

POLITICAL DIMENSIONS OF THE CURRENCY QUESTION 1945-1947*

Robert Cribb

Currency problems may seem at first to have little to do with revolution, but during the early years of the Indonesian Revolution circumstances were such that currency became a major element in the struggle between the opposing parties. In fact, the conflict over currency had such wide-ranging political implications that it was one of the reasons behind the Dutch decision to launch their first "Police Action" against the Republic in July 1947.

This contest over currency was made possible by the strategic geography of the Dutch-Indonesian conflict. In the aftermath of World War II and the Japanese occupation of Indonesia, Allied (Australian) forces had succeeded in restoring Kalimantan (Borneo) and most of the islands of East Indonesia to the Dutch without great difficulty. On Java and Sumatra, however, a shortage of forces and determined opposition from the Republicans had confined Allied (British and British Indian) forces, which had arrived at the end of September 1945, to three urban enclaves on Sumatra (Medan, Padang, and Palembang), and three and a half (Jakarta [Batavia], Semarang, and Surabaya, plus the northern half of Bandung) on Java. For both political and military reasons, the British did not remove the Indonesian Republican government apparatus present in these cities on their arrival, and indeed prevented the Dutch from attempting to do so. The effect was to give the cities an ambiguous status, on the one hand Dutch, for the Dutch were members of the Allies and had been confirmed as sovereign power by the San Francisco Conference of April-June 1945; but also Indonesian, for there was clearly no future for these cities distinct from their Javanese and Sumatran hinterlands then under the control of the Republic. As Dutch-dominated enclaves with a strong Republican presence and continuing ties with the Republican government, the cities offered considerable scope for conflict.

* This paper is based on material collected in Britain, The Netherlands, and the United States from 1979 to 1981, as part of my research for a forthcoming doctoral dissertation on Jakarta during the Indonesian Revolution. Information and examples, therefore, are drawn especially from the experience of that city. Sources so far consulted have unfortunately not permitted an investigation of monetary policy making within the Republic as detailed as that for the Dutch and British. I hope to correct these imbalances after further research.

I would like to thank the heads and staffs of the Algemeen Rijksarchief, the archives of the former Ministerie van Koloniën and the Koninklijke Bibliotheek in The Hague; of the Public Record Office and the India Office Library and Records in London, and of the libraries of the School of Oriental and African Studies in London and Cornell University in the United States for their help and assistance in providing material. I am also grateful to Mr. J. E. van Hoogstraten, Dr. P. J. Koets, M. Kooistra, E. T. Kuiper, Dr. Ong Eng Die, and R. Abdulkadir Widjo-atmodjo for their patient assistance in answering my many questions while I was researching this topic.

This competition did not merely lie in either side's seizing opportunities to demonstrate its power. From the beginning a major part of the Republic's strategic response to the Dutch return had been diplomatic. While firmly opposing the Dutch in principle, they attempted to enlist the Allies and the United Nations (the two were seen as much the same thing), if not as supporters then at least as disinterested arbiters. This attempt did not produce the desired result, and it soon became clear that there would be a protracted struggle. Greater emphasis was then laid on the development of the economy and the Republican state apparatus, both to strengthen the Republic's ability to meet the Dutch diplomatically and militarily and to ensure that the growth of Dutch power could be halted. At the same time, the Dutch were convinced of the necessity to restore the pattern of efficient administration on which they had prided themselves before the war. They believed the quality of their rule to be their strongest point in any comparison with the Republic, and they, too, concentrated on developing the economy and administration of the areas they controlled. Since money lies at the heart of such matters, conflict in the field of currency became inevitable.

Both the Republic and the Dutch faced a situation where the currency was seriously affected by three-and-a-half years of Japanese occupation. At the beginning of their occupation, the Japanese had issued a temporary occupation currency [*gunpyo*], nominally at par with the prewar guilder. In March 1943, notes of the Nanpo Kaihatsu Kinko [Southern Development Bank], produced in Kolff's printing works in Jakarta and known generally as *oeang Djepang*, or *oeang pisang* [banana money] from the bananas which were a prominent part of their design, were brought into circulation and at the same time the Japanese issued instructions that all prewar currency was to be handed in to them.¹ This regulation was far from strictly enforced, and even Dutch internees continued to be able to use their savings to buy food and other necessities from Indonesian and Chinese sellers. As the Japanese authorities printed and spent increasing amounts of money, however, serious inflation began. Prices rose rapidly, exacerbated by a wartime shortage of goods.² People hoarded the old Netherlands Indies currency as a security against the depreciation of the Japanese guilder and the possibility of a Japanese defeat. At the end of the war, therefore, transactions were almost universally conducted in Japanese notes, which were politically unpopular and the value of which continued to depreciate rapidly.

In a presidential proclamation on October 3, 1945, Sukarno recognized both prewar Netherlands Indies currency and Japanese occupation currency as legal tender.³ Soon afterwards, however, A. A. Maramis, the Minister of Finance in

1. J. E. Spinosa Cattela, "Monetaire problemen in Indië," *Economisch-Statistische Berichten*, 30, no. 1490, (November 29, 1945), p. 262.

2. For a comparison of prices of basic items in 1942 and in February 1946, see *Star Weekly* [Jakarta], February 10, 1946; for figures on the increase in circulation of Japanese currency during the occupation, see Spinosa Cattela, "Monetaire problemen," p. 262. Figures on the gross circulation of currency from 1942 on can give no more than a general indication of the state of affairs, for there is no way to account for the loss or destruction of notes. Nor has it always been possible to distinguish between circulations on Java, on Sumatra, and in East Indonesia, which remained administratively separate and economically largely isolated throughout the Japanese occupation, although all these areas used the same currency, with the exception of a f.100 note issued only on Sumatra.

3. *Merdeka* [Jakarta], October 5, 1945.

Sukarno's presidential cabinet, was making plans to issue a new Republican currency (*oeang Republik Indonesia*, or ORI). The chief problem, as Maramis saw it at the time, was an abundance of money in the economy. According to his estimates, the Japanese had put f.2,200 million into circulation, f.1,570 of it on Java and Madura. There were an additional f.462.5 million or so in Java Bank and pre-war Netherlands Indies government currency notes, which had been in circulation when the war began and which, although no longer circulating, were beyond the control of any government. He argued that, since the Allies would not recognize the Japanese currency and since it would be overoptimistic to expect the Dutch to back their currency with the gold reserves they had removed to Australia just before the Japanese invasion, the Republic itself must be responsible for creating the stable monetary conditions necessary for economic recovery. He proposed that both Japanese and prewar Netherlands Indies currency be accepted for exchange at par against yet-to-be-issued Republican guilders, or rupiah. In order to keep circulation manageable, however, those paying in would receive at most only 5 percent of the value of their money; the rest would be a national loan, repayable in fifty to seventy-five years, and bearing interest at 2 percent.⁴

Maramis' plans were cast within the framework of a Republican vision of the future, but they were not really revolutionary, in that they were not directed against specific Dutch monetary or other policies, and indeed assumed an absence of positive Dutch monetary policies. Sukarno had in fact tried to influence the Allies by urging Mountbatten to announce officially that Japanese currency would be recognized at par with prewar Netherlands Indies currency.⁵ The initial preparations for issuing ORI, therefore, were an administrative rather than a political act, although the propaganda value of currency was well recognized. The notes, printed in Jakarta at the state printing works and dated October 17, 1945, bore a portrait of Sukarno and a picture of an erupting volcano, reportedly Sukarno's metaphor of the Revolution as a fiery, destructive outburst which leaves the surrounding land fertile once it is over.⁶ According to British intelligence reports, there were firm plans to issue the new currency on February 1, 1946, and a few of the notes appeared in the markets in Jakarta before this.⁷ The majority, however, reportedly three metric tons in weight, were captured by the Allies in mid-January 1946, when they occupied the state printing works.⁸ The plates, however, were apparently saved, for, when the ORI was finally issued officially nine months later, in October 1946, the notes were of the same design, signed by Maramis, and dated October 17, 1945.

4. E. T. Kuiper [Department of Finance liaison officer with Allied Headquarters], note [c. January 1946], in S. L. van der Wal, ed., *Officiële bescheiden betreffende de Nederlands-Indonesische betrekkingen 1945-1950* [hereafter *OBB*], 8 vols. to date (The Hague: Nijhoff, 1971-), 3, pp. 148-49n.

5. Sukarno to Mountbatten, September 30, 1945, *OBB*, 1, p. 206.

6. H. Natasuwarna, "The Indonesian Revolution and the Paper Money Issued during that Period" (typescript, 1979, in my possession), p. 4.

7. Foreign Office [hereafter *FO*] file no. 371/53774; *Nieuwsgier* [Batavia], January 16, 1946.

8. HQ, 23 Ind. Div., Bandung, "Weekly Intelligence Summary, no. 13," February 6, 1946, Algemeen Rijksarchief [hereafter *ARA*], archief Procureur-Generaal bij het Hooggerechtshof in Nederlandsch-Indië [hereafter *Proc. Gen.*], 549; *OBB*, 3, pp. 148-49n.

On the Dutch side the question of the postwar currency for the Netherlands Indies had been raised within the Netherlands government-in-exile in London as early as August 1942. The Netherlands Indies had had its own currency before the war, with the semiofficial Java Bank issuing bank notes and the government itself issuing coins and currency notes [*muntiljetten*]. The currency had been linked to, but distinct from, that of The Netherlands, and in 1942 it was proposed that the tie be loosened somewhat in expectation of postwar constitutional changes. It was decided that the Netherlands Indies guilder would be replaced by a specifically Indies currency, a decision that, it seems, was less a political than an economic and financial one, for, despite a certain amount of argument in favor of an Indies design for the new Indies currency, van Mook, then Minister of Colonies in the government-in-exile, decided to retain the old, purely Dutch design.⁹ Attention had to be given, however, not only to the eventual financial character of the Netherlands Indies currency but to the more pressing problem of monetary rehabilitation immediately after the war. Direct government monetary authority was viewed as necessary to avoid a period of monetary chaos, and on March 2, 1943, the Netherlands Indies government was authorized by royal decree to issue currency notes of f.5 and higher. The distinctive feature of such notes was that, unlike bank notes, they were not backed by the gold reserves of a circulation bank but, like coins, simply bore their value on the authority of the government that issued them. The notes themselves were printed in the United States by the American Bank Note Company. It was presumably the completion or part completion of this printing which enabled the government to proceed in February 1944 with the logical corollary of its original decision: the removal from the Java Bank of the right to issue currency.

Like so many other Dutch plans concerning the reoccupation of Indonesia, those for the withdrawal of the Japanese occupation currency and the introduction of the 800 million or so *gouvernementsgulden*, printed in America but already brought over to Australia, were thrown into confusion when the Japanese surrendered on August 14, 1945, while still in control of most of the archipelago. The relatively small administrative apparatus the Netherlands Indies government-in-exile had set up in Australia, which as part of the Allied forces had become the Netherlands Indies Civil Administration (NICA), was geared to restoring Dutch authority piecemeal, as areas were liberated by the advancing Allies. This had indeed occurred reasonably smoothly in those areas captured before the Japanese surrender--Hollandia, Biak, Morotai, Balikpapan, and Tarakan.¹⁰ There NICA had been able to establish an administration, introduce the new currency (known generally as *Nicageld*, *oeang Nica*, or, from its color, *oeang merah*--red money), and dump at sea stores of Japanese currency notes. Such action, however, could not be taken throughout all of Indonesia at once and in Brisbane, on the eve of the Japanese surrender, presumably in anticipation of the official announcement, it was decided not to declare the Japanese currency worthless immediately, principally on the grounds that there was no prompt way of substituting NICA money for it.¹¹ It was considered better to postpone briefly the return to Netherlands Indies currency in order to avoid the problems of a long transition period. Events after the surrender showed this to have been a wise decision.

9. D. van Eck, *Juridische aspecten van geld: valutaproblemen bij decolonisatie* (Deventer: Kluwer, 1970), p. 134.

10. C. F. Scheffer, *Het bankwezen in Indonesië sedert het uitbreken van de tweede wereldoorlog* (Jakarta: Noordhoff-Kolff, 1951), p. 79.

11. Report of the meeting of departmental heads, August 13, 1945, *OBB*, 1, p. 19; Logemann to Queen Wilhelmina, October 7, 1945, *ibid.*, p. 269.

In Kalimantan and East Indonesia, where the Allies imposed their authority relatively early, they were able to introduce NICA currency with little difficulty, though Japanese currency continued to circulate on Sulawesi until February 1, 1946, and on Flores until mid-February, while on Belitung it was a commercial company, the Billiton-Maatschappij, which itself issued the first temporary postwar currency.¹² On Java and Sumatra, however, the Allies were not able to occupy more than their few coastal enclaves and, under the surrender provisions dictated by the Allies, the Japanese thus retained responsibility for maintaining law, order, and the political status quo over large areas of the country, a task for which they often had some lack of enthusiasm. Ch. van der Plas, representative of the Netherlands Indies government to SEAC [South East Asia Command], quickly recognized a potentially serious problem: if the Japanese currency were declared worthless, or even if it lost its value as a result of the Japanese defeat, the Japanese would not be able to carry on their administrative tasks.¹³ Japanese administration as such had little to commend it to the Dutch, but they considered any administration better than the chaos they anticipated developing in a power vacuum. Dutch monetary policies in the postwar Netherlands Indies thus began paradoxically with a deliberate attempt to support the occupation currency of the enemy. Not only did the Japanese money remain legal tender on Java and Sumatra, but there was a ban on the import into Java of other currency, including NICA money, and on one occasion the Dutch crew of a plane from Balikpapan was arrested for bringing in NICA money.

Distribution problems severely limited Dutch currency policies; outside the Allied perimeters Java and Sumatra remained wholly inaccessible to the kind of government apparatus necessary if the Dutch were to organize a rapid change of currency, and the Dutch could do little about this outside the framework of their general political relations with the Republic. Having accepted these restrictions, they were faced with the question of whether to introduce NICA money within the perimeters of Allied-occupied territory. The general arguments in favor of this were strong. The Dutch had viewed technical excellence of administration as the cornerstone of their colonial rule in the twentieth century, and careful control of the monetary system was a part of this. They might expect the task of economic reconstruction in the Netherlands Indies to take some time, but without control of the financial situation, they could not even make a start. The Dutch were also sensitive to the likely economic consequences for the unwise and poor if they left Japanese currency in circulation. A prolonged period of uncertainty and instability was likely to benefit only those in a position to manipulate the situation to the disadvantage of others.¹⁴ Politically, too, arguments for introduction seemed compelling, for the Dutch were being hurt by their inability to issue their own currency and by their enforced reliance on the currency of the defeated and disliked enemy occupation forces. At a time when "whiff of grapeshot" theories for dealing with the Republic were influential, inability to control the currency was viewed as a highly undesirable sign of powerlessness.¹⁵ With the Republic still seen as representing anarchical tendencies, rather than a coherent opposition, it seemed that "monetary

12. *Nieuwsgier*, February 2, 15, 1946; Spinosa Cattela, "Monetaire Problemen," p. 264.

13. Van der Plas to van Mook, September 18, 1945, *OBB*, 1, p. 124.

14. Van Mook, for example, argued that the common man had retained his faith in the Dutch, and they should not let him go to the wall. Van Mook to Götzen [Director of Finance] and van Buttingha Wichers [President of the Java Bank], November 16, 1945, *ibid.*, 2, p. 86.

15. Report of the cabinet meeting, September 30, 1945, *ibid.*, 1, p. 195.

economic policy can become one of our best weapons in the struggle for the restoration of order and peace in this country."¹⁶ The idea of issuing the currency only in the occupied enclaves, however, had changed the terms on which its introduction could be considered. Implicit in such a restriction was a recognition that the Japanese currency, whatever its legal status and economic basis, actually had a certain economic power.¹⁷ This faced the Dutch with a problem of quasi-international financial relations: could NICA money, based in three-and-a-half enclaves on Java, outperform the Japanese currency with its basis in the hinterland?

It was politically and economically essential for the Dutch that NICA money retain its value in contrast to the sharply depreciating Japanese currency. This, it was realized, was not a matter of relative political confidence; it was widely believed, both amongst the population at large and within Dutch ruling circles, that some official value would ultimately be set on the Japanese currency, and once the principle of exchangeability had been established, the rate of exchange would have to be fixed on more or less economic grounds.¹⁸ Indeed, it was NICA money, not the Japanese money, that would be vulnerable politically, since the Republic in anticipation had refused it recognition. Within the Allied enclaves, therefore, the exchange rate was likely to be set by the relative buying power of the two currencies. Buying power in turn depended on imports, for there was still relatively little manufacturing or food production within the enclaves, and here the Dutch were at a serious disadvantage. There was a severe postwar shortage of goods and cargo space, while the Dutch lacked the foreign exchange and credit needed to buy what was available, and were further hampered by black bans against their shipping imposed by pro-Republic waterside workers in Australian ports. And without consumer goods to sell for NICA money, there was little the Dutch could do to make its possession an attractive proposition. The NIGIEO (Nederlands-Indisch Gou-vernements Im- en Export-Organisatie), set up in 1943 with an official monopoly of trade to and from the Netherlands Indies in many commodities, together with the Department of Economic Affairs of which it was a part, eventually succeeded in organizing a limited flow of goods to Indonesia. These included redundant American war supplies and goods purchased with Canadian credit and shipped across the Pacific in Netherlands Indies government vessels specially built in Oregon during the war. It was some time into 1946, however, before this flow reached sizeable proportions and until then there was little to give value to NICA money.

In the second place, there was the problem of Netherlands Indies currency issued in the prewar period. In 1942, there had been about f.362.5 million in Java Bank notes in circulation, together with f.100 million in government currency notes and f.195 million in coins.¹⁹ Moreover, according to intelligence reports, after the capitulation the Japanese had spent f.57.5 million in prewar Java Bank notes which they had taken from the main Java Bank safe in Bandung.²⁰ Of this total of about f.715 million, there was little in active circulation, due to hoarding, but this was likely to change if people interpreted the introduction of NICA guilders as a sign of returning economic stability. On behalf of the Netherlands Indies government,

16. Kuiper, note, in *ibid.*, 3, p. 148.

17. Götzen to van Mook, November 12, 1945, *ibid.*, 2, p. 55.

18. Van der Plas to van Mook, September 18, 1945, *ibid.*, 1, p. 125; Logemann to Queen Wilhelmina, October 7, 1945, *ibid.*, p. 269; Götzen to van Mook, November 12, 1945, *ibid.*, 2, p. 53.

19. Götzen to van Mook, November 12, 1945, *ibid.*, p. 54.

20. *Ibid.*; Report of the cabinet meeting, September 30, 1945, *ibid.*, 1, p. 195.

van Mook had in fact promised that prewar currency would retain its value in relation to NICA money.²¹ Whatever exchange rate might ultimately be decided for Japanese currency, therefore, a substantial amount of what would have to be regarded as NICA money was already in potential circulation. With many of these notes presumably in the interior, where, unlike NICA money, they were accepted as legal tender, and without an effective tax apparatus or a large stock of consumer goods to sell, the Netherlands Indies government had no immediate means of reducing circulation: to have added the new currency to the economy at this stage would simply have encouraged further inflation.²² A partial solution appeared possible through use of a device applied already in Kalimantan and East Indonesia, where there was a similar problem of prewar currency still in circulation. There only Java Bank and currency notes of f.10 and below were authorized as legal tender alongside NICA money; higher denominations were simply frozen until control over the money supply was regained, and thus the inflationary effect of too much money was reduced.²³ On Java, however, the situation was complicated by the continued circulation of Japanese currency and by the existence of an unofficial rate of exchange between it and the prewar guilder that, at 10-12:1, was much too far below the rate of 33:1 which the Dutch had in mind.²⁴ If NICA money were introduced, the risk was that its value would be dragged down by that of the prewar guilder.²⁵ The situation, in short, was highly unpromising for NICA money, and a representative of the Java Bank gave the blunt advice:

. . . under the present circumstances an introduction of new Netherlands Indies currency on Java and Sumatra would have catastrophic effects on our monetary system, with all the resulting consequences for the economic development of these regions.²⁶ [Original emphasis]

Such considerations, indirectly political, were supplemented by direct arguments which carried steadily more force as the Dutch took growing account of the power of the Republic. Unfortunately for the Dutch, van Mook's 1942 decision against an *Indische* design for the postwar currency had led to the printing of notes with a Dutch text and dominated by a picture of Queen Wilhelmina, which thereby cast a suggestion of doubt on Dutch announcements that they were not returning simply to restore the old colonial order. The few NICA notes which inadvertently entered circulation on Java in 1945 aroused such aversion from both the Republicans and their government that the Dutch were somewhat doubtful whether they would be accepted even in the enclaves. Van der Plas predicted "widespread

21. Götzen to van Mook, February 18, 1946, *ibid.*, 3, p. 406.

22. Note concerning Netherlands Indies currency [January 17, 1946] [hereafter *NIC note*], ARA, *Algemene Secretarie 1e zending* [hereafter *Alg. Sec. 1*], box [kist] 1, file [dossier] 27; Logemann to Queen Wilhelmina, October 7, 1945, *OBB*, 1, p. 269.

23. Van Mook to Logemann, October 16, 1945, *ibid.*, p. 372.

24. General Treasury to van Mook, February 7, 1946, *Proc. Gen.* 894, 2; Götzen to van Mook, November 12, 1945, *OBB*, 2, p. 53.

25. Observation of the few NICA notes which had inadvertently entered circulation suggested that it would fall even lower. In October 1945, NICA guilders fetched only four Japanese guilders. Such figures, however, cannot safely be applied to a hypothetical larger circulation. See *NIC note*.

26. Drs. H. J. Manschot [representative of the Java Bank], note [c. January 1946], *OBB*, 3, p. 152n.

discontent, outbursts of violence and possibly a popular revolt" if the notes were introduced.²⁷ Moreover, he pointed out, whether or not NICA money circulated in the enclaves, its proscription by the Republic ensured that no one living outside them would dare to sell produce in exchange for the currency. The cities, largely dependent on imports for their food supplies, would be cut off. Finally, in view of the Republic's hostility to NICA money, the tentative negotiations towards a political settlement which were under way would be jeopardized and, moreover, the Dutch would bear the blame for what the world would see as unnecessary provocation.²⁸

Thus the currency of the Japanese military administration not only remained in circulation but continued as the official tender of the government. The Allies had captured about two-and-a-half thousand million guilders in Japanese currency when they occupied the main banks and the Kolff printing works in Jakarta in early October, and it was this, together with such subsidiary acquisitions as forty chests of Japanese currency, valued at f.100 million, brought from Bandung by Dakota in January, that the Dutch used to finance the costs of restoring their administration.²⁹ Many Allied needs were met simply by requisition from the Japanese, who were authorized to print extra money to pay for it.³⁰ Large sums, however, were also spent directly by the Dutch, and the combined result was a rapid increase in the money supply. The exact dimensions of this increase are hard to estimate, since the available sets of figures are widely divergent and none is particularly convincing on close analysis. Moreover, the Dutch also alleged later that the Japanese had issued f.1,500 million more than their records showed. There is a consensus, however, that an initial circulation of between f.369 million and f.2,700 million in August 1945 rose sharply as a result of postcapitulation spending, reaching perhaps f.3,500-4,000 million and possibly as much as f.8,000 million.³¹ Inflation, already well established in Japanese times, continued apace, and Dutch officials, who received f.1,000 (Japanese) per month as "pocket money" (salaries were credited rather than paid, in an effort to isolate NICA money from the inflation), found it insufficient even for food.³² The situation was aggravated by the activity of counterfeiters.³³

With both the Dutch and the Republic unable, for their respective reasons, to issue their own currency, the lines of conflict were drawn more in theory than in practice. The small amounts of either currency in circulation served as a taste of things to come, rather than as a cause for concern in themselves. Even at this stage, however, the Republic was making a serious effort to obstruct the monetary

27. Van der Plas, note [c. January 1946?], *ibid.*, p. 241n.

28. *Ibid.*

29. Van Mook to Logemann, October 22-31, 1945, *OBB*, 1, p. 404; *Nieuwsgier*, January 5, 1946.

30. *FO* 371/53779.

31. Scheffer, *Bankwezen*, p. 80; van der Plas to van Mook, September 18, 1945, *OBB*, 1, p. 124; Kuiper, note, *ibid.*, 3, pp. 148-49; *FO* 371/53775; *FO* 371/53806. For the allegation of Japanese malpractice, see Ministerie van Financiën, "Intrekking invasiegeld op Java en Sumatra," September 17, 1946, *Alg. Sec. 1*, box 1, file 27.

32. *NIC note*; Regeringsvoorlichtingdienst [hereafter *RVD*], "Wekelijksche kroniek no. 2," December 15, 1945, archives of the former Ministerie van Koloniën, *Rapportage Indonesia* [hereafter *Rapp. Indon.*], box A, file 1.

33. *Ra'jat*, February 1, 1946, cited in *ARA*, archief Ministerie van Koloniën, supplement, file 76.

plans of the Dutch. The newspaper *Merdeka* announced on October 2, 1945, that NICA notes had appeared, and on the same day, in its first financial decree, the Republic banned the new Dutch currency.³⁴ Only on the following day did Sukarno issue his decree defining what would be regarded as legal tender. No official penalty for possessing NICA money was laid down at this stage, but inspection patrols of pemuda in the pasar, together with unofficial executions of those caught dealing in it, made it clear that this ban would be enforced. In itself, the ban was a political, rather than an economic act; NICA money was unacceptable at this stage because it was an aspect of Dutch authority, not because the Republic expected any specific undesirable economic or financial effects from its circulation. But the ban was effective primarily for economic reasons: exclusion of NICA money from the Javanese hinterland transformed the conflict, even before it had started, from one between the rival authority of two regimes to one between the rival economic power of two regions. This may in fact have been Hatta's intention when announcing that the new currency would be based on a-metalism, that is, that it would be backed by valuable and durable goods, rather than by gold.³⁵ For the time being at least, it put the conflict to the advantage of the Republic.

Political considerations, however, also led the Republic to revise its plans to introduce ORI. The initiative here came from the British. Indonesian opinion was firmly in favor of issuing ORI as soon as possible.³⁶ The Dutch, of course, would have been glad to advise in the matter, but lacked the necessary sympathetic audience. The British, however, through whom the Republicans believed they addressed the world, were a different matter. In January 1946, M. E. Dening, Foreign Office political adviser to SEAC, told representatives of the Republic bluntly that for the Republic to issue its own currency would be the best way to wreck the economy of the country.³⁷ His message was reinforced later that month by W. A. M. Doll, a treasury official specially sent out as adviser to SEAC, who argued that in issuing its own currency the Republic would be marching in the face of the entire organized machinery of international cooperation in the monetary economic field. "These are international forces," he warned, "which do not let themselves be defied and which have a deep rooted aversion to dilettantist experiments in monetary affairs."³⁸ These arguments were economic, but they were presented for essentially political reasons: in order to keep open the possibility of a negotiated settlement it was necessary to avoid reinforcing organizational and structural differences between the two sides. The issue of Republican currency would be a step difficult to undo and would bring in its wake a cloud of economic difficulties which could only delay

34. *Merdeka*, October 2, 1945. As the editor of *De Nieuwsgier* pointed out at the time, the circulation in Jakarta had a diversity approaching that of prewar China. In addition to the four forms of currency with some legal backing--prewar Netherlands Indies currency, Japanese currency, NICA money, and ORI--there were British pounds, American dollars, Indian rupees, Straits dollars, and Philippine pesos. See *Nieuwsgier*, January 16, 1946.

35. *Merdeka*, November 21, 28, 1945.

36. See, for example, *Merdeka*, November 28, 1945, January 19, 1946.

37. [W. F. L. Graaf] van Bylandt [special envoy and plenipotentiary minister to the Lieut. Governor-General], Memorandum, January 19, 1946, *OBB*, 3, p. 171; van Bylandt, notes on discussions at Allied Headquarters, January 22, 1946, *ibid.*, p. 195; Kuiper, report [dated January 21, 1946, but apparently written later], *ibid.*, p. 240, n. 6.

38. FO 371/53781.

and complicate a settlement. It was presumably a more explicit statement of this attitude that led Sjahrir to undertake at least not to introduce the new currency before he had considered van Mook's proposals.³⁹ This undertaking, however, became somewhat irrelevant with the capture of the stock of Republican currency notes in mid-January, coyly referred to in the Republican press at the time as "technical difficulties."⁴⁰ Sjahrir also believed that some sort of understanding had been reached whereby neither side would issue its own currency until a settlement had been achieved. Whether he misinterpreted the situation or was deceived, he was soon disappointed by the turn of events.

The British did not play an entirely consistent game. In October 1945, according to reports, one group of British officers was advising Hatta to accept the NICA money while another group encouraged him to go ahead with issuing Republican money. At the same time, Mountbatten was urging that NICA money not be introduced, in order to avoid provoking the Indonesians.⁴¹ Two months later, however, on December 10, Lt. Gen. Christison, Allied Commander in the Netherlands Indies, wrote to van Mook asking him to introduce NICA money into circulation on January 1, 1946. Moderate Indonesians, he argued, were likely to accept it (this came as a surprise to the Dutch, whose own intelligence sources suggested quite the opposite), and it was the only way to prevent a collapse of the economic structure of the region.⁴² Christison was also highly dissatisfied with the temporary arrangements for crediting salary and paying pocket money to the troops. British troops, it was argued, wanted solid payment, in an internationally recognized currency, rather than gifts of Japanese occupation money, and the British had moral objections to paying their workforce and suppliers in Japanese currency when it was losing value by the week.⁴³ These complaints were partly met by a payment of f.2 million in NICA money to the British for use by soldiers in army canteens, on condition that it was not used outside. After the Dutch had forcefully argued the technical difficulties of introducing the new currency by the proposed deadline, it was agreed to postpone the introduction to February 1.⁴⁴ In the interval, however, the Dutch Minister of Colonies, J. H. A. Logemann, suspecting that Christison was acting on his own initiative, made enquiries in London and found that neither the Treasury,

39. *NIC note*.

40. RVD, "Wekelijksche Kroniek no. 4," January 2, 1946, *Rapp. Indon.*, box A, file 1. The Dutch had their own "technical difficulties" getting their supplies of NICA money through the pro-Indonesian dock strikes in Australia, although these difficulties were not in fact responsible for the delays in issuing NICA money, since some supplies were flown in, and the remainder arrived early in March 1946 aboard the Australian warship *Bungaree*. By early February, the Dutch had reportedly also begun printing 1¢ and 10¢ notes in Kolff's printing works in Jakarta. See Götzen, "Nota inzake muntzuivering," February 7, 1946, *Proc. Gen.* 894,2; *Nieuws-gier*, March 9, 1946; and *Independent* [Jakarta], February 11, 1946.

41. Extracts from Indonesian broadcasts over Radio Batavia, December 21, 1945, *Alg. Sec. 1*, box 1, file 37; *India Office Records* [hereafter *IOR*], file no. L/WS/1/176.

42. Christison to van Mook, December 10, 1945, *Alg. Sec. 1*, box 1, file 27; *NIC note*. British Intelligence, moreover, agreed with the Dutch; see Kuiper, Note, [January 1946], *OBB*, 3, p. 147n.

43. *NIC note*.

44. *Ibid.*; Kuiper, report, *OBB*, 3, p. 241.

nor the Bank of England, nor the War Office knew anything of Christison's actions. The War Office, he reported to van Mook with evident satisfaction, was going to get in touch with Christison.⁴⁵

Abruptly, however, the British and Dutch reversed positions. Van Mook's codetelegram of February 5, reporting to Logemann that the monetary measures had indeed been halted, noted that the halt would not be indefinite. Allied stocks of Japanese currency would run out in six weeks at the latest and action would have to be taken before then.⁴⁶ In an inflationary economy, the Dutch had been prodigious spenders, and of the two-and-a-half thousand million Japanese guilders captured from the banks and from Kolff's in October only f.450 million remained.⁴⁷ The reprinting of Japanese notes was considered, but unknown saboteurs had destroyed the printing plates for the Japanese notes at Kolff's and it would take two months to replace them.⁴⁸ The Dutch also had serious moral and economic reservations in the matter, and, moreover, there was a growing feeling that the current state of affairs could not continue indefinitely.⁴⁹ And finally, there was fear of the consequences for Dutch prestige if the Republicans beat them to the gun in issuing their own currency.⁵⁰ If a change were to be made, it was felt, this was as good an opportunity as any.⁵¹ For the British, on the other hand, the opportunity was not as good as any. Both Christison and Denning were nearing the end of their terms of duty and both were aware that the introduction of NICA money was likely to sour relations between the Dutch and the Republic and to worsen the security situation. As they had argued to the Republic, the introduction of a new currency could only hamper progress towards a political settlement, and no other kind of settlement was then possible. Doll supported them with powerful economic arguments (the same arguments used previously by the Dutch to resist introduction), but there was little that the British could do. The Dutch could not be expected to govern without money. The introduction of NICA money was set for midnight on March 6. An exchange rate of 3:100 against the Japanese guilder was laid down. To reduce circulation, only prewar Java Bank and government currency notes of f.5 and below were accepted in exchange for the new currency; the rest were frozen. And the government adopted a policy of paying its employees only the minimum necessary proportion of their salaries.⁵² In short, the chief economic obstacles to the success of the new currency were tackled as well as possible. The political obstacles remained another matter.

Predictably, the introduction of NICA money did little to sweeten relations between the Republic and the Dutch, or for that matter between the Republic and the British. In his earlier attempts to persuade the Dutch to introduce their new currency, Christison had promised to announce officially that he, as Allied Commander,

45. Logemann to van Mook, January 29, 1946, *ibid.*, p. 290.

46. Van Mook, "Codetelegram no. 212," February 5, 1946, *ibid.*, p. 291n.

47. FO 371/53781.

48. Drs. L. Korthals [Deputy Director of Finance] to van Mook, March 30, 1946, *OBB*, 3, p. 689.

49. Kuiper, note, *ibid.*, p. 148; *NIC note*.

50. Van Mook to Götzen and van Hoogstraten [Director of Economic Affairs], February 20, 1946, *OBB*, 3, pp. 418-20.

51. Götzen to van Mook, January 30, 1946, *ibid.*, p. 316.

52. *NIC note*.

regarded it as the only legal tender in the land. His successor, Lt. Gen. Stopford kept this promise; indeed, even without the promise he could hardly have done otherwise. He issued the following brief proclamation on March 6:

Whereas

- 1st a sound currency system shall be introduced in order to prevent complete collapse of the economic structure of the country and to create a medium of exchange as a condition for the restoration of normal trade,
- 2nd the Netherlands being the recognized sovereign power, the sole legal tender will be the N.E.I. currency, which is the internationally accepted currency of this country.⁵³

Sjahrir was very upset by the introduction, and van Mook thought that the Republicans were generally more hostile to the new currency than to the landing of Dutch troops.⁵⁴ The Indonesian press and radio began a vigorous campaign against what was called the Dutch "economic offensive." The Republican Ministry of Finance immediately issued a statement that the presidential decree of October 1945, setting Japanese and prewar Netherlands Indies currency as the only legal tender until ORI was issued, remained in force, and a penalty of five years imprisonment was laid down for those found using NICA money.⁵⁵ Colonel Singgih of the TRI Regiment in Tangerang also issued a warning that anyone caught with NICA money would be punished,⁵⁶ and the bodies of those unfortunate enough to be discovered by the pemuda carrying NICA notes began to appear in public places with the offending notes attached as a warning.⁵⁷

With such events occurring even within the Dutch-controlled enclaves, shopkeepers were understandably reluctant to accept the new currency and people traveling beyond Jakarta positively refused it, until black market operators set up currency exchanges at appropriate points along the demarcation line.⁵⁸ There were strikes in Jakarta's port, Tanjung Priok, against payment in NICA money, and the Republican branch of the combined police force in Jakarta refused to accept it.⁵⁹ (Dutch intelligence suggested that this reluctance had more to do with dissatisfaction at the rate at which the workers were to be paid than with a principled aversion to NICA money, and indeed rumors were appearing in the Republican press that the salaries which the Dutch had been paying their Indonesian employees in Japanese currency were to be converted to the new currency at a rate of 50:1 or less, instead of the official 33:1.)⁶⁰ Supplies of rice from the interior dwindled,

53. Lt.-Gen. Sir M. G. N. Stopford, Comd. Allied Forces, Netherlands East Indies: Proclamation, "Currency," March 6, 1946, copy in ARA, archief C. W. A. Abbenhuis.

54. Van Mook to Logemann, March 11, 1946, *OBB*, 3, p. 541; *IOR*, L/P&S/12/1034.

55. *Merdeka*, March 7, 11, 1946.

56. HQ, 23 Ind. Div., Bandung, "Weekly Intelligence Summary no. 17" (March 13, 1946), *Proc. Gen.* 549.

57. *Ibid.*, no. 18 (March 20, 1946), no. 19, part 2 (March 27, 1946).

58. *Ibid.*, no. 17 (March 13, 1946); RVD, "Wekelijksche kroniek no. 14" (April 14, 1946), *Rapp. Indon.*, box A, file 1; *Nieuwsgier*, April 11, 1946.

59. "Verslag van den C.C.O. AMA-CAB voor West- en Midden-Java en de vorstenlanden over de tijdvak van Januari t/m Juni 1946," *Proc. Gen.* 894,5; RVD, "Overzicht Indonesische Pers en Radio," April 13, 1946, *Proc. Gen.* 863.

60. Nefis Rapport 1-5/CI no. 18, "Het nieuwe geld," June 15, 1946, *Alg. Sec. 1*, box 1, file 27; *Merdeka*, March 8, 1946.

and the situation was aggravated by the still unsolved problem of a shortage of goods to be bought for NICA money; ⁶¹ Logemann objected to wasting good foreign exchange on goods to be sold for what he called "the practically worthless NICA-paper." ⁶² The immediate result was a slump in the value of the new currency, to the dismay of the Dutch. The new guilder fell in value from f.33 (Japanese), to f.25 by the end of March, and continued falling steadily in the following months, reaching f.10 in June. ⁶³ With Dutch exchange offices still offering the new guilders at 1:33, there was little interest in converting Japanese currency. Some Dutch, or their sympathizers, tried to support the official rate of exchange in the markets by insisting to sellers who gave the price of goods in Japanese currency that they be allowed to pay in NICA money at the official rate of exchange. Since this insistence could sometimes be backed by the Dutch police, sellers often began to give their prices in NICA money. The rate of exchange, however, was not affected. ⁶⁴ Eventually the Dutch also tried selling small amounts of Japanese currency for NICA money at the official exchange rate. Since those taking advantage of this offer received more than twice as many Japanese guilders for their NICA money as they were likely to get on the open market, it was hoped that they would be encouraged to value NICA guilders more highly, which would eventually result in a more favorable rate of exchange. Again, however, there was no lasting effect. ⁶⁵ In time, it became difficult to find sellers willing to take NICA money, even at a low exchange rate. The Dutch began to complain that it was accepted only in the NAAFI and the YMCA, and they set up a small office where Dutch housewives could exchange f.6 per week in NICA money for Japanese guilders in order to be able to go shopping in the markets. ⁶⁶

Once NICA money had been introduced, there were no longer strong political or diplomatic reasons for the Republic to refrain from issuing its own currency. The Dutch were seen as having acted in bad faith and, whether or not the Republic was aware of it, there was a certain feeling in some foreign financial quarters that, assuming the conflict was going to be protracted, an official Republican currency, regulated and controlled by the Republican government, was preferable to the continued circulation of the Japanese currency. ⁶⁷ This is not to say that the Republican currency would be greeted enthusiastically; the British had kept up a certain amount of pressure on the Republic not to go ahead with issuing ORI ⁶⁸ and there was no possibility of its receiving international recognition separate from an eventual international recognition of the Republic. International reaction, which was likely to be muted, was not of fundamental importance to the Republic; what was important was whether or not the new currency was a success, and whether or not it retained its value and enabled the Republic to bring its economy under some sort of control. Internal political opinion had always strongly favored the introduction of ORI, and it was logical, both for the sake of prestige and self-respect and in

61. "Verslag van den C.C.O. AMA-CAB"; FO 371/53787.

62. Report of the meeting of the War Council, May 8, 1946, OBB, 4, p. 285.

63. Nefis, "Het nieuwe geld"; "Verslag van den C.C.O. AMA-CAB."

64. Van der Plas, note, June 18, 1946, *Alg. Sec. 1*, box 22, file 12.

65. "Verslag van den C.C.O. AMA-CAB."

66. Mr. N. S. Blom [Director of Justice] to Logemann, May 2, 1946, OBB, 4, p. 259; *Nieuwsgier*, April 26, 1946.

67. FO 371/53806.

68. FO 371/53805.

order to provide the much-needed mechanisms of economic control, that the Republic issue its new currency. There was, then, considerable domestic pressure on Sjahrir and his Finance Minister Soerachman to go ahead with introducing ORI, and this was reinforced by reports that the Dutch were smuggling Japanese currency into the Republic.⁶⁹ Moreover, like the Dutch, the Republic had a pressing financial reason for replacing the Japanese currency: they were running out of it. The vaults of the Japanese banks in Malang, Surabaya, Yogyakarta, and Solo had yielded between six and seven hundred million Japanese guilders for the use of the Republic,⁷⁰ somewhat less than the Dutch had obtained. From October 1945 until March 1946 the Republic had an income of f.118.5 million, much of it from taxes of various kinds, with a proportion from the sale of petrol, forest products, salt, and opium. In the same period it spent f.402.7 million, of which f.246 million, over 58 percent, went for the army, which was nonetheless critically short of funds.⁷¹ As in the case of the Dutch, the Republic's supply of Japanese currency was a limited, depreciating resource, for the Republic was not yet sufficiently organized to collect taxes on a scale to match its expenditure. As a matter of economic survival some form of action was becoming necessary.⁷²

Technical difficulties, in the broad sense, had already caused delay and they continued to do so. After the Dutch had confiscated the first run of notes in January 1946, printing operations were shifted to the Kolff printing works at Malang in East Java. The works, however, were small and could manage only a limited output, and so the printers decided to print only one side of the notes, until persuaded by a visit from the local army unit that two sides would be more appropriate for the national currency of the Republic. Only higher denominations had serial numbers, often in fact the same serial number, since there was no mechanism for automatically rolling the numbers on. It was reported, however, that printing was completed by the end of July.⁷³

Economic considerations, nonetheless, caused the Republic to act with circumspection. In his original consideration of the currency problem, Maramis had noted the problem of excess circulation and had suggested a solution in the partial exchange and partial deposit of prewar Netherlands Indies and Japanese occupation currency. Maramis, however, had left the cabinet in November 1945, and his successors apparently did no more to reduce circulation in preparation for the influx of new money than to urge the population to save.⁷⁴ 1946, however, saw the return of numbers of Indonesians who had spent the war in The Netherlands. Many had been students there, and some had received financial and economic training, such as Sumitro Djojoadikusumo and Ong Eng Die. These two men were soon playing important roles in the formulation of financial and economic policy, and their influence

69. Ministerie van Financiën, "Dagrapport: Uitgifte 'republikeinsch' geld," January 30, 1946, *Alg. Sec. 1*, box 1, file 27; FO 371/53805.

70. "De financieele crisis van de TRI," archive of the former Ministerie van Koloniën, file M30, June 18, 1946; FO 371/53806.

71. "De financieele crisis van de TRI."

72. The reprinting of Japanese currency could, of course, have been a solution, for there had been a printing works producing Japanese currency at Magelang during the occupation, but I have not been able to discover its subsequent fate. The fact was, however, that the issue of ORI needed no justification within the Republic.

73. FO 371/53807.

74. *Merdeka*, December 19, 1945.

led to speculation in Allied circles that the Republic had somehow managed to find a Swiss financial adviser.⁷⁵ Like the Dutch from whom they had received their training, in approaching the problem of introducing the new currency they paid a great deal of attention to the problem of excessive circulation of the old.

The first step towards solving both the problem of excessive liquidity and that of the government's emptying coffers was the floating of a National Loan (*Pindjaman Nasional*) on May 9, 1946. Citing the obligation of the population to support Republican goals, the government set the loan at f.1,000 million, half to be subscribed by Java and Madura, half by Sumatra. Repayment was to be within forty years and, when the new currency was issued, all loans were to be converted to it at the official rate.⁷⁶ The loan attracted only about f.318 million on Java and f.208 million on Sumatra, most reportedly by small depositors.⁷⁷ The wealthy of all races, it was complained, abstained, and the result was disappointing. Further measures were needed to control the money supply, and on July 12 a regulation was introduced for Java and Madura that all cash had to be deposited in banks by July 15. The only exceptions were that householders were permitted f.3,000 per month to cover expenses, unmarried individuals f.1,000, and businesses f.1,000-10,000, depending on profits.⁷⁸ As the much-postponed day of issue of the ORI approached, it was announced that all remaining money should be deposited by October 26 (October 30 for businesses), with the exception of f.50 per person to tide the population over the few days before the planned date of issue, October 31. All Japanese currency then in deposit would be converted to rupiah at the official rate of 50:1, after due investigation into how its owners had come by it. A further Rp.1 would be distributed to each person in order to get circulation going again and in recognition of the f.50 retained during the transition period. Any Japanese currency still in circulation would then be declared worthless and would not be exchangeable for ORI.⁷⁹ These measures were based on the postwar *geldsaneering* carried out in The Netherlands by Finance Minister Liefstinck, who had in fact taught Sumitro in Rotterdam. His saneering was a political rather than an economic act. Under it, a new design of bank note was introduced and people could only exchange their old banknotes for new if they gave an adequate account of how they had received them. The intention was that no one should profit from activities during the German occupation which they could not justify in public. The so-called *tientje van Liefstinck* (f.10) was issued to every person in order to start circulation off again and to cover the period up until people received their first wages or salary in new notes.

In the Indonesian case, compulsory deposit made economic sense as a means of avoiding excessive circulation of currency during the transition period, and the consequent inflationary effects on the new currency. It also helped alleviate suspicions that speculators were profiting at the expense of the people. It had additional political advantages. In many Republican areas, opposition groups with ties to independent and independent-minded armed groups both in and out of the army were resisting the efforts of the Republican leaders to create a strong state apparatus and entrench their own positions. One of the strengths of such groups in their

75. FO 371/53812.

76. *Merdeka*, May 9, 10, 1946.

77. G. W. Overdijkink, *Het Indonesische probleem: nieuwe feiten* (Amsterdam: Keizerskroon, 1948), p. 141; "Proces-verbaal Margono Djojoadikusumo," March 30, 1949, *Proc. Gen.* 655.

78. *Merdeka*, July 26, 27, 1946.

79. *Ibid.*; Overdijkink, *Het Indonesische probleem*, p. 141.

attempts to avoid government control, which they interpreted as partisan control by groups which happened to be the government, was their independent economic base. For political reasons, then, they could never have been persuaded to put their funds at the disposal of the government, but it was difficult for them to refuse this demand when it was presented as part of an economic exercise of which no one could disapprove.⁸⁰

The introduction of ORI made a noteworthy contribution to the prestige and power of the Republic within its own borders. In a radio address to the people, Hatta introduced it as a symbol of independence and the basis for economic development.⁸¹ As an instrument for attacking the Dutch it was less of an innovation, though it did reinforce the exclusion of Dutch economic influence from the interior already established by bans on possession of NICA money. Within the urban enclaves the field of currency now offered additional scope for conflict, although on the same lines as before. Two currencies, each backed by a rival government, were already competing for preference in the market place and a favorable exchange rate. ORI now replaced one of those currencies, and this widened the scope for action by the Republic, since it now had a currency it could positively promote, but also increased its vulnerability. The stakes were higher, but the conflict itself was materially unchanged.

During the year prior to the introduction of ORI, organized Republican hostility had contributed to the difficulties of the NICA money, but the fundamental causes of those difficulties had lain in the currency's own weaknesses which the Dutch themselves had recognized at the time of issue and which were independent of Republican monetary tactics. The most fundamental of these was its position as the currency of an economically non-self-supporting enclave. Unable to buy rice from the interior or more luxury goods from abroad, NICA money initially derived its value primarily from the expectation that it would eventually have buying power. The four months following its introduction, in which its value slipped to one half, gave the Dutch great cause of concern. Apart from ineffectual direct interventions into the money market (see above, p. 125), they concentrated on the import of goods, both as a monetary measure and in order to satisfy demand amongst the growing civil and military establishment in the enclaves. The problem of the unacceptability of NICA money for buying products from the interior could not be tackled by such supply-side economics, but, as long as Japanese currency circulated freely on both sides of the border and as long as NICA money maintained a reasonable rate against it, there was a relatively stable situation, far from satisfactory for the Dutch, but at least not alarming. By the time that ORI was introduced, more than a year after the Japanese surrender, the pasar exchange rate of the NICA guilder with the Japanese guilder had stabilized at around 1:15-20,⁸² and preparations were finally under way to replace NICA currency with new gold-backed notes of the Java Bank.⁸³ The supply of manufactured goods purchasable with NICA money was also reaching respectable proportions.

80. One example, cited in Dutch sources, is that of Dr. Moewardi of the Barisan Banteng in Solo, who, together with Tan Malaka and Achmad Subardjo, tried to set up a bank and to obtain recognition of it as a deposit and issue bank for exchange purposes. When the government refused, however, there was little they could do. See P. A. Ursone [adviser to the Director of Economic Affairs], "De invoering van het Republikeinse geld," December 4, 1946, *Alg. Sec. 1*, box 1, file 27.

81. *Merdeka*, October 31, 1946.

82. *Nieuwsgier*, September 5, 1946.

83. Van Eck, *Juridische aspecten*, p. 137; Natasuwarna, "Indonesian Revolution," p. 12.

The issue of ORI presented the Netherlands Indies government with one immediate problem. With Japanese notes becoming worthless in the interior, those people who had not deposited their money in Republican banks would probably rush to exchange their cash at the official Dutch exchange offices in the enclaves. This was dealt with fairly effectively by an announcement that exchange offices would close for the last time on October 30, 1946, though the Dutch felt some reluctance to be seen responding in any way to the monetary policies of the Republic.⁸⁴

With the introduction of ORI, however, the Dutch were also given an opportunity to improve their position. As Japanese currency no longer circulated, there was no longer a neutral medium of exchange between the enclaves and the Republic. The Republic intended the rupiah to take over the functions of the Japanese guilder, but the Dutch, of course, objected to this. The circulation of former occupation currency, freely exchangeable with the legal tender of the land, for a limited period in the interests of economic stability, differed fundamentally from the circulation of the currency of what was at best a rival government, at worst a band of rebels. As far as the Dutch were concerned, ORI could not simply inherit the position of Japanese currency and, in particular, could not be given any official status or rate of exchange whatever. They realized, however, that this position would lead to the establishment of black market currency exchanges to facilitate trade across the border, to the disadvantage of everyone except the currency traders themselves. On this basis the Dutch authorities approached the Republicans for a deal: they would permit the possession of ORI on Java and Sumatra in exchange for removal of the Republic's ban on possession of NICA money, at least in the so-called *randgebieden*, the areas surrounding the Dutch enclaves, or even throughout the territory of the Republic. They emphasized that the proposal was simply one of tolerance and specifically excluded any recognition of ORI as legal tender, or even the establishment of any kind of exchange rate for it.⁸⁵

As this proposal was more or less consistent with the de facto recognition which the Republic was then working towards in the negotiations leading to the Linggajati Agreement, the Republican delegation of Soerachman, Maramis, and Sabaroeddin received it favorably. They were unable to persuade the Dutch to tolerate ORI in Kalimantan and East Indonesia as well, but they obtained a clause providing for special negotiations between the respective Departments of Economic Affairs to facilitate trade between the Republic and the Outer Islands.⁸⁶ The proposal was then referred to Yogya, where it must have come in for some careful consideration. In its favor was the semirecognition it gained from the Dutch and the need to create some sort of momentum, or at least a favorable atmosphere, for the Linggajati negotiations, together with some relief from economic inconvenience and suffering for the people in and around the occupied cities. It also promised to spare the rupiah from Dutch repression, though until then the Dutch had always preferred economics to crude coercion in trying to influence the monetary regime in their enclaves, for, as long as the enclaves remained dependent on Republican rice, the Dutch could hardly take effective measures against the rupiah necessary to buy it.⁸⁷ On the other hand, if the proposal were for toleration of both currencies throughout Java

84. Ministerie van Financiën, "Intrekking invasiegeld op Java en Sumatra," September 17, 1946, *Alg. Sec. 1*, box 1, file 27; Korthals to van Mook, October 24, 1946, *OBB*, 5, p. 639.

85. Korthals to van Mook, October 24, 1946, *ibid.*, p. 639.

86. *Ibid.*; Korthals to van Mook, October 30, 1946, *Alg. Sec. 1*, box 1, file 27.

87. De Javasche Bank, "Uitgifte Republikeinsch geld," October 23, 1946, Ministerie van Koloniën, file L16, March 25, 1947.

and Sumatra, it seemed to imply a de facto recognition of Dutch sovereignty in Jakarta, something the Republic had not been prepared to concede at any stage, regardless of concessions it had made concerning Dutch-controlled areas of the Outer Islands. Moreover, it would open the Republic to NICA money, thereby potentially weakening the economic force with which the rupiah could battle for dominance in Jakarta, not to mention the numerous undesirable internal consequences of having NICA money circulating within the Republic. When the proposal returned to the Dutch, therefore, Yogya had ratified it, but only on the basis of very narrow randgebieden, and in these terms it was signed on November 19, 1946.⁸⁸

Having failed to obtain significant change in the situation, the Dutch recognized the limits of their position: as long as NICA money could not buy rice from the interior, they could not expect it to be the only currency circulating in Jakarta. On the other hand, by ensuring a flow of purchaseable goods, they could guarantee that the NICA guilder retained a respectable value. The Dutch realized that the strength of NICA money was circumscribed by their overall strategic position, particularly their confinement to the enclaves. Thus they came more and more to see the solution to their problems in the abolition of that enclave status, either by a full political settlement with the Republic or by military expansion of the enclaves into economically self-supporting units. It was the latter option that they were eventually to follow, though this was a decision taken with far more than the monetary system in mind.

The announcement in *Ra'jat* on October 3, 1946, that the introduction of ORI was imminent and that undeposited Japanese currency would become worthless, sent prices soaring throughout Java, as people, skeptical about seeing their money again after it had been deposited, rushed to the markets to convert their cash into goods.⁸⁹ The Republican press in Jakarta accused Chinese of coming into the markets with jute sacks full of Japanese currency to buy whatever they could, and the price of rice in the city soared.⁹⁰ The unofficial rate of exchange against the NICA guilder reportedly fell to 120:1 and there was increased activity at official currency exchanges.⁹¹ According to one report, food prices rose 3-4,000 percent and clothing prices 1-2,000 percent in the days just before the introduction of the new currency.⁹² In other respects, however, the issue of ORI ran fairly smoothly. The distribution of rupiah ran ahead of schedule, with most areas of the Republic on Java receiving them by October 27. Hatta announced on October 29 that the buying power of the rupiah should be about the same as the Netherlands Indies guilder before the war and that this could be equated with 0.5 grams pure gold, though this did not imply any adherence to a gold standard.⁹³ (Dutch experts were quick to pick up an internal inconsistency here: the gold-backed guilder had been worth only approximately 0.34 grams in gold.)⁹⁴ On October 31, repayment began of money

88. Ibid.; *Ra'jat*, November 20, 1946.

89. Polisi Negara, Yogyakarta, statement, October 27, 1946, *Proc. Gen.* 470; *Ra'jat*, October 3, 1946.

90. *Ra'jat*, October 21, 1946; AMACAB, Afd. Intelligence & Loyaliteitsonderzoek, Report, November 22, 1946, *Proc. Gen.* 544.

91. De Javasche Bank, "Uitgifte Republikeinsch Geld"; FO 371/53834.

92. Overdijkink, *Het Indonesische probleem*, p. 142.

93. *Merdeka*, October 31, 1946. See also "Proces-verbaal Margono Djojoadikusumo," March 30, 1949.

94. De Javasche Bank, "Uitgifte Republikeinsch geld."

compulsorily deposited before the changeover (though it was limited to Rp.100 per person per month in order to restrain inflation) and from November 7 restricted amounts could be redeemed from the national loan.⁹⁵ There was some criticism of the quality of the paper and printing--Hatta reportedly suggested that the paper was so bad that it would in fact be hard to imitate⁹⁶--but all in all the period of transition seemed to have been weathered without difficulty.

In Jakarta there was a sense of euphoria at the arrival of the long-awaited ORI notes, and slametan and dance parties accompanied the ceremonial distribution of single rupiah to the Indonesian population.⁹⁷ The new money was much in demand, and the four-and-a-half million rupiah reportedly brought secretly into the city by RAPWI (Repatriation of Allied Prisoners of War and Internees) and other trains was insufficient to meet it.⁹⁸ People expected its introduction to mean an end to inflation, and the wish was in part self-fulfilling. It had been agreed that there would be no official exchange rate between the rupiah and the NICA guilder, but, if both were compared to the Japanese guilder, prices in rupiah seemed lower. The greater such differences in price, the greater the demand for the rupiah, which, in turn, pushed its value still higher against the NICA guilder. If the official exchange rate between rupiah and Japanese guilder were compared directly with the normal unofficial rate between Dutch and Japanese guilders, this produced a rupiah-NICA guilder exchange rate of 1:3; if the comparison were based on the official rate between Dutch and Japanese guilders, it came out to 1:1.5. Republican posters in various parts of the city informed the population that ORI would be introduced at par with NICA money but that it was hoped its value would rise, while other Republican announcements suggested exchange rates of Rp.1:f.10-30.⁹⁹ Although no political recognition of NICA money was intended by these announcements, they were acknowledgment that the Dutch currency had a certain economic power. In the market on October 31, however, the rate tended to vary from 1:5 to about 1:13, and reportedly actually reached 1:30 in at least one area, while in buying goods the rupiah was ten to fifteen times stronger than the NICA guilder.¹⁰⁰ Haji Agus Salim, it was reported, could eat a full meal for Rp.1.76, while lipstick that cost six NICA guilders could be had for only sixty Republican cents. Chinese traders tended to operate at 1:2.5-3.0.¹⁰¹ The railways and trams, still run by the Republic, would accept only ORI, as would the telephone exchange, the fishermen at Pasar Ikan,

95. Overdijkink, *Het Indonesische probleem*, p. 144.

96. FO 371/53834.

97. For a graphic account of the popular mood in Jakarta before and after the introduction of ORI, see the short story by Idroes, "Oeang Republik di Djakarta," in *Minggoe Merdeka*, April 6, 1947. See also *Nieuwsgier*, November 1, 1946.

98. PID [Politieke Inlichtingen Dienst], report, Batavia, November 11, 1946, *Proc. Gen.* 3; Hoofd CKS [Centraal Kantoor voor de Statistiek], "Het koersverloop van de rupiah t.o.v. den gulden sedert de invoering te Batavia," February 14, 1947, *Alg. Sec.* 1, box 4, file 37.

99. Crimineele Recherche Rapport, "Indonesisch geld," October 30, 1946, *Proc. Gen.* 3; *Nieuwsgier*, November 2, 1946; *Merdeka*, October 30, 1946.

100. Crimineele Recherche Rapport, "Indonesisch geld," October 30, 1946; Hoofdkwartier "U" Brigade, "Politiek economische stemming," November 6, 1946.

101. Commissaris van Politie I R. Jasper, report [November 1946], *Proc. Gen.* 544; Idroes, "Oeang Republik di Djakarta"; *Ra'jat*, October 31, 1946.

and many small sellers all over Jakarta.¹⁰² With all kinds of rumors in circulation as to the correct exchange rate and the likely long-term reliability of either currency, confusion was rife, and even the now invalid Japanese guilders continued to circulate for a time. (They remained legal tender, as far as the Republic was concerned, in Sumatra and Banten until the issue of provisional local currencies later in the Revolution.)¹⁰³ The confusion was exacerbated in the weeks following the introduction of ORI by the activities of armed and unarmed supporters of one currency or the other, who went about the pasar trying to influence market psychology at the point of a gun or by similar means. Dutch soldiers confiscated ORI from some sellers and threatened to shoot others. TRI soldiers in one market insisted that all transactions be conducted in the Republican currency. The Indonesian police simply confiscated any NICA money they found and forced sellers to sell in ORI at the prices laid down in the official Republican price-fixing regulations.¹⁰⁴ As hostility to ORI itself was difficult to distinguish under such circumstances from hostility to its unrealistic exchange rate, many traders found it wiser simply to leave the markets for a few days until things had settled down.¹⁰⁵ In rural areas around Jakarta, peasants were sometimes required to show ORI notes to patrolling *lasjkar* (irregular troops) as proof of their Republican sympathies. Other Indonesians tried more subtle techniques to influence the exchange rate. Small amounts of ORI were distributed free at first to get the circulation going, or perhaps simply as payment of the Rp.1 allowance. On October 30, Indonesians were seen buying packets of cigarettes, which they distributed to followers, who proceeded to sell the individual cigarettes for Rp.0.07 or f.2 (NICA), representing an exchange rate of about 1:30. Other Indonesians were seen selling rice at Rp.0.15 or f.1.50.¹⁰⁶

102. Hoofdkwartier "U" Brigade, "Politiek economische stemming," November 6, 1946; Hoofdbureau van Politie, Batavia, report, November 18, 1946.

103. ORIPS (Oeang Republik Indonesia Propinsi Sumatera), printed in Pematang Siantar, were issued in April 1947, when it became clear that the Republic on Java could not organize the transshipment of ORI notes to Sumatra. Many Sumatran Residencies also issued their own currency from about this time on. After the Dutch attack of July 1947, the Republican government in Banten also issued its own provisional currency, ORIDABS (Oeang Republik Indonesia Daerah Banten Sementara). See Natasuwarna, "Indonesian Revolution," pp. 15-29; Audrey Kahin, "Struggle for Independence: West Sumatra in the Indonesian National Revolution 1945-1950" (Ph.D. thesis, Cornell University, 1979), pp. 219-20; and *Republik Indonesia: Propinsi Djawa Barat* (n.p.: Kementerian Penerangan, n.d. [1952]), p. 59.

104. Algemeene Politie, Batavia, 3e Sectie Pasar Baroe, reports of October 30, 31, 1946, *Proc. Gen.* 3; AMACAB, Afd. Intelligence & Loyaliteitsonderzoek, report, November 22, 1946; Publicity Subcommittee to van Mook, December 9, 1946, *Alg. Sec. 1*, box 1, file 27; A. H. Nasution, *Sekitar perang kemerdekaan Indonesia jilid 4: periode Linggajati* (Bandung: Angkasa, 1978), p. 61; PID Batavia, "Mededeeling van gegevens no. 41," November 21, 1946, *Proc. Gen.* 3; Commissaris van Politie I R. Jasper, report [November 1946]; AMACAB, "Republikeinsch geld," October 30, 1946.

105. Hoofdbureau van Politie, Batavia, "Rapport no. 1985/P.I.D./Sec.," November 4, 1946, *Proc. Gen.* 3; Commissaris van Politie I R. Jasper, report [November 1946]; FO 371/53829.

106. PID Batavia, "Mededeeling van gegevens no. 39," November 19, 1946, *Proc. Gen.* 3; "Uitgifte Republikeinsch geld," November 4, 1946, Ministerie van Koloniën, file L16, March 25, 1947.

Despite these and other measures to bolster the rupiah, its exchange rate began to fall at once. According to figures taken daily at 11:00 a.m. at the largest money-changer's in Pasar Glodok in Jakarta, the value of the rupiah (in denominations of Rp.1-10) dropped during its first week of official circulation from f.5.00 to f.2.00. By the beginning of December it was f.1.50; on December 31 it was at par with the NICA-guilder and still sinking. It lingered between eighty and ninety NICA cents in February, and then plunged again to 50¢ in March and 30¢ in July.¹⁰⁷ There were many variations from region to region, even from hour to hour, and entirely different exchange rates applied when buying goods, but the dominant tendency was a series of hesitations and falls. In part this was due to inflation of the rupiah in the interior. The government's income from taxes and enterprises was meager and it had to meet its obligations by printing money. By January 1947 it had printed Rp.310 million, just under half the total prewar circulation of the entire country and equivalent to fifteen thousand million Japanese guilders at the October 1946 rate of exchange.¹⁰⁸ As the state printing works still had limited capacity, production concentrated on notes of Rp.100, the highest denomination. This in turn led to a severe shortage of change and a tendency for prices to rise to meet the currency available to pay them. In circulation, the quality of the notes deteriorated rapidly, exacerbating this problem.¹⁰⁹ There were reports, too, of four or five laborers receiving as their wages a single, shared Rp.100 note which could only be exchanged for small change at a considerable loss.¹¹⁰ Forgery of notes was rife, both within the Republic and in Jakarta, the first forgeries in Jakarta reportedly appearing three weeks before the official issue date of ORI.¹¹¹ On one occasion the Chinese editor of the newspaper *Chen Pao* was found to have forged ORI on a large scale in Jakarta. The Dutch police eventually arrested him, on charges of disturbing public order, but they did so with some reluctance; the rupiah had no legal status under Dutch law and thus it was no crime to falsify it.¹¹² The Republic, however, reacted by placing heavy restrictions on travel by Chinese between Jakarta and the interior.¹¹³ Hoarding was also portrayed as a major problem, and severe regulations were posted against it. Householders were forbidden to have more supplies than were necessary for a short period, shopkeepers were forbidden to hold large stocks, and farmers were forbidden to retain more of their crops than was necessary for their own use, but there was little effective action that could be taken in the face of widespread lack of confidence in the currency.¹¹⁴ The Re-

107. Tijdelijke bestuursdienst te Buitenzorg, "Circulatie Republikeinsch geld," March 23, 1947, July 1, 1947, *Alg. Sec. 1*, box 4, file 37; Hoofd CKS, "Het koersverloop van de rupiah."

108. Ibid.

109. Arrangements were subsequently made in March 1947 for better quality notes to be printed by the firm Thomas de la Rue of London, but these plans fell through with the outbreak of the first Dutch military action in July 1947. See Saubari, "Dua tahun uang Republik Indonesia," part 3, *Sikap*, March 24, 1949; *Merdeka*, April 9, 1947.

110. Overdijkink, *Het Indonesische probleem*, p. 143; Hoofd CKS, "Het koersverloop van de rupiah."

111. *Nieuwsgier*, September 11, 1946.

112. Ibid., April 8-22, 1947; *Merdeka*, April 8-23, 1947.

113. Nefis, "Chinese press [N.E.I.] no. 55," April 20, 1947.

114. De Javasche Bank, "Uitgifte Republikeinsch geld."

publican government also attempted to deal with the situation by raising the charges for its services, such as postage, and by paying out salaries weekly instead of monthly, so as to reduce its employees' disposable income, but the effects were limited and the unpopularity generated great.

The value of the rupiah, however, declined more steeply in Jakarta than elsewhere, and the chief reason for this was the Republican currency's deteriorating exchange rate vis-à-vis the NICA guilder. Although not yet abundant, the amount of imported goods in Jakarta, on sale for NICA money, had increased substantially, and one reason behind the enormous flood of Japanese guilders into Jakarta on the eve of the introduction of the ORI was to buy these goods. After the new currency appeared, it flowed steadily into Jakarta, where it was exchanged for NICA money, and spent in the well-stocked stalls and shops of the metropolis. Idroes described the arrival of the speculators:

From the interior there came gods [*dewa*]. They spoke tersely, their mouths full of figures, their pockets full of Republican money. If anyone asked them: why have you come to Jakarta?, they would reply briefly: business, and while they spoke their minds wandered to Pasar Glodok. . . .¹¹⁵

That rupiah were brought to Jakarta to purchase what were luxury goods by the standards of the Revolution caused resentment in the interior, and the availability of these items for guilders weakened the rupiah by creating a demand for guilders.¹¹⁶ Also important, however, was the constant flow of ORI into Jakarta to pay the salaries of the Republic's many employees there.¹¹⁷ Even though NICA money had, by virtue of the weight of the Dutch presence and authority in Jakarta, come to be used in an increasing proportion of transactions,¹¹⁸ the value of the rupiah did not necessarily suffer as long as a balance was maintained between the outflow of imported goods and the inflow of Javanese rice, on which Jakarta still depended. This balance, already under heavy pressure from purchasers of imported goods, collapsed when the Indonesian armed forces around Jakarta imposed a blockade on the city, stopping a large proportion of the imports of rice. The blockade began in late October 1946, and it ranged from a simple delaying of rice shipments on their way into Jakarta to the imposition of tolls and even confiscation. In some places the army revived a Japanese ban on the carrying of more than five liters of rice per person and occasionally vegetables, fruit, and eggs were also blockaded. The blockade was often applied or lifted arbitrarily, and only for brief periods was the flow of rice into the city completely stopped, but the overall volume of rice crossing the border was severely reduced. The price of available rice rose, but with few supplies to spend rupiah on, the value of the ORI sagged, traders in the marketplace began refusing to accept it, and, as had once been the case with NICA

115. Idroes, "Oeang Republik di Djakarta."

116. Hoofd CKS, "Het koersverloop van de rupiah"; Nasution, *Perang kemerdekaan*, 4, pp. 62-63, 325.

117. Hoofd CKS, "Het koersverloop van de rupiah."

118. De Javasche Bank, "Republikeinsch geld," December 24, 1946, Ministerie van Koloniën, file L16, March 25, 1947.

money, it became a currency supported primarily by the authority of the government that had issued it.¹¹⁹

In the course of 1947, the Republic made a final attempt to bolster its monetary position in the capital. In order to stop damaging shopping visits to Jakarta, it placed restrictions on the private import of rupiah into the city. At the same time, a Republican central commercial agency (Badan Pusat Jual-Beli) was set up with an official monopoly of all trade in and out of Jakarta; firms wishing to trade had to sell their goods nominally to the BPD, obtain a certificate to that effect signed by the chairman, Ong Eng Die, in Yogya, and repurchase them on the other side of the border. Checks at the border by the army and *lasjkar* were to provide the coercive sanction to back this measure. The intention was to ensure, on the one hand, that only goods actually necessary for the Revolution were bought in Jakarta, and, on the other, that Republican rice was paid for in rupiah, thereby maintaining the value of the currency.¹²⁰ In Jakarta itself operations were supervised briefly by a special Republican commissioner, Dr. Halim, known consequently as Dr. Ori, but he was appointed only in mid-June 1947 and resigned in despair within three weeks.¹²¹ Results were meager, for neither the restrictions on importing rupiah nor the BPD trade monopoly could be effectively enforced¹²² and, while the decline in the value of the rupiah was perhaps slowed, it was not reversed.

On July 17, 1947, the battle for the control of the currency was overtaken by broader events. Pushing out from the occupied cities, Dutch armed forces attacked the Republic and captured large swathes of territory, putting an end to the cities' enclave status, which had made the conflict over currency possible. ORI continued to circulate within the truncated Republic, and appeared periodically in parts of occupied West Java, generally in the vicinity of powerful pro-Republican guerrilla groups. As a symbol of control and authority, currency continued to play an essentially propaganda role in the Revolution on both sides, but its use as an effective weapon was over.

Currency became an important element in the Dutch-Indonesian conflict both because economic and administrative policies were a significant part of the general strategy of both sides, and because the existence of occupied urban enclaves on Java and Sumatra created a situation in which economic and political boundaries did not coincide. In a period made difficult already by the experience of the Japanese occupation, general problems of postwar reconstruction, and the economic disruption of the continuing conflict over independence, the Republic and the Dutch tried to formulate rational monetary policies not only without the control of events necessary to ensure that those policies would work, but often in the face of the noncooperation or active hostility of the other side. The outcome satisfied neither

119. Ibid.; PID Batavia, "Mededeeling van gegevens no. 41," November 21, 1946; Joint Civil Affairs Commission, "Economische zaken," November 1, 1946, *A/g. Sec.* 1, box 1, file 33; Hoofd CKS, "Het koersverloop van de rupiah"; Minutes of the meeting with the Prime Minister [Beel] and the Minister for Overseas Territories [Logemann], May 15, 1947, *ORB*, 8, p. 687.

120. Hoofd CKS, "Het koersverloop van de rupiah"; Nasution, *Perang kemerdekaan*, 4, pp. 62-63. 432.

121. *Merdeka*, June 18, 1947; *Nieuwsgier*, June 25, July 3, 1947.

122. Nasution, *Perang kemerdekaan*, 4, pp. 63, 432.

side: both were forced to delay introducing their currency much longer than they had originally intended, both currencies depreciated badly, and neither succeeded in ousting the other from the market place. It was only with the Dutch attack, intended in considerable part to expand the enclaves into economically self-supporting regions, that Republican monetary influence in Dutch-controlled territories largely disappeared and the question of currency ceased to play an important role in the broader struggle.