

Colonial Policy, Wage Inequality, and the Birth of Nationalism: The Case of the Dutch East Indies

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Abstract

The origins of the local nationalist and anti-Chinese Sarekat Islam movements (1912-16) are analyzed in the context of colonial policy and movements in industrial wages for subjects of the Indies for the period 1908-17. The analysis reveals a sharp increase in inequality between the ethnic Malay and Chinese communities between 1910 and 1916, the period of the birth and rise of the first movements in Java. It also reveals that this inequality was most severe in a number of residencies of Java, where the movements first took hold. The fact that this increase in inequality was accompanied in the later years by a rise in real wages for both communities suggests the importance of relative wages over absolute wages as a source of political unrest. This study reinforces the assertion of Anderson (1999), that nationalist movements are not born from notions of “absolutely splendid ancestors.” Their origins lie in humbler, and often economic, phenomena.

At the end of the nineteenth century, a significant fraction of the population of the world lived under colonial rule. By the middle of the twentieth century, however, most colonies had attained or were in the process of attaining independence. Since that time, the colonial legacy that these fledgling states inherited has formed a central theme in the study of their histories. Indonesia, the successor state to the Dutch East Indies, and the second largest former colony in terms of population after British India, is no exception. A dominant theme in the study of its past is the question of the extent to which contemporary phenomena are rooted in events and policies implemented during the Dutch East Indies era. Historical thinking about the colonial legacy of the Indies has, however, undergone a major transformation since Indonesia gained independence in 1945. Sukarno's parliamentary democracy coupled with the free elections of 1955 led early historians to view the colonial phase as an aberration in a natural progression towards state formation and self-determination. When Suharto appropriated power between 1965 and 1967 and then ran Indonesia much as the Dutch had done decades before him, however, the colonial phase came to be viewed more as the formative period during which the seemingly immutable foundations of the Indonesian state were laid. The variety of structures and institutions which have functioned since 1965 in essentially the same manner in which they had during the colonial era have been used to illustrate this point. The current transition through which Indonesia is going leaves open to speculation the nature of the lens through which historians will view Indonesia in the years to come, a lens which will surely depend on the nature of the early post-Suharto regimes.

In a number of respects, then, colonial powers left indelible marks on their colonies, marks that, through changes in regimes and governments, have consistently and profoundly influenced the histories of these former colonies. Aspects of colonial policy undoubtedly had beneficial consequences. In the context of Indonesia, and emphasizing a positive aspect of colonial policy, Cribb (1994) writes:

... education and various kinds of technology — gave Indonesians the practical and intellectual tools to assemble a broad national movement for independence.

He quotes Legge (1980):

... it might not seem too much to say that, in Indonesia's case, its nationalist movement was the product of the virtues rather than the vices of Dutch rule.

Legge (1980), p.123

Through a variety of policies existent at the very time at which political identities were forming among their subjects, however, colonial administrations around the world were also laying or helping to lay the foundations for relations between members of different racial, linguistic, and religious communities in the soon-to-be independent states. Perhaps the most dramatic manifestation of these policies is the violence in the mid- and late-1940s between Hindus and Muslims in British India, in which hundreds of thousands of people are said ultimately to have lost their lives, and millions of people were displaced in 1947 in the single largest involuntary migration in human history. Less dramatic but no less profound has been the problem of relations between "Malays" and "Chinese" in Malaysia and Indonesia. In the case of British Malaya, education policy is an example of a mechanism which reinforced ethnic divisions between the Malays, the Chinese, and the Indians.

The focus of this study is an important aspect of the reinforcement, through the prevailing legal, economic, and political institutions of the Dutch East Indies, of a division between the Chinese and the Malays of the Indies. Fasseur (1994), for example, emphasizes the role of legal institutions in reinforcing ethnic divisions in the Dutch East Indies. Tracing the development of a racially classified legal system to the Cultivation System in Java, and Article 109 of the first *Regeeringsreglement* of 1854 in particular, he follows the increasingly discriminatory nature of the legal system. He focuses in particular on its effect on the development by the early twentieth century, especially among the Chinese minority, of a sense of organized separateness from the Malay majority. Van der Veur (1969) is a comprehensive summary of developments in the educational system

in the Indies in this period. He notes, for example, the development in 1908 of the Hollandsch-Chineesche School as the beginning of a government-sanctioned racially classified educational system for Indies subjects. Shiraishi (1994), p.204-205 suggests that the Dutch deliberately reinforced these divisions in the first decade of the twentieth century. He argues that, with the decline of the revenue farming system during the Ethical Period (just after the turn of the century), as the Chinese became increasingly dispensable as economic agents of the Dutch, it was no longer necessary to preserve the security of the Chinese community. To this day, in times of weakness at the center, this cleavage, which has become deeply ingrained in the collective psyche of the Indonesian people, emerges to the surface in violent ways and with tragic results. The anti-Chinese riots in Indonesia during the economic crisis of 1997-1998 were recent instances in a string of similar manifestations of this legacy, which was strongly reinforced by Suharto's adoption after 1967 of divisive and essentially colonial mechanisms of control. The origins of these problems lie in the early 20th century, when the first mass nationalist and anti-Chinese movements, the Sarekat Islam movements, were born.

The analysis of the Sarekat Islam movements has been centered around two questions. As was briefly mentioned and will be discussed in more detail, the first and more heavily studied question is the anti-Chinese character of the movements. Analyses of this issue revolve around the themes of Chinese penetration into the few remaining traditional strongholds of the Malays in the economy, such as the batik industry, and the rise of Chinese nationalism on the mainland. In this context, as previously mentioned, Fasseur (1994) has brought into focus the race-based policies of the Indies government as well. The second question relates to the structure of the Indies economy, and the increasing dispensability of the ethnic Chinese to the Dutch as financiers of the colonies. While both issues are crucial to an understanding of the rise of Sarekat Islam, neither answers the question of why Sarekat Islam was so successful in rapidly mobilizing such a large number of Malays against their fellow Chinese subjects, especially in Java.

In this paper, econometric evidence is presented for the first time that an Indies-wide economic phenomenon, systematic and worsening wage differentials between Malays and

Chinese, was in part responsible for widespread and worsening anti-Chinese sentiment. Wages for subjects of the Dutch East Indies for the period 1908-17 are analyzed in the context of the rise of the local Sarekat Islam movements (1912-16). Using data from the Colonial Reports (*Koloniaal Verslagen*), a comprehensive picture of the industrial labor market in the Dutch East Indies is constructed. The data are utilized to resolve a number of issues about the birth of Indonesian nationalism. In particular, the nature of differences in industrial wages paid to Chinese and Malays are shown to be consistent with claims made by leaders of the movements and by subsequent historians about the broad inter-ethnic income disparities in the Indies. This study provides concrete evidence for the economic nature of the movements. Particularly interesting are questions about the timing, location, and mass support that Sarekat Islam received, and that differentiated it from the Budi Utomo, the smaller and less successful movement that preceded it. The analysis reveals a rapid increase in wage inequality between the ethnic Malay and Chinese communities between 1910 and 1916 (see Figure 8a, attached), the period of the birth and rise of the first anti-Chinese Sarekat Islam movements in Java. It also reveals that this inequality was most severe in a number of residencies of Java (see Figure 9, attached), where the movements first took hold and then rapidly spread outward across the Indies. And, because the wage differentials were generally largest at the lowest level of skill, the *koolie* level, at which most industrial labor was employed, the fact that the movements received mass support is not surprising.

This study is a contribution to a variety of aspects of economic research. It is one of few econometric studies based on detailed wage data of an important cause of racially motivated political unrest, and perhaps the only one to focus on the birth of nationalism in a colony. It provides a comprehensive picture of industrial wage structure in the Dutch East Indies. It sheds new light on the economic basis for the particular movements analyzed, the Sarekat Islam movements in the Dutch East Indies. It also draws a sharp distinction between the character of this phenomenon on Java, the island of origin of the movements, and the "Outer Islands," including Sumatra, Borneo and Celebes (now Sulawesi), to which Sarekat Islam spread as it gained momentum.

In addition to its implications for economic research, this study also informs the study of nationalism, as exemplified by Anderson (1991,1999), both of which draw on the Indonesian case for illustrative purposes. In particular, the birth of Sarekat Islam as an anti-Chinese phenomenon suggests that nationalism in Indonesia had its origins not in some benign notion of Indonesian-ness, but rather in the more mundane and less innocuous forces of socio-economic cleavage that divided Indies society at the time.

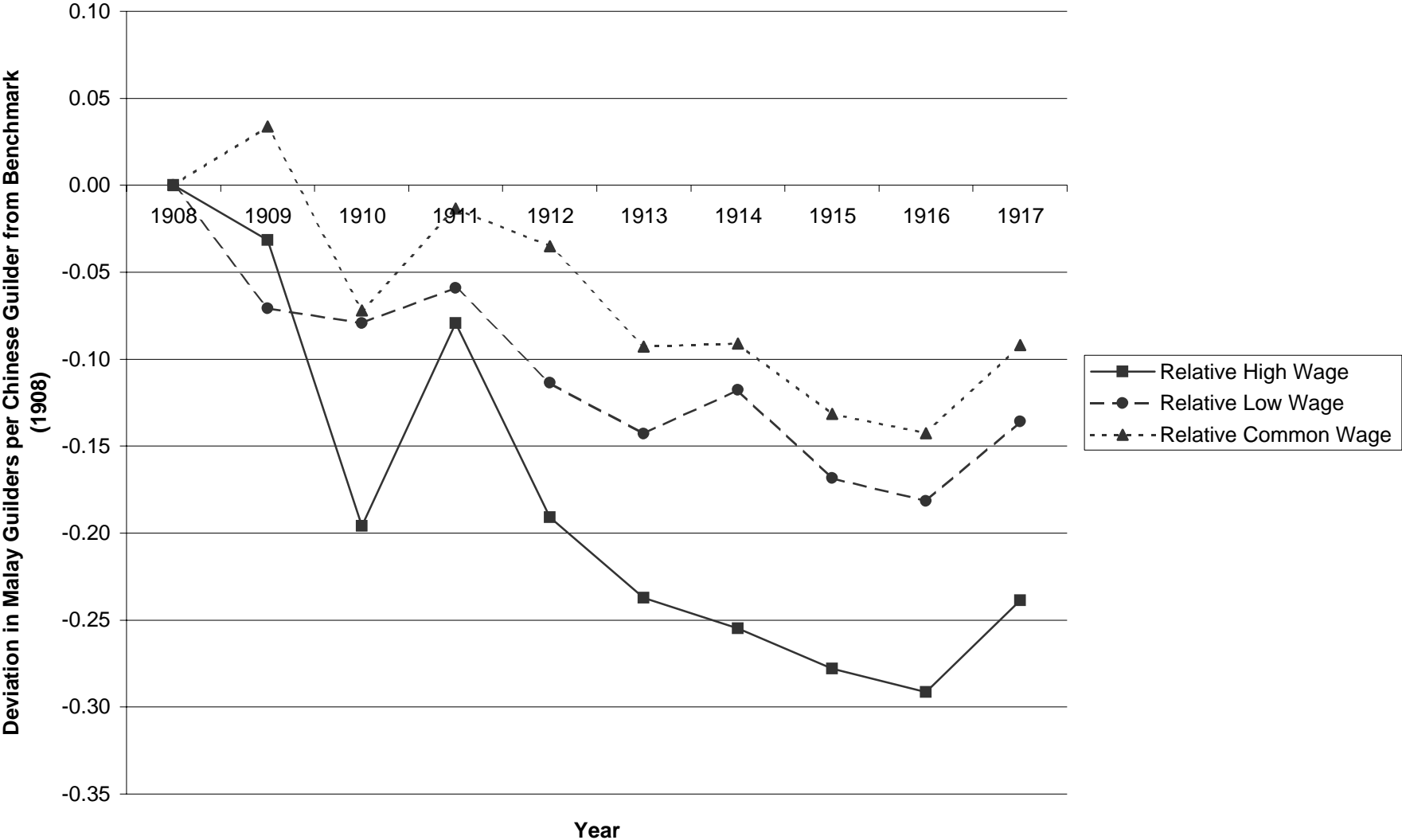
From an economic perspective, one finding of this study in particular stands out. The increase in inequality between the Malays and Chinese was accompanied by stable, if not rising real wages for *both* communities, albeit with a noticeable dip in 1912. This suggests the importance of relative wages over absolute wages as a source of political unrest in plural societies. This is a subject that has received substantial attention in the broader economic literature, and is still debated among economists, although the Pareto principle, which emphasizes absolute utility (and, by extension, absolute real wages) as opposed to relative utility (and, by extension, relative wages), is often implicitly assumed in neoclassical analyses of welfare. To the extent that *relative* and not absolute wages affect our perception of welfare, the notion of the Pareto principle becomes questionable, and the concept of one person or group becoming better off without any other becoming worse off in absolute terms as an overall improvement for society loses some of its real-world relevance. This study should be considered evidence in favor of the relativist position on welfare — absolute wage gains for both the Malays and the Chinese alike occurred in tandem with unrest in the Indies, at least in part because the Chinese gained disproportionately from the prosperity of the pre-Great War years.

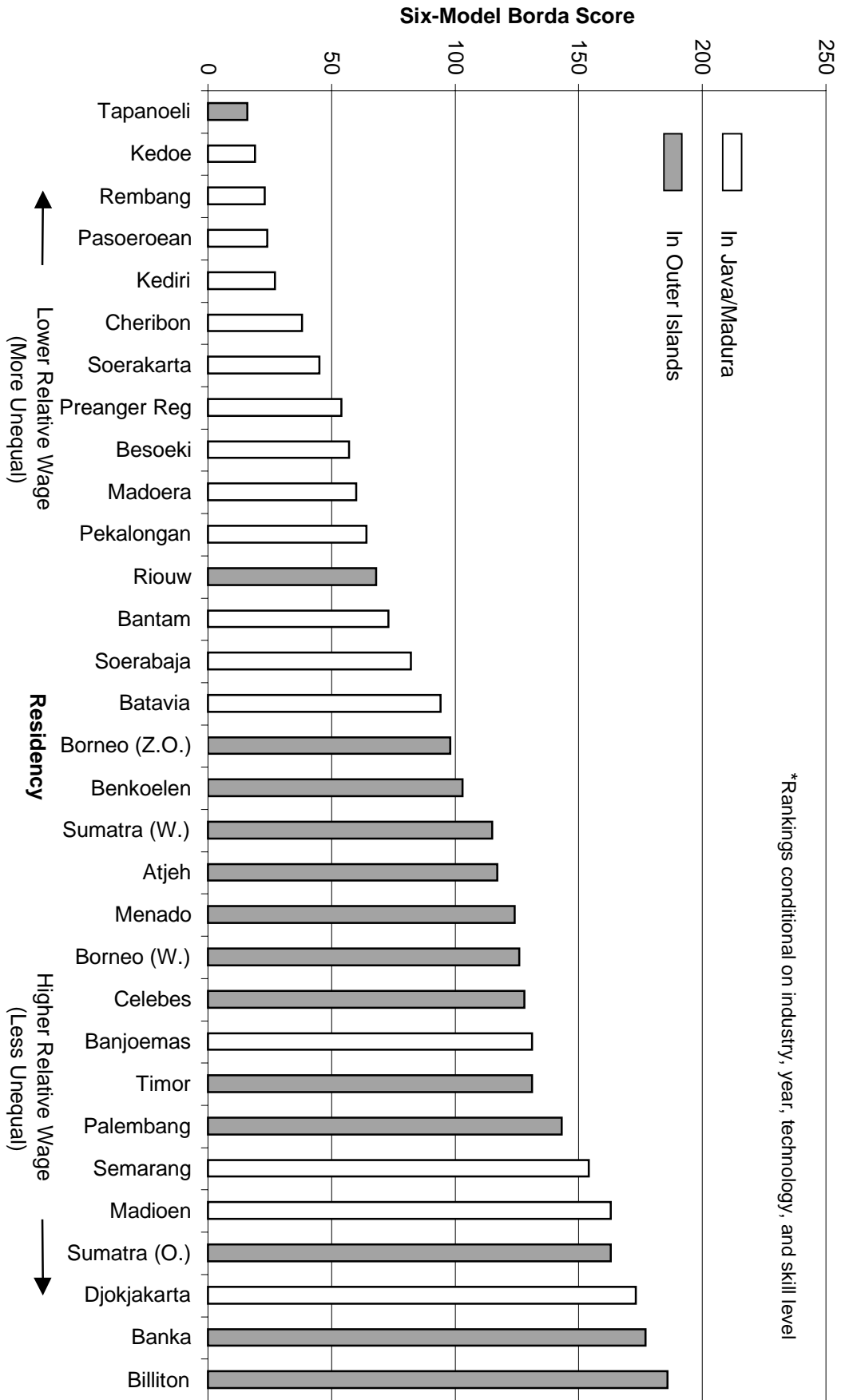
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Figure 8a: Relative Wage Trend for Unskilled Labor





**Figure 9: Relative Wage Rankings of Residencies*
 (Borda Score Ranking of Six Models)**

*Rankings conditional on industry, year, technology, and skill level