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Estimating the Colonial Drain and Surplus from Indonesia and Malaya

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ABSTRACT

This article draws from Alec Gordon's conference keynote speech on the 'colonial surplus'. He shows how to better use colonial statistics – especially data on the balance of payments, colonial budgets and from private companies – to estimate the 'colonial surplus'. Although a pioneer of this approach, he remained modest in self-critically trying to improve its measurement. The economic contributions of colonies to imperial powers is often measured by net exports alone. Even if a colony is commercially unprofitable, it could still be lucrative in terms of taxes levied, land and mining concessions, opium sales, and dividends paid. Administered by privileged expatriates, it generated significant financial outflows from colonies due to dividend payments, purchases from and in Europe, etc.

His abbreviated economic histories of the plantation economies of British Malaya and the Dutch East Indies emphasize how colonialism benefited private European capital with cheap land and labour. Although not much discussed, Malaya was the world's largest producer and exporter of tin and rubber, the most profitable British colonial possession, and key to the sterling zone, especially after the Second World War.

Keywords: balance of payments, colonial drain, colonial surplus, Indonesia, Malaya

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Colonial Drain and Surplus

The term 'drain' is used in economic literature, particularly for India in colonial times. Nonetheless, the meanings of 'drain' and 'colonial surplus' as used here need to be reiterated. Where necessary, the two are distinguished on empirical grounds. Depending on circumstances, different aspects are significant in various colonies at particular times. For Indonesia, the following three were significant:

1. The colonial surplus is what the Dutch got measured in cash terms, i.e., what the colonialists gained 'openly' or 'publicly'.
2. The income [revenue] of the colonial government, including taxes, as estimated from its budget.
3. The income of foreign residents, as the above two items are in the public domain.

The first item included private and government dividends and profits, but also pensions transferred abroad, travel expenses to and from the colony, other government expenditures overseas, changes in overseas bank balances, and so on. Particular attention should be paid to profits made, but not distributed, and to investments of retained profits, which may or may not be included in a colony's Balance of Payments. Strictly speaking, the second and third items, i.e., 2 and 3, were not exactly incomes as such, but represent costs saved or foregone by the colonial metropolis by running the colony at its own expense. These represent savings to the colonial power.

As the official classification for India was different, a fourth item needs to be added, recognizing the remarkable range of British imperial instruments and methods in India. For India, items 2, 3 and 4 might be considered Classified Items, not in the public domain. As Utsa Patnaik has shown, the erudite and ingenious means the British employed in India to drain their loot far surpassed the other three elements benefiting the imperial power in Indonesia.

Our study of the Colonial Surplus is more concerned with establishing the quantities involved in exploiting the colony, i.e., measuring that exploitation. I must note there are relatively few researching this phenomenon (e.g., see the internet site: Colonial Surplus). One source of confusion arises from use of the term Colonial Surplus.

My references and emphases may give the impression that the Colonial Surplus was the only benefit for the colonial power. But Gordon (2012) also dealt with two further items. When added, these would double the Colonial Gain, at least in Indonesia. Except in Gordon (2012), my earlier critical examinations of Indonesia's official balance of payments and its omissions tended not to take full account of items 2 and 3. The 'colonial drain' covers all three parts, whereas the 'colonial surplus' only refers to item 1 mentioned above.

Hence, this review is on the same wavelength as most Indian scholars (and non-scholars) who regard the colonial drain as established fact. In India, the 'drain' refers to everything the British got out of the country. The colonial surplus amounted to more than half of Indonesia's drain, whereas this was not the case for India. The 'drain' term and 'theory' have a long and illustrious history in India going back at least to Dadabhai Naoroji in 1867. Its existence is so obvious and its size so huge that it was far higher than for Indonesia. The drain in India was long considered fact, whereas the colonial surplus in Indonesia is hardly as well established.

Utsa Patnaik calculated the British Raj siphoned out at least £9.2 trillion, or US$44.6 trillion, whereas the UK's GNP before the pandemic and 'Brexit' was a mere US$3 trillion. In the unlikely event a British government decided to repay this debt, this would reduce Britain to such miserable levels of income reminiscent of what Indians experienced.

In the absence of comparable balance of payments data for colonial Malaya, I propose, first, to examine and learn from the balance of payments for colonial Indonesia, which did not have a dissimilar colonial economic system, to show the implications of this method. Estimating items 2 and 3 for Malaya is, in principle, simpler as the data is there. Estimates for Indonesia have been published and will be discussed briefly. Presumably, such data exist for colonial Malaya too.

Balance of Payments in General

We shall use the balance of payments to estimate the colonial drain/ surplus for Indonesia. At the time of the balance of payments publication for Indonesia, a somewhat simpler division was used, between the current and capital accounts. Now, there are more details and complexity, but in principle, the old division still holds.

The Korthals Altes (1987) version for Indonesia is, by and large, in the old style, which I accept as valid. Remember I am not interested in the balance of payments itself, but rather, in what it indicates. If needed, I could re-arrange and present the balance of payments differently to estimate the colonial surplus. But the Indonesian balance of payments has already been re-arranged for this purpose.

Given the respect the balance of payments is usually accorded, the International Monetary Fund (IMF), widely considered the 'keepers' of 'balance of payments' ideas, has venerated it. Their remarks are telling:

> "The balance of payments accounts is a record of all international transactions that are undertaken between residents of one country and residents of other countries during some period of time. The accounts are divided into several sub-accounts, the most important being the current account and the financial/capital account.
>
> "Because the current account and the capital account add up to the total account, which is necessarily balanced, a deficit in the current account is always accompanied by an equal surplus in the capital account, and vice versa. A deficit or surplus in the current account cannot be explained or evaluated without simultaneous explanation and evaluation of an equal surplus or deficit in the capital account.
>
> "Together, these accounts balance in the sense the sum of the entries is conceptually zero.
>
> "Net errors and omissions is the last component of the balance of payments and principally exists to correct any possible errors made in accounting for the three other accounts. Omissions are rarely *used usually by governments to conceal transactions*. They are often referred to as 'balancing items.'" (IMF 2005, 2008: my emphasis)

Hence, the preceding constitute important *caveats* recommending caution by those wishing to use what is on offer. While the current and capital accounts are supposedly conceptually equal to each other, this is not the case in practice. Thus, equivalence can only be achieved with 'balancing items' or 'residuals'. This is crucial to identify the IFP part of the colonial surplus in the Indonesian balance of payments, following IMF advice: "Omissions are rarely used usually by governments to *conceal transactions*. They are often referred to as '*balancing items*' (IMF, 2005. *Balance of Payments Manual*, Ch 2., para 2.15: my emphases). Deliberate disguise of certain items must be taken into account, whether or not this is rarely done.

The Colonial Surplus

The colonial surplus forms one of the three components of Indonesia's drain. It measures benefits, in money terms, gained from the colony by citizens, businesses and the government of the colonial power. Using revenue to the metropolis, it measures exploitation, describing and estimating part of the economic relationship between the colonial power and the colony. The colonial surplus measures, in money terms, what the metropolis gains from its colony.

Colonial surplus measures include international trade and financial relations between the two and gains by other foreign nationals in the colony. The international balance of trade in goods and services is the part most commonly addresses. This would include items such as private and government dividends and profits transferred abroad. Also, pensions paid abroad, travel expenses to and from the colony, other government expenditures overseas, changes in overseas bank balances as well as profits made, but not distributed, and investments with retained profits.

Further items may be added, such as including incomes made in the colony by outsiders, the colonial budget (or parts of it), additional profits made by metropolitan nationals due to their superior status, gains from exports to the colony that would not have been made otherwise, and so on.

Statistics are required to measure them. In general, these may be found in two forms. International trade statistics may be directly utilized to calculate the export surplus. In many circumstances, this may be the only way. But it is obviously much better to utilize the balance of payments accounts, if available, as in the case of Indonesia. The limited debate on Indonesia was only on the trade surplus. Consequently, the discussion used partial data, and is therefore misleading.

Data on the private incomes of foreigners living in the colony and measures of other items not appearing in the balance of payments need to be investigated, although they may not involve formal international exchanges. Also, colonial budget statistics need to be considered to determine how much should be considered part of the colonial surplus.

Some confusion may be due to my earlier treatment of this issue as if the colonial surplus share of the drain was the only one (Gordon 2004, 2010a, 2010b), while two later contributions (Gordon 2012, 2018) were not sufficiently specific in making corrections.

The balance of payments does, of course, use conventional data sources such as trade figures. But ascertaining profits requires greater reliance, and interrogation, of of those supplying the data, their efficiency, their willingness, their honesty and their cunning. After all, the *agreed* entrepreneurs' claims on undistributed profits in Indonesia for 1920 came to over 1,000 million guilders, while the colonial government only acknowledged 400 million (Taselaar 2002: 363). The following comments on colonial Indonesia by a true expert underscore the arbitrary selectiveness of reported numbers:

> "A great deal of the gain is indirect. Much is intangible and not to be set down in cols figures, perhaps. … Allocation of returns in major industries is often a matter of bookkeeping or of politics rather than of real dividends; huge profits in an industry may be buried in reserves …" (Keller 1940: 17-18)

Thus, when balance of payments data are available, their reliability still needs to be ascertained. But there are serious and gross omissions for Indonesia (amounting to nearly twice the official data available) which have to be supplemented, mainly by estimation, as I have attempted.

Colonialism

A colony, in the sense of a region ruled by a foreign power, was in a different position from an independent country. As Maddison (1971: 19) wrote of India, "The major burden of foreign rule arose from the fact that the British raj was a regime of expatriates". And "It is because of its control over the colonial state that the metropolitan capitalism is able to control, subordinate and exploit the colony society. It directly serves as a channel for surplus appropriation" (Chandra 1980: 278).

Composition of Indonesia's Colonial Drain and Surplus

Non-International Transactions

Foreigners' Incomes

I would include European private incomes in the colonial surplus. I exclude Chinese and Arab incomes because these income earners were mainly permanently resident in the Indies. This benefits from JJ Polak's (1943) pioneering national income calculations for 1921-1939.

To avoid double counting, one must first deduct data for Leave and Mecca Pilgrimages, and also for Remittances to relatives. Those items must follow gaining the private incomes of which they were part. I also deduct income tax as foreigners did not receive these amounts, and instead include it under a different heading.

A much harder task is to calculate incomes before 1921. My very rough calculations depend on Maddison (1989: 664-5, Appendix Table B.1). This means 'disentangling' data from constant 1928 prices and bridging the gap between Maddison's and Polak's numbers. Until we have access to better data, these should be taken with a grain of salt, but not too large a pinch. At over 11 billion, net foreigners' incomes in Table 4 below are high, amounting to over a third of balance of payments' related figures.

Colonial Budget

Now to the 64-million-dollar question. Should one include all, part or none of the budget of the colony, of the Netherlands East Indies? A country's general budget serves the aims of the state by collecting tax revenue and spending it without too large a long-term deficit. A colonial state is special as it serves the colonial power, rather than the population of the colony.

In this case, one has to figure out how much of the tax largesse did not go to the Indies' population, but instead supported colonial functions. We begin with the neutral proposition that government revenue is collected and spent in line with the aims and functions of a particular state. In this case, the colony itself must be maintained and developed accordingly. This includes defending it from foreign powers and internal opponents. Since revenues from the Indies served the colonial interests, I am obliged to consider at least a share of government expenditure as part of the colonial surplus.

Expenditure by the Indies Departments of War and the Navy – which accounted for half the total budget in 1870, and a quarter in 1940 – is a clear case in point. One priority was to secure the colony from other imperialist powers, an endeavour that arguably ultimately failed. The other was to secure it from the people of the colony, and to extend the empire, e.g., Bali was only completely subjugated in 1908, after Acheh in 1903.

There was little in government spending for the welfare of Indonesians (Mellegers ed. 2005a). Official spending for the Department of Education and Religion and the Department of Justice was insultingly low. One searches the budget in vain for welfare spending.

Some insist loans and grants from the Netherlands in 1938 should be counted, which I completely disagree with. Rubber smallholders were disadvantaged by them and had to pay punitive export taxes far exceeding the grant (Gordon 2003: 175). Should one include the considerable expenditure by the Department of Government Factories for opium production as welfare spending?

Consequently, I am inclined to include the entire colonial budget. Revenue, rather than expenditure, is chosen to represent what the colonial state gained from the colony. However, double counting must be avoided, which means Indies government expenditures in the Netherlands, that I have counted in my 'standard' estimate of the colonial surplus, must be deducted.

A further issue now is whether to utilize the Indies government's own budget arithmetic, or revised estimates of total revenue by later researchers (e.g., Mellegers 2005), as neither are complete. Recalculation of the total has generally only yielded marginally higher estimates, except in the final decade, when it exceeded the older figure by over four per cent. I choose the data recalculations for the total as they are more likely to be accurate.

The total net budget figure, to be added, is 15.7 billion guilders, which is huge. These are my figures for the colonial budget revenue, net of the items noted as added to the colonial surplus. The budget contribution in the nineteenth century was higher than the rest of the colonial surplus. This gap then declined until new tax laws in the 1920s reversed the decline to almost the same as the rest in the 1930s.

The relationships among these three items are crucial. The net colonial budget enabled creating the other two. Without the colonial budget, the other two would have dwindled into insignificance. Colonial government subsidies, i.e., the colonial subsidy, helped create profits from international exchange. This additional surplus became possible, not at the expense of the Kingdom of the Netherlands, whether in the metropolis or in its colony. Instead, it came about almost entirely, i.e., almost solely, at the expense of Indonesia. In one sense, this was an example of fairly 'normal' public subsidies to private and government businesses. Many regard such subsidies as public investments to provide the infrastructure necessary to secure profits for colonial business activities. In other words, the colonial surplus involved not only direct exploitation of Indonesians, as partly reflected in international transactions, but also includes colonial government efforts necessary to enable them.

Taxation

To a lesser extent, foreigners' incomes in Indonesia were similarly used. This not only provided Dutch and other foreign nationals with colonial style living standards, far higher than at home, while they directly or indirectly appropriated or even created the colonial surplus.

Non-Dutch Dividends

Korthals Altes (1987: 40) pointed out that colonial Indonesia's official balance of payments reporting did not include dividends transferred abroad by non-Dutch foreign corporations, e.g., British plantations in Sumatera. I roughly estimate the amounts involved as follows.

The Head of the Indies Statistics Bureau estimated non-Dutch investments of 3.5 billion guilders in 1937 amounting to almost a quarter of all foreign investment (van Gelderen 1939: 66). The Twentsche Bank (1941: 2) estimated a higher share of 35 per cent in 1939, up from probably about a quarter in 1929/30. It seems reasonable to assume a similar share of profits went to these investors.

But a quarter or 35% of what? I still do not know the total distributed business profits. Instead, I assume non-Dutch profits came to a quarter of this while Dutch profits were three quarters, yielding a ratio of 1:3. I therefore estimate non-Dutch dividends to be a third of Dutch dividends (see Table 3 below).

Indonesia's Colonial Surplus

As for the colonial surplus, for now, I accept the implications of statistical studies for 1922-1938. Then, annual business dividends from Indonesia averaged 12.7 per cent while those in the Netherlands were only 4.0 per cent (Tinbergen and Dalmulder 1939: 122, as quoted by Baran, 1957: 229).

Export Surplus Method

The export surplus method should only be used as a last resort, and not where balance of payments data are available, as here. When utilized, it should be noted that even when the export surplus is negative, i.e., the trade account is in deficit, the colony may still yield a colonial surplus. The Dutch still considered Indonesia a colony during 1945-49. Despite an export deficit then, funds were still being taken out, although perhaps not as much as before. Annual profits averaged 100 million guilders in 1950-53, equivalent to 3.2% of Dutch GNP in 1947-49 (van der Eng, 1998: 25). As decent balance of payments data are available, the export surplus method is not used.

Balance of Payments Method

But what was the purpose of publishing the balance of payments accounts for the Indies? Undoubtedly, increasing available knowledge for colonial management played a large part, but that was not the only cause. Preserving the good reputation of the colonial power was another. The power of publication rested with an editorial committee of five, most of whom were formerly prominent Indies colonial officials, as discussed below.

The current and capital accounts add up to the total balance of payments account. As this is supposed to be balanced, a current account deficit or surplus is always presumed to be balanced by a simultaneous and equivalent capital account surplus or deficit.

The Netherlands East Indies' balance of payments has been presented in *The Changing Economy in Indonesia. Vol. 7: Balance of Payments 1822-1939* (1987), edited by and referred to here as Korthals Altes (1987). However, it poses several problems requiring caution in usage. In his Introduction, Korthals Altes emphasized:

> "A Balance of Payments statement rests partly on accounting fictions and … does not provide a precise survey of the money flows to and from other countries…. Payments transactions between Indonesia and the rest of the world were not subject to precise registration." (Korthals Altes 1987: 21)

The Colonial Surplus in Indonesia's Balance of Payments

The item on passage costs, pensions, etc. (PLRP) could be almost entirely attributed to the Indies government. But although the colonial authorities indirectly paid for most of it, the expenses largely involved its employees, and have therefore been presented here distinctly.

In Indonesia's balance of payments, the dividends data are only for limited liability companies (Korthals Altes 1987: 40). In 1900, only about 55 per cent of plantation acreage was in the hands of such limited companies, but it was over 95 per cent by 1925.

Comparison with the Indies' budgets (Mellegers 2005) exposes other omissions. Thus, the totals in Table 3 are all underestimates. Korthals Altes (1987: 47) notes that incomes to foreign countries other than the Netherlands were not included for lack of evidence although these were considerable after 1910.

'Retained Profits' Missing

'Retained profits' were generally said to be 'large' or 'very large'. However, they are notably absent from the Indies' balance of payments accounts. Undistributed profits *may* have been re-invested in Indonesia, but they *may* also have been invested elsewhere, sent to the Netherlands or elsewhere, or even used for other purposes.

As the term 'foreign direct investment' (FDI) implies all foreign investment *physically* came from overseas, I do not use it here. Common usage of the term frequently, but improperly, includes retained profits. Blake pointed out a long time ago:

> "It seems important to draw a distinction between re-invested capital, arising from profitable past production and trade in the developing country, and 'fresh' capital inflow. This distinction recognises (i) the inherent connection of retained profits to previous exports …; and (ii) the fact that this type of re-investment brings no new transfer of resources from the rest of the world." (Blake 1972: 960)

Since, I want to identify and separate retained profits from profits paid out, or distributed, while specifically including them in the combined total, I propose and use the term 'foreign owned direct investment' (FODI).

Private Floating Balances

Korthals Altes' treatment of the balance of payments does not pursue his observations of 'retained profits' and 'capital investment from profits retained'. Besides the paucity of reliable time series data, expert estimates vary greatly.

First, one needs to discuss one of several mysteries about 'undistributed profits', at least in Indonesia's balance of payments. If these undistributed profits were not distributed to shareholders, were they used in Indonesia or sent to the Netherlands for use there. And were there other means for distributing undistributed profits? The following discussion makes clear this problem is quite real, and not merely hypothetical.

The identity of possible sources of undistributed profits arises when the editor of the Indies' balance of payments tells us in line 37 with the 'Grand Total' in his volume's Table 1: "This is the sum of receipts on both the current and capital accounts, and is equal to the sum of the expenses on both these accounts." (Korthals Altes 1987: 71).

Formally, this is so. Line 36 is also a 'customary' balancing item. "This line shows the balance of receipts and expenses on the capital account, and corresponds in each year with the (opposite) value of the balance on current account." (Korthals Altes 1987: 71). All are normal entries in any balance of payments account, but an *extra* 'balancing' item then appears. "A residual item is therefore required on the capital account." (Korthals Altes 1987: 41). Now, this is a difference *additional* to that between the current and capital accounts of the balance of payments.

Korthals Altes suggests this was due to two 'residual' entries of 'Private floating balances abroad' on both sides of the capital account, recording annual changes in them. The item "Increase in Net 'Private Floating Balances Abroad'", totalling 4.7 billion guilders, is massive. The editor understands these to be roughly equal to movements in private floating balances to and from abroad which, he concludes, were largely caused by banks in Java.

Thus, the residual item showed changes in private floating balances abroad. This seems to be reasonable as many Netherlands

Indies enterprises were known to have held credit balances abroad. The positive average for the residual over the period suggests an almost permanent flow of liquid funds from the Netherlands Indies to the rest of the world.

However, it is highly unlikely the sum of receipts on both current and capital accounts could exceed spending over the longer term. This would suggest capital flows not evident in available data, or certain expense items have been systematically over-estimated, or receipts under-estimated. Investment income paid abroad is the most likely reason (Korthals Altes 1987: 41, 51-2).

Clearly, Korthals Altes has uncovered a source of private profits and income, not mentioned elsewhere, that should be included as part of the colonial surplus. Thus, 'undistributed profits' seem likely to have involved a permanent outflow abroad of funds not used in Indonesia. Hence, 'floating balances' are part of the undistributed profits sent abroad. After all, Korthals Altes' analysis of floating balances arose in his discussion of 'retained' and 're-invested' profits which do not figure in his balance of payments accounts, almost like a back-door entry. Hence, I include it, at 4.7 million guilders, in the colonial surplus.

Although undistributed profits are excluded by name, they appear in part in the capital account under the heading 'foreign private floating balance'. This strange procedure nonetheless alerts us to omissions in the balance of payments; see Gordon (2010) for a fuller discussion.

Korthals Altes himself does not comment on the colonial surplus. But items commonly included in such surplus calculations can be obtained from his data (e.g., Taselar 1998: 49). Unsurprisingly, 'private profits' were the largest item in the current account even though non-Dutch company profits are excluded. However, such profits were included in the balance of payments from 1910 as (mainly British) capital imports (Korthals Altes 1987: 40, 46). As shown below, these were substantial as were associated profits.

But the size of private profits is obscured by a seemingly mysterious heading in the capital accounts, namely 'Increase in private floating balances'. This requires explanation. Korthals Altes' method omitted both ‘retained profits’ and also ‘investment from retained profits’. He thus had to create a ‘balancing item’ between the current and capital accounts.

But why does this large ‘balancing’ item appear in the capital account? As it is a balancing item, should it not appear in line 36, Balance on Capital Account, to be balanced by the current account in line 33? But the appearance of such a large amount – over four billion guilders – there raises doubt about the whole colonial balance of payments accounts. Moreover, there are two blank lines for ‘retained profits’ on lines 11b and 19a. No data appear, just the terse ‘p.m.’ for ‘pro memoriam’ for each year since 1830. If such balancing residuals are added elsewhere, the table would look quite strange – with more balancing items than the rest. This is probably the table’s most important omission, and suggests something is seriously wrong with the entire balance of payments for colonial Indonesia.

Retained Profits Completely Missing

‘Retained profits’ and ‘capital investment from profits retained’ are missing from Korthals Altes’ balance of payments account (1987: 39, 41). I appreciate his dilemma over this matter due to the paucity of reliable time series data, and the considerable divergences in expert estimates.

However, although he did not use them in the text, Kortals Altes’ (1987: 41) workings in the text are very suggestive. He says 36.5% of total profits in 1925 were retained in 1925 – as against the 23% according to the Indies’ Central Statistics Office and the Employers Federation. He claimed 25.7% for 1910-1926 and 33.0% for 1928-39. For earlier years, 25% is unlikely to be too high.

Complete reporting of total profits is not available, but only those for 1921-39 (Polak 1943/1979: 66). However, complete figures for private profits and bonuses transferred to the Netherlands are available in the balance of payments. One can use the ratio of total to transferred profits for the period of the Polak study (1.69) to roughly estimate total profits throughout. Applying the Polak ratio to total profits, retained profits can be estimated at 2.9 billion guilders.

Retained Profits from Petroleum

Korthals Altes (1987: 46) showed how petroleum companies calculate their profits. Citing a secret government report, he noted “Royal Dutch Shell was able to finance its investments in Indonesia wholly out of retained profits”. As these were considerable, he did not add them to the balance of payments.

Using information at hand, the Amsterdam stock exchange value of the Anglo-Dutch Shell part of petroleum investment in the Netherlands East Indies was about 400 million guilders in 1929 and 700 million guilders in December 1941 (Twentsche Bank 1941: 2-3), certainly not a boom year. Taselar (1998: 550) found the nominal value of the ordinary shares of all Indies’ petroleum companies to be 154 million guilders in 1913 and 545 million guilders in 1939. Thus, about 400 million guilders of retained profits invested during this period was lost to Indies’ balance of payments accounting. Adding this, retained profits in Table 3 came to some 3.3 billion guilders.

Were Retained Profits Kept in Indonesia?

These figures do not include ‘undistributed profits sent abroad’. Indeed, none of the ‘experts’ seems to have been aware of this second line of profits except for Kortals Altes (1987: 41) himself, although he did not put his workings into practice. For 1925, 36.5% of total profits were retained, as against 23%, according to CKS and Employers. He claims 25.7% for 1910-1926 and 33% for 1928-1939. For the earlier years, let us say 25%, which is unlikely to be too high.

The procedure of petroleum companies in calculating their profits was made known by Korthals Altes (1987: 46). Citing a secret government report that “Royal Dutch Shell was able to finance its investments in Indonesia wholly out of retained profits”, he did not add them to the balance of payments from 1907 onwards although these were considerable. From information at hand, the Amsterdam stock exchange value of the Anglo-Dutch Shell part of petroleum investment in the Netherlands East Indies was about 400 million guilders in 1929 and 700 million guilders in December 1941, certainly not a boom year (Twentsche Bank 1941: 2-3). Another source found the nominal value of ordinary shares for all Indies petroleum companies was 154 million guilders in 1913 and 545 million guilders in 1939 (Taselar 1998: 550). Thus, it appears 400 million guilders of retained profits invested in petroleum during this period was lost from the Indies' balance of payments accounts.

Did 'retained or undistributed profits' used in Indonesia actually appear in the Indonesian balance of payments? The *titles* lines 11b and 19a of the balance of payments appear, but without data. The title of line 19a in the balance of payments capital account is 'capital investments from retained profits'. This implies these were mainly used in Indonesia, and already had their equivalent, 'retained profits' in the current account. So, one has grounds for assuming these positions were where they should be displayed in the balance of payments, with the blank spaces to be filled. The line in the 'Current Account Expenses' just before is '11a Dividends and trade profits', with values given, while in the 'Capital Account Receipts', the line is followed by '19b Private capital imports'. The letters 'p.m.' are an abbreviation for the Latin 'pro memoriam', meaning 'for memory', implying the need for later follow-up, presumably by insertion of the relevant data. In fact, missing items include Retained Profits, besides those classified as Sent Abroad, which Korthals Altes included.

Table 1. No data for capital investments from retained profits, 1880-1939

Line numbers	1880-9	1890-9	1900-9	1910-9	1920-9	1930-9	Total
Current Account Expenses 11b. Retained profits	p.m.	p.m.	p.m.	p.m.	p.m.	p.m.	p.m.
Capital Account Receipts 19a. Capital investments from retained profits	p.m.	p.m.	p.m.	p.m.	p.m.	p.m.	p.m.

Source: Balance of Payments' Current and Capital Accounts, 1987: 86-95.

Note: There are no data for capital investments from retained profits.

Missing Items Not in the Balance of Payments

Of great importance for improving Indonesia's colonial payments balance are Mellegers' re-worked data for 'Indies Government Expenditure in the Netherlands' and 'Indies Government Income'. He notes this information "is important for estimating the actual expenditure in the Netherlands Indies itself, and for estimates of the Balance of Payments" (Mellegers 2005: 2-3). For 1930 and 1939, for example, his estimates of Indies Government Expenditure in the Netherlands are well above the combined data in the balance of payments. His estimates of 'PLRP' (pensions, leave, etc.) are also higher which no one appears to have investigated. And all this leads us to the conviction that the Indies' balance of payments data underestimates, by a sizeable margin, entries for items of the colonial surplus.

Furthermore, the Indies' trade and Budget statistics differ greatly on estimates of the value of coffee shipped to the Netherlands. Trade data show 433 million guilders, while 'Government Income from Coffee Sales' totals 735 million guilders, which is impossible! Mellegers' Netherlands East Indies government revenues from 'forced' coffee cultivation sales, transferred to the metropolitan government, are classified in budget accounts as sold under two headings. The first is 'Java', taken to be the total sold. The second, 'Netherlands' refers to products supposedly sold in Amsterdam auctions for which data are very "incomplete" (Mellegers 2005: 1), although normally very high. Consequently, the 'Java' totals are given here. I accept the revenue data not included in the Indies' balance of payments. Tin estimates are given although none was smelted in Java. Colonial government profits from sugar sales are not shown here, as none were sent to the Netherlands after 1877.

Table 3 then presents Indonesian colonial surplus estimates while Table 4 shows total NEI colonial drain estimates for 1880-1941.

Table 2. Items Added from the Indies' Government Budgets (million guilders)

Item Year	**1880-89**	**1890-99**	**1900-09**	**1910-19**	**1920-29**	**1930-39**	**1880-1939**
Profits from Indies Govt coffee sales to Netherlands	405	232	67	29	2	–	735
Kina & Tea	3	2	6	8	12	11	42
Indies Govt Tin Sales	54	70	223	369	514	264	1,494
Indies Govt Dividends from Billitong Co.	2	4	24	24	54	22	125
Total	464	308	320	430	582	297	2,396

Source: Mellegers (ed.) 2005. *Indies Government Expenditure and Indies Government Income.*

Table 3. Indies' Colonial Surplus, 1880-1939 (million guilders)

Item	**1880-89**	**1890-99**	**1900-09**	**1910-19**	**1920-29**	**1930-39**	**1880-1939**
Private Business							
1. Dutch dividends and trade profits	106	178	371	1,439	2,526	677	5,297
2. Management fees, bonuses beyond Indonesia	30	40	72	290	510	187	1,129
3. Total Dutch dividends (1+2)	136	218	443	1,729	3,036	864	6,426
4. Est. non-Dutch dividends (Line 3 x 1/0.33)	45	73	148	576	1,012	288	2,142
5. Est. total dividends (3+4)	181	290	591	2,305	4,048	1,152	8,568
+ per cent	25%	25%	25%	25.7%	33%	33%	
6. Est. profits retained in Indonesia	45	73	148	592	1,336	380	2,574
7. Plus petroleum retained profits	–	–	–	100	200	100	400
8. Total est. profits retained in Indonesia	45	73	148	692	1,536	480	2,974

Item	1880-89	1890-99	1900-09	1910-19	1920-29	1930-39	1880-1939
9. Retained profits sent abroad	303	228	448	1,663	1,605	480	4,727
10. Private interest	6	29	57	124	226	137	579
11. Redemption of private loans	1	27	80	141	171	81	501
12. Purchase of securities abroad	0	9	14	90	296	108	517
13. Total business gains (5+8+9+10+11+12)	536	656	1,338	5,015	7,882	2,438	17,866
NEI Government Business							
14. NEI government debt interest	14	21	30	75	567	558	1,265
15. Misc. NEI govt expenditure	82	104	103	289	369	232	1,179
16. Export taxes added	20	13	15	27	122	227	424
17. Redemption of long-term debt	0	1	10	34	223	318	586
18. Missing from balance of payments	464	308	320	430	582	297	2,396
19. Total Govt gains (14+15+16+17+18)	580	447	488	855	1,863	1,632	5,850
20. Total personal expenditures/PLRP	168	211	281	522	1,361	882	3,425
21. Total colonial surplus (13+19+20)	1,284	1,314	2,097	6,292	11,278	5,029	27,141
Export Surplus	605	546	1,275	3,523	6,222	2,274	14,556

Note: NEI is Netherlands East Indies, or colonial Indonesia.

Sources: Author's calculations and *Balance of Payments, 1832-1939* (Korthals Altes 1987, Table 1); *General Trade Statistics, 1822-1940*. 1997; Mellegers (2005: Government Income, Expenditure).

Table 4. Estimated Drain from the Dutch East Indies, 1880-1941 (million guilders)

Item/ Years	1880-89	1890-99	1900-09	1910-19	1920-29	1930-39	1880-1939	1940-41	1880-1941
Colonial surplus	1,284	1,314	2,097	6,292	11,278	5,029	27,141	1,524	28,665
Net European private incomes[1]	377	552	909	2,423	3,672	3,309	11,242	705	11,947
Net Indies govt revenue[1]	1,168	1,064	1,310	2,455	5,288	4,216	15,501	1,287	16,758
'Real' drain	2,338	2,567	3,968	10,872	18,176	12,184	53,384	3,516	56,900

Sources: Tables 1-3 above.

Malaya's Colonial Surplus and Britain

Investigating how much the UK got out of its colonialism does imply one expects to find financial gains for the colonial power. The fact that no estimate of British gains has yet been made does not prove none existed. A great amount was taken out of Malaya by Britain during colonial times. Can a country ever recover from such a loss? And if so, how long and what does it take to do so? Does Britain not owe a colony the colonial drain, or at least the colonial surplus? And how are colonial reparations to be repaid? Where would Malaysia be now if this had been the case in the more than six decades since Malaya gained formal political independence in 1957? And would the country's undoubted post-colonial drain have reversed course to accelerate the nation's economic transformation?

Malaya seems to lack balance of payments data for colonial times. So, how should one pursue such investigation? Consider the available evidence. First, there was a large export surplus. Drabble (2000: 40) calculated that between 1870 and 1920, Malayan imports averaged only 70% of export value, a ration that declined notably from the 1890s (Drabble 2001: 38). More recently, Sultan Nazrin Shah has calculated data for the export surplus for 1900 to 1939. Table 5 summarizes his findings that must have taken much effort to add and finalize.

Table 5. Malayan trade surplus, 1900-1939 (million Straits dollars [S$])

Item	1900-9	1910-9	1920-9	1930-9	Total
Export/trade surplus	334	1,126	1,831	1,050	4,341

Source: Nazrin Shah, 2017: 193.

But it is a record – and in many colonies, these tend to be the only one – which may indicate certain related conditions. The most obvious is whether its large size suggests the colonial surplus will be even higher. But the question is by how much? Below, I show one possible use, but it is very much a preliminary guess.

Lack of data makes totalizing financial gains difficult. However, as the editor of the recently published voluminous records of British economic colonialism in Southeast Asia has pointed out, "Profits were high – ranging during the years 1910 to 1938 from 26.9 per cent p.a. to 76.5 per cent p.a. – enabling investors to earn handsome dividends." (Sutherland 2014: xxxiii-lv). But he does not tell us precisely what these 'handsome dividends' amounted to.

How Much Investment?

Drabble gives two estimates for British investment in rubber. The first appears to be the only such estimate calculated on the basis of actual expenditures by British businesses: 70 million pounds sterling for 1922 is a 'real' estimate (1974: 259). It is probably close to the actual value of the investment costs. Later on the same page, he calculates that 56 British companies invested nearly 12 million pounds sterling in Malaya between 1912 and 1922 with this total close to official total. These companies secured a remarkably large net profit of £18 million. In that case, the investment data is calculated using what British companies said they had invested and cannot be added, or subtracted, from the other estimate.

Another British estimate around 1920 put British Malayan rubber investments at £120 million, with the Dutch in Indonesia having £35 million (Coates 1987: 207). Additionally, there was the cost of a battle cruiser, that cost the Straits Settlements (SS) and the Federated Malay States (FMS) S$25,000,000 – approximately £3 million – in 1914-15 to help the UK during World War I (Wikipedia). Various other gifts sent by British colonial officials in Malaya often do not appear in official accounts.

> "Between 1912 and 1917, the colonial government, in the name of the people of Malaya, presented the British government with a battleship, several squadrons of fighter planes and special cash gifts totalling more than Straits $40.25 million…" (Lim 1977: 104)

Neither do other much larger items, such as undistributed profits, appear in existing payments' accounts. Drabble concludes, "On balance the evidence suggests that in these two industries [rubber and tin] Malaya was a net exporter of funds in this formative period [1870 and 1920] but perhaps less so in the case of rubber." (Drabble 2000, 59). For the early 1920s, he notes, "After the boom of the mid 1920's there were no major infusions of new capital." (Drabble 2000, 148). His table of Malayan exports and imports from 1919 until 1939 (Drabble 2000, 123) shows a very large export surplus for every year except 1921 and 1932. In other words, the items 'services, profit and interest' are going overseas. The peak surpluses in the boom years of 1926 (S$400 million) and 1937 (S$330 million) together accounted for more than the total capital investment in rubber and tin in the period.

Table 6. Nominal British Investments in Malaya, 1913-1948 (£ sterling)

Investment	1913-4	1929	1930	1936	1937	1938	1939	1940	1941	1942	1943	1948
UK FDI in Malaya	27.3				63.0	61.0	59.0	58.6	59.0	58.6	58.3	58.6
UK Rubber FDI	41.0	82.2	84.2		81.9	77.2	75.5					
UK Malayan Tin FDI		5.3		13.8								

Source: Kindersley (1938) and Bank of England (1950). Companies not using the London Stock Exchange are not included. I have omitted 'capital loans' for Malaya because they were relatively small and mainly held by underwriters.

Almost no dividends were paid by rubber plantations in 1933 compared to the 8 per cent average in 1929. But this cannot be compared to the FDI figures. The credence to be given to Kindersley's data was raised by a Bank of England review:

> "No attempt is made in this investigation to provide estimates of the additional profits brought home by U.K. companies operating abroad in excess of the amounts distributed as interest or dividends, and utilised to meet management expenses at home, to pay U.K. taxation, or to increase reserves in this country. ….
>
> "Representation of the capital amount of overseas investment by nominal values *gives little indication of the actual realisable value of the investment* but is a convenient basis for investigating the relative capital movements." (Bank of England 1950: 1, 2: my emphasis).

Significant elements are missing. UK estimates for investment in Malaya during the Japanese Occupation reflect the hopes of investors rather than reality. Yip estimated annual tin mining investments of £5.3 million during 1913-1929, with only £13.8 million invested in tin dredging in 1936.

Thoburn (1977) presented total output data and current costs of both rubber and tin production in the Federated Malay States, leaving gross profits, some costs as well as errors as the remainder. He did not specify figures for the colonial period, but presented the percentage of rubber estate output value spent on current costs (Thoburn 1977: 154), thus enabling calculation of the remainder. Between 1910 and 1938, these ranged from 26.9% to 76.5%, with 48.6% the unweighted average. This surely indicates large flows of funds (profits, distributed and undistributed, pensions, etc.) out of Malaya. The remainder includes errors in Thoburn's calculations. His 'wage bill' included the managers' salary estimates. Since this was estimated at 23% of the total wage bill (Thoburn 1977: 285), his calculations underestimated the profits and savings available for distribution, investment or re-investment.

Radakrishnan (1974: 116) used US Department of Commerce data for three years, from which one may estimate the profit share of plantation rubber exports. For the good years 1911-12, this came to 63.7%; for 1919-20, it was 40.2%; and for 1934, a poor year, it was 34.7%. From this, he concluded,

> "Clearly, rubber companies made handsome profits during the first two decades of the industry's history … Part of the rental was used to finance the continuing expansion of the industry. But most of it was remitted abroad …." (Radakrishnan 1974: 117)

> "In the peak of the boom in [rubber] prices there was possibly no net capital inflow, and in other years often a third to a half of [plantation] capital expenditure could in principle have been financed from profits…" (Thoburn 1977: 64).

Evidently, there were no net capital inflows between 1905 and 1914 (Drake, 1979: 280). Drake (1972) had earlier challenged the common presumption of capital inflows from the imperial centres to economically backward colonies. This should have challenged and changed widespread beliefs and presumptions about the direction of net capital flows between colonial and colonized countries, under colonialism and since. However, such overwhelming evidence of capital supposedly 'flowing uphill' have been largely overlooked and ignored until the present.

Table 7. Thoburn's rubber estate profit estimates, 1910-1920

Year	Value of rubber estate output (S$ mil.)	Unit value (Straits cents/ lb)	Column 1 minus % of production costs = Profits, etc (% of output)	Profits (S$ mil.)
1910	40	316	70	28
1915	61	74	55	34
1920	190	79	74	141

Source: Thoburn, 1977: 164.

Note: These data should not be taken as equivalent to the colonial surplus.

The United States Department of Commerce made somewhat different estimates in line with their objections to high rubber prices, and estimated UK investments in rubber at £105 million, with some £35 million in Indonesia (Figart 1925: 8). But 1923 was a bad year for rubber exports, and it is not clear whether this was taken into account in making these calculations. For 11 of the 14 years between 1909 and 1922, Figart (1925: 93) estimated 'net profit on capital' for some 50 rubber companies averaged 31 per cent per annum. Unsurprisingly, the British hung on to this treasure, a key reason 'economic colonialism' continued long after Malayan independence.

Malaya in the Sterling Area

In the years up to Independence and for some time after, large sums continued to be taken out of Malaya by the British through the obligations of remaining in the sterling currency area. The 1955 World Bank mission to colonial Malaya in anticipation of imminent independence estimated 3 to 17 per cent of its gross national product was lost as a consequence although this was probably an underestimate.

After the First World War, the UK struggled economically, increasingly desperately, to use the sterling area to protect its privileged position at the head of the international monetary system around the gold standard. Trading and use of the US dollar was forbidden in the zone with members' US dollar earnings going to the British monetary authorities. Growers of the Gold Coast (now Ghana) cocoa or Nigerian palm oil or Malayan rubber – to say nothing of Scotch whisky distillers – got little from their exports to the United States.

This area of study was not neglected by the British, e.g., the somewhat anodyne Conan (1952), all discussing – in one way or another – what the British government should do or have done about it. Views ranged from 'was the empire collapsing?' to 'was it being reconstructed?' In this complex mix, Malayan interests only figured when unavoidable, as the approaches were fundamentally British. Meanwhile, public funds were utilized in support of private profit and government interests. Palme Dutt's (1953) interesting work on this subject is summarized in Table 8.

Table 8. UK balance of payments, 1946-1950

	£ million
UK balance of payments deficit	652
Govt overseas expenditure	1,432
(of which: Military)	(903)
US + Canadian aid	1,767
Capital exports	996

Source: Dutt (1953: 399-401)

Almost a billion pounds sterling were invested abroad by the British empire, with almost the same spent on its military expansion and defence. Although such spending abroad was enabled by US and Canadian loans of about 1.8 billion pounds sterling, Britain experienced both fiscal and trade deficits. Dutt noted the relative contribution of Malaya's earnings could not be ascertained due to the lack of transparency.

> "The deputy agent-general for Malaya whose job is to represent Malaya's economic interests in London admitted that he had himself tried in vain to obtain sterling balance figures from the Treasury with which he could compare Malaya's contribution with those of other countries" (Roth, in *New York Nation*, 25 Feb. 1952).

Using similar sources, Michael Kidron (1958: 5) estimated colonial contributions to the UK's dollar pool at US$2,115 million for 1946-1952. Malaya alone contributed US$1,475 million, or 70 per cent, with West Africa providing US$610 million. Meanwhile, independent members of the sterling area – including the UK – had a net *deficit* of just over US$3,300 million.

"Despite the anti-colonial leanings of many Labour Party members, socialist principles were sacrificed to metropolitan self-interest in Labour's colonial policies between 1945 and 1951" (Gump 2001: 7). Or as the American historian of the British empire, William Roger Louis (2001: 330) put it, "The goal was not that Britain should sustain the Empire but that the Empire, in a new form, should continue to sustain Britain."

Rough estimate

We are still no nearer a precise notion of the size of colonial Malaya's 'drain' to the United Kingdom and elsewhere. But we do know the size of Indonesia's export surplus and its colonial surplus. Thanks to Nazrin Shah (2017: 193), we also know the size of Malaya's export surplus for 1900-39. As both were plantation colonies, it seems reasonable to assume the ratio of the two will be similar in Malaya as in Indonesia, where the ratio was 1.76. This suggests the Malayan colonial surplus was 7,640 million Straits dollars, or roughly US$4,800 million, equivalent to some £1,000 million at the time.

Multiplier effects greatly enhance the colonial drain and surplus

Keynes' notion of the multiplier underscores why economic colonialism set back capital accumulation, investments and growth in the colonies. This retarding effect is greater than the magnitude of the colonial surplus or drain. The multiplier reminds us why the potential loss is far greater than the colonial surplus taken from economic colonies. Adding Keynes' multiplier analysis would radically change estimates of potential capital accumulation, investment and their implications for the economic analysis of colonialism as well as potential investments and development of colonies including Indonesia and Malaya.

The multiplier effect can be illustrated by how a country's banking system operates. Thus, increased bank lending greatly expands a country's money supply. To show this, one can start with what banks take in as deposits, and divide this by the monetary authority's or central bank's imposed reserve ratio for commercial banks. If, for example, the reserve requirement is 10%, for every $100 a depositor puts into a bank, $10 must be kept in reserve. However, the remaining $90 can be loaned to bank customers requiring credit. This $90 is then deposited by borrowers in banks, which must also keep 10%, or $9, in reserve, but can lend out the remaining $81. This spiral continues as borrowers deposit their funds in banks, and banks lend to earn interest, with the $100 initially deposited increasing money supply by up to $1000 ($100/0.1).

The silence is deafening

The large size of the colonial drain and colonial surplus suggested above raises the question why almost no historian of Indonesia (mainly Dutch) or of Malaysia has commented on them? Could this be a post-colonial syndrome where it is convenient for the Dutch and the British to remain silent and simply decline to discuss the matter? The terms and analytical concepts of the Colonial Drain and Colonial Surplus are absent from most textbooks and academic publications, and little discussed publicly.

In dealing with the Colonial Drain or Colonial Surplus, and particularly the International Colonial Surplus, I have been dealing with facts, with numbers, with data. I have justified which of these I have accepted. In presenting them for colonial Indonesia and looking at colonial Malaya, I have engaged in the rather mundane task of writing economic history empirically. But Keynes' multiplier underscores why the colonial drain and surplus are their visible tips. If the colonial drain and surplus had instead been invested for the development of the colonies, the implications for capital accumulation and uneven development on a world scale would be very significant indeed.

Endnote

1 This article was originally drafted as a keynote speech by Alec Gordon for an international conference on the colonial surplus hosted by the History Department at the University of Malaya in mid-2019. Already 87, Alec Gordon had inspired the conference initiated by Prof. Elsa Lafaye de Michieux, initiator of Pondok Malaysia in Kuala Lumpur, and managed by Imagined Malaysia. Professor Utsa Patnaik, another intended keynote speaker, was unable to attend owing to a prior commitment around the same time. Martin Khor Kok Peng, author of *The Malaysian Economy: Structures and Dependence* (Institut Masyarakat, Penang), arranged for a reprint of his 1983 study for the conference, highlighting relevant aspects in his keynote speech for the conference, which he was too ill to deliver personally. The paper has since been revised and published in a special issue of a leading Indian journal to honour Professors Utsa and Prabhat Patnaik as: Martin Khor Kok Peng and Jomo KS. Surplus Transfers

from British Colonial Malaya. *Indian Economic Journal* 71 (1), January 2023.

Days after returning home to Thailand, Alec Gordon had a stroke, before succumbing a month later in a Thai public hospital. Less than a year later, Martin Khor too succumbed in Penang. After it became clear that there were no other plans to publish Alec's and Martin's keynote speeches, I have revised them for publication based on extensive discussions with the authors going back decades although they were not specifically with a view to such publication.

Whereas Martin Khor's work was thoroughly documented decades ago, the challenge was to locate the significance of his contribution within the context of the larger relevant literature. Despite having worked for decades on colonial Indonesia's colonial surplus, Alec Gordon was remarkably and modestly self-critical and ever willing to learn from his peers. While innovative and heavily influenced by his work on colonial Indonesia, Alec Gordon did not seem to be familiar with other critical work on the colonial Malayan economy, including Martin Khor's pioneering work, or even some earlier work, e.g., by Li Dun-Jen and others. Or for that matter recent work by Perak Sultan Nazrin Shah and under his royal patronage. Despite the temptation to draw on such work, in posthumously editing, and thus revising his work, I have tried to honour the originality of his work by not doing so. Needless to say, I take full responsibility for the editorial decisions I have made in trying to honour his legacy. I must also acknowledge the warm friendship of his widow, Napat, and daughter, Pailin (Lynn) over the decades. – Jomo KS

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