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PROFESSIONAL MONEYLENDERS AND THE EMERGENCE OF CAPITALISM IN INDIA AND INDONESIA*

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Abstract A widely held assumption is that contemporary financial landscapes and regional differences are to a large extent the outcome of historical processes. A recent hypothesis the author put forward was that professional moneylenders are a structural phenomenon of expanding merchant capitalism, and that once the market integration of particular regions has been achieved, professional moneylenders are eventually replaced by banks. Alongside such large-scale professional moneylenders there have always been and still are various small-scale and mostly semi-professional moneylenders. In the contemporary world they are found in great numbers in developing countries. They have been interpreted as structurally supporting capitalism because they provide marginalised people who are beyond the scope of banks with purchasing power for the commodity markets based upon credit.

In this paper the author compares large-scale professional moneylenders of pre-colonial/colonial India and colonial Indonesia. The analysis shows that particularly non-Western bankers emerged in India, while in Indonesia comparable financial agents seem to have existed only in limited numbers. What seems to speak against the above hypothesis can be interpreted as follows. While the structure of expanding merchant capitalism provides a framework in which such non-Western bankers may emerge, the particular world market integration of trade during the expansion period and colonial policy may develop different financial landscapes with regard to economic opportunities for private enterprise.

Introduction

Rural (and to a lesser degree urban) finance nowadays forms one of the key concepts of development planning. Assuming undercapitalisation at the grass-root level to be one of the main impediments to development, access to cheap capital has been identified as a means for development. During the 1960s and early 1970s capitalisation was introduced from above and it was expected that finance would trickle down to the village and household level, but this had not been achieved. This made the focus shift to the micro-level (basic needs approach). It was argued that land reforms and providing credit to farmers for the purchase of better seed, fertilisers, and so on, would improve productivity and output. However, what has come to be known as the 'Green Revolution' has again benefitted the larger farmers only. This led to the introduction of subsidised credit programmes for particular target groups.

Nowadays it is commonly agreed that these programmes too have failed, and that they were incapable of reaching the target groups. Reasons for that were identified as ranging from economic limitations on the part of lenders, such as high transaction costs and the risk involved, to causal limitations on the

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borrowers' side, such as high opportunity costs, inflexible banking hours, time-consuming procedures for credit application, non-adaptation to borrowers' credit requirements, customers' resentment about the impersonalisation of credit relations, and so on. In addition, default rates were incredibly high (see, for example, Adams et al. 1984). This caused the development planners to shift their focus again. The main problem now identified was how to open commercial banks to people beyond the scope of normal bank customers. Yet the policy adopted again implicitly applied the black-and-white view of modernisation theory that Third-World economies and financial markets consist of a modern and a traditional sector, and that the latter impedes development for two major reasons: exorbitant interest rates and the provision of consumer credit which does not generate a higher future income and leads to indebtedness.

That the situation is not as simple has been shown by various studies. High interest rates in many cases are due to the high transaction costs, the risk involved and the lender's opportunity costs (see, for example, Singh 1983), and from the perspective of the household it is difficult to make a clear-cut distinction between production and consumption loans. Indeed, banks have certain advantages compared to informal lenders, such as the ability to finance long-term and large-scale loans, to offer additional services, such as consultations, to have refinancing possibilities, and so forth. Nevertheless, informal lenders have certain advantages too. As they belong in many cases to the *Lebenswelt* of their customers, they have good information and therefore low transaction and monitoring costs, while borrowers have low opportunity costs. Procedures for borrowing are simple too. Both lender and borrower know each other personally, there are no fixed office hours, and the borrower can therefore see the lender under cover of the night to avoid village gossip. Even the smallest credit can be obtained, and repayment is adapted to the borrower's requirements.

To overcome this financial dualism, three strategies have been recommended: (1) the 'upgrading' of semi-formal financial agents and institutions to secure the advantages of particular informal lenders (know-how and closeness to borrowers); (2) the 'downgrading' of banks; (3) linking formal banks with self-help groups and using 'peer monitoring' (i.e., group-internal pressure on borrowers) as a means of reducing the risk of lending (see, for example, Schmidt and Kropp 1987; Seibel 1989). Some politicians again are in favour of major state interventionism to eliminate certain informal suppliers, while some experts again rely on market forces to bring down informal interest rates by competition. The result of both options is the same. The dualism will eventually be overcome in a way that will lead to the disappearance of informal finance.

Unfortunately development planners are limited to a narrow perspective that is determined by their professional profile and economic training. Their outlook is mainly confined to the present and future of their specific setting. The past is only implicitly taken into consideration and upholds the dualistic stereotype. It is associated with traditional or at least value-rational action in the Weberian sense, while development is associated with means–end rationalising. My perspective of the past is different in that it has been derived from economic history and political economy. My view is that contemporary financial landscapes and regional differences are largely results of historical processes taking place both on the particular national level as well as on a higher structural level, and that past experience and future expectations influence the contemporary political decision-making of nation-states.[1]

A similar perspective is provided in my recent paper on the Chettiar in British colonial Asia (Schrader 1992). I proposed that professional moneylenders (called 'indigenous bankers' in the Indian context, and similar to the medieval European merchant bankers) are a structural phenomenon of expanding capitalism. In line with Braudel (1979), I considered the transformation of the economy and society from subsistence to market orientation as a secular process which is constantly accelerated or slowed down by specific social formations. The 'indigenous bankers' tended to act as accelerators. They provided pioneering farmers with the necessary capital for the reclamation of jungle land to grow cash crops; they advanced the taxes of entire villages to the pre-colonial and colonial states or salaries to bureaucrats of these states; they financed a wide range of trading activities or themselves traded as merchant bankers; they were state treasurers and minters; and so forth. Perhaps they cannot be called 'entrepreneurs' in Schumpeter's (1974) sense,'[3] but they financed others' entrepreneurial activities.

According to Marx, credit and usury are decisive for the subsumption of a peasant subsistence economy under the capitalist mode of production. The development of banking, he argued, results from the new financial requirements of a changing economy. Banks adapt the interest rate to the conditions of the capitalist mode of production. However, under the capitalist mode of production usury continues to exist and is even liberated from the moral sanctions of the past. It functions under conditions in which people cannot borrow from formal financial institutions, since they are seen as risky borrowers who have no collateral to offer. Marx identified small-scale capitalist production, situations of poverty, and the non-capitalist production of peasants, small-scale producers and small-scale manufacturers who are owners of their means of production (Marx 1970 : 600).

While I argue that once this transformation had been achieved, these professional moneylenders were deprived of their functions and eventually replaced by banks, various small-scale, mostly part-time, moneylenders nonetheless continued to exist. Contemporary moneylenders can be found in great numbers in developing countries, but small numbers can be found in industrialised countries too. Contrary to Marx (ibid.), and in line with the '*Bielefelder Ansatz*' (AG Bielefelder Entwicklungssoziologen 1979), such moneylenders and other informal credit suppliers have been structurally assigned to the capitalist mode of production because they provide credit to marginalised people beyond the scope of banks and are linked to the commodity market as consumers.

On the basis of the argumentation outlined, this paper will analyse the socio-economic function of professional moneylenders in pre-colonial and colonial India as well as colonial Indonesia. To be more precise, I am primarily considering the top end of these financial markets. Specialists in the Indian economic history of finance are faced with two issues in particular. One is the question of growing rural indebtedness during the second half of the nineteenth and early twentieth centuries, which concerns the small-scale agricultural moneylender who is only marginally touched on here; the other is the contrast between the 'indigenous banker' with particular functions and the moneylender who still participates to a considerable degree in the Indian economy. The literature on the Indonesian history of finance, on the other hand, has not been comprehensively reconstructed until now. The important focus of colonial literature is on changes in society and economy and, at the turn of the century, 'ethical policy', two facets of this policy being public credit and public pawnshops. There is no direct evidence that such large-scale non-Western financiers operated in pre-colonial and colonial Indonesia. Relating this analysis to the above argumentation with respect to the socio-economic function of moneylenders in expanding economies, one is led to ask whether there were no such large-scale professional moneylenders who promoted market development in Indonesia, and if not, how we can explain this. To find a possible answer, the financial landscapes in both countries under consideration will be analysed first.

India: Moneylenders, indigenous bankers and commercial banks

1. *Definitions.* Two broad categories of indigenous financial agencies are distinguished, namely moneylenders and indigenous bankers. For a long time a clear-cut legal definition of both categories was lacking. The Study Group on Indigenous Bankers (1971; hereafter referred to as SGIB) maintains that a moneylender lends his own funds, while an indigenous banker acts as a financial intermediary by accepting deposits or availing of bank credit. Another distinguishing feature is that moneylenders tend to engage in cash transactions, while indigenous bankers deal in short-term credit instruments (*hundis*)[4] for financing the production and distribution of goods and services (SGIB 1971 : 9). Indigenous bankers' profits are based on the quick turnover of capital. They prefer lending higher amounts to a limited number of clients. The financing of agriculture is largely confined to moneylenders.

Before I reconsider the history of indigenous bankers, I would propose that we understand the term in a broad sense as 'indigenously developed' or 'non-Western bankers'. The reason for this is that most of the specific castes, such as Chettiar, Marwaris or Gujarati Shroffs, operated either not only or no longer at their place of origin and sometimes even in other countries. This means that they were not considered as indigenous, but alien, at their places of operation from the perspective of the local population.

2. *Indigenous bankers until the mid-eighteenth century.* Without going into detail, it should be mentioned that there is evidence of indigenous bankers prior to the thirteenth century. They had developed trading and credit networks all over India and even beyond, occasionally took deposits, discounted bills and promissory notes, provided guarantees, issued drafts, letters of credit and circular notes, and accepted bills on behalf of their customers drawn on the

authority of letters of credit, issued bank notes, changed money and offered the service of safekeeping valuables. Indigenous banking was a hereditary caste occupation at the latest from the Shastric or Buddhist period onward and emerged as a differentiation from the traders' caste.[5] At least from the medieval period onward, caste names given to moneylenders and indigenous bankers were *sahukar*, *saraf* or *shroff* (English transcription), *seth*, *mahajan* and others. *Bania* was the functional catch-all term for moneylenders and traders (see Enthoven 1975, Vol. 3 : 412–22).

Medieval India, as Habib (1964) defines it, lasted from about the beginning of the thirteenth until about the mid-eighteenth century, i.e., until the introduction of British rule. During the medieval period India had a monetised economy. The Mughal Empire under Akbar eventually introduced a common monetary system, the free movement of goods throughout the Empire, and a more or less similar system of land allocation and taxation (Goldsmith 1987 : 94–112; Dhanagare 1991 : 26–7).

Moneylenders and indigenous bankers could be found all over the country in towns and villages. Almost every peasant required credit – cash and in kind – for bridging the income gap until the next harvest, for paying taxes and revenues, or for organising social events such as marriages and funerals. Rural credit providers were various semi-professional lenders such as village headmen, wealthy agriculturalists, traders, *zamindars* (revenue farmers,[7] revenue collectors and landlords), and some professional moneylenders. Demand for credit came from peasants, artisans, merchants and the nobility (Bhargava 1934; Habib 1964). The rates of interest were high[6] compared with present bank rates, although not necessarily from the borrowers' subjective point of view because of a lack of alternatives, and perhaps not even high if data were available to calculate transaction cost, opportunity cost and risk involved. Repayment was normally made in kind, by providing labour or sometimes by the sale of the debtor's children (Goldsmith 1987 : 113).[8] It seems that moneylending in medieval India was part of everyday life in the Indian village.[9] Loans were usually provided to peasants for short periods until the next harvest.

While the finance for cultivators was provided by various types of moneylenders, indigenous bankers were concerned with the financing of trade, nobility, the state and the emerging East India Company.[10] Most of them were merchant bankers comparable in their mode of operation to the European merchant bankers of the late medieval period, namely trading, providing finance to other traders and doing bill-of-exchange business. Commercial interest rates varied considerably according to place,[11] which indicates the imperfection and lack of transparency of the money market during this period. In addition to these 'productive' loans, indigenous bankers provided considerable non-agricultural consumer credit to the nobility (Habib 1964 : 394–409; Goldsmith 1987 : 114–15; Rau 1938 : 290).

To summarise, medieval India consisted of a complex web of cash and kind credit ranging from the village level to the highest commercial plains. Three types of credit agents existed: (a) moneylenders for the financing of agriculture;

(b) indigenous bankers for the financing of trade; and (c) certain top indigenous bankers for the financing of the state and East India Company. During the Mughal Empire some top bankers were treasurers and minters, financiers of the government production units (*karkhanahs*), of extensive and expensive Mughal architecture (mosques, tombs, pleasure gardens), and of the frequent wars. Before the days of Akbar, some had also been assayers and money changers, functions which were handed over to bureaucrats and *zamindars*.

Also worth mentioning is that such 'specialised financial agents'[12] existed in spite of the strict prohibition of *riba* (interest) by the Koran. In Mughal India, as in other mercantile countries, means were found to circumvent this prohibition, such as risk-sharing in commercial finance, or the introduction of secular judges for commercial law in addition to Muslim judges for civil and criminal law.

With her 'great firm theory', Leonard (1979) goes beyond a pure description of indigenous bankers during the Mughal period and makes them at least partly responsible for the decline of the Mughal Empire. Bankers and merchants are usually considered as forming unproductive and segmental rather than strategic elites, being autonomous, apolitical, passive and parasitic in character, and profiteering from the imperial powers (ibid. : 154). They are even classified as being traditionally minded, non-entrepreneurial and conspicuous, and as impeding capitalist development. Such perceptions of merchant capital and common explanations for the decline of the Mughal Empire[13] neglect the importance of the mutual dependency of such bankers and the state. Leonard's argumentation runs as follows. The rise and maintenance of the Mughal Empire had required a coalition between strategically important groups and institutions to suppress various oppositional elites. A strong central administration was introduced to maintain power. Traders and bankers were important for the provision of goods and cash to the 'unproductive' administration. A monetised market economy and a complex system of credit already existed. The 'great firms' were multi-purpose enterprises which included indigenous banking. They supported the rise of the Mughals and their consolidation of power, and in turn obtained personal and political conditions which were advantageous to their business. Once the trade opportunities in Surat harbour declined from the late seventeenth century onward due to the lack of state protection, these firms began to look for better business opportunities. Many of them reoriented their business towards other emerging powers in India, particularly to the East India Company, by moving their enterprises from Gujarat to Maharashtra or Bengal.

This already shows the flexibility of indigenous bankers to constantly adapt to the changing circumstances. It was probably the prospect of the decline of the empire which made these firms move their capital to other, more prosperous, regions and powers, in the same way as the declining market shares of indigenous banking towards the end of the nineteenth and early twentieth centuries caused them to withdraw from banking and invest in industry.

Leonard's argumentation is supplemented by Subramaniam (1987 : 510),[14] who even speculates that the rise of the East India Company on the West Coast was due to the finance provided by the Surat and Benares indigenous bankers, and that they accelerated the fall of the preceding rulers by cutting their credit lines. Both authors emphasise the changing coalition between politics and finance. Toward the end of the eighteenth century, however, the British began to reflect on how they could free themselves from their dependency on indigenous bankers. They began issuing government bonds and set up their own banks. The lessening dependence of the British coincided with a gradual reduction in the functions of indigenous bankers in their territory. Revenue farms were abolished in 1778, export/import trade and minting rights were eventually monopolised by the East India Company, and a single currency was introduced for all-British India (1835). In addition, the British renounced the takeover of debts of former rulers to indigenous bankers. One could argue that after the power of the East India Company was consolidated and the export as well as Indian markets established – i.e., once the risks were reduced – British banks took over the financing of trade and of the colonial administration.

While Leonard and Subramaniam emphasise the dependence of the political powers on the economic powers, Torri (1991) considers the position of indigenous bankers in British India as weak, because they neither formed a class nor had any lobby (e.g., a professional organisation). To my mind, the question of whether the indigenous bankers' position toward the East India Company was strong or weak is not as important as the shift of their coalition from a declining to an emerging political power. This reorientation was possible because of their mobile property. Nevertheless, the advantages of this new coalition were short-lived.

3. *Indigenous bankers in British India and independent India.* The reduction in the functions of indigenous bankers, however, does not mean that they disappeared. The SGIB (1971 : 13) argues that the reason for their survival was their continuing separate existence without any links to the early European banks. To put it in more precise terms, they had a different clientele than banks. It overlooks the fact that the rise of these banks and the decline in indigenous banking business are somehow interrelated. As already explained, I consider indigenous bankers as structurally belonging to expanding capitalism. They financed the emerging mercantile states and economies, and can be interpreted as a 'strategic group' (Evers and Schiel 1988). In spite of the fact that the British managed to sever their links with indigenous bankers, the latter nonetheless found a niche in domestic trade and its financing. To put it another way, perhaps it was the belief of the British in economic liberalism and a self-regulating market that they failed to introduce – parallel to the decentralised administration – a well organised and decentralised financial system ranging from the lowest level of popular savings and credit institutions, public pawnshops and cooperatives, to the highest level of commercial banks for foreign and domestic exchange.

Tomlinson (1979 : 8) characterises the financial markets during the colonial period as consisting of three different levels which were only weakly linked: (a) British exchange banks with their branches in India; (b) Indian import–export firms and Indian and expatriate joint-stock banks; and (c) indigenous banks. I would like to make another three-tier distinction: (a) an upper sphere consisting of the financing of import–export trade and the colonial state by banks and British import–export firms; (b) an intermediate sphere for the financing of domestic trade by indigenous bankers who were able to borrow from banks; and (c) a lower sphere that financed agriculture (different types of moneylenders). However, in addition to the organising and financing of domestic trade in India, the British expansion into Burma, Malaya and Ceylon provided new opportunities for indigenous bankers by financing pioneering activities in trade and agriculture, and through the opening up of these regions for cash-crop production and the world economy. This was risk financing in which banks were neither willing nor able to participate.

Increasing rural indebtedness and land alienation during the second half of the nineteenth and early twentieth centuries eventually caused the British to intervene in the financial market by passing moneylender and usury laws. This highly reluctant attitude can be explained by the dilemma faced by the British that moneylenders advanced the taxes and revenues of cultivators and whole villages to the government, while the administration was simultaneously afraid of peasant revolts resulting from increasing rural indebtedness and land alienation (see, for example, Dhanagare 1991). The laws introduced required, generally speaking, the registration and licensing of professional moneylenders, an adequate record of transactions and accounts, and the issuing of receipts for all payments made by debtors. However, since only few moneylenders were professional lenders, the semi-professional ones concealed their business with other activities. The policy of intervention in the financial market was continued after independence. Depending on the particular Indian state, indigenous bankers have been more or less affected by these regulations. Considered as a whole, the relative and probably also absolute importance of informal finance has declined during the post-colonial period.[15] For 1968, the SGIB (1971 : 113) estimated a total of almost 34,000 moneylenders and indigenous bankers, of which more than 19,000 were urban based. This demonstrates that formal and informal finance are not necessarily mutually exclusive.[16]

The interest rates of indigenous bankers varied according to place, type of loan, the security provided, duration, and so on. Prevailing interest rates reported for the 1970s are 18–24 per cent for secure loans, and 24–36 per cent for loans with inadequate security, respectively. Risk loans carried an interest rate of between 6.25 and 12.5 per cent per month (Timberg and Aiyar 1980 : 280). Compared to commercial banks, the rates of indigenous bankers are usually higher. On the other hand, indigenous bankers who accept deposits tend to provide better deposit rates than banks.

During the nineteenth and twentieth centuries, the important indigenous Indian bankers were Multanis, Gujarati Shroffs, Marwaris, Nattukottai Chettiar and the Kallidaikurichy Brahmins. Most of them have combined banking with trade, and nowadays also with commission agency business or hire-purchase financing. The bulk of credit provided is for trade and industry. In particular small and young enterprises without physical security do not obtain formal finance.

The integration, rather than elimination, of indigenous bankers in the formal money market has been discussed for some time (see Indian Central Banking Enquiry Committee 1931; SGIB 1971). The indigenous bankers' associations, which were established this century to protect their interests, have renounced the control of their businesses. The SGIB considers the role of indigenous bankers as an indispensable link between the organised banking sector and particularly neglected sectors of the economy, such as small-scale trade and industry. With the nationalisation of the commercial banks in 1969 and 1980, and the application of a multi-agency approach by the government, formal credit has been geographically and sectorally expanded (Bouman 1989; Balamohandas 1991) and the linkage idea has been dropped. The expansion of formal credit has provided new competition for indigenous bankers. However, to this day the still active ones have found niches which are insufficiently serviced by banks or government credit programmes.

To sum up the long-term development of indigenous bankers in India, the majority originated from traders' castes and shifted to merchant banking or pure banking even before the advent of British colonisation. The Mughal period is generally considered to have been the heyday of indigenous banking business. During the later days of the Mughal Empire, and especially with the emergence of British India, indigenous bankers were deprived of some of their former functions. On the other hand, the colonial economy provided certain intermediary business opportunities, such as up-country trade and guarantee brokerage, or through the opening up of certain regions for cash-crop production and plantations. Increasing British intervention in the financial market through the introduction of moneylenders and usury laws during the late colonial period as a reaction to growing rural indebtedness and unrest (see various banking enquiry committees), which was also pursued by the Indian government after independence, and the promotion of formal banks[17] have led to the diminishing importance of indigenous bankers. How then did indigenous bankers react to their loss of market shares? To answer this question, we have to apply a broad perspective to the emergence of Indian industry.

4. *Indigenous bankers and industrial entrepreneurs.* Early twentieth-century industrialisation in India was concentrated chiefly around Calcutta and Bombay. The period from the turn of the century until the Second World War is characterised by a decreasing European and increasing Indian share in the market. Several indigenous industries developed, for example, steel, textiles, cement, refined sugar, matches and paper, and chemical industry. Nevertheless, the British continued to dominate industry until 1929.[18]

Bagchi (1972 : 440) argues that the emergence of industrial entrepreneurs in India is far better understood if we connect their origin with trade in general (and I think that one can use this term broadly to include indigenous banking), and the opening up of opportunities in particular fields and regions, rather than with specific castes. This argument is supported by Goswami (1985, 1989) who considers the period 1935–40 as a structural break in which Marwaris, Gujaratis, Parsis, Punjabis and other indigenous bankers diversified their businesses. Most of these firms had accumulated their capital from trade, contracting, speculation and finance (Ray 1979 : 276). This coincides with a phase in which the Chettiar in Southern India became involved in joint-stock banks. However, their major entry in industry occurred as late as the 1950s and 1960s, when Chettiar nuclear families began to pool their capital in 'business combines' of related families (Ito 1966; Pavadarayan 1986).[19] The growth of Indian industry correlates with the growing importance of Indians in administration (Bagchi 1972 : 440) and with the political independence movement (Ray 1979 : 307).[20]

To summarise, the long-term perspective reveals the switch of certain Indian trading groups in medieval India to indigenous banking – as a specialised financial activity or an additional one – and later, with the collapse of the colonial system, from indigenous banking to industry. This shows the great adaptability of such entrepreneurial groups to changing circumstances and opportunities. This evidence supports my argument that indigenous bankers are a structural phenomenon of a particular period of expanding capitalism, with an eventual substitution by banks. However, it is worth mentioning that the same business groups shift their capital to other economic sectors if they offer more promising opportunities of capital accumulation. This contrasts with the Weberian assumption that industrial entrepreneurs do not usually originate from trading backgrounds.

Indonesia: Moneylenders, Chinese networks, commercial banks and government credit

A review of the literature on the Dutch colonial period reveals that formal and informal finance were not so much a topic as they were in India. Nevertheless, two main issues can be identified: (a) the general question of monetisation and credit in a dual economy,[21] and (b) the particular question of rural credit provided by moneylenders, and the popular credit system established after 1900.

1. *Pre-colonial and colonial economy.* In contrast to the highly developed economy of medieval India, scholars describe pre-colonial Indonesia as a predominantly agricultural and static subsistence society, with only a limited division of labour and exchange within the village (Van Leur 1955; Wertheim 1964; Suroyo 1987), which is said to have remained largely unchanged until 1800.[22] Surplus was extracted by the feudal elites through taxes, rent in kind, corvée labour and, to a limited degree, money. During the period of the VOC (*Vereenigde Oostindische Compagnie*, the Netherlands East India Company), regional rulers (*bupati*) were required to supply agricultural products such as rice, coffee, cotton and labour, either against small compensation (*contingenten*) or for free (*verpflichtete leverantien*). The regional rulers in turn forced the peasantry to deliver these in addition to the revenue for the rulers. Hence, the view of the static, self-sufficient and egalitarian village was rejected by Breman (1980) and Boomgaard (1986). Nevertheless, compared with pre-colonial India, Indonesia as a whole was, particularly before 1800, less monetised and less integrated into world trade.

The colonial government's budgetary deficits and the economic interest in exploiting the colony led to the introduction of the Cultivation System[23] in 1830, which lasted until around 1870. The colonial government, just like the VOC before it, always employed middlemen (Westerners, Chinese and *priyayi*, i.e., the indigenous nobility) to communicate with the population, which came to be known as 'indirect rule'. The Chinese initially worked as coolies, traders and moneylenders, as well as revenue farmers. In trade they performed the intermediary function between Europeans and the indigenous people. They organised the flow of goods for export from the infrastructurally undeveloped inland areas to the ports.

On Java the change from *cultuurstelsels* to private enterprise and the Agrarian Law from 1870 onward brought some changes for the villages. Forced labour was now replaced by wage labour, forced provision of land for the cultivation of export crops by land rent and land leases, while the state appropriated all the land that could not be proved to be private (*domeinverklaring*). Furthermore, land transfers to foreigners were prohibited (Burger 1939, 1975; Suroyo 1987).[24] However, the penetration of the money economy into village life cannot be generalised for the whole of Indonesia. Generally speaking, the Outer Islands were always more integrated into the world economy than Java, and particular regions and even villages were drawn more into the market than others.

Toward the end of the nineteenth century, a significant decline in indigenous welfare set in. The sugar crisis in 1884, population pressure and the increasing scarcity of land impoverished the rural population. A call for state intervention to secure Javanese welfare was made, which seemed to be a reflection of the *Zeitgeist*.[25] This call was made manifest in the 'ethical policy', which was the equivalent to the 'White Man's Burden' of the British colonial system. Two particular aspects of this ethical policy were the later popular 'people's credit system' (*Volkscredietwezen*) and government pawnshops (*pandhuisdienst*).

2. *Credit*. Gonggrijp (1922) outlined a three-tier structure of credit, according to the model of the dual economy, for colonial Indonesia: (a) Western credit in the export sphere; (b) customary forms of credit in the traditional sector; and (c) various other forms of credit in an intermediate sphere. I shall propose a preliminary distinction between two levels. The upper sphere consisted largely of financing exports, estates and factories processing export crops. This was particularly the sphere of state credit, later bank credit, and of exporting firms' advances to intermediaries, estates and processing factories. This sphere is comparable to the upper sphere of finance in India. During the Cultivation System period some agricultural production – such as sugar cane and its processing – were excluded from government monopoly and sub-contracted to private enterprises which obtained government credit and delivered the crops to government stores. The abolition of government credit for the contracting enterprises during the mid-nineteenth century,[26] and the switch from government to private cultivation in 1870, created a demand for capital, which led the commerce sector to apply to the government for the establishment of banks in 1882. Large-scale

private indigenous credit probably played an insignificant role in financing the cultivation of these export crops and export in general.

The lower sphere of credit comprised: (a) traditional credit relations in kind within the village, which were subject to moral obligations and customary law with respect to loan conditions and interest rates, and (b) commercial credit relations of merchants-cum-lenders and pure moneylenders. On this level of credit it is possible to see parallels with various small-scale credit relations in India. One such form was consumer credit, in cash or kind, which was to be repaid in kind after the harvest (see, for example, Van Deventer 1904 : 228). Typical of such forms of credit were advances made by Chinese agricultural merchants to farmers on standing crops (*ijon* or *ngidion*) and other crops.[27] Another type of lender was the mostly urban-based professional moneylender, generally a foreigner: predominantly Chinese, but some were Arabs, Chettiar and Europeans. Parallel with progressive monetisation came an increase in credit relations and rural indebtedness.[28] According to Gonggrijp (1922 : 540), borrowing from indigenous rather than from foreigner moneylenders carried greater risk for farmers since land transfer to the latter was prohibited by law. Private landownership, which was found predominantly in West and East Java, allowed for the mortgaging of land to indigenous lenders. In what follows we shall investigate in how far Asian and European moneylenders provided a separate sphere of financing domestic trade comparable to that of indigenous bankers in India.

3. *Asian and European moneylenders.* There is not much reference to Arab moneylenders who used to operate between Cheribon and Semarang. Whether they were prejudiced or not, colonial writers have described them as the most usurious and violent lenders. European moneylenders worked secretly, so that hardly any data are available on them. Indigenous moneylenders were generally an exception.[29]

Tjina mindering[30] are the Chinese itinerant moneylenders on Java who provided small-scale instalment credit to villagers, market vendors and small artisans. Since they lent on personal security, their debtors were not in danger of losing land or their means of production, such as buffaloes. Nevertheless, they contributed to increasing rural indebtedness. They rode their bicycles through the markets and villages to their customers to collect instalments and to offer new loans. Various sedentary Chinese combined their activities as merchants and shopkeepers with trade, so that their moneylending generally remained concealed. In addition to the cash and kind arrangements of Chinese crop merchants, who advanced money to agriculturalists under the *ijon* and similar systems (during the 1970s the Indonesian government set about eradicating these systems; see Partadireja 1974), other Chinese merchant lenders and pure moneylenders provided credit against promissory notes. Loan and instalment schemes were offered in accordance with the requirements of the borrowers.[31] One particular group of borrowers were civil servants and employees. For this group colonial scholars report comparatively high interest rates.[32] The biggest urban lenders offered mortgages to Chinese traders or European businessmen, and they employed lawyers to set up legal contracts and to represent their affairs. These lenders' interest rates have been reported by different scholars to be reasonable from a European point of view. Many such Chinese lenders continue to operate until this day.

What has been overlooked by Chettiar researchers is that some Indian-based Chettiar agency networks were not only widespread among the British and Indian colonies but extended to the Dutch colonial system too. Their business on the East coast of Sumatra[33] was similar to other countries (see Schrader 1992). They had bank overdrafts and accepted deposits. Moneylending was normally on a scale ranging from f 100 to sometimes f 50,000, usually against promissory notes. Repayment was in instalments or as a lump sum. Collateral was required for large amounts of credit. The normal interest rates for Chettiar loans were 12–24 per cent per year for bigger loans and higher for smaller amounts (Schoorl 1926). The total capital of the seventy Chettiar in Medan has been estimated to be f 10–12 million. The profits of a Sumatran agent after a three-year period amounted to between f 20,000–50,000, but sums as high as f 90,000 and f 200,000 have also been reported. Westenenk (1922) argues from the macro-perspective that Chettiar activities drained millions of guilders out of the country. What he does not see is that Chettiar loans were mainly productive loans which were used to generate an income for the borrowers, thus raising the gross national product.

On the basis of the amounts lent, Chettiar and various sedentary Chinese lenders belong to an intermediate level of credit, comparable perhaps to some indigenous bankers in India. Nevertheless, the number of such lenders was quite limited. Indigenous banking firms in India had far-reaching financial and trading networks, and the Chettiar on Sumatra were outposts of such Indian-based firms. How far did comparable networks reach among the Chinese, and in how far did the *Tjina mindering* belong to such networks?

4. *The economic role of the Chinese in Indonesia.*[34] Chinese migrants to Indonesia have been engaged in trade for centuries. With the arrival of the Europeans, foreign trade was eventually controlled by the Westerners, while the Chinese took on various intermediary functions. In addition to coolie labour which by far outnumbered other kinds of jobs, they were engaged in trade between indigenous cultivators and export companies, revenue farms, contracting for public work, sugar and saw mills, distilling arrack, or worked as artisans. Various revenue farms were contracted out during the nineteenth century.[35] A decree was issued in 1835 with the introduction of the Cultivation System to have the '*freemden Oosterlingen*' (foreign orientals) live in their own quarters under an officer of their own nationality. In 1837, new Chinese immigration was banned, a ban which was, however, lifted due to a shortage of skilled labour. The pass law, which restricted the free travel of Chinese on Java and obliged them to apply for a permit, was revised in 1863 but continued.

Rush (1990 : 83–107) describes the role of the Chinese in opium farms which were established in 1809 and replaced by the Dutch-managed opium bureau, the *regie*, in 1904. His description of Chinese patronage networks is interesting for our purpose. In many cases the revenue farmers held high official positions with considerable power over the Chinese community. Moreover, revenue farmers were privileged in that they were exempted from settlement and travel restrictions. The revenue farms therefore supported Chinese patronage networks which spread from the coastal cities and towns to the countryside. Various opium farm-cum-officer constellations existed, and each constellation represented a complex network of economic relations, family liaisons, and cultural and contractual obligations. Such constellations included various economic activities, such as revenue farms, commercial agriculture, light industry, and commercial networks for the transport of inland produce to the ports and for the distribution of imports to the countryside, where they were sold in shops and by pedlars, against cash or on credit. In most cases members of the same *kongsi* (joint-residential and business house) held different monopolies within the same region. The opening up of the colony to private enterprise led the Chinese to move into the estate business, construction, transport, and so on. Rush argues that opium farms secured the necessary assets for the *kongsi*. It enabled them to provide credit to farmers for their produce, be it in form of the *ijon* system or cash credit, to be repaid in kind after the harvest, and this allowed them to control the inland trade.

The abolition of monopolies, including opium, in the early twentieth century, and the ensuing direct government control of them deprived the Chinese elite of a large part of their income. This necessitated their switching to other economic sectors, which was facilitated by the capital raised by the leases. Some of the Chinese speculated in sugar and also invested in such industries. Others entered food processing, tobacco or batik factories. Many others again entered trade and commerce, including import-export businesses dealing with other Chinese in Singapore, Thailand, China and Indo-China. However, many of these enterprises were only medium-sized or small family firms, *tokos* (shops) or even itinerant peddling, such as *Tjina mindering*. Only a minority entered heavy industry or expanded into multi-corporate enterprises. Furnivall's (1938) assumption that the Chinese in Java had a strong hold on banking after the First World War has been rejected by The (1989 : 173–4). Chinese engagement in the production of raw materials and in trade was strongest in the Outer Islands.[36]

The analysis of the Chinese business community in colonial Indonesia reveals that there were indeed some multi-functional Chinese networks which to some extent included the financing of trade from the inland areas to the ports. However, much of this finance remained hidden and only few specialised non-Western financial agents emerged.

5. *Volkscredietwezen, Pandhuisdienst and banks.* As already mentioned, land alienation resulting from rural indebtedness was not as much a topic of discussion in colonial Indonesia as in India, because legislation restricted land transfers. Nevertheless, during the second half of the nineteenth century rural indebtedness caused much hardship for the Indonesian population. The global commodity crisis in 1884 aggravated these conditions. Towards the end of the century the Dutch introduced a popular credit system[37] and public pawnshops[38],

which I cannot discuss in this context. However, the introduction of both institutions supports my argument that, contrary to the British, the Dutch hesitated no more to engage in major intervention in the money market than they did previously by intervening in the commodity market through the establishment of the Cultivation System.

For an understanding of the financial landscape of the Netherlands Indies, I look briefly at the emergence of commercial banks.[39] According to Van Laanen (1990), the money market of colonial Indonesia was dominated by Dutch capital (80 per cent of the capital value in businesses was in Dutch hands). However, the market was quite small and severely restricted. Most enterprises kept their surpluses in foreign financial centres. The result was that the Indonesian colonial banks had very limited importance and tasks, and a domestic money market did not develop. The world sugar crisis in 1883–84 caused a distinction between general banking business with short and medium-term credit and agricultural banking business with long-term loans. With the exception of the NHM (Netherlands-Indian Trading Society) and NIHM (Netherlands–Indian Commercial Bank), banks generally withdrew from their agricultural commitments, while the Colonial Bank and Principalities Agricultural Company specialised in agricultural credit. Post office savings banks were introduced in 1898, but the majority of savings accounts were held by Europeans.

To sum up, for a long time the British in India applied a *laissez faire* economic policy which created a space for an intermediate and a lower sphere of indigenous finance. This, however, simultaneously caused increasing rural indebtedness and land alienation. Dutch policy, on the other hand, was mercantile, directed at state production and trading with various state monopolies and revenue farms. This interventionist policy, while permitting a quick reaction to increasing rural indebtedness, did not encourage the development of private entrepreneurship.

Conclusion

In the Netherlands Indies, specialised credit agents comparable to indigenous bankers in India cannot be readily identified, the only exception being the Chettiar in Sumatra, who belonged to Indian-based networks, and some sedentary Chinese or Arab moneylenders. On the other hand, multi-functional Chinese networks ranged from the highest level of revenue farmers-cum-bureaucrats to pedlars and itinerant moneylenders in the countryside. They controlled almost the whole private sector of trade and finance. How can we explain the different financial landscapes of colonial India and Indonesia?

Firstly, a look at the pre-colonial period reveals that large parts of present-day India belonged to an empire with a monetised and partly industrialised economy, which was already highly involved in foreign trade. As shown by Alavi (1962), the British systematically destroyed Indian cottage industry to promote the rise of their own textile production and reduced the Indian economy to the level of raw material production and a market for British products. In contrast, pre-colonial Indonesia was broken up into various states in which rulers, the so-called 'merchant princes', controlled the spice trade, while most of its states had subsistence-oriented economies.

Secondly, during the colonial period the economic and political conditions in England and the Netherlands as well as the colonial practices[40] of the British and Dutch varied. According to Furnivall (1956), liberalism involved a dual aspect: material and moral, economic and social. According to this author, British colonial practice in Asia developed on the premise of the liberal belief that individual freedom and freedom of property and trade would lead to progress. The doctrine of economic freedom implied a monetised economy and merchants to build up a colonial market for the export of raw materials and the import of British manufactured goods. The British constituted the legal framework for a market of factors of production (land, labour, capital). Land became private property and transferable. The import–export trade was advantageous to British private capital. The land revenue system with cash payments provided state finance. However, this *laissez-faire* colonial style produced unexpected side-effects, which were discernible from the mid-nineteenth century onward, such as increasing rural indebtedness and land alienation. The British assumption had been that Hindu morality would serve as an indigenous protection against the disruptive forces of the market. But, despite the growing problems, the British were reluctant to support state intervention in the market. Hence laws dealing with moneylenders and usury were enacted as late as the late nineteenth and early twentieth centuries. Such intervention did not, however, extend as far as introducing a popular credit system as was the case in Indonesia.

In contrast, the colonial practice in Indonesia differed markedly. Tichelman's (1980 : 113–25) analysis matches Furnivall's (1956) description. Tichelman starts out by saying that, in contrast to other colonies, the industrial-capitalist period of colonial exploitation in Indonesia took off very late due to the weak position of Dutch private capital compared with the interventionism of the state.[41] The British colonial interlude (1811–1816) had only limited success in bringing the Javanese peasant into direct contact with the market, due to the stagnation of the entire society, the absence of any dynamic capitalist sector and administrative deficits. This policy, which was applied by the then English governor-general Raffles, was considered highly illiberal and unsuited to the indigenous population by his Dutch successors. In contrast, they believed that the Cultivation and Consignment Systems, which were based on state monopolies and the maintenance of indigenous administrative institutions were more suited to the Janavese character and traditional institutions in Java.

Some private estate enterprise became possible on land owned by the government (*domeinverklaring*) or on land rented from Indonesians when the 1870 Agrarian and Sugar Laws came into force. Tichelman argues that in all colonial phases Indonesian unprocessed and semi-processed products were brought onto the world market by the Dutch, while the indigenous people were denied access to that market and capitalist development. High finance in the Netherlands showed no inclination to invest until the early twentieth century, by which time a number of small pioneering entrepreneurs had successfully taken risks and proved the profitability of investment.

From 1870 onward, but particularly during the twentieth century, private capital began to penetrate Indonesia. This weakened the colonial bureaucracy, which still continued to play the role of the 'protector' of Indonesian society. The late nineteenth and early twentieth centuries involved significant exposure to the monetised economy, a much higher tax burden and labour services for the indigenous people. A major decline in the Javanese standard of living could be observed, which was due not only to economic change but also to severe population pressure. Rural people reacted by returning to subsistence production. The 'ethical period' (1904–1914) produced specific programmes to increase the welfare of the population, such as the popular credit system. Nonetheless, Wertheim (1964 : 96) stated, the ethical policy was not wholly altruistic since Dutch industrialists anticipated growing Indonesian imports with the increasing standard of welfare brought about by this policy. During this decade of 'ethical imperialism', the attention of foreign investors was drawn to the Outer Islands, and the Chinese invested some capital in the cultivation of rubber, coconut, tobacco, and so on.

The years of anti-colonial struggle (1918–19 and 1923–27) took the Dutch by surprise. In the economic sphere, there was increasing competition with foreign capital during this period. The Dutch response to this was reactionary, which strengthened the centralist and authoritarian conservative bloc. Within this framework, rudimentary attempts to industrialise were suppressed and did not contribute to the development of Indonesian capitalism. This period was one of maintaining the status quo and in its wake a deliberalisation of the 'ethical policy' (see Kat Angelino 1929–30).

The differences in colonial practices established in Indonesia and India can be explained by the economic and political conditions prevailing in the Netherlands and England themselves. For the Netherlands, Tichelman argues that the specific evolution of capitalism during the late nineteenth century, which was characterised among other things by the concentration and centralisation of capital and production, monopoly formation, the intertwining of banking and industrial capital, and the growing trend toward falling rates of profit and surplus capital export, had barely begun in the Netherlands. To put it in other words, unlike the British, the Dutch did not expand their own industry by importing raw materials from their colonies to process and re-export them as finished goods to the colonial markets. For a long time they continued a mercantile exploitation policy, in that they appropriated raw materials, and sold them – unprocessed or processed – on the world market. The related monopoly export trade suppressed Indonesian trade and shipping, and confined Java and most of the Outer Islands to agricultural and estate production and mining. An imperialist policy to open up Indonesia as a market for Dutch products was instituted only at the turn of the twentieth century, and was then further delayed by the colonial government.

Taking this macro-analysis into consideration, the lack of specialised non-Western credit agents in Indonesia during the colonial period can be explained in several ways. First of all, pre-colonial Indonesia was largely subsistence-oriented, barely monetised, and only marginally integrated into the world market. The large-scale financing of trade was not required while the states financed themselves by appropriating land revenues, mostly in kind, by corvée labour, and – depending on the region – by state trading and trade revenues. Second, the Dutch mercantile policy during the colonial period aimed at a more or less one-sided movement of tropical produce and mineral resources from the Netherlands Indies to the Netherlands. In such an economy private credit demand was rather limited. The transport to the ports was partly financed by trade credit from the exporting firms to Chinese intermediaries, partly through internal Chinese networks. During the Cultivation System period the estates and certain processing industries obtained government credit, later bank credit which, comparable to India, financed only certain sectors of the economy. In addition, most Indonesian estate production was not very capital intensive. A step toward imperialism, with foreign investment in domestic industries, which was made in India from the late nineteenth century onward, was long delayed in Indonesia.

To sum up my argument: large-scale specialised financial agents were not essential to the Indonesian economy, since the opening up of the country for the market with private capital was not pursued and even prohibited. Private investment was suppressed at least until 1870. Another factor supporting such retardation of private capital investment was the fact that the owners of capital in Indonesia were Chinese. In India, domestic investment in industry was provided by various Indian entrepreneurs who had been mostly traders and intermediaries, while in Indonesia Chinese capital originated from the same sources. However, the Chinese were aliens occupying the commercial sphere in which Indonesians tried to gain a foothold. The resulting, more or less regular, pogroms against the Chinese as well as a nationalist anti-colonial and later national policy goes some way to explain the reluctance until recently of many Chinese to opt for long-term capital investment in a lucrative but very hostile environment.

Last, but not least, this analysis requires me to return to my argumentation at the outset. I shall restate my hypothesis that professional moneylenders are a structural phenomenon of expanding capitalism. However, I would argue that in how far large-scale professional moneylenders emerge depends on particular factors, such as the historical integration of a specific country into world trade, as well as on state and colonial policies which determine the limits of private capital and the relative freedom of its markets.

Notes

1. Some financial policies in the Third World may be reactions to imperialism, for example. Sukarno's strict regulation of financial markets in independent Indonesia was legitimised as anti-Dutch/anti-imperialistic (McLeod 1992), although – as will be shown – the Dutch colonial governments applied similar regulations.

2. The term 'capitalism' will be used in Braudel's (1979) sense of the term, including both merchant and industrial capitalism.

3. Schumpeter stresses the innovative character of entrepreneurs who are considered the engine of economic development. They generate profits by doing new things or finding new ways of doing old things.

4. The *hundi* is an indigenous credit instrument, with various local uses, although it is inconsistent with the Negotiable Instruments Act of 1881. A clear definition of a *hundi* has never been provided by any banking authority. *Hundis* perform three functions: (1) to raise money; (2) to remit funds, and (3) to finance inland trade (for details, see SGIB 1971 : 48).

5. Moneylending was prohibited to the two highest castes, Brahmins and Kshatriyas, and attached to the third caste, the Vaisyas (Manu Code, quoted by Habib 1964 : 411).

6. At the end of the eighteenth century, Hamilton reported interest rates of 12–18 per cent for secured agricultural loans, and 12 per cent for secured non-agricultural loans, in Bengal. The interest rates for unsecured loans were much higher. Moneylenders used to charge 42.5 per cent (Bhargava 1934 : 103–4).

7. Revenue farms obtained the temporary right to collect revenue on their own account through regional or local licences. The revenue farmer 'bought' or bid for such a monopoly and advanced the stipulated sum to the government.

8. This shows that there was not at this stage any distinction between substantive and personal law.

9. Sometimes moneylenders advanced taxes and revenues for whole villages. In such cases, the whole village rather than an individual was the debtor.

10. Indigenous bankers used to finance the trade and wars of the East India Company.

11. Between 1624 and 1665 the rates were reported to have ranged between 0.5 to 1.25 per cent per month.

12. A term commonly used in rural finance is the 'specialised financial agency'. Since indigenous banking firms used to be family businesses or partnership companies I call them 'agents'.

13. Popular views make the increasing indebtedness among peasants and *zamindars*, the resulting rebellions and the inflated superstructure responsible for the decline of the Mughal Empire.

14. Subramaniam argues that the East India Company's shortage of money was, among other things, due to the fact that Bombay as a trading settlement had no hinterland which allowed for the collection of land revenues. This necessitated a continuous transfer of money from the Supreme Government in Bengal to Bombay via the indigenous bankers' networks. Torri (1991), however, rightly emphasises that these transfers can be interpreted only in the context of the Middle East–Surat–Bengal commodity trade.

15. The Central Banking Enquiry Committee in 1929 estimated that informal finance in India financed as much as 90 per cent of total domestic trade. The same figure was provided for 1951. Thereafter, however, its share declined to almost 80 per cent in 1961 and to less than 70 per cent in 1971 (Mamoria 1981 : 65). Bouman (1989 : 13) estimates its share for the early 1980s at around 65 per cent.

16. In commercial and metropolitan centres, the 1961 Census indicates the clustering of indigenous bankers in cities like Bombay, Calcutta and Madras. In West Bengal and Mysore, for example, about 80 per cent of indigenous bankers can be found in urban areas. The high level of economic activity in these regions allows for the coexistence of both indigenous and formal financial institutions.

17. Western banking started with the European agency houses of Bombay and Calcutta which allocated particular banking functions to Europeans. The commercial crisis put an end to these houses. Commercial banks emerged during the 1860s and grew with sporadic ups and downs during the twentieth century. With respect to credit policy in independent India, the early development plans were designed to develop the infrastructure and industry. Commercial banks acted primarily as short-term financiers. With the Green Revolution, the awareness of finance for agriculture and backward areas increased. In time the government adopted a multi-agency approach. Besides the promotion of cooperatives, commercial banks were encouraged to offer more credit to priority sectors. In 1969 and 1980, the government nationalised various commercial banks and systematically extended their infrastructure. The number of offices rose from around 8,350 in 1969 to more than 42,000 in 1983, of which more than half were in rural regions and 9,000 in semi-urban ones (Balamohandas 1991 : 1–21).

18. Tomlinson (1979 : 12–14) explained the slow growth of Indian industrial enterprises by the

cautious attitude of indigenous bankers to finance industry since they traditionally financed trade. However, this was not mere conservatism; India's growing importance in world trade during this period justified their behaviour.

19. I explain this delayed entry into industry by the profitability of financing agriculture in Burma, Malaya or Ceylon until the Depression. Unfortunately, borrowers defaulting on repayments during the Depression turned Chettiar liquid capital into fixed assets (land and other immobile property).

20. Indian industrialists formed the Federation of Indian Chambers of Commerce and Industry (FICCI) in 1925 as a counter-institution to the European Associated Chambers of Commerce (Assocham) in India, Ceylon and Burma. The executive committee of the FICCI consisted of leading Indian capitalists, among them, the Marwari G.D. Birla (Indian Chamber of Commerce, Calcutta) and Sir M.C.T. Chettiar (Southern India Chamber of Commerce, Madras) – see Ray (1979 : 307–9).

21. Later Boeke (1946) developed the theory of dual economies with a traditional and a modern sector – a prototype of modernisation theory.

22. The turn of the century coincides with the winding up of the VOC and a takeover of possessions and debts, which then amounted to 134 million guilders, by the state (Hall 1985 : 500).

23. Originally designed as the voluntary provision of export crops by villagers, the system soon became a matter of forced cultivation and compulsory labour. The products delivered to the government were processed in particular factories or mills, which were established by predominantly European and Chinese entrepreneurs/contractors, with the help of government loans. The processed goods were exported by the state monopoly (*Nederlandsche Handel-Maatschappij*) to the Netherlands and auctioned through international channels. The system ran into trouble after the 1840s, due to overextension and adjustments of land rent assessment, which caused the reduction of areas for government cultivation (Van Niel 1972; Fasseur 1978).

24. According to Kartodirdjo (1973 : 14), the law was not very effective, however, because the population was highly indebted to Chinese and Arab moneylenders. Their indebtedness promoted radical political, anti-colonial and orthodox Islamic movements and leaders.

25. Towards the end of the nineteenth century, the German cooperative movement and the British cooperative movements emerged (Raiffeisen, Rochdale Pioneers). The core idea behind these movements was the necessity to protect the rural population from the harsh effects of market integration and industrialisation.

26. Fasseur investigates the sugar cultures which, under the Cultivation System, still left space for private contractors. They obtained long-term government investment credit, which amounted to seven million guilders in 1844. In 1847, government credit for new sugar industries was abolished. After 1850 no further contracts were issued at all. Until 1860 further public (interest-free) credit was provided for working capital requirements of the existing sugar factories and for factory wages. This credit was set off against the sugar deliveries to the state. From then on, however, they had to seek credit in the private financial market. This was easily obtained because the 'free sugar' provided a valuable collateral for various Dutch private merchant houses (Fasseur 1978 : 68–70).

27. This term originates from the Javanese word *ijo* (green). It is a symbol of the sale of standing green rice plants long before the harvest.

28. Indebtedness was discussed more indirectly than in India. Examples are De Wolff van Westerrode's report from the Preanger (*Adat Rechtbsbundels* II, 1911), Vleming's (undated) investigations or Boeke's (1926) budget studies. Other evidence after 1900 are the introduction of the popular credit system and anti-usury associations (see journal *De Woeker* and various reports of the *Anti-Woeker-Vereenigingen*).

29. Seltmann (1987) mentions that the Kalang, an indigenous group on Java, were also engaged in part-time moneylending.

30. *Mindering*: Dutch for reduction (of credit, paid instalments). Other synonymous terms used are *tjina mindringan* or *toekang renten*. Recent field work in Indonesia has shown that *Tjina mindringan* can still be found in rural Java (Heru-Nugroho 1993). According to Van Gutem (1919), a newcomer migrated to places where kinfolk, friends or village folk already operated as moneylenders. They lived together in *kongsi* (business and residential houses of sometimes three but up to twenty or even more moneylenders). The newcomer needed a patron who taught him the business and provided him with a pack of linen to sell on instalment credit. After repaying the value of this

linen to his patron, he started his own business as itinerant pedlar selling on credit and lending money. Burger (1930 : 397) argues that the increase in *tjina mindering* was closely connected with the abolition of the necessity for the Chinese to carry travel documents for travelling within Java.

31. Van Gutem (1919) reports amounts ranging from f 1 to f 30, sometimes from f 50 or f 100. A decade later writers, such as Burger (1930), mention averages of f 30 to f 50. To provide some examples of typical loan schemes: f 1 in the morning, to be repaid at noon with f 1.01 to f 1.05; f 1, to be repaid in 12 instalments per market day each f 0.10, i.e., f 1.20 total; f 5, to be repaid in 30 days each f 0.20, or in 60 days each f 0.10, or in 12 weeks each f 0.50, or in six weeks each f 1 or in five weeks each f 1.20, i.e., f 6 total.

32. For the 1930s, Coolhaas (undated : 111), for example, reports the usual flat interest rates of 100 to 120 per cent in the case of civil servants and white-collar employees, which is in practice much higher because the loaned sum reduces with every instalment. In addition, these loans were not risky. On salary days, such moneylenders can be found waiting in front of the offices to collect their instalments.

33. It has been reported that the first Chettiar came to Sumatra in 1879. In the 1920s, Medan was the main centre of Chettiar moneylending activities (Westenenk 1922).

34. See, for example, Cator (1936), Suryadinata (1978), Dobbin (1987), Mackie (1988), and The (1989).

35. In 1850, besides the lucrative opium farm, which could be found all over Java (except in certain 'forbidden areas', such as Preanger), the following 'small means' existed: bazaar leases (i.e., the right to tax goods offered for sale in the bazaars), abolished in 1851; the slaughter of cattle and pigs; fishing and the supply of fishing nets, abolished in 1864; the sale of arrack and spirits until 1864; the practice of particular occupations, the poll-tax on the Chinese, the import and cultivation of tobacco; toll bridges, river crossings and sluices; the harvesting of birds' nests; forest timber; the products of the '*Duizend Eilanden*' (Thousand Islands) close to Batavia; *wayang* puppet theatre; pawnshop and gambling house leases (The 1989 : 161).

36. For 1921, Cator (1936 : 64; quoted by The 1989 : 173) estimated a total investment by the Chinese of f 340 million or 10.6 per cent, compared to f 3,350 million or 73.4 per cent by Dutch investors and f 300 million or 9.4 per cent by British investors. Mackie (1988 : 238 ff.) presents data on the occupational structure during the late colonial period, which is based on the 1930 Census. Of the almost 470,000 Chinese in the Netherlands Indies, of whom 183,000 were on Java and Madura, 313,000 and 76,000 respectively were foreign-born. Of the foreign-born, 170,000 and 101,000 were occupied in trade, and of these 5,700 and 4,400 respectively were engaged in the credit business. For Java and Madura the latter numbers are 5,300 and 4,300 respectively.

37. The *Volkscredietwezen*, with its *afdeelingsbanken* (district banks), *desa banken* (village banks) and *desa lumbungs* (village paddy banks), was established in 1913 and designed to provide primarily consumer credit, while cooperative credit agencies, which were only in a rudimentary development stage, were designed to provide longer-term production credit. Their forerunners, which emerged in the late nineteenth century, were a number of grassroot credit agencies. For a good summary, see Schmit (1991), for example.

38. The Dutch took over the contracting out of pawnshops from Raffles. The maximum interest rate was fixed at 6 per cent per month. Revenue farmers were predominantly Chinese. In 1870 the system of revenue farms was replaced by a licensing system. The result was a steep increase in pawnshops from 242 in 1869 to 986 in 1875, while government revenue declined to f 319,000 annually. This led to the reintroduction of revenue farms in 1880 and the provision of better government control. The Chinese reacted by reducing their demand for farms, which resulted in the organisation of public pawnshops towards the turn of the century. In 1900, revenue farms were abolished, and in 1903 the government monopolised the running of pawnshops up to an amount of f 100 on Java and other areas (see Keers 1928; Kat Angelino 1931; Furnivall 1934). Although public pawnshops were not introduced to make a profit, they have contributed to government revenue by 163 million guilders from 1904 to 1938.

39. The major commercial banks were the Java Bank from 1827, which was the bank of issue, the Netherlands-Indian Trading Society (NHM) from 1824, the Netherlands-Indian Commercial Bank (NIHM) and the Netherlands-Indian Escompto Company (NIEM). The NHM and the Netherlands-Indian Agricultural Company, which was founded by the NIHM, accounted for more than half of

total agricultural banking business, namely the financing of estates.

40. Furnivall (1956) distinguishes between colonial policy and practice, and argues that both British and Dutch colonial policies were based on liberal ideology, while colonial practices developed differently: British India from 'direct' to 'indirect' rule, and the Netherlands Indies from 'indirect' to 'direct' rule.

41. An apt description of the growth of capital in Indonesia, which began during the late colonial period, has been provided by Robison (1986).

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