

# SIR STAMFORD RAFFLES IN INDONESIA

## LAND REVENUE SYSTEM APPLIED IN JAVA BEFORE HENRY GEORGE

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Indonesia is much in the news these days in an unfavorable light. It is timely to review events of an earlier period during which the system advocated by Henry George was put into practical operation in Java more than 60 years before his classic work, "Progress and Poverty," was written. The circumstances are almost unknown to succeeding generations of his followers, though they provide the clearest vindication of the soundness of the land revenue system he advocated. Later history has underlined the lessons to be learnt from that experience.

The wealth of the "Spice Islands" early attracted the Portuguese and the Dutch to the great chain of islands stretching from Malaya towards New Guinea in the East and Japan in the North. English traders also tried to establish trading stations there but were opposed ruthlessly by the Dutch.

After Holland was over-run by France in 1793, she was considered an enemy state by Britain, and the British fleet began to take over all her scattered and valuable overseas settlements — Cape Colony, Ceylon, the East Indies and various West Indian islands. In 1795 a force from India captured Malacca, and later planned to completely destroy the port and transfer its inhabitants to Penang. This plan was abandoned on the advice of Stamford Raffles, who was to become a towering figure in many fields in his relatively short lifetime.

He had entered the service of the East India Company in London as a clerk at the age of 14. His active mind soon attracted the attention of the governors, and he was sent to a post in Penang. On the way out he learnt the Malay language, his mastery of which brought him both advancement in the Indian Service and a profound knowledge of and admiration for the Malay people. Within two years at Penang he became first Acting Secretary and then Secretary to the Administration. He became Chief Malayan translator with a staff of Malay assistants.

The British had long been interested in Java, the most prized tropical island in the world, but they believed it was too strongly held. Raffles knew differently. He knew that neither the Dutch nor the French had really conquered Java. The Javanese were unfriendly to both. The remaining Dutch residents and the Chinese traders, too, had good cause to aid another power. Raffles was able to give sound advice as result of which the Governor-General of British India, Lord Minto, decided to seize Java and this was done without effective resistance on August 4th, 1811. On his departure in October of the same year, Lord Minto appointed Raffles Lieutenant-Governor of Java and its dependencies, the uncrowned king and overlord of some five millions of people, a position which he held until March, 1816. He was to work with an advisory council consisting of the commander-in-chief Gillespie and the Dutchmen Cranssen and Muntinghe. In departing, Lord Minto said to him: "While we are in Java let us do all the good we can."

From that stems the story of a small nation elevated in a few short years to a degree of liberty and prosperity amazing and without parallel.

When Raffles took over his island empire the fifty thousand square miles of Java had a population of 100 to the square mile, whereas, in our days, it has over 800 to the square mile, with more than 41 million people.

This rise was achieved without obvious over-population and cries for more living space. Raffles laid the foundations which made this possible by restoring the Way of Life which the Javanese had enjoyed before the coming of the French and the Dutch. He found the finances in a shocking state. Taxation and restrictions on trade were as rampant as in our world of today. The list of devices adopted by the Dutch and the French in order to sustain their monopoly over Javanese trade and industry would seem incredibly silly but for the fact that these same devices are adopted by Europeans wherever they obtain control. Tolls, taxes and restrictions lay across every activity of Javanese life.

### Taxes Before the Reform

There was a 15 per cent tax upon the production of rice, a poll-tax upon families and market duties or tolls literally levied on every article produced by agriculture, manufacture or the petty arts. These somewhat resembled our Sales Tax and levies made by Egg Boards, Dried Fruits Boards and similar bodies. There was a tax upon the slaughter of buffaloes, which affected the price of food and restricted the breeding of animals. There was a charge upon the cost of transport of baggage and stores of every description and upon the feeding of travellers. There were obligations to render free labour service for public works and forced contribution to the Government monopolies. Duties and charges on sea-born commerce amounted to 46 per cent (which seems moderate compared to some of the imposts under which Australian trade is conducted). Under the onslaught of these ferocious taxes whole districts became de-populated. There was a drift from the land to the towns and villages and production of real wealth was rapidly declining. Amongst the first acts of Raffles, in agreement with Lord Minto, was the immediate abolition of nine-tenths of these meddlesome and damaging laws.

### Raffles' Land Rent System

Raffles himself plunged into Javan History. He soon discovered the reasons why a prosperous and glorious past on this great island had been effectively destroyed, not by invasion itself, but by the folly of the invading rulers, who were ignorant or regardless of the just land laws of the Malays and Javanese. Under these laws, landlordism did not exist, and there was no room for land speculation and land monopoly. Land might be held for use, provided the ground rent in full was paid over to the Government Authority. The Malays and Javanese had put into practice for

many centuries the principles which were clearly seen by the physiocrats of France in the eighteenth century, and which Henry George was to expound to the Western World more than half a century later, in his classic works, "Progress and Poverty," "Free Trade or Protection," and "The Condition of Labour."

He divided Java up into 16 *landrostampts*, entitled residencies. The Resident carried out administrative and judicial functions and acted as collector of government revenue. Raffles' aim was to substitute the general tax on land value for all compulsory services, contingencies and forced deliveries. He declared the government the sole owner of the soil. The Javanese inhabitants thus became government tenants paying rent for the land they cultivated. The rent was levied not on individuals but on *desas* (villages), and was to be assessed according to the productivity of the soil.

Average rent was estimated at two-fifths of the yield. The cultivator had free disposal of the rest of his produce, which was rice in most cases. He could pay his dues in rice or money. If in money, payment was to the *desa* headman, and thence to the divisional office. If in rice, he had to convey it at his own expense to the Residency headquarters.

This reduced the local chief's opportunities for graft, since he no longer had a personal interest in the yield of the crops, and lost much of his power of demanding forced services. As a public servant he was to receive a fixed salary.

Raffles proceeded by diplomacy to overcome the opposition and to secure the co-operation and friendship of the established chiefs and rulers. When these people learned through his great Land Settlement Memorandum that he proposed to restore completely the ancient system of Java, they one by one accepted his authority without further question. He was approachable by high and low. Accompanied by his wife, he travelled over the island for the purpose of establishing his government and appointing suitable Javans to carry out the details of administration.

These changes involved a revolution in the lives of most people and could not be carried out overnight. It was not until 1813 that arrangements had gone far enough for a start to be made in practice. Raffles soon realised that the full improvement in revenue and in the position of the cultivator was not being realised because of the limitations of *desa* assessment. In this the headman still had too much power in the apportionment of lands among the inhabitants. He therefore changed over to the method of individual assessment. But this required a cadastral survey to work out individual assessments fairly. He initiated such a survey but it was not completed by the end of the occupation through lack of skilled staff and time for the work. Hence the revenue demand had to be fixed according to the arbitrary estimates of the Residents.

### Adequacy of the Revenue

Raffles believed that the introduction of the land-rent system would provide a surplus which would cover expenditure. The revenue did increase and more than covered the normal operations of Government, but it was not adequate to cover, in addition, two crippling burdens with which the administration was unfairly loaded. First was the payment of the cost of the wars of occupation. Second was the "appalling handicap" of carrying out Lord Minto's promise to redeem, at the rate of 20 per cent discount, the paper money

still circulating from the Dutch period. Raffles hoped that the island would continue to be held after the war was over, but recognised that neither the East India Company nor the British Government would want this unless it was self-financing, including these extra commitments superimposed upon normal government. Hence there was an element of pressure continually exerted upon his administration. His evaluation was confirmed later, when it inevitably happened that these extra demands could not be fully covered from revenue. The directors of the East India Company then accused him of rendering the occupation of Java "a source of financial embarrassment to the British Government." These extra burdens on the Treasury prevented him from carrying out fully his proposals to abolish the toll gates and free internal trade.

To meet these extra demands upon the Treasury, a small revenue tariff was maintained with a six per cent duty upon three articles only of import and three per cent upon four items only of export. This was a very close approach to absolute free trade, and even these exceptions were planned to be temporary only. He also had to agree, with great reluctance, to sell some of the Government lands, mainly to resident foreigners. As D. G. E. Hall says in "*A History of South East Asia*," "The land sales, however, were merely a temporary expedient for dealing with an immediate need. His land-revenue system must be judged by its long-term results. It was retained by the Dutch when Java was restored to them, and ultimately justified Raffles' own expectations. As Furnival, himself an expert in land-revenue matters, puts it: "Raffle's calculations were not wrong, but merely too optimistic."

### Other Achievements

Raffles was not only outstanding in his introduction of the land-rent system for public revenue in Java, but in many other fields. As a scientist, explorer, diplomat, administrator and author of a comprehensive book: "The History of Java" — the volume and range of his work is amazing, particularly when it is remembered that he died at the age of only 43 years.

Raffles was a follower and associate of Wilberforce and committed to the abolition of slavery. He was unable to implement this part of his programme completely in Java in the brief time there, but proceeded in stages. He started in 1812 by imposing a tax on the keeping of slaves, and issued an order forbidding any further importation of slaves from the beginning of January, 1813. Shortly afterwards he passed a regulation prohibiting the slave trade throughout the Archipelago. One long-standing native evil, by which a debtor with his wife and family, could be seized by a creditor and forced to work without pay, was abolished out of hand. The net result was that by the time of his recall, although slavery still existed, the numbers of slaves had been very greatly reduced.

Raffles had dreamed of making a new British empire of the islands centred on Java. But soon after the introduction of his land-rent system Napoleon fell and the Netherlands regained independence. At the convention of London in August, 1814, Britain agreed to restore Java to the Netherlands. There was a temporary hitch in this with the escape of Napoleon from Elba, but it was carried out in August, 1816. Before that, Raffles had been recalled to answer

charges made by his associate, General Gillespie, who had never forgiven the upstart Secretary for Penang for his appointment as Governor over the military. The charges were all disproved shortly before the return of the island to the Dutch. Raffles proceeded on a tour of Europe and then returned to Indonesia as Governor of Bencoolen, on the island of Sumatra.

### Public Recognition

In England, his outstanding achievements and abilities were recognised, and a knighthood conferred upon him by the King. While in Europe he took the opportunity of calling on the King of the Netherlands to make intercessions in favour of his former Dutch colleagues at Batavia, as well as the Princes of Java. He was successful because the Dutch authorities had already reported favourably on the merits of the Raffles administration. Raffles observed afterwards, however: "The King and his leading Minister seem to mean well, but they have too great a hankering after profit, and immediate profit, for any liberal system to thrive under them. This may be significant in the light of later events. Whilst the Dutch in Java did leave his land policy untouched, or practically so, they initiated or restored many interferences with trade and industry of doubtful benefit and often of definite harm. They applied the land rent system fully to native and rural land, but not fully to the city lands as the system requires. It is in this area that the really spectacular potential of the land rent revenue system exists. There they applied a land tax (verponding) which is based not only on the rental value of the land alone, but upon the value of the buildings as well.

When Indonesia finally passed from Dutch control the rate of land tax was 7.5 per cent of the annual rental value. This is a long way short of the full revenue potential.

### Land Rent System in Sumatra

When he went to Sumatra as Governor of Bencoolen, in 1818, the respectable East India Company derived its main income from slavery, gaming, and cockfighting farms, plus the enforced growing of a few tons of pepper. This was entirely inadequate to cover the £100,000 annually spent on

the station. He wiped out these sources of income almost immediately on principle. Later he was reprimanded for disposing of the slaves, referred to officially as "the property of the Company," with such precipitation. Not content with dealing with the Company's slaves in this way, Raffles also acquired the Island of Nias, off the coast, for the express purpose of completely eradicating the slave trade in all its forms.

Following his successful policy in Java, Raffles repealed all restrictions and taxation upon trade and secured the revenue of the Government upon ground rents. Owing to the under-development of the Island of Sumatra, which for richness and production could not be compared with Java, he did not follow in detail the direct collection of the ground rents, but obtained them through the princes and chieftains as feudal dues. The immediate result was a natural flow of trade which brought unexpected revenues to the Company, and the production of pepper — now produced for payment at market rates — increased many-fold. By the time this Island, too, was handed over to the Dutch, it had become almost a paying proposition, as well as a prosperous country for the native inhabitants. The withdrawal of the blight of governmental interference and repeal of the robbery through taxation upon trade, wages and industry — accompanied by the collection of ground rent for public revenue — must always have a similar result. Those who formerly thought themselves to be fortunate to possess the privilege of monopoly, found that greater profit for all flows from unrestricted. Both production and consumption increased, creating two-way traffic instead of stagnation.

From here, Raffles went on to establish Singapore on the same principles, as a free trade open port, and it is for this that he is best known in the English-speaking world.

How Raffles himself regarded his land rent system is summed up in his own words cited by Furnival: "I have the happiness to release several millions of my fellow creatures from a state of bondage and arbitrary oppression. The revenues of Government, instead of being wrung by the grasping hand of an unfeeling tax-farmer from the savings of industry, will now come into the treasuries of Government direct and in proportion to the actual capacity of the country . . .".

## PARADISE BECOMES HELL

### JAVA SINCE THE RAFFLES ERA

With the return of Java to the Dutch in 1816, in accordance with the decisions of the Convention of London, it was first governed by three commissioners under Baron van der Capellen. Its charter from the king was based on the principle of freedom of cultivation and trade. Within a month he issued a decree throwing open the trade of the Netherlands Indies.

### The Land - Rent System Endorsed

The finances were a vital consideration so that there was an early review of the situation. This resulted in the decision to retain Raffles' land-rent system, using the desa method of assessment. The system was to be improved by measur-

ing up and valuing the land. To help the taxpayer to keep out of the hands of the money-lender he was allowed to pay his land-rent in money or kind. These principles were embodied in Land-Rent Ordinances published in 1818 and 1819.

Other measures from the Raffles period designed for protection of the native to prevent his exploitation were confirmed, including his regulations against slavery. But the safeguards were not effectively enforced.

The post-war boom was followed by a slump and revenue dropped with the reduced trade. But the land revenue continued to increase, and it was a fall in revenue from other sources which produced the deficit.

The Java War of 1825-30 was a revolt arising from dissatisfaction over cancellation of land-lease contracts and tolls

levied at the boundaries between native and government territory. The cost of the Java War and outbreak of a revolt of Belgium against Holland at home caused a change in policy for the worse in the Indies.

### *The Forced "Culture" System*

A new governor-general, van den Bosch, in 1830, put into effect the "Culture System," which was really a return to the old system of forced deliveries and forced labour under a new name. Under it, the principle of free peasant cultivation was abandoned. The peasant was forced to devote a portion of his holding to cultivation of export crops as directed by government, which would take the product in lieu of land-rent in cash. With it free trade was abandoned, the products being handled by Dutch merchants, using only Dutch ships, and sold in the Netherlands. It soon became a device for enriching Holland at Java's expense. The element of compulsion increased and the safeguards in the original scheme were abandoned. Those controlling the scheme received a percentage of the products and thus had an incentive to use means forbidden by government decrees. The original requirement that the cultivator devote only one-fifth of his holding to export crops was extended and the cultivator compelled to cultivate the government land before his own. Forced labour was used for the upkeep of roads and bridges. In some districts the cultivator had to work more than 200 days a year for the government. During the years 1848-50, there was widespread famine in central Java for this reason.

Liberal ideas at work in Holland brought reaction against the culture system and agitation to get rid of it. Conditions were improved and the safeguards policed. The result of this agitation against the system resulted in legislation in 1870 providing for the government to withdraw from sugar cultivation in twelve annual stages from 1878. But the most profitable culture (coffee) remained forced till 1917. Even then the most profitable monopolies of opium, salt and pawnshops continued to 1927. The desire to free the native was there but the withdrawal of government from the controlled culture field in favour of private enterprise was largely pressed to give individual Dutchmen a greater share.

Much was done for the Indonesians by the Dutch from 1900 on, but there was too little development of education and little training or participation in the administration. Hence, few Indonesians were equipped for responsibilities when independence was gained.

Despite these shortcomings, the measure of application of Raffles' land-rent system retained by the Dutch enabled extension of prosperity to increasing millions of Indonesians to be maintained until the Second World War. Land speculation was small or non-existent. There was no chronic poverty here of the type which characterises India and other Asian countries.

### *Deterioration Since Independence*

The position has now changed with the attainment of independence by the Indonesians. The land tax was abolished in 1951 and replaced by an income tax payable only by those who previously paid land tax above a stated figure. This resulted in splitting holdings to escape the income tax. Then, in 1956, the previous "right to use" land was converted to a "right to own" it.

Selosoemardjan says in "Social Patterns in Jogjakarta," that "up to the land reform of 1918 the farmer had only duties and no rights — from 1918 to 1951 he had both duties and rights — after the abolition of land tax in 1951 he had rights only and virtually no duties."

Results of these foolish and unjust measures have been disastrous. There has now emerged a landless class and much unrest in consequence. Without the stimulus to proper land use, previously given by a sufficiently high "cost of holding land whether used or not" in the form of a land value tax, a premium is given to under-use, and productivity has fallen. Indonesia was previously a rice-exporting nation, but has now become a rice-importing nation.

On the financial front there has been unbridled inflation. The whole country has suffered in terms of real income but with the removal of all obligations from the peasants they are relatively far better off than others. Wage labourers and public servants are the sections most hit. Compared with the position in 1938, in terms of real wages, at 1958 the peasants' rice income remained approximately the same — the wage labourer dropped to about one half — the civil servant on an average to about one-thirtieth. This last is disastrous, because it fosters corruption in the administration where the public servant cannot live on his official salary without supplementing it by graft. This is a short cut on the road to perdition.

In the last few years these various self-inflicted blows have turned the Javan paradise into a hell. There has been one of the worst blood baths in history with the slaughter of nearly half a million Indonesians in the name of "anti-Communism." How many were really Communists will never be known. Even if they were, the primary evil was the degeneration in the economic conditions without which Communism would have no attraction.

Only if and when Indonesia returns to the basic principle of land rent for public revenue can its citizens expect to raise their living standards above those under the Dutch, or even return to them. It needs to be applied more fully and embrace the cities where site-rents are highest as well as rural land. Simultaneously, taxes on buildings and other improvements, and on incomes, should be abolished. These act as deterrents to limit the national product and hence the well-being of all who share it. This course is in accordance with its own historical method restored by Raffles. We hope wiser councils prevail and they return to it.

### READING REFERENCES

- "The History of Java," by Sir Stamford Raffles.
- "Netherlands India," by J. S. Furnival.
- "A History of South East Asia," by D. G. E. Hall.
- "Social Patterns in Jogjakarta," by Selosoemardjan.

We believe that this account of Sir Stamford Raffles' land rent system in Java and of the later developments in that country contains lessons from which the public administrators in all countries can learn. We invite your help in bringing it to the attention of those in a position to gain from it. For this further copies are available from the **Henry George League, 18 George Parade, Melbourne, Victoria.**