutch government was restricted. At the same time the government guaranteed the value of silver guilders in gold. Hence, silver guilders changed only implicitly to subsidiary token coins. The main reason for this move was that the demonetization of silver coins would have generated a significant loss. Maintaining silver guilders at their nominal value implied that the Dutch central bank, De Nederlandsche Bank, could still use its considerable stock of silver to back up its bank notes. Given the depreciation of silver, the Dutch monetary system was only de facto a gold standard. It became known as the "limping standard".

10. L. de Bree, *Gedenkboek van de Javasche Bank. 1828 - 24 Januari - 1928* (Weltevreden: Kolff, 1928), Vol.2, pp.189-99. See especially Van den Berg's tracts *De Munthervorming in Nederland en Hare Gevolgen voor Nederlandsch-Indië* (Batavia: Kolff, 1873) and *De Muntquaestie met Betrekking tot Indië* (Batavia: Kolff, 1874).



Sources: Statistical Abstract of the United States (1900), p.45; J.A. Todd, *The Mechanism of Exchange: A Handbook of Economics, Currency, Banking and Foreign Exchange* (London: Milford, 1949), p.262.

It took until 1877 before the system was formally extended to Indonesia. The Dutch parliament argued that the Indonesian public would continue to prefer silver guilders for their intrinsic rather than their nominal value, although Van den Berg maintained that there were no compelling reasons not to guarantee the gold value of the guilder to holders of Dutch silver coins in Indonesia (pp.73-75). In 1877 the change from the silver to the"limping" standard made little difference to the monetary system in Indonesia. One practical change was that the silver guilder could no longer be used for foreign payments. As far as traders had used guilders as bullion in Asian trade, they started to use bank services to effect international transfers through the exchange market. With the continued depreciation of silver, the intrinsic value of the guilder soon fell below its nominal value and the silver guilder stopped leaking out of the economy.

Guilder Exchange Standard

The Dutch and Indonesian monetary system was not widely understood outside the Netherlands.[11] In practice it resembled what later became known as the Gold Exchange Standard. The essence of the system was that gold was not used as a currency, but that legal tender could be exchanged any time in the Netherlands for Dutch minted gold for international payments. The advantage was that minted silver in circulation did not become obsolete and that it was not necessary to circulate a large number of gold coins (p.38) or maintain a substantial reserve of gold (p.84). Silver guilders gradually changed character from currency to token money due to the increasing gap between their nominal and intrinsic values. Gold ten guilder coins hardly entered circulation in Indonesia. Bank notes of the private Java Bank were generally preferred for denominations higher than the rixdollar of 2.5 guilders.

The Java Bank not only managed the domestic money supply in Indonesia through its monopoly on the issue of bank notes, it also maintained the exchange rate of the guilder in Indonesia at near par with the Netherlands for government payments. The bank committed itself to this in return for two privileges. Firstly, the colonial government promised

11. Van den Berg was one of the few who tried to explain the system outside the Netherlands in his tract *The Silver Question. With an Introductory Chapter on the Present State of the Currency in Holland and Java* (Liverpool: Woollard, 1879). The text of this tract is similar to that of Supplement II (*pp.69-78*).

to use the bank for all its foreign transactions. Secondly, unlike other banks, the Java Bank was allowed to keep part of its reserves abroad. The Java Bank therefore did not compete with other banks for foreign bills of exchange and it did not have a monopoly on Indonesia's foreign financial transactions. But the government payments made it the biggest actor in the foreign exchange market. Unlike other banks, the Java Bank could immediately exchange bills for gold abroad and issue guilders and bank notes or accept additional deposits against payments of gold or guilders into its reserves held abroad. The bank was therefore able to sustain its position in the foreign exchange market, when private financial transactions started to exceed government transactions.

The Java Bank maintained parity of the guilder through regular shipments of bullion and silver guilders between the Netherlands and Indonesia. Indonesia generally had a trade and current account surplus on the balance of payments, which was settled via Amsterdam. Indonesia was therefore a net recipient of bullion and especially silver guilders to their nominal value from the Netherlands. The import of silver guilders satisfied the increasing Indonesian demand for currency caused by the expansion of the monetized economy. Guilder exchange rates generally fluctuated within the margin determined by the cost of packing, insuring and shipping guilders from the Netherlands to Indonesia and the loss of interest during shipment. With the improvement of communications, these costs became less than one per cent of the nominal value of the guilder, so that the official exchange rates generally fluctuated less than one per cent either way.[12] The task of maintaining the guilder at par with gold was left to De Nederlandsche Bank.

Initially the Java Bank only maintained a gold reserve in Amsterdam for foreign payments and maintaining parity, but Indonesia's foreign trade expanded rapidly and became more diverse. An increasing part of exports was no longer marketed in Amsterdam. The Indonesian commodity trade surplus with other countries soon exceeded the balance with the Netherlands. In 1891 the Java Bank was given permission to trade in foreign bills of exchange. It established reserves abroad of foreign bills of exchange payable in gold and of short loan certificates quoted in Europe or in the United States. By diversifying its services, the bank practically started to assist De Nederlandsche Bank in maintaining the guilder at its gold value.

12. However, the commercial exchange rate fluctuated much more, because the rate included commissions and the costs of transfer and exchange risk.

The Dutch system was very different from the procedures which governments in other Asian countries later introduced to stabilize their currencies. One major difference was that maintenance of parity relied entirely on the operations of the private Java Bank. In the Gold Exchange System, which for instance India and the Straits Settlements introduced later, maintenance of parity was in the hands of a separate gold exchange reserve. The main advantage of the system in Indonesia was that the Java Bank also had a monopoly on the issue of paper money in Indonesia, and that Indonesia had a stable monetary system in which bank notes were widely accepted. Foreign exchange policies and domestic monetary policies were therefore directly connected. It was immediately clear in Indonesia how a change in the trade balance translated into the internal value of the guilder. A surplus on the current account of the balance of payments enhanced the reserves of the Java Bank, which allowed the bank to issue bank notes or accept new deposits and add to the money supply in Indonesia. Vice versa, a current account deficit diminished the reserves of the Java Bank, which obliged the bank to restrict domestic money supply if its reserves fell below the statutory minimum, for instance by increasing its discount rate. Given the obligation to maintain the guilder at par, the operations of the Java Bank automatically adapted money supply within Indonesia. In most countries with a gold exchange reserve there was no such direct connection between exchange rates and domestic monetary policies. The reserve authorities first had to establish whether the rate was in harmony with foreign trade requirements and then whether the sale of gold or the purchase and issue of currency were required.

The Dutch system worked on the basis of the reserves of the Java Bank, which were used to issue bank notes or accept new deposits, and to keep the guilder at par. Other countries generally had two reserves for these purposes. Moreover, the reserve was not only stocked with gold and bills payable in gold, but could also be supplied with silver guilders. Bills between Indonesia and the Netherlands could therefore be settled with silver guilders to their nominal amount or with bullion. This was to the advantage of the Dutch government, which had withdrawn excess silver currency from the Netherlands economy after 1875. Rather than selling the stock of silver guilders at a loss as bullion against depreciated prices, the stock was used to settle the Indonesian trade surplus at the nominal value of the guilders and quench the Indonesian demand for silver currency. There were regular shipments of gold between the two countries. But these amounts were relatively small. It may be more accurate to label the system a "Guilder Exchange Standard", rather than a Gold Exchange Standard.

Monetary System and Economic Development

There was some opposition in Indonesia to the change in the monetary system. The declining international value of silver may initially have benefited the Asian countries with which Indonesian exports were competing. The depreciating silver currencies acted as a bounty to exporters, while imports from countries on the gold standard were discouraged (*pp.52-54*). In particular the owners of agricultural estates in Indonesia, which produced export crops such as sugar and coffee, did not appreciate the change. They blamed the introduction of the gold standard for the economic downturn in the 1880s.[13]

In principle there was some truth in this suggestion, as even Van den Berg acknowledged at the height of the crisis (*pp.49, 80-82*). But the change in the monetary system was not the main reason why the international economic slump hit Indonesian exporters so hard. One of the main causes was the coffee leaf disease, which ruined Arabica coffee plantations. A second cause was the protection of beet sugar in Europe, followed by the sereh disease in sugar cane (*pp.34-35, 43-44*). The relevance of these factors is illustrated by the fact that Indonesian agricultural export production recovered quickly during the 1890s, despite the continuation of the gold standard. Coffee production was slow to recover after the introduction of new disease-resistant Liberia coffee. But an overhaul of technology and management in the sugar industry, a procedure to prevent the sereh disease and the development of the United States as an important new market for Java sugar contributed to the recovery of sugar exports. Moreover, the absence of an exchange risk encouraged foreign investment in Indonesia. It is likely that the monetary system contributed to the economic recovery of the 1890s and was one of the cornerstones of economic growth after 1900. Until 1877 the circulation of the guilder had largely been limited to Java and the administrative centres in the Other Islands. Especially in Sumatra

13. The minutes of meetings of associations of plantation owners in *Tijdschrift voor Nijverheid en Landbouw in Nederlandsch-Indië* indicate that the discussion on this issue peaked during 1887 and 1888. There are several publications on the issue. One opponent of the gold standard published a widely discussed tract. The author, an anonymous merchant, commented extensively on Van den Berg's report to the Britsh consul in Batavia: "De Handel en de Muntquaestie", *De Locomotief* (3, 4 and 5 May, 25 and 27 July 1887). The President of the Java Bank addressed the arguments of his opponents at length in speeches and in major publications during both years. He also acted to accommodate the impact of the crisis, amongst others by extending mortgage lending by the Java Bank to troubled private entrepreneurs.

and Kalimantan the Mexican dollar was widely used, because of the economic orientation of these areas to Singapore. The gradually widening gap between the nominal and intrinsic value of the guilder hardly caused any problems. The public in Java continued to accept the guilder at its nominal value without the originally anticipated confusion. In the Other Islands the exchange rate of the Mexican and later the Straits dollar simply adapted in response to the further depreciation of silver. The monetary system was finally enforced throughout the country during 1904-1908, because monetary reforms in the Straits Settlements threatened to inundate those regions with Mexican dollars from Singapore. In order to prevent economic disruption in Sumatra and Kalimantan, the colonial government purged these areas of foreign silver currencies, especially Mexican and Straits dollars, which were used in the settlement of transactions with China.

The depreciation of silver may in principle have furthered exports and improved the commodity trade balance of Asian countries.[14] Frequent changes of the exchange rate introduced an element of speculation into the trade between countries on silver and on gold standards. Traders were in a position to speculate in commodities and capture an exchange bonus. On the other hand, depreciation increased the cost of long-term international financial commitments. Governments of most Asian countries were borrowing abroad for public investment in infrastructure, such as railways. In terms of silver currencies, the burden of servicing these foreign debts increased with the depreciation of silver. Moreover, the depreciation of the silver generated domestic inflation. This happened at a time when trade contacts of Asian countries with Europe and North America continued to increase at the end of the nineteenth century.[15] Inflation and the expansion of the economy due to international trade caused a shortage of silver money. Hence, in contrast to colonial Indonesia, the interest rates in silver countries were relatively high and unstable at the end of the nineteenth century.

---

14. This argument was elaborated by J.A. Nugent, "Exchange-Rate Movements and Economic Development in the Late Nineteenth Century", *Journal of Political Economy* 81 (1973) : 1110-35. But there is little compelling evidence. Hanson questioned the comparability of export performance in gold and silver countries and argued that underdeveloped countries had a much higher export performance potential, regardless of their monetary standard: J.R. Hanson, "Exchange-Rate Movements and Economic Development in the Late Nineteenth Century: A Critique", *Journal of Political Economy* 83 (1975) : 857-62.

15. K. Sugihara, "Patterns of Asia's Integration into the World Economy, 1880-1913" in *The Emergence of A World Economy, 1500-1914*, edited by W. Fisher et al (Wiesbaden: F. Steiner, 1986), pp.709-28.

Monetary Reforms in Asia

Figure 1 indicates that the price of silver continued to fall until 1903. In 1893 India was the second Asian country to introduce monetary reforms after Indonesia. The Indian monetary reforms have been widely described and discussed, but it is not clear whether the report submitted by Van den Berg played a role in this. The government of India relied strongly on British involvement in international conferences aimed at stemming the depreciation of the silver through an international agreement. Only after the last International Monetary Conference in Brussels in 1892-1893 failed to yield such an agreement, did the Indian government suspend the free coinage of rupees.

In essence, the Indian Gold Exchange System developed out of ad hoc measures, because for several years after 1893 the Indian government hesitated to take further measures. During those years India had neither a silver nor a gold standard. The standard was the rupee, the nominal value of which was forced to rise above the intrinsic value. The authorities expected that expansion of the monetized economy and frozen money supply would soon force the rupee to a level at which a stabilization scheme could be introduced. The process took longer than expected, because large supplies of hoarded rupees returned to circulation. In the meantime authorities decided not to introduce a gold standard, because the existing arrangements for foreign payments appeared to generate the desired appreciation of the rupee. Eventually it was decided to continue and perfect the existing arrangements. In 1899 the rupee was formally pegged to the level of 15 rupees to the pound Sterling.

The gold sovereign became legal tender in India, although, just like the gold ten guilder piece in Indonesia, it hardly entered circulation. The public required rupees, which the government started to produce again. The introduction of new rupees rendered a profit to the government. Exporters in India received payments in silver to the nominal value, but the government only had to pay for the intrinsic value of the rupees plus the cost of coinage. Starting in 1900 these profits were accumulated in a special Gold Standard Reserve, part of which was held in gold in London. India's foreign payments were handled by this reserve. Rather than issuing gold to importers in India for foreign payments, the government sold them drafts on the reserve in London. Vice versa, importers in Great Britain received drafts on the rupee part of the reserve in India for their deposits of sovereigns. Hence, the reserve was stocked with profits from the coinage of rupees and the profits from foreign exchange transactions. If the reserve exceeded the required limit, it was used to purchase silver for the coinage of new rupees. New rupees or rupee currency notes were circulated when the demand for money raised the free market exchange rate above the pegged amount.

The reserve increased rapidly, because India had a substantial trade and current account surplus. Had there been a deficit, the reserve would soon have been depleted. A decline in the trade surplus and an increase in the price of silver during 1907-1908 indeed caused such a set-back, but on the whole the system succeeded in maintaining a level exchange rate of the rupee to the pound. To some extent the Indian reserve system functioned as a model for reforms of the monetary system in other Asian countries. Most other Asian countries, except Indochina, China and Hong Kong, implemented similar systems: Japan (1897), Thailand (1902), the Philippines (1903), the Straits Settlements and the Malay States (1906).[16]

Some advantages of the system used in Indonesia over the reserve system have been mentioned above. Some of the disadvantages of the system in Indonesia only became clear during and immediately after World War I. In India the Gold Standard Reserve was able to lower the official exchange rate of the rupee when silver appreciated considerably, while the Java Bank in Indonesia was obliged to keep the guilder at par. The same situation emerged in the 1930s, when the Indonesian government was obliged to comply with the reluctance of the Dutch government to devalue the guilder, although such a devaluation could have alleviated the impact of the international economic slump in Indonesia. The introduction of an Indonesian currency, the ropij or rupiah, remained at the level of discussion during the early 1920s and again during the 1930s.[17]

---

16. General discussions of monetary systems can be found in: E.W. Kemmerer, *Modern Currency Reforms: A History and Discussion of Recent Currency Reforms in India, Porto Rico, Philippine Islands, Straits Settlements and Mexico* (New York: Macmillan, 1916); D.H. Leavens, *Silver Money* (Bloomington: Principia, 1939); and W.F. Spalding, *Eastern Exchange Currency and Finance* (London: Pitman, 1924).
17. G. Vissering, *Muntwezen en Circulatiebank in Nederlandsch-Indië* (Amsterdam: De Bussy, 1920), pp.353 and 378; A.M. de Jong, "De Financieel-Economische Verhouding tusschen Nederland en Nederlandsch-Indië vóór den Tweeden Wereldoorlog en de Geschiedenis van het Indische Geldwezen gedurende de Jaren 1900-1939. Een Terugblik", *De Economist* 94 (1946): 691 and 702-709; W.L. Korthals Altes, "Een Gentlemen's Disagreement. Het Geschil tussen De Nederlandsche Bank en de Javasche Bank in de Jaren 1922-1924 over de Uitkering van Goudwinsten", *Economisch- en Sociaal-Historisch Jaarboek* 50 (1987): 157-185.

Short Bibliography of N.P. van den Berg

The following is only a selection of Van den Berg's publications, which are estimated to number around 190: 100 articles in newspapers in Indonesia and the Netherlands, 60 in journals and 30 discussion papers presented at meetings in both countries and abroad. Many of these publications concern monetary, financial and fiscal issues in Indonesia and the Netherlands. But Van den Berg's interest ranged from comparisons of economic aspects of Indonesia, India and China, to international trade and the management of harbours, railways and mines. Van den Berg also contributed several entries about financial and economic topics to the first edition of the *Encyclopaedie van Nederlandsch-Indië* during 1895-1902, which were reprinted together in one volume in 1907. Another category of his publications are articles on society, politics and banking in seventeenth and eighteenth century colonial Indonesia, most of which were published in *Tijdschrift voor Indische Taal, Land- en Volkenkunde,* the journal of the Batavia Association of Arts and Science. Ten of these historical contributions were published in one volume in 1904.

Van den Berg's personal papers can be studied at the Dutch national archives (Algemeen Rijksarchief, Tweede Afdeling) in The Hague. In addition, one may study the annual reports of the Java Bank (*Jaarverslagen van de Javasche Bank*) and the annual reports on the monetary situation ("Overzicht van de Geldmarkt van Java") in the official colonial reports (*Koloniale Verslagen*) for the years 1874-89. The unpublished documents which Van den Berg wrote in this official capacity can be found in the archive of the Java Bank (now Bank Indonesia) in Jakarta.[18]

On Monetary and Financial Issues:

1862 *Beschouwingen over den Geldsomloop in Nederlandsch-Indië* [Observations about the Circulation of Money in the Netherlands Indies]. Batavia: Van Dorp (published anonymously).
Bedenkingen tegen de Aanmerkingen op de Brochure 'Beschouwingen over den Geldsomloop in Nederlandsch-Indië [Objections to Remarks about the Tract "Observations about the

18. J.T.M. van Laanen, "Het Archief van de Javasche Bank: 125 Jaar Bedrijfs-, Monetaire en Algemeen Economische Geschiedenis van Nederlands-Indië", *Nederlands Archievenblad*, 87 (1983): 275-97.

Circulation of Money in the Netherlands Indies"]. Batavia: Van Dorp (published anonymously).

1863 *De Kwestie over den Geldsomloop in Nederlandsch-Indië* [The Issue of the Circulation of Money in the Netherlands Indies]. Batavia: Van Dorp.

1866 *Bankwezen en Banken in Britsch-Indië. Eene Geschiedkundige Schets* [Finance and Banking in British India]. Batavia: Van Dorp.

1867 *Stukken over de Wisseltrekking van het Gouvernement* [Contributions about the Government Bills of Exchange]. Batavia: Van Dorp.

1869 *Het Octrooi der Javasche Bank* [The Charter of the Java Bank]. Amsterdam: Du Bussy.

1873 *De Munthervorming in Nederland en Hare Gevolgen voor Nederlandsch-Indië* [The Monetary Reform in the Netherlands and Its Consequences for the Netherlands Indies]. Batavia: Kolff.

1874 *De Muntquaestie met Betrekking tot Indië* [The Monetary Issue in Relation to Indonesia]. Batavia: Bruining & Wijt.

1879 *The Silver Question. With an Introductory Chapter on the Present State of the Currency in Holland and Java.* Liverpool: Woollard.

1886 "Ons Muntstelsel en Onze Landbouwnijverheid" [Our Monetary System and Our Agricultural Production]. *De Indische Gids* 8, No.1, pp.289- 297.

The Financial and Economical Progress and Condition of Netherlands India during the Last Fifteen Years and the Effect of the Present Currency System. Batavia: Kolff, 1886 (first edition), 1887 (second edition), 1895 (third revised and extended edition).

1887 "De Voor- en Nadeelen van Onze Tegenwoordige Muntregeling" [The Advantages and Disadvantages of Our Present Monetary System]. *Tijdschrift voor Nijverheid en Landbouw in Nederlandsch-Indië* 34, pp.493-553.

"Onze Muntregeling en Hare Bestrijders" [Our Monetary System and Its Opponents]. *Tijdschrift voor Nijverheid en Landbouw in Nederlandsch-Indië* 35, pp.271-308.

1888 "Feiten of Verzinsels?" [Facts or Fabrications?]. *Tijdschrift voor Nijverheid en Landbouw in Nederlandsch-Indië* 36, pp.685- 712.

"Eene Nieuwe Curiositeit op Muntgebied" [A New Monetary Curiosity]. *Tijdschrift voor Nederlandsch-Indië* 17, pp.37-52.

"La Circulation monétaire et fiduciaire aux Indes Orientales". *Journal des Economistes* (February and March issues).

1894 "Het Muntvraagstuk in Britsch-Indië" [The Monetary Issue in British India] *De Gids*, No.3, pp.1-38 and No.4, pp.1-43.
"De Legende van Indië's Geldnood" [The Myth of the Money Shortage in the Netherlands Indies]. *Indisch Genootschap*, pp.185-88.
1906 "Het Octrooi van de Javasche Bank" [The Charter of the Java Bank]. *De Economist* 54, pp.77 *et seq.*
1907 *Munt-, Crediet- en Bankwezen, Handel en Scheepvaart in Nederlandsch-Indië. Historisch Statistische Bijdragen* [Monetary and Financial Systems, Trade and Shipping in the Netherlands Indies. Historical Statistical Contributions]. The Hague: Nijhoff.
1912 "Een Min of Meer Actueel Vraagstuk" [A More or Less Current Issue (about the establishment of a Mint in Jakarta)]. *De Indische Gids* 34, pp.857-65.
1913 "Nederland en Engeland op Koloniaal Muntgebied" [Colonial Monetary Policies in The Netherlands and England]. *De Economist* 61, pp.233 et seq.

Other Major Publications:

1879 "Historisch Statistische Aanteekeningen over de Voortbrenging en het Verbruik van Koffie", *Tijdschrift voor Nijverheid en Landbouw in Nederlandsch-Indië* 24, pp.427-518. Published separately: *Historical-Statistical Notes on the Production and Consumption of Coffee.* Batavia: Kolff.
1882 *Over Haven-Inrichting en Haven-Exploitatie* [About the Establishment and Management of Harbours]. Batavia: Ernst.
1883 *Exploitatie van Tandjong Priok: Gegevens en Berekeningen* [The Management of Tanjung Priok: Facts and Calculations]. Batavia: Ernst.
De Haven van Tandjong Priok: Staatsexploitatie of Particuliere Exploitatie? [The Harbour of Tanjung Priok: Public or Private Management?]. Amsterdam: De Bussy.
1885 *Debet of Credit?* [Debit or Credit?]. Batavia: Kolff.
1888 "Erfpachtslanden en Volkswelvaart" [Leaseholds and General Prosperity]. *Tijdschrift voor Nijverheid en Landbouw in Nederlandsch-Indië* 37, pp.423-29.
1890 "Onze Roeping in Indië" [Our Vocation in Indonesia]. *De Indische Tolk*, 18 March 1890.

"Onze Spoorwegen, hun Verleden en Hunne Toekomst" [Our Railroads, their Past and their Future]. *Indisch Genootschap,* pp.103-41.

1891 "Het Heden en de Toekomst van de Suikerindustrie in Nederlandsch-Indië" [Present and Future of the Sugar Industry in the Netherlands Indies]. *Indisch Genootschap,* pp.57-91.

1894 "Java's Bevolking en Java's Bebouwing" [Java's Population and Java's Agricultural Production]. *De Economist* 42, pp.1-34.

"De Voorgestelde Wijziging van de Tarieven van In- en Uitvoerrechten in Nederlandsch-Indië" [The Proposed Changes in the Import and Export Duties in the Netherlands Indies]. *Indisch Genootschap,* 146-84.

1900 *Over de Economische Belangen van Nederlandsch-Indië* [About the Economic Interests of the Netherlands Indies]. Amsterdam: De Bussy.

1904 *Uit de Dagen der Compagnie. Geschiedkundige Schetsen.* [From the Days of the East India Company. Historical Essays]. Haarlem: Tjeenk Willink.

GLOSSARY

Acheen	Aceh, Sumatra
Banca	Bangka, island (South Sumatra)
Batavia	capital of colonial Indonesia, now called Jakarta
Billiton	Belitung, island (South Sumatra)
Borneo	Kalimantan
bouw, bahoe	1.75 acres, 0.70965 hectare
Buitenzorg	Bogor , Java
Celebes	Sulawesi
Chambers	the two houses of parliament in the Netherlands
coyan	30 pikuls, 1.85 tons
culture system	System imposed by the colonial government during 1830-1870, which compelled rural households to grow export crops. The payments for crop deliberies allowed households to pay land tax. Also referred to as 'cultivation system'.
Djokjokarta	Yogyakarta, Java
Emmaharbour	port near Padang in West Sumatra, now called Telukbayur. The port was used for coal shipments from the Ombilin mine.
First Chamber	Upper House of parliament in the Netherlands
gallon	4.54 liters
square geographical mile	260 hectares
Makassar	now Ujung Pandang, Sulawesi
mile	1.61 kilometers
pecul	pikul, 61.76 kilograms
sawah	irrigated field used for rice cultivation
Second Chamber	Lower House of parliament in the Netherlands
States General	Dutch parliament, *Staten Generaal*
Tjilatjap	Cilacap, Java
verponding	tax on landed property and houses

PREFACE

In August last the following letter to his address was handed me by Mr N. McNeill, H.B.M. Consul at Batavia:

SIMLA, THE 2ND JULY 1886.

Dear Sir.

In 1873 the Government of Holland, in view of the demonetisation of silver by other European countries, suspended the free coinage of silver, and in 1875 Holland adopted a gold standard on the basis of 1 to 15.62, by permitting the free coinage of gold at that ratio and continuing the prohibition of the free coinage of silver. The adoption of similar measures has been more than once pressed on the Government of India and on the Secretary of State for India; but the decision has always been to make no change, and this decision was based partly on a consideration of the peculiar economic conditions of India, and partly on the belief that the fall in the relative value of silver was probably due to the appreciation of gold rather than to the depreciation of silver.

The Government of India has no intention of proposing any change in the monetary standard of India, but is for many reasons anxious to obtain information regarding the economic condition and progress of Java under the gold standard. The information on the subject which is available in India is extremely limited, and Lord DUFFERIN has requested me to apply to you in the hope that you may be able to assist the Government of India in this matter.

What we are specially anxious to know is the course of wages, prices, profits, imports, and exports, as well as of the public revenue and expenditure since 1870.

It is more than probable that full information on these points will not be forthcoming; but I will indicate the nature of the information required, and trust that you may at any rate be able to supply it in part.

As regards wages, the government of India would like to obtain figures showing the rate of wages every year, since 1870, of labourers, handicraftsmen, such as carpenters and masons, etc[a], domestic servants, clerks, and the lower classes of public servants.

The prices which the Government of India are most anxious to ascertain are those of the more important articles produced in Java, whether intended for export or for local consumption, or partly for the one purpose and partly for the other, and these prices should if possible be given for each year from 1870 to the present time. But the Government will also be glad to have similar information regarding the prices of the chief articles of import.

We do not know whether it is possible to obtain figures showing for each year the profits of the chief industries of Java, whether manufacturing or agricultural, but there will probably be no special difficulty in stating for each year what industries were prosperous or the reverse, and in indicating the causes of prosperity or depression.

In the case of imports and exports, we should like to have a statement of imports and exports in detail for each year, giving, if possible, both the quantity and value of each article, and a note explaining the cause of any remarkable variation in quantity or value.

Of the revenue and expenditure, we should also like to have a full statement for each year since 1870, in as great detail as may be practicable, with a brief note explaining in general terms the causes of any material rise or fall in revenue or expenditure, and drawing special attention to any increase or reduction of taxation, or alternation in system which practically involved an increase or reduction of the burden of taxation.

I may also mention that it would be very desirable to have a statement of the rate of exchange on Holland for each year since 1870, and of the total yearly import and export of gold and silver, distinguishing between gold and silver in the form of coin which is a legal tender in Java, and gold and silver in the form of bullion or foreign coins.

I can not help feeling that in asking for this information, the Government of India is imposing a heavy tax on you; but the question involved is one of very great public importance, and there is no means of obtaining the necessary information in a reasonable time except through your assistance. I need hardly say that the Government of India will gladly defray any expenditure you may think it desirable to incur in collecting or arranging information, or in having it translated into French or English.

Besides the facts and figures which I have indicated above, we should be very glad to have an expression of your own opinion and of that of any persons resident in Java, who have given their attention to the subject, as to whether the condition of Java has been prosperous or the reverse during recent years, and as to what effect the adoption of a gold standard may have had on the welfare of the country. In particular the Government of India are very anxious to obtain an expression of the views of Mr. VAN DEN BERG, President of the Java Bank, on this portion of the question, and trust he will not object to give them the benefit of his opinion.

I remain

Dear Sir,

Yours faithfully,

D. MACKENZIE WALLACE.
Private Secretary to the Viceroy.

Being in possession of most of the information desired by the Government of India, and knowing from experience how extremely difficult it would be for anybody not having thoroughly investigated the matter before to collect all the material required, I did not hesitate in offering my assistance to Mr. McNEILL, as may be shown from the following pages.

Batavia, 31 December 1886.

N.P. VAN DEN BERG