Towards a Modern Fiscal State in Southeast Asia, c.1900-60[1]

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This paper examines the changing role of the state in Southeast Asia in the decades from 1900 through to 1960, a period which covers the last phase of colonialism in the region, and the transition to independence. Southeast Asia is a particularly interesting part of the world in which to study comparative colonial policies as by the end of the 19th century the three main European colonial powers, Britain, France and the Netherlands, all controlled substantial territories in the region. The Spanish, who had occupied the Philippine islands since the 17th century, ceded control to the Americans after their defeat in the Spanish-American War at the end of the 19th century. Thus by the early 20th century four colonial powers were active in the region, while Siam, which became Thailand at the end of the 1930s, had managed to remain independent, although at the cost of losing territory to both the British and the French. The Thai government accepted British financial advisers, and although their influence varied considerably, their advice was often important on monetary, trade, exchange rate and fiscal policies.

Each of the colonial powers controlling both island and mainland Southeast Asia endeavoured in the latter part of the 19th century to establish effective administrative structures which prioritised the centralization and reform of fiscal systems (Elson 1992, 149-54). Thailand also carried out major reforms of government fiscal policy (Ingram 1971, Chapters 8 and 9). On the revenue side, the metropolitan powers wanted tax systems under the direct control of the colonial administrations which were sufficiently buoyant to provide enough revenues to fund current expenditures while at the same time providing a surplus for investment in infrastructure. Old practices of revenue farming, and the widespread use of corvee labour, were largely, if not entirely, eliminated over the last decades of the 19th and the early 20th century in favor of more "modern" revenue systems relying on trade taxes, on domestic excises and sales taxes and in some cases on corporate and individual income taxes. As Butcher (1993, 42) argued, the state in South East Asia by the early twentieth century was a very different institution from what it had been a century earlier when corvee demands were

[1] This paper draws on previous work, including Booth (2007a), (2007b) and (2013).

the only way that governments could obtain scarce labour for government projects, and revenue farms were a useful means for often rather weak indigenous governments to secure more money income, usually by appointing the commercially powerful Chinese as tax farmers. By the early 1900s, a very different view of the fiscal functions of the state was taking hold, a view based on the idea of a strong central state taking responsibility for both revenue raising and expenditures. At least some of the expenditures would be devoted to the provision of infrastructure which was increasingly demanded by private investors.

Given the emphasis that all the colonial powers were placing after 1900 on the reform of revenue policies, and their increasingly ambitious plans for government expenditure, it might have been expected that there would have been some convergence of both revenues and expenditures on a per capita basis by the latter part of the 1930s across Southeast Asia. But this was far from being the case. By 1938, when most economies in the region were recovering from the ravages of the depression of the early 1930s, per capita government revenues and expenditures showed considerable variation. In that year, per capita revenues varied from US$ 30 in the Straits Settlements to only US$ 2 in Vietnam (Table 2.1). There was also considerable variation in the structure of tax and non-tax revenues, and in the composition of expenditures. Tax revenues varied as a proportion of total revenues from 80 per cent in Burma to only 34 per cent in the Straits Settlements (Table 2.2). After 1945, there was even greater variation in the composition of both revenues and expenditures, both in those British territories which remained under colonial control, and in the newly independent states. This paper will explore the reasons for this variation, and also discuss the extent to which a modern fiscal state can be said to have emerged in Southeast Asia in the decades from 1900 through to 1960.

The Evolution of Tax and Revenue Policies Before 1942 in Southeast Asia

Two factors stand out in the economic development of Southeast Asia in the 19th and early 20th centuries. First, population growth accelerated to over one per cent per annum, a much faster rate than in China or the Indian sub-continent, and almost certainly much faster than in most parts of sub-Saharan Africa. In 1800, the population of the region was probably no more than 35 million people, and many parts of the region were very lightly populated. By 1931 when census data were available for most parts of Southeast Asia the total population was slightly above 130 million. Part of this growth was the result of in-migration from other parts of Asia but most was the result of higher fertility and lower mortality, compared with both China and the Indian subcontinent, and much of Africa. Population growth continued to be rapid over the latter part of the 20th century, and by 2016 was estimated to be 632 million. In 1800 it is probable that the population of Southeast Asia was only about ten per cent of China; by 2016 it was 46 per cent. Recent projections suggest that by 2050, the percentage will increase to around 60 per cent[2].

The second factor which had an important influence on the region's development was the growing involvement of the region in international trade. In the 1830s, exports from Southeast Asia comprised less than ten per cent of total exports from Asia; by 1937 this had risen to 37 per cent (Booth 2004, Table 2). In 1937, the region accounted for about one-third of all exports from the tropical world, as estimated by Lewis (1969, Table 9). The growth of population facilitated export growth, by providing more labour, and export growth in turn facilitated the growth and diversification of government revenues. Not surprisingly, there was a significant relationship between export growth and revenue growth in all colonial territories. Long-run elasticities of both government revenues and expenditures with respect to exports were close to unity in most parts of the region, which indicates that they increased in the same proportion as export revenues (Booth 2007a, Table 6). But the channels through which export growth impacted on revenue growth varied across the region. Taxation of exports accounted for only a small proportion of total revenues in most colonies; the main exception was the Federated Malay States, where it accounted for around 15 per cent of total revenues. The corporate income tax, which fell on companies producing exports, was quite an important revenue source in the Netherlands Indies, but not elsewhere. In most colonies, and in independent Thailand, non-tax revenues accounted for a substantial part of total revenues; in the Straits Settlements they accounted for over 60 per cent of all revenues[3]. These non-tax revenues varied across time and space; they included profits from government enterprises, and also revenues from forests, and civil administration. More controversially, they included revenues from government monopolies, including those on the production and

[2] The estimate for 1800 is given by Boomgaard (2014, 133). More recent data and projections are from Population Reference Bureau (2017).

[3] The 1938 figures were exceptional, in that there were large revenues from "other sources", which meant a large payment from the Currency Guarantee Fund, but in previous years even without this additional source of revenue, less than half of all revenues were derived from taxes.

sale of opium. I turn now to a more detailed discussion of both tax and other revenue policies in different parts of Southeast Asia.

Taxing Agriculture: Given that agricultural output accounted for a significant part of total output in most parts of South East Asia until well into the twentieth century, it might have been expected that agricultural taxation would have been given high priority by colonial authorities. One way of taxing agriculture was to levy a tax on agricultural land. In Taiwan, the Japanese administration, aware of the role land taxes had played in Meiji Japan, devoted considerable resources to drawing up land cadastres so that land taxes could be levied (Ho 1984, 355), although actual revenues remained quite low until the 1930s. Detailed cadastral surveys were also carried out in Burma and Java, and in some of the more settled regions outside Java, on the basis of which land taxes were levied as a fraction of the income which cultivators were assumed to be deriving from the land. Furnivall, who had extensive knowledge of the Burmese system and studied the Dutch colonial land tax in Java in the 1930s, argued that the Javanese tax was simpler, and that the pressure of the tax on cultivators was lighter than in Burma[4] (Furnivall 1934, 21). Van der Eng (2006, Table 4) has estimated that the land tax was a smaller percentage of gross value added in agriculture in Java than in Japan until 1920, although between 1920 and 1940 the percentage was higher in Java[5]. Less progress was made in assessing land taxes outside Java and Bali, or in French Indochina where cadastral surveys were far less accurate and the assessment of land taxes a hit-or-miss affair, and often very inequitable (Thompson 1937, 193-4; 232-3).

In spite of the efforts made by the Dutch colonial authorities, land taxes never accounted for a large share of government revenues in Indonesia after 1915, and by 1937

[4] Furnivall's argument that the land tax was a heavier burden on cultivators in Burma than in Java is borne out by the ratio of land revenues as a proportion of net domestic product from agriculture as estimated by Aye Hlaing (1965, 288). In 1938/39 the ratio was 11.4 per cent which was more than twice the ratio estimated by van der Eng for Java over the 1930s. Land tax per agricultural worker was also higher in Burma than in other parts of Asia over the 1930s (Booth 2014, Tables 2 and 3).

[5] A survey of economic conditions of the indigenous population of Java and Madura, carried out by W. Huender in 1921 argued that 'it is impossible to maintain that the indigenous population is not taxed heavily enough'. Fear of rural unrest on the part of Dutch officialdom was probably the main reason why both land taxes and other imposts, including head taxes, were not increased after 1920, at least in Java. For a translation of the Huender report see Penders (1977, 91-96).

were under seven cent of total revenues[6]. Only in Burma did land taxation account for a significant share of total revenues (Table 2.2). In Thailand, land taxes grew quite rapidly in nominal terms until the latter part of the 1920s, but fell thereafter, and by 1938 were around six per cent of total revenues. They were light in comparison with colonial Asia in both per hectare and per worker terms (Booth 2014, Table 3). In Thailand as elsewhere, farmers were given remissions as agricultural prices fell through the early parts of the 1930s. Ingram (1971, 243) argued that in the 1930s, the agricultural sector was lightly taxed, although as Thompson (1967, 550-1) pointed out, in those regions where the marketed surplus of rice was small, the capitation tax and the modest land tax together comprised heavy imposts for many households. In other parts of the region, land taxation was also not an important source of revenue. In the Philippines, agricultural land was under-taxed in the Spanish era, and this continued under the American administration (Luton 1971, 143). To the extent that land was taxed at all, it was the responsibility of local governments firmly under the control of large landowners, who were hardly in favour of land taxes, or indeed other taxes whose incidence fell on agricultural producers. Only in the larger cities did taxes on land contribute significant amounts to local budgets (Corpuz 1997, 235).

The other tax which fell on agricultural producers was the export tax, although in fact export taxes were not widely used on agricultural commodities before 1940[7]. In the FMS, most of the revenues from export taxes were from tin exports, with rubber accounting for only a small share. In Thailand, export taxes accounted for less than five per cent of government revenues in 1938, although they became more important after 1950. In the Netherlands Indies, a special export cess on native rubber was levied in the mid-1930s as a means of reducing smallholder production. In 1936, the tax amounted to almost 19 per cent of total tax revenues of the central government (Central Bureau of Statistics 1947, 133). But it caused considerable hardship for native producers. O'Malley (1979, 241) argued that even after world rubber prices started to rise again in the mid-1930s as a result of the international restriction scheme, many farmers found their incomes reduced. Outbreaks of violence

[6] Land taxes included the tax on agricultural land, the house and property tax and the ground tax.
[7] The extent to which the incidence of an export taxes falls on domestic producers rather than foreign buyers depends on the elasticities of domestic supply and foreign demand. It has been argued in the context of most South East Asian agricultural exports that these are such that the incidence of export taxes falls largely on domestic producers (Booth 1980).

occurred in some parts of Sumatra, and the Dutch authorities removed the special cess in 1937.

Taxing International Trade Even if export taxes were low in most parts of South East Asia before 1940, import taxes were often an important source of revenues. By the latter part of the 1930s, export and import taxes together accounted for almost 55 per cent of all government revenues in North Borneo, 43 per cent in Sarawak, and 38 in the Federated Malay States. In the non-British colonies the proportion was lower, but still over 30 per cent of the general budget revenues for Vietnam, and for Thailand (Table 2.2). In the Philippines and Indonesia, where tax systems were more diversified, trade taxes were a lower percentage of total government revenues, but still quite significant. Singapore was a free port and there were no taxes on imports or exports, although excises were levied on a range of imported products, including alcoholic drinks, tobacco and gasoline, and accounted for most of the revenues from taxation.

Taxing Incomes By the latter part of the 1930s, there were striking differences across South East Asia in the role of income taxation. In both the Straits Settlements and the Federated Malay States, there were attempts to tax incomes during the first world war, but the revenues raised were small and met with fierce resistance from both the European and the Chinese business communities (Thompson 1943, 166). Arguments for and against income taxation continued, but the business communities across British Malaya managed to prevent the imposition of either corporate or personal income taxes until the Japanese arrived in 1942. The situation across the straits in Indonesia was very different. By the late 1930s, taxes were levied on both corporate and personal incomes and wages. They amounted to over one fifth of all government revenues in 1938 (Table 2.2). Estate companies operating in both colonies complained to the Dutch colonial authorities about what was seen as an ‘unfair’ tax, but the Dutch authorities were unmoved.

In the Philippines, the *cedula* and the *industria* had evolved by the late 19th century into roughly graduated taxes on personal and business incomes, but the American administration was determined to modernize the revenue system and introduce more equitable taxes on income and profits. They immediately ran up against powerful interests in both the business and the agricultural sectors. The proposed tax on corporations was dropped from the 1904 Revenue Law, as was the tax on legacies and inheritance (Luton 1971, 137). A low tax on corporate incomes was imposed in 1913 but the license and business tax was the main burden on the business sector and was often arbitrary in its incidence. It still accounted for around 20 per cent of total revenues in the late 1930s, compared with under ten per cent for income taxes (Table 2.2).

In French Indochina, the Doumer reforms of the late 19th century were intended to centralize and modernize the revenue system, and to lay the groundwork for economic diversification into industry, mining and plantations (Brocheux and Hemery 2009, 117). Following French post-revolutionary practice, indirect taxes were favoured over direct taxes. This was not popular with the indigenous populations; according to Thompson (1937,184) they preferred the older direct taxes. It seems probable that the net effect of the Doumer reforms was to add to the tax burden of many Vietnamese. Income taxes were imposed in the early twentieth century but only accounted for around ten per cent of total government revenues by 1938, which was a slightly lower proportion than in Burma (Table 2.2). In independent Thailand, an income tax and a tax on business and the professions were imposed in the 1930s, and although revenues grew rapidly they only accounted for two per cent of total government revenues in 1938. The older head tax accounted for a further 6.5 per cent of revenues. A reform of the revenue system was enacted into law in 1938 which was intended to shift the burden of taxation from the rural farmer to business and high income groups in urban areas. But as Ingram (1971, 184) pointed out, there was little change in the structure of taxation and non-tax revenues before the Pacific war; after 1942 accelerating inflation posed new problems for government revenue collection.

The Role of Opium One of the more controversial issues in fiscal policy in most parts of South East Asia was the reliance on revenues from opium sales. The British, French and Dutch regimes were all, by the early 20th century, justifying their colonialism in terms of a 'civilizing mission', bringing enlightened standards of government to the benighted populations of Asia. How could they justify deriving often substantial revenues from a narcotic whose sale and consumption was increasingly controlled, if not completely banned, by governments in the metropolitan countries? In the Philippines, where the American administration was committed to replacing the "repressive" Spanish revenue system with one which would enhance economic and social uplift, the opium levy was seen as especially reprehensible, although it had only accounted for about 3.3 per cent of total government revenues in the fiscal year 1896/87 (Corpuz 1997, 193-4). The Americans were the first colonial power to cease deriving government revenues from the sale of opium. They also fought hard for the prohibition of opium trading, except for medical purposes, throughout Asia in the early part of the twentieth century, although other colonial powers, including the British, were reluctant to support more than its 'gradual' withdrawal (Foster 2003, 112).

The British had good reason for their reluctance, as the opium levy was an important source of revenue in all three parts of British Malaya. Indeed Bayley and Harper (2004: 33) argued that British rule in both Burma and Malaya was "supported by narco-colonialism on a colossal scale". This is an exaggeration, although there can be no doubt that, as late as 1919, opium was a very important revenue source in British Malaya. In the Unfederated States, especially Johore and Kedah, revenues from opium sales comprised over 40 per cent of total revenues in 1919 (Lim 1967, 351). The reliance on opium fell after 1920, as revenues from other sources including customs duties increased. In Kedah the opium monopoly only accounted for around 12 per cent of revenues in the late 1930s. A similar decline took place in the Federated Malay States, where opium revenues accounted for around 20 per cent of total revenues in 1920, but had fallen to under ten per cent by the late 1930s. The Straits Settlements were more reliant on opium revenues, mainly because of the absence of customs revenues, or revenues from income taxation. In the latter part of the 1930s, they still accounted for more than 20 per cent of total budget revenues (Department of Statistics 1939, 238)[8].

The other colony where opium revenue was an important, if controversial, source of government revenue was French Indochina. In the first decade of the twentieth century, gross receipts from the opium *regie* were around 25 per cent of total revenues accruing to the general budget, although the net revenues were considerably lower (Descours-Gatin 1992, 223-5). The *regie* was in effect a government monopoly which meant that the government had to bear the cost of buying and processing the opium; one estimate was that these costs amounted to around 30 per cent of the gross revenues (Guermeur 1909, 178). Both gross and net receipts declined as a proportion of total revenues after 1910, and after 1913 revenues from all monopolies (salt and alcohol as well as opium) declined as a proportion of total revenues accruing to the central budget. Bassino (2000, 286) estimates that in Vietnam,

[8] In 1937, the opium levy accounted for almost 24 per cent of all revenues in the Straits Settlements; the fall in 1938 was due to the jump in miscellaneous receipts, mainly from the Currency Guarantee Fund.

revenues from the monopolies fell from around half of all revenues in 1913 to around 19 per cent in 1940. As in British Malaya, the reason for the decline was not an absolute fall in receipts from monopolies, but a rapid growth in other revenues, especially those from customs duties and indirect taxes.

In Indonesia, revenue farms were an important source of income for the colonial government until the end of the 19th century, and the opium farm was the most important (Diehl 1993, 199: Chandra 2010). Reforms after 1900 led to the conversion of opium farms into a government monopoly, which yielded a diminishing proportion of total government revenues, especially after 1914. Chandra (2010) estimates that the gross revenues from the opium *regie* fell from 13.5 per cent of total revenues in 1914 to 1.7 per cent by 1939[9]. Once again the main reason for the decline was the increase in revenues from income and excise taxation and trade taxes, at least until 1930, although over the 1930s government revenues fell in absolute terms. Much the same trends occurred in independent Thailand where revenues from sale of opium were around 20 per cent of total revenues in 1905, and rose to almost 26 per cent by 1919. But they fell to less than ten per cent in the late 1930s, while revenues from other tax and non-tax revenues grew rapidly.

One reason why taxes on opium, and indeed other “sin taxes” including excises on alcohol and tobacco, however obnoxious to public opinion, were favoured by colonial governments, and by the Thais, was that they were seen as a way of taxing the Chinese, who were considered more affluent than the indigenous populations, and were usually very reluctant to pay income tax, even in those colonies where it was levied. But in fact the evidence indicates that many among the indigenous populations in Southeast Asia consumed opium, alcohol and tobacco. In Indochina, Descours-Gatin (1992, 214) estimated that the Chinese were only 22 per cent of all opium smokers in Cochinchina and a much smaller percentage in other parts of Vietnam, although they were around 60 per cent of all smokers in Cambodia. In Indonesia, data for the 1930s show that indigenous Indonesians accounted for most of the licensed opium smokers, although Chinese dominated among unlicensed users (Central Bureau of Statistics 1947,143). The assumption among colonial officials appeared to be that users were relatively affluent, although that might not always have been the case, and

[9] Chandra (2010) shows that the net profits from the *regie* fluctuated between around 70 to 80 per cent of total revenues which is roughly the same as in French Indochina.

dependency on opium could well have reduced many users, whether Chinese or indigenous, to penury.

Taxes in Labour Colonial governments in many parts of Southeast Asia viewed labour shortages as the main constraint on the rapid development of both export-oriented agriculture and industries based on the extraction and processing of minerals. In most parts of the region, pre-colonial governments imposed labour demands on the populations under their control, and slavery and debt bondage were not uncommon[10]. Colonial governments tackled the problem of labour shortages in different ways. In British Malaya the government decided that indigenous Malays were usually unwilling to work for wages at all, and certainly reluctant to take on arduous regular employment on estates and in mines. They were encouraged to stay in their reservations and pursue traditional occupations as farmers and fishermen. Labour was procured cheaply from China and India, and came in large numbers. The 1931 census showed that 1.71 million Chinese lived in the Straits Settlements and the Malay states, and 624,000 Indians. Together these two groups comprised over half the total population of 4.4 million. In Burma, migrants from India also grew rapidly, taking up many of the unskilled jobs in urban areas. In 1931 there were 1.02 million Indians living in Burma, out of a total population of 14.65 million. In both colonies, those migrants who had some knowledge of English, and some entrepreneurial skills moved into non-agricultural jobs as clerks, shopkeepers and traders. A small number moved into the professions. But most were trapped in unskilled jobs, and were prepared to work long hours, which removed any necessity on the part of the British to force indigenous workers into unpaid labour in public works or as plantation workers.

Other colonies faced different problems. In Indonesia, the 1930 Census found that there were 1.23 million Chinese, around two per cent of the total population. Some were recent migrants, but many came from families which had already been in the country for several generations. Only a small number of recent migrants took up employment as estate labourers or unskilled workers on public works projects. The Dutch authorities encouraged young men from Java to move to the plantation sector in North Sumatra, usually as indentured labourers with penal clauses in their contracts. The harsh treatment of these workers led to campaigns in both Indonesia and the Netherlands to improve their conditions,

[10] Lasker (1950) gives a comprehensive historical overview of serfdom, debt bondage, and compulsory public services in Southeast Asia from pre-colonial times to the 1940s.

and a labour inspectorate was established in the early years of the 20th century[11]. But given the long history of labour coercion through the 19th century, both in Java and elsewhere, the Dutch were slow to abolish the various forms of forced labour which had been used by both the colonial government and indigenous rulers. The formal abolition of the cultivation system in the 1870s, and the introduction of more liberal policies which relied on free markets had some impact, and obligations under the *pantjendiensten*, *desadiensten* and *heerendiensten* were reduced or eliminated in Java, with the exception of the native states, by the early 20th century (Kloosterboer 1960, 42; Lasker 1950, 176-9; Furnivall 1944, 181-87). But as will be seen below, outside Java, *heerendiensten* demands for public works continued until the late 1930s, and imposed a considerable burden on the indigenous populations.

In Thailand, where a large part of the population had traditionally been obliged to work for nothing for the aristocracy and local patrons, the whole system of corvee labour underwent considerable change over the 19th century. There were several reasons for these changes. Migrants from China grew in numbers, and many were willing to work for wages on projects such as canal building. As the rural economy became more monetized, many Thai men began to pay a money tax in lieu of their corvee obligations; these payments were then used to hire Chinese workers, or those Thais who were willing to work for wages (Ingram 1971, 58-9; Baker and Phongpaichit 1995, 24-5). By the early 20th century, most forms of forced labour had been eliminated in central Thailand although it persisted in parts of the north and the south of the country, where laws and regulations passed in Bangkok were implemented more slowly[12]. As late as the 1930s, Andrews (1935, 160) argued that many Thais were still reluctant to work for wages, and a high proportion of non-agricultural wage labour was carried out by Chinese migrants.

In Vietnam, the French authorities introduced regulations which abolished forced labour in Cochin-China in 1898, and in other parts of French Indochina soon after, but implementing these regulations proved difficult (Lasker 1950, 194-5). More regulatory

[11] Controversies over the impact of the labour inspectorate, and other efforts to improve the conditions of estate labourers in Sumatra continue; see Breman (2002) for one side of the debate.

[12] Terwiel (2011, 216-7) discusses the reforms in system of corvee in the late 19th and early 20th centuries. He stresses that there was considerable variation in the nature of corvee obligations, and the extent to which individuals could pay a ransom instead of contributing labour.

controls on the use of forced labour were issued and in December 1936 a law was passed which banned forced labour in Laos and Cambodia, as well as in Vietnam. Thompson (1947, 186) reported that by the late 1930s "forced labor still existed but only as a vestige" and in the more remote parts of the colony. The exceptions were obligations to provide labour for public works, although the 1936 law stated that these could be commuted for cash payment in all parts of Vietnam. The length of annual service was reduced to between 16 and 20 days. There were also more controls over the labour contracts used to attract workers from the north into wage employment in the south (Thompson 1947, 204-7). Wages in Saigon were almost twice those in the north in 1931, which should have been a strong incentive for workers to move, and the French government was keen to develop a more unified labour market in Indochina. But employers in Tonkin were worried that large-scale migrations from north to south might deplete their own supplies of cheap labour, and there appears to have been little change in differentials over the 1930s.

Most studies of forced labour in colonial Asia and Africa agree that it should be viewed as a form of taxation, although placing a value on the labour supplied under coercion is not straightforward, given that labour markets in many parts of Asia were undeveloped until well into the 20th century, and segmented by region and ethnicity. But where the practice of making money payments to escape corvee duties was widespread, it is possible to value the labour supplied by those who chose to work out their corvee obligations, using the amounts of "ransom" paid by those who decided to make a cash payment. Estimates for the outer islands of Indonesia (both the native states and the directly governed territories) in selected years from 1925 to 1937 are given in Table 2.3. In 1930, usually considered the last year before the full impact of the global depression hit the regional economies outside Java, numbers paying the ransom were higher than those contributing labour in the directly governed territories, and the value of labour was thus estimated to be lower than the ransom. But by 1934, when the full impact of the global slump was being felt in Indonesia, numbers choosing to pay the ransom fell sharply, while the amount of the ransom increased in the directly governed territories, although it fell in the native states. There was some increase between 1934 and 1937 in the amount of ransom paid, although the total amount of both ransom and work contributed was still less in 1937 than in 1930.

The Dutch authorities claimed that the continued use of *corvee* labour on public works (*heerendiensten*) outside Java was justified as most regions outside Java were not assessed for the land tax. But in 1930, the total amount of the corvee (ransom plus actual labour) was greater in per capita terms than the land tax in those regions where it was assessed. This confirms the argument that by the burden of taxation on the regions outside Java in the 1930s was higher than on Java, although it is worth noting that in the native states of Java, and in directly governed Bali and Lombok, cultivators were assessed for the land tax as well as being liable for *heerendiensten* obligations[13]. While the land tax revenues fell sharply over the 1930s, numbers liable for *heerendiensten* fell only slightly in the directly governed territories and actually grew in the native states outside Java, although the value of the ransom per worker paying it did fall after 1930 (Table 2.3).

The continued use of corvee in colonial Indonesia attracted adverse comments internationally, given that other colonial territories in Asia had largely abolished it by the inter-war years, and a convention of the International Labour Office banning forced labour was ratified in 1930, and became operative in 1932. The Netherlands was a member of the ILO and its conventions applied, at least in principle, to colonies as well as to the metropolitan state. In fact, the value of the *heerendiensten* was by 1930, as estimated in Table 2.3, was less than three per cent of total government revenues. Why was it not abolished, and replaced by paid labour? The most probable answer is that the colonial government was determined to improve infrastructure outside Java, but doubted that sufficient labour would be available at wages which the Dutch authorities deemed reasonable. The only alternative was to maintain the old practices of forced labour, albeit with some restrictions.

Revenue Performance : A Summing Up: The differences in revenue performance between countries in Southeast Asia can be explained partly by differences in taxable capacity, as proxied by per capita GDP. British Malaya, including Singapore had the highest per capita GDP in the region after 1913, and also the highest per capita revenues, although the composition of revenues was less diversified than in other colonies, especially Indonesia. In many colonial territories, officials were reluctant to increase taxes on the indigenous populations for fear of provoking unrest. But in spite of this reluctance, a frequent criticism of colonial revenue systems in Asia was that they were regressive. Critics pointed to the high reliance on land taxes, excises and export duties whose incidence fell mainly on the

[13] Numbers obliged to contribute *heerendiensten* labour in the native states of Java in 1933 amounted to around 362,000 people, or 8.7 per cent of the total population. Most of these (around 275.000 people) were in Surakarta.

indigenous populations living in rural areas. Income taxes on both corporations and individuals were either not assessed at all, as in British Malaya, or assessed at low rates with many exemptions. The main exceptions were Indonesia and the Philippines, although in the Philippines, the business taxes were often not progressive in their incidence. Excises on petroleum products, tobacco and alcohol, and revenues derived from the sale of opium were thought to fall more heavily on the Chinese who were on average richer than indigenous populations. But by the 1930s there were worries about their incidence, especially as many poorer labourers, whether Chinese, Indian or indigenous, spent a significant part of their incomes on these products. All colonial governments, as well as Thailand had to strike a balance between raising more revenues which could lead to popular unrest, and curbing expenditures.

Changing Expenditure Patterns

On the expenditure side, the early years of the 20th century saw a marked change in the role of governments in many parts of the region. The colonial governments across Southeast Asia began to assume responsibility for a much broader range of activities than simply the maintenance of law and order and the collection of revenues. In Indonesia, the ethical policy, introduced in 1901, emphasized policies which were intended to enhance the productivity of indigenous workers in agriculture and also equip at least some workers with the skills which would allow them to take on employment outside the rural sector. Increasingly, it was recognized that ambitious programs of infrastructural development were necessary for the economic development of both indigenous and foreign enterprises, and that these programs would have to be funded, or at least subsidized, by government rather than the private sector, with government funds derived in part at least from loan finance.

Government expenditures had grown in real terms continuously after 1870, and by 1920 public works (including railways) accounted for almost 40 per cent of total government expenditure (Booth 1990: Table 10.5). Government spending on irrigation, railways and tramways had already grown rapidly in real terms after 1870; after 1900 expenditures on roads and harbor works also increased (de Jong and Ravesteijn 2008, 66). Although government spending on infrastructure was drastically cut back after 1930, by the late 1930s Java had the highest ratio of roads per square kilometer of area of any colony in Southeast Asia, and higher than in Taiwan or Korea. Length of railways per square kilometer of area was also higher than in any other colony except Taiwan (Booth 2007b, Table 4.7). But outside Java, both road and rail development was very limited, and transport of goods was often done on the backs of people or animals, along rough jungle tracks or by river.

In Burma, civil public works accounted for almost 24 per cent of government expenditures by 1901-4, although the percentage fell somewhat thereafter (Aye Hlaing 1965, Table 22). In Indochina, especially the three parts comprising what is now Vietnam, public works already accounted for 20 per cent of total government expenditures in 1901; by 1909 the share had risen to over 40 per cent. The concept of "*mise en valeur*", stressed by successive French administrators after 1900, meant in effect increased expenditures on public works, in order to facilitate the exploitation of the colony's natural resources (Simoni 1929). Road building was also given high priority in both the Philippines and British Malaya, although railway development lagged behind both Java and the Japanese colonies of Taiwan and Korea. In all the Southeast Asian colonies, with the exception of British Malaya, electricity generation was also well behind both Taiwan and Korea (Booth 2007b, Table 4.7). Paradoxically, it was independent Thailand which was slow to develop a national road system. Writing in the late 1930s, Thompson (1967, 506) called Thailand "virtually a roadless land" where outside Bangkok, and a few other towns, much of the transport of both people and goods took place by river and canal, or by carts along old caravan routes. Railways were built up to the Mekong region in the north and down to the border with British Malaya in the south. Although the motives for building railways in Thailand was mainly for defence, they played an important role in transporting both goods and people.

In spite of the increased emphasis on infrastructure, there were marked differences in spending priorities across colonial Southeast Asia. The comparative study carried out by Schwulst (1932) showed that the percentage of ordinary budgetary expenditures on the armed forces varied from over 20 per cent in the Netherlands Indies and Siam to virtually nothing in the Philippines, where the cost of the small military presence was charged to the American budget until the latter part of the 1930s (Table 2.4). The percentage of ordinary expenditures devoted to public works and agriculture also varied considerably from 30 per cent in French Indochina, to only six per cent in Indonesia. The percentage on health and education was under 15 per cent in most colonies; the exceptions were the Philippines and the Federated Malay States. Particularly striking is the Philippines, where the government was spending over a third of the budget on health and education, compared with only four per cent in French Indochina.

The percentages shown in Table 2.4 are for one year, 1931, which was already affected by budgetary cutbacks in several colonies as the impact of the global depression began to bite. In the case of Indonesia the cutbacks affected expenditures on public works, which would have accounted for a much higher proportion of total expenditures a decade earlier. They also excluded expenditures by sub-national levels of government which might account for the low percentages spent on health and education in French Indochina, which was divided into five components, all of which had their own budgets[14]. But the evidence which we have on educational enrollments in the late 1930s does suggest that enrollments as a percentage of total population were much lower in French Indochina than in other colonies (Furnivall 1943, 111). In the Philippines, Furnivall found that enrollments as a percentage of the population were higher than in any other colony, or in Thailand. The 1939 population census in the Philippines found that 48 per cent of the population over 15 was literate, a very high proportion by Asian standards. Although the percentage was higher for men than women, 41 per cent of women over 15 were literate in 1939, again a very high figure in comparison with other parts of Asia, and with most states in Central and South America (Unesco 1957).

The relatively high expenditures on the army and navy in Thailand reflected the very high priority which the government placed on maintaining its independence by posing a credible threat to those foreign powers, mainly the British and the French, which might have wished to take more territory. In fact the figure of 22 per cent for 1931 was lower than in the early years of the 20th century when expenditures on the army and navy reached 28 per cent of total expenditures on all government departments. To foreign observers, and indeed to some Thais, these expenditures seemed extravagant and unnecessary. Edward Cook, the British financial adviser from 1925 to 1930 was very critical of the rapid rise in government

[14] Slocomb (2010, 49-50) argues that in Cambodia, there was a considerable improvement in roads and telephone communications after 1910, especially within and between the main cities. But progress in spreading modern health care and formal education was slow. There were plans for schools in every village teaching an 8-10 year cycle. But this never happened; by 1940 around 72,000 children were enrolled in primary schools and fewer than one thousand in secondary and technical schools. Altogether school enrollments accounted for around two per cent of the total population in 1940.

spending, especially on defence and on the royal household (Batson 1984, 17). In the latter part of the 1930s, another British Financial adviser, W. Doll, warned that continuing heavy spending on defence was causing budgetary problems (Thompson 1967, 560). Although ordinary expenditures were usually lower than ordinary revenues in the years from 1926 to 1939, the resulting surpluses were often not enough to cover capital expenditures, which necessitated borrowing. As will be discussed below, the Thai government was reluctant to increase borrowing, and over the 1930s placed more emphasis on debt redemption. In several other colonies, including Indonesia, government spending on defence increased over the 1930s, as the Dutch became more worried about the threat from Japan.

One important consequence of the expansion in government expenditures in Southeast Asia was the growth in public sector employment, much of which was taken up by indigenous employees. Censuses carried out in the 1930s showed that indigenous workers comprised between 87 and 97 per cent of total employment in government and the professions (Booth 2007b, Table 6.4). It was perhaps not surprising that the percentage was high in independent Thailand where very few foreigners were employed in government service, or the Philippines which had been granted self-government in 1935, and where very few Americans remained in government by the time of the census in 1939. In both Thailand and the Philippines, the Chinese were either discriminated against in public sector employment, or preferred to work in the private sector. This was also the case in Indonesia, where the employment of indigenous Indonesians increased quite rapidly in the 1920s, although they seldom managed to move into the highest ranks of the public service, or the judiciary. The main exception to these trends was British Malaya. In the Straits Settlements, only 20 per cent of workers in government and the professions were indigenous; in the Federated Malay States the proportion was around one-third. This resulted from the failure of most Malays to gain access to English-language education. Those who did manage to get government employment usually worked in unskilled jobs.

The Growth of Government Borrowing and Monetary Development

In most parts of South East Asia over the first four decades of the 20th century, increased government revenues led to increased government expenditures. But expenditures did not always move in step with revenues, and in Vietnam, the Philippines and Indonesia the elasticity of expenditures with respect to exports was slightly higher than revenues (Booth 2007a, Table 6). This partly reflected the tendency to run deficits in years when revenues fell sharply, as they did in the early part of the 1930s, when GDP contracted in most parts of Southeast Asia. It also reflected the fact that in boom periods when exports and total output were growing rapidly, it was easier for governments to access loan finance to fund increases in expenditures.

According to the budgetary principles followed, at least in principle, by the European powers, loans could be contracted to fund at least part of the investment in public works which would then yield returns over a long period. But this rule was not always applied in all colonies. It was estimated that over the period 1900-25 loans covered about 21 per cent of the cost of all public works carried out by the central and local governments in French Indochina (Simoni 1929, 141). In Indonesia, the ethical policy led to a rapid increase in budgetary expenditures on both current expenditures and capital works, and this in turn caused a widening deficit by the end of the second decade of the twentieth century. In 1923 the public debt amounted to 21 per cent of GDP and debt service charges were around six per cent of exports. These figures would not be considered unduly high today, but they alarmed the Dutch government, or at least those people in the Netherlands who opposed the ethical policy on other grounds. Through the 1920s, the government implemented a more austere spending policy, but by the early 1930s, the debt to GDP ratio had increased, not just because of heavier borrowing but also because of a contraction in nominal GDP (Booth 1998, 146). By 1935, public debt per capita was around sixteen dollars, which was high by Asian standards, although British Malaya was higher (Table 2.5).

Even in fiscally conservative Thailand, government debt, and debt service charges grew in the early part of the twentieth century, and by 1935 the debt servicing/export ratio was over six per cent (Sompop 1989, 176). The influential British financial adviser, Edward Cook, argued in the latter part of the 1920s that Siam should build up a reserve to avoid recourse to further loans, and that a debt redemption reserve should be established (Thompson 1967, 560: Batson 1984, 18). Schwulst found in his interviews with Thai officials in early 1931 that they were determined to liquidate the outstanding government debt. Since 1927, following Cook’s advice, substantial sums were taken from current revenues to set up a fund for the purpose of retiring outstanding debt (Schwulst 1932, 46). The policy of reducing the debt, both in absolute terms and relative to total budgetary revenues continued through the 1930s[15]. The total government capital liability at the end of the fiscal year 1938/9 was 5.7 million pounds, which was about half what it had been a decade earlier. Debt charges fell from a peak of 12.3 per cent of total budgetary revenues in 1931/32 to 5.8 per cent in 1938/9[16]. By 1935, total public debt per capita was lower than in the Philippines and much lower than in the Netherlands Indies, British Malaya and India. British Malaya had the highest debt per capita in the mid-1930s among the Asian colonies (Table 2.5). This reflected not just borrowing to fund public works, but also the tendency for the government to resort to borrowing to maintain current expenditures as revenues fell in the early 1930s.

To what extent did the tendency to resort to borrowing lead to the development of local capital markets in Southeast Asia? He (2013, 128-30) argues that the severe deflationary policies implemented in the early 1880s in Japan, while having a very serious impact on rural welfare, reduced investment expenditures and made it easier for the government to sell bonds to the public as well as to the corporate sector. Most of the colonial governments in Southeast Asia made only limited attempts to develop a modern financial system. Capital markets were undeveloped and most banks were branches of those based in the metropolitan country. In Indonesia, which by the 1920s had the largest economy in absolute terms, 'there was no well-organised framework…within which credit transactions could be arranged between borrowers and creditors, either through the intermediary of the banks…or the Stock Exchange' (van Laanen 1980, 31). Van Laanen (1990, 250) argued that most foreign enterprises chose to keep their surpluses in foreign financial centres. This was especially true of some of the most profitable companies such as the Batavian Petroleum Company, which kept its profits in the Netherlands, and only remitted back funds which were needed for investment in further expansion. Government bond issues were conducted in the Netherlands, London and New York. While the Dutch did develop a credit system designed to encourage savings and provide loans to indigenous Indonesians, especially in Java, the system was not linked in to the western banking system, or indeed to that of the Chinese[17].

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[15] Because of falling export values in the early 1930s, the debt service to export ratios increased to around six per cent in 1935. It fell after that (Sompop 1989, 176).
[16] These figures are taken from Central Service of Statistics (1940)
[17] A discussion of the colonial initiatives in credit provision in Java, and how they influenced post-colonial policies is given in Booth (1998, Chapter 4). The successful rural credit programs of the 1990s were lending less, in real per capita terms, than the colonial programs of the 1930s.

Van Laanen's conclusion that there was little scope for an independent monetary policy in Indonesia until 1942 also holds for the other colonies in Southeast Asia. In the Philippines, a stock market was established in Manila in 1927, and local banks were established, usually with government deposit guarantees. But the fixed exchange rate against the dollar together with few controls on inward and outward flows of capital gave little scope for independent monetary policies. In Singapore, which had emerged as the leading port and financial centre in the region by the 1920s, a monetary board was established early in the 20th century to cover the Straits Settlements, which by 1938 was extended to cover all the Malay states. As Drake (2004, 123-4) pointed out, the advantages of the monetary board were that it was simple to operate, relieved officials of the need to conduct monetary policy, and prevented any over-issue of local currency which strengthened confidence in the stability of the currency, thus allowing a fixed rate of exchange with sterling.

The main disadvantage of the monetary board was that the authorities had to hold sterling reserves equal to 100 per cent of the local money stock. These reserves yielded low returns, and the funds could probably have been used more profitably to finance investments within the colony. In his survey of monetary arrangements in the British Empire in the early 1950s, Hazelwood (1954, 311-2) wrote that "the fundamental disadvantage of the present colonial monetary arrangements is, in most territories, the investment of funds in sterling securities which is enforced by the currency regulations". In many territories, officials who were beginning to draw up development plans were frustrated by the fact that they could not invest more of their reserves in domestic projects. Another disadvantage was that in times of instability in foreign earnings 'the monetary needs of the domestic economy are made subsidiary to external balance' (Drake 2004, 124). Huff (1994, 88-89) estimated that there was a very sharp reduction in base money in British Malaya from 1926 until 1933, and only a slow recovery thereafter. The monetary contraction had a serious impact on the real economy; real GDP, as estimated by Sugimoto (2011, 185) contracted by 40 per cent between 1929 and 1932. British banks faced with liquidity problems could access loans from their London headquarters, but in the absence of a central bank in Singapore, local Chinese banks experienced difficulties. So did firms and individuals using the informal financial sector. The segmented nature of the capital market was to persist into the post-1945 period.

Only Thailand, as an independent kingdom, could have pursued an independent monetary policy along Japanese lines. But Ingram (1971, 170-74) pointed out that in fact the government pursued very conservative policies, designed to stabilize the baht against sterling, and keep the currency fully convertible. The interests of foreign banks and foreign bondholders were always placed above national interests including the rapid development of the country's resources. Government borrowing, even for capital projects which would have yielded good returns, was always cautious, and from the late 1920s onwards the aim was to pay down foreign debt, and build up more reserves in foreign currencies and gold. Although there had been some discussion about establishing a central bank at the turn of the 20th century, the idea was shelved, and the Bank of Thailand was founded only in 1942 (Vichitvong 1978, 421). Several writers have argued that the main reason for the conservative attitude to the development of the financial sector, to economic development more broadly defined, was the fear of further foreign intervention if the Thai government were to acquire a reputation for irresponsible financial and economic policies. According to Brown (1988, 175) economic policy was determined ' by the overriding need to defend the political sovereignty' of the country. But the cost of this conservatism was very slow economic growth compared with other parts of colonial Asia. The estimates of Sompop (1989, 251) showed that there was only a very slight increase in per capita GDP between 1870 and 1913, and a slight decline between 1913 and 1938. By 1938, per capita GDP in Thailand was estimated to be below that of British Malaya, the Philippines and Indonesia (Table 2.6).

The Transition to Independence: Philippines, Burma and Indonesia Compared

In the aftermath of the Japanese defeat in August 1945, nationalist movements in several parts of Southeast Asia expected that they would rapidly be given self-government or complete independence. Several independence leaders had cooperated with the Japanese, and were influenced by their nationalism and patriotism, even if they resented their occupation. The Americans, who had granted self-government to the Philippines in 1935, honoured their previous pledge regarding independence, which was duly granted on July 4, 1946. Parts of the Philippines had been devastated in the fighting between the Americans and the Japanese in 1945, including the capital, Manila. Per capita GDP in 1952 was still well below the 1938 figure (Table 2.6). The Americans offered considerable financial aid to the new republic, and promised continued access to the American market for sugar and other exports[18]. The American action in conceding independence rapidly on favourable terms, followed by the British decision to leave India, led the independence leaders in both Burma and Indonesia to expect the speedy end of colonial occupation in both countries. But in both countries the transition was far from smooth.

In Burma, the economy had been devastated by the war. The retreating British had destroyed infrastructure in 1941/2 in the face of the Japanese advance, and the fighting between the advancing British and Japanese forces in 1944/5 had also been violent and prolonged. It was officially estimated that GDP in 1947/8 was only 72 per cent of the figure in 1938/9; it only returned to the pre-war level in 1958/59, by which time population had increased substantially (Ministry of National Planning 1960: 16). The Maddison Project estimates show that per capita GDP in 1960 was still well below the 1938 level (Table 2.6). While most of the population wanted independence, a range of political parties had emerged which were divided by ideology, ethnicity, religion and personal animosities. An already chaotic situation was made much worse by the assassination of Aung San and five other leaders in July 1947. The British granted independence in January 1948 to a government headed by U Nu, but immediately after independence the country showed every sign of becoming a failed state (Bayly and Harper 2007, 322). Plagued by ethnic and regional rebellions, Burma never managed to achieve the political stability of India or the relative prosperity of British Malaya, although as will be seen below, there was some progress in restoring the public finances after 1950.

In Indonesia, the Dutch in 1945 were determined to re-occupy their huge Asian colony. Their main motive was economic: the Dutch economy had been badly damaged by the German occupation and leading economists, together with the great majority of the Dutch population, feared that the loss of the Indies, and its remittances, would have serious implications for economic recovery in the Netherlands. Many Dutch administrators were convinced that Sukarno and Hatta were

[18] But the Americans were either unable or unwilling to alter the exchange rate of the peso, which Hooley (1996, 296) argued was overvalued from 1904 right through to the devaluation of 1962. This almost certainly adversely affected growth of exports and overall economic growth, in both the colonial era and afterwards.

tools of the Japanese and had little following among the Indonesian masses who wanted nothing more than to return to the peace and stability of the Dutch *raj*. Four years of bitter fighting followed; only after the failed Communist uprising in Madiun did the Americans realize that the Indonesian revolution was nationalist rather than communist and deserved their support. After protracted and often difficult negotiations, the Dutch finally agreed to a transfer of power in late 1949, under conditions which were far from favourable to the infant republic (Lindblad 2008: *passim*; Booth 2016, 36-9).

In all three countries, the advent of political independence led to rising expectations among the local populations, which the governments found difficult to meet. National income had fallen in per capita terms in all three countries which reduced the tax base. In addition there was considerable resentment that colonial-era taxes, which many people felt were inequitable, continued to be assessed. In Indonesia, many nationalists had exaggerated ideas of the revenues from exploitation of natural resources, especially petroleum and other minerals, which they assumed could accrue to the government once remittances abroad were halted. A further problem was that inflation had been high throughout the 1940s, and by the time power was handed over to the governments in the Philippines, Indonesia and Burma, as well as in independent Thailand, the salaries of civil servants had been considerably reduced in real terms. This affected morale, and made the collection of taxes more difficult, as officials were more tempted to take bribes in order to reduce tax assessments. In addition many took second jobs to increase their incomes, which reduced the time and commitment they gave to their tasks as tax officials.

In both the Philippines and Indonesia, inflation in the years from 1938 through to 1954 was higher than the increase in per capita government revenues; in other words their value was lower in real terms than in 1938. (Table 2.7). In spite of the recourse to deficit spending, especially in Indonesia, real per capita expenditures were lower in Indonesia in 1958 than in 1938, while in the Philippines there was little change (Table 2.8). In both Indonesia and the Philippines, government investment comprised only about 2.6 per cent of GDP in 1957, which was a lower ratio than that in Japan, Taiwan and South Korea (Booth 1998, 167). In Indonesia, the demise of parliamentary democracy and the return to the 1945 constitution at the end of the

1950s was accompanied by much talk of "Indonesian socialism", but in fact government control over the economy in the early 1960s weakened. An over-valued exchange rate led to massive smuggling of export commodities to Malaysia and Singapore which in turn further reduced tax collections. By the early 1960s, the government was caught in a vicious downward spiral of inflation and smuggling leading to poor revenue performance, leading to budget deficits which fuelled further inflation, and eventually hyper-inflation. The economy was only stabilized after the change of regime in 1966.

In spite of its difficult transition to independence, and the chaotic situation which prevailed in the immediate aftermath of the transfer of power, Burma did manage to increase government revenues in real terms and as a proportion of GDP in the 1950s. As a proportion of GDP, government receipts excluding loans and revenues from government boards and corporations increased from almost 12 per cent in 1938/9 to 23 per cent in 1954/55, but had fallen back to less than 17 per cent by 1958/8 (Table 2.9). Government revenues from all sources comprised 49 per cent of GDP in 1952/3, and grew relative to GDP over the decade. Budgetary expenditures also increased after 1950, although a direct comparison with 1938 is difficult because over the 1950s expenditures of government boards and corporations increased rapidly, and accounted for a substantial part of the total growth in consolidated budgetary expenditures (Central Statistical and Economics Department 1963, 281). By 1954/55, budgetary expenditures accounted for 59 per cent of GDP, and capital expenditures about 11 per cent, although there was some reduction in these percentages by the end of the decade.

The growth in the role of government in the economy of Burma after independence was the result of a conscious decision on the part of the government to adopt a socialist economy, at least in the non-agricultural sector. This meant building new state enterprises in industry, transport and utilities and adopting marketing boards for key export crops, especially rice. Farmers had to sell rice to the marketing board at a price which, at least in the early 1950s, was well below the world price. These policies met with considerable criticism, especially from the American advisers which the government had contracted to provide them with economic advice (Brown 2013, 120-4). Both the foreign advisers and some Burmese economists threw doubt on the extent to which the increased budgetary expenditures were being used to enhance the productive capacity of the economy, especially given that agricultural sector was still largely in private hands, and was increasingly penalized through low procurement prices and starved of investment in irrigation and other infrastructure[19]. Although total GDP had regained 1938/9 levels in 1958/9, real value added in agriculture was still lower. In December 1958, the caretaker government led by Ne Win terminated the contract of the foreign advisers, but there was little change in policy.

The Transition to Independence in Malaya, Singapore, Brunei, North Borneo and Sarawak

Apart from Burma, the various parts of the British Empire in Southeast Asia were slower to achieve independence, at least partly because of fears that communist-backed insurgents might take over large parts of the Malayan peninsula. What became known as the Malayan Emergency lasted until the late 1950s. The Federation of Malaya was formed from the three components of British Malaya after 1945, excluding Singapore which was administered separately. The Federation and Singapore were finally granted self-government in 1957 and 1959 respectively, and in 1963 both joined the new federal state of Malaysia. This federation also included the British-controlled territories of Sabah (North Borneo) and Sarawak on the island of Borneo. Strains emerged almost immediately between Singapore, with its Chinese majority, and the Malay-dominated government in Kuala Lumpur, and Singapore left the federation to become an independent republic in 1965. But the rest of the federation has survived until the present day.

In the 1930s, the revenue base in the three parts of British Malaya depended heavily on excises and trade taxes (with the exception of Singapore which was a free port), and a range of non-tax revenues. In per capita terms these revenues were high compared with most other parts of colonial Asia (Table 2.1). Colonial officials were under pressure not to increase taxes further, especially on incomes. In North Borneo and Sarawak, per capita revenues were much lower, and little different from the Philippines. The comparative data assembled by Schwulst showed that the Federated Malay States were spending about 20 per cent of the budget on public works and a further 20 per cent on health and education. These were high percentages

[19] Brown (2013, 162-3) discusses the growth of the marketing board for rice after 1948, and the adverse impact it had on producer incentives.

compared with most other regions (Table 2.4). Conversely defence expenditures were very low, and remained low over the 1930s. In the Straits Settlements a higher proportion of the budget was allocated to the military.

After 1948, the various parts of Southeast Asia still controlled by the British underwent considerable changes in both revenue and expenditure policy. The most important reform was the introduction of an income tax in both the Federation of Malaya (FOM) and Singapore; by 1953 this accounted for 43 per cent of total revenues in Singapore and 27 per cent in the FOM. The FOM also received some assistance from the UK Colonial Development and Welfare Fund. The absolute amounts were lower than those granted to Ghana or Nigeria, and until 1957 they amounted to less than ten per cent of total budgetary revenues (Markandan 1960, 50). In terms of pounds per capita, the reforms led to a substantial increase in revenues in both Singapore and the FOM compared with 1938 (Table 2.10)[20]. The increases in Brunei, Sabah and Sarawak were much higher. In Brunei the increase from just four pounds per capita in 1938 to almost 200 pounds in 1953 was mainly the result of the exploitation of the sultanate's oil resources, which began after the Pacific war, although not all the increased revenues were spent in Brunei. In Sabah, revenues from the Colonial Development and Welfare Grants accounted for almost 14 per cent of total revenues in 1953; in addition over 60 per cent accrued from customs duties and revenues from forests, license fees and income taxes (Colonial Office 1955, 125). In Sarawak, revenues from trade taxes, and license fees, income taxes and other revenues accounted for almost all revenues.

The increased revenues per capita in Singapore, FOM, Sabah and Sarawak led to increases in expenditures after 1950. But what were the increased revenues spent on? In the FOM, the battle against the communist insurgency led to a sharp increase in spending on police and defence. By 1953 this amounted to over one quarter of the budget, which was considerably more than the proportion spent on health, education and welfare, or on public works (Table 2.11). In Singapore by contrast, expenditures on health, education and welfare comprised almost 26 per cent of expenditures, and public works a further 20 per cent. Singapore experienced rapid population growth after 1947, mainly because of rapid natural increase but also because of continued in-migration (Huff 1994, 292). This put considerable

[20] Estimates of the purchasing power of the pound indicate that 10 pounds in 1938 could buy the same amount of goods and services in as 22 pounds and 16 shillings in 1953.

strains on the housing stock; by the early 1950s many people were living in crowded apartments in the city or in shanties around the periphery. It is probable that the extreme overcrowding and lack of sanitation was one reason for the higher infant mortality in Singapore than in the Malay states, both in the 1930s and the 1940s (Smith 1952, 54). Only after Singapore became an independent republic in 1965 was there a concerted attempt by the government to build more housing, and initiate a family planning programme[21].

In Sabah, Brunei and Sarawak, the proportion of government spending on health and education was lower than in Singapore. All these territories faced considerable challenges in raising literacy from the very low levels prevailing in the 1940s but given limited government funding, progress was slow. A UNESCO report published in 1957 listed North Borneo, Sarawak and Brunei among the areas of the world characterized by high illiteracy. In North Borneo the 1951 Census found that 83 per cent of the population was illiterate, with not much difference across age groups, indicating that there had been little improvement in schooling in the preceding two decades. Illiteracy was also high in Sarawak and Brunei according to the 1947 Census, although especially in Brunei there was some improvement in the younger age groups. Inadequate data make any estimation of mortality rates in Borneo before 1950 very difficult, although Jones (1966, 48) found that there was some tendency for infant mortality in Brunei to fall over the 1930s. But it remained higher than in peninsular Malaysia. After 1945, population growth accelerated in Sabah, Sarawak and North Borneo, which Jones (1966, 111) attributed to both increased fertility and falling mortality, in turn the result of better social services and better communications.

By the late 1950s, when the former British territories in Malaya, Singapore and Borneo had achieved or were about to achieve independence, a more activist fiscal state had emerged. Government revenues per capita had increased, and the revenue systems had become more diversified. Government expenditures were also increasing in per capita terms, and the state was assuming responsibility for a broader range of functions, including health and education

[21] The report on the Social Survey of Singapore, carried out in 1953/4 found that 20 per cent of households were living in acutely overcrowded conditions compared with 21 per cent in 1947. Acutely overcrowded was defined as two adults and four children, at least one over ten years, living in one room (Goh 1956, 73). A further 28 per cent lived under conditions of overcrowding, and only 15 per cent were deemed to be living in spacious conditions. The main author of the report, Dr Goh Keng Swee became deputy prime minister after Singapore became independent in 1965, and was instrumental in initiating ambitious programs in public housing and birth control.

as well as continuing to spend on public works, and civil administration. There was also some progress towards a more diversified banking system, especially in Singapore where the three main Chinese banks made an increasing contribution to financing local industry and commerce. In addition the European banks were more willing to lend to local business than before 1942 (Huff 1994, 287-8). The Currency Board remained in place after 1945, and expanded its geographic coverage after 1950 to the British Borneo territories (Drake 2004, 115). Only in 1959 was a central bank established (Bank Negara Tanah Melayu), with jurisdiction over the Federation of Malaya, excluding Singapore[22]. As Drake (2004, 137) pointed out, the new bank inherited a monetary system in which domestic liquidity was largely a function of swings in the balance of payments, and the scope for domestic monetary policy was very limited.

Conclusions

This paper has discussed the differences in revenue and expenditure policies across Southeast Asia in the last decades of colonial rule, and the impact of the transition to independence. The first conclusion is that there were marked variations in revenues and expenditures per capita across colonies and in Thailand. There were also striking differences in the allocation of expenditures across different sectors. These variations reflected the different goals of the colonial powers. The Americans, aware of the domestic unpopularity of their occupation of the Philippines, promised self-government and thus promoted the rapid development of an English-speaking upper class, which was to dominate politics after 1946. One third of the budget went on health and education, a much higher proportion than elsewhere. At the other extreme, French Indochina spent very little of the federal budget on health and education, but much more on public works, administration and the army. This was also true in Indonesia.

But in spite of these differences, there were also some features of fiscal policy common to all countries, and to independent Thailand. By the early 20th century, all parts of the region were becoming more involved with the global economy. In many parts of the region, large corporations in the agricultural and mining sectors were producing a range of commodities for export and employed thousands of workers. In addition, millions of smallholder producers were involved in producing for export. When a severe depression hit

[22] Schenk (1993) examines the background to the establishment of this bank, which became the Bank Negara Malaysia.

the global economy in the early 1930s, this affected government revenues in all colonies. Some governments resorted to borrowing, but the conservative attitude of home governments limited the extent to which they could borrow. When they did, they borrowed in the metropolitan countries, or in the London market. This in turn hampered the development of money markets within the colonies.

The Philippines was granted independence in 1946, and Indonesia in 1949, after a protracted struggle with the Dutch. Both countries struggled to increase government revenues in step with population growth, and by the mid-1950s, revenues in real terms were below the pre-1940 levels. Especially in Indonesia real government expenditures also fell in per capita terms. In Burma by contrast, real revenues grew in per capita terms, and both revenues and expenditures increased relative to GDP. But this expansion of the public sector had its critics; by the late 1950s, some thought that the government sector, together with state enterprises was too big and the private sector, especially agriculture, was being squeezed to fund the expansion of unprofitable state enterprises. Singapore, the Federation of Malaya, and the British Borneo territories remained under British control until the early 1960s. They all experienced considerable growth in both government revenues and expenditures. But the currency board system remained in place, giving little scope for the development of an independent monetary policy.

There remains the puzzle of Thailand, which as an independent country had an opportunity for conducting more developmental, or growth-promoting, monetary and fiscal policies. But in fact the Thai state failed to promote growth even compared with neighbouring colonies, and between 1900 and 1952 per capita GDP changed little. Larsson (2012, 33) has argued that the Thai state from the late 19th century onwards became "actively non-developmental in order to protect its sovereignity in the context of geopolitical vulnerability". The result, as Schwulst observed, was not a small government by the standards of the time, but one which placed most emphasis on building up a national system of administration and a defence force, rather than on economic development. Several studies of Thai policy in the years from 1900 to 1940 have stressed the influence of the British advisers in urging caution regarding the implementation of costly public works projects which would have necessitated foreign loans. While this was probably true, the evidence suggests that it was senior Thai officials who made the final decisions. Even after 1950, when control by Britain or France was no longer a credible threat, the Thai government continued to pursue a cautious approach to fiscal and monetary policies, and left economic growth mainly to the private sector.

Table 2.1: Revenues per capita (US $), 1929, 1938 and 1952

Colony	1929	1938	1952
British:			
Burma	6	4	9
Straits Settlements/Singapore [a]	29	30 (16)[b]	63
Federated Malay States	28	17	42
Unfederated Malay States	11	10	a
Brunei	n.a	20	465
North Borneo (Sabah)	n.a	6	25
Sarawak	n.a	5	29
Other:			
Taiwan	16	12	27
Philippines	6[b]	5[c]	12
Indonesia	5	4	9
Thailand	4	3	8
Vietnam	3	2	3 (1950)
US GDP Deflator	115	100	199

a.After 1945, the Federated and Unfederated states were amalgamated into the Federation of Malaya. Singapore became a separate crown colony, and the other parts of the Straits Settlements (Malaka and Penang) became part of the Federation of Malaya.

b. Figure in brackets excludes the payment from the Currency Guarantee Fund

c. Figures include local government revenues

Sources: 1929 and 1938: Taiwan: Mizoguchi and Umemura (1988, 288); Vietnam: Bassino (2000, 286-88); Netherlands Indies: Creutzberg (1976), population data from van der Eng (2002); Philippines: Commonwealth of the Philippines (1941), Table 100 and Birnberg and Resnick (1975); Thailand: Ingram (1971, 329-337); Burma: Andrus (1948, Table 37); Federated Malay States, Straits Settlements: Department of Statistics (1939), with additional data from Fraser (1939), Appendix A and Colonial Office (1955, 33-56). Brunei, Sarawak and Sabah: Colonial Office (1955, 107, 125, 146)

1952: International Monetary Fund, International Financial Statistics various issues between 1952 and 1958, with additional data for Federation of Malaya, Singapore, Brunei, Sabah and Sarawak from Colonial Office (1955, 33, 56, 107, 125, 146) and for Philippines and Indonesia from Central Bank of the Philippines (1956); Bank Indonesia (1956).

Exchange rate for Taiwan in 1952 from Sato et al (2008, 369). Other exchange rates from van Laanen (1980: Table 8) and Bidwell (1970).

Table 2.2: Percentage Breakdown of Government Revenues: Southeast Asia 1938[a]

Country	All taxes	Land taxes	Income taxes	Excises	Trade taxes
Burma	81.4	33.0	11.6	14.0	22.2
North Borneo	72.5	16.7	0	b	54.6
Philippines	64.0	n.a	28.3(19.3)	17.1	15.9
Indonesia	62.8	6.7	22.0	13.8	16.1
Thailand	61.5	6.3	8.6 (6.5)	15.0 (8.7)	30.8
Sarawak	58.8	0	0	b	43.0
Vietnam	58.7	n.a	10.0	17.0	31.7
FMS	49.3	0	0	11.1 (8.3)	38.2
Brunei	36.8	0	0	b	25.2
Straits Sett.	34.4	0	0	27.1 (9.2)	0

a Figures in brackets for the Philippines refer to the license and business tax; for Thailand the capitation tax, and the opium regie; for the SS (Straits Settlements) and FMS (Federated Malay States), opium revenues. For Burma, the FMS and the SS, stamp duties and other licence fees are included in tax revenues.

b.Total tax revenues include other duties including some excises and licenses.

Sources: Vietnam: 1938: Bassino (2000, 286-88); Indonesia: Creutzberg (1976, 67); Central Bureau of Statistics (1947, 133); Philippines: Commonwealth of the Philippines (1941, Table 102); Thailand: Central Service of Statistics (1940, 274-79); Burma: Andrus (1948, Table 37); Federated Malay States and Straits Settlements: Department of Statistics (1939, 238-41); Brunei, North Borneo and Sarawak: Colonial Office (1955, 107, 125, 147)

Table 2.3: Numbers Liable to *Heerendiensten*, Ransoms per worker, Total Ransoms and Value of Labour, 1925, 1930, 1934 and 1937[a]

Sector	Numbers liable ('000)	Ransom per worker (guilders)b	Total ransom	Value of labour	Total
			(Million guilders)		
1925					
DGOJ	1366	6.51 (41)	3.7	5.2	8.9
NSOJ	1142	5.87 (24)	1.6	5.1	6.7
1930					
DGOJ	1469	7.67 (58)	6.5	4.1	10.6
NSOJ	1306	6.65 (30)	2.6	5.4	8.0
1934					
DGOJ	1432	5.39 (16)	1.2	5.7	6.9
NSOJ	1295	4.17 (12)	0.6	4.3	4.9
1937					
DGOJ	1421	5.47 (23)	1.8	5.1	6.9
NSOJ	1367	4.10 (22)	1.2	4.1	5.3

a DGOJ refers to directly governed territories outside Java; NSOJ refers to the native states outside Java

b Figures in brackets show the percentage of all those liable who paid the ransom.

Source: *Indisch Verslag 1938: Part II, Statistical Abstract for the Year 1937,* Tables 405, 427

Table 2.4: Percentage Breakdown of Government Expenditures by Sector, 1931[a]

Sector	**Philip-pines**	**Siam**	**Indonesia**	**FMS**	**French Indochina**
Education	28	6	9	5	3
Health	8	2	3	15	1
Public works	8	12	6	20	30
Agriculture	10	3	1	8	6
Administration	31(8)	45(9)	38(6)	34(6)	35(1)
Military	0	22	26	2	13
Public debt	12	9	13	9	4
Other	3	1	4	7	8
Total	100	100	100	100	100

a Percentages in brackets refer to expenditures on law and order. Figures for the Philippines and French Indochina refer to central government expenditures only. All figures are for ordinary budgets only and may understate some capital expenditures.

Soource: Schwulst (1932, 57)

Table 2.5: Public Debt per Capita (US $)

Country	1935	1955
British Malaya	18	27
Indonesia	16	17
India	12	18
Philippines	5	28
Thailand	5	11

Note: For 1955, official exchange rates are used to convert to US dollars in all cases.

Sources: 1935: British Malaya: Department of Statistics (1936) and Federation of Malaya (1956: 90); Indonesia: Creutzberg (1976, Table 7) and Bank Indonesia (1956, 75); Thailand: 1935: Central Service of Statistics (1940, 416); 1955 (Ingram 1971, 301). Philippines and India: United Nations (1948); Philippines: Central Bank of the Philippines (1956, 111); India: 1955 from *International Monetary Fund International Financial Statistics Yearbook 1958*, Exchange rates for 1935: as for Table 1; 1955 from International Monetary Fund International Financial Statistics, various issues between 1957 and 1960.

Table 2.6: Per capita GDP in 1913, 1939, 1952 and 1960

(1990 international dollars)

Country	**1913**	**1939**	**1952**	**1960**
Southeast Asia				
Singapore	1367	2379	2280	2310
Malaysia	900	1609	1471	1530
Philippines (1939)	988	1508	1186	1476
Indonesia	869	1046	901	1015
Thailand	841	826[a]	869	1078
Vietnam	727	n.a	694	799
Laos	n.a	n.a	628	679
Cambodia	n.a	n.a	504	671
Burma	685	740[a]	449	564
Other Asia:				
Japan	1387	2816	2336	3986
Taiwan	807	1380	1028	1353
Korea (South)	485	804	835	1226
India (1943)	673	674	629	753

a data for 1938

Source: Website: http://www.ggdc.net/maddison/maddison-project/home.htm, 2013 version.

Table 2.7: Revenues per Capita and Inflation: 1954 (1938 = 100)

Country	Revenues/capita	Prices
Indonesia	1449	2340
Thailand	2422	1330
Burma	513	380
Philippines	311	329

Note: Price indexes for Burma: GDP deflator; for Indonesia: Average retail prices in Jakarta of 30 home produced and imported products; for Thailand: Cost of Living index in Bangkok and after 1951 GDP deflator; for the Philippines: Cost of Living of lower income groups in Manila

Sources: International Monetary Fund, *International Financial Statistics* various issues, with additional data for Burma from Ministry of National Planning (1960); Central Bank of the Philippines (1956); Bank Indonesia (1956); Ingram (1971, 329-330). Price indices for Indonesia from Central Bureau of Statistics (1961: 229-30); for Burma from Ministry of National Planning (1960); for Thailand from Ingram (1971, 164, 222).

Table 2.8: Index of Real Per Capita Government Expenditures in Local Currencies (1953 = 100)

	1938	1953	1956	1958
Indonesia	130	100	66	117
Philippines	129	100	170	130
Burma	58	100	94	104
Thailand	52	100	91	89

Sources: Indonesia: Creutzberg (1976, Table 4); Central Bureau of Statistics (1971, 317); population date from van der Eng (2002).

Burma: Ministry of Planning (1960)

Philippines: Commonwealth of the Philippines (1940, 164) and Central Bank of the Philippines (1956, 1960)

Thailand: Ingram (1971, 329-330)

Deflators: Indonesia: Papanek and Dowsett (1975, 184); from 1953 onwards ECAFE (1964, 240), Burma: Ministry of Planning (1960), Philippines and Thailand, as for Table 2.7.

Table 2.9: Burma: Government Revenues and Expenditures as a Percentage of GDP

	1938/9	**1952/3**	**1954/5**	**1958/9**
Receipts	11.8	17.4	23.0	16.7
Total Revenues	n.a	48.6	49.1	51.2
Total expenditures	8.2	46.6	59.1	54.1
Of which: capital	0.3	7.1	11.2	7.8

Notes and Sources:. Government receipts refer to central and net state and local revenues excluding loans and revenues from government boards and corporations as given in Ministry of National Planning (1960) Table III. Total revenues from 1952/53 onwards refer to revenue and loan recepits plus revenues from boards and corporations. Total expenditures from 1952/53 onwards refer to consolidated expenditures of the government sector, including current and capital expenditures of ministries, departments, boards and corporations. Revenues and expenditures as reported in Central Statistical and Economics Department (1963: 281). GDP data from Ministry of National Planning (1960), Table 1A and Central Statistical and Economics Department (1963, 273).

Table 2.10: Revenues and Expenditures per capita (£), 1938, 1953 and 1957

Colony	1938	1953	1957
Revenues:			
Straits Settlements/Singapore [a]	3	25	19
Federation of Malaya[a]	3	13	15
Brunei	4	200	215
Sabah	1	10	16
Sarawak	1	8	9
Expenditures:			
Straits Settlements/Singapore	4	18	19
Federation of Malaya	4	16	15
Brunei	5	45	65
Sabah	1	11	15
Sarawak	1	6	9

a 1938 figure refers to the Straits Settlements, not just Singapore, and to the sum of the figures for the Federated and Unfederated Malay States. Revenues in Singapore in 1938 exclude the transfer from the Currency Guarantee Fund; for the Federation of Malaya they include railway revenues.

Sources: Revenue data :Colonial Office (1955) with additional data for 1957 for the Federation of Malaya from Markandan (1960, 60) and Lim (1967, 352). 1957 figures for Sabah, Sarawak, Singapore and Brunei from Annual Reports of North Borneo, Sarawak, Brunei and Singapore. Population data from Jones (1966, Table 19).

Expenditure data; Federation of Malaya: Colonial Office (1955). Additional data from Markandan (1960, 60), State of Brunei *Annual Report 1958*,2 0-1; Colony of North Borneo *Annual Report 1959*, 33-6; Sarawak *Annual Report 1958*, 18-19.

Table 2.11: Percentage Breakdown of Government Expenditures: 1953

Colony	Police/Defence	Health/ Education	Public Works	Other
FOM	26.8	4.0	14.1	55.1
Singapore	18.0	25.7[a]	20.5	35.8
Sabah	6.6	8.3	12.4	72.7
Sarawak	10.5	10.7	11.4	67.4
Brunei[b]	2.4	7.5	13.5	76.6

a Includes spending funded through the colonial development and welfare schemes
b 1952

Source: Colonial Office (1955, 34,57,108, 126, 147)

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