

---

# **Ethical Policy in Pawn: The Government Pawnshops Service in Late Colonial Java, 1900-1940**

**Abdul Wahid**

Staff member, History Department Gadjah Mada University

## **Abstract**

*From an economic point of view, pawnshop has an important function as a micro-credit institution, especially for those living in the rural areas where access to capital market is often limited. In Java, pawnshop business has existed since the VOC period in the eighteenth century, but it only really burgeoned under the colonial state administration in the early twentieth century. In such a long period, pawnshop business shifted in nature from a private economic activity during the nineteenth century to a public service in the early twentieth century. The introduction of the Ethical Policy in 1901 brought the pawnshop government service into new direction; it became an instrument of welfare program to provide popular credit for indigenous population in rural areas that helped to free them from excessive usurious practices and indebtedness to illegal moneylenders. This paper argues that the operation of this government enterprise, in fact, deviated from its 'ethical' commitment and worked as usual 'profit-making' organization. This proved another irony of the Ethical Policy in Java and the Netherlands Indies in general.*

**Keywords:** pawnshop, colonial institution, ethical policy, popular credit, Java.

## **Abstrak**

*Dari sudut pandang ekonomi, pegadaian memiliki fungsi penting sebagai sebuah lembaga mikrokredit, terutama bagi mereka yang hidup di pedesaan di mana akses terhadap modal seringkali terbatas. Di Jawa, pegadaian telah ada sejak jaman VOC, namun ia benar-benar menjadi berkembang di bawah administrasi negara kolonial. Selama periode yang panjang itu, bisnis pegadaian telah bergeser fungsinya dari semula sebagai aktivitas ekonomi swasta sepanjang abad kesembilanbelas menjadi sebuah lembaga layanan publik milik negara kolonial pada awal abad kedua puluh. Diperkenalkannya Politik Etis pada tahun 1901 membawa arah baru bagi lembaga pegawaiian pemerintah ini, yaitu menjadi sebuah instrumen program peningkatan kesejahteraan, untuk menyalurkan kredit kepada penduduk bumiputra dan membantu mereka melepaskan diri dari cengkaman bunga uang dan hutang yang mencekik kepada kaum peminjam uang ilegal. Makalah ini berpendapat bahwa dalam prakteknya lembaga layanan pemerintah ini telah melenceng dari komitmen 'etis'-nya, dan justru bekerja sebagai organisasi 'pencari-untung' biasa. Hal ini membuktikan ironi lain dari Politik Etis di Jawa dan di Hindia Belanda secara umum.*

**Kata kunci:** pegadaian, lembaga kolonial, politik etis, kredit rakyat, Jawa.

---

## Introduction

From an economic point of view, pawnshop has a strategic role as one of the financial institutions, which is of fundamental importance to economic development of a society or region. In colonial Java, the pawnshops service played more significant role because local capital market was apparently 'thin, fragmented, and less developed which was characterized by a high level of interest rate (Laanen, 1980; Zanden, 2009). As one of the credit providers, pawnshop featured unique characteristics in comparison with other credit institutions in Java, as it provided 'easier' and more accessible loan to people living in rural areas, whose economic activities were often constrained by the lack of capital support and other socio-economic infrastructures (Furnivall, 1934).

Realizing the strategic role of pawnshop, the Dutch colonial governments included this institution within the package of welfare policies that were introduced in the early twentieth century known in literature as 'the Ethical Policy'.<sup>1</sup> Under the auspices of this new direction of colonial policy the pawnshops service was administered directly by the colonial government in order to eradicate the past malpractices and improve its function for the benefit of indigenous population. In doing so, it was intended to curb the role of usurious money lending practices in the capital market of the colony, Java and Madura in particular, that was predominantly in the hand of Chinese and other Foreign Asians (Boeke, 1932; Boomgaard, 1986: 33-58). This paper analyzes the function of the pawnshop institution and evaluates its socio-economic implications: did this institution really work in

accordance with the spirit of 'Ethical Policy'? To give background information, this paper starts with a brief survey of pawnshops development since the early colonial period.

## From *Pachtstelsel* to *Licentiestelsel*: Previous Systems

The first pawnshop service was initiated in 1746 by the Governor-General van Imhoff in Batavia as a kind of joint venture: the VOC contributed two third of total capital, while private capital covered the rest. In 1794, the whole business was taken over by the Company, and then passed to the Netherlands government in 1795 together with other assets and liabilities of the Company (Westerrode, 1902: 1). In 1809, Daendels set up the pawnshop business as a public service. The British Lieutenant Governor-General Raffles opposed this idea, allocating the pawnshop business to private initiative individuals in 1812. But, increasing abuses led to its abolition in 1814 and the system of farming out was introduced as replacement (Furnivall, 1934: 1; Laanen, 1980: 41).

After the Dutch' control over Java was restored in 1816, the new colonial administrator retained the pawnshop farming system and extended its operation all over Java until 1870. The first detail regulation concerning pawnshop practice appeared in 1831, which was revised in 1843. The regulation intended to protect both the farmers and the public; on the one hand, it aimed at preventing an unhealthy competition among the farmers by a stipulation that forbade any of them to take goods on pawn for sums of less than f 100; and on the other hand, they were required to make loans according to a fixed tariff (Furnivall, 1934: 1). Other rules concern about the standardized interest rate, amount of fine and penalty in case of unpaid credit, bookkeeping and administration, and prohibition of selling opium and liquor in the pawn houses (Departement van Financiën, 1838, ANRI). The regulations, in fact, were not

1 The other institutions that provided popular credits during the period of concern were Volksbanken, Dessabanken, Lumbung and cooperation. The first two institutions were run and administered as modern banks directly by the government, while the latter two were mostly community-based institution organized by local communities. All together these institution aspired the spirit of 'Anti-usury Movement' that echoed in the colony from the 1910s onwards (Fruin, 1935; Djojohadikusumo, 1943; Laanen, 1980).

**Abdul Wahid :**

***The Government Pawnshops Service in Late Colonial Java, 1900-1940***

strictly enforced, which led to an increasingly burden of the system, particularly upon indigenous population, the main clients, who suffered from excessive interest rates. The growing scale of pawnshops activities can be read from its revenue yield. In 1840 the pawnshop farm yielded approximately f 205,800, which rose slowly to f 269,000 in 1850 and f 350,300 in 1860 when the licensed pawnshops numbered at 242 units, which located mostly in urban areas (Thomas, 1893: 41-2; Furnivall, 1934: 1).

The excessive interest rate had raised complaints and criticism from colonial observers attacking the government practice of farming out pawnshop. Vitalis, for example, condemned pawnshop farm as 'a business of usury' and 'immoral', by which the colonial government not only oppressed the Javanese poor people, but also shared income from stolen good with the pawnshop farmers (Vitalis, 1851: 376; reprinted in Fernando & Bulbeck, 1992: 41). Responding to this, Governor-General Rochussen initiated an inquiry into the working of the system in 1847, which repeated then in 1853 and completed in 1857. The inquiry resulted some important points, which proved a general disregard of the regulations: the prescribed scale of rates were ignored, forfeited pledges were regarded as the property of the pawn broker, not infrequently the pawnshops were opium dens due to their close location and the fact that they were operated by the same hand. Moreover, the operation of pawnshops was becoming more abusive as the *pachters* often used their disposals to keep the pawned goods, and applied fake bookkeeping system, which made it impossible for the government to have a proper scrutiny over the whole operations of the pawnshops. Based on this investigation, the minister of the colonial affairs, De Waal proposed to abolish the pawnshop *pacht* system in 1869. The pawnshop *pacht* was officially abolished on 1 January 1870 through ordinance of 17 October

1869 (*Staatsblad van Nederlandsch Indië* 1969 No. 85) (Westerrode, 1902: 4).

As replacement, the government introduced the so-called license system (*licentiestelsel*) in 1870, by which it gave chance for every one to obtain licence from the head of local authorities to run a pawnshop by paying annual fix fee of f 50. The licensees had also freedom to set an interest rate base on yearly, monthly or even daily estimation. By issuing this policy, the government hoped that increased competition would lead to lower interest charges. But, this did not happen. The number of pawnshops in Java and Madura increased considerably from 242 in 1869 to 986 in 1878 and in the Outer Islands from 50 to 121, but the interest rate rose also to ten per cent per month or more, while government revenue had dropped from about 324 in 1869 to 55 thousand guilders in 1878. The *Koloniaal Verslaag* of 1879 on page 165 states that: '*...het licenstiestelsel moreel zeer nadeelig en materieel niet voordelig is voor de bevolking*' (the license system is morally very detrimental and materially not profitable for the population). This referred to several facts on the operation of the system; for example the violation of maximum interest-rate, the recurrent lost of the pawned goods, the increase of pawned good from thievery, the uncontrollable mixture of the shops and opium dens, the unsystematic book-keeping system, and the unstandardized of valuing system and storing of the pledge of goods. Overall, the Dutch administrators believed that the license system could not level the revenue of the farming system, and it gave advantage to the license holders, mostly the Chinese who could multiply profit with their opium licence or moneylending activities (*minderling*) in the countryside (Fokkens, *Verbaal 12-7-1894/61*, NA Inv. Nr 4837).

Considering the disadvantage of the license system, the government reintroduced the pawnshop farming system in 1880, auctioning the license to operate pawnshop on a territorial

basis to highest bidders, through the SvNI 1880 No. 17. For Java and Madura, the new system came into operation under the stipulation of the SvNI 1880 no. 82. Basically, the new system was designed to prevent mutual competition between the shops and the *pachters*, to improve police supervision, and to enforce a uniform scale of rates for loans and interest on pledges (Furnivall, 1934: 1). Among primary provisions of the new regulation were: that the *pachters* could give loan no more than f 100 on pledges of certain immovable goods; the shops number and their locations should be notified by local administrators by considering certain distance from opium dens; the pawnshops should be open from 7 am until 6 pm; and the pawnshop building should have a clear sign showing word 'pawnshop' and also provide the list of official tariffs in visible spots inside the buildings (Fokkens, 1894, fol. 39).<sup>2</sup>

The implementation of this new pawnshop regulation, however, led to such difficulties with the former Chinese license holders, who worried of losing their former profit rejecting the new pawnshop system. This caused the failure of the pawnshop farming system in several residencies in Java. In respond to this, the government sent a circular letter to the head of those regencies requesting information on the reasons of the Chinese rejection. From the incoming replies the government concluded that the main reason of the rejection was based on

an erroneous understanding of the condition of the *pacht*, namely that the auction of the unredeemed pawn-goods would only take place once in half year that could possibly reduce the chance of those license holders to get profit from the pawned goods. This was by no means similar with the purpose of the new regulation, which stipulated that the auction could be held after the end of loan-term within a half year only if it decided by the head of local administrators. By issuing this, the government intended in one hand to give more chance to the customers to reclaim their pawned goods, and in other hand to prevent the *pachters* to conduct any possible abuses from the available loan contracts (Westerrode, 1902: 9-10).

The operation of a pawnshop under the farming system, according to Fokkens's report, was still fraudulent; a great number of indigenous were often abused by the Chinese *pachters*. Local administrators, for example, failed to control the continue encroachment

Table 1. Pawnshop farm revenue in several regencies of Java and Madura, 1860-1900 (in guilders)

Regencies	1860	1869	1881	1890	1900
Banten	1,680	72	-	624	4,236
Batavia	24,000	3,540	5,400	193,812	325,104
Cirebon	10,320	9,360	6,152	30,408	30,540
Semarang	18,120	18,120	15,000	85,680	104,460
Rembang	18,060	18,120	30,000	53,081	48,120
Surabaya	121,260	107,820	36,720	251,304	175,284
Pasuruan	33,780	37,500	2,400	52,272	47,640
Yogyakarta	-	-	3,900	22,008	36,852
Surakarta	-	-	3,810	18,120	27,672
Madiun	2,436	18,180	3,900	30,150	39,372
Kediri	15,240	8,640	13,680	79,932	31,500
Madura	25,284	12,204	4,896	15,720	19,236
Total	350,328	323,798	230,480	1,058,683	1,147,248

Source: *Koloniaal Verslag*, various years.

2 The new interest rates should apply on the following tariffs:  
 LoanRate of interestTerm of redemption ≤ 1 guilders50 cent for a 10 days period3 months1 – 25 guilders2 cent per guilders for a 10 days period3 months 25 – 50 guilders5% per month6 months50 – 75 guilders4% per month9 months 75 – 100 guilders3% per months12 months

practices of the official interest-tariff, which happened in various regencies, notably among other in Rembang where the yielded revenue rose from f 30,000 in 1881 to f 53,081 in 1890

*Abdul Wahid :*

*The Government Pawnshops Service in Late Colonial Java, 1900-1940*

(see Table 3.7). Those infringements happened particularly in the regions, particularly rural areas, where European administrators were slightly indifference, powerless, or lack of concerns to reduce the pawnshop abuses and their impacts on the conditions of the populations. Indeed, from such regions the Chinese *pachters* could obtain their greatest profit from the pawnshop business (Fokkens, 1894, fol. 40; Westerrode, 1902: 47-8).

Despite being eroded by many kinds of contraventions, the pawnshop farming system continuously contributed revenue to the government exchequer. After a slow start in the first year of its reintroduction (1881) that collected only f 230,480 from all over Java and Madura, the pawnshop revenue jumped manifold one decade later (1890) to gain more than one million guilders. This growth attributed to the success of pawnshop administration in the three main towns of Java: Batavia, Semarang, and Surabaya. Pawnshop farms in Batavia, in particular, showed the most impressive growth of revenue from f 5,400 in 1881 to f 193,812 in 1890 and f 325,104 in 1900. Surabaya showed similar trend although with a slow start with only f 36,720 contributions in 1881, but then jumped to level f 251,304 in 1890 and then back to level f 175,284 in 1900; while from Semarang revenue from pawnshops increased also during the period but in slightly lower scale. Interestingly, the pawnshop revenue from the Principalities was lower than the average revenue of other residencies in Java and Madura. This attributed partially to special administrative arrangement of the pawnshop farms in these two regions. Houben (1994: 188) notes that from the 1830s, the pawnshop in the Principalities was introduced for the convenience of the courtiers. In Surakarta, for example, the pawnshop profit was shared by *Sunan* of Surakarta and the Dutch government up to 1844, when it was abolished because of the malversation. It was reopened in 1857, but lasted only until 1869 when Batavia decided to

stop the pawnshop license system. It was after the reintroduction of pawnshop farming system the colonial government had fully control over the pawnshop in the Principalities.

The stubborn rejection of the pawnshop farming system by the Chinese in 1880 had actually forced the government to consider another option, namely the direct administration or government monopoly system. The Director of Finance, Michielsen, opposed and dropped this idea, however, and dropped it until almost one decade later, when Levyssohn Norman, a progressive senator, revived the issue in the Netherlands Parliament (*Tweede Kamer*) in 1889. Public criticism appeared in the Java press where some articles described and attacked the pawnshop farming system as 'een poel van ongerechtigheid' (*a pool of iniquity*).<sup>3</sup> But the Finance Department still opposed direct administration, chiefly on the ground that, for lack of an honest staff, the State would pay too much when taking goods on pawn, and sell forfeited pledges below their value (Vellema, 1893: 1564-92; Furnivall, 1934:2).

The question of state administration of pawnshop resurfaced in 1894 after Fokkens completed his investigation about Chinese economic conditions in Java, recommending the urgent need of taking over of the opium and pawnshop farms from the hand of Chinese farmers. The Director of Finance, Van Dorsser declared that the government had no objection to accept the recommendations. And finally, the colonial government gave way, and consented to undertaking an experiment of state monopoly pawnshop (*pandhuisregie*). The Assistant Resident, De Wolff van Westerrode, who had already distinguished himself by his interest in the problem of indebtedness among Javanese, under an order dated 8 November 1900 no. 25, was placed on special duty to conduct an inquiry into the mechanism of popular credit and 'to

3 'Een poel van ongerechtigheid', Javabode, 18 April 1889. Another critical article was written by Kielstra, "De kleine verpachte middelen op Java", De Gids, Augustus 1889.

collect data necessary to answer the question as to what improvements could be introduced in respect of the system of making small loans of money on the pledge of goods” (Westerrode, 1902: 18). The result of this inquiry was then used to formulate the government monopoly pawnshops replacing the farm system that was gradually abolished from 1904 onwards (Furnivall, 1934: 2).

### **The Establishment of Government Pawnshops Service**

Initially, the Department of Finance opposed the Fokkens’ recommendation to replace the pawnshop farming system by a state monopoly (pp. 780-3). In the meantime, Fokkens’ lecture in the Netherlands on the importance of abolishing the revenue farm including pawnshop had aroused public interest and provided new ground for public criticism against the pawnshop system at the time, the issue was taken up in the newspapers where Journalists in Java aired critical views about the pawnshop farm. But the Department of Finance still opposed direct administration of pawnshop, chiefly on the ground that the state would pay too much when taking goods on pawn and sell forfeited pledges below their value, while there was lacking of an honest staff to count on the administrative process. Finally, however, the colonial government considered trying out a direct administration system of pawnshops in certain areas in Java. For this purpose, through a decree dated 8 November 1900 no. 25, the government commissioned W.P.D. de Wolff van Westerrode, assistant-resident of Purwokerto to undertake an inquiry into the mechanism of popular agriculture credit and to collect data necessary to answer the question as to what improvement could be introduced in respect of the system of making loans of money on the pledge of goods.<sup>4</sup>

The main task of De Wolff was to investigate the working of the pawnshops in Java, which included two important agendas; to ascertain what the Chinese pawnbrokers have done so far, and to find out how to do it better. He approached the first problem by conducting the experiments with the help of local officers, and the second problem by undertaking the management of a pawnshop. The first experiment was implemented by distributing a questionnaire and a collection of jewellery, clothing and other articles in daily news to be pawned through trustworthy Javanese. Some of these were to be redeemed; others were to be forfeited and sold by auction. These experiments produced a bunch of valuable information on the practical working of the pawnshop system, supplemented with information on the system of accounts in pawnshop and the profits of the pawnbrokers. For the purpose of the second experiment, De Wolff was fortunate to find a vacancy in the pawnshop lease in Sukabumi, West Java. Here, the shop did not have to compete with neighbouring Chinese shops, while it was quite close to Batavia, which made it easier to supervise. Thus, in 12 March 1901 the first government own pawnshop was officially opened in Sukabumi. The staff consisted of a European manager, a European assistant, an indigenous assessor, and apprentice assessor, a clerk, a cashier and two servants (Furnivall, 1934: 2).

The important objective of this new system was to free indigenous people from the influence of Chinese moneylenders, and to provide better service for those wished to raise money on their goods. Under direct administration, the valuation in government owned pawnshop

---

op pand”, Bijlage M. No. 25, “Extract uit het register der besluiten van den Gouverneur-Generaal van Nederlandsche-Indië”, W.P.D. de Wolff van Westerrode, *Het Onderzoek naar de werking der Pandhuispacht en de proefneming met eigen Beheer, eerste deel* (’s-Gravenhage: Martinus Nijhoff, 1902), p. 75-76; a short biography of this person can be read in J. S. Furnivall, *State Pawnshops in the Netherlands India. Studies in the Economic and Social Development of the Netherlands East Indies* (Rangoon: Burma Book Club, 1934), p. 2.

---

4 “Gegevens te verzamelen noodig voor de beantwoording der vraag, in welken zin verbetering is aan te brengen in het bestaande stelsel van het uitleenen van kleine geldsommen

*Abdul Wahid :*

*The Government Pawnshops Service in Late Colonial Java, 1900-1940*

would be more honest and more scientific. Unlike in the Chinese pawnshops, the government's pawnshop granted the same terms for both rich and poor people. A better provision for storage of the goods was provided; loans were granted promptly without illegitimate deductions, and no difficulties were raised when the goods were redeemed. De Wolff reported that the new system of pawnshop administration attracted much interest among the indigenous people and the pawnshop in Sukabumi expanded. Within one year book of its operation from August 1901 to April 1902, the shop profited from the whole transactions as much as f 7,263.75 per semester, or f 14,527.50 per year. Therefore the government decided to extend the experiment by introducing a new government pawnshop in Cianjur where conditions were rather different. The new shop was also a success. During 1903 four more shops were opened, and more importantly in the same year the principle of direct management was formally approved and issued in the *Staatsblad 1903*, No. 402.<sup>5</sup>

The experiment of direct administration of pawnshops was seriously interrupted when De Wolff, the project leader, died suddenly in 1904. However, since he had laid the foundations of the modern pawnshop service and the popular credit service which both were his permanent memorials, his successors could easily continue the introduction of state-owned pawnshop service in the following years. At the time of De Wolff's death there were still only six government pawnshops, all in West Java, but in the following year six more

were opened in Central and West Java. On 23 February 1906, the government officially declared that the state pawnshop service had passed its experimental stage, and that the system was ready to be projected as a national standard operation of the pawnshop service. Soon after the announcement, sixteen new pawnshops were opened throughout Java and Madura in 1907; and after a gradual process of training staff and other preparation all the pawnshops in Java and Madura had been taken over completely by the government in 1916 (*Gedenkschrift*, 1926: 20; Furnivall, 1934: 3).

One important factor hindering further expansion of the *pandhuisregie* in the short run was the lack of a good system of prescription control, which needed gradual process and long empirical way to come into being. In this context, the introduction of the *verrekeningsadministratie* in 1911 was of great practical value for the administrative reform of the pawnshop practices. Under this new system, a special head of accounts was installed for both receipt and disbursement or payment, which contributed greatly to simplicity in administration. Another difficult factor was the problem of providing measures against dishonesty, corruption and incompetence, which was widely known as the main problem of pawnshop operation since the era of farming system. This problem was prevalent in the valuation process of pawned goods. To solve this problem, initially the government decided that valuation should be based on the price in the open market of a similar article when new. But, it did not work quite well due to the lack of qualified staff to value goods, and consequently the former practice of basing values on auction prices was reintroduced. This time, to conduct an auction the pawnshops did not use the service of external auctioneers (*vendumeester*) any more as it was common in previous time, instead to conduct it by using their own officers, which started from 1920 onwards (*Gedenkschrift*, 1926: 21-2; Furnivall, 1934: 4).

5 "Aanhangsel: Resultaten der proefpandhuizen te Soekaboemi en te Tjiandjoer over het tijdvak 1 Januari tot en met 30 April 1902", in W.P.D. de Wolff van Westerrode, bijgestaan door de Controleurs in Commissie F.H.D.H. von Ende en E.W. Ph. M. Nittel, *Het Onderzoek naar de Werking der Pandhuispacht en de Proefneming met eigen beheer*, tweede deel ('s-Gravenhage: Martinus Nijhoff, 1902), p. 24-28. Meanwhile, in 1901 there were 394 pawnshop farms operated throughout Java, with the total amount of pawned articles was 20,330,747 which the value reached 35.5 million guilders. *Handleiding ten dienste van de Inlandsche Bestuursambtenaren op Java en Madoera*, No. 38/F., *De Pandhuis-Regie* (Weltevreden: Uitgevers-Maatschappij "Papyrus", 1919).

In short, by the government pawnshop emerged as one important institution that strengthen the thin capital market of Java, by providing small credit to large mass of rural population. Its social importance increased time after time because it reduced the clutches and malpractices of the Chinese upon the indigenous people; but in other hand it also functioned well as a popular source of easy credit. Keers has pointed out that as a credit institution the pawnshop had three characteristics that distinguished it from other forms of credit. It was material and not personal; it was general, not individual; and it was passive, not active. The loan was given on the basis of intrinsic value of the pawned good and not on any personal guarantee that the applicant could offer, or their wealth; and the pawnshop accepted whatever the applicant could offer, without any requirement for security like what the moneylenders usually did (Keers, 1928: 88-9).

Another colonial civil servant, J. R. Lette acting as Director of Finance, conducted an investigation about the working of pawnshop in Java and Madura from 1932-1933. In his report he concludes that the pawnshop could be used as barometer of the economic condition of the indigenous people. The fluctuation of pawnshop transactions reflected the ups and downs of the social economic life of Indigenous people, because they often pawned their best goods only if necessary. Further he concludes that the pawnshop fulfilled some important functions: as credit institution; as place to save the products; as storage place; and as welfare parameter. However, the most important function of the pawnshop was as credit institution, from which the indigenous people managed to continue their social economic life, either for production or consumption activities. The pawnshop marked the transition from a barter economy to a money economy, because it enabled people to turn their goods into cash (Lette, 1933: 58-9).

## Development and Financial Revenue

It took more than a decade, however, for the government to establish the administration of pawnshops. During the 'experimental' years of 1904-1915, the government managed to extend the pawnshops service from 23 units in 1905 to 165 units in 1910 and almost doubled to 313 units in 1915. But, in term of credit supply at least until 1905 the amount of lending was still in the region of two million guilders, which was much lesser than the sum provided by private pawnbrokers in 1874 that already amounted to about eleven million guilders (see Table 5.5 and Zanden, 2009: 168). By 1916, the government had settled down the pawnshops administration in the whole Java and Madura, except in the *Vorstenlanden* where the pawnshops followed different course because of local circumstances (Furnivall, 1934: 2).

In the following decades, the government pawnshops monopoly had established its position as vanguard of the government credit institutions that was accessible for more population living in urban as well as rural areas. This can be seen from the growing number of offices, staffs and scope of activities of this institution overtime. By the end of 1925, the *Pandhuisdienst* had opened 368 pawnshopss and employed 5,528 persons, of which 227 were European and 5,251 indigenous people. The Europeans occupied important positions that ranged from *hoofdbeheerders* (head managers), *beheerders* (managers), and sub-managers; while all indigenous staffs occupied the third class officers ranging from the position of cashier, appraiser, clerk and watchmen (*Gedenkschrift*, 1926: 44).<sup>6</sup> In 1930, the number of state-owned pawnshopss grew to 453 units: 385 units in Java and Madura and 68 in the Outer Island; and other 174 units of licensed pawnshopss in the *Vorstenlanden* areas. But

6 In 1920 these indigenous officers united themselves under an organization "Perserikatan Pegawei Pegadean Boemipoetra" (P.P.P.B.). "Het Pandhuispersoneel" (*Gedenkschrift*, 1926: 45-6).

**Abdul Wahid :**

***The Government Pawnshops Service in Late Colonial Java, 1900-1940***

the number of pawnshops personnel slightly reduced to 4684 staffs, which consisted of 190 Dutch high ranks staffs, and 4494 indigenous middle and lower rank staffs.<sup>7</sup>

The government built almost all pawnshops offices, although in a few places rented private building, and located them at or near the most strategic locations, such as market or business districts. Up to 1930 the total value of the pawnshops building was about 17 million guilders half of which was written off out profits. The pawnshops service opened six days a week, initially ten hours but then eight hours a day. They closed only on either Sunday or, if Sunday was the local Bazaar Day, on Fridays. At least once in month, the pawnshops organized an auction of the forfeited pledges for public. Among the popular articles that people normally pledges for loan were clothing, gold, silver and other jewelries, and bicycle. The pawnshops administration classified these pledged into five categories: class A valued from *f* 0.10 to *f* 25; class B from *f* 26 to *f* 50; class C from *f* 51 to 75; class D from 76 to 100; and class E from 101 upwards. In his annual report, the Director of Pawnshops Service describes that in 1928 the class A pawns were 99.3 per cent of the total number of pledges, or 76.5 per cent of the total value, while the number of class D and E pawns were relatively low (Furnivall,

1934: 6-7). In a way, this indicated that the pawnshops consumers were mostly from low-income groups of population, who were able to pawn only less precious materials for a small amount of loan.<sup>8</sup>

With the support of a growing bureaucracy, the government pawnshops up to crisis year of 1930 managed to expand its service capacity and business volume. Table 1 shows that business volume of the government pawnshops multiplied from 1,788,539 transactions in 1905 to 51,547,654 transactions in 1930 delivering credit from about three million guilders to about 184 million guilders (but declined again during the crises years of 1931-1935). This exceeded the amount of lending money supplied by other popular credit institutions (Furnivall, 1938: 1). Assuming that if half of the credit of pawnshops and *volksbanken* reached the peasantry, Zanden (2009: 170) estimated that the value added ratio of the credit had risen from 3 per cent in 1910 to 8.5 per cent in 1929, a slightly

Table 2. The business volume of the state pawnshops, 1901-1930

Year	Number of shops	Number of transactions	Money advanced (in guilders)
1901	1	39,490	78,216
1905	23	1,788,539	2,958,655
1910	165	15,159,793	20,777,269
1915	313	34,636,918	75,897,419
1920	360	35,790,377	136,518,129
1925	398	47,923,594	166,250,032
1930	453	51,547,654	184,141,645

Source: Furnivall (1934: 12)

significant increase. This expansion was also made possible by the government policy to cut substantially the annual rate of interest since the introduction of pawnshops reform, which attracted more people to use the pawnshops service. As illustration for the smallest loan, it

7 This consisted of 6 head managers, 108 sub-managers, 45 controllers from the first and second-class officers – all of them were Europeans; 275 second class indigenous officers, and 4219 third class indigenous staffs. For the sake of administration control, the whole country was divided into 6 inspection divisions (*inspectieafdeelingen*), 5 in Java and 1 in Sumatra, and subdivided into 43 areas of jurisdiction (*controleeressorten*). The Inspectors, who were hierarchically assisted by Controllers and Assistant-Controllers, coordinated the controlling process. In the headquarters office there were also 3 Instructors in Valuation, with an Instructor on probation (*aspirant*), and an Instructor in Commercial Commodities (*warenkennis*) (Furnivall, 1934: 5).

8 It was difficult to ascertain however the real composition of pawnshops users. But some studies have estimated that the pawnshops credit went largely to the hand of non-peasant groups, such as petty traders, craftsmen, and other small businessmen (Coolhaas, 1944; Zanden, 2009: 168).

was reported that in 1880s the interest rate was 143 percent annually, the government cut it down to 72 percent in 1901 and then lowered it again in 1920 to 48 percent (Zanden, 2009: 171).

As one of popular credit institutions, curiously the government pawnshops service developed as a profitable business, which it obtained almost entirely from the interest on loans (Furnivall, 1934: 7). In fact, the policy to lower the interest rates of pawnshops service was not merely taken for the sake of population benefit but intertwined with self-interest of the state to keep the pawnshops profitable.<sup>9</sup> Zanden (2009: 171), for instance, describes that the policy to cut the interest rate from time to time was stemmed from different considerations. The initial reduction of the annual interest rate on the smallest loan from 143 percent to 72 percent was adopted to make the government pawnshops distinct to the usurious rate of pawnshops in the hand of private businessmen. Meanwhile, in 1920 the reduction of interest rates to 48 percent was a response to the large profit made by the pawnshops overtime (about 17 million guilders in 1919). This happened along with the decreasing dynamic of the Ethical Policy as the government started to reduce the expense for the welfare programs. In 1924 the interest rates was returned to the pre-1920 levels 72 percent conversely to compensate the deficit of state's finance as a consequence of the post-war recession. The interest rates were cut again to the levels of 48 percent in 1928 only because of the profits had settled back.

It was unsurprising therefore if the profit of the government developed overtime. Colonial historian Coolhaas (1944: 121) wrote that although this institution was not established to make profit, it emerged as a commercially successful public enterprise. He calculated that

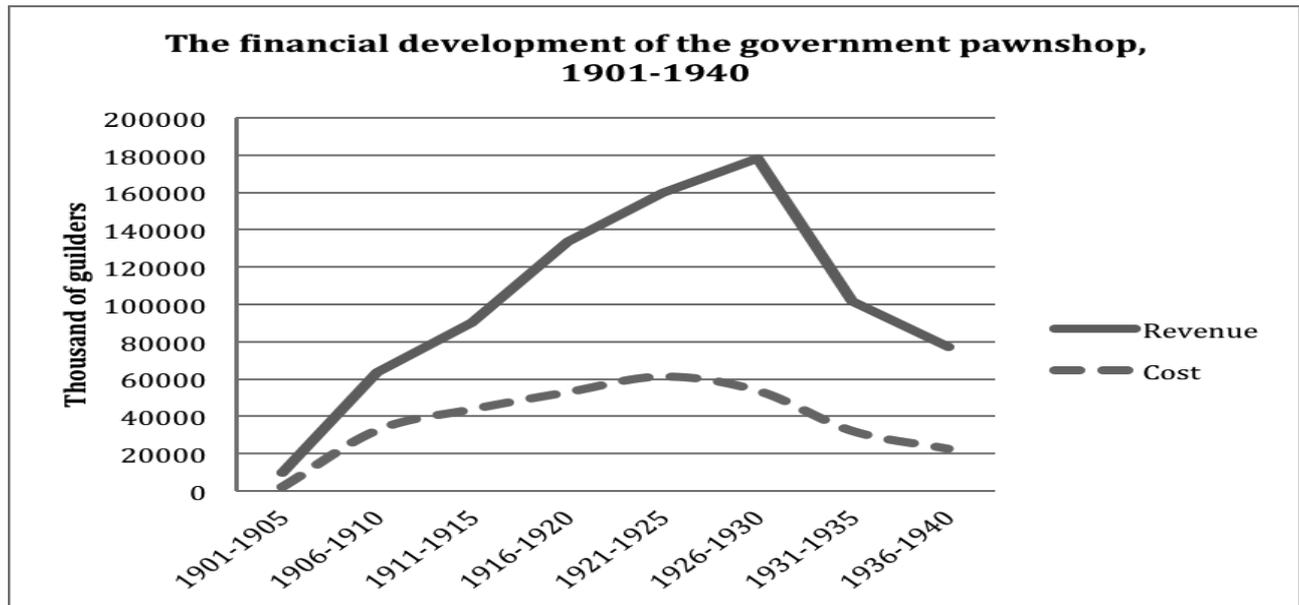
the state pawnshops from 1904 to 1938 made a net profit of about 163 million guilders – a substantial amount of revenue for the state exchequer. It was only during the period of 1930s, the crises had returned the profit of pawnshops to the level of 1910s around 80 – 100 million guilders, which was still a large profit. Figure 1 illustrates the financial development of the pawnshops service from 1901 until 1940.

In general, contemporary observers considered the state pawnshops service had successfully reached its original objectives. While it was continuously profitable even in the crises period of 1930s, it also succeeded in providing better administration, fairer valuation, more certain and more moderate interest, better protection for the pledged goods and stricter against corruption and stolen property (Keers, 1928; De Kat Angelino, 1931; Furnivall, 1934; Coolhaas, 1944). One big question remained, however, as to what extent the state pawnshops contributed to the efforts to eliminate the influence of private moneylenders particularly upon the population in the rural areas who were not able to get benefit from the expanding popular credit programs since 1910s. In relative term, the pawnshops accounted to channeling more than 60 percent of total loan under the popular credit scheme (Laanen, 1980: 40), which means that it played prominence role in the government effort to displace the Chinese 'usurers' or *Cina mindring*.

Boeke (1947: 167-8), an expert on colonial economy noted however that the pawnshops and other official credit institutions played only indirect role in the anti-usury movement (*de woekerbestrijding*) that the government launched since 1916. He argues that it might have solved one side of the problem by providing alternative credit for the indebted population. But, the other side of the problem, the indebtedness among peasants for notable instance was relatively unchanged. He argues that even the most direct measure to curb the usurious moneylending practices namely

<sup>9</sup> In introduction to a seminal book they edited on credit and debt in Indonesia, Henley & Boomgaard (2009:16) argue that the Ethical Policy inspiration in the field of popular and rural credit market, including pawnshops service had completely ended in 1930, along with the onset of global crises that hit the colonial state finance hardly.

Figure 1. The financial contribution of the government pawnshops, 1901-1940



Source: Meleger (2004); Zanden (2009: 170, figure 8.3). The cost included expenses for establishment, buildings, salary, interest, and losses on sales, etc. In 1930 it also includes f 250,000 for reserve, while between 1907 and 1915 a sum of 6 million was allocated for reserve (Furnivall, 1934: 12).

through ordinance or judicial instruments failed to uproot the influence of moneylenders because they hardly touched the usury problem in the smallest level credit, a niche in which those moneylenders predominated overtime. Referring to the case of Pati in Central Java, Burger critically stated that the official credit institution could not fully replace the role of unofficial credit institution and rural population still depended upon the activities of *Cina mindring* and other unofficial credit sources (Burger, 1933; Furnivall, 1943: 15).

### Socio-Political Dimensions

In general, it can be said that the operation of government pawnshops monopoly encountered no substantial external challenges at all. The only nuisances was reported from the activities of former Chinese pawnbrokers who tried to counter the system of state management by organizing rings to control the bidding at auctions (Furnivall, 1943: 4). This was no longer an issue after the government issued a policy to establish government auction houses (*venduhuizen*) and appoint official

state auctioneers (*vendumeesters*), who responsible for the organization of auction of pawned pledges according to the existing provisions. Problems arose mostly from internal administration, as the official reports revealed the recurrent problem of indiscipline, corruption, and maladministration committed by indigenous staffs. In 1930, for example, it was reported that a dishonest employee burned the shop down to conceal frauds in his accounts (Furnivall, 1934: 6). But, the most spectacular problem was perhaps the so-called 'pawnshops-strike' in January 1922, which became social-political issue in 'national level' for the whole year. Scholars have considered it as one of major strikes in the history of the Netherlands Indies (Blumberger, 1931: 130; McVey, 1965: 43; Nagazumi, 1974: 187-206). The following paragraph will discuss briefly about the strike and its aftermath.

As it was common in that period that indigenous public servant working within the colonial bureaucracy units often organized various kinds of protest actions primarily to protest the unfavorable situation of their

working environment, such as on working hours, salary, pension, and etcetera.<sup>10</sup> This was also the case of the pawnshops-strike of January 1922. In his lengthy report to the governor general, R. Kern who at that time was deputy adviser for indigenous affairs pointed out that the immediate cause of the strike was of neither political nor economic reasons, but rather of social and psychological, which was the first one in that kind.<sup>11</sup> As it happened in the other government institutions, the expanding service of government pawnshops opened up opportunities for more educated indigenous population to enter the government bureaucracy and become new members of indigenous middle class, the *priyayi*. This new 'white collar' groups was often recognized by their characteristic as 'the most keen group on the matter of prestige'. This manifested for instance in their work attitude to reject any physical labors, which in their eyes suited only for those of uneducated or less-educated muscular workers or *koelies* (Burger, 1956: 20; Nagazumi, 1974: 192).

The story began when the pawnshops administrators introduced the austerity policy (*bezuiniging*) in mid 1921 in order to reduce the production cost, improve efficiency and retain the profit level. One of the measures was to abandon the outsourcing labor system, especially for transporting pawn goods from the shop to the auction house, and delegated the task to the existing lower-rank indigenous staffs. This policy really injured the pride and prestige of these *priyayi* and forced them to react it violently in form of rejection, which turned into the escalated strike. In his letter, Kern reported that the strike broke out in the pawnshops office at Ngupasan, Yogyakarta on

11 January 1922 after a Javanese staff named Bawadi rejected the order of his Dutch superior to carry pawned articles from the pawnshops to auction shed.<sup>12</sup> Consequently, the head of the pawnshops decided to suspend him from his position. Bawadi's fellow indigenous staffs showed their sympathy by organizing strike to protest such 'unfair' decision, which halted the whole operation of the pawnshops there.

Occurring in Yogyakarta, the breeding ground of the nationalist movement, the news about the strike was blown up rapidly by the PPPB, the pawnshops labor union (see note number 23 of this chapter) to all over Java. Within two weeks, the strike spread to seventy-nine out of the 360 pawnshops in Java, and reached its peak in the end of January 1922 when the strikes were organized by local branches of the PPPB at almost all important cities in Java. These series of strike movement gained support from almost all social and political organizations, including the influential ones such as *Sarekat Islam*, *Budi Utomo*, *Muhammadiyah*, and *PKI* (the communist party). The fact that some of top leaders of the pawnshops labor union had link or even members of the political parties made the strikes were highly exposed and politicized. Moreover, at that period these political organizations were in strong competition to gain support from the growing members of the middle class group (Niel, 1960; Noer, 1973). Responding these strikes, the worried Dutch government issued more coercive measures; firstly, in cooperation with the police department the government prohibited temporarily any kinds of meeting or assembly; and secondly, it discharged all the staffs who participated in the strikes (*Kern Report fol.7 16 March 1922*).

10 This, for example, can be read from the media published by labor union such as 'Soara Regie' or 'Soeara Regie Loear Djawa dan Madoera' of the opiumregie. Almost all articles or news in these journals discussed exclusively the working conditions of the indigenous staffs working in this government organization.

11 The report was preserved at the KITLV under heading Kern collection, H 797 inventory Number 291 fol. 6-7.

12 In the second report, Kern identified later that this kind of case had happened a year before in Lasem and Pati, but were not exposed by local press. He describes further that there was a tension and clash of interests within the pawnshops administration, notably between the Indonesian managers (bestuurders) and the sub-managers (onderbestuurders). KITLV H 797 No. 291 Fol.6.

*Abdul Wahid :*

*The Government Pawnshops Service in Late Colonial Java, 1900-1940*

In his analysis on the aftermath of the strikes, Nagazumi (1976: 204-6) concludes that in general this action failed to achieve its target, as it faced a repressive counteract from the colonial government. While most of the strikers lost their position, the rest of indigenous staffs withdrew their membership of the pawnshops labor union. The same conclusion also applies to the social political organizations, which had given their utmost support to the action. For social-culturally oriented organizations like *Budi Utomo* and *Muhammadiyah*, the failure of the strike became justified reason to withdraw their intention to be more active in political arena. But, for more radical parties like *Sarekat Islam* and *PKI* the failure became a showcase of their own failure to gain bigger influence among government civil servant and other member of colonial middle class', despite the engagement in the strikes had reinforced their reputation as anti-colonial organizations. Overall, Nagazumi notes further, the pawnshops-strike gave only small positive contribution to the nationalist movement in the colonial Indonesia.

### **Conclusion**

Under the auspices of the Ethical Policy that promised a more benign colonial approach, the administration of government pawnshop monopoly basically directed to achieve two main objectives: for the state interest, to improve efficiency, accountability, and profit to a reasonable level; and for the sake of society, to provide easy credit and minimize the influence of private money lenders. The overall review of the practice of this government service throughout the final four decades of the Dutch colonial period brought to a definite conclusion that the colonial government had successfully achieved the first target by establishing a more efficient, accountable, and controllable administration compared to the previous administration that run by the private partners. Among obvious indicators was the increasing profit margin and revenue

gained by this institution or the diminishing of administrative malpractices, such as corruption and molestation. As part of fiscal institutions, profit orientation was inherent in the mission of pawnshops service, but this overshadowed its original humanitarian concern. Consequently, in the long run the second objective was no longer a priority.

In the period concerned, the government was quite successful in extending the pawnshops service to all over the colony, improving its administrative efficiency, reducing the past malpractices, and delivering loan or credit to more people in compare to others credit institutions. More importantly, in fiscal perspective the pawnshops turned to be a quite profitable enterprise. This success, however, was still not enough to completely replace the influence of unofficial or illegal credit practices particularly in rural and remote areas, which was basically the original main target of the extension of popular credit. The only social side story was the series of strike in 1922 were merely internal dynamic within the pawnshop administration that had little to do with its function as popular credit provider and with the real economic life of the population. The operation of pawnshop service provided empirical evidence on the paradox of the Ethical Policy and in general on the nature of the late colonial state in Indonesia. The paradox was clearly visible from the statistical evidence of how profitable this organization was for the colonial state, while it failed to mitigate the old problems like popular indebtedness and usurious moneylending. In this sense, the ethical inspiration was merely political lip service that was matter in the early stage but then exhausted or forgotten in the due time.

## Bibliography

### Archives

Arsip Nasional Republik Indonesia (ANRI), K.52.944, Department van Financien (1838), 'Perdjandjian beja roemah-roemah pegadejan'.

KITLV, *Kern collection*, H 797 inventory Number 291.

Nationaal Archief (NA), Inventaris Nummer 4837, Verbaal 12-7-1894/61. F. Fokkens, 'Nota betreffende de vervanging door directe collecte dan wel eigen beheer van de op Java en Madoera voorkomende pachten der gewone of kleine middelen'

### Articles, Manuscripts, and Books

Blumberger, P., *De Nationalistische Beweging in Nederlandsch Indië*, Haarlem: Tjeenk Willink, 1931.

Boeke, J.H., *Kredit Koperasi Pribumi*. Betawi: Bale Poestaka, 1931.

Boeke, J.H., *Rural Credit in the Dutch East Indies*. London: s.n., 1932.

Boomgaard, P., 'Buitenzorg in 1805: The Role of Money and Credit in a Colonial Frontier Society', *Modern Asian Studies*, Vol. 20 No. 1, February 1986, pp. 33-58.

Burger, D.H., 'De Desa Ngablak (Regentschap Pati) in 1869 en 1929', *Koloniale Studien*, 1933.

Burger, D.H., *Structural Changes in Javanese Society*. Ithaca: Cornell University-Modern Indonesian Project, 1956.

Coolhaas, P.W., *Mens en Maatschappij: Insulinde*. 's-Gravenhage: W. van Hoeve, 1944.

Djojohadikusumo, S., *Het Volkscredietwezen in de Depressie*. Haarlem: De Erven F. Bohn, 1943.

'Een Poel van Ongerechtigheid', *Javabode*, 18 April 1889.

Furnivall, J.S., *State Pawnshops in the Netherlands India: Studies in the Economic and Social Development of the Netherlands East Indies*. Rangoon: Burma Book Club, 1934.

Fruin, Th. A., *Voorloopige Handleiding voor het Credietbedrijf der Algemeene Volkscredietbank*. Batavia: Algemeene Volkscredietbank, 1933.

*Gedenkschrift Uitgegeven ter Gelegenheid van het 25 Jarige bestaan van den Gouvernements Pandhuisdienst 1901-1 April 1926*. Weltevreden: Landsdrukkerij, 1926.

*Handleiding ten Dienste van de Inlandsche Bestuursambtenaren op Java en Madoera, No. 38/F., De Pandhuis-Regie*. Weltevreden: Uitgevers-Maatschappij 'Papyrus', 1919.

Henley, D.E.F. & P. Boomgaard (eds), *Credit and Debt in Indonesia, 1860-1930: From Peonage to Pawnshop, from Kongsi to Cooperative*. Leiden/Singapore: KITLV – ISEAS, 2009.

Houben, V.J., 'Profit versus Ethic: Government Enterprises in the Late Colonial State', in: Robert Cribb (ed.). *The Late Colonial State in Indonesia: Political and Economic Foundations of the Netherlands Indies 1880-1942*. Leiden: KITLV Press, 1994.

Kat Angelino, A.D.A., *Staatkundig Beleid en Bestuurszorg in Nederlandsch-Indië*. 's-Gravenhage: Nijhoff, 1931.

Keers, J., *Het Pandcrediet op Java*. Weltevreden: G. Kolff & Co., 1928.

Kielstra, 'De Kleine Verpachte Middelen op Java', *De Gids*, Augustus 1889.

Laanen, J.T.M. van, *Changing Economy in Indonesia, Vol. 6: Money and Banking, 1816-1940*. The Hague: Nijhoff, 1980.

Lette, J.R., *Onderzoek naar de Werking van het Pandcrediet onder de Inlandsche Bevolking*. Batavia: s. n., 1933.

MacVey, R., *The Rise of Indonesian Communism*. Ithaca: Cornell University Press, 1965.

Nagazumi, A. 'The Pawnshop Strikes of 1922 and the Indonesian Political Parties', *Archipel*, Vol. 8, 1974, pp. 187-206.

Niel, R. van, *The Emergence of the Modern Indonesian Elite*. Leiden: Foris, 1960.

Noer, D., *The Modernist Muslim Movement in Indonesia, 1900-1942*. Singapore etc.: Oxford University Press, 1973.

**Abdul Wahid :**

***The Government Pawnshops Service in Late Colonial Java, 1900-1940***

- Thomas, Th., *Eenige Opmerkingen naar Aanleiding van het Pachtstelsel op Java*. Leiden: Brill, 1893.
- Vellema, P., 'Pandjeshuizen', *Tijdschrift voor Nederlandsch-Indië*, 15e, ii, pp. 1564-92, 1893.
- Vitalis, L., 'Over de Pachten in het Algemeen, de Onzedelijkheid van Sommige, en de Verdrukking Waaraan de Overmatige Misbruiken van Andere de Javaansche Bevolking Blootstellen', *Tijdschrift voor Nederlandsch Indië*, 13de Jaargang, 1851.
- Westerrode, W.P.D. de Wolff van, *Het Onderzoek naar de Werking der Pandhuispacht en de Proefneming met eigen Beheer*, eerste deel. 's-Gravenhage: Martinus Nijhoff, 1902.
- Zanden, Jan Luiten van, 'Credit and the Colonial State: The Reform of Capital Markets on Java, 1900-30', in: David Henley & Peter Boomgaard (eds), *Credit and Debt in Indonesia, 860-1930: From Peonage to Pawnshop, from Kongsi to Cooperative*. Leiden/Singapore: KITLV – ISEAS, 2009, pp.160-78.

**Websites**

- Meleger, J., 'Public Finance of Indonesia, 1817-1940', [www.iisg.nl/indonesianeconomy/publicfinance](http://www.iisg.nl/indonesianeconomy/publicfinance), accessed October 2010.

