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A power and knowledge analysis of Indonesian accounting history: social, political and economic forces shaping the emergence and development of accounting

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A Power and Knowledge Analysis of Indonesian Accounting History: Social, Political, and Economic Forces Shaping the Emergence and Development of Accounting

A thesis submitted in fulfilment of the requirements for the award of the degree

DOCTOR OF PHILOSOPHY

from

UNIVERSITY OF WOLLONGONG

by

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Drs (MCE Indonesia), MCom (Hons)

Department of Accountancy
March 1995
Declaration

I hereby declare that this thesis has not been submitted previously as part of the requirements of another degree and that it is the result of my own independent research

Eko Ganis Sukoharsono
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Abstract

Central to this study is the belief that it is important to understand the development of accounting in its social context. Accounting is regarded not as a purely technical apparatus outside the realm of the social, but its knowledge and discipline have attached to a variety of contingent forms within society in the range of rationales and socio-political contexts. Through this understanding, the study seeks to explore the genealogy of accounting history in Indonesia. The aspect of accounting knowledge and discipline focused upon is its emergence and development, in the context of a 'coming into the light' of accounting in the form of a calculus discipline and socio-political knowledge during the Dutch colonisation of Indonesia. This involved a genealogical analysis of accounting in connection with the development of a new knowledge of writing and numerical notation (the Hindu-Arabic numerals) in Indonesia.

The development of accounting in Indonesia is understood not as a 'sudden' process, but rather, genealogically, emerged through a long and complex process of history. Long before the arrival of the Dutch in Indonesia, accounting in the form of calculative practices had emerged having definite objects and objectives of calculations. The kingdom periods and the transformation of religious influences from Buddhism and Hinduism to Islam contributed to the development of accounting in Indonesia.

During the early seventeenth century, Indonesia changed from a rural-independent to a colonial society. This was due to the arrival of the Dutch in the Indonesian archipelago. 'Colonialism' determined Dutch policies in the archipelago. It is argued that the development of 'advanced' accounting as a complex form of
information-production, information-retrieval and systematic double-entry bookkeeping belongs to the period of Dutch colonialism in Indonesia. The Dutch used accounting as an institution and technique to discipline those who were subject to their influence. Accounting had an important role as a means of supporting the development of a colonial system in Indonesia. This study concludes that accounting during the period of Dutch colonisation played an important part by not only providing technical calculations (for example, assessing prices, cost and profit), but also diverse roles in social, economic and political life.
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Chapter I

Introduction

... it is important for those working in any discipline to know the basis on which they rest their claims to knowledge.

Gaffikin, 1989

During the last two decades there has been a growing awareness by accounting researchers of the need to place the development of accounting in its social context (e.g., Hopwood [1978, 1987], Burchell, et al [1980, 1985], Cooper and Sherer [1984], Loft [1986], Hoskin and Macve [1986, 1988], Miller and O'Leary [1987, 1990], Hopper and Macintosh [1993], and Sukoharsono [1994]). Accounting, it has been argued, has played an important role in the construction of modern society. The social contexts of the accounting discipline are recognised. Attention has been focused not only on technical matters, but also has been directed to a variety of agents and agencies, ranging from the genealogy of accounting knowledge and the profession, to the diverse bodies of experts claiming a legitimate knowledge of economic and social life. New ways of posing questions in research orientations are formed out of diverse materials and in relation to a heterogeneous range of issues and events. Research questions, such as "how did the accounting discipline contribute to the social process of the modern world? how did accounting emerge to share in the construction of society? what are the effects of capital accumulation and changing modes of social regulation on economic life in a nation? how did accounting knowledge emerge socially and politically? how did accounting change? and what role has the accounting discipline had in the social, political and economic agenda of a nation?", have
become the focus of attention. The conditions of the possibility of particular transformations in accounting knowledge and practice have also become an issue of concern, whether these have been addressed in terms of the conditioning effects of patterns of religious ideology, economic systems (such as socialism, capitalism and colonialism), changing modes of social and political structure, or more local and ad hoc influences, such as, periods of colonial history, war, labour disputes, periods of economic recession, and new applied quantitative systems in management decisions. In these developments, historical analyses became a dominant way of exploring accounting in its social context. Burchell, et al (1985), who conducted a study of the history of value added accounting in the United Kingdom, stated at the beginning of their introduction that

Accounting is coming to be seen as a social rather than a purely technical phenomenon. The social contexts of the accounting craft are starting to be both recognised and made more problematic. ... accounting both emerges from and itself gives rise to the wider contexts ... Accounting ... also has come to be more actively and explicitly recognised as an instrument for social management and change (Burchell, et al., 1985, p.381, emphasis added).

Moreover, Miller, Hopper and Laughlin (1991) follow the same pattern of social awareness of accounting development. In an article entitled 'New Accounting History' they commented that

Accounting history has come to occupy a significant position within the discipline of accounting ... [and] has gone hand in hand with a change of fortune. There has been a proliferation of methodologies, a questioning of received notions such as progress and evolution, a widening of scope, a new attentiveness to the language and rationales that give significance to accounting practices, and a shift of focus away from invariant characters such as the bookkeeper and the decision-maker towards a concern with broader transformations in accounting knowledge (Miller, Hopper and Laughlin, 1991, p.395).
These statements by Burchell, et al (1985) and Miller, et al (1991) are not made lightly. They were inspired by an awareness of accounting in a wider range of social phenomena (cf., Burchell, et al [1980] and Hopwood [1980]). The development of accounting can no longer be regarded as an evolutionary process of calculation. Accounting is constantly changing.

Although a great deal of attention has been devoted to the 'new' understanding of the accounting discipline, most of the studies that are available have been dominated by cases of Western and developed countries, such as the United States of America, the United Kingdom, Australia and Canada (eg., Tyson [1993], Chua and Poullaos [1993], and Walsh and Stewart [1993]). Case studies, such as those analysing the history of accounting and professional institutions (eg., Previts and Merino [1979], Willmott [1986], and Robson, et al., [1994]), accounting and its social context (eg., Burchell, et al [1985] and Loft [1986]), and the rise of accounting thought (eg., Chua [1986] and Armstrong [1987]), have intensively been explored with most cases being in Western countries. Developing countries have been little investigated, if not totally neglected. The development of accounting in developing countries is believed to comprise the delineation of the residues of the development of Western accounting rather than more actively probing into the underlying processes and forces of accounting today. The 'Western' cases have become a way of looking at accounting in modern society. Much of the significance of accounting development of the wider economic and social settings in developing countries has been ignored. The roles which the development of accounting in developing countries might have played in the emergence of 'modern' practice as we now recognise them, the religious and cultural boundaries which they are conceived of having, and the relationships of
the history the society (ie., colonisation and war) which have interests, have been subjected to little investigation.

Recognising the very significant gap of accounting research between the 'Western' cases and the developing country cases, this study aims to explore the history of accounting in Indonesia. It seeks to explore an understanding of accounting in Indonesia in its social context. In this case, a particular period in Indonesian history - the process of the Dutch colonial domination - is the focus of the investigation.

The examination of the history of accounting in Indonesia during Dutch colonialism provides a means of exploring the complex relationship between accounting and the development of colonisation. Traditionally, the history of accounting has been examined and understood largely as the reflex of the technical and neutral apparatus outside the realm of its social context. The history of accounting has been dominated by the process of the mechanical, procedural, and calculative aspects of accounting (eg., American Accounting Association [1970], Baladouni [1977] and Parker [1977, 1981]). The studies have adopted a technical perspective which delineated the vestiges of the accounting past rather than more actively probing into the underlying processes and forces at work (cf., Hopwood [1983] and Loft [1986]). In the same spirit, the history of accounting has been developed through the examination of professional associations (eg., AAA [1966], ICAEW [1966], and ICWA [1969]). These histories all have similar explanations which "tend to assume not only that accountants are supremely necessary to society but also that the major factor enabling their current success has been their form of professional association" (Loft, 1988, pp.3-4). These histories have been claimed as 'official history' which describe the accounting past and the superiority
of accounting practitioners' status in the present (cf., Dingwall [1976] and Loft [1988]).

Recently, in the wake of the works of Burchell, et al (1980, 1985), Hopwood (1987), Miller and O'Leary (1987), and Miller, Hopper, and Laughlin (1991), there has emerged a school of 'new accounting history' which urges the understanding of accounting in a broader context. Accounting, as they explicitly stated, is no longer seen as only a technical and neutral apparatus, but as a complex phenomenon of social, political and economic life. Following this development, this study seeks to explore accounting and the development of colonisation in Indonesia, while at the same time seeing accounting in its social, political and economic context.

In the early seventeenth century, Indonesia was transformed from a kingdom tradition - based on a subsistence economy - to a colonial economy. This transformation impacted on the changing process of social, political and economic life of indigenous Indonesians. Dutch colonialism was concerned with the development of power mechanisms in increasing the Dutch’s economic advantages (Furnivall, 1939). With the development of colonialism, production could be increased and capital accumulated. As Foucault commented,

If the economic take-off of the West began with the techniques [of colonialism] that made possible the accumulation of capital, it might perhaps be said that the methods for administering the accumulation of men made possible a political take-off ... In fact the two processes - the accumulation of men and the accumulation of capital - cannot be separated ... (Foucault, 1977a, pp.220-221).

At a more general level, what is at issue is the question of the relationship between the power of colonialism and the role of accounting in the form of accumulation of
production and capital. In Dutch colonialism, capital accumulation was accompanied by strategies for administering the 'accumulation of men' (ie., the Dutch and indigenous Indonesians), a process which Foucault described as 'enclosure'. Macintosh and Hopper defined enclosure as

Enclosure, confinement and partitioning were necessary first steps for turning a heterogeneous mass of humans into a homogeneous social order. With each individual in his or her own space and importantly each space with its own individual, the troublesome aspects of large transient groups and their confused collective dispositions could be avoided. As well, vagabonds, deserters, and absentees could be recognised at once. Enclosure also made it possible to convert each site into a functionally useful place where tight control could be exercised over each individual (Macintosh and Hopper, 1991, p.9).

In the early seventeenth century, a process of transition occurred in Indonesia and social, political and economic power was wrested from indigenous Indonesians. Indonesia increasingly became a colonial society which was dependent upon the process of 'enclosure'. In this process, indigenous Indonesians were confronted by a disciplinary colonial regime of the Dutch's orders, such as maximisation of profits, production and capital accumulation, and colonial labour. It is argued that accounting played an important role in the process of the establishment of the colonial regime. One aspect of this was that increased productivity and profits of the Dutch in the seventeenth and eighteenth centuries was really the concept of accounting which played a vital role in the process of 'control and calculability'. It is precisely these wider accounting and colonial relationships which occurred in the process of Indonesian colonisation by the Dutch which are the focus here.
The Problematic History of Indonesian Society

Indonesia has a complex history. It is recognised as the world's largest island complex. The sheer size, fragmentation, and ecological diversity of the archipelago have always fostered diverse developments. The history of the indigenous movement, with its cultural, economic, social and religious aspects, is also very complex. The influences of Arab, Indian tribes and European systems of colonisation (ie., Portuguese and Dutch) have moulded a unique cultural development (Vlekke [1943], and Klerck [1938]). This tendency has been augmented by the influence of religious differences and the dominating role of a kingdom system which is central for human movement and cultural diffusion. However, European systems, in particular the Dutch system of domination, did not gain much influence, even though the Dutch had established the colonial basis for about three and half centuries in the archipelago. This was, perhaps, due to a lack in the Dutch colonial system in promoting a 'better' life for indigenous Indonesians. In accounting, however, the Dutch, to some extent, succeeded in transforming the traditional process of accounting development into the process of colonial domination of accounting, in which all terms and actions were subjected to the purposes of Dutch colonialism.

Kingdoms, the Buddha and Hindu Influence

In the early centuries of the Christian era, commercial links developed between the Indonesian archipelago, India and China. Later development involved Arab tribes and Europeans (ie., Italian, Spanish, and Dutch) (Raffles, 1817). Trading exchanges had been developed in various products, such as gold, aromatic woods, resins, spices, ceramics and other agricultural products. Ever since, the growth and fluctuating nature of trade, both among the islands of the archipelago
and other wider regions, exerted a powerful influence on Indonesian history, and provided a key to the type of political unit which became characteristic almost everywhere in the archipelago. In most areas of the archipelago, agricultural plantations and virgin forest are abundant. In these circumstances, exchanges of products between one region and another, and even outside the archipelago, were a common feature in every coastal market. Polo, an Italian merchant, witnessed the situation of very busy markets in the coastal areas of Java and Sumatra, while traded with the Great Khan of China in 1292 (Polo, 1958). At the beginning of the fourteenth century, Ibn Battuta, an Arab trader, also saw that commercial activities in Java and Sumatra had developed with intercontinental relations (Battuta, 1953). Many nationalities and tribes could be found in the coastal markets. For the traders, the focal point of the towns in the archipelago was the market square where bargaining between persons and groups of persons went on. Trading may have been on the basis of barter, or may have involved coinage, giving scope to the activities of money-changers. Many kinds of commercial products from different nationalities were offered in the coastal markets. This led to the fact that trade was the principal fount of wealth, and political structures had an essentially commercial base (Leur, 1955). Exchanges of raw produce, such as woods, spices, rice and other agricultural produce, became the mode of commercial trade. Even though commercial exchanges had flourished, transformation of agricultural produce into 'modern' manufacturing produce had not been built yet. Manufactured products had existed only in China, such as Chinese silks, ceramics and porcelains (Wolters, 1967). In Indonesia, manufacturing industries only evolved after the arrival of the Dutch colonists at the beginning of the sixteenth century (Raffles, 1817). Thus, all Indonesian products involved in trading exchanges before the sixteenth century, consisted of raw agricultural products only. Any 'manufactured' product was produced by traditional processes ie not using machinery.
The early state of Indonesia probably began to appear by the beginning of the Christian era (Zainu'ddin, 1968). Historical evidence reveals that by the early centuries AD, indigenous Indonesians, particularly in Java and Sumatra, had developed techniques of irrigation, domesticated the water buffalo, and developed the outline of a sedentary agriculture (Schrieke, 1955). These economic developments had replaced, presumably, some form of shifting cultivation, and they represented a considerable technological revolution. The revolution must, in turn, have been accompanied by the growth of political units of some size and complexity as a limited chieftainship, based on small groups of families, gave way perhaps first to a tribal pattern of authority and later to a political system with strong leadership, supported by an elite. At the same time, the Indian influence on the social, economic and political life had penetrated this revolution. This led to the spread of Buddhism and Hinduism in the archipelago, a process usually termed 'Indianisation' (Hall, 1981). One aspect of this was the establishment of a political unit of government, ie kingdom, the early development of which was similar to the Buddhist and Hindu systems in India (cf., Fryer and Jackson, 1977).

The main result of the Indian influence was the adoption of a kingdom system in the archipelago. Two big empires, Sriwijaya and Majapahit, were evidence of this influence. Sriwijaya, the first empire known to have arisen on the basis of inter-island and international trade, developed from the south-east Sumatran kingdom of Palembang. Buddhism had been adopted in its every day practices. The kingdom also became a focus of Buddhist learning in the region, and the extension of the kingdom was accompanied by the spread of this Indian religion. The kingdom acquired control of the straits of Malacca and of Sunda and built up its prosperity and power by enforcing the use of its ports as trading centres. In the early development, the population of its hinterland was sparse and
the kingdom comprised little more than 'a confederation of trading ports on the fringe of the primeval forest' (Wheatley, 1961, p.298). However, as a centre of trading exchange and of the exports to India and China, Sriwijaya retained its position as the dominant commercial power in the archipelago from the seventh to twelfth centuries (Hall, 1981).

Majapahit is recorded as the most glorious empire of Java (Vlekke, 1943). The era of Majapahit reign has passed into popular legend as a 'golden age' of Indonesian history. As the Sriwijaya empire declined, Majapahit became dominant over the archipelago. The empire reached its apogee at the time of Gadjamada, who held a position as patih (Chief Minister) from 1330 to 1364. All administration and policies of the empire lay in the hands of patih Gajahmada4) (Ricklefs, 1993). He codified the laws and customs of the empire over the regions and dictated all activities within the empire.

The early world empire of the archipelago had been governed from Sriwijaya to Majapahit. Both empires enlightened indigenous people to the awareness of living in a nation which had social, economic, political and religious identity. Sriwijaya, with the influence of Buddhism, brought indigenous Indonesians to the process of understanding the hierarchical structure of empire, in which the king had the highest authority to rule most of the archipelago territories and had a right to order each individual to follow his commands. On the other hand, Majapahit, with the influence of Hinduism, enlightened indigenous people to the process of the cultural, social and political development of India - circumstances that moulded the early development of Indonesian society.

With the development of the Majapahit empire, a new era of Indonesian society began. Some historians (eg., Zainuddin [1968] and Schrieke [1966]) have
argued that at the height of its power, Majapahit's territory was claimed to be the area of the modern Republic of Indonesia. Some idea of the splendour of the capital city may be found from the Negarakertagama, the epic composed by Empu Prapanca in 1365. The Negarakertagama gives some idea of the life of the castle and the capital city of the Majapahit kingdom, the tasks of the various castle members, the activities of the ruler, and its society. Commercial activities of the society involved active exchanges, not only within the regions but also internationally. Communication between the castle and its community existed through some means, such as taxes and labour services (Vlekke, 1943). The growth of economic activities during the Majapahit era was largely due to direct kingdom supervision and initiative. The markets, for instance, were public buildings where the transactions were regulated by officials. The flow of money and agricultural products was under the control of the kingdom. All administrations were centralised and organised by the central kingdom. Religious organisation was also a part of their control. Thus, during the Majapahit era, there was gradually built up a central government, organised, more or less on departmental lines, for administering justice, collecting revenues, religious faith and regulating ecclesiastical affairs and agricultural and commercial policies. The administration system (including commercial activities), the core of the whole structure, was especially elaborate; trading markets, trading ports and the monasteries were well endowed, and the chiefs of each of them had to be competent men in the business.
Muslim Reign

From about the fourteenth century, the power of Majapahit declined, largely as a consequence of a long period of political confusion and intermittent civil war (Furnivall, 1939). It was seriously weakened when the capital of the Majapahit kingdom was abandoned in 1468. From the decline of the kingdom, Muslim influence gradually began to penetrate the archipelago. At the same time, the rise of an international port at Malacca and the further development of inter-island commerce in the archipelago led to an increasing significance and wealth of the ports of north Java, where they were under the control of a Muslim ruler, the Demak dynasty. Through these inter-commercial contacts, agricultural export-products, such as rice, spices and many other foodstuffs, and import-products, such as textiles and ceramics, increased the growth of Muslim rule. As Fryer and Jackson observed,

Muslim Arab merchants had frequented local ports for several centuries before Islam gained its first converts in the archipelago late in the thirteenth century. Indian traders, particularly Gujaratis, played an important role in the introduction of the new faith, and its subsequent expansion owed much to the developing trade in pepper and spices ... During the fifteenth century several of the east Sumatran states ... fell under Malaccan control and accepted Islam. Malacca also developed close commercial links with the ports of north Java; as a result, the indigenous royal house of Tuban was converted ... These harbour principalities then became new centres of diffusion ... (Fryer and Jackson, 1977, pp.32-33).

This indicates that the rise of international ports in Malacca and the Javanese north coast trading ports coincided with the spread of Islam throughout the archipelago, until Islam replaced the former Buddhist and Hindu religions of the Sriwijaya and Majapahit eras in many places.
As with all major cultural intrusions into the regions of the archipelago, Islam gradually influenced almost all everyday activities of a society committed to Islamic rule. The nature of social, political and economic life underwent change from the Buddhist and Hindu influence to an Islamic reign. One of the primary functions of the Islamic authority was the centralisation of control of the economic basis and commercial policy to ensure that Islamic practices prevailed. For instance, agricultural products offered for sale had to measure up to the standards of competent, careful, and honest workmanship. Personal wealth had to be valued in accordance with the Islamic way of tax tributes (the Islamic term, zakat) in every year. Price and quality control of goods to be sold had to be clearly indicated, so that seller and buyer were satisfied with their transactions. These were a part of the function of economic activities of the society in the early Islamic development. Clearly all these forms of control, placed here in the context of an idea of social justice and a spirit of Islamic teaching based on Al-Qur’an and Al-Hadish, were capable of guiding individuals into being a good community.

The Establishment of Colonisation

Over the centuries, Indonesia had been colonised by the Portuguese, the Dutch, the British, and the Japanese. The Portuguese were the first Europeans to gain a foothold in the Indonesian archipelago. Fired by a mixture of religious zeal, hatred of Islam, zest for adventure, and strong desire for wealth, they succeeded, at the beginning of the sixteenth century, in establishing a number of fortified trading posts. However, the domination of the Portuguese in the archipelago no longer existed when the Dutch, under the flag of the Dutch East Indies Company, arrived during the early decades of the seventeenth century. In the later development, the Dutch controlled and maintained their position in trading
activities in the archipelago. They shifted concern from the traditional trading practices of the indigenous people to the building of policies on how to make the largest possible profits (Masselman, 1963). A chain of fortified trading posts in important areas, such as the Java, Sumatra, and Maluku islands, became the centre of concern, from which they tried to impose a monopoly of trade and commerce in the archipelago. As history records, the Dutch was the longest colonial rule in the archipelago, for about 350 years. In order to maintain their dominance during colonisation, the Dutch used political and economic forces to starve indigenous Indonesians (eg., educational, cultural, political, and economic interventions) (Heldingen and Hoogenberk, 1945). In trading rules, contacts were limited between the indigenous Indonesians. The Dutch had a special right to sign trading transactions with local princes or chiefs of a region, who were forced to accept their demands in overloading and to delivering certain quantities and categories of agricultural products to the exclusion of all other competitors. The control of internal affairs (ie., economic, political, and social aspects) was left as much as possible in the hands of the indigenous authorities. The development of an education system for the indigenous Indonesians was very unfortunate. Teacher education was never supplied to Indonesians, other than in the elementary schools, and this was very limited. Higher education existed primarily for the Dutch.

It is conventional to believe that colonialism was primarily a device by which the colonists could exploit their dependencies and, consequently, that the effect of colonialism was to perpetuate, or even to create, poverty in the colonies. The Dutch colonisation of the archipelago is the real evidence for this belief. This stretches back at least to the early seventeenth century, when the Dutch East Indies Company was founded to run their businesses in the archipelago. The Company gradually acquired control over the archipelago by dominating social, economic, and political aspects of Indonesian lives. The Company took over the trading posts
and commerce of the indigenous Indonesians, and established forts, factories, and armed forces. Its objective was to exploit the archipelago, and to maximise profit from trade (Furnivall, 1939). Complete monopoly of products and prices had been used to exercise power over the Indonesians.

The appointment of Jan Pieterszoon Coen as Governor General of the Company in 1618 was the starting point in strengthening its position in the archipelago (Masselman, 1963). Control of economic activities and its centralisation at a major entrepot were seen as cardinal requirements. Coen, therefore, established Batavia (now, Jakarta) as the centre of Dutch operations in the archipelago. Export and import of products had to be through the Batavian port. All administration had gradually been centralised from Bantam to Batavia\(^9\). During his period of rule, capital expansion had been targeted so as to reach a complete monopoly of the products and to oust competitors (ie., the Portuguese and British) in the archipelago. By the middle of the seventeenth century to the end of the eighteenth century, few ports of the archipelago had escaped Dutch colonial interference. As Vlekke (1943) observed, the Dutch had penetrated their domination even far from the coastal footholds, and established channels for colonial production in every region. Java, for instance, had been occupied under the Dutch Company rule and the island’s economy had been greatly modified to yield increasing quantities of selected export crops in favour of the Dutch. The western influence was stronger, and certainly more oppressive, in the Maluccas islands. The indigenous commerce of this area was destroyed by the erection of Company monopolies. On Celebes Island (now, Sulawesi), the Makassar port was founded by the Dutch as a centre of the region and several commercial activities of the indigenous regions declined due to the intervention of the Dutch monopoly system. On many islands there was the same pattern of decline as the Dutch interfered in the islands’ activities.
Accounting\textsuperscript{10) as Social Discipline

In this social complex of Indonesian history, it is both interesting and insightful to explore accounting and its role in moulding its practices and knowledge in the range of social and cultural diversities. It is argued that accounting has played a significant role in creating the social complex of Indonesian history. As a discipline, accounting emerged to contribute a great deal in the articulation of abstract knowledge concerned with social order. Ideas about financial calculations, organisational and national goals, labour development, and control functions, emerged as social apparatuses to discipline individual and organisational behaviour. Hopwood (1987) in his article, \textit{The Archaeology of Accounting System}, reported conclusively that it is appropriate to see that accounting emerged "in order to create a particular economic visibility within the organisation and a powerful means for positively enabling the governance and control of the organisation along economic lines" (Hopwood, 1987, p.213). The emergence of accounting, for him, made reality visible. Thus accounting is not a passive discipline of technical administration, a neutral means for merely revealing the pre-given aspects of organisational functioning. Instead, its origins are beyond the mode of technical apparatus which political and social complexities influence its development. And, it is seen to place in "the exercising of social order both within and without the organisation" (Hopwood, 1987, p.213).

In this context, accounting is not simply a method of calculation, but is a discipline with complex phenomena which influence individual, organisational and social orders and whose aspects range from social and political to economic. This is seen in the development of accounting in many countries (ie., western countries, such as the USA, England and Australia) in which it gained current organisational
and social significance. For instance, Hoskin and Macve (1988) investigated the
development of accounting in the form of the new managerialism in the USA. In
the US the development of accounting created a 'new' social discipline,
establishing the norms of time working ratios of individual workers and 'new'
controls of production and accountability. From a broader perspective of
accounting history, it is possible to have a different view of the nature and timing
of changes in accounting and managerial practices. According to them,
accounting in the form of modern managerialism emerged from the US military
academy at West Point, where the engineering graduates took leading roles both in
private and public organisations in establishing a 'new' discipline of business order
(see also Hoskin and Macve (1988a, b, c, and 1994).

In the case of the United Kingdom, Loft (1986), Hopwood (1987) and
Bryer (1991) have noted that the development of accounting and its emergence
should be understood in the organisational and social contexts. Accounting, for
them, has created a significant role in establishing a social discipline in the form
of calculable knowledge (Hopwood, 1987), institutionalisation (Loft, 1986) and
capital rationality (Bryer, 1991). It is interesting to see the way accounting is
investigated in a rich social manner. Diverse social and political aspects in society
can be incorporated into the accounting discipline embedded within them.

Colonial Accounting

The development of Indonesian accounting and its emergence have as yet
not been explored intensively. Perhaps this is due to the fact that most interest in
accounting history to date has been heavily concentrated on Western accounting
development. Perhaps also there is lack of both interest and accounting experts in
Indonesia. Briston (1990), for instance, is apprehensive about the lack of research
resources in the Indonesian accounting education system, such as accounting textbooks, funds and inadequate co-ordination. The result is that the development of accounting and its emergence is very weak. And its early history is veiled in mystery. It is worth noting that the importance of the history of the rise of accounting in Indonesia not only provides a means of clarifying the modes of understanding of early basic thinking, but will also open up a possible new direction for future research.

Of course, it cannot be said that the development of accounting in Indonesia is parallel with that in Western countries. Different cultures, economies, and political systems have revealed differences in history. The development of Indonesian accounting was moulded by the process of a complex diversity of cultural, social, economic and political life of indigenous Indonesians. Buddhism, Hinduism, Islam and Dutch colonialism have shared the process of the development of accounting. No doubt each of them has contributed to the variety of accounting and its development (cf., Ste. Croix [1956] and Kapadia [1973]).

Accounting emerged when indigenous Indonesians resorted to keeping records of events (Sukoharsono and Gaffikin, 1993a). Some form of record keeping existed where clay tablets were used to record 'financial' and other transactions in cuneiform writing. This kind of accounting emerged to create the phenomenon of social awareness of classifying and recording events and monetary amounts (if any). In this respect, the process of writing, language (for reading and oral communication), and calculation is "basic to all accounting" (Parker, 1988). The introduction of an alphabet and numerical notations also contributed to the development of accounting in Indonesia. Although the idea of a modern alphabetic-numeric notation seems to belong to the colonisation era (the Dutch East Indies Company in the seventeenth century), the Buddhist, Hindu and early Islamic
periods had forms of writing and language including 'currency' units as a trading exchange, expressed in 'universally' accepted commodities and communications.

Indonesia has never been a wholly monolingual country. Numerous languages have been spoken in the various villages and islands. In fact, nowadays, hundreds of different ethnicities and languages remain. This has occurred through a long process of history. Sea-trade and emigration has been a major part of the development of the society. During the Buddhist and Hindu periods, commerce was a perennial influence in the historical development of Indonesia (Wolters, 1967). Commerce, in particular through sea trade, was the economic basis of Indonesian life. From the sea trades, the central authority gained advantages, such as trading exchanges and income from customs and harbour dues, or from tributes. Trading contracts were used for the purpose of trading overseas and between islands. The Indonesian sea traders were chiefly engaged in trade with Chinese, Gujarati, Arab, and other Asian tribes. The types of contract were usually very simple. The contracts were not for a long period of years, but for a single venture. This means that each contract was dissolved at the close of each voyage (Zainu’ddin, 1968). The administrative problems during these periods were still very simple. Most transactions, sales and purchases were either cash transactions or barter agreements. Consequently, they involved little record keeping.

During the early seventeenth century, Indonesia changed from a rural-independent to a colonial society. This circumstance was due to the coming of the Dutch to the archipelago. The Dutch introduced a single new economic element into the commerce of the archipelago. Colonialism was the new system. The forms of political, social, and economic domination, such as monopolies, financial exploitation and 'fiscalisation' of the archipelago, were applied with force on the
indigenous Indonesians. The political power of the Dutch, based on their military superiority, made possible the large-scale application of colonialism. Under such a system, the Dutch controlled almost all production and capital. Indigenous workers were not allowed to own tools and materials or to oversee production. Colonial contracts were imposed in such a way that no indigenous Indonesian could compete with the Dutch.

The first sign of an applied accounting system in the form of a centralised workplace in Indonesia came with the implementation of Dutch colonialism. This arrangement increased the surveillance of workers, production and capital. This led to the result that, under the colonial system, indigenous Indonesians were not able to actually control production and capital or the economic value created by the labour process. All were set up under Dutch surveillance. In a variety of agricultural industrial establishments, the Dutch simply approached Kings or Princes who ruled the various regions to manage the Dutch businesses under a specific contract. Such contracts were signed to induce the indigenous Indonesians to follow Dutch policies. Production control existed in the form of restricting contracts with the Princes and, in some cases, Dutch military intervention (Furnivall, 1939).

One of the most notable Dutch attempts to introduce more specific and centralised worker management in the eighteenth century involved an elaborate costing procedure. Radical changes to capital and administrative policies were introduced as the Dutch became committed to better colonial management and to increase profits following a long period of Dutch official corruption which affected the collapse of the Dutch East Indies Company in 1796. Strengthening the legitimacy of the Dutch colonisation of Indonesia, new Dutch financial policies and industrial innovation were used as a power mechanisms. A model of financial
accounts and responsibility became a dominant means of justifying the welfare performance of the Dutch government's operation in Indonesia. As a result, capital and production expansion had gained considerable strength in nearly all agricultural industries and had actually hit a peak in terms of profit accumulation in the 1830's. These circumstances led to the development of the first 'colonialist' bank in the archipelago. The establishment of the new bank inspired the Dutch to centralise monetary demands and supplies, so that they could control financial policies and production to prevent over-production and mis-calculation and mis-management.

*Accounting in Questions*

What precisely was accounting all about in Indonesia? How did it emerge to share in the construction of colonial society? How did it work? What purposes could it serve and for whom? How did accounting change? And to what extent did the accounting discipline have a role in the social, political, and economic aspects of Indonesian history? These are inseparable questions to be explored in the history of accounting in Indonesia. Colonialism, which moulded Indonesian history, is a major concern in the questions to be answered. It is important to emphasise that the most distinctive and important feature of Dutch colonialism was the fact that the colonial powers took full control over the archipelago within the Dutch empire. This is distinctive, because it is distinguished from the 'true colonies' (Fieldhouse, 1981, p.12). Conversely, Dutch colonialism meant the building of Dutch profits and welfare (cf., Kroef [1963] and Dekker [1967]). The features of Dutch colonialism in the archipelago were that indigenous Indonesians could have no direct contact with foreign states, could not belong to the unity of the nation, could not undertake independent commercial activities, and could not have social, political and economic unity (Heldingen and Hoogenbrerkerk, 1945).
These features were a part of the Dutch colonialism system. In fact, other social dominations and monopolies had been imposed to possess and make it a fully dependent society.

For this reason, the key to understanding the development of accounting in Indonesia lies in analysing the Dutch colonisation and its impact on the indigenous Indonesians. This will involve a genealogical examination of accounting in its social, political and economic contexts. Sukoharsono and Gaffikin (1993b) have argued that the emergence of modern accounting knowledge in Indonesia through the influence of the Dutch could justify the development of a colonial system through surveillance and detailed control of Indonesian individuals in their social, political and economic lives. The Dutch used accounting as an institution and technique to discipline those who were subject to their influence. Accounting during Dutch colonialism played a part by not only providing technical calculations in terms of prices, costs, profits, etc, but also by playing diverse roles in the social and practical lives of the inhabitants. Its emergence is intimately bound up with the operation of Dutch colonisation in the Indonesian archipelago (Sukoharsono and Gaffikin, 1993a, b). The Dutch produced an accounting knowledge which could be used to discipline individuals. Calculations and monetary accounts have been a major system in justifying the Dutch profits and welfare. Activities incorporated into such accounting knowledge have been used to exercise Dutch colonial power over Indonesian colonial territories.

Recognising the importance of understanding accounting as an aspect of social and political life, particularly in the case of the development of accounting in Indonesia, this study aims to explore those inseparable questions concerning the genealogical development of accounting and the process of Dutch colonial domination through capital and production. It is suggested that a Foucauldian
genealogical history is a productive method of investigation. Foucault provided a rich picture by investigating the aspects in which the details of the interrelationship between accounting techniques, knowledge and social power must be grounded in the social and political contexts in which they took place\textsuperscript{12}. 
Notes:


2) The word Sriwijaya has been used interchangeably with Srivijaya and Srividjaja. Sriwijaya is used widely as present as it is committed to the new Indonesian alphabetic standard, 1972. In this study, the three words have been used interchangeably.

3) Similar to Note 2, the word Majapahit has been used interchangeably with Madjapahit.

4) Similar to Notes 2 and 3, the word Gajahmada has the same meaning as Gadjahmada.

5) The Demak dynasty was recorded as the first Muslim empire in the Java islands (Hall, 1981). The decline of the Majapahit kingdom has been related to the development of the dynasty. The dynasty had succeeded in attacking the kingdom through a long process of war. From the collapse of the kingdom the dynasty was replaced with a government based on the Islamic faith (see more detailed in the Chapter V).

6) The early exception is the Island of Bali. Bali has special characteristics which prevented it being converted by the growth of Islam. Bali retains its own form of Hinduism to the present.

7) See more details in Chapter V.

8) In this study, the term colonisation is understood as a system of domination controlling the culture, polity and economy of indigenous peoples, in this
case, indigenous Indonesians. This term parallels that of Fieldhouse (1981) who states that the term is "to describe different aspects of the control exercised by one society over another" (p.1), to indicate those who immigrated establishing "societies as similar as possible to those they had left behind: they were not primarily concerned with the indigenous peoples they found overseas" (p.4), to mean "the condition of a subject people and is used exclusively of non-European societies when under the political control of a European state or the USA" (p.6), and to mean "exploitation by the foreign society and its agents who occupied the dependency to serve their own interests, not that of subject people" (p.7).

9) Bantam was about 350 km west of Batavia (now Jakarta). Bantam was the first place the Dutch came to anchor their ships in the archipelago. With the arrival of the Dutch at the end of the seventeenth century, Bantam had been seen as a central trading market with many nationalities (ie., Portuguese, Arab, Indian, Moor and Chinese) mixed in trading exchanges (Leur, 1955).

10) Throughout this study, accounting has not been defined as technical mechanisms of recording transactions only. It is understood as a process of attributing financial values and rationales to a wide range of social practices.

11) Hoskin and Macve (1988a, b, c) have a different way of historically seeing the role of accounting in the case of US industry to Chandler (1977). Chandler (1977), with his view of the emergence of managerialism in the US in the 1830s and 1840s as a response to new economic and technological demands, such as interchangeable parts manufacture, and the growth of the railroads and the telegraph, has been widely influential in the historical development. However, in fact, his view was not without its problems. In response, Hoskin and Macve advanced a new way of analysis of investigating the genesis of managerialism in the US in which they argued on the basis of different findings to those of Chandler (see Hoskin and Macve, 1988a, b, c, and 1994).

12) See note 1 and the following chapters II and III.
Part One:

Accounting and Its Relationship to "Power and Knowledge": A Philosophical Methodology Choice
Chapter II

Methodological Research in Accounting History: Towards an Alternative Account of Power and Knowledge Relations

In everything that is possible to believe there is an element of truth (William Blake)

'Truth' is undoubtedly the sort of error that cannot be refuted because it was hardened into unalterable form in the long baking process of history (Michel Foucault, 1984)

In this theoretical chapter, some of the ideas introduced in Chapter I are considered further. Recently, there has been a growing number of research studies in accounting history challenging accounting researchers to re-examine extant explanations for the sustained emergence of accounting (e.g., Hopwood [1985], Loft [1986], Miller and O'leary [1987], Miller, et al [1991], Stewart [1992], Hopper and Macintosh [1993], and Tyson [1993]). These studies have criticised some traditional histories which are "ahistorical" and "antiquarian" in nature. They have questioned the methodological stance in exploring the history of accounting. Miller, et al., (1991) stated that the importance of methodological issues in accounting history is not how the pluralisation of methodologies can be carried out in research, but rather that it is more important to "challenge the ideas of historical objectivity" in which accounting is viewed as limited with regard to social aspects. In terms of methodological issues, the essence of the "ahistorical" criticism is that accounting history has been written within the terms and perspectives of the present. In this "ahistorical" view, accounting tends to be seen in the way in which the "truth" of the present smoothly emerged, in an evolutionary fashion. Accounting history has often been understood as the reflex
of the evolution of economic and industrial development. The economic and technical-based analyses have predominantly been the major aspects of accounting in their research orientation. The interplay of social and political forces has been virtually ignored (Tyson, 1993). Hopper and Armstrong (1991), for example, adopt a labour-process perspective criticising traditional historical research of cost and management accounting under which the traditional (that is 'ahistorical') research resulted in undefined segmentation of accounting in practice. They argued that, in the case of North American firms [Johnson and Kaplan (1987) took them as cases in their study of Relevance Lost: The Rise and Fall of Management Accounting], historically "accounting controls were not a consequence of economic or technological imperatives, but rather were rooted in struggles as firms attempted to control labour processes in various epochs of capitalistic development" (Hopper and Armstrong, 1991, p.405). This means that there is a fundamental difference in the way Hopper and Armstrong studied how social and political contexts were incorporated in to the analyses.

Another criticism is that accounting history has traditionally been analysed as 'antiquarian' in nature. The criticism is based on its excessive concern with facts being carried out in accounting history research. The accumulation of facts is concentrated on the explanation of what happened in the past, rather than the analysis of how and why accounting practices have developed and influenced society (Stewart, 1992). Thus, the potential of accounting history in relation to the social and political apparatus has not been told and explored in an adequate manner. The truths of accounting practices in the past have been covered over. Hopwood (1987) said that antiquarianism in accounting history research has placed accounting in an 'atheoretical stance', in which the significance for understanding of accounting in the wider social aspects of the organisation has been neglected.
Based on these criticisms, the aim of this theoretical chapter is to develop a comprehensive understanding of history by taking the Foucauldian philosophical concept as replacing the 'traditional history', which is regarded as being "ahistorical" and "antiquarian". Michel Foucault, a French "archaeological-genealogical-historical" philosopher, is acknowledged as one of the great intellectuals of the Post-World War II era. He offers, in my opinion, elements of a coherent and powerful alternative means to the understanding of history. The major thrust of his work is concerned with the task of producing social analyses which are permeated by philosophical insight (Merquiour, 1985). In particular, his major concern with history is related to two epistemological 'techniques': archaeology and genealogy, in analysing social phenomena. These 'techniques' were used by Foucault as a basis for his series of critiques of social phenomena including mental illness, sexuality, insanity, asylums and prisons (Foucault, 1972, 1977a). He attempted to analyse particular ideas or models of humanity which have developed as a result of very precise historical changes, and the ways in which these ideas have become normative or universal. Nonetheless, his work has been taken up or has impacted upon a wide range of disciplines - philosophy, history, sociology, psychology, politics, linguistics, cultural studies and literary theory, to name a few.

Foucault: History, Philosophy and Its Meaning

The word "history" is used with various meanings. Some writers apply it to the entire past of humanity (Aron, 1961), others to the relatively small part of the past that is preserved in records of some kind, and still others to the writings of historians (Walsh, 1967). Most historians, it would seem, think of history as the record of the life of humans in civilised society. In other words, they believe that "prehistory" began with the rise of writing from about 8,000-3,000 BC in the
Middle East (Mattessich, 1987, p.1). That, of course, is a very broad way of looking at history.

On the other hand, Foucault, who welded philosophy and history and developed a dazzling critique of modern civilisation, has a particular way of looking at and understanding history. For Foucault, the word "history" is not simply to say what happened, what "truth" there is "out there" to be discovered and transmitted, but what we know about the past, what the rules and conventions are that govern the production and acceptance of knowledge, and how they happened. History, itself, is not alone. It is the history of past and present politics. By "politics", I mean not only the formal operations of government, but contests that involve power in Foucault's concept - power not only as a relationship of repression or domination, but also as a set of relationships or processes that produce positive effects: social consensus about the meanings of truth, the hegemony of certain systems of knowledge (science in the nineteenth century) and the disciplinary regime of academic fields such as accounting and economics. It was used by Foucault implicitly and explicitly to work over some decades on what can be called a series of histories of the emergence of the human sciences. One significant factor in Foucault's writings for the discipline of history in the accounting field depends on the ways which Foucault's texts take to represent his position. It is possible, of course, to discover a fundamental unity in his writings. That strategy gives a central role to the exploration of the objects of history under investigation, in particular the history of the political emergence of accounting in Indonesia. A more faithful interpretation of Foucault's conception of historico-power-knowledge relations begins with the recognition of a diversity of themes and strategies in his texts of history. Foucault began to build the concept of historico-power-knowledge relations when he introduced a 'methodological' treatise of "archaeology" (Foucault, 1972). His archaeological work is "to free the
history of thought from its subjection to transcendence". Whose transcendence? He said,

My aim was to analyse history in the discontinuity that no teleology would reduce in advance; ... to allow it to be deployed in an anonymity on which no transcendental constitution would impose the form of the subject; to open it up to a temporality that would not promise the return of any dawn. My aim was to cleanse it of all transcendental narcissism; it had to be freed from that circle of the lost origin, and rediscovered where it was imprisoned; it had to be shown that the history of thought could not have this role of revealing the transcendental moment that rational mechanics has not possessed since Kant, mathematical idealities since Husserl, and the meanings of the perceived world since Merleau-Ponti ... (Foucault, 1972, p.203).

A few pages further on, he pleads innocent of the charge that structuralism ignores history by claiming that he never denied the possibility of discourse change ("discourse" being his word for thought as a social practice); all he did was to deprive 'the sovereignty of the subject' of the 'exclusive and instantaneous right' to make change, that is, to originate history.

What exactly does Foucault mean by archaeology as bodies of knowledge and relations of power? In his historico-power-knowledge relations, Foucault's project of archaeology (and later genealogy) is to provide an historical account in the depth of the emergence of the human sciences, and directed to a way of carrying out a historical analysis of systems of thought. For him,

Archaeology ... [is] to define not the thoughts, representations, images, themes, preoccupations that are concealed or revealed in discourses; but those discourses themselves, those discourses as practices obeying certain rules ... it does not treat discourse as "document" ... but as a "monument".
Archaeology ... is to define discourses in their specificity; to show in what way the set of rules that they put into operation is irreducible to any other ...

Archaeology ... defines types of rules for discursive practices that run through individual oeuvre, sometimes govern them entirely, and dominate them to such an extent that nothing eludes them; but which sometimes, too, govern only part of it (Foucault, [1972, pp. 138-139])

Within the complex epistemological formation of the archaeology of knowledge, Foucault revealed that the major concern of archaeological analysis is a discussion of an alternative mode of investigation into discursive practices. Archaeology, for him, is beyond the history of ideas and should be differentiated. Archaeology differs from the history of ideas in four aspects: (a) whereas the latter pursues themes and ideas expressed in documents, the archaeologist seeks to examine the structure of documental discourse itself; (b) the historian of ideas wants to seek the continuous, insensible transition of the origin and fate of ideas, while the archaeologist fastens onto a discourse for itself and the discontinuities of history; (c) the history of ideas looks for, and the archaeologist does not, psychological and sociological causes of intellectual events; (d) finally, the archaeology of knowledge focuses on discourses as they are, without seeking, as the historian of ideas does, to grasp the ineffable moment of origin, the primitive intention of authors (Foucault, 1972, pp.138-140).

In reading and understanding Foucault's series of writings, it is apparent that there are continuities and unities in his themes and interest. But, it is also evident that Foucault turned to his archaeological-methodological basis to enrich his contemporary conception of power-knowledge relations. Whereas Foucault's early works up to the Archaeology of Knowledge had revealed a primary concern with discourse and a concept of truth, his subsequent writings emphasised a 'political' history of knowledge with a conception of power and knowledge
relations that addressed more directly the question of the relations between discursive formations and non-discursive domains.

Under the title of *Discipline and Punish*, Foucault began to enrich an epistemological structure of knowledge called the concept of power and knowledge relations (Foucault, 1977a). The concept was constructed by Foucault following the Nietzschean concept of *genealogy* (Smart, 1985). To say that history possesses a genealogical character is to say that the historical past appears as a number of *intersecting, discontinuous series of elements*. Foucault's genealogical analysis is concerned with "knowledge and power" to demonstrate that history is not linear but is the processes of "descent" (Herkunft) and "emergence" (Entstehung); it comprises discontinuities and contingencies (Foucault, 1977a). Moreover, Foucault emphasised the ways in which "power and knowledge" are interconnected. According to him, "knowledge" is not considered the exercise of "power", but rather "power" itself operates systems which produce "knowledge". For Foucault, *power* is "how power is exercised?" rather than "what is power?" (Smart, 1985, p.77). Power, for him, is having positive meanings that are far from repression and suppression of a dominant class, state, or sovereign, but which are used as a strategy (cf., Hoskin and Macve [1986] and Smart [1985]). In the study of micro-physics, Foucault [1977a] stated:

... power exercised is conceived not as a property, but as a strategy, that its effects of domination are attributed not to 'appropriation', but to dispositions, manoeuvres, tactics, techniques, functionings....

... power is exercised rather than possessed; it is not the 'privilege', acquired or preserved, of the dominant class, but the overall effect of its strategic positions.

... power is not exercised simply as an obligation or a prohibition on those who `do not have it'; it invests them, is transmitted by them and through them; ... these relations go right down into the depth of society. (Foucault, 1977a, pp.26-27).
For **knowledge**, Foucault emphasised that

Power produces knowledge (and not simply by encouraging it because it serves power or by applying it because it is useful); the power and knowledge directly imply one another; that there is no power relation without the correlative constitution of a field of knowledge nor any knowledge that does not presuppose and constitute at the same time power relations (Foucault, 1977a, p.27).

An important implication of Foucault's concept of power-knowledge relations is that, in his genealogical work, *Discipline and Punish* [1977a], he described the shifting development of society in terms of power-knowledge relations: from *sovereign power* to *disciplinary power*. For him, the shift from sovereign to disciplinary power is articulated by the changes in the forms of knowledge. Referring to the eighteenth century, he identified sovereign power as a diminished form of power. Its subject is to punish people associated with political risks and dangers. Seizure of things, of bodies and ultimately of life are the kinds of recourse used by the sovereign power (cf., Miller and O'leary [1987]). Seizure was a form of sovereign torture which became a political ritual before the eighteenth century. The law, it was held, represented the will of the sovereign. It acted in such a way that someone who engaged in a violation of the law had to pay through punishment by the king. A breach of the will of the sovereign was seen as an act of war, so the sovereign had to respond to destroy the person causing the breach. Disciplinary power is a strategic power which provides much richer procedures for training or coercing society (individual or collective). With Foucault's example, prison is this kind of technology of discipline, surveillance, and punishment. Prison is no longer seen as 'penal torture', but rather it provides a new mode of disciplining society. By introducing three instruments of disciplinary technology of power - the concept of hierarchical observation,
normalising judgement, and examination - it confirms that Foucault developed a particular historical process and understanding which provided richer forms and techniques of discipline of central importance to our modern society.

Within the complex epistemological formation of the power and knowledge relations, Foucault revealed that the major concern of power and knowledge analyses is a discussion of an alternative mode of investigation in understanding the "truth" of history. Power and knowledge relations, for him, are beyond the history of ideas and other traditional histories. For him, those histories are ill-defined and an imprecise discipline in which the central concern is a linear form of history. Foucault's power and knowledge analysis represents "an abandonment of the history of ideas, a systematic rejection of its postulates and procedures, [and] an attempt to practice a quite different history of what men have said" (Foucault, 1972, p.138). For him, power and knowledge of historical analysis, unlike the history of ideas and traditional history, provide a foreground for illinearities, discontinuities, gaps and ruptures of history. Yet, it is not to say that repetitive and uninterrupted forms are neglected in the historical analysis of thought. Foucault also considered that

... to show how continuous is formed in accordance with the same conditions and the same rules as dispersion; and how it enters - neither more and less than differences, inventions, innovations - the field of discursive practices (Foucault, 1972, pp.74-75).

Foucault, History of Ideas and Marxian Historicism

As a methodological study, historico-power-knowledge relations constitute a way of articulating a more coherent and comprehensive account of transformations in the field of historical knowledge. They focus on legitimate
forms of contemporary discourses and the real historical conditions which have led to the social emergence of sciences (cf., Loft [1986] and Hopwood [1987]). Similarly, Miller and O'Leary (1987, p.238) are concerned with the functions and features of discourse in the sociological aspects of society. Thus, discourse is central to Foucault's method and to the historical requirement of historical research. He also considered in his work the idea of a "history of the present". Given the present splintering of history and historical methodology, there may be something to be said for this interpretation. In what ways then, if at all, does Foucault present "the history of the present"?

Before answering the questions 'how' and 'what' of the history of the present, it is necessary to evaluate 'why' the study is interested in the Foucauldian history of the present? My interest in Foucault, the history of the present, arises from my feeling that 'traditional' history\(^5\), history of ideas, and Marxian historical materialism no longer provide a basis for critical social theory. From the last two perspectives, a growing number of researchers in history have criticised the inability of the history of ideas and Marxian historical materialism to present an adequate account of the structures of domination in modern society, and therefore they are deficient as guides to the social critic and historian (cf., Marshall [1990] and Aron [1961]). The criticism of the history of ideas is characterised by the way in which the past is written about by using the terms and perspectives of the present. This is called 'a history of the past in terms of the present'. The perspective focuses on the way in which the 'truth' of the present smoothly emerged, in an evolutionary fashion, from the past. The central themes of the history of ideas, as Foucault claimed, are "genesis, continuity and totalisation" which address the formation, development, and transformation of systems of thought (Foucault, 1972, p.138). For him "genesis", in so far as it is the origin of ideas or themes, is regarded as a crucial question, and "continuity
and totalisation", in so far as they are different areas or different contemporaneous fields of thought, are made homogeneous by the assumption of omnipresent elements. Collingwood criticised the history of ideas by giving the following example

"If you allow yourself to think for a moment about the tactics of Trafalgar as if the ships were driven by steam and armed with long-range breech-loading guns you have for that moment allowed yourself to drift outside the region of history altogether (Collingwood, 1970, p.58).

In accounting history, this style of history has been adopted widely. For example, Pollard (1968), in his study of the Genesis of Modern Management, stated that

"The practice of using accounts as direct aids to management was not one of the achievements of the British industrial revolution; in a sense it does not belong to the later nineteenth century but to the twentieth (Pollard, 1968, p.288).

Both examples give a clear indication that understanding the past using the terms of the present would result in a confusion in explaining the 'truth' of the past. In the former example, it is totally wrong to use modern thinking to imagine the tactics of Trafalgar with the new technology of ships and weapon, whereas Trafalgar lived in an older time. In the latter example, the use of the term 'management' in a general sense to mean the administration of business, is a twentieth century development, whereas Pollard used the term in respect of management associated with industrial notion in the nineteenth century. In this case, Pollard is clearly confused in giving nineteenth century accounting a twentieth century aim - this is a 'history of the past in terms of the present' (see Loft, 1988)."
In the criticism of Marxian historical materialism, it is not intended to either criticize Marx's view scattered in all of his works, or to appraise Marxism in its entirety. However, it is important to note his materialistic interpretation of history or historical materialism, which is one of the basic tenets of Marxism. Historical materialism was developed by Marx with the basic idea that history explains every human activity from the economic point of view (Poster, 1984). For Marx, history is materialistic in nature and essence and follows a dialectical process. To Marx, the primary characteristic of history, materialistic in nature, constitutes the social field in which human beings act upon natural materials to produce useful objects. Basically, Marx said,

... we must begin by stating the first premise of all human existence and therefore, of all history, the premise, namely, that men must be in a position to live in order to be able to 'make history'. But life involves before everything else eating and drinking, a habitation, clothing, and many other things. The first historical act is thus the production of the means to satisfy these needs, the production of material life itself. And indeed this is an historical act, a fundamental condition of all history, which today, as thousands of years ago, must daily and hourly be fulfilled merely in order to sustain human life ... Therefore in any interpretation of history one has first of all to observe this fundamental fact in all its significance and all its implications and to accord it its due importance (Marx, 1978, pp.155-156).

This means that the basis of all historical movements, revolutions, and historical manifestations of every society is their economic structure and material dominance. They are the material forces of production of society and it is the relations of social production which fashion history and give direction to all intellectual manifestations of a society like morality, science, philosophy, religion, law, and culture. These manifestations change with alterations in the modes of production and its relations to society.
The expression of historical materialism that history is dialectical in nature means that the evolutionary movements of history are dialectical movements caused by a series of dialectical contradictions. Dialectical contradictions are different from non-dialectical ones in the sense that every phenomenon is compelled to give rise to its own negation from within. As a result of a series of changes caused by this inner contradiction, the phenomenon undergoes a radical qualitative change to a higher level, wherein the two lower stages attain perfection through synthesis. With a dialectical process, historical analysis, for Marx, could give a different interpretation to the past, and provide a different explanation for the birth of the modern world and the future (see Cohen, 1978).

However, some criticised both basic tenets of historical materialism (e.g., Barrett [1991] and Poster [1992]). It is Marx's limitation that both basic tenets will run only in relation to the working class in society. This is the beginning of the failure of historical materialism. For Marx, economic factors are always the influencing ones in the historical materialism of society, while all other social modes are passively influenced. Economic factors act independently and other factors are dependent on them. No matter in what way Marxism interprets the understanding of history, historical materialism only affirms the priority of material aspects. Non-material aspects were not accepted in the account of historical production.

On the basis of historical materialism, the best and the most reliable way to study and analyse historical and social events is to investigate their economic basis. Without studying the economic foundation of historical events, their correct understanding is, according to Marx, impossible. For him, it is presumed that all social changes are materialistic in essence, even though they may appear to have
an independent cultural, religious, or moral essence. It means that all these changes in history are reflections of the economic and material conditions of society, being their effect. In addition, historical materialism sees the law governing history, it being deterministic, inviolable, and external to human will.

Based on the Marxian concept of historical materialism, it indicates that the perspective is difficult to specify with the appropriate complexity of an historical field (usually the political in the sense of human will) and is unable to provide an epistemological position that would acknowledge the viability of Marxian historical materialism analyses within the complex aspects of society (ie., non-material and non-economic aspects). There is much to criticise in the perspectives of historical materialism (see, Poster, 1992) and the history of ideas (see, Loft, 1988). Along came Foucault with his "new" way of understanding of history. Foucault can be understood as launching a strong critical attack upon the history of ideas, historical materialism, and other traditional history by introducing a "new" history, which is history of the present.

Foucault as a Historian of the Present

Foucault's history of the present focuses on the understanding of a political history of truth of knowledge. In the history of the present, the main concern is how what is now considered as being 'truth' came to be so regarded. The word 'truth' cannot be generalised. Foucault's argument is that every society has its 'regime of truth'.

The important thing ... is that truth isn't outside power, or lacking in power ... truth isn't the reward of free spirit. Truth is a thing of this world: it is produced only by virtue of multiple forms of constraint. And it induces regular effects of power (Foucault, 1980, p.131).
Truth is always linked with the system of power and is understood in relation to the society within which it is accepted. In other words, truth at a particular time cannot be transferred to the conditions and systems of a society different in time and power. As Foucault said,

> Each society has its regime of truth, its 'general politics' of truth: that is, the types of discourse which it accepts and makes function as true; the mechanisms and instances which enable one to distinguish true and false statements, the means by which each is sanctioned; the techniques and procedures accorded value in the acquisition of truth; the status of those who are charged with saying what counts as true (Foucault, 1980, p.131).

Foucault provided a more complex meaning and understanding of 'truth': it is not simply by defining it or seeing it. Truth is "linked in a circular relation with systems of power which produce and sustain it, and to effects of power which it induces and which extend it" (Foucault, 1980, p.133). The struggle 'for truth' actually is a contest about how truth is defined, created, and administered in the economy, society and polity. Truths are not "discovered" to be so and accepted as such but are a "system of rules" and a "regime of power" for defining and dividing the truth from the false. It is clear what Foucault said that truth, in turn,

> ... is to be understood as a system of ordered procedures for the production, regulation, distribution, circulation and operation of statements within an elaborate political, economic, institutional regime of the production of truth (Foucault, 1980, p.133).

Writing history which results from the application of what Foucault means as the *history of the present* is very different, both in form and substance, to the 'truth' of traditional history. For example, in *Discipline and Punish*, he says
I would like to write the history of this prison, with all the political investment of the body that it gathers together in its closed architecture. Why? Simply because I am interested in the past? No, if one means by that writing a history of the past in terms of the present. Yes, if one means writings the *history of the present* (Foucault, 1977a, pp.30-31, *emphasis added*).

Foucault was making an important distinction between understanding and exploring history. The approach of history of the present explicitly and self-reflectively begins with diagnoses of the current situation. Dreyfus and Rabinow (1982) pointed out that the approach has a clear understanding of history in terms of an emerged modern science. There is an unequivocal and unabashed contemporary orientation in the writing and expressing of history. The historian could clearly locate the acute manifestations of a particular "meticulous ritual of power" or "political technology of the body" to see where it arose, took shape, gained importance, and its genesis. For example, in *Discipline and Punish*, the prison is not seen in terms of the harsh practices, but as one site of the exercising of a disciplinary technology. This had been found from the late eighteenth century onwards, in the army, hospitals, schools, asylums and other institutions. Of course, these developments cannot be seen from the traditional historical or the historical materialism perspectives. On the contrary, these reflect the application of a new philosophy of order and of sovereignty. It is evident from Foucault's discussion that in the disciplinary technology of power from the eighteenth century onwards, the inmates of the new disciplinary institutions were no longer perceived as part of the vast undifferentiated mass of humanity but as individual subjects to be known and understood. The principle was, at its simplest, to expose the inmates to the gaze of surveillance: "the principle of the dungeon is reversed; daylight and the overseers' gaze capture the inmate more effectively than darkness" (Foucault, 1977a, p.73).
Still within the methodological context of the history of the present, Foucault also explored the appearance of a new interpretation of punishment (1977a). He found that during the eighteenth century, a group of humanist reformers came up with a new discourse which criticised the excess of violence, the flaunting of the sovereignty of power and the glories of mob revenge. In a previous mode of punishment, he noted that public executions gave a frightening picture to individuals. This led to a growing awareness of seeing punishment as less frightening and less able to incite individuals than was intended. In the name of humanity, Foucault (1977a) said, individual reformers condemned the "expiation of atrocity in torture" as an evil to be cured, an immoderation which must be excised in the name of a more rational distribution of power and justice (Dreyfus and Rabinow, 1982). It is important to point out that Foucault argued that "let penalties be regulated and proportioned to the offences, let the death sentence be passed only on those convicted of murder, and let the tortures that revolt humanity be abolished" (Foucault, 1977a, p.73).

With the history of the present, Foucault could see a critical point of emergence of the humanist reformers who demanded the abolition of the theatre of atrocity during the French Revolution in the eighteenth century. The essence of the ceremony, according to them, was violence. There was an excess of sovereign power in punishing individuals. In fact, as Foucault said, the ceremony which provided excessive power by the sovereign failed to deter crime. Another form of punishment was needed but one without torture. The new punishment should be formed to bring the offender back to his/her rightful and useful place in society. Clearly, as Foucault pointed out, the reformers developed a series of prescriptions for the new mode of punishment based on a theory of judicial representations. Firstly, punishment must be as "unarbitrary" as possible. The ideal punishment is to function efficiently for he who contemplates punishment. The type of
punishment must be "transparent to the crime that it punishes" (Foucault, 1977a, p.105). Such punishment would immediately bring to mind for those who apply it, both the nature of the crime itself and the remedy which had been imposed to correct it. Using this proposal it could be possible that the nature of the new punishment would discipline offenders to behave correctly both to the social community and the sovereign. Secondly, this new technology of appropriate punishment would function so as to reduce the possibility of repeated crime. The crime is no longer an attraction to the offender and makes him fear the punishment. It is by this new technology that punishment would work effectively for functioning against the crime itself. Thus, the crime is less desirable to the offender, because it creates pain for himself.

Implications of Foucauldian Power-Knowledge Relations for Historical Accounting Research

In historical accounting research, the Foucauldian "genealogical" approach which deals with what Foucault developed further in terms of the history of the present and power-knowledge relations, has been the preferred approach, rather than that of the "archaeological" one. (eg., Loft [1986], Hoskin and Macve [1986,1988a,b], Miller and O'Leary [1987], and Hopper and Macintosh [1993]). Differing from archaeology, the Foucauldian genealogical approach to historical accounting research involves considerable shifts in methodology and outcomes. The methodology enriches a critique of continuous history under the web of power and knowledge relations. However, although there is a growing volume of research using the Foucauldian approach in the accounting field, there has been little (it is not intended to say none) exploration into where and how the approach proceeds and how it affects the accounting discipline. Another question, which might be asked concerning the methodical practice in research, is where should or
might historical accounting research proceed and what general procedures would be followed?

These questions do not question whether Foucault offered a methodological shift of historical research. However, the questions are only the beginning of a theoretical understanding of the Foucauldian genealogical methodology in accounting research. It is noteworthy to say that the virtue of the recent writings of Foucault lies in their very different concept of social history, from which they raise important theoretical questions and an understanding of historical phenomena in the most forceful way. The flow of Foucault's texts in terms of the methodological approach disturbs the expectations of the reader familiar with social history, in the sense that history is smoothly developed without any interruption. There appear to be huge gaps concerning the way Foucault set up a framework of analysis which differs from the traditional historical one (see also previous discussions). The topics of his analyses are "annoyingly placed out of the normal order, disrupting one's sense of logical sequence" (Poster, 1984, p.72). In Discipline and Punish, the general point of genealogy, Foucault did not develop a systematic theory. He was really opposed to any such systematisation. Levels of his analyses are mixed to some extent, confusing the reader who does not know his position as a critical historian of the present. Simple questions in building his analyses sometimes suddenly appear. However, simple questions about causality in history he ignored and left unanswered. His writings seem to take a perverse pleasure in shifting the traditional historical understanding, or simply in adopting provocatively an unorthodox attitude towards a topic. In general, it can be said that Foucault offered a new way of thinking about history which is the history of the present, writing history which is rupture and discontinuity and deploying history amongst current political struggles. All of his framework was constituted by an analytical grid of power and knowledge relations.
Accounting historical researchers using the Foucauldian methodological approach show the complexity of accounting in a web of power and knowledge structures within society. The methodology shows accounting as a richer social science for disciplining society and for manifesting a comprehensive political power within society. How accounting is a disciplinary power and a constitutive activity of knowledge without doubt will be the major concern of the methodological analyses in accounting research. Hoskin and Macve (1986) stated that using the methodology, it could be possible to see how accounting emerged as a new disciplinary technique for controlling society. With the particular Foucauldian concept of power and knowledge relations, they argued that disciplinary power and knowledge mechanisms should be taken into account in exploring an historical accounting research as an historical discourse of the emergence of accounting of the discipline in society. As a late medieval development, accounting technologies involved the advanced development of the technology of writing which was the new disciplinary technique for gridding texts and retrieving information, and the political discourse of the application of calculus mathematical means (Hoskin and Macve, 1986). It is noteworthy to see that the accounting discipline which emerged as a social technology did not do so in a vacuum or as passive knowledge. Accounting has always interacted with, and been exercised within, a wider social scope. Hopwood (1987) said that the emergence of accounting is not merely a technical matter which only deals with something to be regarded as mathematical means. Conceptual bodies of knowledge and disciplinary power have played a pivotal role in transferring the accounting craft to one of the new disciplinary technologies in social science. With Foucault’s concept, Hopwood also explored how accounting emerged and changed over time.
As always, Foucauldian methodology is concerned with the question of "how" and there is also the implication of the question "why"; it is opposed to a scientific-positivist way of treating facts of historical accounting phenomena.6) Foucauldian accounting histories are obviously involved with new ways of thinking about the accounting discipline as a form of knowledge and power. Foucault's arguments are distinctive. He suggested that it is quite possible to understand the development of modern techniques of technology in societies in terms of power and the shift in its mode of discipline of knowledge. It is power, for Foucault, which brings the truth of discourse into being and it is the "truth" of discourse which sustains power. In the case of the accounting discipline, the technique emerged as a correlative power being used in a social discourse of truth. However, in an interview before his untimely death, he stated,

[m]y problem has always been ... the problem of the relationship between subject and truth. How does the subject enter into a certain game of truth? ... So it was that I was led to pose the problem of power-knowledge, which is not for me the fundamental problem but an instrument allowing the analysis - in a way that seems to me to be the most exact - of the problem of the relationships between subject and games of truth (Bernauer and Rasmussen, 1988).

What Foucault intended with the statement is that human beings are constituted as subjects in research investigations through the forms of knowledge and the relations of power. The form of power also produces games of truth and notions of subjectivity within society. More recently, in response to the question of understanding the accounting discipline in terms of its social context, a number of researchers have shifted their methodology to re-examine the emergence of accounting discipline by incorporating power and knowledge relations in terms of political and social history (eg., Burchell, et al [1985] and Preston [1992]). Convincingly, re-examination of the emergence of accounting led to a new wider
understanding of accounting practices in society. Of course, the new understanding was influenced by Foucault's methodology. Armstrong (1994) gives an impressive expression of Foucault's influence on accounting research. Even though the complete feature of Foucault's methodological and epistemological stances has been debated at least to some extent in relation to the way accounting research is carried out, Armstrong, in the first paragraph of his conclusion, stated that Foucauldian accounting methodology "has inspired a number of excellent studies which have enriched the empirical basis" (p.50). Grey (1994) gives a convincing comment on Neimark (1990)'s study that no doubt Foucault's works on critical accounting research will continue to develop, as it was the concern of Foucault that social scientists must be aware of critical views on social research enlightenment. It is the form of Foucault's political critique that radical "power and knowledge" relations are subject to being followed in social research analyses. This differs from traditional critical thought,

[it is not the case] that Foucault is merely a 'dispassionate observer' rather than a 'concerned critic' of existing order, that his work is 'neo-conservative' because it fails to provide either a political rationale or a direction for action, or that resistance is rendered impossible if we follow the terms of the analysis. The various studies and texts together constitute a genealogical history of the present, the future form of which will be a complex consequence of the actions of subjects 'through which the real is transformed' rather than outcome of any 'plan of reform'. In short, what is presented by Foucault is a critical analysis of the prevailing regime of truth and its effects of power, criticism which translates in to political activity of a specifically delimited kind, namely assisting in the creation of conditions necessary to allow those directly involved in a struggle to speak out and act on their own behalf. To proceed in this manner does not signify 'indifference' or lack of critical concern but rather that a political discourse promising 'emancipation' constitutes at best a form of rhetoric (Smart, 1985, p.169).
The possibility of the statement on research orientation, particularly in accounting history research leads to what Foucault held as his particular analysis of power and knowledge relations. For him, the analysis should be conducted under five headings (Foucault, 1983, p.223).

1. The system of differentiation: permitting "one to act upon actions of others". Differentiation can be established by law, traditions, economic conditions, shifts in the processes of cultural dominations, and institutions which give some prima facie position for power relationships to be brought into play. For example, the shifts from the ancient trade (barter system) to the system of currency in the modern social economy provide conditions for bringing accounting power into play.

2. The types of objectives. What Foucault is concerned with here is the subject who "acts upon actions of others" can maintain "the privileges, the accumulation of profits," and also which power relations are brought into existence. For example, colonial accountants may be pursuing colonial objectives by bringing power into play through colonial procedures.

3. The means of bringing power relations into being. This is something which could exercise power. It can be force, compliance, consent, a system of surveillance, economic reward, and so on.

4. Forms of institutionalisation. There are at least three forms of described institutionalisation. Firstly, these may be a mixture of legal and traditional phenomena relating to custom or fashion. An example of such an institution is a family system. Secondly, they are the form of an apparatus which has hierarchical and legislative systems. The systems are clearly defined and have a relative
autonomy in their functions. Such institutions are schools and military and professional organisations. Thirdly, the form of institutions is defined as a very complex system, regulations and surveillance endowed with multiple apparatuses. An example of the third institution is government which distributes all power relations into being in society.

5. The degrees of rationalisation. This is the process of transforming power into action that can endow, elaborate, legitimate, transform and organise the effectiveness and certainty of its results.

Thus, in respect of Foucault’s power and knowledge relations, history is not described in simple ways. Rather it is a complex phenomenon by which history comes into being. The form of power and knowledge relations is the major interpretive analysis of it. No doubt, such analyses can provide richer pictures of accounting history which has played a pivotal role in disciplining society. It is under such analyses that I turn to an examination of Foucault’s epistemology and methodology for developing a new kind of accounting history: accounting history as a new history.
Notes:

1) M. Foucault's work on historical concerns include *Madness and Civilization* [1967], *The Order of Things* [1970], *The Archaeology of Knowledge* [1972], The Birth of the Clinic [1973], *Discipline and Punish* [1977], *The History of Sexuality* [1981].

2) Foucault regards a *discursive formation* as involving four basic elements: the *objects* - what its statements are about, the kinds of cognitive status and authority they have (what Foucault calls their *enunciative modality*), the *concepts* in terms of which they are formulated, and the *themes/strategies* (theoretical new points) they develop. Generally, Foucault acknowledges the fact that discourse is an empirical phenomenon, situated in a field of complex social forces and their relations. For him, the four basic elements of the discursive formation cannot be delimited from one to another (see, Foucault, 1972).

3) Foucault's conception of *descent* and *emergence* can be found in Nietzsche's work. Foucault used this concept to differentiate between traditional history and genealogy. This means that the Foucauldian genealogy analysis is primarily opposed to the search for *origins*. Origin, to Nietzsche, is "the exact essence of something, its purest possibility, its carefully preserved self-identity, its fixed form, pre-existing what is accidental, successive, and external to itself" (Foucault, 1977b, p.148). For him, rather than search for such an origin which engages in a rationalist quest to find out the metaphysical essence of an object, he attempted to develop the way an object could be understood by its lineage which consists of various and intersected events to make it what it is. Foucault designated this lineage as the object's *descent* or *provenance*. Thus, in these terms, the object of genealogical analysis "has no essence, or rather, its essence is that it has been constructed piece by piece on the basis of forms foreign to itself" (p.148). The analysis of descent, for him, dissolves unity and identity to reveal the multiplicity of events which lie behind historical beginnings (Smart, 1985).

4) Foucault's genealogical conception of *emergence* is concerned with conceptualising history analysis "not as the culmination of events, or as the end of process of development but rather as a particular momentary manipulation of the hazardous play of dominations or a stage in the struggle between force" (Smart, 1985, p.57). With the term of *emergence*, genealogical history is conceived as a system of complex elements, each of them heterogeneous in character, multiple and distinct in identity.

5) 'Traditional' history is the knowledge of laws that appears to govern the life of the past (see Walsh [1967] and Aron [1961]). 'Traditional' history is
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concerned with its traditional form of historical events. For the study of history in this sense, such events and incidents are similar to the material gathered by a natural scientist for his or her laboratory analysis and investigation to discover certain general laws, through induction, regarding the nature and properties of his or her material and the causal relations governing its changes. History, in this analytical investigation, wishes to uncover the true nature of historical events and their causal relationship, and to discover the general and universal laws applicable to all similar events of the past and present.

6) In a scientific-positivist way, the concern is the historical facts which are looked at in only one dimension. This means that a single fact of history has been the only way of approach to explain social history (Stewart, 1992). The systematic schema of historical theory has always been a guidance to explain history. Systematism is always applied to justify "truth" in writing history. Truth in the scientific-positivist way of thinking is something within systematic order in society.

7) A special edition of Critical Perspectives on Accounting volume 5, number 1, March 1994, gives a useful academic atmosphere on the debate of Foucault's influence on accounting research (see, Grey [1994], Armstrong [1994], Hoskin [1994], and Neimark [1994]). In the edition entitled, Accounting and Praxis: Marx after Foucault, this was initiated by Neimark (1990) who criticised Foucauldian and other post-modernist theories for accounting research. However, Grey (1994) responds to her criticism that in fact Foucault has offered a wider political arena of accounting discourses. No doubt, he said, Foucauldian accounting research will continue to illuminate accounting in praxis.
Chapter III

Accounting History in a 'New' History

If there is no acceptable basis for accepting or rejecting knowledge claims that emerges from traditional methodological debates, then there must be some alternative basis for scientific communities for having accepted some theories and rejected others.

Gaffikin, 1989

Still in the methodological context of organising the principle of accounting history research, in Chapter III I develop the application of the main features of Foucault's theory of history and assess its merits as a "new" framework for accounting history research. As has been discussed in Chapter II, the main concern of a Foucauldian methodological perspective is to avoid the difficulties of traditional history, the history of ideas and marxian historiographies in accounting research. With the criticism of 'ahistorical' and 'antiquarian' in the nature of their analyses, I turn with particular concern to establishing Foucault's credentials as an historian to illuminate accounting history research.

In the past decade, the discipline of accounting history has been revolutionised by new methodologies and new objects of study which fall under the rubric of 'critical accounting studies'. Journals such as Accounting, Organisations, and Society, Critical Perspectives on Accounting, and Accounting, Auditing, and Accountability have been the centres of the new concerns. A lot of published articles with the topics ranging from the re-examination of the emergence of accounting (eg., Bryer [1991,1993], Power [1993], Thompson
to political disciplinary practice of modern accounting (eg., Hopper and Macintosh [1991, 1993], Hertog and Wielinga [1992]) have risen to prominence over more traditional historical subjects. Methodologies have been imported from many disciplines of the social sciences.\(^1\) The methodologies included symbolic interactionism, ethnomethodology, Marxism, Habermasism and critical theory, Giddens' structuration, the Gramscian concept, Derrida's deconstructionism, Weberian and Foucauldian perspectives. All methodologies adopted by accounting researchers would share a growing concern about understanding accounting in the social and political context in which it operates, and its positive historical approach. The variety of research topics with the constituent of methodological-based awareness pursued by accounting historians today encourages a rigorous examination of accounting praxis, the unity of theory and practice in accounting, and in the social, economic and political world. If the political process of the emergence of accounting, power and knowledge of accounting, and accounting in the broader sense of the social and economic aspects are all valid subjects of research investigation, what are the principles bearing on the knowledge of accounting? How does (did) accounting really work in the social world? Are these criteria, by which a research investigation of accounting in the past had to justify itself, worthy of the development and understanding of accounting as a disciplinary power and as a form of social knowledge? How can it be investigated? These questions present some aspects of seeing and understanding accounting in broader social, economic and political contexts that are much needed today. As has been discussed in the previous Chapter, the virtues of the writings of Foucault are that, by their very difference from social history and others (ie., the history of ideas and Marxian historical materialism), they raise important theoretical questions in a forceful way, which allows one to investigate the above questions concerning the understanding of accounting.
Foucault and Accounting History Research

The flow of Foucault’s texts and historical analyses, the way he disturbed the domination of traditional historical analysis, attracted some accounting history researchers. Foucault’s writing styles and methodological stance inspired accounting history researchers in looking at the past of accounting discipline not only as technical apparatus, but also as 'architecture of power' in society. How accounting appears as a disciplinary power and a constitutive activity in the broader social and political contexts, is the major concern of Foucauldian accounting research. Merquior (1985) and Poster (1984) acknowledged the way Foucault developed a "new" historical analysis, and both agree that Foucault’s methodological and epistemological stance is not engaged in presenting some kind of general history providing a complete and chronological description of a period. Rather, Foucault engaged in a particular analysis of history with tactic and strategic discourses in relation to certain problems which he was concerned with. He was, in fact, diagnosing past history by asking "how the past was different, strange, threatening" (Poster, 1984, p.74). He is an historian who presented a set of configurations of power and knowledge.

During the last two decades, an increasing amount of research on the history of accounting has appeared, which has been influenced by Foucault’s methodological and epistemological stances (eg., Burchell, et al [1980, 1985], Hoskin & Macve [1986, 1988a, b], Loft [1986], Hopwood [1987], Miller & O’Leary [1987], Knights and Collison [1987], Hopper & Macintosh [1990, 1993], Preston [1989], Stewart [1992], Tyson [1993], Miller & Napier [1993], and Knights & Vurdubakis [1993]). Stewart (1992) is one of many researchers who gives an acknowledged expression of Foucault’s methodology being entered into accounting fields. He impressively expresses that
[t]he attraction of Foucault to accounting historians and theorists is in the conceptual lenses he has provided particularly as an antidote to positivistic/scientific explanations of accounting. He has provided a theoretical schema within to problematise and question accounting, and break away from the unidimensional picture of its development. Accounting has not been created just by capitalism or industrialisation or ownership or organisational structures. Rather, the emergence and functioning of accounting in its various contexts is a complex phenomena, due to the interplay of many different influences (Stewart, 1992, p.61).

Stewart argues not without evidence. In fact, Foucauldian accounting histories have opened accounting researchers’ minds to being aware of the broader context of accounting in social phenomena. Accounting is no longer seen as only a technical and neutral apparatus. The emergence of the discipline appears not as a single dimensional aspect, but as a complexity of social, political, and economic phenomena in society. Loft (1986) has argued that it is time to understand the early process of the emergence of accounting, which is not merely a sophisticated technique for collecting and representing financial data for decision makers. It is a traditional view. Rather, she, with her modern view, using Foucauldian perspective, argued that accounting emerged as fundamentally constitutive activities within society. For her, accounting has no such teleology and her style of telling accounting history does not continue along smoothly with the chronological process of time.

Loft (1986) is not alone in arguing this. Similarly, Hopwood (1987) and Miller and O’Leary (1987) clearly stated that it is the wrong direction to take if we understand accounting as only technical processes and a calculative apparatus. Hopwood (1987) convincingly said in his research paper, The Archaeology of Accounting System, that
[r]ather than being perceived as an outcome of processes that could make accounting what it was not, accounting has more frequently been seen as becoming what it should be ... Relatively little has been done to advance our understanding of the pressures that impinge on accounting in practice; we have few insights into how the very practice of accounting might itself create a dynamic for accounting change and reform; and little is known of the precarious and often uncertain relationships which the practice of accounting has with the potential in the name of which it is advanced. Despite the fact that accounting has and still does become what it is not, despite the fact that accounting can be quite centrally implicated in wider processes of organizational functioning, and despite the fact that accounting gets mobilised in the name of ends that do not enter into its own justification (Burchell, et al 1980), many organizational enquiries into accounting have tended to see and study it in ways that are disconnected from the contexts in which it operates (Hopwood, 1987, p.208).

It is clear that accounting has been waiting for many years to change the meaning and the understanding in which "it operates". The need for an alternative view of accounting in action is significantly necessitated. Using an alternative account of Foucauldian perspective, Hopwood (1987) developed a new understanding of accounting employing three different case studies: Josiah Wedgwood's accounting history in the eighteenth century, the history of M business manufacturing, and Q manufacturing enterprise. It is very interesting to read how Hopwood describes a new understanding of accounting with three cases (ie., Josiah Wedgwood's company, M business manufacturing, and Q manufacturing enterprise) composed into a report on the history of accounting change\(^2\). In the Wedgwood case, Hopwood explicated that, during the eighteenth century, Wedgwood was a successful entrepreneur in coping with the big economic recession in 1772 and had his own way of developing an accounting system for costing.

Wedgwood had the idea that he might better survive the recession if he could lower his prices in order to stimulate demand. Such a view was conditioned, however, by the need
With the same inspiration of a Foucauldian perspective, Miller and O'Leary (1987) conducted research particularly concerned with the genealogical history of accounting in the USA. At the beginning of the account of their study, methodological and epistemological choices appeared as the main issues, and they said that

[accounting has remained remarkably insulated from important theoretical and historical debates which have traversed the social science. Accounting history ... is a context in which one can begin to substantiate this lack of a problematisation of the roles of accounting ... little or no suspicion seems to surface that different methodological starting points could be entertained, which could lead to rather different understandings of accounting's history (Miller and O'Leary, 1987, p.235).]

As they were aware of methodological importance, a Foucauldian perspective inspired their research question of how the emergence of standard costing and budgeting in the early part of the twentieth century was related to wider practices of control and power operations in organisations and society, particularly in the case of scientific management and industrial psychology. There is a principle which Miller and O'Leary would strengthen through their research resulting in a new understanding of accounting:

[accounting can no longer be regarded as a neutral and objective process. It comes rather to be viewed as an important part of a network of power relations which are built into the very fabric of organisational and social life. It is a constitutive element in a form of normalising socio-political management whose concern is with rendering visible all forms of activity of the individual in view of their contribution to the efficient operation of the enterprise and of society (Miller and O'Leary, 1987, p.240).]

They began the research by examining the existing history of standard costing and budgeting. According to them, there has been too narrow a view of seeing the
emergence of standard costing and budgeting. One instance derived from Sowell (1973) is seeing the existing histories of standard costing and budgeting "in a careful and detailed exposition of the ideas and techniques" which flows "in chronological succession, those revealed events, forces, individuals, and ideas" (p.241). A further instance is from Solomons (1968) who sees its development through "the lens progress". On the other hand, Miller and O'Leary place "a different interpretation on the emergence of standard costing and budgeting as a part of the unfolding of a socially useful theoretical-technical complex" (p.241). They examined the early part of the twentieth century accounting systems as a unique era in which a new set of disciplinary, power/knowledge discourse and discursive practices emerged. In particular, the research looks at the first 30 years of the century which saw the emergence of standard costing and budgeting over the whole range of individual, firm and national efficiency. They argued that the project of scientific management in relation to costing and budgeting system helped to render "the discourse of national efficiency". National efficiency was not alone, however; it was constructed by individual and organisational efficiency. In the USA, they illustrated that President Wilson in the early 1900s established a Bureau of Efficiency (the former name was the Presidential Commission on Economy and Efficiency) whose concern it was to put management science and Taylorism into practice, so that it could construct productive national efficiency. The practices were, as a result, followed by engineers, accountants and psychologists in order to produce healthy, happy and productive individuals within the organisation and the nation as a whole.

More recently, there have been still growing numbers of researchers adopting the Foucauldian perspective. They are Preston (1992), Walsh and Stewart (1993), Hopper and Macintosh (1993), Knights and Vurdubakis (1993), Hooper and Pratt (1993), and Miller and Napier (1993). Even though they had
different cases and a diverse range of research interests, their issues were similar and they wished to enlighten the understanding of accounting discipline in its social and political contexts. Preston (1992), using Foucault's genealogical method, as in his earlier research, *The Taxman Cometh*, (Preston, 1989), explored the emergence of transformations of discourses on accounting in the case of US hospitals.

**Accounting as a Form of Power—Knowledge**

With the growing development of adopting new perspectives on accounting research, the history of accounting today is characterised by no single 'essence' of objects that can be attached to the name of 'accounting' (Hopwood [1987] and Stewart [1992]). The history of accounting is regarded not as simple calculation in the form of chronological evolution, but as accounting changes in the wider social context both in content and form over time. New meanings and significance of understanding accounting have been invented or transferred from one domain to another to enrich the attribution of accounting in existence. As Littleton noted,

> accounting is relative and progressive. The phenomena which form its subject matter are constantly changing. Older methods become less effective under altered conditions, earlier ideas become irrelevant in the face of new problems. Thus surrounding conditions generate fresh ideas and stimulate the ingenious to advise new methods. And as such ideas and methods prove successful they in turn begin to modify the surrounding conditions. The result we call progress (Littleton, 1933, p.361).

Littleton has clearly noted that accounting is not static, and it is not chronological development. Accounting is progressive and changing. For him, accounting is changing in response to external factors surrounding progress. Additionally, Littleton's argument is strengthened by Miller and Napier (1993) taking an
essential of accounting change in response to internal factors, in accounting
knowledge itself. They said that "there is nonetheless an essential core that can
continue to be identified as accounting" (Miller and Napier, 1993, p.632). It is
accounting knowledge itself.

A self-evidence has come to be attached to particular modes
of calculation such as double entry bookkeeping and costing.
Whilst locating the emergence of such practices in time and
space has preoccupied numerous scholars, there has been a
curious inattentiveness to the question of what counts as
accounting, to the senses in which particular calculations can
be taken to belong to the entity "accounting", and the
implications this has for the domain of "accounting history"
(Miller and Napier, 1993, p.631).

Miller and Napier (1993) offer new ways of seeing the development of accounting
in itself, rather than seeing something else which is regarded as an external factor.
Accounting, for them, is not simply the chronology of a particular development,
but is seen in the broader context of how it developed in the social world.
Traditional accounting history, with its unproblematic differences between the
external (ie., organisation, economy and society) and the internal (accounting
knowledge itself) rarely questions the extent of accounting which could emerge
and develop as a form of power and knowledge. In this regard, bringing the
Foucauldian perspective to some aspect of internal factors which have shaped
accounting today will be explored.

The Development of Early Commercial Revolution

Ste. Croix (1956) in his study, *Greek and Roman Accounting*, conclusively
explicates that some evidence has been found to indicate the existence of
accounting practices at the beginning of the Classical Greek period. However, he
clearly shows that, even though there were accounting practices in the period, an
which he believed that there was evidence of "parallels between the shapes of tokens and those of the first signs of writing, establishing accounting as the prerequisite and impetus to writing and abstract counting" (p.5). With this richness of archaeological evidence, he concluded that the development of writing, in the sense of a new disciplinary knowledge, could extend its usefulness to transform 'abstract' knowledge into symbolic writing and record-keeping. However, ancient writing and its effect on the modern knowledge of accounting were long delayed, until a 'new' knowledge elite of Latin alphabets was introduced into the West which consisted of twenty one letters at in the time of Cicero (106-43 BC), ABCDEFGHIKLMNOPQRSTVX (Hooker, 1990). And later, Y and Z were added due to the influence of the Greek spelling upsilon and zeta about the first century AD. But the social impact of the new development of the Latin alphabets was extremely limited until around the eleventh and the twelfth centuries, when formal education, in the form of the university, grew up in Europe (Durkheim, 1977).

The birth of universities in Western Europe is observed by Durkheim (1977) who argued that the variety of knowledge, including the knowledge of alpha-numeric writing, had been the major breakthrough from the domination of the cathedral school in the Middle Ages. Universities emerged due to the appearance of a new logical-knowledge elite which, according to Durkheim (1977, chap.7), could provide universally accepted 'real' knowledge beyond the church and feudal system in the growing intellectual life of Europeans in the period of the Middle Ages. Latin alphabets were able to gain advantage through this development of the universities. The art of alphabetic writing has become so widespread that it now forms an integral and indispensable part of our culture.
Evans (1977) claimed that it is true to say that the 'advanced' development of theory and practice of arithmetic began when the Hindu-Arabic numerals flourished in Western Europe. The numerals provided an agent of change in computation procedures and practices. He argued that

When a twelfth-century translator came upon Al-Khowarizmi's arithmetic in Spain, he gave to the Latin world a more sophisticated method of calculation which, by reintroducing a symbol for zero, did away with the need for a fixed structure of columns, and enabled the calculator to substitute pen and paper for counters (Evans, 1977, p.115).

Some important points that can be drawn from Evans' findings are that Al-Khwarizmi was a Persian mathematician who made possible the development of Hindu-Arabic numerals with advanced calculus formulation in Western Europe. The Hindu-Arabic numerals and the combination of the Latin alphabets led to new sources of calculus knowledge, a definition of numbers and a fixed structure of columns. These aspects produced a vast new range of pedagogic re-writings of texts, documents and calculative descriptions, ie., techniques which provided grids in texts both internally and externally in the service of 'information-retrieval' and 'knowledge-production' (Evans, 1977). In the form of information-retrieval, Latin alphabets and Hindu-Arabic numerals became new modes of coalescence into a significant new social discourse. Keeping memory knowledge of past happenings and transferring knowledge to others became possible. And in the form of knowledge-production, Evans (1977) pointed out that handbooks on the use of the Hindu-Arabic numerals began to be written, at first on the use of the abacus and then on the pen-and-paper system known as the Algorism. Thus, it is that the coalescence of the Hindu-Arabic numerals and Latin alphabets enters, and then helps to shape a discourse committed to ordering and gridding of a kind never known before.
The emergence of universities and the process of alpha-numeric discourse undertaken by the twelfth century pedagogues need to be seen as a new kind of power-knowledge relationship. Durkheim (1977) identifies a central aspect of this as a shift from the traditional knowledge memory (i.e., information based on 'complex' structure of feeling) to formal information-retrieval and knowledge-production. Similarly, Saenger (1982) identifies this aspect through the process of reading 'aloud' (the prestigious mode of reading in antiquity and monastic culture) to silent reading and concurrently a shift in composition from dictation to writing. The scholars of the cathedral schools and universities began to use visual metaphors both to denote reading (videre, inspicere) and composition (scribere for dictare) (Saenger, 1982, pp.386-389). In Islamic law, a new 'critical reading' began to be developed when writing, as the service of information-retrieval, spread amongst the Muslims. Reading in the Islamic way depends upon the re-ordering and cross-referencing of four principles of texts as the basis of the Islamic legal system:

1. Al-Qur'an
2. The accepted doctrine of the Prophet
3. The consensus of the Islamic community
4. Analogical reasoning

Similarly, the new 'critical reading' had flourished in Roman law, Cannon law and Theology in Western Europe. The presentation of literary skills had been absolutely necessary to maintain that Christianity was a religion of the Book. Thus, writing and 'critical' reading became important in transforming knowledge of 'truth' by the re-ordering and cross-referencing of authoritative primary texts (i.e. the Bible).
Double-Entry as Disciplinary Technique

During the high-point of the development of intellectual awareness of Latin alphabetic and Hindu-Arabic numeric knowledge in the form of formal university education, from about the early twelfth century to the fourteenth century AD, double-entry bookkeeping appeared, apparently simultaneously, in several northern Italian cities (Ste. Croix [1956] and Chatfield [1977]). Double tabulation, decimal notation, and alpha-numeric combination appeared as new knowledge disciplines. Double tabulation became a new fashion in the process of financial accounts. Decimal notation and alpha-numeric combination sustained the appearance of accounting as a new social discourse. The processes linking with the process of commercial evolution during the same period after the Dark Ages to the fourteenth century led to a new movement in the development of 'modern' accounting.

Even though the early history of double-entry bookkeeping cannot be traced back with any accuracy, the earliest known examples of the technique are the account-book of Rinieri Fini and his brother of 1296 (De Roover, 1955). De Roover claimed that although it was not clear whether there was "... real balance showing the owners' equity and the composition of assets and liabilities" (p.407), it was certain that invention of the 1296 account-book was to separate the contents of assets and liabilities onto different sides. This difference was classified by debit and credit sides. As De Roover agreed with the view of the leading Italian scholars (i.e., Zerbi and Melis) about the importance of double entry bookkeeping on the classification of debit and credit, it was required that

... each transaction be recorded twice, once on each side of the ledger, so that debits and credits, when totalled, always are in balance, provided, of course, that there are no errors. Accounts must also be kept in the same monetary unit or
money of account. As a necessary consequence, an integrated system of accounts should include not only personal and impersonal accounts, but also real accounts (*conti elementari o diretti*), as well as nominal accounts (*conti derivativi*), which record operating results and changes in the owner's equity. To record these changes, both authors agree, is the main purpose of any accounting system (De Roover, 1955, p. 411).

The importance of De Roover's above arguments is that he puts forward the central idea of the existence of double-entry bookkeeping, creating new categories for classifying and evaluating business transactions, in a modern way. It was a technique that helped to organise and make sense of the business activities in monetary discipline. This included the way of making society aware of arranging a 'new' financial discourse. For example, financial reports can be used in a wider range of social needs, such as labour commitment, capital investment, social awareness, etc.

Moreover, the German economic historians, Weber, Sombart, and Schumpeter, made extravagant claims concerning the importance of double-entry bookkeeping, a system which plays a key technical role in enhancing rationality and furthering the development of capitalist methods of production. All of them claimed that it originated in Italy towards the end of the thirteenth century. Sombart stated that capitalist without double-entry bookkeeping is simply inconceivable. They hold together as form and matter. And one may indeed doubt whether capitalism has procured in double-entry bookkeeping a tool ..., or whether double-entry bookkeeping has first given rise to capitalism out of its own (ie., rational and systematic) spirit (Sombart, 1902)

In relation to Sombart's statement, Yamey (1978) argued that Sombart has greatly exaggerated the advantages of double-entry bookkeeping and the relevance of those advantages for the economic motivation and commercial performance of
business enterprises. With a detailed discussion, Yamey convincingly referred to some histories of international business enterprises which flourished in the fifteenth and sixteenth centuries. They were Andrea Banchi of Italy and Fugger and Welser of Germany. Both cases have been studied which indicated that the enterprises in their activities did not use the system of double-entry bookkeeping. Both could run and manage their business enterprises very well, even though the system of double-entry bookkeeping were invented. From Yamey's findings, it seems that Sombart's thesis is untenable. However, Sombart was not alone in stating the advantages of double-entry bookkeeping. Weber came up with a similar argument to support Sombart's thesis. He, dramatically, also claimed that the emergence and development of accounting, as a practical technique used in business, is closely linked to the emergence of capitalism and the development of rationality. A rational capital accounting is his point which sustains the definition of modern capitalism. He stated that

> the most general presupposition for the existence of this present-day capitalism is that of rational capital accounting as the norm for all large industrial undertakings which are concerned with provision for everyday wants (Weber [1927], 1981, p.276).

His argument is strengthened by his later book published in 1956 entitled Economy and Society. Rational capital accounting, according to him, involves "the valuation and verification of opportunities for profit and of the success of profit-making activity by means of a valuation of the total assets (goods and money) of the enterprise at the beginning of the profit-making venture, and the comparison of this with a similar valuation of the assets still present and newly acquired, at the end of the process" (Weber [1956], 1978, p.91). Accounting in the form of double-entry bookkeeping makes it possible for capitalists to evaluate rationally the consequences of their past decisions. They could calculate exactly in the form
of calculus arithmetical knowledge from the sources available to them (ie. capitalists) and to those who wished to predict the opportunity of their enterprises in the future. Calculation discipline in accounting became an agent for creating new modes of social discourse.

Sombart and Weber did not stand alone in arguing the connection of double-entry bookkeeping in the form of 'new' calculus knowledge in accounting, rationality and capitalism. Joseph Schumpeter, an economic historian, has a similar argument. Like Sombart and Weber, he argued that

Pre-capitalist man is in fact no less "grabbing" than capitalist man ... Capitalism develops rationality and adds a new edge to it in two interconnected ways. First it exalts the monetary unit - not itself a creation of capitalism - into a unit of account. That is to say, capitalist practice turns the unit of money into a tool of rational cost-profit calculations, of which the towering monument is double-entry bookkeeping. Without going into this, we will notice that, primarily a product of the evolution of economic rationality, the cost-profit calculus in turn reacts upon that rationality; by crystallising and defining numerically, it powerfully propels the logic of enterprise (Schumpeter, 1943, p.123).

Schumpeter (1943) emphasised that double-entry bookkeeping contributed to the historical emergence of a 'rational world view'. Business enterprises and other social disciplines that embraced the new method of double-entry tabulation enjoyed a technical advantage that could possibly see a 'transparent' process in financial flows. A modern example can be found in the form of debit and credit used to record every transaction within an institution. Every expense or revenue of the institution recorded twice, as a means of check and re-check, debit and credit are always involved to discipline a process of 'rationality' in accounting knowledge.
Even though the arguments on the superiority of the origin of double-entry bookkeeping, launched by three leading German economic historians, has been challenged by Yamey (1964) and Pollard (1964, 1968), it gave rise to a curiosity on the importance of the 'calculus' system of double-entry bookkeeping (eg., Carruthers and Espeland [1991]). Without doubt, the calculus knowledge and procedures of double-entry bookkeeping (ie., the calculation of profits and capital of an enterprise) are capital points and important aspects in social discourse. The calculation became a mode of information-production which could reveal reality in 'abstract' counting. Journals of transactions, ledgers, and separate accounts of assets and other financial items (eg., capital, liabilities and expenditures) are examples which accounting claims as strategic 'calculative' knowledge. According to Pacioli (1494, 1924), who had claimed to have popularised double-entry bookkeeping into 'modern' practice, the calculative system could convince an enterprise to keep the books as both a service of information-retrieval and a form of information-production. More importantly, the system which Pacioli (1924) prescribed could be used to convince sceptics of the legitimacy of commerce in general and the integrity of the business enterprise in particular. Aho (1985), in his study Rhetoric and the Invention of Double-Entry Bookkeeping, showed how Pacioli's method of double-entry bookkeeping corresponded in form to classic Ciceronian rhetoric. The elements of an account, as described by Pacioli, were the inventio (the inventory), and the dispositio (memorandum, journal, and ledger). He suggested that the calculative system of double-entry bookkeeping also answer ethical problems faced by society, firstly, by integrating profit-seeking into the Christian cosmos (thereby avoiding charges of the sin of avarice) and secondly by providing a 'just' explanation of business activity via the system of double-entry bookkeeping which balances debits with credits, advantages with sacrifices, receipts with payments, and so on.
Power of Accounting

Pacioli [(1494), 1924], in his famous book, *Double Entry Bookkeeping*, stated that

> the present treatise will serve all their needs with regard to accounts and recording, and for this reason only do I insert it. I therefore intend to give sufficient rules to enable them to keep all their accounts and books in an orderly manner. ... Three things are necessary to one who wishes diligently to carry on business ... the most important is cash, or any other substantial power (facolta) Unum aliquid necessario est substantia, without which the carrying on of business is very important. ... The second thing looked for in business is to be a good accountant and sharp bookkeeper and to arrive at this, as we have seen above, we have regular rules and canons necessary to each operation, so that any diligent reader can understand all by himself ... The third and last thing necessary is that all one's affairs be arranged in good order so that one may get, without loss of time, all particulars as to the debit and also the credit of all of them, as business does not deal with anything else. This is very useful, because it would be impossible to conduct business without due order of recording; for without rest, merchants would always be in great mental trouble (Pacioli (1494), 1924, p. 11).

This is Pacioli's first argument in his famous treatise on double-entry bookkeeping, published in Venice in 1494. Starting with this idea, Pacioli began to develop the first and most influential textbook on the technique and procedure of double-entry bookkeeping. Thirty-nine chapters had been written up to the completion of the treatise. It is widely recognised that Pacioli popularised the system, but did not invent it. He also did not say that his book was the original invention of it. The technique of double-entry bookkeeping was developed by merchants who were believed to have had 'advanced' knowledge of calculation based on the spread of the Hindu-Arabic numerals and the combination of Latin writing in northern Italy in the twelfth century to the early fourteenth century (Ste. Croix, 1956). The characteristic of double-entry bookkeeping was the fact that all transactions within an enterprise were recorded twice, known as debit and credit
sides. As described by Pacioli, the debit side pertained to 'debtor', whereas the credit side pertained to 'creditor' (Pacioli, 1924, p.28). From the treatise, then, the distinction between 'debit' and 'credit' has become 'two faces of a coin' which cannot ignore each other. The debit and credit sides are understood in the accounting field as a unique form of calculus knowledge.

Through the calculus system of debit and credit, double-entry bookkeeping gained a power which could establish its legitimacy and enhance its credibility. In a practical sense, double-entry bookkeeping explicitly recorded and documented the balanced nature of all transactions within an enterprise, thus providing the legitimacy and justness of the business. As Bryer (1933) noted, double-entry bookkeeping has been believed as an ideology where, for "every 'debit' there must be 'credit'" (p.13). Every transaction (or more generally, event) is always recorded twice so as to maintain the balance sheet equation (assets - liabilities = equity). Its effect on the equity could reveal the change in net assets, or profit and loss. Aho (1985) observed that "the conclusion of the balance sheet, ... is not simply that such and such is the net worth of our business, but rather that such profit is morally legitimate. And it is so, because it arises from a fundamentally equitable and balanced transaction" (Aho, 1985, p.33).

From Pacioli's text of 1494 to the practice of accounting in the twentieth century, there are relatively few changes in terms of calculus knowledge of double-entry bookkeeping (Winjum [1972] and Chatfield [1977]). However, many changes can be found in establishing the legitimacy and enhancing the credibility of accounting knowledge (Hopwood [1987], Tyson [1993], Miller and Napier [1993], and Chua and Poullaos [1993]). Accounting is understood as a combination of 'calculus' thinking (as a technical aspect) and social and political aspects. Chua and Poullaos (1993) pointed out that
[a]s accounting comes to be seen not as a technical activity but as a social practice that is deeply intertwined with wider socio-political institutions, researchers have focused on the institutional arrangements that represent, regulate and examine accounting practitioners and their work (Chua and Poullaos, 1993, p.691).

Based on this development, accounting practices are remarkably varied. Merchants in the fourteenth and fifteenth centuries were different to the current development of modern business in the form of technical accounting applications (see Pacioli (1494), 1924).

**Accounting and the Construction of Individual and Organisational Efficiency**

It is possible to identify many tendencies underlying the development of the accounting craft. One could possibly point to particular aspects of emerging bodies of knowledge and practice or to the changing patterns of influence on them. It could be highlighted by seeing accounting in the form of developments which are of organisational and social significance. For the purposes of development, Burchell, et al (1980) gave two particular tendencies sustaining the power of accounting: 'the increasing institutionalisation of the craft and the growing objectification and abstraction of accounting knowledge.' Both of these tendencies play an important role in enhancing our understanding of the accounting craft. Undoubtedly, much accounting change has resulted from such conceptions (cf., Hopwood, 1987). The creation of new forums, both for accounting deliberation and debate, and for the introduction of accounting change, is an example of how accounting could possibly be understood in the organisational context.

The institutionalisation of accounting has occurred at both the organisational and social levels since the introduction of double entry bookkeeping
(cf., Yamey, 1978). Within both private (eg., business enterprises) and public organisations (eg., government and state agencies), financial records and all matters of bookkeeping came to take on a new significance and influence as accounting became a more all-embracing form of organisational practice (Chatfield [1977], and Burchell, et al [1985]). As accounting techniques increased (eg., budgeting and standard costing, organisational control, planning and resource allocation), an individual accountant within an organisation came to be an increasingly respected member of the management cadre. Miller and O'Leary (1987) observed that between 1900 and the 1930's in the United States of America, accounting, in the particular case of budgeting and standard costing, provided quite a novel theorisation and technique which could serve to render visible the inefficiencies of individuals within an organisation. Accountants, as individuals, could contribute an organisational efficiency through their ways of setting up budgeting and standard costing. Accountants created a 'new' notion of efficiency concerning individual and organisational control in relation to the private and public organisations. Miller and O'Leary (1987) pointed out that the notion of efficiency is concerned with 'its pliability and ability' to supply a point of focus for arguments covering a vast range of issues. The notion is extended not only to private businesses and governmental organisations, but also to national and social efficiency. With the new notion of efficiency, Miller and O'Leary believed that the comprehensive power of accounting knowledge emerged for every individual concerned with efficiency. Apart from its effect, accounting departments were created as organisations aware of 'efficiency'. Specialist staff in accounting were then recruited, emergent accounting systems formalised, standardised and codified, links with other forms of management practice established and, in terms of financial information, accounting reports were required. Moreover, accounting itself came to have diverse roles. As accounting developed, a more fragmented endeavour of accounting knowledge was also
required to support the growing applications of accounting in diverse forms, such as social responsibility accounting, organisational and social efficiency, and the requirement of separation between the presentation of internal financial information and the management of corporate liquidity and financial structure (cf., Burchell, et al, 1980).

Miller (1990) conducted research on the history of interrelations between accounting and the State by using the case of the 'Colbert period' of Louis XIV's reign, 1661-1683. In the research, the institutionalisation of accounting occurred with regard to a number of distinct elements: "the legal regulation of private enterprise accounting through the Ordinance of 1673; the publication alongside the Ordinance of textbooks explaining and commenting on it, and providing more general advice and instructions to merchants; and the elaboration of specific rationales accounting to which these distinct innovations were articulated and represented" (Miller, 1990, p.321). The power of accounting knowledge penetrated into organisational existence during the Colbert period. Colbert, as a minister, introduced a process of systematic and detailed information flows of accounting from the provinces to the centre in France. The accounting information system was designed according to the ratio of the increase of government administration to social practices. Its contribution can be seen from the way Colbert's system of financial accounts produced detailed information on government and business life. Miller (1990) said that

this derived from the linkages and relays established between the formal requirement to keep books of accounts in certain specific ways, the emergence of pedagogic mechanisms for instructing merchants in the mechanics of accounting, and ways of representing the importance and roles of accounting in terms of a discourse of "order". ... The existences to the reporting systems of the realm took place within a programme of government that sought to identify the characteristics,
Accounting was one of the most forceful and readily identifiable forms in which the notion of systematic control and efficiency appeared in the late seventeenth century in France. The programs, such as setting out "general principles and detailed requirements for recording and authenticating the financial activities of private enterprises, reforming state finances ...," were the central features of accounting in practice (Miller, 1990, p.323).

The growing development of accounting in the organisational context did not separate it from the professionalisation of the accounting craft. From their early emergence, the professional institutes provided an interface between the growing agencies of the government, business enterprises and society. Chatfield (1977) observed that since the first society of professional accountants, Collegio dei Rexonati, established in Venice in 1681, the accountants were involved with the administration of the early commercial codes. In England and Scotland, almost from its birth, the profession played a major part in the consultancy of commercial and industrial lives and regulations (Chatfield [1977], and Loft [1986]). Bankruptcy Acts, Companies Acts and other commercial regulations have been created with the involvement of the profession. Burchell, et al (1980) stated that the profession emerged with complex tasks in relation to commercial organisational lives. In the case of the US, even though the profession emerged at first with no strong foundations in law, in later development it came to flourish on the basis of government intervention. An innovation took place with the establishment of a relationship between the profession, the state and society. In fact, the establishment of the SEC (Securities and Exchange Commission) in the USA, for example, gained a regulatory power in society with the involvement of the profession allowing the investment of the institutional mechanisms, such as
"explication, standardisation, and codification of financial practice, which could progress through the Accounting Principles Board to the Financial Accounting Standards Board" (Burchell, et al, 1980, p.7).

The emergence of the professionalisation of accounting generally provided a new atmosphere for the spread of accounting discipline in society. In fact, the profession became a specialised body for the standardisation and codification of accounting practice. The existence of the profession was also recognised as an agent of change in accounting practice and a forum for accounting deliberations and debates. Its power extended not only to technical knowledge, but also to the social interplay between the state and government, business enterprises and society in general. Hopwood (1987) stated that it is no doubt that, as a discipline, accounting has invested a great deal in the articulation of abstract bodies of knowledge concerned with economic and social life. Efficiency is a key word to the articulation of the knowledge (See also Miller, 1990). In the name of efficiency, accounting has been implicated in the design and application of management practices both in private and public enterprises. Within enterprises, accounting procedures, for example, came to be systematically codified in charts and manuals. Financial risks and uncertainties, which were considered to be important aspects for managerial judgment, were now being quantified, with the decisions taking more of a calculus form of knowledge. Advanced development in the practices of budgeting, standard costing and planning have provided an apparatus for the co-ordination of inter-organisational department activities. Social concerns on environment and social efficiency have been involved in the range of accounting knowledge and discipline.
Accounting and Social Practice

The emergence of accounting discipline cannot be considered purely as an organisational phenomenon (Burchell, et al., 1980), but is embodied within the society of which individuals and organisations are a part. Both phenomena (organisation and society) have come to play major roles in accounting processes. Indeed, many of the important accounting innovations have occurred within numerous organisations and social processes. One way of illuminating the social nature of accounting discipline is through an understanding of its socio-cultural variations. A study by Loft (1986) is an example. She argued that the development of accounting discipline varied amongst societies. The success of Japanese manufacturing enterprises, for instance, has occurred without the same massive commitment to management accounting that has been practiced in Western cultures (ie., the United States of America and the United Kingdom) (see Dugdale, et al., 1992). The difference is not due to the great distance between the East and the West. Amongst Western continental countries, accounting practices have been applied with various emphases. Horowitz (1980), in his study: *Top Management Control in Europe*, found that British management control practices placed more emphasis on financial techniques than those in Germany. Dugdale, et al (1992) stated that British entrepreneurs had more experience in managerial control. It can be argued that societal variations have influenced the way accounting practices. Thus, one society may vary to another in the application of accounting. It depends upon the interaction and discourse of both society and accounting itself.

A multitude of different social significances has been embodied in the development of accounting (Burchell, et al [1980], Hopwood [1987], and Knight and Collinson [1987], Miller et al [1991]). For Hopwood, accounting served as a dynamic phenomenon. Over time, it has changed repeatedly. New ways of
sustaining integrity, legitimacy, effectiveness and power of the accounting have emerged in response to social practices. It has been called upon to serve an ever greater variety of different and changing purposes. A variety of information has been served to organisational activities, processes and outcomes. Different accounts have also been created to follow and create the social and environmental patterns and different emphases have been incorporated into accounting practices.

Robson (1991) stated that since its emergence, accounting has had multiple roles in social activities. With the three interrelated concepts, 'political, economic or theoretical discourses and rationales', he described historically the process of accounting changes in relation to the various types of accounting practices. Over time, accounting practice has been implicated in the creation of very different patterns of problems in society. With the case of the genesis of the standard setting programme in the UK, Robson (1991) indicated that three major accounting disciplines appeared as social power in rational discourse. These were (i) industrial policy and corporate mergers; (ii) finance, investment knowledge and company accounts; (iii) the Accounting Profession, Professional Regulation, and Accounting Standards. In such developments, accounting has been seen as implicated in the operationalisation of dominant economic and social lives.
Notes:

1) What I mean by "many disciplines of the social sciences" is all perspectives except 'positivist' or 'functionalist' methodology in the social sciences. Of course, I am aware of the failure of 'positivism' and its collapse, as it has been exclusively attacked from many different angles of philosophical foundations by accounting researchers (e.g., Lowe, Puxty and Laughlin [1983], Sterling [1990], Gaffikin [1987, 1988, 1989], Chua [1986]). Thus, central attention is drawn to the wide-critical accounting perspective in conducting accounting research.

2) In this account, the second and third cases of Hopwood's study are not intended to be explored. The attention is on the first case of Wedgwood's accounting history which provides a focus on the emergence of accounting in its context of Wedgwood's enterprise. For more detail of those two cases, see Hopwood (1987).

3) It is argued that accounting without the double-entry system is difficult to distinguish from mere financial record-keeping, which may not be systematic of debit and credit entries. Baxter (1948) pointed out that the double-entry system of bookkeeping is a unique invention to accounting, and it is only because of its presence that the accounting field and knowledge is treated on its own disciplinary territory.

4) Mathematics originally was an invention by a Persian mathematician, Al-Khwarizmi who in the ninth century AD, wrote an arithmetical treatise in Arabic in which the modern Hindu-Arabic numeral notation was expressed completely by use of calculations. It was adopted by Muslim Spain and then spread into Western Europe.

5) There are several great names amongst the earliest Western scholars who brought the Hindu-Arabic numerals to popularity. Gelbert of Aurillac, subsequently Pope Sylvester II was credited with introducing the new numerals to the West for use in connection with the abacus. The others were Abelard of Bath and Leonardo of Pisa who also contributed to the spread of the numerals by their writings on arithmetic introducing the Hindu-Arabic numerals (Hodgett, 1972).

6) The term 'archaeology' in Mattessich's study (1994) is different from what has been used by Foucault (1972), Archaeology of Knowledge, Hopwood (1987), The Archaeology of Accounting System, and Gaffikin (1988), The Archaeology of Accounting. Mattessich (1994) used the term "in the sense of digging out [and] interpreting prehistoric and ancient objects in the literal sense"
(Mattessich, 1994, p.6), whereas they regarded the term in an extended sense as a *metaphoric* way.

7) In the birth of universities, the name of Peter Abelard cannot be ignored. He was a great man who pioneered the establishment of centers of education, i.e., the universities (in detailed see Durkheim [1977] and Murray [1978]).

8) Though Muslim Spanish has claimed to have the origin of double entry, largely on the first adoption of the Hindu-Arabic system of numeration, it is probable that it originated in several northern Italian cities, where the practice of double-entry, as well as a form of bookkeeping, was well established in Venice, Genoa, Florence and Perugia (De Roover, 1974).

9) Yamey (1964) and Pollard (1964, 1968) criticised a strong argument of Weber, Sombart and Schumpeter. Yamey (1964) stated that the argument of the superiority of double-entry bookkeeping has been exaggerated in the sense of "releasing, activating, stimulating or accentuating the "rationalistic pursuit of unlimited profits", ... in the capitalistic spirit" (Yamey, 1964, p.117). They are also not without challenge. For example, Mckendrick (1970) rejected Pollard's (1964) argument (see Mckendrick [1970] and Carruthers and Espeland [1991]).


11) There was a contradiction of the view of accounting and social change between Gilling (1976) and Wells (1976). Gilling claimed that accounting changes occur with response to environmental change, whereas Wells (1976) argued that accounting has power to affect changes in environment. However, out of these contradictions both recognised implicitly something of the 'duality' of accounting changes (see also Burchell, et al., 1985).
Part Two:

The Genesis of Accounting in Indonesia
Chapter IV

The Dawn of Indonesian History:
Early Social and Economic Structure

Relatively, little is known of the actual process of its [bookkeeping] formulation. Yet, enough fragments of old account books and descriptions of old practices are extant to indicate quite clearly that bookkeeping as it is today is not the invention of one man nor the product of a single generation, but that it is rather the result of a long evolution.

Littleton, 1933

There is a sense in which it is "true" to say that all history begins from the present point of view and is related to it. The historical questions of inquiry which ask about the past usually arise from our own preoccupations with the present. Foucault (1972) stated that the history of the present should be directed towards understanding how and what now counts and thinks as being `true' came to be regarded as so. His historical inquiry made an important distinction from traditional history. He did not concern himself with capturing the meaning or significance of the present and past epochs. He was not concerned with getting the whole idea and picture of a past epoch, person or institution. However, what he was concerned with was how history emerged and what aspects history influenced. Certainly, this study is consistent with Foucault's thesis that how and what questions are major enquiries in investigating the genealogical process of accounting in Indonesia.
Before investigating more closely the history of Indonesia, let us look first at the stage setting, the country to which this history belongs and from which it has sprung. Geographical features are the main concern of the stage setting of the country. The geographical features are not the only ones determining historical events, but they do provide an important framework for the right way of investigating some aspects of historical meanings in Indonesia. According to Foucault, the way of looking at knowledge (savoir) and power, science, and discursive formation in the phenomena under investigation is by considering geographical discourse (Foucault, 1980, pp.63-67). He requested us to

... take a look at these geographical metaphors. Territory is no doubt a geographical notion, but it's first of all a juridico-political one: the area controlled by a certain kind of power. Field is an economico-juridical notion. Displacement: what displaces itself is an army, a squadron, a population. Domain is a juridico-political notion. Soil is a historico-geological notion. Region is a fiscal, administrative, military notion. Horizon is a pictorial, but also a strategic, notion.

There is only one notion here that is truly geographical, that of an archipelago. (Foucault, 1980, p.68).

The Indonesian archipelago is a metaphor for seeking knowledge and power. However, it is not simple. The archipelago is a complex territory which hides a long history of mankind and social culture. The archipelago, consisting of land and sea areas, is about two and half times the land area of Australia. The total land area is only about 735,381 square miles which are spread over 13,677 islands that make up Indonesian territory. This area is about one and a half times the area of New South Wales, or a little larger than Queensland in Australia. At the extreme west of the group of islands lies Sumatra, spreading from northwest to southwest. At the extreme east of the archipelago, New Guinea forms a transition to the Australian world. Indonesians refer to those two extremes: west to east as
Tanah Air Kita (our land and water), from Sabang in the west, to Merauke in the east.

At the northern side of the archipelago, there lies Kalimantan (Borneo), Sulawesi (Celebes) and the Maluku (Maluccas) Islands. South of this group the chain of the Sunda Islands spreads between Java and the Australian continent. Thus, if we look closely at a globe, the Indonesian archipelago is a bridge between the two great continents of Asia and Australia. More interestingly, in the atlases commonly use in Australian, New Zealand, and Indonesian schools, the Indonesian archipelago is the centre of the world. It also straddles the Equator between the Indian Ocean to the west, and the Pacific Ocean to the east. To the north are China and Japan, to the northwest, India and Arabia. The Indonesian archipelago, particularly Sumatra and Java islands, are, from one direction, a door-way from India to China. The ebb and flow of trade for centuries preceding the steam ship and aeroplane were determined by the monsoonal and trade winds. The archipelago provided a convenient midway point where the merchants of the civilized world met and exchanged goods. The point that needs to be emphasised here is that Indonesia, which has geographical metaphors such as territory, domain, soil, horizon, geopolitics and region (Foucault, 1980), also has a relation of power and knowledge. For Foucault, once knowledge is analysed in terms of region, domain, implantation, displacement and transposition, one is able to capture the process by which knowledge functions as a form of power and which disseminates the effects of power. In Indonesia systems of domination and administration exist to indicate geographical and strategic metaphors.

In this study, the term Indonesia will be used to indicate the whole complex of territories which nowadays form the Republic of Indonesia. The name Indonesia was given by a German ethnologist and has been used since 1884 and
means *the Indian Islands* (Vandebosch, 1942, p.1). In the original meaning, *Indonesia* was the term given to geographical areas indicating all the islands between Australia and Asia, including the Philippines (cf., Vlekke, 1943). It also indicates the whole complex of territories in which each island or territory has diversity in culture and society (cf., Furnivall, 1939). The term *Indonesia* came into popular usage after a Youth Congress held in Batavia (now, Jakarta) on 28 October 1928 (Ricklefs, 1981, p.177). The Congress urged the cultural and political trends towards Indonesian unity. The idea of Indonesian unity was that the hundreds of different ethnic groups and more than thirty languages and dialects should be united to eliminate conflicts among themselves. Togetherness and associated ideas to develop the future of Indonesia were the main concern of this unity. The culmination of the 1928 Congress was the launching of three ideals of Youth Pledge which were (1) one fatherland, *Indonesia*; (2) one nation, *Indonesia*; (3) one language, *Bahasa Indonesia*, the language of unity. This was adopted by the Indonesian nationalist movement and made the official name for the Indonesian territories which are now the Republic of Indonesia. ¹)

**Early Trading Posts and Kingdoms**

From earliest human history, there is evidence to indicate that mankind had resorted to keeping a record of events. And every civilisation, whether ancient or modern, which had a commercial background and a 'government' or 'administration', had adopted some form of recording of its economic transactions which is really the basis of all accounting knowledge. It is believed that the idea of recording transactions using a system of double entry bookkeeping and a judgemental analysis according to its effect is a revolution in accounting. Littleton stated that
The antecedents (or ingredients) of double entry - those factors which in time became so interwoven as to render double entry inevitable - are all familiar quantities some are very old and most of them very obvious, but all are, in my opinion, indispensable:

The Art of Writing ...; Private Property ...; Money ...; Credit (i.e., incomplete transaction) ...; Commerce ...; Capital ...(Littleton, 1933, p.12).

In this, as in many other spheres of human activity, Indonesia can also justifiably claim to be a pioneer in commercial activity and in record keeping. Its history can be traced from the beginnings of Indonesian civilisation to the beginning of the Christian Era when commerce and trade flourished and state craft also attained an advanced stage of development (Schrieke, 1955). Commerce and administration were adopted to meet the flourishing trading contacts in the regions of the archipelago. The development of the early kingdom of Indonesia led to its further impact on the development of commercial and administrative systems, such as barter, to the 'currency' system and record keeping.

Commerce was a strong influence in the historical development of Southeast Asia, and particularly Indonesia. In association with civilisation and human resources, commercial currents influenced the rise and fall of political units, institutional changes, and appropriation of alien cultural, religious and art forms (Leur, 1955, pp.87-88). Sea-borne commerce traditionally followed the rhythm fixed by the arrival and ending of the monsoon seasons surrounding Southeast Asia, West Asia and East Asia. About a thousand years BC., the main commerce routes of the world passed through Southeast Asia, including the Indonesian archipelago (Robertson and Spruyt, 1967, p.35). The principal commodities included perfumed woods and resins, gold and precious stones, and spices and other condiments from Southeast Asia itself. Other commodities were
silken yarns and fabric, tea, and porcelains from China and high quality cotton textiles from India.

It is fascinating to note that Chinese historical evidence shows that trading connections amongst Asian regions have existed for a long time (Simkin, 1968). China, India, the Middle East, and Southeast Asia, including Indonesia, were amongst countries which were actively involved in sea-trading contacts. The traditional Chinese journey to the civilised world of India and the Middle East was, for a long time, the overland silk road across Central Asia. It was by this route that Buddhism from India reached China in about the first century AD. In a reverse from the Chinese traditional land road, traders used the sea voyage when they returned from India to China. Leur (1955) states that the earliest Chinese pilgrim Fan-Hsien and others went to India for the purpose of visiting Buddhist shrines and assembling the Pali scripture while travelling the silk-road across central Asia, but returned by the coastal routes from India to China. When the Han dynasty flourished, the Chinese developed shorter trade connections with India. The sea was also an alternative official route to India for diplomatic and trading contacts with India (cf., Simkin, 1968). On the voyage to India, the Chinese had realised that some important ports existed and therefore visited them. Some of these ports were the Island of Gold (indicated as Sumatra), the Land of Diamonds (Kalimantan), and the Island of Grain (Java). Wolters (1967) indicates that the Chinese traders were keen to visit these ports in Indonesia (ie., Sumatra, Kalimantan, Java, and Maluku) on their return from India. Chinese foreign traders recognised the wealth of these Indonesian islands in providing interesting products, such as cloves and spices. The Chinese also exchanged their products, such as porcelain and silk.
Indonesia in the Early World Sea Trade

It was during the early part of the second century that the Indian impact on the Indonesian archipelago increased greatly in respect of trading activities. Increasing contact took place across the region and beyond as a developing network of communication appears to have stretched from the Southeast Coast of China to the Bay of Bengal, India, along the coast of the mainland and out into the islands of Indonesia. Archaeological information from the early second century suggests that this was a time of dynamic advancement in various ports of the Indonesian archipelago (Hall, 1981). Wet rice agriculture and spices became established during this century. Knowledge of bronze-casting spread across the region. Robertson and Spruyt stated that

Experienced sailors, the Indonesians of the western islands had long bartered goods between themselves, and had travelled to India, Cambodia, the Philippines and Malaya in their small boats. Pepper, ivory, gold, wax, diamonds and grain were to be obtained in exchange for Indian cotton goods, dyes and herbs. (Robertson and Spruyt, 1967, pp.36-37).

It can be understood here that a barter system was used as a trading exchange. There was no indication of money or coin in the early part of the second century. The barter system was the most used of trading practices. Barter between pepper and spices of Indonesia, cotton and dyes of India and silk and ceramics of China had dominated the trading exchanges amongst the traders.

The earliest archaeological vestiges indicates the dynamic advance of trading activities in the Indonesian archipelago and are found in East Java, in Sumatra (near Palembang) and in Sulawesi (at Sempayan) (Wolters, 1967). Wolters found that a few broad outlines of Indonesian proto-history, discovered in
Sumatra, reflected the development of early Indonesian commerce with the outside world up to the emergence of the maritime empire of Srivijaya in the second half of the seventh century.

... in the second half of the seventh century the route unquestionably led first to South-eastern Sumatra. This is made clear by I Tsing.

Form here [Tamralipti] one sails South-eastwards for two months and reaches Chieh-ch’a [Kedah]. This place belongs to Fo-shih [Srivijaya]. The time when the ship arrives is the first or second month. If [one goes from Tamralipti] to Ceylon one makes one’s way by ship in a South-western direction. It is said to be seven hundred stages [Yojana] away. One remains here [Kedah] until the winter season. Then one sails by ship Southwards for about a month and reaches Mo-lo-yu chou [Melayu]. It is now the Fo-shih-to kingdom. The time of arrival is also the first or second month. One stays here till the middle of summer and [then] sails to the north. After travelling for rather more than one month one reaches Canton. The journey [lit. voyaging and stopping] is such that one reaches Canton in the middle of the year (I Tsing, Vol.24, 695 and 713).

This was the way to China when Srivijaya flourished (Wolters, 1967, pp.227-228).

There is also some clear evidence that in the first half of the second century, Chinese sailors recognised an important commercial centre in Sumatra which they called Ko-Ying (Hall, 1981, p.39); it was an important centre of the trading connection between India and China. At this time, it has been recognised that the main route of international trades through Southeast Asia ran across the northern end of the Malay peninsula through the Mon state of Tun-Sun (Wheatley, 1961, p.286). East-West trade passed through these straits between the Malay peninsula, Sumatra Island and Java island. The command over these straits was the key to the power and prosperity of Ko-Ying in Sumatra (Chatterji, 1967). Chatterji observed that Ko-Ying was the first kingdom to gain power in controlling the coastal
regions of Sumatra Island. All foreign traders passing through the regions had to obtain permission from the central kingdom, otherwise there would be war to oust the traders.

There is also fascinating evidence concerning the early Indonesian commerce on Java island. Drawing on the earliest inscriptions on Java island, Wolters (1967) indicated that the earliest Kingdom of Punawarman, Lord of Tarumanagara, in west Java (near Jakarta) had been in contact with the Chinese. The Kingdom sent messengers to the Chinese Imperial Court in 132 AD, and sent occasional envoys who remained until about 500 AD (see also Robertson and Spruyt [1967]). Each mission had to be responsible for giving gifts to the emperor and promising obedience to the Imperial decrees, as was only fitting for a small kingdom.

From Indian archaeological records, there is a clear indication that in the second century, great trading activities flourished on Java island. For example, Robertson and Spruyt (1967) claim, that at the time Indonesian trading activities reached Madagascar across the scarcely-known Indian Ocean. Madagascar (East Africa) was the furthest destination to be visited by the early Indonesian merchants. They carried their products and introduced their language in social and cultural exchanges. The products indicated by Cady (1964)'s findings were jams, bananas and sugar cane. It is not known whether coins at the time were used or not. However, a number of archaeological records suggest that the barter system dominated the trading system at this early time (see Coedes [1975]). Zainu’ddin (1968) also supported the indication of an increased trading movement in Java about the second century. At the time, the bulk of the early trade between the Indonesian islands, particularly Sumatra and Java, and China was initiated by Indonesians and carried on in Indonesian ships.
From a Roman Empire inscription, Miller (1969) discussed the spice trade from 29 BC. to 641 AD. He indicated that the spices known to the Roman Empire may have come from Southeast Asia, in particular from Indonesia. He also discussed the most probable routes by which the Indonesians reached the west. The archaeological evidence from Roman records on Southeast Asian spices shows that several products traded in areas such as India, China, and the Roman Empire came from the Indonesian archipelago (Miller 1969). These products included cinnamon, nutmeg, mace, sandalwood, cloves and betel nut. These products are indigenous to the Indonesian archipelago, except cinnamon, nutmeg and mace. 3)

Of the particular products known from Roman sources, early Chinese sources, Indian sources, and Indonesian inscriptions, it is clear that an important trading centre existed somewhere in the Indonesian archipelago. It is reasonable to suppose that during these early periods, the Indonesian archipelago, somewhere in Sumatra and in West Java, was of some importance to trade in the area, especially to the spice trade - as an emporium transhipping goods to an international entrepot, at the time Tarumanagara, and at times trading directly with China.

The Hindu and Buddha Periods

For many centuries, there was a great Hindu influence on the Indonesian archipelago, especially in Java and Sumatra. Its influence was not spread by conquest from India, or by large scale migration, but rather by a process of trading activities over a long period of time. Klerck (1938, p.127) states that the influence of the Hindus on the Javanese was not radical, although Hinduism then had undoubtedly ruled over and spread through Indonesia. Being more highly educated than the indigenous Indonesians at the time, the Hindus from India met
with, and may have gained ascendancy over, the Indonesians in quite a natural manner and contented themselves therewith. It is self-evident that the Hindus then instructed the indigenous Indonesians in art, religion, court and government (Hall, 1981). It was believed that by spreading, Hindu culture and obeying Hindu rules, society could become enlightened; for example in Java, the earliest Hindu culture was practiced by a Purnavarman King of Taruna who promoted irrigation and practiced Brahmanical rites (Simkin, 1968). Evidence of this has been found near Bogor and Jakarta, narrated on Sanskrit epigraphs of ca. 450. Another example is the art of batik which was introduced by the early Hindus and has become a popular art to this day. The Indian concept of royalty, the god-king, the use of Sanskrit as the language of religion as the courtly literature, the introduction of mythology particularly in the stories of Ramayana and the Mahabharata are some examples of Indian knowledge which were introduced and have flourished in Indonesia.

Wolters (1967) traced, from Chinese sources, the existence from the third century AD of important settlements like Ko-Ying with thriving trade connections with India. Wolters found that there was a detailed account by the famous Chinese Buddhist pilgrim, Fa-Hsien, about 413 to 415 AD, who reached West Java from Ceylon. Fa-Hsien, who returned from Ceylon to China, wrote that in Java he saw many Brahmans (Hindu) with similar characteristics to Indian Brahmans. After a short visit to Java he sailed on to Canton (China) with two hundred Hindu merchants on board (Wolters, 1967).

Some inscriptions written by Fa-Hsien during his visit in India were:

During my travels I passed through several myriads of stages.
The fine treads of sorrow entangled my thought a hundredfold. Why was it, pray, you let the shadow of my
When Fa-Hsien returned from India to China and finally on to Indonesia, he wrote that

Many kings and chieftains in the islands of the Southern Ocean admire and believe (in Buddhism) and their hearts are set on accumulating good actions. In the fortified city of Bhoga, Buddhist priests number more than one thousand whose minds are bent on learning and good practices. They investigate and study all the subjects that exist just as in the Middle Kingdom; the rules and ceremonies are not at all different. If a Chinese priest wishes to go to the West in order to hear (lecture) and read (the original texts) he had better stay here one or two years and practice the proper rules and proceed to central India (Takakasu [1896] cited by Vlekke [1943, p.27]).5

This indicates that Buddhist ideology had been adopted since the second century AD. by indigenous Indonesians. Understanding of the theology and philosophy of Buddhism flourished at the time (Vlekke, 1943). Sumatra and Java islands were the main centres of Buddhist teaching because these islands were the central places of trading contacts between indigenous Indonesians and others such as the Indians and Chinese.

Some clear evidence concerning the Buddhist and Hindu influences in Indonesia can be seen from the Srivijaya (Buddhist) and Majapahit (Hindu) kingdoms. Both are said to have had an important role in increasing trading activities and to have exercised economic power over the Indonesian archipelago (Klerck [1975], Hall [1981]). It has been said that both kingdoms were the golden age of Indonesian history (Vlekke, 1943). Moreover, to link the advanced development of commercial, administrative and governmental matters, both also
provided some archaeological records that have remained until now. Most of them are to be found in old temples and in old stone records.

The Greatness of the Srivijaya Kingdom Period

When the account of Tome Pires' journey, the Portuguese official in the early sixteenth century, was published by Cortesso, scholars were attracted to the way he described the greatness of Srivijaya in the archipelago in relation to the importance of the Straits of Malacca.

 Whoever is lord of Malacca has his hand on the throat of Venice. As far as from Malacca, and from Malacca to China, and from China to the Moluccas, and from the Moluccas to Java, and from Java to Malacca and Sumatra, [all] is our power (Pires, 1944, p.287).

It is from the Straits of Malacca that the Srivijaya kingdom gained advantages and its prosperity (Simkin, 1968).

The archaeological evidence tracing the greatness of the Srivijaya kingdom mainly comes from Chinese chronicles and contemporary Indian works. Wang's study (1958) found that by the beginning of the sixth century, there were some reports in early Chinese trade mentioning Shih-li-fo-shih instead of Srivijaya in Indonesia. Srivijaya was reported to have been a state of considerable commercial importance in the southern sea from 600 - 1378 AD. These reports have been recorded not only in court accounts (Wang, 1958, pp.122-123), but also in Chinese Buddhist sources. Most of the Buddhist pilgrims from China passed through the southern sea and met a series of merchant ships ruled by the Srivijaya kingdom. Buddhist and foreign traders who transited in the Srivijaya port had to pay some tributes and port-taxes (Wolters, 1967). Exchange of products was also a major activity while preparing to continue their journey whether to India or to
China. The Srivijaya port became a transit place and also a central market for exchanging products. Its power was extended not only within the regions, but it also involved an arrangement of international administration, dealing with how to enable international ports of the Srivijaya kingdom to survive.

The French scholar, Coedes [1918], has traced back the term 'Srivijaya' in a work that has been called 'a romance of scholarship' (Meilink-Roelofsz, 1962). Coedes found from Old-Malay inscriptions that the Srivijaya kingdom existed and took power over a large part of the northeast of Sumatra island and also over part of the Malay peninsula. Java was also under the administration of the kingdom. There is archaeological evidence concerning the greatness of the Srivijaya kingdom in Central Java: the grand scale of the temple, Borobudur (built about the middle of the ninth century AD), the Kalasan temple (founded in 778 AD.) and many other small temples in Central and West Java. Within the Kalasan temple, archaeological inscriptions mention that it belonged to the King of the Srivijaya kingdom, Sailendra (Chatterji, 1967).

In the construction of Borobudur, the superstructure scale was developed in a square pyramidal form which can be categorised as Indian in concept and convention, but Javanese in choice of pattern and decorative detail (cf., Cady, 1964). Its hundreds of scenes in relief depict local plants, animals, and characteristic activities of the people. The religious and intellectual standards can also be seen in the relief. The aesthetic and moral appeal of Buddhism was dominantly engraved on the Borobudur relief. The low-gallery relief of Borobudur also provides clear evidence of trading transactions. Activities of the community were delineated as a complex society whose markets were a central place to exchange their needs. This indicates that commercial activities flourished in the exchange of goods. Very probably the products of the mountain areas were
brought down on small rafts made of rough timber or of bamboo lashed together, and probably included agricultural and forest products, such as benzoin, balsam, or resin of the tree native to Java. These products, particularly those of natural trees, were used for medicine and other traditional goods, such as sandals and brushes.

There are also some fascinating archaeological records regarding the trading development of the Srivijaya kingdom. One of the records was narrated by Zainu'ddin's study (1968) and showed that many groups of merchants had rapidly flourished in many towns during the Srivijaya dynasty. A market square in each village was developed to provide person to person contacts in bargaining products. There is no clear evidence of the trading systems, however the basis of barter could be indicated and coinage may have existed to some extent, giving scope to the activities of money-changers (Zainu'ddin, 1968, p.45). The indication of an existing coinage was perhaps linked to the existing merchants of different nationalities such as those from China, Arabia, Persia, and India. The merchants from the different nationalities, it would seem, arrived from their home ports, and perhaps spent several months waiting for a connecting ship and favourable winds to carry them further on a long voyage or to their port of origin.

There is also evidence of the adoption of an administrative system when other merchants from different nationalities entered the dynasty's territory. A tax system was adopted and a monopoly system was also applied to those foreigners (Hall, 1981, pp.64-66). The system, of course, was not the same as we understand it today. It was because of the awareness of Srivijaya's geographical position as an intermediary trading route between the Indians and Chinese as well as Arab-Persians that the monopolistic system was introduced. Chinese and Indian merchants had to comply with Srivijaya regulations (cf., Cady [1964]). By the
early seventh century, the Srivijaya dynasty requested an *entering tax* on foreign ships as a form of contribution to the kingdom when they visited its ports (Meilink-Roelofsz, 1962). In many ways, a trade-based kingdom is more vulnerable than one based only on agricultural products. In this way, the Srivijaya kingdom raised some revenue from the international trading routes and from those who visited its ports. It is noted that this tax system was an indication that the administrative system of the dynasty was managed and organised along with the development of an international trading port in the Srivijaya territory.

**The Golden Age of the Majapahit Kingdom**

By the twelfth century, Srivijaya's power seems to have declined. This was perhaps due to the rising power of the trading principalities of the northeast coast of Java island. Chatterji (1967) has pointed out that in 1270 AD, a Hindu Javanese kingdom, called Singosari or the Majapahit heirs, sent a Javanese expedition to conquer Jambi in Sumatra. Some years later, the Singosari conquered the Srivijaya in Sumatra and systematically undertook the conquest of the Indonesian archipelago. The Kingdom of Singosari was historically closely related to the Foundation of the Majapahit kingdom that was founded in 1293 AD. by Sanggama Wijaya (Slametmuljana, 1976). Thus, Singosari was the predecessor of the Majapahit and its history anticipated that of the Majapahit. Zainu’ddin (1968) in his study of *A Short History of Indonesia* found that, by 1292 when Marco Polo, the Italian trader for many years in contact with the Great Khan of China, made the voyage from China to India, he spoke not of Srivijaya but of an island kingdom called Melayur. It was indicated that Melayur was Jambi in Sumatra (Zainu’ddin, 1968, p.46). His study also found that the powerful kingdom of Srivijaya had fallen to the Hindu Javanese kingdom’s supremacy. This was the
Singosari kingdom. Predominantly trading and some political motives had caused the rise and fall of the kingdoms in the archipelago.

Singosari commenced by the ninth century when the Hindu Javanese kingdoms flourished in Java. The importance of the kingdoms in Southeast Asian trade increased steadily in subsequent centuries and particularly after the eleventh century, during the Majapahit empire, 1293-1478 (Chatterji, 1967). At the time, the Majapahit empire was the dominant trading power in the archipelago (Schrieke [1955, p.19], see also Wolters [1967]). There have been some indications that trading networks using market systems increased to become the central place of product exchange. The market (pken/pkan in Old Javanese, in later development *Pasar* was used) had a fixed locus and usually was located along roads, near rivers and forests. Wiseman [1977] points out that the places of the old Javanese market were occasionally located near cross-roads and such natural features as rivers and forests.

The Muncang inscription, dating back to 944 AD. in East Java featured

(7) ... lmah kidul ning pkan in muncang ...
(10)... lor ing pkan in muncang ...
(The land to the south of the market at Muncang ... north of market at Muncang (Brandes and Krom 1913:108, cited by Wisseman [1977, p.200]).

The above inscription indicates that a busy market existed at Muncang as a centre of product exchange. Rice, cotton, porcelain, chickens, fish, sheep, timber and spices as well as native fruits were the main products sold. Bronze, copper and gold were also important products for use as accessories by the indigenous Indonesians. Coins, to some extent, were used in trading exchange, especially in transactions relating to castles (Raffles, 1817).
The ninth century Javanese economy was marketized though probably not fully monetized, with a cyclic five-day market operating within and giving cohesion to the *wanua* [desa or village] (Wisseman, 1977, p.200).

Wisseman [1977] also stated that barter still dominated trading exchange, coins having gradually been introduced to the markets. This related to how the governmental kingdom during the Majapahit empire financed its daily operations. The kingdom introduced a complex system of direct taxation and various forms of tax farming (Wisseman, 1977). In this regard, the use of money for the payment of tax was encouraged (Jones, 1984). The Sangguran inscriptions found in East Java give some evidence concerning the application of the complex taxation in relation to trading regulations. There are three classifications of regulations in the inscription:

a. A group of craftsmen and artisans who continue to pay their taxes but whose taxes are to be disposed of in a different way. Generally the taxes were divided into three parts. The individuals were not relieved of any tax by these regulations. The definition of this group is by the activity, eg., manarub, roof-making.6)

b. A group coming under the term *samwyawahara* [trade] who pay no taxes within certain limits (eg., goldsmith).6)

c. A group coming under the term *pinikul dagangnya* [trade goods are carried by a stick over the shoulders, with two containers one in front, and one in back]. These pay no tax within the limits specified. Their produce is specified (items such as rice, sugar) and so are the amounts permitted to be sold free of tax.6) (Jones, 1984, pp.37-38).

This indicates that the system of administration of the Javanese kingdom was aware of the way the king could control the commercial activities and could run the kingdom's operations. It could be argued that a well-developed social
stratification and kingdom administration had been introduced and with it a system of tax collection that was completely centralised. In other words, the administrative and economic units of the kingdom were centralised at the palace. The growth of economic activity was largely due to State supervision and initiative; the markets, for instance, were public buildings where trading transactions were regulated by officials. This implies that a complex and elaborate centralised administrative organisation was under the control of the palace.

By the beginning of the fourteenth century, the golden age had come to the Indonesian archipelago, generally, and Java, especially, under the Majapahit empire. Economic and social stratification increased. The Javanese rural market flourished rapidly to meet the needs of the kraton (palace, capital) and the people surrounding the market. Some fixed terminologies of trading activities are known to have been used in everyday transactions.

adwal = seller, small-scale peddler

apikul = transporter/vendor who used the pikul or shoulder pole. (Groups of transporters using carts or pack animals appear also to have been present, but the terminology is obscure. There are also occasional mentions of the use of rafts and goats).

adagang = trader, perhaps relatively small-scale, though a step above the adwal and covering a larger territory; probably not a foreigner.

abakul or adagang bakulan = a market-based professional intermediary? (see below)

banyaga bantal = (from the Sanskrit vanij, merchant, and the Javanese bantal, a smallish unit of measure usually associated with pikul - carried goods) medium sized trader? (Wisseman, 1977, p.201).
This terminology shows that the growing activities and transactions relating to commerce and administration in the market and the kingdom had been remarkable (Jones, 1984). It can be argued that the use of the fixed terminologies indicates an increasing awareness and understanding of administrative accountability. As Johnson (1978) states, an increasing accountability by commercial participants is one of the important factors that brought about the emergence of modern bookkeeping. However, when a further discussion of tracing the development of bookkeeping before the sixth and seventh centuries is linked to the use of the standard terms of currency, some difficulties are encountered both in tracing some sources of archaeological records of the use of coins and moneys and in identifying the consistency of the measurement of the financial terms.

Other examples of progress, particularly in the field of public finance and administrative accountability, can be found from the fact that during both the Srivijaya and Majapahit kingdoms, state-craft stressed the importance of a full treasury for successful governmental activities. Both kingdoms evolved a regular system of taxation. For instance, since the Srivijaya kingdom took power, some tributes and levied taxes on foreign traders entering their ports were collected by an officer of the kingdom (Wolters, 1967). This had been compulsory for foreigners. Further progress is evident in the authority of the Majapahit kingdom (after the fall of the Srivijaya kingdom), to compel merchants travelling from one market to another to pay small tolls, whereas farmers, fishermen, and craftsmen paid upeti (tax). The tax system, to some extent, was a complex one providing for taxation of merchandise of various tariffs and providing different types of levies in respect of different commodities and problems. There were also some specific provisions for craftsmen who contributed to the kingdom, such contribution being a sort of income tax on average daily earnings. So a complex system of taxation
on public finance would certainly not have been possible without accounting in terms of calculability.
Chapter IV: The Dawn of Indonesian History: ...

Notes:

1) Historically, three terms have been introduced giving the name of all islands between Australia and Asia. These were Nusantara, Insulinde, and Indonesia. Nusantara means 'the other islands' or in general meaning 'the outside world.' The term was used in fifteenth century Javanese texts (Vlekke, 1943, p.400). Insulinde was another name given to the islands by Douwes Dekker, the author of Max Havelar. These two names, Nusantara and Insulinde, were widely used for a time, but they have lost popularity to the name of Indonesia.

2) The language, particularly an Austronesian dialect, survives now only in the Hona people of central Madagascar (Cady, 1964, p.13).

3) As indicated by Miller (1969), these products were originally planted in Southeast Asian regions. Cinnamon can be found throughout Malaysia and into the Pacific, whereas nutmeg and mace used for medicinal purposes can be found in the East of Malaysia. White sandalwood, cloves and betel nut are particularly indigenous products of Indonesia to this day.

4) "Batik" is the art of painting cotton wraps. In earlier times, Batik was worn especially by the high class of society, e.g., bangsawan and people within the kingdom.

5) The English version had been translated by J. Takakasu in the book entitled "A Record of Buddhist Religion as Practised in India and in the Malay Archipelago," 1896 and then quoted by Vlekke [1943].

6) In the first group, they can be identified through activities such as dyeing, animal trapping, sugar or oil making. Jones claims that taxes levied can be divided into three; one third goes to the Bathara (the deity in the temple), one third to those looking after the temple, and the other third to the mangilala drwya haji (collectors). The second group can be categorized as people who worked as gold, iron, copper and bronze workers and buyers of buffalo, goats, ducks, cows and pigs. The third group was food workers. Both of the second and third groups had to pay tax on anything traded above the limit. (Jones, 1984).
Chapter V

The Coming of Islam:
Early Rituals, Antecedent Accounting, and Administrative Affairs

Every metasceme involves measurement, valuation, classification, and even conservation as part of its definition of purpose. These features define accounting (Mattessich, 1964); indeed, accounting can have no purpose outside some metasceme of which some kind of faith is also an integral part.

Gambling and Abdel-Karim, 1991

Further discussion of the increasing social and commercial activities in Indonesia is related to the development of Islam, which today dominates Indonesia's way of life. In exploring the coming of Islam, there is some clear evidence regarding the increasing knowledge of commerce and the adoption of alphabetical and numerical notation. Both the advanced knowledge of commerce and the adoption of alpha-numeric notation increased the role of accounting, in the form of record keeping, as a means of "information-retrieval and knowledge-production" (Hoskin and Macve, 1986, p.109). Littleton [1933] and Chatfield [1974] claim that the antecedents of modern double-entry bookkeeping come from the increasing knowledge of commerce and the great adoption of alphabetic and numerical standards in economic activities. At this point, the knowledge of using alphabetic and numerical standards in any social and economic aspect can extend human activities in a real sense. A central aspect of this development is a shift from the traditional knowledge memory to 'formal' information-retrieval and knowledge-production through the process of writing and reading (Durkheim,
1977, and see also Chapter II). The coming of Islam in many ways provides new light on not only the way of the individual in his direct relationship with, and submission to, God ¹, but also in increased knowledge of social and economic activities, particularly in administrative affairs. As Nieuwenhuijze (1974) stated,

For a considerable period, Islam has, in large parts of the Indonesian archipelago, been in a position to provide most if not all of the pattern of association and of educational system (Nieuwenhuijze, 1974, p.149).

Some important developments regarding the awareness of an increasing knowledge of social and commercial affairs could be traced to the coming of Islam to the Indonesian archipelago. One particular reason for this is connected to the nature of the early development of modern accounting in Indonesia. Leur (1955), in his study of Indonesian Trade and Society, suggested that to study the history of Indonesia, the development of Islam cannot be ignored. Islam influenced the rise of social history of Indonesia. Economic and political aspects of Indonesian history were also moulded to the way Islamic foundations were prescribed. Leur (1955) observed

[w]hen one considers the age of the Islamic and the related Byzantine civilization ... the same objectives to the hegemony of categories bearing the stamp of modern western European economic history arise ... In the field of business regulation, of merchant and craft gild organization, of city government, of state bureaucracy system, banking, and fiscal affairs, military and naval organization, commercial regulation and law - in all these one must conclude that the Byzantine - Islamic 'middle ages' manifest fully developed, mature forms ... (Leur, 1955, pp.15-16)

Although the development of the Byzantine-Islamic empire and the arrival of Islam in Indonesia are not related, the empire provided an example which showed that the spread of Islam manifested the development of modern forms of
organisation and culture as well as human sciences (cf., Leur [1955] and Simkin [1968]). With the coming of Islam, indigenous Indonesians gained new knowledge of the ways of writing and the use of coins in economic transactions. The extent of the use of writing material and coins is fundamental to accounting (Sukoharsono and Gaffikin, 1993a). Both commodities constitute the basic requisites of modern accounting recording and measurement.

**Early Development of Islam**

Nowadays, Sumatra and Java, two of the former great centres of Hinduism and Buddhism in the Indonesian archipelago (see Chapter IV), are Islamic communities. In fact, about ninety percent of Indonesians are Moslem. Islam is one of three major cultural waves that reached the archipelago from the north-western direction. Its faith and culture have, in gradually penetrating almost all of the archipelago, moulded its civilization. And the archipelago has become the largest Moslem community in the world. How did the spread of Islam begin in the archipelago? How was it introduced? And how did the people embrace Islam? Several studies found that Islam was able to spread among the people of the archipelago by means of marriages of Moslem traders to the indigenous women (eg., Schrieke [1957] and Nicholson [1965]). However, these findings cannot be considered as the only explanation of the Islamisation of the archipelago. The process went on for centuries; trading contacts and Islamic missionaries had an important role in the conversion of the archipelago to Islam (Furnivall, 1939). Penetration to the circles of the chiefs and princes was an effective way for them to spread Islam. Vlekke (1943) observed that some aspects which Islam spread among the circles of the kingdom courts, primarily in Java and Sumatra, were religious practices, enabling them to increase their inner strength or magical forces. In some cases, these practices attracted the chiefs and princes of a region to embrace Islam. Two aspects of Islam which contrasted with the older Buddhist
and Hindu religions in the periods of Sriwijaya and Majapahit were the emphasis on the importance of the individual, in his direct relationship with, and submission to, God, and the emphasis on the world-wide community, in which all Islamic believers were brothers. There was no hierarchy in the community. All were equal.

The arrival of Islam in the archipelago followed a similar pattern to the early arrival of Hinduism. Islam came neither by conquest by other Islamic nationalities nor by large scale Moslem migration. Its influence was spread throughout the archipelago by a process of trading contacts between indigenous Indonesian traders and Moslem traders from Gujarat (India) and Persia (Ricklefs, 1981). Evidence of the arrival of Islam in the archipelago comes from a Chinese inscription which dates back to when the T'ang dynasty (618-907 AD) took power in China (Groeneveldt [1960], Hall [1981]). The T'ang dynasty was in contact with the archipelago via trading activities. As recorded in the history of the T'ang dynasty,

Ka-ling is also called Djawa [Java], it is situated in the Southern Ocean at the east of Sumatra and at the west of Bali. At its south it has the sea and towards the north lies Cambodia ... In 674 the people of this country took as their ruler a woman of the name Sima. Her rule was most excellent, ... (Groeneveldt, 1960, p.13).2

Based on the Chinese inscription, Queen Sima has been associated with the arrival of Islam in the archipelago, when the Ta-shih people made contact with her kingdom (cf., Slametmuljono, 1974). The Ta-shih's settlements were along the coastal areas of West Sumatra and have been associated with the people of the Arab Tribes (Tjandrasasmita, 1978, p.141). This suggests that the first settlement of Islam in the archipelago was associated with the emergence of the Ta-shih, in about the seventh century AD along the coastal areas of West Sumatra.
In the subsequent century (the eighth century), the spread of Islam is one of the most significant processes of Indonesian history. By the eighth century highly frequent contacts occurred between Ta-shih, Chinese, and Arabs, and trading activities flourished. Trade and sea communication between the eastern and western parts of Asia increased mainly due to the growth of three powerful dynasties: from Western Asia, the Caliphate of Ummayah (660-749 AD); from Southeast Asia, the Sriwijaya kingdom (7th-13th century); and from Eastern Asia, the Chinese T’ang dynasty (618-907 AD). It is from the Caliphate of Ummayah that Moslem traders then spread into large parts of the Indonesian archipelago. Islam was a way of life. They practiced trading exchanges to fulfil their needs. Trading contacts with other nationalities such as Chinese, Arab, and Indian were also frequent. Trading goods such as spices, gold dust, woods, and medicinal plants and perfumes, had been a part of their busy exchange. The spread of Islam in the archipelago was recorded by Marco Polo, the Italian merchant who visited Sumatra on his way home from China in 1292. According to Marco Polo,

... the people of Ferlec [Perlak] used all to be idolators, but owing to contact with Saracen merchants, who continually resort here in their ships, they have all been converted to the law of Muhammad. This applies only to the inhabitants of the city (Polo, 1958, p.253).

In the subsequent development, ship traffic and trading communication conducted by Moslems in the coastal area of the Indonesian archipelago gradually increased. By the thirteenth century, a Moslem settlement was established by way of the adoption of an Islamic oriented state (Vlekke, 1943). This was the kingdom of Perlak. The glory of the kingdom has also been mentioned by Marco Polo who stated that most of the community followed the law of Islam (Polo, 1958). The community developed well once it embraced Islam.
From the thirteenth century, Islam spread rapidly across the archipelago (Zainu’ddin, 1968). In most parts of the archipelago there were settlements of the Moslem community. On the whole, Islam spread peacefully throughout the archipelago rather than, as in east Asia, north Africa and India, predominantly through dynastic wars and political chaos. Islam spread from west to east mainly following the trade routes. Once Moslem communities had been established, shipping along the trade routes was also used by Moslems undertaking the pilgrimage to Mecca in Arabia. The pilgrimage to Mecca is one of the five pillars of Islam that should be undertaken by Moslems.

Indonesia was slowly changing under the influence of this new religion, and the growing intensity of foreign trade along the coastal areas of the archipelago. Gujarats, Persians, Chinese and Europeans mainly from Portugal, were amongst the traders who came looking for great sources of wealth, such as spices, woods, coffee, tea and gold (Vlekke, 1943). Those traders, Gujarats and Persians, mainly spread Islam to indigenous Indonesians. It is interesting to note that the rapid expansion of Islam was perhaps due to its relative familiarity, its simplicity, and its spiritual nature. The rulers of the Indonesian regions first really noticed Islam after the rapid rise of international trade settlements along the coastal areas of Java and Sumatra (Zainu’ddin, 1968). Here was a new spiritual force introduced by Islamic missionaries that was strong enough to influence the rulers of the coastal or trading regions (Ras, 1987).

The Knowledge of Writing and Commerce upon the Coming of Islam

It is a prerequisite to know the historical aspects of early writing in the Indonesian archipelago in order to appreciate the underlying rationale of current writings on commercial and accounting reports. Accounting today is a part of the
art of writing, which itself constitutes words and brings about meanings. It is generally believed that writing plays a vital role in all higher civilisations. For Foucault [1977, p.189], writing constitutes a power which is an essential element in disciplining society. Through writing, knowledge spreads from one hand to another. In accounting, Littleton [1933] explicitly states that the art of writing is an essential element in making accounting works understandable. Similarly, Robson (1992) argues that through the development of writing, accounting discipline can play at 'a distance'. Accounting reports which consist of numbers, lists, tables, and graphs are writing presentations. These have played a dominant role in the service of the production of accounting knowledge and retrieval of accounting information (Hoskin and Macve, 1986).

Innis [1950, 1951] is one of the first scholars to conduct a research study into the way in which writing affected man's thinking patterns. He states that

The art of writing provided man with a transpersonal memory. Men were given an artificially extended and verifiable memory of objects and events not present to sight or recollection. Individuals applied their minds to symbols rather than things and went beyond the world of concrete experience into the world of conceptual relations created within an enlarged time and space universe. The time world was extended beyond the range of remembered things and the space world beyond the range of known places. Writing enormously enhanced a capacity for abstract thinking which had been evident in the growth of language in the oral tradition. Names were roughly extended in proportion to the increased use and perfection of written records (Innis, 1972, p.10).

Innis suggests that the particular form of writing system plays a crucial role in shaping the thoughts of its users. In addition, Foucault has pointed out that
innovations of disciplinary writing concerned the correlation of elements, the accumulation of documents, seriation, the organization of comparative fields making it possible to classify, to form categories, to determine averages, to fix norms (Foucault, 1977, p.190).

Foucault insists that the knowledge of individuals results not just from observation, but from "the whole apparatus of writing that accompanied it ..." (p.190). Thus, knowledge of writing has a potential role in the emergence of higher levels of human civilisation.

In Indonesia, the invention of writing has been shrouded in awe and mystery. No one knows from where and when the earliest writing emerged. In archaeological records, quite a few early inscriptions were found undated, whereas some with dates present difficulty in reading and interpretation (Jones [1986], Kratz [1986]). However, a detailed analysis by Chatterji [1966], an Indian archaeologist, may bring to light the development of writing in Indonesia. He found that the earliest inscription in Indonesia was what he called Pallava script found in the Kutai district of Kalimantan dated ca. 400 (Chatterji, 1966, pp.114-122). The inscriptions are engraved either on stone slate or copper plates. A few gold and silver plates have also been discovered (De Casparis, 1975). The language of the earliest inscriptions (which are mostly not dated) is Sanskrit. Most of the inscriptions were used to commemorate occasions of the building of temples or of pious donations (Chatterji, 1966).
Let the foremost amongst the Brahmans and whatsoever other pious men (there are) hear of the meritorious deed of King Mulavarman of illustrious and resplendent fame - (of his) various gifts, gift of animals, together with (the gift of) a wish - yielding tree and gift of land. For those multitudes of pious deeds this sacrificial post has been set up by the Brahmans'.

The gift of twenty thousand kine of the illustrious and foremost of the rulers of men, the King Mulavarman, which was given at the most sacred place of Vaprakresvara to the twice - borns resembling fire - for that meritorious deed this sacrificial post has been erected by Brahmans who had come hither'.

Adapted from Chatterji (1966, pp.122-124).

These are the earliest inscriptions derived from the Kutai Pallava scripts dated ca. 400. These inscriptions indicate that writing seems to be a product of and keeping information about sacred events. They show that the Brahmans gave sacred gifts and donations to their King. This illustrates the way in which writing and documentation were a part of their political administration. The language of Sanskrit was the sacred formal writing in recording the event. Another interesting aspect of the inscription is that it seems that administrative and political information was part of the work to be recorded. According to Mauss (1967), gifts and donations in early society are a "total social phenomena" that provide the mechanism for producing sacred ritual and solidarity in certain kinds of differentiated societies. For Mauss, gifts and donations are also a kind of self-
interested economic exchange in early society that contains "all thread of which the social fabric is composed ... religious, legal, moral, economic" (Mauss, 1967, p.1). Through writing, these religious, legal, moral and economic aspects of a society can be visualised and properly realised into 'visible' references. Writing provides the opportunity to inspect and retrieve the inscribed information by being 'out-of-time'.

It is important to note, however, that the great extent of the development of the early art of writing and early administrative records in Indonesia increased remarkably when Islam came to the archipelago.

As far as Javanese (and Balinese) manuscripts are concerned, we can make only one or two general observations. Relevant to our suggestion that the advent of paper in useable quantities was associated with the arrival of Islam is the statement by Pigeaud (1967:35) that "no clear evidence of the existence of pre-Islamic Javanese paper manuscripts is available ..."[emphasis added] (Jones, 1986, p.138).

The arrival of Islam in the archipelago advanced knowledge of writing purposes (eg., Ambary [1986], Pigeud and Graaf [1976]). With the development of writing, the enhancement of collective memory could be realised. In relation to knowledge of writing, paper was an important development brought by Islam to Indonesia\(^3\). Hoernle's study [1900] gave an invaluable source of information on the important development of paper in Indonesia. In particular, he claimed that Islam brought the development of paper to replace the use of palm-leaves for writing purposes during the Buddhist and Hindu periods\(^4\).

It is important to note that the adoption of the use of paper in Indonesia was due to the fact that paper is not only more convenient for writing purposes, but more convincingly, it serves the spread of knowledge of the human sciences.
One particular concern here is the development of record keeping of matters, events and administrations. One example is in keeping a record of the Holy Book, the Al-Qur'an. Through the development of paper it was possible for Al-Qur'an to be reproduced and to spread throughout the archipelago.

Before writing could reach the mass of Indonesians, however, it had to be simplified through an alphabet, an invention which was originally designed to serve the knowledge of accounting. It is believed that, through the development of an alphabet, documentary methods, keeping of registers and writing transactions were beginning to emerge. In Indonesia, before the adoption of the current alphabet (a, b, c, ..., x, y, z), several kinds of ancient alphabets had existed (De Casparis, 1975). There were Pallava, Kawi (both were Sanskrit modifications), and a Javanese alphabet. However, after the establishment of Islam in Indonesia, the adoption of the present day Latin alphabet began. The use of alphabets in writing transformed the nature of Indonesian culture and created the conditions for civilisation and the trappings of urban life. Writing created a pattern of cultural development that was to repeat itself throughout history. Gelb (1963, pp.221-222) claimed that

there is no need to urge that the introduction of writing was the factor which was responsible for the birth of original civilizations. It seems rather that all of the factors - geographic, social, economic - leading towards a full civilisation simultaneously created a complex of conditions which could not function properly without writing. Or, to put it in other words; writing exists only in a civilisation and a civilisation cannot exist without writing.

This implies that the knowledge of accounting exists and develops because of writing. Thus, writing is important to the spread of accounting in civilisation, including in Indonesia.
The use of writing in Indonesia during the early spread of Islam was modest and confined to administration among a population of priests and kingdom officials (Raffles, 1978). Once the art of writing had been mastered for administrative purposes, it was then used for literary, religious and historical purposes. Stories, fables, and literary creations about heroes, kings, and even animals, were composed and recorded. In these forms, accounting was used simply in the form of 'quantification' of knowledge which only represented the quantity of possessions. However, at this stage, modern accounting practices in the form of "qualitative and quantitative" (Robson, 1992) presentations had not been adopted.

One particular development of accounting in the form of writing during the early settlement of Islam is related to a mechanism by which writing was used for the purpose of administration and accountability of collection of taxes in the royal courts of an Islamic kingdom. The records of tax-collections were reflected in simple forms. A clear indication of the preparation of tax collection and its accountability was that relating to the role of Shahbandar (Leur, 1955), who was an important person linking the ruler and foreign traders, and who was also responsible for the collection of anchorage fees and import and export duties (cf., Schrieke [1957] and Leur [1955]). It is suggested that early simple accounting calculations were developed by Shahbandar. He prepared tax collection at regular periods and then submitted it to the royal courts as revenue. A similar process occurred whenever a court-tax official collector (this person was different to the Shahbandar, he was an indigenous Indonesian, whereas Shahbandar was mostly a foreigner) came into contact with farmers, fishermen, craftsmen and merchants, and a system of tax calculation had been prepared. The tax system was complex (Schrieke, 1957). Schrieke indicated that there were various rates and different types of levies in respect of different commodities, occupations and other matters.
The same occupations or commodities could result in different tax rates. For example, fishermen might pay tax at a different rate for each individual. Consideration for the difference was the individual's status in the community. If a fisherman was of a high status in the community based on that community's classification, he or she had to pay tax higher than that community's. Such circumstances led to the development of a complex writing system related to administration and financial calculations.

**Numerical Notations**

After discussing the use of paper and the adoption of the abstract nature of alphabetical writing in the archipelago, I turn now to the development of advanced scientific activity in the wake of Islam. With the spread of Islam in the archipelago, indigenous Indonesians, especially Moslems, directed their attention to intellectual activities, turning first to the practical knowledge of science, such as mathematics and astronomy. These sciences were primarily derived from a religious basis. From mathematical means, Moslems could find the direction to Mecca, towards which they perform daily prayers facing Ka'bah 6). Basic mathematics was also needed by Moslems to calculate inheritances and to count days and years according to the Islamic calendar. From astronomy, Moslems could determine the beginning of Ramadhan, the month of fasting, and other great holy days. These Moslem religious needs were central to the development of the current understanding of science.

In Indonesia, the arrival of Islam brought great advantages to the development of the sciences, particularly through the adoption of the Hindu-Arabic numerals (1, 2, 3, 4, 5, 6, 7, 8, 9 and 0). The Hindu-Arabic numeric system has played an important role in promoting abstract thought through the use
of numerical signs. Historically, the numerals 1, 2, 3, 4, 5, 6, 7, 8 and 9, have been used in almost all parts of the globe and are believed by some scholars to be related to the nine Sanskrit characters used in ancient times by the Hindus. The key numeral to the whole place number system is the zero element, or sign 0, whose invention was an achievement of Moslem thought (Al-Daffa, 1977).

It is interesting to note that while the earliest Hindu example of a zero was found on an inscription of 876 AD at Gwalior, the earliest Moslem zero is contained in a manuscripts dated 873 AD (Al-Daffa, 1977, p.37).

The history of the zero element actually begins with the Hindus long before Islam. According to Hindu thought, the symbol for zero was "∅" (a dot inside a circle). However, they were not able to develop this concept any further. Zero in their system never became a number to be added or subtracted or used to simplify their calculations (p.38). With the establishment of the Moslem empire, the Moslem East (Baghdad) and the Moslem West (North Africa, Spain), a number of different representations of zero were used. In the Moslem East, the dot "•" was used as a zero and the augmented set of numerals became •*:•••••••. The Moslem West adopted the circle "0" as their symbol and the complete set of numerals became 1, 2, 3, 4, 5, 6, 7, 8, 9 and 0.

Prior to the rise of Islam, a numerical system had been adopted, mainly derived from a modification of part of the Javanese alphabet (Raffles, 1978). But on occasions it was important to differentiate between alphabetic and numeric characters, so it was usual to employ certain signs or symbols in lieu of ordinary numerals. The numerals were
However, the development of Javanese numerals did not become sufficiently popular to enable it to be continued to be used in accounting and calculation. The Hindu-Arabic numerals, instead, have been widely adopted. Thus, the influence of Islam in the archipelago moulded the modes of early scientific achievement by indigenous Indonesians.

The development of both alphabetic and numeral notations increased the opportunity of indigenous Indonesians to present and preserve a variety of knowledge. This development also enhanced the stability of the writing process in relation to the recording, reference, and retrieval of information. The development of complex writing and record keeping became possible. Accounting, both in its qualitative and quantitative form, became the mode of representation. Ste. Croix (1956) pointed out that the rise of Islam led to the development of accounting records. In particular, he refers to the adoption of Hindu-Arabic numerals to simplify the presentation of numerical calculation. The idea of a sign for zero, for nothing, and for the symbol of tens, hundreds, etc., assisted the calculation of complex sums in accounting numbers.

Transition from Hindu Learning to Islamic Economy and Administration

A very important and characteristic creed that promoted the adoption of Islamic behaviour in the archipelago evolved from the Islamic concept of God, Allah. This concept is primarily based on the acknowledging of Allah with attributes such as Al-Malik (the absolute Owner of all), Al-Muhaymin (who watches over and protects all things). This led to the guidance of Moslem activities in almost all of everyday life. Belief in these attributes not only had a far-reaching influence on the general attitude of the Moslem individual, but it also
touched economic enterprises (e.g., trading transactions) and administration (e.g., policy making and planning).

It is hardly surprising that Islam achieved its first and most lasting successes in the Minangkabau west coast entrepots [Sumatra], which most resembled in function the Islam city of the Middle East, revolving as they did around a central market place. ... The main administrative and port officials all had Moslem titles, and Islamic teachers well versed in the Koran were in evidence in the port (Dobbin, 1983, p.119).

This is one example of an Indonesian community which, with the coming of Islam, adopted what it believed to be Islamic behaviour. Dobbin also showed that in the early Islamic countries, particularly in Sumatra, the Al-Qur'an was laid down as a basic principle which governed general economic behaviour and involved the ethics of trading activities. In Sulawesi, the community enthusiastically embraced Islam after its establishment in Sumatra and Java. The Arabic script was adopted, mainly in southern Sulawesi. The clearest cases of a fully Islamic literature occurred in Achehnese. It was at this point that the Al-Qur'an was used as an alternative to the existing mode of regulating society's affairs. The Sunnah of the Prophet Muhammad, as contained in the Hadith, had an important part to play in the basic economic life of individuals and the community. The texts of Islam show a particular interest in the activities of traders; the Prophet Muhammad was in fact a merchant, and both the Al-Qur'an and Sunnah look with favour upon commercial activity. The Sunnah approves of economic activity, the search for profit, commerce and production for the market. And according to the Sunnah, trade is regarded as a superior way of earning one's livelihood (Rodinson, 1977). The Syariah, as it was codified, came to contain numerous provisions concerning commercial activities, such as the concepts of ownership, earning, and the concepts of the Lawful and the Unlawful (Halal and Haram), the ethics of the rules of farming, the principles and practices of trade,
consumption, and saving and Zakat. These kinds of Syariah are mainly derived from the Al-Qur'an and Sunnah (see Hasanuz Zaman [1991]). It was within this framework that, from about the early fifteenth century, along the coastal areas of Java and Sumatra, Islamic law became an important field of study in Masjid (Mosque) and Surau.⁹)

There are several important historical sources that refer to early Islamic teaching in the archipelago. These are the stories of Marco Polo, History of the Yuan dynasty, Babad Tanah Jawi (Javanese annals) and Serat Kanda (Javanese annals). From the story of Marco Polo, there is an indication that the Islamic state existed in the archipelago in 1292 (Yule, [1875], Polo [1958]). This was situated on the east coast of North Sumatra. It was also indicated that this coast was an important trading port in the 13th century. Marco Polo referred to the place as Ferlec and he wrote as follows:

The kingdom, you know, is so much frequented by the Saracen Merchants that they have converted the natives to the Law of Mohammad (Yule, 1875, p.286).

This indicates that Islamic law and teaching had been used as the principle for spreading Islamic knowledge. It was at this point that the Islamic state was influential in spreading Islam along the coastal Sumatra areas and Java. Archaeological evidence and Malay chronicles also indicate that the realms of Ferlec and Samudra (these are the Islamic states established in the early coming of Islam) were under the Moslem king called Al-Maliku’l-Salih, who died in 1297 (Al-Attas, 1966). Marco Polo, visiting this part of Sumatra in 1292, witnessed the fact that the community was Moslem. During the reign of Al-Maliku’l-Zahir (the eldest son of Al-Maliku’l-Salih) in the first half the 14th century, Islamic learning and teaching was already flourishing in Sumatra. It was the earliest centre of Islamic learning in the archipelago. According to Ibn Battutah ¹⁰), Al-Maliku’l-
Zahir was a Sultan who loved religious debates and discourses, and had himself surrounded by Ulama and Fuqaha (independent religious teachers and Moslem scholars) (Gibb, 1953, p. 274).

The most interesting characteristic of Al-Maliku'l-Zahir's Islamic teaching was a system that constructed the Islamic concept of good and bad, virtuous and vicious, lawful (halal) and unlawful (haram). A further development of the Islamic concept was to implement Zakat. The system played a key role in spreading Islam and in determining the broad contours of an economic system in the early days of Islam in the archipelago. This led to a growing concentration on special missions, trying to induce neighbouring villages or islands to accept Islamic law in relation to trade and commercial activities. Through this concept, the centre of Islamic teaching was prepared, in order to attempt conversion of individuals in the nearby area, trying to persuade them to adopt the five pillars of Islam and the life of good Moslems. The Sultan was also zealous in propagating the faith in the surrounding country by means of war and raiding expeditions (Gibb, 1953).

Islamic administration and trading activities in Java also flourished. According to the Javanese annals, Babad Tanah Jawi, about 1448 AD, Raden Rahmat, the religious teacher of Ngampel (Surabaya), known as Sunan Ngampel, established an Islamic teaching centre (Ras, 1987). He was the ancestor of a long line of Moslems and the most senior of Wali Sanga (the nine saints), who spread the Islamic faith in East and Central Java. It was at this point that the Sunan Ngampel school was able to educate the Javanese community in Islamic knowledge. One particular interest of such knowledge, related to this discussion, is Islamic trading principles and administrative affairs which are mentioned in the Javanese annals: Babad Tanah Jawi (The History of Java Land) (Ras, 1987). One aspect of the establishment of the Sunan Ngampel school was the idea of a central Islamic state. This idea was realised with the establishment of the first Islamic
state in Java, known as Demak after a long process of waiting. The Islamic state of Demak was administered by the former santri (religious student) of Sunan Ngampel, Raden Patah (Pigeaud and Graaf [1976] and Ras [1987]). He then succeeded in overthrowing the Hindu-Javanese kingdom of Majapahit in 1478.

**Early Islamic States and Public Finance**

The development of the art of writing, numerical notation and Islamic teaching centres, followed by the establishment of the new Islamic state of Demak (in Java) and Acheh in Sumatra, resulted in business complexities in the Moslem community and an increased role of the Islamic state in public affairs. As already pointed out in previous discussion, the new faith, Islam, met with favourable conditions and therefore easily spread throughout the archipelago. Both new Islamic states, Acheh and Demak, were to emerge for a time as the most powerful, wealthy and cultivated states in the archipelago. They were, by the end of the fifteenth century, good seaports for international trading (Ricklefs, 1981). Rice, pepper, corn, benzoin, woods, tea, coffee and gold were produced by them and exported to international traders.

With the establishment of the new Islamic states, the role of the central government in public services increased. According to Meilink-Roelofsz (1962), this was not only to manage the products exported to international traders, but to enable the states to guide Islamic life. It thus provided the groundwork for further socioeconomic development. The development of social welfare, religious educational systems and economic aspects were the main emphases of the states. By this time, the satisfaction of these needs and the continuous accumulation of wealth in the state treasuries created problems in wealth administration including the financial management of the states. These problems required the development of state public finance and administration to deal with the proper management of
state revenues and expenditures. The methods that were used to solve these problems varied according to time and place.

As a part of the development of administration affairs in the new Islamic states, governmental expenditures were of little importance until the end of the sixteenth century. This was not because Demak and Acheh states were less developed and organised, but primarily because of the prevailing conviction that it was the Moslems' duty to serve with their property and their lives. Moslems believe that sacrificing some of their properties and life to God, Allah, was one kind of obedience to Islamic commands. Another reason was the state's reliance on voluntary sadaqa (charity) from Moslems to meet its needs. Outlays of that period, therefore, consisted of very small payments for current administrative costs, and maintenance of some public works and buildings. State finances and budgets for the control and administration of special funds were nonexistent.

With the socioeconomic developments during the spread of Islam, the state government increased its responsibility in meeting social needs. This changed the attitude toward governmental expenditures. The strains of the Islamic state of Demak and the Hindu-Javanese kingdom of Majapahit created a much stronger need for state defence expenditures. According to Raffles (1817), it was for this reason that Raden Patah, the leader of the Demak state, prepared for war against Majapahit. As part of the war preparation, a lot of horses, food and other property and equipment were collected. This of course required funding. It was at this point that the state was urged to adopt proper planning for raising funds (Vlekke, 1943) (this point will be discussed in the following paragraph). By the beginning of the sixteenth century, the Islamic state of Demak had defeated Majapahit. Following this success, the concentration of the population mainly in the city created new social needs for public works, social welfare, education and Islamic religious ceremonies. As a result of these developments, the state required
more state employees. Finally, a new social and political system created growing needs in the periods of Demak's expansion which had to be met through more government spending. A concise summary of the relative expenses according to their natural classifications includes the following: (1) expenditures for security, fortification, military and diplomatic expenses, (2) expenditures for internal administration necessary for Islamic teaching, religious ceremonies and public works, and (3) expenditures for general welfare in the areas of rice, meat and pepper distribution. The amounts in each category are difficult to calculate, mainly because of a lack of reliable information and material.

Another antecedent of accounting during the early spread of Islam in terms of public finance is the existence of early Islamic state revenues. As discussed, the management of the early forms of state expenditures was through substantial increases in state spending. This meant it no longer had to be met from voluntary contributions. To cover their recurring expenditures, regular sources of revenues were required, supplemented by irregular revenues to cover extraordinary and unpredictable expenses. Such a situation called for better planning of revenues and expenses, their coordination according to purpose, and close administrative control. This is how Islamic state finance came into existence.

The principle sources of revenue collected by the state were kharaj (land tax), ushoor (custom duties), foreigner tax, Zakat, upeti (tribute) and marriage, divorce, inheritance, circumcision and funeral fees. Each was the subject of a separate fund account, and was disbursed according to its own set of rules. The most important source of revenue differed from town to town, but it was mainly from Zakat, land tax and tribute. The revenue was spent on building and maintaining Mosques, supporting poor people, collectors' salaries, and priests' emoluments. This source, which constituted approximately 75 per cent of the total
state revenue, is considered to be one of the primary factors in the early establishment of the Islamic states, such as Demak. Raffles (1817) states that

In every chief town there is a high priest, who with the assistance of several inferior priests, holds an ecclesiastical court, and superintends the priests who are appointed in the subordinate districts and villages. His emoluments consist of a share, which varies in different districts, of the Zakat levied by the village priest, of fees of court, present &c. (Raffles, 1817, p.4).

This indicates that Zakat, court fees, and tribute were the main source of revenue to be collected for the emoluments of priests. In contrast to Demak, the development of the Islamic states of Acheh and Indragiri, in Sumatra, was based on revenue from the gold trade. Pires, a Portuguese, who went on a voyage to the East and visited Sumatra in 1512-1515, referred to Indragiri as an active and important Islamic kingdom on the island.

Indragiri is an important kingdom. It has a fair number of trading people, and people go there from many places to trade. It is the chief of Minangkabau.

...One, two, or three ships come every year; they sell all their clothing, and take in a great deal of gold ... (Pires, 1944, pp. 153 and 161)

It was at this point that the early Islamic states of Sumatra and Java collected and received regular revenues. Gold production allowed expenditure on regular state activities, such as internal administration, building mosques and their maintenance.
Notes:

1) The beginning of the faith of Islam was not from Muhammad's birth (about 571 AD) but from 622 AD when the Prophet Muhammad and his followers fled from the city of Mecca to Medina, and founded the community of believers. In relation to worship, the five pillars of Islam must be carried out by ummat (members of the community) of Islam. The first obligation is the affirmation of faith: 'There is no God but Allah and Muhammad is His Prophet. This is the central pillar of the faith. The second is prayer. Moslems should pray five times a day, within specified times and after ritual cleansing. The third is to give alms to the poor (Zakat). The fourth is in the ninth month of the Moslem year, the month of Ramadhan, when Moslems should fast from sunrise to sunset neither eating nor drinking nor indulging in other pleasures during that time. The final obligation is, if possible, to make the pilgrimage to Mecca, the Holy City, at least once in a lifetime.

2) This is an original inscription derived from Chinese sources, which was then translated into English by Groeneveldt in Notes on the Malay Archipelago and Malacca, p. 13.

3) Papermaking is said to have been invented in China at least by the first century BC. (Ji-Xing, 1981). In fact, the only early evidence of the use of paper was in the account of I-Tsing (see Chapter IV) relating to his stay in Sumatra from 685 to 689 AD. He reported that "I went on board the ship to send a letter ... in order to ... ask for paper and cakes of ink, which are to be used in copying the Sutras in the Brahman language, and also for the means (cost) of hiring scribes" (Jones, 1986, p. 131).

In short, the history of paper in the Moslem world began when the spread of paper from China reached as far as Turkestan. This bordered on the Islamic domain where, in the middle of the eighth century AD, spectacular events were taking place. By the beginning of the Abbasid Caliphate [750-1258] in the Middle East, the Chinese began to share the knowledge of papermaking, after many centuries of having held secret the techniques of papermaking. By 795 AD, the Abbasid dynasty established a paper industry in the Capital, Baghdad, which was then known as a power house of cultural and artistic development (Jones, 1986, p. 132). Another centre of the papermaking industry was Tihamah (South Mecca), which flourished and spread to Damascus, and Tripoli in Syria and became known for the superior quality of its paper (p. 132). In the ninth century AD, the development of paper continually flourished up to the Delta of Egypt. By the end of the tenth century AD, the paper industry had spread throughout the Moslem world. And it reached Indonesia by the thirteenth century AD., when the Islam kingdom flourished (p. 133).
4) An Indonesian word for paper is 'kertas' derived from the Arabic 'qirtas'.

5) An example of the ancient Javanese alphabet is as follows

AKSÁRA JÁWA, or LETTERS of the JAVAN ALPHABET.
CONSONANTS.

6) Ka'bah is the Moslem shrine situated in the centre of Mecca.

7) There are a number of attributes ascribed to God, Allah, mentioned in a number of Qur'anic verses and in many of the Prophet's sayings. These attributes construct a mind that guides Moslem behaviour in the Islamic direction. Other attributes of Allah are Al-Rahim (Who gives blessings and prosperity, particularly to those who use these gifts as He has permitted), Al-Muhaymin (Who watches over and protects all things), Al-Wahhab (Who donates all things to His creatures), Al-Razzaq (Who is the Provider of all things that are beneficial to His creatures), Al-Fattah (Who opens the solutions to all problems, and eliminates obstacles), Al-Qabid (Who constricts), Al-Basit (Who expands), Al-'Adl (Who is the Just One), Al-Karim (Who is the Generous), Al-Hafiz (Who preserves all things in detail and for a time preserves them from misfortune and calamity), Al-Mujib (Who responds to every need), Al-Wakil (Who provides a means to solve the problems in the best way), Al-Wali (Who is the friend of His righteous servants), Al-Ghani (Who is the Self-sufficient), Al-Mughni (Who is the Enricher) (Hasanuzzaman, 1991, p.22).

8) The main sources of Islamic religious law, Syariah, were originally the Al-Qur'an and the Hadith (Sunnah). At an early date, three other sources were added, namely Kiyas (analogy), Ijma' (consensus), and Ray (private opinion) However, private opinion has never been fully accepted as a faith source of Islamic law. Thus, the Syariah consists mainly of the Al-Qur'an, Hadith, Kiyas, and Ijma'.
9) This is also a place of prayer, but it is usually a small building rather than a Mosque. In the early days, both were also used as gathering places for any number of activities.

10) Ibn Battutah was an Arab who travelled in Asia and Africa between 1325 and 1354, and visited Sumatra.

11) Raden Patah, according to the Javanese Annals: Babad Tanah Jawi, was a grandchild of Majapahit king, Brawijaya. His father, an illegitimate son of Brawijaya, was the Prince of Palembang, Aria Damar, in Sumatra. History also says that Raden Patah was also a son of Brawijaya, and that when Aria Damar married a Chinese Princess of Champa, she was pregnant with Brawijaya. When Raden Patah grew up, his father, Aria Damar, sent him to learn the Islamic faith at the Sunan Ngampel’s school. Interestingly, when Raden Patah was mature, he refused to live in the Majapahit kingdom. He then founded Demak, and declared war against his grandfather, as he believed that his grandfather was a nonbeliever in Islam. There were two great wars between Raden Patah and the Majapahit kingdom. In the first, Raden Patah was defeated. In the second, Majapahit, the great and magnificent capital of the archipelago, fell in 1475. Raden Patah then reigned from 1477 to 1519, and died at a great age. The fall of Majapahit in 1475 was known as the first establishment of Islamic kingdom in Java.

12) The Indragiri kingdom has been associated with the Islamic state when the three members of the kingdom used Islamic names, Raja Ibadat (Religious king), Raja Adat (Tradition king), and Raja Alam (World king) (Dobbin, 1983).
Chapter VI

The Emergence of Double-entry Bookkeeping: Dutch Colonialism in the Early Seventeenth Century

... double-entry bookkeeping is borne of the same spirit as the system of Galileo and Newton ... With the same means as these, it orders the phenomenon into an elegant system, and it may be called the first cosmos built upon the basis of a mechanistic thought.

Sombart, 1902, trans

... Fra Luca Pacioli in 1494 [the inventor of the system of double-entry bookkeeping] ... indeed ... may without hesitation be ranked with his contemporaries Columbus and Copernicus

Spengler, 1928

The early history of accounting in Indonesia is veiled in mystery. From the early periods of the Hindu traders in Indonesia (about the fourth century AD), some form of bookkeeping existed where clay tablets were used to record "financial" and other transactions in cuneiform writing. Although in Indonesia the idea of coinage seems to belong to a later period (during the greatness of the Srivijaya kingdom about the sixth century AD), the ancient Buddhists had monetary conventions with a 'currency' unit as a trading exchange expressed in 'universally' accepted commodities. But the general adoption of money as a standard medium of valuation, and the concept of 'the account' are phenomena born during the coming of Islam. In the early Islamic period when the Islamic states of Demak and Acheh were established (see Chapter V) there had been some
indication that a basic accounting concept existed. However, due to the lack of suitable writing materials and the use of a standard monetary system in commercial activities, little progress can be made in tracing the earliest development of accounting in terms of basic recording processes of double-entry bookkeeping. Roslender (1992) analyses the function of bookkeeping in its early development as follows

Bookkeeping is based on the principles of double entry which were developed by Pacioli in the fifteenth century and which have been used by the profession ever since (Roslender, 1992, pp. 113-114).

Double entry, here, is a specialised form of keeping accounts which consist of debit and credit terms. Its origin can be traced back to the Italian merchants of the thirteenth and fourteenth centuries where three sets of books were used in business practices (De Roover, 1956a, b). These books were a memorandum or waste book in which a rough note of each transaction was made as it took place, a journal in which transactions were entered from the memorandum but more carefully, with a brief description of each item and a note as to the place in the ledger to which it was to be posted, and a ledger in which transactions were entered according to some form of classification. These kinds of systematic double-entry records appeared for the first time in Genoa in 1340 (Brown, 1968). A further development of this system is obscure, but it certainly grew up in the Italian cities during the later Middle Ages. Luca Fra Bartolomeo Pacioli, in 1494, published the first treatise on the art of systematic double-entry bookkeeping (Pacioli, (1494), 1924, see also Chapter III). The treatise contains a basic principle of double entry bookkeeping which gave rise to the modern accounting model of today, such as partnership accounts, branch accounts, royalty accounts, manufacturing accounts and the like.
From this point of view, 'financial' record keeping, in terms of double entry bookkeeping during the early Islamic period in Indonesia, did not yet exist. Islamic 'financial' accounts were still of very limited usefulness as a guide to commercial 'decisions'. Even elaborate and sophisticated estate accounts were merely a record of cash receipts and expenditures preserved in the castles of the kingdoms; payment in kind was recorded separately. Commercial transactions which involved only a small amount of money were frequently not recorded. A single form of financial records was used for the preference of accounts, whereas systematic double-entry bookkeeping was unknown. However, from an examination of the early years of the VOC (Verenigde Oostindische Compagnie = the Dutch East Indies Company) in Indonesia, at the beginning of the seventeenth century, some clues can be gained as to the rise of accounting in terms of double-entry bookkeeping [see Sukoharsono and Gaffikin (1993a)].

Political, Social and Economic Evolution: Dutch Colonialism Power

The interdependence of an increasingly complex socioeconomic environment and the need for a recording system (accounting) is obvious. To understand the emergence and development of accounting in Indonesia which took place during the early colonial period, it will be useful to look at the political, social, and economic transition of Indonesia which is reflected in the arrival and development of the Verenigde Oostindische Compagnie (VOC or Dutch East Indies Company). This is related to what Foucault regards as the archaeology of knowledge that analyses and describes:

the domain of existence and functioning of a discursive practice ... to discover that whole domain of institutions, economic processes, and social relations on which a discursive formation can be articulated ... to show how the autonomy of discourse and its specificity ... and to uncover
... the particular level in which history can give place to definite types of discourse which have their own type of historicity, and which are related to a whole set of various historicities (Foucault [1972, pp.164-165], emphasis added).

This analysis offers a foundation for understanding the early emergence of accounting in the form of double-entry bookkeeping in Indonesia. Foucault's thesis is specifically concerned with the question "how", rather than "why". He seeks to explain the mechanism of change in terms of the exercise of power (see also Chapter II). The relationship of institutions, economic processes and social aspects is also the concern of Foucault's thesis in the form of a discursive practice of history. In this case, the development of accounting in the form of systematic double-entry bookkeeping is investigated through the complex relationship of institutions, economic processes and social and political aspects of Indonesian history. This investigation of the development cannot be separated from the increased economic atmosphere of the Dutch Company which was trying to exercise its domination over capital, production and security power across the archipelago.

The Dutch Political and Social Penetration

In the early seventeenth century, there was a great expansion in Dutch commerce (Furnivall, 1939). The Dutch sent their ships to all parts of the world, one of their destinations being the East Indies (the Indonesian archipelago), where they believed there existed a source of untold wealth (eg., spices, gold, silver, wood, and cotton). April 2nd, 1595 is the beginning of Dutch Asiatic Shipping. A number of fleets were equipped and despatched from The Netherlands to Java (Indonesia).
... Cornelis de Houtman, who had been two years in Lisbon spying out the latest information, ... [was] in the following year despatched ... with three ships [the Mauritius, the Hollandia, and the Amsterdam] and a yacht [Duifje] on an expedition to the East. He returned in 1597 after reaching Java ... (Furnivall, 1939, p.21).

Furnivall also indicated that the effect of de Houtman's return voyage from the East was considerable. In the following years ten companies were formed to meet the need for trading speculation in the East. Competition among the Dutch traders who wished to explore the East was not long in coming. Fourteen fleets and sixty-five ships were sent out to Java with different commands. It can be argued that in the early development of Dutch shipping to Indonesia, no well co-ordinated plan among the Dutch traders existed. The only form of co-ordination was within a company, whereas the companies themselves were in competition. As a consequence, the Dutch traders were separated amongst themselves. In some cases, the traders did not compete fairly in trading in the East. There were tensions among them. The Netherlands government considered this as an undesirable development in Dutch trading in the East (Bruijn, et al, 1987, p.5).

In 1601, The Netherlands urged a definite regulation of the eastern commerce, including rules for the Indonesian archipelago. The point of the regulation was an attempt to persuade the Dutch traders to collaborate in the eastern trade (Bruijn, et al, 1987, p.5). The Dutch State General in Holland passed a law by which the Dutch traders were formed into a single corporation in 1602 (VOC, (1602), 1985). This law was destined to form the basis of trade and administration of Dutch traders in the East Indies. This single corporation was called Verenigde Oostindische Compagnie (VOC) or the Dutch East Indies Company. The importance of the law in 1602 is that it not only incorporated the Dutch traders who were trading in the East Indies, but also gave to them and to
their successors through various renewals, a monopoly of economic and political authority, especially in the Indonesia archipelago.

How had the Company been set up? The question, although simple, has had a long history and has been the object of interest of a number of prominent historians (cf., Steensgaard, 1973). However, none of these has been clear about, nor is there agreement on, the problem of analysing the organisational form of the Company. Before the year 1600, over sixty ships had left for the East on trading visits to the Indonesian archipelago, Thailand, Cambodia, Japan and China (Bruijn, et al, 1987). These ships were under the administration of voorcompagnieen which is regarded as a true capital association divested of political interests. There is no evidence that the capital invested had any purpose other than making a profit. The voorcompagnieen was not incorporated, but was associated by a number of bewindhebbers (directors) who joined together as partners in a simple company. With respect to organisational form, the bewindhebbers were under the auspices of the shareholders who invested capital in the company. Thus, between the company and the shareholders, there was no direct relationship; the shareholders were represented in every respect by the bewindhebbers. On the other hand, the shareholders had no influence as regards the running of the business, whereas the bewindhebbers would guarantee that the capital was under their credit and reputation. However, it became apparent that the voorcompagnieen was facing a sea-trading conflict with Portuguese and Spanish merchants. Conflicts or wars amongst them were unavoidable. Accordingly, the State-General of the Netherlands suggested a company to protect the voorcompagnieen. Questions and debates arose about the importance of trading in the East and the issue of war against the Portuguese and Spanish merchants was raised with the public of the Netherlands. Calls for collaboration amongst Dutch merchants were proposed as a national concern. As a consequence, the State-
General created a new organisational form to unite the *voorcompagnieen*. This was the Dutch East Indies Company (VOC). This company was to strengthen the unity of the Dutch merchants against other nationalities, such as the Spanish and Portuguese.

In contrast to the *voorcompagnieen*, the Company was not controlled by the shareholders, but by the *bewindhebbers* (directors) and their joint committee, the Heeren XVII (Seventeen Gentlemen).\(^2\) The *bewindhebbers* were no longer responsible to the shareholders; on the contrary, they had the right to manage the Company according to their own insights after consulting with the members of the Heeren XVII and the Dutch oligarchy (cf., Steensgaard, 1973).

In the early years of the Company's existence in Indonesia, little change can be observed. The beginning of Dutch control of the Indonesian archipelago, especially Java, was in 1609, when the Dutch company established a centre of operations in Bantam (or Banten, West Java). The appointment of this official centre made it necessary for the Dutch to choose a political capital and, for economic reasons, this centre of operations brought considerable advantages to the Company. It enabled the Company to collect cargo and dispatch ships promptly to The Netherlands and to the other islands in the Indonesian archipelago (Day, 1904, pp.42-44). The Company also established a military base for operations against its enemies and to control the indigenous Indonesian residents. This was because the Dutch believed that *war* and *trade* could not be separated. By using military force, the Dutch could maintain the monopoly of trading systems against their competitors and enforce discipline among their servants and agents to negotiate trading treaties with native rulers and to drive off foreign rivals. Leur (1955) observed that there was an agreement amongst the Dutch traders in the East that military force was the first priority to be developed to support the trading
activities. As the traders reached Java, this priority was realised. Bantam became a centre of their operations.

The establishment of the Company in Indonesia also enabled the Dutch to penetrate, and subsequently control, political and economic activities in the Indonesian archipelago. The earliest and most important consequence of the company's establishment was a period of political and social instability in Indonesia. The Dutch took power and control from the traditional native authorities which were organised under a system of kingdoms. They removed power from the traditional rulers and replaced it with the Dutch colonial system. Thus, during the establishment and expansion of the Company in Indonesia, the dynamics inherent in the traditional system were destroyed. The indigenous rulers, as far as they did not oppose the Dutch system, were allowed to remain.

Dutch political, economic and social power remained for a considerable time. There is clear evidence that the commercial interests of the Company in Indonesia were the major motivation for this power, especially after it had founded the cities of Banten [1609] and Batavia (Jakarta) in 1619 (Leirissa, 1978, pp.189-190). In a later development, the company was challenged by a strong competitor, the English East Indies Company. The English Company was dissatisfied with the way the Dutch Company organised its activities in the archipelago (Schrieke, 1955, p.49). The English Company claimed that the Dutch traders came to the archipelago with the purpose of exploitation. The Dutch military had not been prepared for the purpose of trading transactions. Monopolies had been practiced throughout the coastal regions of the archipelago. No other competitors could enter the coastal regions for trading transactions without Dutch permission. All these circumstances created conflicts between the Dutch traders and other competitors, especially the English Company. To reduce the trading
conflicts, a treaty was signed in Europe, in which the English and the Dutch were to work together in consultation in order to avoid driving up trade prices and avoid obstructing each other in their trading pursuits. It was interesting to observe that the treaty was not intended to protect the indigenous people against these monopolies and needs. However, the treaty was to legitimate both the settlements of the Dutch Company in the archipelago and of the English Company in a different part of South-East Asia.

*Economic Influences: Under Dutch Colonialism in the Seventeenth Century*

Although the modern economic history of Indonesia can be traced back to the early colonialism of the Dutch Company, the economic life of the mainland began much earlier. As early as the beginning of the Buddhist Kingdom of Srivijaya (the early seventh century AD), trading voyages from West to East Asia and vice versa took place. They were made by Persians and Arabs in the West and in the East by Chinese. The Persians and Arabs used to make long voyages to China by transhipping in the ports of Srivijaya (Indonesia). The Chinese were also reputed to have made long voyages westwards passing the Indonesian archipelago. Eventually, the Chinese traders began to terminate their voyages at the ports of Srivijaya, where they found sufficient markets for their needs.

This is the trading environment into which the Dutch came and which was influenced by their coming. This included the need for a new system of record-keeping. From an economic stand-point, the interest of the Dutch who came to anchor their ships in Indonesia was in the opportunities to obtain spices, wood, gold and copper. However, when the Dutch first set foot ashore in Banten (West Java), they found an international market and a large number of merchants from many different nations;
There came [to Banten] such a multitude of Javanese and other nations as Turks, Chinese, Bengali, Arabs, Persians, Gujarati, and others that one could hardly move [in trading activities] (Leur, 1955, p.3).

Leur's description depicts a situation of active trading. Many goods had been displayed to attract buyers. The Chinese displayed silk, gold, silver and porcelains, whereas the Javanese brought chickens, eggs, ducks, woods, fruits and cotton.

From the start, the Company was concerned with establishing a trading monopoly. The Company believed that, with a trading monopoly, it could acquire a proportion of the enormous risks, costs and profits. By way of the monopoly the Company wished to be free of competition from indigenous Indonesians and foreign traders\(^3\). However, the General Director in Holland was not yet able to formulate an Asian policy; the conditions in Indonesia at that time were too complex for him (Furnivall, 1939). The indigenous Indonesians were managed and controlled by the monarchical policy in each region. Initially the Company accepted and followed the indigenous rulers, as had the foreign traders who came before them (Portuguese, British, Arabs, Persians and Gujarati). The Dutch Company at first was only permitted to sell spices to the Chinese and not to other nations.

Subsequently, in 1619, the Dutch Company under Governor General Jan Pieterzoon Coen began to formulate an Asian policy. Under his command, the Dutch Company office was moved from Banten to Batavia (Jakarta) (Coen, 1919). Batavia became the central city administering all Dutch policies, such as financial management, political administration, military operations, exports and imports. With the success of these developments, Coen was called the founder of Batavia.
This was after the company's soldiers captured Batavia harbour on 30 March 1619. Coen maintained that the Company had to follow the Asian trading policy rules and commanded all other traders to follow this policy. Coen emphasised inter-Asian trade and its close relationship with the systems of the Indonesian natives. The idea was that goods produced in Asia for the Asian market should be the principal commercial aim of the Dutch Company. For the Company, the profit resulting from this trade would be used to finance many trading posts scattered throughout the spice-producing islands of Indonesia (e.g., Maluku, Ternate, Tidore, Sumatra, and Java).

After the Dutch Company was established and centred in Batavia in 1619, it began to reinforce its monopoly of trading activities. Most of the spice-producing areas surrounding the Indonesian archipelago were totally controlled by the Dutch Company. The Indonesian native traders were forced to sell their spices and other products only to the Company and at relatively low prices. The Dutch military, at that time, was used to enforce the monopoly system on the Indonesians. No one could challenge this system unless the was prepared to go to war against the Dutch.

This monopoly system of Dutch economic policy placed great pressure on the Indonesian native governments. In the Mataram Kingdom (1677), the King was required to supply four thousand measures of rice annually to the company at a price that was well below the market price. In Banten the Sultan was forced to accept an agreement that all the pepper of the Sultan's producing areas should be sold to the company at a certain price which was, once again, lower than the international price (cf., Day, 1904). In the other Indonesian native areas, each native government (kingdom) had to set aside for the company a certain amount of pepper, cotton, yarn, rice or the like which had to be taken by the King from his
people and given to the company at a certain price. The system spread rapidly across the Indonesian archipelago.

**The Early Use of Money**

Money is fundamental to accounting. Not only does it facilitate exchange; it is invariably the major, if not the only, unit of account. It constitutes the basic requisites of accounting ie recording and measurement. As Littleton (1933) has claimed, money is the basic reason for the emergence of record-keeping and is one of the most significant contributors to the development of double-entry bookkeeping.

**The Origin of Money**

Although the written history of early trading activities in the Indonesian archipelago goes back to the earliest periods of the ancient Mediterranean world (Meilink-Roelofsz, 1962), little evidence of the use of money has been found. The available evidence of trading activities in ancient times indicates the use of a barter system\(^5\). Barter is a primitive form of trading exchange which requires a double coincidence of needs. Schrieke (1955, pp.42-43) has argued that barter trade had been used by the indigenous Indonesians in carrying out their trading activities until the coming of the Chinese traders.

From the very earliest times trade between people from many distinct nations continued side by side with migration. The first use of money, by trading migrants to Indonesia, is in the fourth century AD., when the Hindus from India arrived to trade goods in Java. Meilink-Roelofsz (1962) has suggested that at that time, there was busy trading traffic in the seas around Indonesia. The social
organisations of many distinct nations led to the emergence of an array of commercial trading forms: sales, share-cropping, wages, debt relationships and rent. The use of money was a necessary requirement for the conduct of these commercial activities.

However, even though there is evidence of the use of money in trading transactions in the Indonesian archipelago around the fourth century AD, there is little evidence that a standard of value in currency had been adopted. Every region had money different in materials and measurements. Leur (1955, pp.136-137) has claimed that there was a wide variation in the use of money materials, weights and measures throughout the Indonesian regions in the early economic (particularly financial) systems. Each region had a different kind of money (mostly coins). Money was used only for limited economic transactions between people from the same region. People from different areas still maintained the barter system in economic activities. However, as pointed out by Laanen (1980, p.13), there is evidence that with the arrival of the Hindus, the ruler's coin-stamp was accepted as a guarantee for coinage material made of tin. Coin usage in the Indonesian Hindu era has been found to date back to the seventh century. In addition, not only were coins made from tin, it seems that silver coins also existed.

With the arrival of Moslem traders in about the seventh century AD (1 Hijrah), there was an expansion in coin development in Indonesia especially in the coastal regions along the trade routes (cf., Tjandrasasmitha, 1978). In the Moslem Period, Moslems (Arabs, Persians, and Indians) had intensive relations with the indigenous Indonesians as well with the Chinese and other Southeast Asian countries. Trading traffic between the eastern and western parts of Asia flourished, mainly due to the rise and development of three powerful dynasties:
from Western Asia, the Caliphate of Ummayah (660-749 AD); from Southeast Asia, the Srivijaya kingdom (7-14th century); and from Eastern Asia, the Chinese T'ang dynasty (618-907 AD). The Moslem traders from Western Asia have recorded that they found different kinds of money material used in each coastal region of the Indonesian archipelago (see Exhibit 1).

EXHIBIT 1

Money Material Used
in Each Coastal Region of the Indonesian Archipelago
Approx. the 7th to the 9th Centuries AD

<table>
<thead>
<tr>
<th>Region</th>
<th>Money Material Used</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banten (West Java)</td>
<td>Silver and copper</td>
</tr>
<tr>
<td>Sumenep (Madura)</td>
<td>Where dies were struck on coins already in use</td>
</tr>
<tr>
<td>Cirebon (West Java)</td>
<td>Tin small change known as <em>picis</em></td>
</tr>
<tr>
<td>Aceh (Sumatra)</td>
<td>The rulers frequently combined in exercising their prerogative of the mint</td>
</tr>
<tr>
<td>Palembang (Sumatra)</td>
<td>Tin</td>
</tr>
<tr>
<td>Jambi (Sumatra)</td>
<td>Tin, known here, as in Palembang as <em>picis</em></td>
</tr>
<tr>
<td>Banka (Sumatra)</td>
<td>Tin</td>
</tr>
<tr>
<td>Pontianak (Kalimantan)</td>
<td>Copper and tin</td>
</tr>
<tr>
<td>Mampawa</td>
<td>Tin</td>
</tr>
<tr>
<td>Banjarmasin (Kalimantan)</td>
<td>Copper</td>
</tr>
<tr>
<td>Sulawesi</td>
<td>Gold and lead</td>
</tr>
</tbody>
</table>

The earliest known instance of money being used as exchange in trade was about the fourth century AD, in the Hindu period in Indonesia. However, in this period, the influence of Hindu trading settlements on the coast did not greatly affect the hinterland (Raffles, 1817). The exchange of goods or trade at village level (*Desa*) was an exception and took the form of barter. It was recognized that the self-sufficient nature of the village community meant that there was very little commerce associated with the outside world. They served their basic needs from their own characteristic pattern of *gotong royong* (mutual assistance).
In the early Moslem period (ca. the seventh - eighth centuries), the use of money spread around the Indonesian coastal regions. Later, in approximately the twelfth century, the rapid development of Moslem trade in Indonesia led to a great extension of the use of money not only in the coastal regions, but also in the hinterland. It is believed that besides trade, money was also used to pay taxes in the Moslem period. Laanen (1980) states that, apart from the Kraton (Courts) and the centres of kingdoms where the bureaucratic seats of government were located, coins were in some cases used as an exchange in the Desa or Kepatihan. In addition, some of the taxes levied by the Kraton rulers had to be paid in the form of cash. The required funds were generally borrowed from money-lenders in exchange for agricultural products. Under the Kraton rulers, money, especially coins, began to be used as a standard of levied taxes. Gradually this development led to the use of coins as a standard of value and as the medium of exchange on commercial activities in Indonesia.

The Development of the Currency System: Under Dutch Colonialism

When the Dutch Company was established in Java [1609], it is important to note that their primary concern was to implement a monopoly over the Indonesian economy and political system. The first concern of this policy was to inject a monetary trading system using a standard medium of exchange. They saw that a standard medium of exchange would force the Indonesian natives to comply with Dutch economic policy. They also found that at that time no standard money was used for trading activities by other nations coming to Indonesia. Money trade had been used with many kinds of material, weights and measures. Every nation, including the Indonesian coastal regions, brought a different kind of money in trading activities. The Spanish used "Piastra Fuerte" as a trade coin. The
Portuguese brought their own coin called "Pataca" or "Pardas de Reales". The English, Arabs, Persians, as well as the Indonesian natives, also had distinct kinds of coins (cf., Furnivall, 1939). Because of the different types of money used by traders, the Dutch tried to campaign for the use of their own coin called rials (made of silver and gold)\(^4\). It was not long before the Dutch gold coin was the most valuable medium of exchange with silver becoming the most important: the Dutch silver coin dominated everyday trade in the Indonesian coastal regions.

There was an increase in the money exported from Holland to Southeast Asia, especially to Batavia (Jakarta). A summary of the export of currency by the Dutch company 1602-1794 is shown in Exhibit 2.

### EXHIBIT 2

**The Export of Currency by the Dutch Company 1602-1794**

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount (fl)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1602-10</td>
<td>5,207,429</td>
</tr>
<tr>
<td>1610-20</td>
<td>10,185,550</td>
</tr>
<tr>
<td>1620-30</td>
<td>12,360,000</td>
</tr>
<tr>
<td>1630-40</td>
<td>8,500,000</td>
</tr>
<tr>
<td>1640-50</td>
<td>9,200,000</td>
</tr>
<tr>
<td>1650-60</td>
<td>8,400,000</td>
</tr>
<tr>
<td>1660-70</td>
<td>12,100,000</td>
</tr>
<tr>
<td>1670-80</td>
<td>11,295,000</td>
</tr>
<tr>
<td>1680-90</td>
<td>19,720,000</td>
</tr>
<tr>
<td>1690-1700</td>
<td>28,605,000</td>
</tr>
<tr>
<td>1700-10</td>
<td>39,275,000</td>
</tr>
<tr>
<td>1710-20</td>
<td>38,827,000</td>
</tr>
<tr>
<td>1720-30</td>
<td>66,029,949</td>
</tr>
<tr>
<td>1730-40</td>
<td>40,123,508</td>
</tr>
<tr>
<td>1740-50</td>
<td>38,275,000</td>
</tr>
<tr>
<td>1750-60</td>
<td>58,958,396</td>
</tr>
<tr>
<td>1760-70</td>
<td>53,541,830</td>
</tr>
<tr>
<td>1770-80</td>
<td>48,317,130</td>
</tr>
<tr>
<td>1780-90</td>
<td>47,895,900</td>
</tr>
<tr>
<td>1790-94</td>
<td>16,972,021</td>
</tr>
</tbody>
</table>

Adapted from Bruijn et. al. (1987, p.187)

This indicates that there was an increase in demand for the Dutch coin for exchange in trading activities across the Indonesian archipelago. More importantly, the use of the Dutch money system was not only a convenience in conducting economic transactions, but it also allowed the accumulation of wealth.
in liquid assets in the treasuries of the Indonesian kingdoms, the temples, and by individuals.

The substantial increase in the use of the Dutch currency system led to complexities in the economic sector and an increased role for the Dutch company (VOC) in the public affairs of the Indonesian natives and of the central office in Holland. It can be argued that this role was as a response to the needs created by the political and economic evolution of the Dutch policy. As a consequence, the continuous accumulation of wealth in the company created problems in the financial administration and wealth management. These problems, of course, required the development of record-keeping of finance to deal with the proper management of company revenues and expenditures.

The Genesis of Bookkeeping in Indonesia

Even though commercial activities in Indonesia spread rapidly during the Hindu and Moslem periods, no precise date can be given for the emergence of bookkeeping. However, records of assets owned by the wealthy kingdoms in Indonesia have been found dating back to ancient times at about the beginning of the Hindu period (ca. 400 AD). These records were in many cases merely lists of assets for which no monetary values were given. Record keeping was merely an end in itself, an inventory.

The earliest evidence of a simple technique of bookkeeping in Indonesia dates back to the end of the sixteenth century when the four Amsterdam ships of the first Dutch enterprise came to anchor in Banten (in 1596). There were records of the remaining assets after a long and unfortunate passage around the Cape of Good Hope and northeast across the Indian Ocean on 22 June 1596 (Leur, 1955,
The records were found in the form of a single bookkeeping system. According to the records, the Dutch brought fl.290,000 for the voyage to Banten. This capital had been collected from two main groups of people in Amsterdam in Holland. The first group was the initiators who were in charge of the enterprise called *bewindhebbers* (Directors). The second group was called *participanten* (Shareholders) who only invested their capital. However, little evidence has been found of a detailed explanation of the capital in terms of a record-keeping system.

The only description was that

> ... on the return of the ships, the whole enterprise was to be liquidated and shareholders would be entitled to their original deposit plus a proportionate part of the profit. ... it was agreed that the invested sums [fl. 290,000] were not to be paid back but used for a second *schipvaart* [voyage]. ... the directors were to receive one percent of the goods brought back" (Brakel, 1908 cited by Bruijn et. al., 1987, p.3).

This indicates that three main ideas of a simple accounting system were used to determine the position of an enterprise. These were the joint-venture system, profit-sharing, and the labour system.

As the commercial activities of the Dutch company in Indonesia increased, they began to provide a fertile environment for record-keeping development. The record system was primarily needed to provide for (1) proper planning of revenues and expenditures and managing of a plan, (2) the establishment of accountability for those with whom the company resources were entrusted and (3) a report to the members of the company on the proper management of using funds. One example from the early period of the Dutch company, where a simple planning of expenditures and a simple record-keeping system were used, is indicated in Exhibit 3 (adapted from Bruijn et.al., 1987, pp. 210-222 originally published by Heeren 17 on 25-11-1636, VOC 11; 12-12-1695).
**EXHIBIT 3**

**Summary of Simple Record-keeping in the Early Dutch Voyage to Batavia (at the end of the 16th century)**

**Trade Goods:**
- 17 pieces *bourattai* (mixed wool and silk)
- 30 pieces serge in various colours
- 400 hats, plain and common
- 28 hats, gentlemen’s and beaver
- 10 pieces strong serge-like cloth
- 10 pieces *drogetten* (woollen cloth woven in patterns)

**Writing materials:**
- 34 reams of paper of various sizes
- 10 quills of the best kind
- 100 penknives
- 100 whetstones

**For Churches and Schools:**
- 6 folio bibles
- 25 psalmbooks

**Provisions:**
- 54 casks Spanish wine
- 6 1/2 casks Rhine wine
- 10 casks French wine
- 4 1/2 casks wine vinegar
- 103 barrels Brunwick rum
- 8 barrels Dutch butter
- 20 barrels malt beer
- 96 barrels meat
- 103 barrels pork
- 12 half *amen* olive oil
- 544,000 doits

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 pieces gold and silver cloth</td>
<td>4,433.90</td>
</tr>
<tr>
<td>4 pieces various cloth</td>
<td>2,894.15.80</td>
</tr>
<tr>
<td>12 pieces cambric cloth</td>
<td>511.18.80</td>
</tr>
<tr>
<td>12 pieces crown-rash (a better quality)</td>
<td>254.13</td>
</tr>
<tr>
<td>20 pieces rash (coarse woolen cloth)</td>
<td>1,928.17</td>
</tr>
<tr>
<td>4 pieces serge-like cloth</td>
<td>114.90</td>
</tr>
<tr>
<td>13 pieces plain cloth with mohair wool</td>
<td>2,009.16</td>
</tr>
<tr>
<td>1356 pounds amber</td>
<td>22,024.20</td>
</tr>
<tr>
<td>4 balances (diverse)</td>
<td>304.11</td>
</tr>
<tr>
<td>12 pairs of brass compasses</td>
<td>37.10</td>
</tr>
<tr>
<td>50 pieces gold and silver lace</td>
<td>323.19.80</td>
</tr>
<tr>
<td>5 cases</td>
<td>134.90</td>
</tr>
<tr>
<td>49,126 pounds lead (assorted)</td>
<td>5,518.05.80</td>
</tr>
<tr>
<td>sundry equipage goods</td>
<td>29,035.16.80</td>
</tr>
<tr>
<td>sundry artillery goods</td>
<td>5,670.14</td>
</tr>
<tr>
<td>sundry armoury goods</td>
<td>898.15</td>
</tr>
<tr>
<td>Rank/ seafarers:</td>
<td>Monthly pay</td>
</tr>
<tr>
<td>-------------------------------------</td>
<td>------------------------------</td>
</tr>
<tr>
<td>Opperkoopman - Senior merchant</td>
<td>fl. 80 - 100</td>
</tr>
<tr>
<td>Koopman - Merchant</td>
<td>40 - 60</td>
</tr>
<tr>
<td>Onderkoopman - Junior Merchant</td>
<td>36 - 40</td>
</tr>
<tr>
<td>Boekhouder - Writer, book-keeper</td>
<td>18 - 24</td>
</tr>
<tr>
<td>Assistant - Clerk</td>
<td>14 - 24</td>
</tr>
<tr>
<td>Schipper (retourschip) - Master</td>
<td>fl. 70 - 80</td>
</tr>
<tr>
<td>Schipper (jacht or fluit) - Master</td>
<td>60 - 66</td>
</tr>
<tr>
<td>Opperstuurman - First mate</td>
<td>48 - 50</td>
</tr>
<tr>
<td>Onderstuurman - Second mate</td>
<td>32 - 36</td>
</tr>
<tr>
<td>Derdeestuurman - Third mate</td>
<td>26</td>
</tr>
<tr>
<td>Hoogbootsman - Boatswain</td>
<td>22 - 26</td>
</tr>
<tr>
<td>Hoogbootsmansmaat - Boatswain’s mate</td>
<td>14</td>
</tr>
<tr>
<td>Schiemann - Boatswain’s mate</td>
<td>20 - 24</td>
</tr>
<tr>
<td>Schiemansmaat - Boatswain’s mate</td>
<td>14</td>
</tr>
<tr>
<td>Bottlier - Steward</td>
<td>20 - 24</td>
</tr>
<tr>
<td>Bottliersmaat - Steward’s mate</td>
<td>14</td>
</tr>
<tr>
<td>Constapel - Master gunner</td>
<td>20 - 24</td>
</tr>
<tr>
<td>Kok - cook</td>
<td>20 - 24</td>
</tr>
<tr>
<td>Koksmaat - Galley boy</td>
<td>14</td>
</tr>
<tr>
<td>Kwartiermeester - Quartermaster</td>
<td>14</td>
</tr>
<tr>
<td>Opperzeilmaker - Sailmaker</td>
<td>18 - 20</td>
</tr>
<tr>
<td>Onderzeilmaker - Sailmaker’s mate</td>
<td>14 - 15</td>
</tr>
<tr>
<td>Opperkuiper - Cooper</td>
<td>16 - 17</td>
</tr>
<tr>
<td>Onderkuiper - Cooper’s mate</td>
<td>12 - 14</td>
</tr>
<tr>
<td>Scheepskorpmaal - Ship’s corporal</td>
<td>14 - 16</td>
</tr>
<tr>
<td>Oppertimmerman - Ship’s carpenter</td>
<td>fl. 38 - 48</td>
</tr>
<tr>
<td>Ondertimmerman - Carpenter’s mate</td>
<td>22 - 48</td>
</tr>
<tr>
<td>Trompetter - Trumpeter, Bugler</td>
<td>20 - 24</td>
</tr>
<tr>
<td>Provoost - Provost, Master-at-arms</td>
<td>14 - 15</td>
</tr>
<tr>
<td>Opperbarbier - Barber-surgeon</td>
<td>fl. 32 - 50</td>
</tr>
</tbody>
</table>
One of the most interesting features of these records is the fact that the Dutch had already introduced a single entry bookkeeping system in Indonesia.

From the example of the report system, we can see that it was primarily to show the responsibility of management in controlling financial matters. A simple budget system had been used for managing expenditures concerning personnel and military salary. Evidently, the purpose of the budget system was to plan and control the future salary of all seafaring and military personnel.

### The Introduction of Double-Entry Bookkeeping

When did double-entry bookkeeping emerge in Indonesia? No definite answer to this question can be given, but some possible clues may be found by considering the period after the establishment of the Dutch company in Banten [1609] and Batavia [1619].
One of the most fascinating documents tracing the earliest emergence of double-entry bookkeeping in Indonesia is the changing policy of the Dutch government in Holland with regard to military operations and administrative and financial matters in September 1609. A Governor-General was appointed to take supreme authority over all company settlements and possessions in Indonesia. The first Governor-General was Pieter Both who had previously served as commander of a fleet of one of the Voorcompagnieen. He established a general accounting office in Banten (Leur, 1955, p.181). Primarily, this office was to provide financial information to the Governor-General to assist him in managing the company activities. At that time, double-entry bookkeeping was used heterogeneously by the office to serve and record the financial activities of the company.

... it took three or four years to collect all books [financial books]. Accounts were kept of the Dutch activities, chamber by chamber, and the financial result was set up in annual balance sheets comprising all the six chambers. The general account of the Asiatic establishments was kept at Batavia (Glamann, 1981, p.244).

This is an indication that types of balance sheet were used to report assets at this time, but they were not what is understood by the term balance sheet (or double-entry bookkeeping) today. At that time, there was no capital account or any effective profit-and-loss account. The profit-and-loss account was made very simple and there was no auxiliary account to which losses and profits were consistently transferred from the various trading accounts. The balance sheet form emerged from the early establishment of the general accounting office at Banten (West Java), and a published balance sheet has recently just been found on the
basis of 'de generale boeken' in Batavia, October 1621 (Glamann, 1981, p.245).
The example form of a balance sheet can be seen as follows:

EXHIBIT 5

Balance Batavia, October 1621

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ongelden 7)</td>
<td>Winsten</td>
</tr>
<tr>
<td>7.3 mill fl</td>
<td>3.8 mill fl</td>
</tr>
<tr>
<td>Arrears, etc</td>
<td>Goods Captured</td>
</tr>
<tr>
<td>0.2 - -</td>
<td>20 - -</td>
</tr>
<tr>
<td>Effects</td>
<td>Various receipts</td>
</tr>
<tr>
<td>5.2 - -</td>
<td>0.2 - -</td>
</tr>
<tr>
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This balance sheet is typical of those used in Batavia in 1621. At the time, the terms Debit and Credit were already known. Perhaps, these terms were brought by the Dutch general bookkeepers from The Netherlands where the development of double-entry bookkeeping was well established. Debit is derived from the Latin 'debitor' and Middle French 'debiteur'; its modern equivalent in English is debtor. Accordingly, the heading on the left side of the balance using T-account form reads 'debit'. The basic meaning of this term refers to someone who owes a debt. Credit is also in use today with its meaning unchanged, that is, one who gives credit in commercial matters and, therefore, one to whom money is due. It is opposed to 'debitor'. Accordingly, the right side of the balance reads 'credit', meaning one to whom money or other assets are due.

At the time, there was also an adapted form of factorage bookkeeping, especially in the form of the journals, ledgers, and balance sheets, but it is not what we understand by double entry bookkeeping today. As with the terms debit and credit, it was understood that the credit side of an account consisted of money, merchandise, foodstuffs, debts outstanding to the company and various receipts,
whereas the debit side showed the expenditures for garrisons, ships, administration expenses and outstanding debts of the company (cf., Leur, 1955, and Glamann, 1981). However, a capital and fixed properties account (e.g., buildings, ships and other equipments) still did not exist and were only to be recorded in the balance after 1689. Similarly, a profit-and-loss account was not reported either. The only accounting for profit or loss was by comparing the total account of the receipts of sales (called *retrouen-generaal account*) to Europe (especially to Holland) with the total cost of equipment (*equipagie-generaal*), after which the difference was made out as profit or loss (Glamann [1981, p.45]).

In contrast to single-entry, a systematic technique of double-entry bookkeeping required that for every 'debit' transaction, there had to be 'credit'. In general, every transaction made by the Company should be recorded twice, so that the balance equation between 'debit' and 'credit' was maintained. As a consequence, it reveals its effect on changing capital. The major difference between the single-entry and double-entry technique is that double-entry automatically produces a clear picture of changing capital and profit or loss in every transaction, whereas single entry primarily records only the effect of each transaction or calculation into single form without any automatic cross-check balance.
Notes:

1) Cornelis de Houtman was the commander of the first Dutch trader which came to Banten (Java) (Walshe, 1968). He was reputed to have a strong capability in managing voyages to the East.

2) The Heeren XVII was a committee that consisted of seventeen gentlemen: eight members sent by Amsterdam Chambers and nine members from the big shareholders invested capital in the Company. According to the Charter, the Heeren XVII was the central management of the Company (VOC, Vol.1). They met at least two or three times a year. The duration of these meetings depended upon their workload and could vary from time to time.

3) Trading monopoly was used by the Dutch as a policy to protect their domination from others (indigenous Indonesian and foreign traders). To implement the monopoly system, the Dutch used war. Furnivall [1939, p.23] indicated that the meaning of monopoly by the Dutch was war, and "war gave a new reason for monopoly, because the cost of armaments had to be met from profit." Coen who was one of the founders of the Dutch Empire in the East also said that "you cannot have trade without war, or war without trade." (p.23).

4) The Rials of the Dutch coin were also called the rials of eight. This was based on the foundation of the Dutch company in 1602 by the Heeren XVII who established the rule that the Chambers should exclusively send rials of eight, and if they could not be provided, then, as an alternative, gold should be used (Glamann, 1981, p.51).

5) Barter is the simplest system for exchange of goods and requires technically a double coincidence of wishes. For instance, if someone wished to barter wood for, say, a ship, he/she would have to find not only a ship-maker who wanted to make it, but also a ship-maker who both wanted to make it and wanted to exchange it for wood. If both of them were satisfied with this transaction, a barter system was practiced. However, sometimes this did not end the transaction. He/she might believe, and a person might agree, that the wood was worth more than the particular ship which the person wanted to dispose; then if the person did not have a better ship, and was not interested in wood, the transaction of barter would still be at an impasse. Thus, barter is a simple transaction which does not require a standard value; its value is an interest and a need between at least two parties.

6) When the Dutch Company was founded in 1602, the Charter required that the company provide an account every ten years (decennial account);
Part Three:

Accounting and Its Power: The Cradle of Colonialism
Chapter VII

Colonial Accounting

... we plead humbly that the Lordships send us soonest a considerable number of people, many ships, a large money, together with other necessities. If you do this everything will go well-if not, Your Lordships will regret it. Do not despair ... there is nothing in the world that can stop us ... Something great can be accomplished in the Indies

Coen, 1919, Vol.1, p.399; (transl)
Masselman, 1963.

The end of the sixteenth century in Indonesia marked the beginning of a long period of substantial social, political and economic change. This was the time of the arrival and establishment of Dutch colonisation. During these years the exploitation of economic resources and the development of colonisation accelerated the change of indigenous Indonesian life from the states to a colonial system. These broad political, economic and social changes prompted a steady exodus of indigenous Indonesians from rural and small town settings to the new way of the Dutch colonial empire. There, the interesting development of the colonial systems was reflected in the emergence of a giant, bureaucratic organisation in the form of the Dutch East Indies Company (VOC) to provide and construct order first in business and later in other important functions of the new colonial society. Masselman (1963) stated that

modern colonialism was fostered by the large number of people willing to invest their money in the hope of making
profit. It thus ... led to an intensified form of *exploitation*. The East Indies - the Spice Island [Indonesian archipelago]-were the lodestone, as they had been during the Age of Discovery. The Dutch were the first to apply the principle of capital investment to overseas venture, creating in time a Dutch Empire [emphasis added].

The Dutch Empire, under the name of the Dutch East Indies Company, began to exploit the economic resources of Indonesians in order to make large profits. Almost all of the business orders and other important activities were centred under the Company's control. Raffles [1817], a former Governor-General of the British Empire in Indonesia during the period 1811 - 1816, condemned the Dutch for their harsh control of indigenous Indonesians during most of the seventeenth century. The Dutch retained supremacy and they tightened their hold over the Indonesian archipelago by imposing colonial rule. Raffles was not the only one who condemned exploitation by the Dutch Company¹). Dekker (1967, originally published in 1860), Haan (1910), Huizinga (1941) and Klaveren (1953) also condemned the building of Dutch colonialism in Indonesia. Dekker (1967), under the popular pseudonym Multatuli, from the Latin *multa tuli*, "I have suffered much", conceived his first book, "Max Havelar", as a means of awakening the awareness of people against the Dutch colony in the archipelago. Dekker saw the colony as a large, profit-oriented private enterprise, not as a threat to the indigenous Indonesian's well-being, but an obstacle (cf., Conley, 1960). Similarly, Klaveren (1953) claimed that the colony paid no attention to the development of many aspects of Indonesian life, and that the colony kept the indigenous people illiterate.

When the Dutch Company established its office in Java (1609), the introduction of the colonial system began. Colonial business and the political system were introduced and became major aspects of colonial policy. The growing
complexity of administrative control was a consequence of the development of the Company. This, of course, created new demands for the services of a wide range of knowledge specialists to conduct and control their activities. One of the earliest groups of specialists to benefit from these new demands of the Company was the group with a knowledge of accounting in terms of a particular aspect of bookkeeping and its social aspects. Accounting was to be used as one important means of colonisation. Accounting played an important role in administering the Dutch wealth in Indonesia and in controlling capital and production through a mechanism of bookkeeping records. One aspect of the mechanism of accounting knowledge in the early Dutch settlement was to create a monopoly of trade. Trade was an essential economic element of the indigenous people. Thus, to control trading activities in Indonesia, such as capital, production and distribution, was a key aspect in building the Dutch colonial and monopoly system (cf., Meilink-Roelofsz, 1962).

Monopolism and Colonialism

It was in 1609 that accountancy, in the modern sense, made its debut in Indonesia. This was marked by the establishment of the Dutch accounting office in Bantam (see also Chapter VI). The accounts of Dutch financial activities and public utility undertakings were controlled by this office. The accounts of the Company were also regulated by special Acts of the Governor General of the Company, which Acts imposed specific rules of accounting which later became known as the "de generale boeken" (general account) system (Sukoharsono and Gaffikin, 1993a). The essence of the system was that it required the Governor General and Dutch administrators of the Company to assemble comprehensive financial accounts annually. However, in fact, the Company reported the financial accounts for the first order decennially (VOC, Vol.1). It is interesting to note that
during the time of its early establishment, the Company played a dominant role in constructing the socio-economic environment of indigenous Indonesians. After the accounting office was founded, the Company imposed the political and economic domination which enabled them to run their monopoly system in respect of Indonesians. Monopolism and colonialism was a system used by the Company to enforce control over Indonesian land and labour as well as other economic resources. This was expressed in a number of forms such as levies and tolls, commercial domination, political security, and exploitation of certain kinds of production. Distribution of indigenous products was also controlled by the Company. Indigenous people had no right to determine where their products should go. Estimated targets of indigenous products in every region had been recorded to control their production and distribution. If there was an indigenous people which did not obey the Dutch distribution channel of where products were to go, the Company would easily trace and punish them. This condition was based on the objective of the Company to search for unlimited profit in the East, especially from the Indonesian archipelago which the Dutch believed was a "a girdle of emeralds" (Helsdingen and Hoohenberk, 1945, p.1).

It was through the accounting office at Bantam, that the United East Indies Company - called for short in Dutch VOC - began and centred its monopoly and colonial operations. The office was very powerful. It not only controlled and administered the financial matters of the Company, but also authorised war orders to protect the Company. The accounting office monitored every movement of the activities of the Company. For instance, in 1618 the office became the centre of command during war between the Dutch and the Jayakarta kingdom (in Jakarta) (Ricklefs, 1981). This indicates that the office had multiple functions which were not only for administration and financial policies, but also as a command centre for war. Such circumstances were not without reasons. With the Charter of March
20, 1602 which provided the Company with several of its sovereign rights to control the archipelago of Indonesia (Bruijn at. Al. 1987), the office protected its activities, even though wars were involved.

It was authorized to appoint officials, officers and judges, to raise troops, to declare war on, make peace and conclude alliances with native princes, to build forts, to conquer territory, and to mint coins. The charter forbade all citizens of the Republic, except servants of the United Company, to navigate and to traffic "round of the Cape of Good Hope and through the Strait of Magellan". (Helsdingen and Hoogenberk, 1945, p.23).

From this highly privileged position, it seems that the Company was not one that only made a profit, but that it was a great ambition of the Company to be a superpower, so that it could do any thing it wished. The Indonesian archipelago became a nation within a company. Seemingly, although it may seem unbelievable, the Company with its power grew rapidly to exploit the potential resources of Indonesia. All products and labours were for the Company.

The Dutch conquered and instated their own administration, generally headed by a governor. But in most cases native princes had parted more or less with their sovereignty and transferred it to the VOC. ... territories were subject to the VOC administration (Klaveren, 1953, p.53)

It is also surprising if we look at the creator of the Dutch Company's supremacy. Who was he/she? What was his background of discipline? Where did he educate? He was Jan Pieterzoon Coen, a Bookkeeper General. He was a pioneer in setting up a new method in the Company's operation of building up its supremacy in the Indonesian archipelago (Masselman, 1963). He educated in Italy where his major discipline was accounting (it will be discussed in detail in the following section). Coen began his career in the Company as a junior merchant.
Then, in 1609 he was appointed by the first Governor - General of the Company in Indonesia, Peter Both, as the first accountant General and the Director of the Accounting Office at Bantam in 1609. Under Coen's authority, the office began with an idea that all activities of the Company should be centred in Bantam where the office was based. Records of all possessions had to be revealed in a book with a detailed explanation. For Coen, records of events, financial expenses and revenues and product distributions had political, economic and social aspects for the Company. For example, Coen said that the Company would succeed in making a profit if it adopted a system of proper profit calculation and kept records of financial activities (VOC, Vol.1). A system of profit, for Coen, was based on a detailed calculation of all imports of money from Holland over all exports of products of the Company to Holland (cf., Glamann, 1981). Records of financial activities of the Company were used for monitoring and controlling its possessions. Under Coen’s command, there was a growth in the application of accounting. Costs and revenues of the Company’s transactions had been classified according to the nature and events of the transactions. In terms of managerialism and accountability of accounting application, the Company, particularly in the accounting office, had practiced relatively sophisticated costings of their activities as well as of the accounts of financial information to the shareholders of the Company. One example of a report of financial information to the shareholders is that, according to Bruijn, et. Al. 1987, p.9), "in 1610 shareholders received their first dividend, namely 75%, though not in cash but in mace. Soon more dividends were paid in the form of spices, so that by 1612 a total 165.5% dividend had been paid, only 7 1/2% of it in cash."

Similarly, Glamann (1981) indicated that the early development of double-entry bookkeeping in the Company in the 1620’s was to provide some financial information regarding the concept of capital account and the range of production,
distribution and exchange. The simple transactions of sales and purchases were recorded without difficulty by those who were responsible for the duties within the accounting office. Financial records were kept as permanent documents. The bookkeeping system had also been used efficiently to cope with the problems of recording transactions in different currencies and yet provide internally consistent financial information. Careful records of capital were maintained, since the Company was a fiscal agent for the government in Holland.

Jan Pieterszoon Coen, a Powerful Accountant

The early development of the Dutch Company, which moulded a giant colonial system in the Indonesian archipelago, cannot be separated from the guiding hand of Jan Pieterszoon Coen. He was the creator of the colonial system and the monopolism over the archipelago (Boeke [1942, 1946], and Leur [1955]). Furnivall (1939) also stated that the influence of Coen’s thinking on the policy of the Company’s establishment and development was great. Coen claimed that, to secure a monopoly system over the archipelago, war was not exempted. “You cannot have trade without war or war without trade” said Coen (Furnivall, p.23). Coen’s belief was that to achieve the ambition of the Company in Indonesia, war was a good strategy to choose. Coen was successful in his career. Formally educated in the accounting field, he began his career as a bookkeeper. His success culminated when he was appointed as Governor-General of the Company in Indonesia during the periods of 1618 to 1623 and 1627 to 1632 (Hall, 1981).

Coen was born in January 1587 in Hoorn, the Zuiderzee town north of Amsterdam, Holland. The custom of the town was that a child should be baptised as soon as possible. On January 11, 1587, He was baptised in the Reformed Church in Hoorn. His father’s name was originally Pieter Willemszoon van Twisk
and he was a merchant. In order to distinguish his name (van Twisk meant he came from a village) he adopted the name Coen (Masselman, 1963) meaning "bold" and "daring".

The beginning of the seventeenth century opened a new chapter in the life of the young Coen, one which may well have been decisive in preparing him for his future career. In 1600, Coen left his home town when he was just scarcely thirteen years of age and went to Italy where he served his apprenticeship with the house of Pescatore and learned accounting in Rome (Masselman, 1963, p.235). No details are given about the young Coen's life and experiences during his early years in Italy. However, we do know that Coen stayed in Rome for more than six years. For a just thirteen years old boy, it must have been the height of adventure to go to a foreign country, especially at a time when all eyes were looking beyond a horizon immeasurably widened by the recent exploits of Dutch navigators. In Italy, during the 1600's, systematic bookkeeping became an important subject to those who were interested in social sciences, such as commerce and business administration (Morgan, 1965). A growing number of students and merchants interested in the subject of systematic bookkeeping increased. Textbooks on accounting were also published to meet the demand on learning the techniques of bookkeeping. Published textbooks on accounting during this time were the books of Luca Pacioli (1494), Thomas Howell (1522-7) and Christopher Plantin of Antwerp (1560s). With such developments, Coen gained an advantage in learning much about commerce and the systematic techniques of bookkeeping.

During his years in Rome, Coen received training on all the intricacies of Italian bookkeeping. He learned how to keep financial accounts and studied the books of Italian commerce. He became so adept in this field that he later was able to put the books of the Dutch Company in order and to become its first
Bookkeeper-General. With his knowledge and experience, he began to apply Italian bookkeeping in the Company. As the name Italian bookkeeping implies, it originated in Venice and Genoa where it was in use long before the first book on the subject entitled *Summa de Arithmetica, Geometria, Proportioni et Proportionalita* was published in Venice by Luca Pacioli in 1494 (Pacioli, (1494) 1924).

There were also other things that Coen learned during his years in Rome, where some important political events were taking place. Coen did not only study accounting in terms of double-entry bookkeeping, but he also learned political and social aspects of European history. At the same time, during his study at the end of the sixteenth century and the beginning of the seventeenth century, there was much political and economic change in Europe (Ceyl [1958], Parker [1979]). In the years 1568-1648, the Dutch government engaged in a struggle for peace with Spain. During this time, Spain was unquestionably the most powerful state in western Europe. Philip II (Spain) had been told that the Netherlands situation was so serious that only two policies were open to him: concession or repression. The Spanish decision was to send troops to the Netherlands. In 1598, in Rome, Pope Clement VIII had brought about the Treaty of Vervins, ending the hostilities between Spain and France (Parker, 1979).

It was in this political atmosphere that Coen grew up. Not long time after the relationship between Rome and the Dutch Republic became strained because of some political reasons, Coen returned to his home town of Hoorn, late in 1606 (Masselman, 1963). When he came back, he was not just a boy, but was a young man with a bright future career as an accountant. He was twenty years old. Not only did he well understand Italian bookkeeping, but he also mastered the Latin, French, English, Italian, Spanish and Portuguese languages (Klerck, 1938).
Bookkeeping was his main concern during his life in Rome. One of the particular reasons for this was that knowledge of accountancy at the time seemed to have been regarded as an advanced commercial technique to be learned. This was about a hundred years after the Summa book of Pacioli, 1494, attracted great attention throughout Italy. However, it is perhaps impossible to over-emphasise the influence of Luca Pacioli on him. But it is of interest to relate Pacioli's Summa book and the day Coen came to learn Italian commercial bookkeeping. The fact was that at the end of the sixteenth century, the Summa book became one of the important references in learning Italian bookkeeping (see Have [1978] and Taylor [1978]). With this, Coen began to learn Italian commercial bookkeeping.

... returning at the age of twenty, he was thoroughly schooled in bookkeeping as well as in all other aspects of commerce. With his commercial background, he could expect to find some promising employment ... (Masselman, 1963, p.239)

With this background knowledge of bookkeeping, it was not so difficult for him to find a job. In 1607, Coen joined the Dutch East Indies Company where he started as a bookkeeper. He excelled in diligence, will-power and modest deportment. Coen also did not neglect his own family business background which was part of the important experience he brought to his new job. He easily adapted to any activity of the Company. Soon after, he was sent to Indonesia as a merchant, a middle level occupation in the Company.

When Coen arrived in Indonesia, he was attracted to contributing his knowledge and skill to the development of the Company. It was interesting that in 1609, the first Governor-General of the Company, Pieter Both, and Jan Coen founded a general accounting office in Bantam (Leur, 1955). Coen saw that something was needed to administer and control the Company and the accounting office was his idea. With his knowledge and experience, the office was soon
established to serve the operations of the Company. The office served as more than something to do with financial control, but it operated as a centre for all administration including as the centre of a military base for the Company. Detailed supervision over the whole range of the Company's activities became possible. In 1612, immediately after the settlement of the accounting office, Coen was appointed as the first Accountant-General at the age of twenty five (Klerck, 1938). It was in this capacity that he introduced a method of bookkeeping which played an important role in moulding the Company. Under Coen, the office had developed into one of the Company's most powerful instruments, both as a means of control and as a guide to rational behaviour, over a large range of activities.

Coen, in his new position as bookkeeper-general, had the responsibility for presenting a comprehensive financial report on all the activities of the Company. Masselman (1963) stated that it was a challenge for him as the founder of the accounting office to provide a comprehensive financial report in solving the problems of the Company. He believed that bookkeeping was one of the sophisticated techniques that could be used to manage the Company. This became a reality when Coen formulated a comprehensive report of a type which the Governor-General had never seen before. This report became Coen's famous account under the title *Discoers aen de E. Heeren Bewintherbberen Toucherende den Netherlantsche Indischen Staet* (Discourse to the Honorable Directors Touching the Netherlands Indies State) (Coen, Vol.6, 451-74) \(^7\). The account involved a detailed knowledge of the state of affairs at each of the many offices and industrial estates established by the Company since its inception. This included stocks of goods and coin on hand; contracts made for future delivery and advances paid against the Company, the number of personnel employed and salaries and wages both paid and held in escrow (Coen, Vol.6) \(^8\).
Bookkeeping, as introduced by Coen, became the basis for all financial exchanges of goods and daily operations of the Company. Accounts had to kept in a standard of monetary value, the *Dukaat* (Dutch gold), *Leeuwendaalder* and *Rijksdaalder* (Dutch silver) (Bruijn, 1987). Regular examinations of financial accounts were made to ensure their correctness and accuracy. In communicating this important point to the authorities and the way he prepared the report, Pieter Both, the Governor-General of the Company (the periods of 1609-1614), described him as "an honest and devout young man, very modest in his conduct, sober and of a good character, no drunkard, not arrogant, very capable in council and well versed in commerce and bookkeeping" (Heisdingen and Hoobenberk, 1945, p.25).

Coen ... applied himself to his dual duties of organizing the Bantam and Djakarta offices, and setting up a comprehensive system of bookkeeping. This required a great amount of paper work-report going back and forth between the many offices throughout the archipelago and other parts of Asia ...(Masselman, 1963, p.313).

Under Coen's command as Accountant-General, the office served an important role in administering all activities of the Company. Financial issues were under his control. Selling and buying spices and other goods were his decisions. Capital calculation and expenditures for garrisons and ships were also his duties. He set up his duties on a sophisticated system of Italian mercantile bookkeeping to make it easier to manage the Company. Leur (1955, p.228) stated that

[e]verything was set down ... system of mercantile bookkeeping with money, merchandise, foodstuffs, and debts outstanding to the company as credits and the expenditures for garrisons and ships, a reserve for bad debts, and outstanding debts of the company as debits.
From the above, it can be seen that bookkeeping was most highly developed within the Company under Coen who with his ability, could introduce and implement accounting techniques and comprehensive financial reports could be constructed to feature the activities of the Company. The Company's business showed a high degree of continuity and was well organised. In many respects, the use of the bookkeeping system within the Company was a model of sophisticated techniques to cope with the growing and more complex activities of the Dutch Company.

**An Accountant as Governor-General**

April 30, 1618 was the day when power and authority came under Coen's control\(^9\). Coen, an accountant, was appointed by the Directors of the Heeren XVII in Holland as the fourth Governor-General of the Dutch Company in the Indonesian archipelago for the periods 1618-1623 and 1627-1629 (Coen, Vol.1). As an accountant, it was a great privilege for him to administer and control all of the aspects of the Company's activities. Coen, in his new position as Governor-General, had greater responsibility than he did as Accountant-General. He had to be responsible for presenting a comprehensive report of all the activities of the Company to the shareholders and the Dutch Republic\(^{10}\). His responsibility was extended not only to presenting something in terms of financial matters, but he also had to include all the affairs of state at each of the many offices established by the Company.

Jan Pieterszoon Coen had governed the Dutch Company since 1607. However, he was keen to emphasise 'government' after he was appointed to the
position of Accountant-General in 1612, and later he took power as Governor-General in 1618. This was what he had expected. Masselman observed that

[his appointment, as Governor-General, must have been a splendid day in his life, but his subsequent acknowledgment shows that he took it in his stride. He reacted as if he had expected his promotion all along nor was he impressed by his new salary of 600 guilders a month (Masselman, 1963, p.355).

Similarly, Helsdingen and Hoogenberk also observed that

[the appointment did not surprise him; nor did he display any enthusiasm over it ... "Let us plough and sow; the Lord will give the growth" (Heldingen and Hoogenberk, 1945, p.26).

Coen played an important role in the running of the Company. New policies had been passed, and there were better salaries and wages due to his consideration for company personnel. This was a very different notion of government to the one held by the Directors of the Company, since it involved a new concept for the person (concern with his/her conduct and character) and a new basis for acting toward the person.

As far as Coen was concerned, it all amounted to the same thing. If the Company wanted honest and capable personnel, then it should pay adequate salaries ... "More money ... better personnel" (Masselman, 1963, p.338).

Labour was really Coen’s concern. He considered that to make the Company stronger and more powerful, a large labour force was needed (Coen, Vol.2). He was enthusiastic in obtaining workers with European temperament, such as Germans and Spaniards. As a consequence, even though Coen encouraged a high rate of salary, it was difficult to obtain the labour he required. An alternative choice was indigenous people. However, indigenous Indonesians were prohibited
by the King's rules from working and collaborating with the Dutch Company, mainly in Bantam and Jakarta (Coen, Vol.1). The reason for the King's rules was that the Company under Coen's command had taken over the King's power and ruled commercial activities in the archipelago. The solution was to get labour from outside the archipelago. The north coast of Madagascar was a place where cheap labour could be obtained. Coen said that

slaves would indeed be advantageous. We cannot exist without slaves. ... I suggest that you [the Directors of Heeren XVII] instruct someone on your next voyage to go to the north coast of Madagascar. According to Admiral Van der Hagen good lots are available there at low prices ... (Coen, Vol.1, see also Masselman [1963, p.343]).

More workers had been recruited. Many skilled workers from particular disciplines were also recruited, such as bookkeepers, technicians, and soldiers (Coen, Vol.1). It was not long time after his appointment as Governor-General in May 1619 that Coen established his long-desired rendezvous in Jakarta. It was not easy for him to build the rendezvous. It was his decision to go to war with indigenous Indonesians and the town of Jakarta was stormed and destroyed.

... on May 28 [1619]. Under the sound of cannon shots from the shore as well as from the ships, Coen entered the fort and quickly appraised the situation. Two days later, not wanting to give the enemy time to bring up reinforcements from Bantam, Coen launched the attack, putting himself at the head of 1,000 men. Most of the people of Djakarta had already fled into the interior, but there were 3,000 Bantamese in the walled town. They proved no match for the Dutch and put up little or no defence. The walls and bulwarks were flattened, and the whole town, including the dalem and mosque, was burned to on the ground (Masselman, 1963, p.391).

Coen was hardly interested in the city of Jakarta and its coastal position as a naval station. His interest was purely commercial and colonial. Jakarta was soon under
its occupation by the Company. To take advantage of this, Coen announced his victory to the Directors of Heeren XVII in Holland,

[i]t is certain that this victory and the fleeing of the English will create quite a furore throughout the Indies. This will enhance the honor and the reputation of the Dutch nation. Now everyone will want to be our friend. The foundation of the Rendezvous is now established and a good part of the most fertile land is yours. This ought to show you what a bit of courage can accomplish. We implore Your Lordships to send us now a large number of people with all the necessities so that we can build a strong fort and a town ... stop being negligent and short-sighted, thinking that we can manage here just by ourselves (Coen, 1919, V.1, see also Masselman [1963, p.391]).

With the establishment of the central office in Jakarta, the Company began a new chapter in the history of its occupation. Its first concern was a safe place for government, personnel, workshops, ships, garrisons and food. For this purpose a fortification was built. A fort and castle were built on the east of the Ciliwung river, on the coast, whereas the administration office was in the south, near the market place. Opposite the fort, on the river, an equipage or carpenter's yard was laid out and a fortified house for general needs was built (Meilink-Roelofsz, 1962).

With the increase in the Company's business and trade, the available space in the castle soon became insufficient, while at the same time the need to confine all activities inside the protective castle walls disappeared as the town grew and the Company's power increased. Warehouses, the prison and workshops were successively moved to other places in the city and the staff was given permanent accommodation. The Governor-General lived in the castle until 1741 (Bruijn, et al., 1987).
There is evidence that, as the commercial activities of the Company increased and its government settled down, matters of administration became subject to change. In terms of accounting, record keeping had been a part of the adoption of new systems involving sophisticated techniques. Evidence of this was found in a study by Bruijn, et al., (1987). It indicated that, during the period when the business of the Company in Batavia (now, Jakarta) flourished, financial accountants and administrators, *opperkooplienden van het kasteel* who were responsible for mainly taking care of the bookkeeping of the Batavia warehouse, were recruited in mutual cooperation and under the obligation of reciprocal control. Since 1664 their duties were divided in such a way that the more senior in rank administered the purchasing of goods arriving from the various coastal Asian settlements, whereas the juniors recorded inventories intended to be sent to the Netherlands. The invoices and other documents, such as contracts for selling and buying spices and other goods, as well as other documents relating to ships from home and the freighting of returning ships were recorded by the Accountant-General.

**Costing Calculations under Coen**

It is also surprising to analyse the costing calculations at the Company under Coen as Governor-General. A relatively sophisticated costing had been practiced by Coen when calculating the products received by the Company. Leur [1955], Meilink-Roelofs [1962], and Glamann [1981] noted that there is evidence that Coen developed accurate figures on the cost of making contracts with merchants and the standard costs of products. They also pointed out how much more detailed and sophisticated the cost accounting techniques were in the Company during the period of its early establishment of the Company in Jakarta (cf., Glamann [1981]).
Leur [1955, pp.227-229] stated that when the Company came under Coen's command five thousand pounds remained as capital. This amount was relatively small, whereas the Company was faced with a war policy that required large sums: running expenses for personnel salaries, food, and garrisons, and expenses in a lump sum for building forts and reinforcing garrisons and ships. Based on this small amount, Coen began by encouraging all personnel to manage expenditures whereby everything should be calculated with proper costing techniques (cf., Bruijn, et al., 1987).

Glamann (1981) and Bruijn et al., (1987) provide a full analysis of the type of costing techniques as cost information. Cost information was, in deferring circumstances, prepared either at the office in Batavia, mainly on the basis of the Company's own records, or by the office in Holland (the Heeren XVII) on the basis of returns and accounts they had received from Batavia; or by a process of consultation between the two. One example was the demand for gold and silver from Holland by the Company. Every year the Heeren decided how much gold and silver should be sent to the Company and circulated in the archipelago. Their decision was based on the demands of the Company in the General Letters signed by the Governor-General (see a Chapter IV for a more detailed account of the number of coins). The decision by the Governor-General on the need for coins was not simple. It took an analysis by the Accountant-General to know the supply and demand for spices and other goods, and the coins available to the Company.

Another instance of the Company's costing techniques was to calculate the price of commodities and to determine net and gross values. Relatively sophisticated techniques were used when calculating the selling and buying price of agricultural commodities. Glamann (1981) observed that a multiple source of
information was collected to determine the price of agricultural products. The rate of conversion of the product was the method they used to calculate the price of the product. Records of special auctions and sales books of the Court Minutes of the Kamer Amsterdam during the period of 1600-1794 were documented as a source of information on the calculation of price. Glamann found that there were four stages in determining the price of a product (e.g., pepper). They were: "(i) What was shipped, (ii) What was received, (iii) What was offered, and (iv) What was sold" (Glamann, 1981, p.294). These documents were used as a source of reference to determine the fluctuation of product prices and future planning decisions on prices. A conversion rate of a particular product was adopted to follow a general agreement of the European market. To calculate the conversion rate, the company followed the rate announced by the council in Antwerp, Belgium (Coen, 1919, V.2). A simple explanation as to how the rate of the conversion of the product price was arrived at was that they calculated the ratio between the demand and supply of the agricultural products during one year (Coen, 1919, V.3).

There was also a number of extensive and systematic calculations operated by the management of each department within the Company. The Company was responsible for employee recruitment and the rate of salary among personnel. Each department had a different rate of payment of salary and wages. However, during the early period of recruitment, everything was under the control of the Heeren XVII in Holland (Bruijn, et. al., 1981). Thus, the recruitment procedure occurred in Holland, not where the Company was located. On the appointed days of employee recruitment, the date and times were announced by the Heeren XVII and posted up in the town to attract applicants. Upon appointment, contracts were signed by directors and employees, and wages for two months in advance if agreed by contract were paid. The Company also determined the amount of wages
received during any particular month. Various rates were applied to differentiate among the employees within the Company and were dependent upon what department they worked in and the skills they possessed. From the early to the middle of the seventeenth century, the Company paid rates of wages as follows: a sailor earned between fl. 7 and fl. 12 a month, a soldier around fl. 9, petty officers on a ship fl. 18 to fl. 24, and mates' salaries could rise to a monthly fl. 50, those of masters from fl. 50 to fl. 80 or even fl. 100 (Bruijn, et al., 1981). The rates were clearly determined. An interesting feature of this was that sufficient detailed information for computing unit costs for different purposes could be maintained to provide accuracy in financial reports.

Dutch Colonial Accounting

What I call "colonial accounting" stems from the fact that, in the first half of the seventeenth century, the establishment of the accounting office in 1609, followed by the appointment of the first Accountant-General, seem to have been the essence of much of the colonial settlement, to judge from surviving official account-books. It was through the accounting office that the Company operated and double-entry bookkeeping emerged as a means of colonisation. There is evidence that the office played a major role in providing information to the Company relating either to financial matters or other needs for survival of the Company. Such information was needed for recruitment of sailors and soldiers. In fact, personnel recruitment became one of the most important uses of information provided by the Company.

There was another reason, and perhaps a more weighty one, for establishing the office and subsequently, in 1619, moving it to Jakarta. There was a need for keeping full accounts. The colonial company was obliged to calculate
its year's income in order to know the performance of the Company in general (Coen, 1919, V.3). Thus, the Company had a great need for sales and expense figures and for closing off the ledger at regular yearly intervals. However, the Company apparently felt that profit figures and regular financial accounts were not worth their keep up to 1619. It is interesting to observe that there was something that happened to the report system of the Company. Glamann (1981) stated that in certain respects the Heeren XVII was perhaps interested in the defective balance sheet.

As pointed out by Dr. Mansvelt [1922] it was necessary for the Court of Directors to veil the surplus and deficit to the shareholders, who were speculating for a profit. One of the decisive differences between the English and the Dutch Company which came to light in the first decades of the 17th century, was the very fact that Dutch were able to invest capital in their Asiatic establishments in spite of the shareholders' protests and claims for having the general account closed when the profits were insufficient to them (Glamann, 1981, p.245).

There was something hidden by the Company reports relating to their failure to give a profit to the shareholders. If their profit calculation indicated an insufficient amount of profit, they would not publish the reports. There are probably some reasons behind the hidden reports during this time. Perhaps the profit and loss at the time was not vital. And what they needed to know was perhaps the outcome of the various coastal post activities in terms of political monopoly and colonisation. Thus, the profit reports were not needed by the company. Its necessity was to maintain colonisation. In fact, the Company colonised in the archipelago for a long period of time.

An increasing growth in the Dutch population in the archipelago in the seventeenth to the eighteenth centuries encouraged more colonial trade and
accounting. The Dutch currency was disciplined, and ample supplies of coins were issued in the name of the Dutch colony. A standard monetary system using Dutch coins became feasible and useful. The use of Dutch currency dominated in daily economic transactions and its impact was that keeping financial records was made easy.
Notes:

1) Historically, even though Raffles condemned the way the Dutch Company colonised the archipelago, under his control (1811-1816) the indigenous Indonesians were not much better off than under the Company. Klaveren (1953) stated that "... Raffles was not concerned with the disadvantages to native society: maybe he was not even aware of them, for he was only concerned with serving the interests of England. So he strove to make of the East Indies a market for English textiles"(Klaveren, 1953, pp.88-89).

2) There were some other specialist groups who contributed to the development of the Dutch Company, such as navigators, engineers, medical doctors, and soldiers.

3) "A girdle of emeralds" is a phrase by a Dutch poet that says "... the magnificent empire of Insulinde encircling the equator like a girdle of emeralds". The Insulander is the name of Indonesia given by Maxhavelar (see also Chapter I).

4) Coen had a specific meaning in adopting 'proper profit calculation' based on the practice of calculation carried out by the Italian merchants. He was concerned in introducing to the Company the calculation which had been practiced in Italy. A proper profit calculation was a system which distinguished between capital, expense and revenue.

5) In fact the Company, established under the charter of 1602, consisted of 46 Clauses outlining the structure and organisation of VOC. It also included the rights and obligations in respect of the State General of Holland. To obtain capital for the Company, there were 5 shareholders, namely Chambers, who participated by investing their money. The following Chambers and the total amounts that they invested in 1602 were (adapted from Furnivall, 1939),
Amsterdam  | fl. 3,674,915  
Zeeland    | 1,300,405.4  
Delft      | 469,400      
Rotterdam  | 173,000      
Hoorn      | 266,868      
Enkhuizen  | 540,000      

------------
States - General | 25,000

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Total | fl. 6,449,588.4

6) In the book of Summa de Arithmetica, Geometria, Proportionalita, printed in Venice, Italy in 1494, Pacioli has consequently had credit for the authorship of the first printed comprehensive work on bookkeeping (Mattessich [1964], Taylor [1978], and Gordon [1978]). But it was recognised by Pacioli that the book did not totally originate with him. "It is a compendium, as Pacioli himself called it" (Taylor, 1978, p. 179). Pacioli also regarded his main source for the book as the work of Leonardo da Pisa who wrote during the 1200's.

7) The report originally was prepared as a continuation of his first report to the Heeren XVII in Holland. The first report was submitted by him when returning to Holland after his first voyage in 1610 (Masselman, 1963). The second report with the title Discourse to the Honourable Directors Touching the Netherlands Indies State, Coen submitted on October 14, 1614. The Directors of the Heeren XVII were greatly impressed. The length of the report was about 10,000 words, and perhaps the lengthiest report ever seen by the Directors in Holland.

8) An easily understandable version of Coen’s Discourse Report is in a summary text by Masselman (1963). The report covered the comprehensive activities of the Company. It began by pointing out the importance of the Company, not only for the return to its shareholders, but it was also for the benefit of the Dutch Republic in Holland. His report mentioned the power and presence of the Company position against its competitors. His attention in the report was to show that the Company could prevent from the enemies, such as Spain, Portugal united under one crown and indigenous South-east Asians. He also included a financial activities account and a number of contacts and secret strategies to manage and control the Company (Coen, 1919, V.6, and see also Masselman [1963]).

9) Coen was officially appointed as Governor-General on April 30, 1618. However, he could not immediately take up the position, because the former
Governor-General, Laurens Reael was still stayed at Maluku. According to Masselman (1963), Coen had acted as Governor-General, even before his appointment. He had no personal animosity towards Reael. It was not until October 14, 1618 that he finally informed Reael that the Directors of the Heeren XVII had granted him for his retirement.

10) The Company's shareholders, the Directors of the Heeren XVII and the Dutch Republic, were the main authorities to which Coen had to report all his activities as commander of the Company. For the Dutch Republic, this was as a consequence of his Discourse report. As a hierarchy, the Dutch Republic was not part of the Company's command line; however, his report had put them to interfere the Company's activities.

11) It has been pointed out in Chapter VI that as the monopoly system was applied by the Company, the first concern of policy was to inject a monetary trading system into the archipelago using the Dutch standard medium of exchange. The reason behind the policy was that all trading activities in the archipelago had to comply with Dutch economic policy, particularly for indigenous Indonesians, as the Dutch enforced control over trading between them. Thus gold and silver, exported from Holland, became the single standard of exchange.

12) Based on the report of Bruijn and Lucassen's study (1980) cited by Bruijn et al., (1981), there had been a considerable increase in Dutch personnel in the archipelago. The total number of personnel from 1630-1795 can be seen below:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>DUTCHMEN SOLDIERS</th>
<th>DUTCHMEN SAILORS</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1630 - 40</td>
<td>2,640</td>
<td>14,868</td>
<td>17,508</td>
</tr>
<tr>
<td>1655 - 65</td>
<td>4,914</td>
<td>14,400</td>
<td>19,314</td>
</tr>
<tr>
<td>1680 - 90</td>
<td>6,705</td>
<td>18,168</td>
<td>24,873</td>
</tr>
<tr>
<td>1695 - 1705</td>
<td>8,372</td>
<td>26,078</td>
<td>34,450</td>
</tr>
<tr>
<td>1715 - 25</td>
<td>10,972</td>
<td>29,400</td>
<td>40,372</td>
</tr>
<tr>
<td>1745 - 55</td>
<td>7,588</td>
<td>25,100</td>
<td>32,688</td>
</tr>
<tr>
<td>1765 - 75</td>
<td>4,732</td>
<td>25,488</td>
<td>30,220</td>
</tr>
<tr>
<td>1785 - 95</td>
<td>2,640</td>
<td>21,420</td>
<td>24,060</td>
</tr>
</tbody>
</table>

Employee Recruitment by the Dutch Company for some decades
Chapter VIII

The Domination I: The Age of Capital

And we are so close set on our profits and earnings that we do not allow anyone to earn a penny or a farthing on us ... wrote Reael, [the 3rd Governor General of the Dutch Company], as early as 20 August, 1618 (Tiele & Heeres I, cited by Schrieke, 1955, p.72).

The Dutch Company Expansion

The seventeenth and eighteenth centuries are often called the golden centuries of Dutch capitalism. But this interpretation should be qualified by placing Dutch colonialism in the Indonesian archipelago in the total context of colonial power and the monopoly system of trade. To begin with, the first notable rise of capitalist development by the Dutch was in Amsterdam as a financial centre of Europe. This began after Antwerp was captured by the Spaniards in 1585 (Aston, 1965). Long before that year, Antwerp had been a centre of financial and trading activities. However, it was replaced by Amsterdam after the Spaniards extended their occupation into Antwerp.

... the position of Antwerp until 1576 was so overwhelming ... After Antwerp's decline, Amsterdam took over Antwerp's role as a general staple of world trade and as a financial centre. Many influential Antwerp merchants fled to Amsterdam to continue their business and to free themselves from religious prosecution (Klaveren, 1953, p.35).
The development of Amsterdam, as the European financial and trading centre, required not only the existence of the Dutch with capital from which they could organise borrowing and lending but also the preparation of trading commodities, such as agricultural products in which most European merchants were interested. As the agricultural products were the concern of this development, the Dutch sought to obtain the products to the Indonesian archipelago. In 1602, the Dutch East Indies Company (VOC) was founded with its main purpose to supply agricultural products for European markets.\(^1\) Subsequently, the founding of a new stock exchange (1608), exchange bank (1609), and a lending bank (1618) as well as a large increase in population (by migration) meant that trade and wealth were concentrated in the last decade of the sixteenth century and the first two decades of the seventeenth century (Barbour, 1963). Thereafter, Dutch trade in Europe could and did take advantage of the Thirty Years War\(^2\) to register speculative profits from foodstuffs and military equipment at the expense of the belligerents. However, according to Ceyl (1958), these profits were not based on any significant increase in Dutch production - although the production of textiles and metallurgy for arms did increase in Flanders - nor were they accompanied by any large or substantive increase in the overseas trading monopoly and much less by new Dutch sponsored colonial production to feed such trade. Dutch trade did not really take this opportunity to become a centre of production until the late seventeenth century, when almost all of the European countries and the world were coming out of the depression (Parry [1949], Aston [1965]). Dutch expansion was no more than an Indian summer, which did not last beyond about 1720, when capitalist development increased. Barbour (1963) pointed out that the Dutch decline thereafter cannot be attributed simply to a small population base, but to a small production base, or the failure to develop a productive base for further capitalist development.
Instead, after 1618 beginning especially with Jan Pieterszoon Coen, sometimes called after his Portuguese precursor in the Indonesian archipelago "the Dutch Albuquerque", the Dutch dedicated themselves in their overseas operations to displacing others from existing trade, especially the Portuguese and British in the Indonesian seas, and to monopolising it for themselves. For centuries, more than expanding their colonial production and commerce, the Dutch with their giant company sought to take advantage of, and to accelerate, the decline of Portuguese power in the Indonesian archipelago (Hyma [1953] and Ricklefs [1981]). The Dutch also sought to take advantage of the decline of Arab power in the Middle East. The following measures were all designed to replace the Portuguese and Arabs in the Indonesian archipelago and the Middle East: (1) the establishment of a permanent base at Batavia; (2) the unsuccessful attempt to capture Goa and its subsequent blockade for several years; (3) the establishment of a base at the Cape of Good Hope; and (4) the expulsion of the Portuguese from Ceylon and some other islands of the archipelago (Meilink-Roelofsz, 1962). These measures proved effective and established a Dutch trading monopoly.

... it is easy to ascertain where there was power exercised and where unsupported settlement. The Company's trade was of three sorts: (1) Trade from the region it had conquered: e.g., the Banda Islands, (2) Trade carried on under monopoly contracts with Ternate: the Moluccas and Ambon, (3) Trade with various other Oriental kings and princes on the basis of agreements reached as well as on the basis of free trade along side other nations (Leur, 1955, pp.239-240).

After the rapid expansion of the Dutch Company in the archipelago after the 1650's, the accumulation of capital was to be one of the main concerns strengthening the trading monopoly system and the colonial economy over the indigenous Indonesians. The Company businesses expanded significantly and rapidly after the middle of the seventeenth century. Moreover, they changed in
direction, composition and structure. The slave trade and the triangular trade between the Japanese, Chinese and the Indonesian archipelago assumed particular importance and the oriental trade underwent qualitative changes (cf., Frank, 1978). This new direction of trade and the high profits derived from it made an important contribution to the process of capital accumulation in the Company. Another impact was the rapid growth of manufacturing exports of Asian products to European countries. Trade and war were intimately - and reciprocally - related to each other and to the process of capital accumulation and economic development within the Company.

A distinction must be made between the economic and the political element in the development of Dutch power in Indonesia. Dutch political influence depended on armed power: the Company's technology in the arts of war appears to have been in general superior to that of the Indonesians, both on water and on land. In that region the defensive power of the Orient seems to have become weaker comparatively ...

The heart of the whole matter lies in its military aspect - the progress of Dutch power must be attributed not to more diplomatic insight, to greater courage and greater impetuosity, to greater economic reserves, but to the sturdier rigging and the greater speed of the ships, the more powerful cannon-royal, the greater mobility of armed troops. (Leur, 1955, pp.188-189).

It is clear that the rapid expansion of the Dutch Company in Indonesia by economic domination relied heavily on the power of the military. War was not separated from trading activities. The mobility of arms and troops dominated trading and economic policies. Firearms, iron cannon and iron cannon balls were some of the military equipment used. These were imported from the Netherlands. They were used particularly to maintain rigid discipline and employ harsh punishment including torture and execution of those who were against Dutch policies. In 1614 Coen wrote a letter to the Directors of the Heeren XVII,
You should know from experience that in the Indies trade must be conducted and maintained under the protection and favour of your own arms and that these arms must be got out of the profits won from the trade, so that trade cannot be maintained without war nor without trade (Coen, 1919, Vol.1, pp.97-98).

Thus, the military units within the Company including arms, artillery, siege craft and fortifications were a central force in maintaining its success in trading. In almost every area, soldiers and merchants worked together. One example was in Batavia in the 1670s where the displays of martial equipment were an important event in order to show the strength of the Company's soldiers. In 1676, Nicolaus de Graaff witnessed the civilian militia on parade:

All commanding officers over land forces or ships must appear in full weapons in the Batavia castle and march in order in the presence of the Governor General and Councillors of the Indies. And ... all free citizens, Javanese, Malay, Amboinese, and other inhabitants appeared in the same fashion fully armed before his Excellency and Councillors, each being specially dressed and equipped, these peoples performing many strange leaps and attractive tricks (Warnsink, de Graff, 1930, cited by Ricklefs, 1993, p.20).

It happened on many occasions. The Company, with its strong soldiers, took part in any situation that it believed was a part of its concern in indigenous activities. Trading contacts between indigenous merchants and international merchants were limited. They were forbidden from having direct contact with them. In most cases, the Dutch became mediators in trading transactions between them (Leur, 1955). Dutch patrols throughout the areas where indigenous peoples' gatherings were held were not unusual (Ali, 1974). The economy and indigenous governmental administration was controlled and influenced by the policy of the Company. The
Company stipulated a monopoly system under central Dutch capital investment and changed the economic direction of the indigenous people.

In treaties signed with rulers who in signing them went beyond their power to fulfil them, the Dutch stipulated a monopoly on the purchase of spices at a low price; in other unilateral agreements the privilege was obtained by force. The monopoly in the far-flung archipelago had to be maintained by a handful of Dutch ... (Schrieke, 1955, p.72).

It is interesting to note that the Company expansion in the archipelago became both feasible and profitable for the Dutch. Colonies were considered necessary; Coen said that empire building in the archipelago served the Dutch national interest (Masselman, 1963). Thus, a colony in the archipelago was vital; at the same time, there had to be assurance of guaranteed agricultural products for European markets centred in Amsterdam.

The Politics of The Company's Capital Accumulation

After the Dutch Company settled in the archipelago, the end of the seventeenth century and the beginning of the eighteenth century may be termed the years of great expansion and capital accumulation. Brujin et al (1987) indicated that the export of Dutch currency from the Netherlands to the archipelago showed a considerable increase between the centuries, and the construction of a number of new ships had been the concern of the Directors of Heeren XVII when preparing for the boom of the export of the Company's products from the archipelago to Europe. In other words, in the Netherlands, the century was typified by a seemingly unending series of spice trading activities and Dutch currency mobility, while in the archipelago it was marked by the development of the labour-powered agricultural production complex. Both of these developments were integrated into
the process of the Dutch capital accumulation and became a major factor in this process.

By the late seventeenth century in the archipelago, Dutch capital dominated the processes of capital accumulation. The Company's efforts focussed on the export of agricultural commodities to the European countries, mainly the Netherlands. Colonial dependence on the indigenous Indonesians was ensured through a combination of Dutch currency and trade imposed by the Company from its centre and the virtual colonial monopoly over privileged access to economic resources on the periphery. In a typical case, large-scale Dutch trading houses under the Company with direct access to European commercial networks centred in Amsterdam dominated between the centre and the colonial periphery. The giant Dutch Company also organised production directly under the sway of capital. Day (1904) showed that the main policy of the Company during the early seventeenth century was to expand the idea of monopoly over the indigenous Indonesians. Capital was to be one means of influencing the Indonesians. The impulse for investments was provoked by the profit inherent in supplying the European market either with commodities not available elsewhere, or with those which could be obtained less expensively in other colonised territories. The Company’s locus of operations centred on the exploitation of the differences between the cost of acquiring commodities in the colonies and the prices that could be obtained in Europe.

The processes of capital accumulation under colonial conditions in the archipelago have been associated with the dominance of the Dutch Company's capital. In Leur's words,

As a bureaucratic organisation, the Company meant a point of higher development than the feudal, medieval forms of government of the Portuguese overseas. The separation of the
property of the Company from that of the Company's servants, the payments of salaries according to a fixed scale from the highest overseas authorities to the lowest ship's boy, the maintenance of a relatively extensive corps of civil and military servants with hierarchies and promotions, and the establishment of a large staff in the Netherlands as well - all these made up an important point in history from the organisational point of view (Leur, 1955, p.234).

As far as Leur was concerned with the Dutch Company's capitalism in the archipelago, he argued that

[c]apitalism, that is to say, the search for profit on the rationalised basis of money (capital) calculations, is as old as the urban history of mankind, and from its beginning on it has been a phenomenon of every age and every land, in dimensions varying from those of small handicraft patterns to the greatest immaginable - on the basis of a rational system of "accounting" - by means of trade (shipping), speculation in sorts of money, coining and printing of media exchange, extension of credit for productive and consumptive ends; by means of financing wars and rebellions, colonial possessions (tributes and deliveries, sources of supply, mines, plantations) fiscal institutions (farming of taxes and offices), machineries of government...

All of that has little to do with modern capitalism as it has grown up in western Europe. The characteristic element of modern capitalism is its exploitation of the profit-making capacities of a rationalized organisation for mechanized mass production of goods built up with free labour and based on a free, specifically peaceful market for sales (Leur, 1955, pp.16-17).

It is interesting to observe his argument on the idea of western capitalism which is essential for understanding the importance of trade and capital as a mechanism of exploitation of the colonial territories. However, it seems to me that this formulation alone is insufficient to uncover the organic connections between colonial economic monopoly and structural change within the colonised territories themselves.
In the Indonesian archipelago under the Dutch Company, the processes of capital accumulation took place under different conditions, in (1) the organisation of production and exchange and (2) the mechanisms of the Company's investment and capital formation. These distinct "phases" of capital accumulation can be distinguished in the period between the initial Dutch Company conquest and the British interregnum in the archipelago. From the outset, it should be clear that this "periodization" does not refer to logical historical "succession" according to a linear schema of necessary chronological "stages" of development. Rather, these two distinct phases refer to a conceptualisation of structural features characteristic of the extended reproduction of capital under colonial conditions.

The first stage of capital accumulation in the archipelago under colonial conditions occurred between the initial conquest of Mataram in Java, from the 1650s to the 1700s. This stage was characterised by capital accumulation with little or no technical change. This historical conjuncture was marked by unstable equilibrium between the prevailing peasant economy of production activities (based on subsistence cultivation where the producers were organised in village communities) and Dutch monopoly capital (based almost exclusively on the monopolisation of trade). The first point to notice is that during this period, the Dutch Company with its policies under Governor-General Johan Maetsuycker (1653-1678) imposed a treaty between the Mataram kingdom and the Company in which the Sultan had to recognise Dutch supremacy (VOC, Vol.1). The treaty dictated that the Sultan of Mataram under Dutch pressure had to supply 4,000 measures of rice annually to the Company. In Bantam, Company pressure also spread and the King of Bantam was required to deliver all the pepper in his territory to the Company. Not only confined to Java island, the Company extended its political pressure to other islands. In Maluku, as recorded in Furnivall's account, Maluku peasants were required by the Company to cultivate
nothing other than cloves (Furnivall, 1939). In Central Sumatra, the Company had begun by influencing the Sumatran peasants to provide what the Company needed. Pepper and cotton had been the concern of the Company in Central Sumatra, and even during the later years the Company changed its direction to gold mines and trade (cf., Dobbin, 1983). The second point to notice is that the Company was confined by its policies in trading activities where there was no initiative to change the Indonesian traditional peasants of production.

The main part of the Company’s commercial policy was embodied in the one idea of monopoly; other features were less important. Current mercantilist ideas were expressed in a reluctance to pay specie for wares purchased, and reiterated instructions to make purchases only with goods. So far as any trade was permitted in the East aside from that carried on by the Company, it was confined in the narrow limits, to minimise its danger to the Company, and was regulated for the benefit of manufactures in the Netherlands. ... Private trade at most of the ports except Batavia was either prohibited or was burdened with extra duties (Day, 1904, pp.60-61).

It is clear that the first stage of the Company’s capital accumulation did not take place to a great extent. The expansion of the Company’s capital was restricted exclusively to investments in the circulation process of trading activities between the Indonesian peasants, the indigenous government and the Company.

The second stage of capital accumulation took place between 1700 and the beginning of the British interregnum, in 1811. This period was marked by two distinct actions of the Company which were the corruption of the Company servants and the decisive character of the export of spice commodities and imports of manufactured commodities.

That corruption was gradually sanctioned in the eighteenth century and became a system may be inferred from the following facts. Generally the salary of officials was withdrawn as soon as they had built up a substantial income
from other sources when in 1780 war broke out with England and communications were broken off, the V.O.C. was brought into financial troubles. Apart from the issue of paper money on Java, the V.O.C. now tapped off her officials (Klaveren, 1953, p. 70).

Corruption in the Company existed among the officials from the very beginning when the bulk of spice trading increased (Coen, Vol. 2). Klaveren (1953) found that the reason why the officials were corrupt was that they were very badly paid for being in the service of the Company. Why did the Company accept this? The reason was that the officials worked for low salaries, and that they mostly belonged to the outcasts of the Netherlands. When these officials joined the Company they expected to find job opportunities to improve their income in less regular ways. When Coen took command of the Company, he said that to improve performance in the Company it was necessary to consider the way the officials received their income and how much they received (Coen, Vol. 1, see also Masselman, 1963). However, little improvement in salaries had occurred to improve their lives. Thus, another way for the officials to attain a better life was to gain additional salaries in less regular ways. Even though this had been categorised as corruption (because they mostly used the Company facilities), it did not disturb the Company's operations in the archipelago from the seventeenth century to the end of the eighteenth century. To some extent, the corruption, according to a report of the Heeren XVII, was still under control and tolerable (cf., Masselman, 1963).

What was more and more evident was that corruption had grown into a tolerable and, to some extent, regulated business in which everyone, even the highest functionaries, participated with impunity as long as the unwritten rules were respected and a facade for their dealings was maintained. This was only a true reflection of the dealings of the Dutch regents-families with each other for a fair sharing of the profits of city government at home. Such agreements were even put down in writing and the name of God invoked as if
they served pious purposes ... In the "morshandel"4) of V.O.C, the governors, the G.G's and in Holland the "bewindhebbers" and even the prince of Orange took a part (Klaveren, 1953, p.69).

It was generally recognised that Europeans who immigrated to Asia would find a better life in terms of financial and social aspects.

... it is well known at the time that in Asia there were prospects of improved position, socially and financially. Such opportunities were definitely greater overseas than in Europe. In social and racial respects there was the higher status of every (white or pale brown) European in all VOC settlements vis a vis the indigenous employee, instantly recognizable by skin colour and dress. Here even the simple sailor or soldier from Europe was quite somebody, a gentlemen even, in his own estimation and that of his European dominant community (Bruijn et al, 1987, p.151).

This second stage was also marked by increasing exports of agricultural products from the archipelago by the Company to European countries. Pepper, spices, tea, sugar, and coffee exports from the archipelago expanded nearly threefold from the beginning to the middle of the eighteenth century (Glamann, 1981). This long distance trade (which was organised exclusively by the Dutch Company) was very important in two respects. Firstly it extended the market penetration of the Dutch Company into European countries thereby pressuring indigenous Indonesian peasants to plant what the Company was interested in. Coffee and tea were two examples of crops that the Company ordered to be planted by the peasants. The history of the cultivation of coffee in the archipelago, in particular in Java, is well known. This is mainly from the work of De Haan on the Priangan in Java (see Glamann, 1981). Historically, as early as 1696, the first coffee bushes are said to have been sent to Batavia for the purpose of cultivation. The reason was that there had been an increasing demand by European countries for a large amount of coffee. It was a great achievement to cultivate coffee in the archipelago, mainly in
Java under the command of Governor General Van Zwaardecroon, 1718-1725 (VOC, Vol.13). According to the study conducted by Haan, 1811 (Glamann, 1981), the Company’s coffee production from Java was as follows.

### Coffee Purchased and Delivered at Batavia in the Accounting Years 1713/14 - 1732/33 in pounds

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1713/1714</td>
<td>1,774</td>
<td>1724/1725</td>
<td>2,603,628</td>
</tr>
<tr>
<td>1715/1716</td>
<td>9,084</td>
<td>1726/1727</td>
<td>5,310,084</td>
</tr>
<tr>
<td>1718/1719</td>
<td>36,267</td>
<td>1727/1728</td>
<td>3,462,770</td>
</tr>
<tr>
<td>1721/1723</td>
<td>618,765</td>
<td>1730/1731</td>
<td>3,686,695</td>
</tr>
<tr>
<td>1723/1724</td>
<td>1,804,797</td>
<td>1732/1733</td>
<td>5,857,399</td>
</tr>
</tbody>
</table>

Adapted from Glamann, 1981, p.208

The above figure shows a considerable increase in coffee production purchased and delivered by the Company to the European countries. During the first quarter of the eighteenth century, the increase in production was more than twofold every year. While the greater part of the quantities was reduced in 1716/1717, it seems to me that some coffee production was unreported during the accounting years 1725/1725. Thus, in 1726/1727, the double account appeared. There was no indication that the coffee production for the first half of the eighteenth century declined in quantity.

Another agricultural product that the Dutch Company was interested in during the second stage of capital accumulation in the archipelago was sugar. Sugar was considered as an important commodity. The basis of the Company’s great sugar trade in the eighteenth century is to be found in European demand. The increasing demands of the European countries for sugar not only gave the Company a main commodity to trade in, but also caused the spread of the
cultivation of sugar in the archipelago, mainly in Java and Sumatra. Evidence was recorded by Bruijn et al that

The Heeren Zeventien wanted larger imports of sugar from Batavia than before, and decided to have special sugar fluyt built. This was in fact the 130 ft fluyt of the 1697 agreement, but sugar fluyt was to be employed solely for shipping this product from Batavia to the Republic (Bruijn et al, 1987, p.44).

The interest taken by the Heeren XVII in Holland was based on the fact that the sugar trade from the archipelago promised a good profit. Furnivall (1939) showed that, under the encouragement of the Heeren XVII, the cultivation of sugar tended to expand. By 1710, 130 sugar mills had been built in Batavia producing and supplying the demand for sugar in the European countries. Since sugar by the end of the seventeenth century was proving to be a steady earner of modest gross profits of at least 100 percent (cf. Vlekke, 1943) for the Company, the Heeren XVII, in promoting Indonesian sugar, made its marketing in European countries their chief concern. The fact was that most sugar production had been sent mainly to the Netherlands, and then distributed to the rest of the European countries (see Table below)
### Distribution of the Export of Powdered Sugar from Batavia

**1713/1714 - 1734/1735. In 1,000's of pounds**

<table>
<thead>
<tr>
<th>Year</th>
<th>Netherlands</th>
<th>Japan</th>
<th>Persia</th>
<th>Surat &amp; Mocha</th>
<th>Ceylon</th>
<th>Coromandel</th>
<th>Various</th>
<th>Stock</th>
</tr>
</thead>
<tbody>
<tr>
<td>1713/14</td>
<td>2,245</td>
<td>807</td>
<td>800</td>
<td>698</td>
<td>525</td>
<td>-</td>
<td>36</td>
<td>520</td>
</tr>
<tr>
<td>1715/16</td>
<td>1,686</td>
<td>898</td>
<td>1,273</td>
<td>1,440</td>
<td>564</td>
<td>-</td>
<td>196</td>
<td>2,326</td>
</tr>
<tr>
<td>1718/19</td>
<td>4,412</td>
<td>1,408</td>
<td>1,364</td>
<td>913</td>
<td>469</td>
<td>244</td>
<td>46</td>
<td>658</td>
</tr>
<tr>
<td>1721/22</td>
<td>3,817</td>
<td>853</td>
<td>366</td>
<td>1,634</td>
<td>808</td>
<td>246</td>
<td>231</td>
<td>961</td>
</tr>
<tr>
<td>1723/24</td>
<td>4,507</td>
<td>839</td>
<td>-</td>
<td>804</td>
<td>726</td>
<td>278</td>
<td>128</td>
<td>1,787</td>
</tr>
<tr>
<td>1724/25</td>
<td>4,843</td>
<td>792</td>
<td>-</td>
<td>243</td>
<td>747</td>
<td>171</td>
<td>165</td>
<td>1,371</td>
</tr>
<tr>
<td>1726/27</td>
<td>5,345</td>
<td>675</td>
<td>-</td>
<td>1,530</td>
<td>574</td>
<td>-</td>
<td>158</td>
<td>609</td>
</tr>
<tr>
<td>1727/28</td>
<td>2,204</td>
<td>615</td>
<td>71</td>
<td>901</td>
<td>773</td>
<td>-</td>
<td>168</td>
<td>729</td>
</tr>
<tr>
<td>1730/31</td>
<td>1,923</td>
<td>512</td>
<td>111</td>
<td>1,122</td>
<td>1,640</td>
<td>-</td>
<td>185</td>
<td>1,654</td>
</tr>
<tr>
<td>1732/33</td>
<td>3,874</td>
<td>800</td>
<td>559</td>
<td>1,702</td>
<td>841</td>
<td>36</td>
<td>556</td>
<td>1,088</td>
</tr>
<tr>
<td>1733/34</td>
<td>2,062</td>
<td>782</td>
<td>92</td>
<td>267</td>
<td>946</td>
<td>100</td>
<td>582</td>
<td>3,250</td>
</tr>
<tr>
<td>1734/35</td>
<td>2,602</td>
<td>902</td>
<td>613</td>
<td>2,308</td>
<td>978</td>
<td>30</td>
<td>1,325</td>
<td>1,407</td>
</tr>
</tbody>
</table>

Adapted from Glamann, 1981, p.165

The above table shows a few important displacements in the distribution of sugar from the Batavia. First of all, there is the highly increasing domination of the Netherlands market on Indonesian sugar. This was connected with the main concentration on the Netherlands as a centre for agricultural products amongst European countries. The Netherlands was keen that the Company exploited the agricultural resources of the archipelago to meet its demands. Sugar was one of the products which brought a good opportunity for profit. Compared to the Netherlands market, the Japanese, Persian, Surat, Ceylonese and Coromandel markets were only relatively small ones for sugar production from the archipelago. However, these countries had been considered as being in a better position for agricultural trade (Raffles, 1817). The political trade of the Company with these countries was to exchange other products which made it possible to continue its trade with them. From Surat and Mocha, the Dutch Company was mainly interested in coffee products. From Japan, they could exchange articles for Japanese copper. This was a political deal made by the Company to maintain its power and continuity of trade to meet its demands for products from the East.
Colonial Investments

Figures for the growing colonial investments in the Indonesian archipelago are practically impossible to ascertain with any accuracy. However, from the early establishment of the Dutch Company, the total investments can be found. As mentioned in the previous chapter, the total original investments was fl. 6,449,588.4. The Investments constituted six official Chambers and one State General of Holland. The six official Chambers were Amsterdam (57% of the investment), Zeeland (20.2%), Delft (7.3%), Rotterdam (2.7%), Hoorn (4.1%) and Enkhuyzen (8.4%). These Chambers acted as shareholders of the Company. According to Furnivall (1939), there was a common understanding of the Charter which constituted a growing body in Europe at the time of "a gathering or college of the Chambers, to consist of 17 persons, meeting as often as should be necessary" (Furnivall, 1939, p.24). In the Company, the 17 persons called the Heeren XVII, were responsible for three different authorities: the State-General, the Constituent Chambers, and the Shareholders. Thus, the investment needed to run the Company was the responsibility of the Heeren XVII. And the total investments, fl 6,449,588.4, was to become the early capital of the Company.

It is difficult to calculate the growth in investment by the Company. A number of Dutch historians have estimated the amount of capital investment of the Company from the beginning to the fall of the Company in the archipelago in 1796. However, most of them have relied on what the Company recorded as its capital from 1602 to 1796, that is, the amount of fl. 6,449,588.4, which was the original capital of the Company (eg, Furnivall [1939], Day [1966], and Furber [1976]). However, evidence shows that there was increasing investment by the Company in the archipelago (see, Bruijn et al [1987], and Glamann [1981]). From
the original archives of the Company, it can be observed that during the first stage of the Company's capital accumulation in the archipelago, some increase in investment had taken place to finance the building of the Company in order for it to become more solid and powerful. Its assets especially indicated an increase. The amount of the Company's capital investment that was indicated as additional to the Company's capital for certain periods was as follows.

### Capital Investment of the Company
from 1609/1640 to 1698/1699

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1639/1640 - 1648/1649</td>
<td>fl. 42,681,165</td>
</tr>
<tr>
<td>1649/1650 - 1658/1659</td>
<td>71,073,234</td>
</tr>
<tr>
<td>1659/1660 - 1668/1669</td>
<td>80,367,268</td>
</tr>
<tr>
<td>1669/1670 - 1678/1679</td>
<td>76,990,165</td>
</tr>
<tr>
<td>1679/1680 - 1688/1689</td>
<td>87,568,699</td>
</tr>
<tr>
<td>1689/1690 - 1698/1699</td>
<td>106,879,160</td>
</tr>
</tbody>
</table>

Adapted from Glamann (1981, p.41)

The investments originally were under the heading of expenditure on equipment. From Dutch records, an equipment account has been used carefully to process transactions related to the cost of making ships, office buildings, lands and other fixed assets. The Dutch term for the equipment is equipagien. During the first stage of capital accumulation, it can be seen from the above figures that there was much concentration on the building up of the Company by the increase in the Company's fixed assets. Unfortunately the figures do not give us detailed explanations for every item or unit in equipment account. However, the evidence shows that the main expenditures on the equipment were to finance the buildings of ships and office building, warehouses and factories (VOC, Vol.1)
The Company's investments, during the first stage of capital accumulation, also occurred most frequently in labour-intensive, light agricultural industries such as rice mills and sugar factories. Large-scale agricultural production remained more or less under-developed during the first stage in terms of high-technology production. The Dutch colonial capital that aimed to exploit profitable opportunities for large scale commercial crop production for the European market with cheap labour did not significantly penetrate the agricultural sector until 1745 (cf., Ricklefs, 1993). The Company, which had taken advantage of the colonial system through its monopoly, imperialism and large investment, was content to pressure the indigenous Indonesians in satisfying the demands of the Company for agricultural production. Most of the production was devoted to rice cultivation, sugar plants, tea, and spices where the products were sold and exported by the Company to the European markets. The Company, during the first stage of capital accumulation, was less concerned with organising production more efficiently in order to expand the output of an exportable product. It was more concerned with wars against the English East India Company and local Indonesian kingdoms in order to defend its supremacy. Because of this situation, the Company's investments during the period were primarily small scale and fragmented, and unspectacular in manufacturing production. Furber (1976) stated that the Company can hardly be described as having widespread economic development. European attention and capital were concentrated on a few favoured products such as spices, sugar, tea and coffee on the one hand and rubber and to a lesser degree, cocoa-nut on the other. In brief, the Company's investments that took place at the period of the first stage of capital accumulation added a new dimension to colonial trading power. The investments represented a new phase in the global expansion of the colonialist mode of production.
Almost similar to the first stage, the second phase of capital accumulation in the colonial archipelago was characterised by growing capital and labour intensiveness. Large amounts of capital were mobilised from the Netherlands' sources and requisite capital equipment was imported from Europe, especially from the Netherlands. The amount of investment during the second stage was as follows.

<table>
<thead>
<tr>
<th>Period</th>
<th>Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1699/1700 - 1708/1709</td>
<td>fl. 122,558,387</td>
</tr>
<tr>
<td>1709/1710 - 1718/1719</td>
<td>135,182,897</td>
</tr>
<tr>
<td>1719/1720 - 1728/1729</td>
<td>172,859,243</td>
</tr>
<tr>
<td>1729/1730 - 1738/1739</td>
<td>158,955,936</td>
</tr>
</tbody>
</table>

Under this growing capital investment, the Company could control large-scale agricultural production for export to the European market. This process caused the growth monopoly capital over the indigenous Indonesian peasants. Gradually, the Company controlled most production and the political economy. Dobin (1983) observes that the Dutch Company's expansion in Sumatra had penetrated the agricultural production of indigenous Sumatrans. Dutch expansion was not only confined to agricultural products, but was also involved in the production of gold.

With the establishment of the Dutch position at Padang [Sumatra island], ... Dutch policy ... of Batavia was to use the Chinese to extend their trading network. The Company had no desire to see the Chinese buy up and trade in those archipelago products over which it wished to exert a monopoly, products such as Minangkabau gold and pepper (Dobin, 1983, p.86).

This indicates that the Dutch Company expanded its trading policy over the most productive of indigenous Indonesians. The Company controlled the indigenous production and labour. Capital was also its monopoly. The distribution of most products was under the policy of the Company's management. It is hard not to
believe that the position of the Company was not only as a business institution but one which took control over the life of the indigenous economy.

**Labour Force and Colonial Employment**

If the economic take-off of the West began with the techniques that made possible the accumulation of capital, it might perhaps be said that the methods for administering the accumulation of men made possible a political take-off ... In fact the two processes - the accumulation of men and the accumulation of capital - cannot be separated; it would not have been possible to solve the problem of the accumulation of men without the growth of the apparatus of production capable of both sustaining them and using them; conversely the techniques that made the cumulative multiplicity of men useful accelerated the accumulation of capital (Foucault, 1977, pp.220-221).

Based on Foucault's statement, the analysis on the capital accumulation of the Company has some impact on its strategies for administering the accumulation of European personnel in the archipelago. It is with the increase of capital accumulation that the Company was confident in bringing more European population to the archipelago, where its purpose was to ensure the relationship between Dutch colonial power and the modes of production. Wertheim (1964) stated that there was much change in the economic and political situations in the archipelago when the Dutch Company with its personnel and soldiers forced the indigenous people to obey Dutch rules. With the Company's capital accumulation and accompanied by strategies for administering the accumulation of European labour in the archipelago, a process which Foucault explained as his concept of "enclosure" could be maintained. Macintosh and Hopper described enclosure as follows.

Enclosure, confinement and partitioning were the necessary first steps for turning a heterogeneous mass of humans into
homogeneous social order. With each individual in his or her own space and importantly each space with its own individual, the troublesome aspect of large transient groups and their confused collective dispositions could be avoided. As well, vagabonds, deserters, and absentees could be recognised at once. Enclosure also made it possible to convert each site into a functionally useful place where tight control could be exercised over each individual (Macintosh and Hopper, 1991, p.9).

From 1602 to the 1650's, a period of transition occurred in the archipelago and economic and political power was wrested from the indigenous Indonesians. Indonesia increasingly became a colonial community with little freedom of life. The European community migrated by a process of "enclosure" to support the settlement of the Dutch Company.

The growth of the agricultural export activities and the increase of capital accumulation in the Company depended to a large extent upon the formation of comprehensive and complex labour policies in conjunction with the timely enactment of labour legislation designed to provide economic incentives for the Dutch Company in the archipelago. The cultivable lands in the archipelago expropriated by the colonial Company would have been of little value for profitable investments without assured supplies of low-cost labour power. Labour policies were the main focus in order to make the Company strong and powerful. The Company was primarily concerned with the expanded output of export agricultural commodities at the lowest possible cost. Labour power represented the single largest cost to the Company and the only one over which they were able to exert any significant control during the development of the Company in the archipelago. As Bruijn et al observe, between 1595 and 1795, there were more than 4,700 voyages from the Republic of the United Netherlands to Asia, especially to the Indonesian archipelago (Bruijn et al, 1987, p.143). The number of people was not small. During this period, about one million labourers travelled
to Asia to work for the Company. The labour came from different nationalities: Netherlands, Persia, India, Germany, Poland and Switzerland. On the basis of Bruijn et al’s study, throughout the two centuries, the Company’s personnel was mostly brought from Europe. The reason was that a European labour force had a temperament similar to the Dutch and was obviously considered as having good ability and mentality to work hard (Vlekke, 1959). However, it seems to me that the policy of employing European personnel in the Company was to strengthen the Company’s position to exploit the colonial archipelago resources. This was a strategy by the Company which concealed a fundamental conflict between its personnel and the colonial system. Evidence for this is that when Indonesia declared its Independence in 1945, most indigenous Indonesians had little ability in building a nation because the Dutch kept indigenous Indonesians in a low position socially and economically, even in the area of education.

By the period 1650-1660, the initiation of massive infrastructure programs rekindled the Company’s interests in the organisation of plantation agriculture in cash-crops such as spices, rubber, tea, sugar-cane, cinnamon, and oil palms (VOC, Vol.2, see also Bruijn et al 1987). The Company was interested in agricultural commodities, in part because it offered appreciable economies of scale and in part because the tremendous demands in European world prices would guarantee a profitable outcome for investments. The development of the Company under Governor General Coen (1618-1623 and 1627-1619) formed the foundation for trading interests in the agricultural commodities. Indonesian spices and other agricultural commodities such as tea, sugar-cane, cloves and rice were subject to high and frequent demand in the European markets. The development had its impact in a greatly expanded demand in the Company’s policies not only for trading systems with the indigenous population, but also to monopolise and colonise by enforcing the indigenous population to do what the Company’s
policies demanded. These ambitious colonisation programs generated an expanded demand for vast numbers of additional labourers, the Company's personnel and investments which were needed not only to begin work on the new plantation estates but also to protect its policies from war by providing soldiers.

This extraordinary demand for labour-power required vastly expanded recruitment efforts by the Company and its allies in the colonial administration. Official colonial attention focused on this problem of labour shortages in the period 1640-1660 (VOC, Vol.2). With this development of the Dutch labour force, the Company could control the archipelago and strengthen its colonial occupation. In this matter, the Company during the period brought about 73,300 personnel including soldiers who mostly held European citizenship (Bruijn et al., 1987). The number of personnel sent to the archipelago continued until 1795. These circumstances and the associated increase in the number of the Company's personnel stimulated the expansion of its investment and production. Leur (1955) argued that it is very complex to follow the flux of the Company's capital expansion. Cheap labour and the dominance of the European labour force in the archipelago made the Company confident enough to invest large sums of money in agricultural production.
Notes:

1) See Chapters VI and VII for a more detailed discussion. The Company was founded mainly to unite the merchants in the East, so that they acquired more power in trading competition against the Spanish, British and Portuguese merchants.

2) In the early seventeenth century, there was a great European religious conflict known as the Thirty Years War which commenced in 1618, and continued to involve Spain's military strength (Hume, 1925). The war broke out in Germany, having its beginnings in a dispute between the Hapsburg emperor, Ferdinand, and the Protestant elector of the Palatinate (see Bertrand and Petrie, 1934). Spain entered the war on the side of Ferdinand, largely because of family reasons, but also in support of Catholicism. The war also involved several countries including Italy, the Netherlands and France. From the war, the Dutch gained an advantage in supplying foodstuffs and military equipment.

3) The period of the British interregnum in the Indonesian archipelago was between 1811 and 1816 (see Furnivall [1939] and Klaveren [1953]). This began after the Dutch Company collapsed and after some years confusion by the Dutch government in Holland. This situation had been taken over by the British to control the archipelago under the Commander, Stanford Raffles. However, the British did not control the archipelago for very long. After 1817 the Dutch government again took over the archipelago with totally different policies to the Company.

4) "Morshandel" is one kind of corruption in trading activities for the benefit of a private account. For these activities, the facilities of the Dutch Company were used (eg., ships, employees, or even goods).

5) According to Bruijn et al's study (1987), the number of personnel arriving from Europe in the east was, between 1602 - 1700, 317,800 and between 1700 - 1795, 655,200. This indicates that there was an increasing number of personnel sent to the East because large investments had taken place in the East when dealing with Asian agricultural products. The number of personnel included soldiers.
The policy of the Dutch East Indian Government and the state of people ... may be ... stated that ... [t]he revenue was entirely derived from monopoly of two kinds, ruthlessly upheld, viz., the Monopoly of Production of certain more valuable crops limited in amount, so as to maintain, a high price in Europe ... and Monopoly of Trade in all products, which could only be sold at any inadequate prices to the Dutch East India Company ...

Money, 1861, p.55.

This chapter continues the discussion of the colonial investment policies and the capital accumulation which was begun in Chapters VII and VIII. In essence, this involves looking at the way in which the Dutch colonial company attempted to establish colonial domination through capital accumulation and social administration in terms of the accounting context. It was not just a question of capital domination (which was concerned with large profit orientation) but also the process of capital accumulation and production monopoly. The process of Dutch colonial domination over capital and production did not occur in a social and political vacuum, and one of the most distinctive features of Dutch colonialism was the way in which it occupied the Indonesian archipelago by introducing a new, advanced discipline of accounting techniques and knowledge in the particular context of calculability and colonial administrative policies.
Radical Change of Capital and Administrative Policies

Dutch colonial expansion in the eighteenth century in the Indonesian archipelago coincided with three important events. One related to the fall of the Dutch company. The other two related to the development of the capitalist world economy and the establishment of a Dutch government in Indonesia. In the case of the fall of the Dutch Company, it did not mean an end to Dutch occupation in the archipelago. On the contrary, this situation led to an increase in the viciousness of the Dutch government when it took over the territory previously under the control of the Dutch Company. March 1, 1796 was the day on which all administration of the Company were surrendered to the Dutch government (cf., Klerck, 1938). It was decided that the Charter of the Company, originally granted in 1602, which expired on December 31, 1799, should not be renewed; thus it meant that the Company had been liquidated. The Dutch State was to take over all possessions and all debts of the Company. These circumstances led to a political impact on the changing colonial policies regarding capital expansion and political administration. Day (1904) said:

... The object of every policy suggested was the welfare of the Netherlands. Individuals advocated changes in one point or another of the system that the Company had pursued, and demanded reforms of the various abuses which the Javanese had suffered under the Old System, but they based all claims for change on the interests of the Dutch themselves. Amelioration of the condition of the natives, wrote one of the representatives of the reform party, "though undoubtedly a consideration of the highest moment in the eyes of humanity, seems to me to become only a secondary object in a political point of view, and, with the exemption of every measure contrary to the principles of justice and equity, it appears to me that the safest principle which can be adopted, to judge the propriety of any colonial regulations, or any changes and alterations to be introduced therein, is, that every colony does or ought to exert for the benefit of the mother-country (Day, 1904, pp.129-130).
This is Day's view of the changing Dutch policies in the archipelago. He believed that the policies would only be beneficial to the Netherlands, whereas the indigenous Indonesians continued to suffer under them. With the arrival of a newly appointed Governor-General Herman W. Daendels (1808-1811), the policies began to operate in the archipelago. Daendels, under the influence of the Emperor Napoleon, introduced a new compulsory cultivation system (Raffles, 1978). The system was based on Daendels' ambitious plans which were aimed at disciplining indigenous Indonesians to obey a compulsory plantation system, introducing a land-tax of one-fifth of the gross agricultural products, and contributing a surplus of five million florins as a net return to Holland every year (Furnivall, 1939). The favourite product of this forced system was coffee. Forced labour was increased, especially for the compulsory coffee cultivation and the infrastructure facilities such as the construction and maintenance of public roads and bridges. This led to an increase in government capital expenditure and revenue. Financial accounting, in terms of a calculability discipline, had played an important role in making colonial decisions. As Klaveren (1953) stated, based on financial calculations, Governor General Daendels made a decision to increase "high salaries for the officials and high coffee percentages for the regents (the Dutch in Indonesia) and other connected personnel" (Klaveren, 1953, p.81). The calculation of salaries had been the basis of governmental power to induce Dutch governmental officers to follow Daendels' colonial policies. It was during the Daendels period that officers acted excessively towards the indigenous Indonesians, requesting forced labour for the coffee cultivation system.

Other radical changes, following the British Governor-General Raffles' (1811-1816) interregnum in Java, came with further alterations in policy by Governor-General Van den Bosch (1830). These changes were the outcome of a
long-standing debate on colonial policy between Conservatives and Liberals. Bosch based his policy on Conservatism arguing that compulsory cultivation, forced labour, and personal services were his main concern in order to enhance agricultural production and maintain capital accumulation. His policy was widely known as *Cultuurstelsel* (Culture System).4 He offered the system based on liberal terms, and large advances of public money without interest to the respectable European inhabitants of Java.

The main feature of Bosch's Culture System policy was based on a tributary or tax system which, as summarised by Day (1904), was

... Instead of paying to the government [Dutch] a certain proportion of their crops [indigenous Indonesians], the natives were to put at its disposal a certain proportion of their land and labour time. The revenue would then consist not in rice, which was almost universally cultivated and which was of comparatively little value to the government, but in export products grown under the direction of government contractors on the land set free by the realisation of the former tax. According to the estimate, the natives would give up only one-fifth of their time in place of two-fifths of their main crop. The government proposed to bear the loss from failure of crops if this was not directly due to the fault of the cultivators, and moreover promised to pay the natives a certain small price for such amounts as they furnished. The government proposed in this way to secure products suited for export to the European market, on which it expected to realise profits largely in excess of the prices paid to the natives and contractors, and the cost of administration. To the natives it promised increased prosperity and a lighter burden of taxation, as a result of fuller utilisation of their chances under the farsighted management of Europeans. The labor that before through carelessness and ignorance would have been in idleness or in the cultivation of some cheap and superfluous crop was to supply a product of a great value in the world market, and the natives were to share in the resulting profits (Day, 1904, pp.249-251).
James Money was one of the witnesses to the operation of the policy, when he went to Java between 1830 and 1834. He said that there were at least five main principles of the policy that were to the benefit of Dutch and indigenous Indonesians.

The principles on which General Van den Bosch founded the success of his plans are said to have been:
1. Profit to the peasant [Indonesians], so as to make the new culture system acceptable.
2. Profit to the contractor [Dutch private enterprises], so as to induce its extension by private enterprises.
3. A percentage to the officials [Dutch], so as to secure their active support
4. Personal interest of the village community in its success, so as to secure careful cultivation.
5. Improvement in the tax-payers' means, so as to increase the revenue and facilitate its payment (Money, 1836, p.105).

With the growing application of the Bosch Culture System, the development of cost accounting systems in terms of financial calculability was very complex because the System promised to divide its profits in given proportions between peasants, contractors (manufactures) and the Dutch government. Each person who was involved in the system gained a certain amount of benefit. Money (1836), in his book of *Java or How to Manage a Colony*, noted that the complex calculation of revenue to beneficial persons was the main key in persuading them to follow the System.

With the application of the Bosch policies, it is not surprising that the Culture System was successful. Net profits for the Dutch treasury reported in 1877 were fl. 832,400,000\(^5\). It was not a small profit. The huge profits produced by the Culture System convinced the Dutch government of the merits of managing the archipelago under the System. What did they spend the profit on? It was far beyond their colonial purposes. Bosch reported in 1830-1833 that
The Netherlands holds these regions [Indonesia] as tribute. And whatever the size of the territory ceded contractually [by the native people] to [the Dutch], the people remain separate from us and they are subjected to European rule. Thus the relationship between the government and the people is determined by the power the former exercises and the physical and intellectual means it has at its disposal to assert and reinforce this authority. The princes are no different in this respect, because they are mere vassals of the government (Bosch, 1833, pp.8-9).

It is clear that the original purpose of the Dutch in the archipelago was to exploit Indonesian economic resources for their own benefit. General Bosch’s explanation above was no different to others in principle (see also the previous chapters for a detailed discussion). The Dutch did not hesitate to spend the profit which resulted from the Culture System on the welfare of their motherland, the Netherlands. From the profit of fl. 832,000,000, twenty eight percent, or fl. 236,000,000, was spent on reducing the Netherlands public debts, when that country faced war with Belgium between 1836 and 1838 (Vandenbosch, 1942); eighteen percent on the construction of railways in the Netherlands; fourteen percent for tax reduction; seventeen and half percent for fortifications and other purposes.

General Bosch, in his report of 1833, noted that

... The budget deficit, which for the last half-century has made the colony a financial burden to the mother country, has been transformed into considerable surplus. In 1832, more than five million and in 1833, more than ten million guilders have been remitted [to Holland] ... and by the end of 1834 it can be safely assumed that a total of twenty-eight to thirty million guilders will have been transferred. This considerable surplus has been obtained without introducing new taxes and without increasing existing ones. On the contrary, some of the more oppressive taxes have been removed and others have been reduced.

... The production of coffee, sugar, and indigo has been expanded greatly because of the introduction of the new cultivation system.
... The object of the system is to lighten the heavy burden of the land rent on the Javanese and to ensure that they will earn a larger ... income ... The system has also made it possible that, within a few years, other important products can be sent to the home market ... And finally, the System has provided the government with the means for remitting large sums to Holland ... while the Netherlands has also gained supremacy in the colonial produce trade.

... Trade in this island has risen considerably because of the expansion of production. Owing to the rise in price of certain products as well as the increase in production, exports today are almost double what they were in the years immediately prior to my arrival ... Profitable employment has been provided for Dutch shipping, which has more than doubled ... (Bosch, 1833, pp.15).

General Bosch's report indicated that an increase in capital accumulation and product expansion in the archipelago had been achieved. In fact, during the Culture System, from 1830 to 1857, Dutch revenue had risen rapidly from an average of 24 million guilders to 102 million guilders up to 1856, and in 1857, they achieved 115 million guilders (Money, p.271). Coffee and sugar production, especially in Java, increased from roughly 30,000 piculs in 1830s to 1,083,864 piculs in 18536). In the same year, sugar production of three quarters of a million piculs was achieved. This was also similar to some other commodities such as indigo, rice, cinnamon and pepper.

This development and expansion of both capital accumulation and production was followed by two other important developments. Firstly, in the nineteenth century, Dutch colonial capital was in the process of entering liberalism when the Dutch colonial government came under the influence of the British industrial revolution. A concentration process of industrial productive capital, on the one hand, and the process of centralisation of money capital (the banking capital system), on the other, established a new historical foundation for capital accumulation and for the extraction of surplus-products in the archipelago. A
concentration on exported commodities had been the main purpose of Dutch policies in order to fill the high demand of European markets for products from the East. Secondly, the emergence of financial capital in the form of a banking system in the colonial archipelago was accompanied by new patterns of capital process and industrial expansion.

A New Capitalist Banking System

From the first quarter of the nineteenth century onward, Dutch colonial capital came to dominate the processes of capital accumulation in the archipelago in the form of a newly acquired capitalist banking system. In 1824, by the Royal Decree of March 29, the Dutch government in Indonesia had enacted a new financial institutions policy. The new policy led to the establishment of two big financial institutions in Indonesia: The Netherlandsche Handel-Maatschapij (NHM), registered on 7 February 1825, and the Javasche Bank, constituted on 24 January 1828 (Mansvelt and Muller, 1924, p.4). Laanen (1980) stated that the development of these two institutions, primarily the Javasche Bank, led to an extensive demand for money and capital markets for the expansion of Dutch industries and primary production. Various banking services, such as loans, deposits, promissory notes and savings were introduced. With the large increase in activities of the financial institutions during the Culture System there was a considerable development in complex accounting techniques of calculations and control systems. Greater accounting knowledge was recognised as having an important role in commercial activities particularly in the banking offices keeping financial records. Managers of banking businesses recognised the importance of identifying the sources of their revenues and the process of accountability. These included accounts of revenues from export-import services, bank charges, interests, and other sources (cf., Laanen, 1980). They also recognised the
usefulness of recording expenditures, not only by the source of revenue, but also by the organisational unit incurring them.

*Netherlandsche Handel-Maatschapij (NHM)*

In principle, the NHM had been established in 1824 and formally registered in 1825. Initially, the NHM did not intend to operate as a banking system (Mansvelt and Muller, 1924). As regulated, in Article 65 of the original Charter,

> The object of the Society [NHM] is the promotion of national trade, shipping, shipbuilding, fisheries and agriculture, factories and transport by means of extending, with due observance of its own interests, the commercial connections at present existing and which are advantageous for the Netherlands, by opening up new avenues for Dutch commerce, and by means of all such enterprises as can promote and increase the activity of Netherlands industry (Mansvelt and Muller, 1924, p.8)

In this Charter, there was no indication that the NHM should operate as a banking system. However, because of various activities of the NHM’s operations, such as providing agricultural credit and processing bills of exchange, they changed their operations to that of a financial institution, eventually evolving into a form of banking (cf., Mansvelt, 1977, p.16). Soon after its establishment, King William I expressed a desire that the NHM become "a centre of an extensive intelligence service, [which] was not only to point out new markets and resources, but was also to realise these advantages either by exploiting the opportunities themselves, or enabling others to make use of them ... and to grant credit to undertakings of private firms" (Mansvelt and Muller, 1924, p.8). Mansvelt and Muller also stated that in its operations and when making its policies the NHM was based on the same idea as the Societe Generale Pour favoriser l’Industrie Nationale in Brussels,
where King William I was the founder of the enterprise. The Societe Generale operated as a full banking system. Thus, King William urged the NHM to operate along the same lines as the Societe Generale. Later, the NHM operated as a modern banking system, which included mobilising credit for agricultural production in Indonesia. In fact, at the end of the nineteenth century the NHM still maintained its operations based on banking services, such as giro, deposit, and loan services.

It is interesting to note the early structure of the NHM's management and administration, including the way accounting played an important role in shaping the development of investment policies. The foundation of the NHM was the first great blow to free peasant cultivation in Indonesia as allowed by the British interregnum under Governor Raffles. The NHM was initially founded through the political involvement of King William I who influenced developments by investing his money, fl. 4,000,000, in the NHM's capital (Mansvelt and Muller, 1924, p.7). The authorised capital of the NHM was fixed at fl. 37,000,000 which had been subscribed soon after its public announcement. It is interesting that, even though King William I had only 10.8 percent of the total of the NHM's capital, he had great influence on decisions regarding NHM's policies, mainly because he guaranteed the shareholders a 4.5 percent dividend, when at the time the rate of dividend was normally 3 - 4 percent. King William I's dividend guarantee led to the rapid expansion of the NHM. Then, in the general political arena, the development brought Dutch policies into conflict with the British rule in the archipelago which, under Governor Raffles, emphasised free peasant cultivation in Java and the Sumatra islands which in turn stimulated mainly agricultural production related to British trade. The NHM's policies were to force compulsory cultivation under the Culture System which was favourable to the Dutch trade.
The NHM was an important business institution in the nineteenth and early twentieth centuries; both within the Dutch colonial context and in many of the host economies in which they operated. By the third quarter of the nineteenth century, the NHM was distinguished by its high turnover, its international orientation and support and by the success of the Culture System in the archipelago (Day, 1904). Several branch offices were opened to meet the need for colonial expansion. Semarang, Surabaya, Padang, Makassar, Banda, Banjarmasin, Palembang and Ambon were the centres of the NHM's operations. The Board of Management was located in The Hague, Holland. However, for its operation in the archipelago, the Branch office of Batavia was given greater freedom of action compared to other branches.

The general manager of the Batavia Branch Office presided over a network of sub-branches in the archipelago, each headed by a manager. By the late nineteenth century, branch managers operated under an established system of standing orders and instruction manuals. They were expected to follow the general colonial policies of the Dutch government regarding the type of business conducted, and to refer all credit facilities beyond a certain amount for approval by senior management. Managerial hierarchies existed, but were very simple. Typically, a sub-branch manager would report directly to the general manager in the Batavia office, then from Batavia all reports would be passed to the head office in The Hague. Matters of information and control were hierarchical. All orders and activities of the NHM in the archipelago were set up in the Batavia office in consultation with the Dutch government (Mansvelt and Muller, 1924). The means of monitoring the performance and behaviour of sub-branch managers grew slowly and on an ad hoc basis during the nineteenth century. By the early twentieth century, sub-branch managers had to compile half-yearly reports, sometimes called Reports on Progress, which would detail every aspect of a
regional branch’s performance. These were avidly checked in the Batavia office and were often sent to the Board in the Netherlands.

The Javasche Bank

Central to the working of the Dutch colonial monetary system during the nineteenth and twentieth centuries is the strategy of the Javasche Bank, banker to the Dutch government and its agent and adviser in the implementation of monetary policy. Apart from these central roles, the Bank fulfilled a number of other colonial functions. One was to monitor the behaviour of the economy in the archipelago. This included monitoring the circulation of money in Indonesia. The Bank also took control over the operations of all other banks and financial institutions in the archipelago. Through these roles, the Javasche bank could manage the flow of capital accumulation by the Dutch in the archipelago. Also, in its capacity as agent for the Dutch colonial government, it managed the Dutch foreign exchange reserves, administered exchange control policy, and arranged for the issue, servicing and redemption of government securities while raising the necessary finance to meet the day-to-day needs of the government (Java Bank). In order to carry out these duties, the Bank operated in the security and money markets, in the control of gold and silver balance and in the process of changing the supply of money and influencing interest rates. The Bank also acted in the foreign exchange market on behalf of the Dutch government, influencing the Dutch exchange rate. It also performed an essential intermediary function between the colonial government and the private sector in the archipelago in order to exploit indigenous agricultural commodities for international trade.

The Javasche Bank was founded in 1827, two years after the establishment of the NHM. Following an Order in Council No. 28 of 1827, it was incorporated
as a private banking institution with 1 million guilder in capital (Java Bank). During its early establishment, the Javasche Bank was primarily concerned with the receipt of promissory notes issued by the purchasers of imported goods to their importers and with providing agricultural credit. The Bank’s emergence as a central bank began with the circulation of gold and silver money after 1832. This was followed by management being given the responsibility for the issue of bank notes. Its position as a central currency institution was regulated and strengthened by the Coinage Act of 1854 under which the Bank became a centre of public cash. The Coinage Act of 1854 standardised silver standard coins for economic exchange transactions in the archipelago. Under the Act of 1854, it ultimately led to the Javasche Bank’s becoming the only note-issuing bank and controlling the circulation of money in Indonesia.

Up to 1940, five years before Indonesian independence, the Javasche Bank had become the centre for financial banking and monetary policies of the Dutch in the archipelago. Its enormous financial power derived from the fact that it was able to combine the central functions of issuing currency with the private functions of commercial operations. Laanen (1989) stated that the Bank had played a significant role in developing the colonial economy of Indonesia by maintaining and controlling Dutch currency power in economic exchange. The flows of capital accumulation by the Dutch government and Dutch private enterprises were automatically a part of the Bank’s management. Credit for exploitation of agricultural products and its expansion into other enterprises, such as oil, mining industries, coal industries, and rubber manufacture, became a dominant pattern for the increase of Dutch capital accumulation in the archipelago. Maddison (1989), in his study on "Dutch Income in and from Indonesia 1700-1930", observed that the domination of Dutch capital and expansion in Indonesia was uninterrupted, even though criticised by Dutch politicians and journalists. For the Dutch colony,
capital expansion was its first choice as a means of exploiting the economic resources of Indonesia (Maddison, 1989, pp.20-22). In fact, in 1880, the Dutch government regulated a Coolie Labour Ordinance (1880-1932) which bolstered the supply of cheap labour for plantations and enforced penal sanctions for runaway workers. Levels of spending on social services for the indigenous Indonesians, and particularly on education and labour skills, remained abysmally low.

With the increase of Dutch capital accumulation under the management of the banking system, indigenous Indonesians did not gain any advantages which improved their welfare. Conversely, they suffered in many respects. It’s not surprising that the Javasche Bank was operated mainly for the Dutch capitalists who wished to exploit opportunities in building up their businesses in Indonesia. Until the 1940’s, the Javasche bank remained the biggest bank amongst eight Dutch banks: NHM, Internationale, HVA, Koloniale bank, Cultuurmaatshappij der Vorstenlander, NIEB, NIHB, and one indigenous bank, Bank Nasional Indonesia. In particular, after the First World War, the Javasche Bank extended its operations into foreign exchange and highly commercial transactions.

**New Dutch Financial Policies**

With the establishment of the NHM and the Javasche Bank and the growth of new manufacturing industries in Indonesia during the second quarter of the nineteenth century, the Dutch government changed its policies in order to deal with the modern system of liberalism. The fiscal system was particularly affected. In 1848, the movement for political reform began with the introduction of the new constitution on liberal colonial policy. Klerck (1938) has summarised the new Dutch Constitution of 1848 as follows,
The great significance of the new Constitution of 1848 was therefore, in the first place, that article 59 and 60 removed the obstacles which prevented the acquirement of the necessary and required knowledge, and secondly, that the State-Generals were forced to interest themselves in the colonies ... The desire, however to put a stop to the absolute autocratic power of the King, also in the colonial domain, became general, ... Article 59 conferred on the King supreme authority over the colonies and possessions outside the realm in Europe ... stipulated that a colonial constitution should be established by law, thus by the concurrent action of King and Chambers, defining the objects and methods of government ... given specific rights on legislation over colonial currency and finance...Article 60 stipulated that the King had to prepare a circumstantial report on colonial affairs and that the manner of management and accounts of the colonial finances would be settled by law (Klerck, 1938, pp204-205).

The establishment of the 1848 Constitution gave King William II of the Netherlands and the State-General some control over colonial affairs and better management in the system of reporting and responsibility. However, this Liberal Constitution was different to what had been expected. It did not bring about any improvement in the colonial administration. Day (1904) stated that it is apparent that the Constitution of 1848 was only a regulation on paper without any application (p.324). Following the 1848 Constitution, in 1854 the Liberal System of the Government promulgated the Regerings Reglementen van Netherlands Indie (The Netherlands Indian Government Act) which contained a new regulation on new principles of colonial policy dealing with the old policy of "net profit" for the government and the rights of indigenous Indonesians. In essence, the Act of 1854 brought in greater freedom of the press, the abolition of slavery, the promotion of indigenous education, protection against the evils of forced labour and the regulation of indigenous services and land-taxes. The Act also changed Dutch financial control of revenue (which was supervised by a Board of Finance) by replacing it with a Council of Directors, or Heads of Departments. Although this Act seemed to be a broader concept of the Dutch government's responsibility
concerning the control of revenue and financial administration, it actually enlarged the activities of the Dutch government by allowing it to conduct particular actions against mal-administration of financial accounts. It indicates that there had been a preferred pattern of centralisation of decisions rather than decentralisation.

As part of this system of Liberalism, the Coinage Act of 1854 introduced a silver-exchange system into the Indonesian economy (see also the previous discussion). This led to the colonial currency being placed on a sound basis for the development of manufacturing industries and capital expansion. In fact, there was a considerable increase of money in circulation after the passing of the Coinage Act of 1854. As Laanen (1980) observed, there was nearly a two-fold increase of money in circulation between the reports of 1849 and 1855, from 10.8 million guilders to 20.10 million guilders in 1855. This indicates that a growing capital investment had spread throughout the archipelago. There was an increasing demand for developments of new enterprises and manufacturing industries. Several new banks had been established as a response to the need for growing capital demands of new enterprises. The new banks were the Netherlandsche-Indische Escompto Maatschapij (NIEM) in 1857, the Netherlandsche-Indische Handelsbank, the Rotterdamsche Bank, the Internationale Credit-en Handelsvereniging Rotterdam in 1863, Agencies of the Chartered Bank of India, Australia, and China (Laanen, 1980, p.36).

It is very interesting to note that the connection between the policies of both the Liberal Government Act of 1854 and the Coinage Act of 1854 and the impact following on the development of the financial institutions led to the influence of practical accounting knowledge. As Sukoharsono and Gaffikin (1993b) observed, there had been considerable political attention given to the development of advanced accounting techniques and control systems when the
Dutch government, in the 1850's, encouraged a large increase in the activities of financial institutions in the archipelago. Greater advanced knowledge was recognised as having an important role in commercial activities. Managers of banking businesses recognised the importance of identifying the sources of their revenue. These included revenues from export-import services, bank charges, interest calculation and other sources. They also recognised the usefulness of recording expenditures, not only by sources of revenue, but also by the organisational unit incurring them (Sukoharsono and Gaffikin, 1993b).

The complex development of the banking activities and the growing application of the liberal system of Dutch colonial policy in Indonesia was not by accident. It was under the command of Governor-General van Twist (1851-1856) that the development began. Liberalism began with the intention of changing the policies from a closed to an open system. Hoevell, a former minister of the Dutch Reformed Church and an ardent liberal and humanitarian, said in his Parliament Speech, 8 December 1851, that:

> It has been said that we [the Liberals] want to change everything in Java, that we want to destroy the system of cultivation and that we want to construct another system in its place. Gentlemen, I consider it in my duty ... to repeat again straight out and as concisely and clearly as possible what I, and many others with me, desire with regard to the system of forced cultivation ... I am now coming to the question: what changes should be made immediately? First I will give a general answer. We must *work towards* a system of free labour and free production ... (Hoevell, 1851, pp.34-36).

Hoevell's suggestion made the Dutch colonial government aware of something which gave the concept of Liberalism a better chance of being retained. Later in his speech, Hoevell stated that:
... the time has come, or rather that it is long over due, to take action. I want action ... Firstly, the Culture System must be forced from the excesses and abuses that have caused and are still causing so much misery ... Secondly, the Culture System must be used as a means to achieve a system of free production and labour ... (Hoevell, 1851, pp.36-37).

It is interesting to note that Hoevell's proposal was a radical change; it was what he believed to be a better operation of Dutch colonial activities in Indonesia. He wanted the Culture System to be abolished or at least for there to be a reduction in compulsory cultivation over the indigenous Indonesians who suffered much under the System (cf., Vitalis [1851] and Multatuli [1860]). Similar to Hoevell, Vitalis also suggested that:

When in 1837 I inspected this residency [Priangan, Pekalongan, and Rembang] I had to suggest stopping this cultivation [Culture System], because after two thousand peasants had been forced to work for five years ... only thirty-six guilders were to be divided among all these labourers for five years of toil ... (Vitalis, 1851, pp.22-23).

The Culture System had been disastrous for indigenous Indonesians. Starvation had spread over areas under the Culture System. In these circumstances, Hoevell wanted to improve the conditions of the Indonesians by putting in place appropriate colonial rule. In a later speech he said that he wanted

... publicity. I desire that everything that happens in Java should no longer be kept quiet but made public. I want this large factory of a few million souls who have been made to work by force to be brought into the limelight ... I shall restrict myself to suggesting three measures to reach this objective ... The first measure is to help and encourage the development of private initiative in Java in the interest of land reclamation, agriculture, and plantation industry ... by their own industry and capital ... (Hoevell, 1851, pp.37-38).
After much criticism (e.g., Vitalis [1851] and Multatuli [1860]) and the suggestion of Hoevell (1851) made during his formal Parliament Speech, a radical change in Dutch policies and a growing economy in Indonesia began. As has been previously discussed, a number of banking institutions were established and money lenders operated to respond to the Liberal reforms of the Dutch economic policies. Other evidence was the improvement in communications such as, in 1816, a modern telegraphie system being opened in Indonesia, a modern postal service in 1862, and the construction of the first few miles of railway in 1867 (see Furnivall, 1939, p.174).

Despite the Dutch colonial government urging the economic prosperity of Indonesia, open administration and financial accounts were still in question. The transition to a modern system of production, capital accumulation, and economy in Indonesia under the sway of Liberalism had necessarily involved a change in the colonial government's regulation system. Even though Liberalism and Conservatism influenced the Dutch colonial government in Indonesia differently, both had the same aim of exploiting Indonesians for Dutch profit as much as possible.

Multatuli said, with characteristic sarcasm, that there were in the Netherlands two parties "with very different principles", the conservatives, who wanted to get from the Indies [Indonesia] all profits possible, and Liberals, who wanted to get all the profit possible from the Indies (Day, 1904, pp.382-383).

While both isms wanted as much profit as possible from Indonesia, there were different ways that this could be achieved. However, it seems that the radical reforms of Liberalism stood for a Dutch colonial government of Europeans only (Day, 1904, p.383). Moreover, it is believed that the Liberalism of the Dutch government still produced a large surplus of profit to the Netherlands. It is
consistent with the essential and permanent interest of the colony to gain as much profit as possible for the home treasury, the Netherlands.

One of the important reforms of Liberalism was the passing of a new enactment, the so-called \textit{Indiesche Comptabiliteitswet} of 1864 (Accounting Act), which provided a rule of compulsory budget preparation and disclosure in details of financial matters in Indonesia. Under the Act of 1864, a new compulsory system of budget preparation for the operations of the Dutch government in Indonesia was introduced. Forms of financial reports also had to be clearly explained. The Act of 1864 had important political consequences in arranging better management and control of the activities of the Dutch colonial government. This, in fact, stimulated private enterprises to improve their own practices of management control. Financial reports were better prepared. There was also a clear indication of better responsibility in management units. This situation became evident in the last three decades of the nineteenth century when the government produced a detailed budgeting expenditure and revenue report (see Booth [1990] and Mansvelt [1977]).

**Industrial Innovation**

After the establishment of financial institutions and the radical change in the administrative and financial regulations (ie., the Acts of 1854 and 1864), economic prosperity in Indonesia began by spreading manufacturing industries and capital circulation. Dutch colonial rule entailed Dutch capital domination of the processes of production and circulation. Dutch entrepreneurs organised markets and shipping on a world scale, mobilised capital and requisite supplies, and established banking and currency regulations in order to maximise Dutch profits and prosperity from Indonesian economic resources. At the same time, the Dutch
capital was willing to establish its direct sway over all areas of production which helped it to develop a network of capital circulation as an immediate consequence of foreign rule. Geertz, in his interdisciplinary research on "Agricultural Involution: the Processes of Ecological Change in Indonesia", stated that Dutch efforts to extend direct control over the labour process and capital (involving a wide range of capital-inspired economic activities) remained a heterogeneous undertaking that was accompanied by intensified forced colonial policies and an export network in Indonesian agricultural commodities (Geertz, 1963, pp.63-68). It implies that, with Dutch political capital mobilisation, they could control the labour process, capital and a network of supplied products. The connection between the production of Indonesian commodities and European market demands had been a part of Dutch policies to strengthen their domination.

The first significant impetus for expanded capital investments followed by the growth of labour power and production particularly in the agricultural industries occurred after the establishment of financial institutions in Indonesia. Laanen (1990) argued that soon after the establishment of new banks and growing capital investment in 1863 the actual demand for credit became popular. A number of Dutch agricultural private industries were founded as a response to rising supplies of Dutch capital. Short-term and long-term loans had been demanded to develop various manufacturing enterprises. In fact, by 1884, Hellerich's (1944) study showed that 243 new enterprises were founded by obtaining financial support from new capital lenders (Furnivall, 1939, p.197). A detailed distribution of new enterprises' production financing by the new capital lenders can be seen below:
The estimate of the aggregate value of corporate investment of the new enterprises, both private and government owned, was about 600 million guilders (Mansvelt, 1977, p.18). As Mansvelt classified the value of investment, private enterprises contributed about 200 million guilders, whereas the Dutch government owned about 400 million guilders. It seems that, by having a large investment, the Dutch could gain an advantage in dominating capital investment. With large capital investment, all production was under Dutch control. Sugar and coffee industries had been the main concern of both Dutch private and government enterprises since the 1860s (Knight [1990] and Fernando and O'Malley [1990]). As Knight has said, about one hundred Dutchmen own sugar enterprises, powered either by big water-wheels or by steam engines imported from Britain and Holland, and produced in excess of 130,000 tonnes of sugar annually to meet the high demand of the European market (Knight, 1990, p.49). As with the growing production of sugar, coffee was also a high priority of the Dutch due to the high opportunity for profit (Geertz, 1963). Furnivall (1939) indicated that, even though there was a fluctuation in the general index of coffee prices, coffee plantations
were still attractive to the Dutch. Thirty to forty percent of total revenue of the Dutch government came from coffee export production (Furnivall, 1939).

In relation to the development of financial institutions and agricultural plantations, the growth of colonial manufacturing industries took place rapidly from the end of the nineteenth century onwards. During the nineteenth century and the first decade of the twentieth century and closely associated with the increase of banking capital markets, especially in commercial banking, significant innovations in both accounting and practices of the Dutch government occurred in Indonesia. The accounting innovations stemmed from the appointment of the first government accountant, Van Schagen, in 1907, charged with opening the State Audit Agency (Abdoelkadir, 1982, p.29). The primary concern of the establishment of the Audit Agency was to assist the Dutch government in managing the financial flow of governmental enterprises. By 1915, the Agency was actively operating and the necessary accounting control systems to manage financial activities of the government enterprises were in place. In the light of the complex network of the Agency's practices in financial matters which were linked to other changes in practices of governmental activities, these innovations had considerable significance. This is evident in the linkages and relays established between the requirements to administer and keep books of accounts in economic and financial activities, the emergence of pedagogic mechanisms for instructing unit activities in the mechanics of accounting knowledge, and ways of representing the significance of accounting techniques in control systems. The influence of the Audit agency extended to the private sector. In 1918, three years after the establishment of the Audit Agency, the first public accounting office was founded by Frese and Hogeweg (Abdoelkadir, 1982, p.29). The need for independent audits of big enterprises was apparent.
At this point, it is worthwhile to reflect on the emergence of the first public accountants in Indonesia. A linkage can be shown between the development of public accountants in Europe, especially in the Netherlands, and Indonesia. The development of the Industrial Revolution in the eighteenth century in Great Britain, which spread to the Netherlands, created the demand for public accountants. In 1896, the increasing demand for accounting practices in the Netherlands created the foundation of the Netherlands Institute of Accountants.

It was the burgeoning of the Industrial Revolution that created the demand for accountants ... The new works were much more labour-intensive than the craft workshops that preceded them and in many cases the investment needed was too large for an individual or small group. These new companies needed more sophisticated bookkeeping and also since numbers of shareholders were involved, an independent audit (ICAEW, 1980, p.8).

From the statements above, it is possible to argue that the development of the profession is seen to emerge spontaneously from the growth in size of organisations. Because organisations grew in size, more sophisticated methods of internal accounting in the control systems were needed while, at the same time, the diffusion of share ownership required by the expansion of the organisations created a demand for an independent audit. In the case of Indonesia, the public accounting firm is seen to emerge spontaneously from the growth of the Dutch government’s financial complex-network. A large investment by the Dutch government and private enterprises contributed to the share of growth of the economy and capital accumulation in Indonesia. Output was increased to meet the demand of world markets, especially in Europe (cf., Furnivall, 1939).

As industries and increased capital accumulation developed during the end of the nineteenth century, Java Bank and NHM began to develop major roles in
supplying long-term finance for fixed capital. Large developments of Western private enterprises were encouraged by the Dutch government to maximise Indonesian economic potential to meet the demands of European markets. Mansvelt (1977) stated that "a break-through to private industry" had been initiated by the Dutch government as the Dutch were aware of the lack of the Dutch government's capabilities to invest more capital in enhancing the capital domination in Indonesia. As a consequence, Java Bank and NHM did not confine their activities to Dutch enterprises, but also supplied capital to private Western companies which operated in Indonesia. Sugar and coffee production companies were no longer the centre of capital concentration. Some other production companies, such as cigarettes, chemical materials, mining, and food and beverage industries, also required the supply of long-term finance for fixed capital (Segers, 1987). With this complex policy and the development of private Western companies and new Dutch enterprises, it is noted that, for as long as possible, both the Western and new Dutch companies attempted to utilise the financial institutions which could assist in providing additional capital. They also attempted to avoid problems which might occur in long term investment by sharing risks with other enterprises. The popularity of partnerships and later, of private companies, showed that Western industrialists during the end of the nineteenth century preferred to seek additional capital from friends, business acquaintances and financial institutions where possible. Eventually, however, with the development of the Java Bank, NHM, and other banks in Indonesia as a source of long term finance for fixed capital, they were driven to seek public quotations on financial justification and statements from accounting professionals (ie., public accounting offices) to assist them in loan and other financial decisions.

With this development, the separation between ownership, management and control of long-term industrial capital of Western enterprises and Dutch
companies in Indonesia allowed space for the accounting profession to develop its *de facto* monopoly of auditing. This enabled public accounting practices to be established independently to allow businesses to meet new developments in the assessment of companies' financial statements (i.e., an independent audit). It also created a demand for accounting knowledge and practices. Segers (1987) indicated that, during the industrial innovation at the end of the nineteenth century in Indonesia, accounting was used in many aspects of control within in the companies both private Western and Dutch companies. In fact, a number of accountants were sought after to work in public accounting practices, tax offices, audit offices, treasury offices and in internal control (cf., Abdoelkadir, 1982).
Notes:

1) The Dutch East Indies Company (or in the Dutch term, *Verenigde Oostindische Compagnie*) was a company founded in 1602 with the objective of uniting all Dutch interests in a monopoly of the eastern trade. From the establishment of the Company until the end of the eighteenth century, it had been much concerned with the occupation of the Indonesian territories. It not only dealt with trading activities, but it also acted overtly by influencing economic and politic aspects of Indonesian life. The Company was not alone; it was supported by the Dutch Government in all matters; for instance, regulations for colonial needs and capital for operating its activities in the colony. The seventeenth century had been said to be the golden period of the Company. Trading sales and tributes had been received in increasing numbers every year. In fact, from 1648 to 1657, the average yearly sales exceeded f. 20 million (Glamann, 1981). Dividends of more than 200 percent were paid regularly. However, at the end of the eighteenth century, the Company was outwardly as strong as ever. Suddenly, it was corrupted and collapsed. Profit had, in fact, been declining since 1693, when the net profit dropped drastically to f. 48.3 million (Furnivall, 1939). By 1724-1725 the result of its overall operations showed a net loss, and by 1779 the net loss amounted to f. 84.9 million. By December 31, 1799, it had been decided to dissolve the Company, and on 1st January 1800, the Dutch Government took over all possessions of the Company and also its debts which amounted to f. 134.7 million.

2) It is interesting to note the appointment of Daendels as Governor-General in the archipelago. Daendels had gained his appointment differently to others. He was appointed as Governor-General, not from any experience in colonial affairs, but as a reward for military and political service during the French occupation of the Netherlands (see Heldingen and Hoogenbrerk, 1945). The relationship of France to the Netherlands was that in 1780 the Netherlands was involved in the Franco-British-American war. During the war, the British succeeded in capturing those Dutch ports which were important for all direct communications between Holland and the Indies. In 1793, the Dutch Republic went to war with revolutionary France. Thousands of Dutch exiles joined the armies of the revolution where they founded a group called "Batavian legion". One of the commanding officers of this legion was Herman Daendels. By 1795, the French occupied the Netherlands. From 1795 to 1810, the French controlled the Netherlands. During that time, in 1808, Herman Daendels was appointed by the Napoleonic Empire to be Governor General in the Indonesian archipelago.
3) Basically, Daendels thought that the old models of the cultivation and administrative and financial systems were weak as a result of trying to gain profit from Indonesia. Under his control, radical reforms occurred. He appointed new officers and replaced the Director-General of Trade by a Head Administrator, four Administrators of Finance and a Chamber of Accounts and converted the mercantile employers into a graded civil service. All of his policies were associated with military force and suppression.

4) *Cultuurstelsel* was a popular policy in Indonesian economic history (see Geertz [1963] and Furnivall [1939]). The common English translation of the Dutch term was "Cultivation System", but the "Culture System" mistranslation is embedded in the Indonesian historical term. Thus, in order to maintain the term related to an historical understanding of Indonesian history, the paper uses the "Culture System " term.

5) Bosch's Culture System brought about an important aspect of making high profits in Indonesia. Since the beginning of the System in 1831, General Bosch could expect that his System would be the best one to exploit the potential of Indonesian economic resources. In fact, every year the System could make a contribution to home finances from revenues in Indonesia (see table below, adapted from Furnivall, 1939, p.211).

<table>
<thead>
<tr>
<th>Years</th>
<th>Total Profits</th>
</tr>
</thead>
<tbody>
<tr>
<td>1831 - 1840</td>
<td>f. 93,000,000</td>
</tr>
<tr>
<td>1841 - 1850</td>
<td>141,000,000</td>
</tr>
<tr>
<td>1851</td>
<td>15,000,000</td>
</tr>
<tr>
<td>1852 - 1860</td>
<td>228,800,000</td>
</tr>
<tr>
<td>1861 - 1866</td>
<td>194,250,000</td>
</tr>
<tr>
<td>1867 - 1877</td>
<td>160,300,000</td>
</tr>
<tr>
<td><strong>1831 - 1877</strong></td>
<td><strong>f. 832,350,000</strong></td>
</tr>
</tbody>
</table>

6) Picul is an Indonesian traditional measure which is roughly 87.03 kilograms.

7) In the Old Policy of the Netherlands government in Indonesia, it was declared that the accepted principles of Indonesian colonial administration were to "give the greatest guarantees that in the first place the Netherlands authority shall be able to maintain itself in that conquered territory by pacific means, and that secondly, preserving the welfare of the native population, that conquered territory shall continue to furnish the Netherlands with the material advantages which were the object of the conquest: quoted by Colijn,
Staatkundige bervormingen in the Netherlands Indies" (Vandenbosch, 1942, p.60).
Chapter X

Conclusion

History has long since abandoned its attempts to understand events in terms of cause and effect in the formless unity of some great evolutionary process ..., but it did this not to rediscover structures that were prior, alien and hostile to the event. It was rather to establish the diverse, intersecting, often divergent, but never autonomous series that enable us to circumscribe the 'locus' of the event, the margins of its unpredictability, the conditions of its emergence.

Foucault, 1972, p.58

Underlying the writing of this study has been the belief that it is important to understand the development of accounting in its social context. Accounting is regarded not as a purely technical apparatus outside the realm of the social, but its knowledge and discipline have attached in a variety of contingent forms within society to the range of rationales and socio-political contexts. Chapter 1 has shown growing attention at looking at accounting in such a context. New ways of posing questions in research have been highlighted. These ideas provided the basis for the study to explore the genealogy of accounting history in Indonesia. The aspect of accounting knowledge and discipline focused upon was its emergence and development, in the context of a 'coming into the light' of accounting in the form of a calculus discipline and socio-political knowledge during Dutch colonisation in Indonesia. This involved an understanding of accounting in connection with the
adoption of a new knowledge of writing and numerical notation, i.e. Hindu-Arabic numerals, in Indonesia.

Methodologically, this study was developed for an understanding of Indonesian accounting history by taking the Foucauldian philosophical concept of power-knowledge relation. This concept was constructed by Foucault following the Nietzschean term genealogy. To say that historical analysis possesses a Foucault-type genealogical character or is in the form of a power-knowledge relation is to say that the historical past appears as a number of intersecting, discontinuous series of elements. The principle features of this are, firstly, how human beings are constituted as subjects in the research through a form of knowledge and relation of power, and secondly how what now counts as being 'truth' came to be regarded as such. It holds that 'truth' cannot be generalised. Foucault's argument is that every society has its 'regime of truth'. Truth is always linked with the system of power and is understood in relation to the society within which it is accepted. Thirdly, it involves a system of differentiation and institutionalisation. The system is concerned with permitting 'one to act upon action of others'. Disciplinary institutions and techniques of Panopticon are Foucault's examples of the system which, according to him, play a central role in maintaining the social order and in creating 'a regime of truth'. Fourthly, the way to understand how the past appears as a number of intersecting and discontinuous series of elements involves a very detailed study of the emergence and development of both social institutions and techniques in social, political, and economic contexts. The latter involves investigating diverse materials and in relation to a heterogeneous range of issues and events. This involves not just looking at the major issues and events, but also an interpretation of the small changes that occurred in the past.
An important implication of Foucault's concept of the power-knowledge relation is that which, in his genealogical work, *Discipline and Punish* [1977a], he described as the shifting development of society in terms of the power-knowledge relation: from sovereign power to disciplinary power. For him, the shift from sovereign to disciplinary power is articulated in the changes in the forms of knowledge. Referring to the eighteenth century, he identified sovereign power as a diminished form of power. Its object is to punish people associated with political risks and dangers. Seizure of things, of bodies, and ultimately of life are the kinds of recourse used by sovereign powers. Disciplinary power is a strategic power which provides much richer procedures for training or coercing society in individual and collective forms.

Applied to analysing and understanding the development of accounting in Indonesia, the questions which such a Foucauldian genealogical history addresses are concerned with the conditions under which accounting knowledge and its discipline could, firstly, emerge as a 'new elite' of the calculus practices in society, and secondly, operate as a part of a colonial system. The emergence of accounting in Indonesia is not understood as a 'sudden' process. Accounting genealogically emerged through a long process of history. Long before the arrival of the Dutch in Indonesia, accounting in the form of calculative practices had emerged, having definite objects and objectives of calculations. Calculus practices had been used to define actions in social activities. One aspect of this was that the calculative practices became an unseparated part of administering all social lives. A barter system in the early kingdom periods in Indonesia had emerged as the people aware of calculus knowledge for their needs. Its function was to calculate a 'fair' process of exchange of goods. With the calculus knowledge, a process of social transactions, such as commercial trades, assessing 'prices', standards of valueing a 'thing', could begin to fulfil people's needs.
Recognising the importance of understanding accounting as an aspect of social and political life, a process of genealogy of accounting and its development in Indonesia was explored. A particular analysis of the development was the Dutch occupation of Indonesia. It was argued that the development of advanced accounting as a complex form of information-production, information-retrieval, and a systematic technique of double-entry bookkeeping belongs to the period of Dutch colonialism in Indonesia. The genealogical process of advanced accounting knowledge in Indonesia, through the influence of the Dutch, could justify the development of a colonial system through surveillance and detailed control of Indonesian individuals in any matter of business and social activity. The Dutch used accounting as an institution and technique to discipline those who were subject to their influence. Accounting during the period of Dutch colonialism played a part by not only providing technical calculation in terms of assessing prices, cost, profit, etc, but it has also played diverse roles in social and political life. Its emergence is intimately bound up with the operation of Dutch colonisation in the Indonesian archipelago. The Dutch produced an accounting knowledge which could be used to discipline individuals. Calculation and monetary accounts were a major system in justifying Dutch profit and welfare. Activities incorporated into such accounting knowledge were used to exercise Dutch colonial power over Indonesian colonial territories.

A Genealogy of Accounting: A Complex of Historical Social Structures

The emergence of accounting in Indonesia was not a sudden process of development. It emerged through a long process of history. Its history followed the development of Indonesian society. Indonesia is a unique nation in its development, and is recognised as the world's largest island complex. The sheer
size, fragmentation, and ecological diversity of the archipelago has always fostered different development. Cultural diversities, language differences, and religious influence shared the development of Indonesian society. Thus, the development of accounting was inseparable from these aspects. Its development was bound up with the processes of Indonesian social, economic and political history.

*Early Indonesian Commerce*

Indonesia is at the centre of a triangle whose base lies along the overland route from India to China, and whose sides are formed by the sea routes. From earliest times, Indian and Chinese influences have made themselves felt in the archipelago. Commercial links were developed to fulfil a different need among them (ie Indonesian, Chinese and Indian). Cultural and social contacts also spread across the archipelago. The Indian cultural and social influence seems to have been stronger and more enduring than the Chinese. In fact, the emergence and development of the system of the Buddhist and Hindu kingdom of Sriwijaya and Majapahit was due to the influence of Indian culture.

Commercial links between India, China and the archipelago increased rapidly as an effect of the establishment of the Sriwijaya kingdom. Sriwijaya, the first empire known to have arisen on the basis of inter-island and international trade, developed from the south-east Sumatran kingdom of Palembang and from the Indian Buddhist influence. From its formation to the middle ages, Sriwijaya enjoyed relative peace, prosperity, and low taxation. Great concentrations of landed wealth and precious metals, large cities, centres for Buddhist learning, an administrative elite consisting of an inner circle of the empire, international links and a well-educated military were some features of the greatness of the Sriwijaya
period. The elite in the central court of the empire lived in prosperity and luxury. Its society, in general, enjoyed a comfortable existence and depended on estates for their income. Additionally, Sriwijaya also raised some revenues from international trade as its port became a transit place for international merchants and a central market for exchanging products.

By the twelfth century, Sriwijaya had lost a significant degree of control in the archipelago. One reason was due to the new rising power of the trading principalities of the north east coast of Java island. This was associated with the establishment of the Singosari kingdom or the Majapahit heirs. As Sriwijaya declined, the trend towards larger, self-sufficient agricultural products, and international trade, moved from Sumatra to Java. Java, in particular the north-coastal regions, became a central place for economic and political control of the archipelago in the period of Majapahit. Majapahit acquired power and control across the archipelago. The era of Majapahit reign was known in popular legend as the 'golden age' of Indonesian history. It became the most glorious empire in the archipelago. Gajahmada, a patih (Chief Minister) of the empire, was the architect of the development. During his appointment as patih from 1330 to 1364, all administration and policies of the empire lay in his hands. He set up a new way of administering the empire and all its possessions across its regions. He codified its laws and customs and dictated all economic and social functions within it. The empire was built as a centre of cultural, economic, religious and political activities. The empire provided a form of administration, a code of justice and a tax system adapted to the needs of its society as a whole.

Majapahit represented the climax of Hindu civilisation in the archipelago. It ended for a time the dynastic struggles which had marked the growth of monarchical order and control across the archipelago. Its imperial sway was not
only based on the traditional sinews of power - the control of agricultural wealth - but it had also established a commercial trade, controlling sea-trade routes and centring entrepot activities in the ports of Java's north coast. In effect, this development followed the political characteristics of Sriwijaya and the old kingdoms in Java. Majapahit combined the land-based and maritime powers into a single political system. This gave the empire strong political and commercial domination in the archipelago. International commercial relations linking the Far East, Southeast Asia, India and Western Asia were the real concern of Majapahit in developing its empire. Persians, Arabs, Indians and Chinese, all participated in the collection and carrying of goods to the Majapahit's ports. This commercial development served as a basis for the strength of Majapahit which was strategically placed at the centre of the triangle between Western Asia, Southeast Asia and the Far East.

Spices and other agricultural products, such as rice, nuts, and pepper were the major objects of this trade. This created wealth not only for Majapahit but also for all the great ports connected to this international trade, such as Cambai, the port of Gujarati in north western India, Calicut on the Malabar Coast of India, and Canton and Tongking in China. This development led to the economic and social character of Majapahit which was much more complex than that of Sriwijaya. The state of the empire was centralised, and government and administration were fixed to allow the empire direct control over individual or collective activities, such as the economic, social and religious aspects of the indigenous Indonesians.
Muslim Contribution

Majapahit's commercial and socio-political predominance did not remain unchallenged. The development of Islamic empires, particularly the Demak dynasty, and the spread of Islam in the fifteenth and sixteenth centuries in the archipelago spelt trouble for the Majapahit. The final disintegration of Majapahit power occurred when Demak, the first Islamic empire in Java, exerted active political and religious pressure against the Majapahit kingdom in 1513-1514. From this development, Islam gained its first foothold in terms of sovereign control and state order. Subsequently, the Demak dynasty was established with peace and prosperity based on the order of Islam.

The coming of Islam to the archipelago in many ways provided new light not only on individual Indonesian in his or her direct relationship with, and submission, to God, but also in increased knowledge of social and economic activities, particularly in administrative affairs connected to the development of accounting. As has been explored in the study, the arrival of Islam advanced the early art of writing and the keeping of administrative records. Islam introduced a new disciplinary knowledge of transforming 'abstract' knowledge into symbolic writing and record keeping. Even though ancient Indonesian writing and its effect on the development of administrative and financial affairs existed long before the kingdom period, its effect on the modern knowledge of accounting was delayed until a 'new' knowledge elite of the Hindu-Arabic numerals was introduced by the Muslims in the West, and until it was brought to the archipelago during the Muslim reign of the fifteenth and sixteenth centuries. The development of the Hindu-Arabic numerals in the archipelago served a new discipline of writing and calculation combining 'word' and 'number' in what has been described as an alpha-numeric system. The system brought the process of the development of
decimal numbers into existence with the addition of a dot (.) between the numerals. With the arrival of the Dutch by the seventeenth century, the invention of algebra using $x$, $y$ notation and logarithms were advantageous to the development of the Hindu-Arabic numerals for developing an advanced knowledge of accounting in Indonesia.

The invention and the use of paper was also an important development brought by Islam to Indonesia. Paper not only served as a more convenient method for writing purposes, but more convincingly, it transformed knowledge of the human sciences. In subsequent development, the accounting discipline acquired its rapid development when the use of paper spread among the population of priests and kingdom officials. Accounting during the early settlement of the Islamic states (ie. the Demak dynasty) was related to a mechanism by which its discipline and knowledge were used for the purpose of administration and accountability and for the collection of taxes in the royal courts of the state. This development was reflected in the simple form of the records of tax-collections. The complex advanced development of accounting was delayed until the Dutch and their colonial system penetrated the Indonesian territories.

With the establishment of the Islamic states, Demak and Acheh, the development of the arts of writing and the Hindu-Arabic numerals increased the nature of business complexities. Indonesian ancient calculation was transformed to the 'simple' abstract knowledge of computation with a 'zero'. Using this invention, the art of calculation (accounting) came into existence to meet the needs of individuals and the state. Recognition of personal property, such as numbers of domestic animals, land, bushels of rice, accumulation of capital, etc, became possible. In this development, a 'new' calculation took a giant stride forward. Property, as Islam acquired control, had to be taxed ($zakah$, in Islam); therefore,
each individual had to know the value of property and how much it was to be subjected to the zakat levy.

Money and Dutch Colonialism

Although the written history of early commercial activities in the archipelago starts in the earliest periods of the ancient Mediterranean world through sea-trade routes, little evidence of the use of money has been found. Barter dominated the early commercial transactions and took place by simple exchange of one good for another without the intervention of any form of money. The unit of value most commonly employed for the measurement of transactions was the worth of 'universally' accepted commodities, such as domestic animals, gold, silver, and bronze, honey, and spices. They served in varying degrees as means of payment. But, the simple adoption of money as a medium of valuation, and the concept of accounts were phenomena born about the fourth century, when the Hindus from India arrived to convert indigenous Indonesians to Hinduism and to introduce the significant development of social responsibility into commercial activities. However, this development did not lead to the spread of the adoption of money in general commercial exchange until the coming of Islam to the archipelago. It operated only within the restricted circle of trade in the kingdom courts.

This study has argued that the coming of Islam to the archipelago led to the rise of accounting in the form of the adoption of currency as the unit of account. The introduction of the Hindu-Arabic numerals into Western Europe, through Muslim Spain and subsequently brought to the archipelago, provided an opportunity for the recognition of a unit of currency with zero (0) as a simple symbol of the abstract knowledge of money. With the adoption of zero,
convenience became perhaps the most important reason for using money as a generally accepted means of payment, in which the measurement of the transaction and the concept of account could be understood by relying on an agreed 'price'. A zero numeral could transfer the complexity of ancient Indonesian computation (in the Buddhist and Hindu periods) into a 'simple' abstract knowledge of calculation. For example, the complex coinage in Indonesia goes back to the Sriwijaya dynasty which held power from the seventh to the twelfth centuries. Some of the earliest coins had the shape of cowrie shells, others of swords, knives, flowers, and spades. None had written numerals or values on them. A simple abstract symbol of numeral currency was long delayed until the coming of Islam which adopted the 'zero' as such a symbol.

An important development in the technique of minting occurred during the spread of the Hindu-Arabic numerals in the period of the Islamic reign. A pattern of numerals was engraved on the coins with a design on both observe and reverse sides. This development affected many aspects of economic, social and political life. One aspect was that it gave an impetus to transforming the abstract calculation into a new 'simple' symbol of accounting knowledge which simplified the symbol of the accumulation of commercial capital. Currency with numbers on it became a new knowledge elite in the means of payment and financial accounting. Numbers, engraved on coins, played an important part in giving a new power of exchange. Moreover, the numbers or the values of the coins were closely related to those of the metal which they contained (eg., coins of gold, of silver, and (for small sums) of bronze). The role of governments and the central courts of kingdom was important in keeping correct the standard of the value between the weight of the metal (ie., gold and silver) and the face value of the coin.
Even though the development of coinage in Indonesia can be dated at about the fourth century, there was, however, little evidence of a standard value in currency having been adopted across the archipelago as a means of general commercial payment. Every region had money which was different in materials and measurement. A great development in the provision of a means of payment in general commercial activities in Indonesia took place when the Dutch and their monopoly system of colonialism introduced a single monetary unit. The Dutch currency became the only standard medium of exchange. It was argued in this study that the substantial increase in the use of the Dutch currency system led to the complexities in the economic sector and an increased role of the Dutch Company (VOC) in the public affairs of Indonesians. In fact, the Dutch were able to control commercial activities in the Indonesian archipelago.

The Dutch monetary system made possible the accumulation of wealth in liquid assets. Money facilitated exchange and transformed needs. It became a power in the Dutch control of the process of production and capital accumulation. Dutch currency stimulated the process of exploitation of production. Capital accumulation was another effect of money and it was a unit of calculation of profit. This colonial process of control of both production and capital accumulation required the use of money, so its service as a unit of account or as a single standard of value was one of the essential functions of the Dutch currency. This development became a symbol of power and a source of Dutch profit. Money enabled them to create "the rational behaviour" of individuals and so reinforced the Dutch system of colonialism.
Disciplinary Power of Accounting

From the time the Dutch acquired control in Indonesia, accounting became one of their most powerful instruments, both as a means of control and as a guide to colonial behaviour over a large range of activities. Thus, 1609 was the beginning of a period of accounting which became an important tool in the establishment of Dutch colonialism in Indonesia. An accounting office was founded in Bantam and its functions were to assist in managing Dutch activities in Indonesia and to create information which supported the establishment of a monopoly and colonial system. The office was very powerful. It not only controlled and administered the financial matters of the Company, but it also authorised war to protect and secure the Company. One example was that the office was, as one of its functions, a centre of war command against indigenous Indonesians and other nationalities who did not obey Dutch rules. The office processed Dutch activities and policies in the archipelago and gave orders to the Dutch Company's officers. It came to have widely multiple functions. Almost all of the activities of the Company went through the office. These circumstances were not without reasons. With the Charters of March 20, 1602 and 1609, the office gained several of its sovereign rights in controlling the archipelago (even though wars were involved).

Coen and His Accounting System

Jan Pieterszoon Coen, the Bookkeeper General, was the creator of the office. He was educated in Italy with his major discipline of study being accounting. From his experience and commercial knowledge, accounting grew in significance in Indonesia. Accounting was recognised as a vehicle for the discipline of individuals who were under the system. In fact, Coen used the
accounting office for a multitude of functions of colonial occupation. Monopoly decisions, colonial policies, and individual disciplines concerning 'colonial labour' and 'production' were enforced through the office. A process of technical bookkeeping was also introduced by Coen. It made it possible for the Dutch colonial executives to evaluate the consequences of their colonial system. They could calculate exactly the resources available to their colonial benefit.

Accounting in terms of technical double-entry bookkeeping, as introduced by Coen, became the basis for all financial exchanges of goods and daily operations of the Company. Accounts had to be kept in a standard Dutch monetary unit. Dutch money was essential in the accounts and turned a complex reality (ie., production and profits) into an abstract symbol of calculation. It provided a means of wealth for the Company. It also provided a means of communication in every transaction. The function of accounts in the form of 'money' presentation became significant in managing the process of colonial production and capital accumulation. One aspect of this was that through technical double-entry bookkeeping, Coen was satisfied with the accuracy of the calculation process of the Company's transactions. Calculation of money (eg., capital, labour and production) could easily be transformed from the records of double-entry bookkeeping into a model of colonial policies. Coen became a key person in the Company in providing financial information and designing colonial policies. In this respect, Pieter Booth, the first Governor General of the Company, gave an appreciation of him as "an honest and devout young man, very modest in his conduct, sober and of a good character ... very capable in council and well versed in commerce and bookkeeping" (Heldingen and Hoogenberk, 1945, p.25).

During the first quarter of the seventeenth century, two important events occurred that influenced the development of accounting. The first was the
appointment of Coen as Bookkeeper General in the Company. He introduced and implemented accounting techniques and a comprehensive financial report which could be constructed to feature the activities of the Company. A systematic technique of double-entry bookkeeping was introduced to indicate a double tabulation of debit and credit system. The technique provided a new way of classifying every transaction into a defined group of accounts. For example, the expenditures on administration expenses and the Dutch officers' salaries were classified in a different group of accounts. Selling and buying of goods were also recorded in separate books to indicate that they were of a different transactional nature. This mode of classification was not simply a matter of technical administration or financial record keeping, but was a complex phenomenon which could transform the process of accumulation of numbers in the form of capital, expense, revenue, etc., into the power of colonial decisions. With this development, the role of double-entry bookkeeping was significant in maintaining the proper classification amongst the Company's accounts. This paralleled the requirements of the Heeren XVII and the demands of the Dutch investors in Holland. Coen and his accounting office became an important resource and a mobilisator in managing colonial territories across the archipelago. The role of accounting in the form of double-entry bookkeeping became as important as the office which served and provided systematic and complete accounts.

Secondly, Coen, an accountant, was promoted to Governor General of the Company from 1618 to 1623. This position for him was very prestigious. He became a powerful accountant ruling all colonial and monopoly policies across the archipelago. One of his first, but perhaps most critical, moves in reorganising the Company was to restructure the labour and administrative management centred in Batavia. Labour was really Coen's concern. He considered that the Company had to control labour properly in order to support the policies of Dutch colonialism.
Labour did not come from indigenous Indonesians, but rather from Europeans, such as Germans and Spaniards. This was due to the political interest of Coen who structured the Company for the benefit of the Dutch. It would have been difficult if Indonesian labour had been involved in the process of the exploitation of Indonesian resources. It seemed for him that Indonesian labour would oppose his policies (Bruijn, et al., 1987). Therefore, the best way for him was to recruit European labour. Through this strategy, his colonial policies in exploiting Indonesian economic resources became possible.

A 'new' administrative management was also installed by Coen continuing the management reforms he had introduced when he held the position of Accountant General. Costing calculations and cost information flows were defined in detail to meet the demands of the Company's decision makers, particularly the Governor General. Accurate figures on the cost of making contracts with merchants and the standard costs of products were developed through the process of complex calculations and detailed sources. Records of special auction transactions and a sales book of the Court Minutes of the Kamer Amsterdam during the period of 1600-1794 were documented as a source of information in the calculation of prices of exported and imported commodities from Indonesia. Extensive and systematic calculations also operated in the management of each department within the Company dealing with the rate of salaries among its personnel. A complex system of wage and salary calculations was adopted. For example, the salary rate for Dutch seafaring personnel and military officers was different. This was dependent upon their work load and expertise.
Colonial Discipline

Leur's (1955) analysis of colonial development established the crucial importance of the world market and consequently of foreign trade and colonial capitalism in at least two main respects. On the one hand, the early colonial occupation by the Dutch in the archipelago was essential for the process of 'wealth accumulation' which necessarily preceded colonial production proper. Thus, Leur contends that the discovery and conquest of the archipelago led to the massive importation of agricultural produce into Europe which facilitated the accumulation of capital necessary for the formation of a manufacturing industry and world market in the Netherlands. Through the establishment of the Dutch Company in 1602, and subsequently the foundation of the accounting office in 1609 in Bantam, the process of Dutch wealth accumulation began. The discovery of agricultural resources in the archipelago, and the extirpation and enslavement of indigenous Indonesians signalled the era of Dutch colonial occupation. Control over economic, social and political aspects of indigenous Indonesians became the mode of the Dutch colonial game.

On the other hand, as I have already explicated in previous chapters, the appointment of Jan Coen to Accountant General and subsequently to Governor General of the Company, led to a new direction for the Company. The Company acted aggressively in formulating colonial policies, even without consultation with the headquarters in the Netherlands. Coen restructured the Company so that it dominated the economic and political life of Indonesia. Trading activities and production were restructured to meet the Coen policies of progressive colonisation. Agriculture remained the most important economic activity for the greater part of the first quarter of the early colonial establishment in the
The Dutch administration of the colony of the archipelago in the first quarter of the seventeenth century was almost a classic case of the colonial official working at cross purposes with the home authorities in the Netherlands. Coen, an energetic but sometimes impetuous young administrator with an accounting background, envisaged the colony of Indonesia essentially as a base from which Dutch power could be extended over Australasian territories. Coen went too fast because the decision to conquer Batavia (now, Jakarta) in 1619 brought about the issues of extensive colonial intervention or restraint in the archipelago through the removal of the office from Bantam to Batavia. Coen succeeded with his ambition of centring Batavia as the headquarters of the Company, as a result of which the Dutch gained much success in exporting agricultural produce. The boom of this business activity reached its peak in the 1620's to the 1630's. It was followed by a twofold increase in Dutch money in circulation in the archipelago. During the period 1620-1630, the amount of fl.12,360,000 was imported from the Netherlands to Indonesia to meet the growing use of Dutch currency and to support the process of the Dutch accumulation of production. A large number of Dutch officers and soldiers was installed to protect them against their enemies (ie., British, Portuguese and indigenous Indonesians).

It is not less necessary to accept the fact that the process of the increasing accumulation of Dutch capital and production was due to an awareness of prosecuting many of the policies through the process of 'advanced' administrative resources and their perfect political control over the archipelago. More than that, it is clear that many of the social and economic objectives underlying Dutch colonial policies differed in emphasis from other companies (for example, the
English East India Company). The Dutch emphasis was mainly on agricultural produce and labour exploitation through the process of economic, social and political domination. Dutch currency circulation in the archipelago was another factor which represented a policy in the form of tactical economic advantage over political interests. To admit this, however, is not necessarily to deny the existence of economic and social policies; they were considered in terms of Dutch colonial objectives pursued in colonial conditions. With the full control of labour, production, and circulation of Dutch capital in the archipelago, the process of colonial discipline in the form of controlled bodies and society was easy to manage based on Dutch colonial principles.

As the Company became larger and larger towards the end of the seventeenth century and the beginning of the eighteenth century, close surveillance of individuals who were subjected to the Dutch control became essential. Hierarchical surveillance was strongly imposed as a special kind of 'looking on' or 'gaze' or 'control' that constrained the individual without the controllers being seen, or even without them looking. The surveillance was designed in the form of a military hierarchy. The Governor General of the Company was the highest authority with a special right to impose order in any circumstance he wished. This discreet art of close surveillance was correlated to Foucault’s analysis which he described as "... the minor techniques of multiple and intersecting observations of eyes that must be seen without being seen; using techniques of subjection and methods of exploitation, an obscure art of light and the visible was secretly preparing new knowledge of man" (Foucault, 1979, p.171). For Foucault, this is understood as a disciplinary power which forced individuals (ie., indigenous Indonesians) to obey the principles of 'governing' people (ie., the Dutch).
The Dutch colonial system used 'hierarchical surveillance' as one of its most important social disciplines to control individuals (ie., indigenous Indonesians and the Company's officers). One of the most significant aspects of the application of this was a mechanism of financial flow through the process of 'centralised' control by the Company's headquarters in Batavia. Budgetary processes, distribution of Dutch money in the archipelago and the orientation of buying and selling commodities were all precisely defined in order to meet the colonial purpose. The network of 'close surveillance' across the archipelago was laid down through the sub-branch offices which functioned to monitor and calculate individual movement whether against or for the colonial system. Dutch money circulation in the heart of society was the most important instrument in the process of colonial obedience. Through this surveillance, the headquarters became similar to the 'panoptic tower' in which all were maintained and organised by the office.

Accounting and Colonial Capitalism

This study explicated the political power of accounting during Dutch colonisation as a disciplinary force in strategic colonial welfare in Indonesia. It was argued that, after the fall of the Dutch "supreme" Company, the Dutch government began by imposing "new" accounting policies to justify its domination of capital accumulation in Indonesia. With a radical change in the Cultural System, accounting was used as a power-knowledge regime which supported the process of Dutch capital and production domination. Dutch capital accumulation in Indonesia was a significant influence in gaining and protecting the political and colonial strategies of wealth (Heldingen and Hoogenberk, 1945). Foucault explained the function of capital in terms of protecting wealth as
... once capitalism had physically entrusted wealth, in the form of raw materials and means of production, to popular hands, it became absolutely essential to protect this wealth. Because industrial society requires that wealth be directly in the hands, not of its owners, but of those whose labour, by putting that wealth to work, enables a profit to be made from it. How was that wealth to be protected? By a rigorous morality, of course: hence the formidable layer of moralisation deposited on the nineteenth-century population (Foucault, 1980, p. 41).

However, what Foucault said was different to what the Dutch perceived to be the work and control of capital in colonial society. The Dutch brought a radical change to the system which directed the control of wealth and production to the Dutch colonial regime, rather than to the Indonesian workers. The system of reporting and responsibility was used as a disciplinary power in maintaining Dutch domination. As an example, it has been stated that in 1848 the Dutch government in Indonesia passed a new constitution which legitimised the Dutch colonial interests in Indonesia. It continued by promulgating a number of other regulations concerning accounting (for example, the Coinage Act of 1854 and Indiesche Comptabiliteitswet of 1864) which supported the protection of Dutch capital and production in Indonesia.

Using Foucault’s approach, accounting can be said to be one of many new types of disciplinary power which was one of the great inventions of bourgeois society, and one of the effects of which has been to protect wealth (Foucault, 1980, p. 105). It was true to say that the Dutch, as capitalists and colonialists, relied on their capital to establish their colonial strategy in Indonesia. Indonesia was believed to have enormous economic resources (Leur, 1955) which the Dutch intended to exploit. Dutch capital accumulation in Indonesia was the main concern in the process of their early domination.
The study also explored an understanding of the process of Dutch capital accumulation by introducing a "new" type of "disciplinary" financial capitalist system, the "capitalist Bank" in Indonesia. Consistent with the Foucault concern of the "how" question of colonial capitalism, the emergence of the two big banking institutions (NHM and Javasche Bank) and their accounting disciplinary regimes could further explain the process of Dutch capital and production accumulation in Indonesia. Both institutions were concerned primarily with the power mechanisms by which indigenous Indonesians were acquired and how Indonesians became a commodity to support the welfare of the Netherlands. Money circulation was under their control and Indonesians had no right to have their own economic mechanisms.

Additionally, in strengthening the legitimacy of Dutch colonisation in Indonesia new Dutch financial policies and industrial innovations were used as a power mechanism. A model of financial account and responsibility became a dominant means of justifying the welfare performance of the Dutch government's operation in Indonesia. The planning of budgeting expenditures and revenues of the government was not unusual as a power control mechanism.

**Implications and Further Research**

Although the present study has only explicated the emergence and the development of accounting in the periods of the Dutch colonisation, the research has more general implications for research into and practice in accounting in Indonesia. One of the most important points to be brought out is that the knowledge, practice and socio-political organisation of accounting exist neither independently from each other nor from the social context in which they occur. Accounting as a body of knowledge and practice has to be understood as social
phenomena intimately linked to the society in which it exists. No longer seen as a mere assembly of calculative techniques, accounting has functions as a cohesive and influential mechanism for economic and social activities. Thus, in order to study its present, it is necessary to look back to what happened in the past. Although this study does not cover the present period of accounting in Indonesia, it sheds light on some aspects of the current state of knowledge, practice and socio-political discipline of accounting in Indonesia. Perhaps more significantly though, it sets an agenda for further research in accounting, for extending our understanding of accounting in society and for developing a body of knowledge in the economic and political contexts.

The emphasis of this study is an "history" which is an unusual one in the current research in accounting. Traditionally, accounting history has examined and understood accounting largely as the reflex of the natural evolution of administrative technologies. This history has many problems which are regarded as "ahistorical" and "antiquarian" in nature (see also Chapter III). It is little merit in using this perspective in exploring the development of accounting in Indonesia. Miller, Hopper and Laughlin (1991) propose a new foundation for researching accounting history which focuses upon its economic, political and social contexts. Language of discourse and rationales becomes the mode of a new understanding of accounting history.

This study was developed by taking the Foucauldian concept of the power and knowledge relation. Foucauldian concepts, as part of the new historical research in accounting, have posed some significant challenges to the discipline of accounting history in Indonesia. Firstly, the study is evidence of the pluralisation of accounting history which focuses upon economic, political and social contexts. Accounting history can no longer be regarded as a single story viewing history in
an evolutionary manner. The Foucauldian concept provides a better understanding in telling the history and poses new questions about accounting and how it is practiced. Secondly, it raises new epistemological and methodological queries about how the past should be understood. The emergence of accounting in Indonesia is not understood as an evolutionary model of development; rather, its knowledge and practice are bound by the socio-political context of Dutch colonisation. Using this context, accounting in Indonesia is not 'merely' concerned with the collection of technical and economic facts, but it helps to conceal the essentially social and political nature of the activity.

Although the epistemological and methodological bases of the Foucauldian concept of the power and knowledge relation provides a richer picture in analysing the development of accounting in Indonesia, there is no doubt that this is not the only one mode of analysis to provide a full explanation of how accounting operated historically. Multiple approaches are also needed to ensure an undogmatic view of the history of accounting.

New developments in the knowledge and practice of accounting have occurred. These changes are intertwined with important economic, social and political changes. It is in such contexts that further research on accounting in Indonesia can be carried out. The relationship between accounting and the society in which it is practiced can also be understood. Another, and perhaps an even more valuable contribution, could come from studies of this nature comparing the development of accounting in different countries. Comparative studies looking at the similarities and differences in practices between one country and another could enhance new understandings of the roles of accounting in organisations and society. During the periods of Dutch colonisation in Indonesia, accounting played a prominent role in political systems and capital domination. As Furnivall (1939)
and Glamann (1981) stated, there is a comparative pre-eminence of the accounting discipline in Dutch colonial hierarchies and an emphasis on financial modes of colonial control within the Dutch Company. It is interesting to speculate about a possible relationship between the presence of accounting practices after Indonesian independence in 1945 and this emphasis on financial modes of Dutch colonial control. Additionally it would be interesting to examine whether these factors are related to the value placed on the knowledge and practice of accounting discipline in present day Indonesia. International comparative research could also provide fascinating insights into this question.

To end on a reflexive note, looking at accounting in Indonesia today, one of the most distinctive differences from the period considered in this study is the presence of accounting practices and academics. After the independence of Indonesia from Dutch colonisation, accounting changed and became the subject of intensive academic work in universities, business schools and other such institutions. The influence of the Dutch systems on the knowledge and practices of accounting in Indonesia were very dominant. This was a phenomenon which affected the development of accounting in Indonesia. The complex relationship between the practice of accounting, its body of knowledge, and its discipline has been made yet by the institutionalisation of accounting as an academic subject. The importance of this linkage has to be revealed by detailed historical studies.
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