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# The last free traders? Interwar trade policy in the Netherlands and Netherlands East Indies

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## Abstract

There has still been too little detailed work on the protectionism that emerged in the wake of the Great Depression. In this paper we explore the experiences of two countries that have been largely neglected in the literature, the Netherlands and Netherlands East Indies (NEI). How did these traditionally free-trading economies respond to the Depression? We construct a detailed product-level database of tariff and non-tariff barriers to trade on the basis of primary sources. While ad valorem tariff increases in the Netherlands were largely due to deflation, the country protected agriculture and textiles in a number of ways. Once quotas are taken into account, trade restrictiveness indices suggest that protection in the Netherlands and NEI was comparable to protection in the UK and India, respectively. The NEI quota system was largely geared to protecting Dutch exporters, and succeeded in doing so, but the reverse was not true.

KEYWORDS

trade discrimination, empire, Indonesia, interwar period, quotas, tariffs, the Netherlands

JEL CLASSIFICATION

N74, N75, F13, F54

Although the 1930s have long been seen as a classic period of deglobalization and protectionism, detailed quantitative studies of interwar trade policy remain relatively scarce. Early cliometric contributions typically used aggregate measures, such as average tariffs or trade bloc dummy variables, to measure trade policy, and tended to conclude that the impact of protectionism was surprisingly small.[1] More recently, however, scholars have looked in greater detail at the structure of protection and its impact. Bond et al. construct a detailed line by line database of US tariffs and find that the average tariff increase after 1930 substantially understates the distortionary impact of the Smoot–Hawley tariff.[2] De Bromhead et al. study the impact of commodity-level tariffs in the UK, concluding that protectionism had a major impact on the overall value, but even more on the composition, of British imports after 1931.[3] Using similarly detailed data, Arthi et al. find that protectionism in interwar India skewed the direction of trade substantially.[4] It would appear that to accurately assess the protectionism of the 1930s, detailed commodity-level data on the structure of protection are required.

The Netherlands and the Netherlands East Indies (NEI) have not yet featured in these investigations. The Netherlands was a small open economy, highly integrated with the global economy. Together with Britain, it was one of the main drivers of trade liberalization in the nineteenth century, and anti-protectionist sentiment was strong. Even in 1933 many remained opposed to protectionism, and the Netherlands was arguably the least protectionist country in the world at the time. Furthermore, it was severely hit by the Great Depression, especially after the devaluation of sterling in 1931, yet remained stubbornly committed to the gold standard until 1936. The Depression lasted longer there than in most other countries: while the world economy started to recover after 1933, the slump lasted until 1936 in the Netherlands. Recovery thereafter was rapidly cut short by another recession in 1937–8: Dutch real income per capita was lower in 1939 than it had been a decade earlier.[5]

While the NEI had traditionally pursued a relatively open trade policy, the colony was also hit hard by the economic crisis. Economic growth in the 1920s was driven by Western demand for rubber, palm oil, sugar, coffee, and other primary products.[6] This demand dried up almost completely, with Wertheim going so far as to claim that 'the economic crisis in Indonesia lasted longer and weighed heavier than anywhere else in the world'.[7] Both the Western plantation system and Indonesian peasants suffered from the decline in agricultural prices. As a result, 'many an Indonesian witnessed the disappearance of his money earnings or saw them shrink to a fraction of the former amount' (ibid.). Government policy, serving the interests of the metropole and Western enterprises in Indonesia, only made matters worse.[8] The NEI also stayed on gold until 1936.

[1] Irwin, 'Smoot-Hawley tariff'; Eichengreen and Irwin, 'Trade blocs'.

[2] Bond et al., 'Misallocation and productivity effects'.

[3] De Bromhead et al., 'When Britain'.

[4] Arthi et al., 'Deliberate surrender'.

[5] Van Zanden and Griffiths, *Economische geschiedenis*, p. 129. In the Dutch historiography, poor government policy has often been blamed for the length of the depression: failed attempts to keep foreign markets open for Dutch goods (Van Zanden and Griffiths, *Economische geschiedenis*, p. 142), a lack of government investment (Keesing, *De conjuncturele ontwikkelingen*), and, most importantly, continued adherence to the gold standard until September 1936 (Klein, 'Despressie en beleid', Drukker, 'Waarom de crisis').

[6] Van Gelderen, *The recent development*; Wirodihardjo, *De contingenteeringspolitiek*.

[7] Wertheim, *Effects of Western Civilization*, p. 10.

[8] O'Malley, 'Indonesia in the Great Depression'.

As a general matter, countries staying longer on gold protected more.[9] To what extent was this also true of the traditionally free-trading Netherlands and its empire? The existing literature suggests that protectionist measures were implemented hesitantly and unwillingly,[10] and remained comparatively mild, with tariffs being raised for fiscal, rather than protectionist, purposes.[11] There is, however, no detailed product-level overview of tariff and non-tariff barriers to trade in the two countries. Van Schaik provides an in-depth analysis of the Dutch quota system, but does not discuss which countries received country-specific quotas, something which, as we will see, was an important dimension of trade policy during the period.[12] Nor does he study trade policy in the NEI, or analyse tariffs in any depth. Klemann studies Dutch trade with Germany, Britain, and Belgium, but provides no information on either tariffs or quotas.[13] Hulshoff Pol and Blaisse cover both tariff and non-tariff barriers to trade in the Netherlands and NEI, but in a narrative fashion.[14] A quantitative study detailing the structure of protection across products and trading partners thus remains lacking.[15]

The present paper aims to fill this gap in the literature, providing the first detailed quantitative account of interwar protectionism in the two countries. We construct an annual, product-level database of tariff and non-tariff barriers to trade in both countries, and use this to track the level and structure of protection over time. Our new data, assembled from primary sources, represent, we hope, a valuable contribution in their own right. However, such information is also essential if we are to answer a number of questions about Dutch interwar trade policy that arise naturally in the context of the literature on other countries. How severe was the increase in protection in the two countries, and what was its sectoral composition? How did protection in the Dutch empire compare with the trade barriers imposed elsewhere? To what extent were tariff increases due to purposeful increases in tariff rates, as opposed to the interaction between specific tariffs and deflation?[16] To what extent was Dutch and NEI protectionism discriminatory? To what extent did it have an impact on trade flows? To what extent was it designed with the interests of the Netherlands, as opposed to those of the NEI, in mind?

Our data can help in adjudicating various disagreements in the secondary literature. Some argue that the Netherlands and NEI remained free traders pursuing an open-door policy until 1933, and after that enacted protectionist measures only hesitantly and half-heartedly: the 'door remained largely open'.[17] Others stress the protectionism of the quota system and attempts to shield Dutch agriculture 'at all costs'.[18] There has also been disagreement about whether trade policy benefitted the Netherlands or the NEI more. Some studies have emphasized the increased shares in the imports of each polity of the other's exports. The Dutch government declared in 1936

[9] Eichengreen and Irwin, 'Slide to Protectionism'.

[10] Hulshoff Pol, 'Handelspolitiek', p. 10; Van Zanden and Griffiths, *Economische geschiedenis*, pp. 134–8.

[11] E.g., Brugmans, *Paardenkracht*, pp. 523–4.

[12] Van Schaik, 'Crisis en protectie'.

[13] Klemann, 'Tussen Reich en Empire'.

[14] Hulshoff Pol, 'Handelspolitiek', Blaisse, *Nederlandse handelspolitiek*.

[15] Bacon and Schloemer, *World trade*, p. 860, give a broad indication of overall tariffs, and provide a few examples of tariffs on a small selection of agricultural goods. Korthals Altes, *Changing economy*, gives the total income from import duties across 3 aggregate categories.

[16] Crucini, 'Sources of variation'; Irwin, 'Changes in U.S. tariffs'; idem, 'The Smoot-Hawley tariff'.

[17] Blaisse, *Nederlandse handelspolitiek*, p. 416; Neytzell de Wilde and Moll, *Netherlands Indies*, p. 68.

[18] Klemann, 'Tussen Reich en Empire', p. 250; Van Schaik, 'Crisis en protectie'.

that Dutch trade policy helped the NEI more than vice versa,[19] and some Dutch scholars emphasized the mutual benefits of cooperation between the two countries.[20] According to Booth, 1930s trade policies maintained the Dutch metropolitan market for Indonesian goods, and reserved a share of the Indonesian market for Dutch textiles. For Van der Eng, the protection of textile manufacturing within the NEI was a key concern of the colonial government.[21] On the contrary, Wirodihardjo argued that the benefits of trade between the two countries were unequally shared, with the Netherlands gaining more.[22] The quota system favouring the Netherlands increased prices in the NEI, hurting the Indonesian poor. Soejono, a member of the NEI *Volksraad* (People's Council, which had only advisory powers), noted that 'cooperation that becomes completely one-sided can no longer be considered cooperation'.[23] Wirjopranoto, another member of the *Volkskraad*, observed that 'whereas the downsides of the quotas are very clear to the population, the benefits are not'.[24]

To gain a comparative perspective on the extent of Dutch interwar protectionism, we compare the experiences of the Netherlands and NEI with those of the United Kingdom and its largest Asian colony, India. As is well known, average tariffs are not a good measure of average protection, and this was especially true in a period when non-tariff barriers to trade were rife.[25] We therefore compute trade restrictiveness indices (TRIs) for the four countries, following a recent literature calculating TRIs in a historical context.[26] When making such comparisons it is important to compare like with like, but there was no standardized international trade classification during this period. Indeed, trade and tariff classifications were inconsistent not only across countries, but also within countries over time. To address this challenge, we identify 38 representative three-digit SITC categories for which it is possible to collect consistent interwar trade data for our four countries.[27] For these 38 categories, the trade classifications of the time were such that (a) everything falling within a three-digit category could be identified, and (b) at the finest available level of detail there were no recorded import flows falling into more than one three-digit category. The UK and Indian data were described in De Bromhead et al. and Arthi et al.; the Dutch and NEI data will be described below.[28]

To provide some economic context for the discussion that follows, we begin by briefly reviewing the structure of trade in the two countries. We then discuss the various trade policies implemented in both, as well as the sources required to construct our product-level trade policy database. Armed with our new data, we then document the product-level structure of protection, and discuss the extent to which trade policy favoured some countries over others. Following a comparison of levels of protection in the British and Dutch empires, we conclude with a brief examination of the effectiveness of Dutch quota policy in the NEI.

[19] Brugmans, *Paardenkracht*, p. 529.

[20] Gonggrijp, *Schets*.

[21] Booth, 'Four colonies', p. 446; Van der Eng, 'Why didn't colonial Indonesia'.

[22] Wirodihardjo, *Contingenteeringspolitiek*, p. 230.

[23] Ibid., p. 235.

[24] Ibid.

[25] Anderson and Neary, *Measuring the restrictiveness*.

[26] Irwin, 'Trade restrictiveness'; Federico and Tena, 'Was Italy a protectionist country?'; Federico and Vasta, 'What do we really know'.

[27] All data underlying this paper and replication files that allow for the reconstruction of the figures and analyses are posted in De Zwart, Lampe, and O'Rourke, 'The Last Free Traders?'.

[28] De Bromhead et al., 'When Britain'; Arthi et al., 'Deliberate surrender'.

## I | THE STRUCTURE OF TRADE BEFORE THE CRISIS

What was the structure of imports in the two countries before the crisis? To assess this, we exploit detailed data for 1928 from the official trade statistics of both countries.[29] As mentioned above, we collected import data falling within 38 three-digit SITC groups, although for both of our countries there were no recoded import data for one of these groups, leaving us with 37 categories in each.[30] In the context of the statistical trade classifications of the time, these 37 groups corresponded to 296 separate goods for the Netherlands, and 228 goods for the NEI.[31] The smaller number of goods in our NEI dataset is purely due to the greater level of detail provided in the Dutch trade statistics. We further classified these goods into four broad product categories following De Bromhead et al.: agriculture, raw materials, manufactures, and revenue/'colonial' goods.[32] We make use of these four broad categories below. The NEI trade statistics were reported separately for Java (the main population centre) and the so-called Outer Islands (consisting of Sumatra, Kalimantan, Celebes, Bali, Lombok, the Moluccas, Timor, and New Guinea) implying that we had to type both sets of statistics.

How representative is our sample? Figure 1 plots indices of the value of imports, in current prices, for the Netherlands from 1924 to 1938, for Java from 1926 to 1938, and for the Outer Islands from 1928 to 1938. It does so using both total imports in our sample, and official trade totals reported separately in the official trade statistics.[33] As can be seen, our sample faithfully tracks the Great Depression trade collapse and the partial recovery that followed. On average, our sample accounts for 36 per cent of Dutch imports, 57.5 per cent of Javanese imports, and 57 per cent of imports into the Outer Islands. For example, while our sample does not include wood and oil cakes, we have data for similar miscellaneous inputs (including linseed, linseed oil, fertilizers, primary iron, and hides and skins). We do not cover cocoa beans, but have data on similar items including coffee, tea, tobacco, and copra. While there may be some differences in tariffs across these products, similar types of goods were often subject to similar tariffs.[34]

Figure 2 focuses on bilateral trade between the two countries, plotting the share of the Netherlands in the imports of the NEI and vice versa. The Dutch share of its colony's imports was higher than the Indonesian share of Dutch imports throughout. Both shares declined in the 1920s. The Dutch share of NEI imports recovered sharply from 1933, while the decline of the NEI

[29] *Jaarstatistiek van den in- uit- en doorvoer, 1924–38* for the Netherlands; *Jaaroverzicht van den in- en uitvoer, 1926–38* for the NEI.

[30] For the Netherlands, the missing category was the metalworking industry; for the NEI it was tractors other than steam. See Online app. A for a list of the 37 categories imported into each of the two countries, and a selection of the commodities falling under each.

[31] These are the finest disaggregations of the available data that can be consistently defined over time for the years in question. They were obtained by aggregating a larger number of more detailed items reported in the original trade statistics. For example, in the Dutch statistics the commodity category 'welded pipes' was disaggregated into further groups with different diameters from 1934 onward. No such details were given in preceding years, so we aggregated to the general category of 'welded pipes' throughout. For the NEI, prior to 1926 the trade statistics used a different commodity classification scheme. The new, more detailed, classification was implemented for Java in 1926, but only 2 years later, from 1928, in the Outer Islands. In what follows, we therefore report trade data for Java and the Outer Islands from 1926 and 1928, respectively.

[32] De Bromhead, 'When Britain', online Appendix, pp. 6–8.

[33] The different starting years are due to major classification changes in the NEI: see footnote 31.

[34] Prior to the 1930s, for instance, imported raw materials for construction such as wood and iron were both duty free, while tariffs on coffee and cocoa were both 8%. See also Van Schaik, 'Crisis en protectie'.

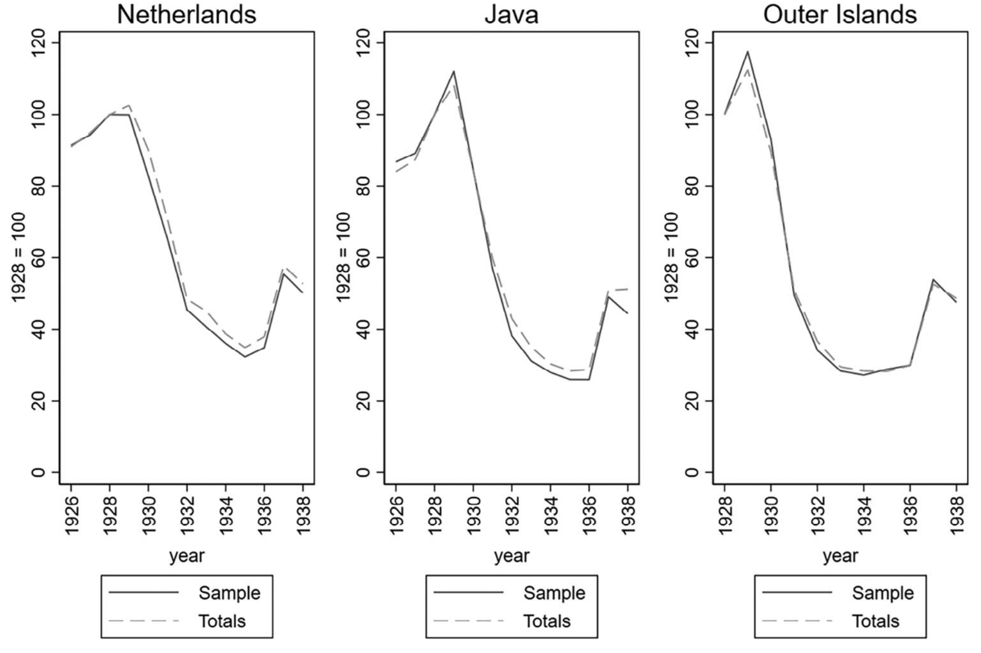


**FIGURE 1** Nominal import value indices for sample and total imports, 1924–38 (1928 = 100). *Sources*: Data on totals obtained from the historical trade statistics (Jaarstatistiek 1924–38 and Jaaroverzicht 1926–38).

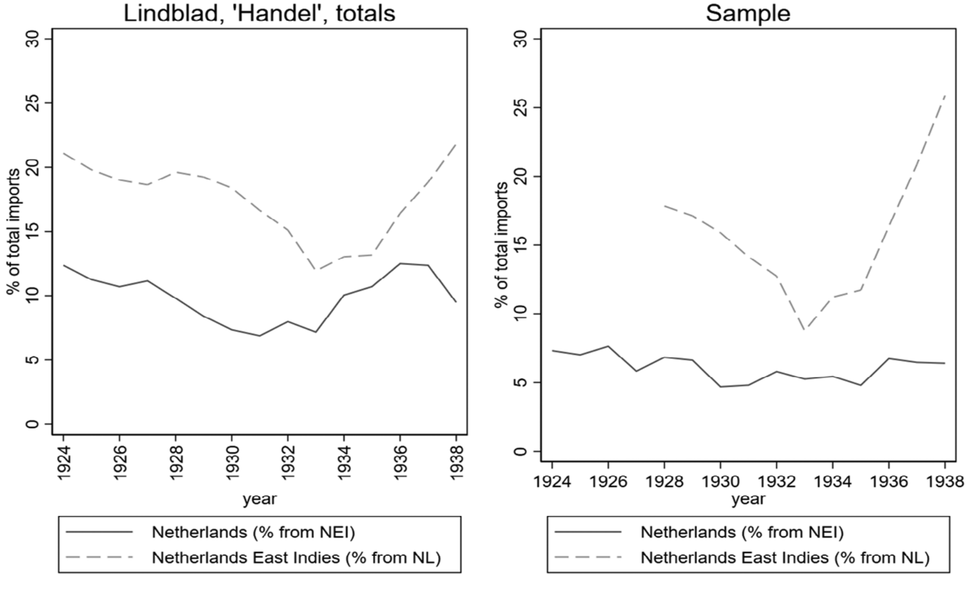


**FIGURE 2** Shares of the Netherlands and NEI in each other's imports, 1924–39. *Note*: Data for Outer Islands (and thus NEI) in sample starts in 1928. *Source*: Lindblad (1988), Jaarstatistiek (1924–38) and Jaaroverzicht (1926–38).

share in the metropole was stabilized a year or two earlier. As can be seen, our sample somewhat understates the NEI share in the Netherlands.

The bilateral structure of trade between the Netherlands and NEI resembled the typical centre-periphery structure of the nineteenth and twentieth centuries:[35] in our sample, manufactures account for 96.8 per cent of NEI imports from the Netherlands in 1928, but only 0.2 per cent of NEI imports into the Netherlands. The Netherlands imported substantial amounts of resources and other primary goods from its major colony; not surprisingly colonial goods, in particular tea, sugar, and coffee, together with copra, groundnuts, and rubber, were predominant.[36] Meanwhile, the main NEI imports from the Netherlands were textile manufactures and machinery.[37]

The production systems used to produce export goods in the NEI differed substantially across goods as well as between Java and the Outer Islands. Most exports from Java were produced by plantations, with the exception of rice, while many commodities produced in the Outer Islands (except the plantation belt of East Sumatra) came from smallholders.[38] In the Netherlands, agriculture and international transport had developed into capital and high-skill-intensive industries, while labour-intensive textiles production was located in the eastern Netherlands and was based largely on exports to the NEI.[39]

## II | TRADE POLICY IN THE NETHERLANDS AND NEI

First, we discuss tariffs. We reconstructed import tariffs for the goods in our sample in the two countries using legal texts describing new tariffs in detail. In the case of the Netherlands, these were printed in various editions of the *Staatsblad*.[40] In the case of the NEI, we rely on an official overview printed in 1927 and the laws printed in the *Indisch Staatsblad*.[41]

Dutch tariff policy in the early twentieth century still largely relied on the Tariff Law of 1862. A new Tariff Law was only implemented in 1924. This raised tariffs, ostensibly for fiscal reasons.[42] Raw materials remained duty free, but tariffs on many semi-finished and finished goods were raised to between 5 per cent and 12 per cent, up from 2–5 per cent previously. The Dutch levied both ad valorem and specific tariffs, the latter falling particularly on meat, tea, tobacco, and petroleum. Such specific tariffs can be expressed in equivalent ad valorem terms by dividing them by the average unit prices.[43] The protective impact of specific, as opposed to ad valorem, tariffs thus varied in response to inflation and deflation.[44]

[35] Findlay and O'Rourke, *Power and plenty*; Lewis, *Evolution of the interatnational economic order*, Robertson, 'Changes in international demand'.

[36] Jaarstatistiek, 1928.

[37] Other categories of imports for which the Netherlands enjoyed a very large share of Indonesian imports included butter (90.5%), fresh meat (22.7%), roasted coffee (64.3%), and refined sugar (41.7%). Such goods were relatively unimportant in terms of their overall values and likely reflected the consumption preferences of the European, or Indo-European, population in the NEI. Jaaroverzicht, 1928.

[38] De Zwart, 'Inequality in late colonial Indonesia'; Touwen, *Extremes in the archipelago*.

[39] Van Zanden and Griffiths, *Economische geschiedenis*.

[40] *Staatsblad van het Koninkrijk der Nederlanden*, 1924–38.

[41] *Overzicht van Tariefwetgeving*, 1927; *Staatsblad van Nederlandsch-Indië*, 1924–38.

[42] Staatsblad, 1924, no. 568.

[43] We used the average unit value across all countries for this purpose.

[44] Crucini, 'Sources of variation'; Irwin, 'Changes in U.S. tariffs'; ibid., 'The Smoot-Hawley tariff'.

The initial Dutch response to the crisis was to participate in international conferences with a view to saving the global monetary and trading system, and to try to secure trade agreements with neighbouring countries. It was after the devaluation of sterling in September 1931 that more comprehensive measures were taken to prevent the Dutch economy from being flooded with cheap imports: the 'Crisis Import' and 'Crisis Export' Acts were signed in December 1931.[45] The former introduced a quota system. In the same month, but effective 1 January 1932, tariffs were increased for the first time in 7 years.[46]

Our data show higher tariff increases than suggested by the existing Dutch secondary literature.[47] Raw material imports remained duty free, but other tariffs were raised by about 25 per cent. Tariffs on semi-finished goods increased from 5 per cent to 6 per cent, those on various foodstuffs and yarns from 8 per cent to 10 per cent, and those on finished industrial goods from 12 per cent to 15 per cent. Tariffs on beef were raised to 20 per cent.[48]

In 1933, tariffs on some goods were raised again by the addition of '*opcenten*' or surcharges of 30 per cent. Once again, our primary sources suggest a slightly different picture than that described in the secondary literature. Rather than being added to all tariffs,[49] *opcenten* were limited to a selection of goods (75 out of the 296 products in our dataset).[50] Earlier studies have been unclear about the precise meaning of these surcharges; in fact, they implied a 30 per cent (rather than a 30 percentage point) increase in duties.[51] This measure was extended into 1934.[52] In 1934, yet another tariff law was adopted.[53] While many tariffs remained unchanged, a few were increased somewhat (from 0 per cent to 3 per cent in the case of some raw materials, and from 10 per cent to 12 per cent in the case of a few manufactures), while others fell. Moreover, because the *opcenten* were not extended beyond 1934, average tariffs decreased subsequently (see figure 3 below).

The NEI did not determine its own trade policy: tariffs were set by the Dutch Minister of Colonies, partly influenced by information provided by the Governor General in the Indies. It is likely that Dutch and planter interests prevailed over those of the Indonesian population. The *Volkskraad*, the only representative institution in the NEI, did not represent the different groups in society fairly, as especially Europeans, and to lesser extent the Chinese, were represented far in excess of their share of the total population.

In the aftermath of the Napoleonic Wars, Indonesian trade policy had discriminated in favour of Belgian (and later Dutch) textiles. However, as a result of British pressure, from 1874 on there was no tariff discrimination, and goods from the Netherlands were subject to the same duties in the NEI as those from other countries.[54]

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45 Staatsblad 1931, no. 535; Staatsblad 1931, No. 553; Van Schaik, 'Crisis en protectie', p. 30.

46 Staatsblad 1931, no. 530.

47 Van Schaik, 'Crisis en protectie', p. 72.

48 Staatsblad 1931, no. 530, art. 4. According to Van Schaik manufactured tariffs were raised from 8% in 1924 to 10% in 1931, while duties on semi-finished goods were increased from 2–3% to 2.5–3.7%.

49 Van Schaik, 'Crisis en protectie', p. 72.

50 Staatsblad 1932, no. 634.

51 Tweede Kamer, Bijlagen 1931–2, Kamerstuk 200, nos. 1–3, 5–6.

52 Staatsblad 1933, no. 664.

53 Staatsblad 1935, no. 381.

54 Booth, 'Four colonies'; Van der Eng, 'Why didn't colonial Indonesia', pp. 1025–6.

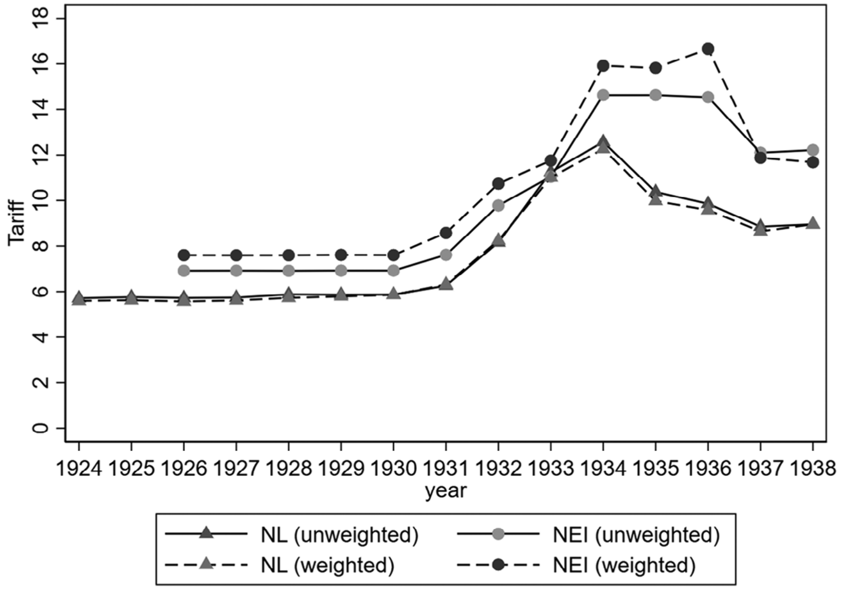


**FIGURE 3** Average tariffs in the Netherlands and NEI, unweighted and weighted by 1928 total import value.*Sources*: for tariffs, see text; for import values: Jaarstatistiek (1928); Jaaroverzicht (1928). Note that for the NEI we only have unit values from 1926, which is why the series begins in that year.

As in the Netherlands, a new tariff law was implemented in 1924.[55] Raw material imports were duty free, but other tariffs were slightly higher than in the Netherlands, with ad valorem tariffs on most semi-finished goods at 6 per cent and those on most finished goods at 12 per cent. Once again, some tariffs were specific, and we have converted these to ad valorem equivalent tariffs using average import prices of the goods in question in each year. *Opcenten* of 10 per cent were levied in 1931, 2 years earlier than in the Netherlands.[56] Unlike in the Netherlands, *opcenten* were imposed on all imports, and they were increased to 20 per cent in January 1932 and 50 per cent in June of the same year (with an exception made for bleached and unbleached cotton manufactures).[57] The increase to 50 per cent was extended until October 1936 when they were lowered to 25 per cent,[58] where they would remain until 1938.[59]

Figure 3 plots average tariffs in the two countries, both unweighted and weighted by 1928 import values. Dutch tariffs increased from an average of 5.5 per cent throughout most of the 1920s to just over 8 per cent in 1932, 10 per cent in 1933, and 11–11.5 per cent in 1934, before declining again to about 9 per cent in the late 1930s. Tariffs were higher in the NEI, at around 7–8 per cent in the 1920s, 10–11 per cent in 1932, and 15–17 per cent during 1934–6. After that the average tariff decreased to around 12 per cent in 1937–8. As can be seen, tariffs in the two countries diverged from 1934 onwards. This is largely the result of the much more widespread application of *opcenten*

[55] Indisch Staatsblad 1924, no. 487.

[56] Hulshoff Pol, 'Handelspolitiek', p. 129; Indisch Staatsblad 1930, no. 453.

[57] Indisch Staatsblad 1931, no. 535; 1932, no. 321. Bleached and unbleached cottons retained 20% surcharges.

[58] Indisch Staatsblad 1934, no. 1; 1934, no. 675; 1935, no. 626; 1936, no. 572.

[59] Hulshoff Pol, 'Handelspolitiek', p. 144; Indisch Staatsblad 1936, no. 718. In 1938, the 20% *opcenten* for bleached and unbleached cotton were abolished: Hulshoff Pol, 'Handelspolitiek', p. 144.

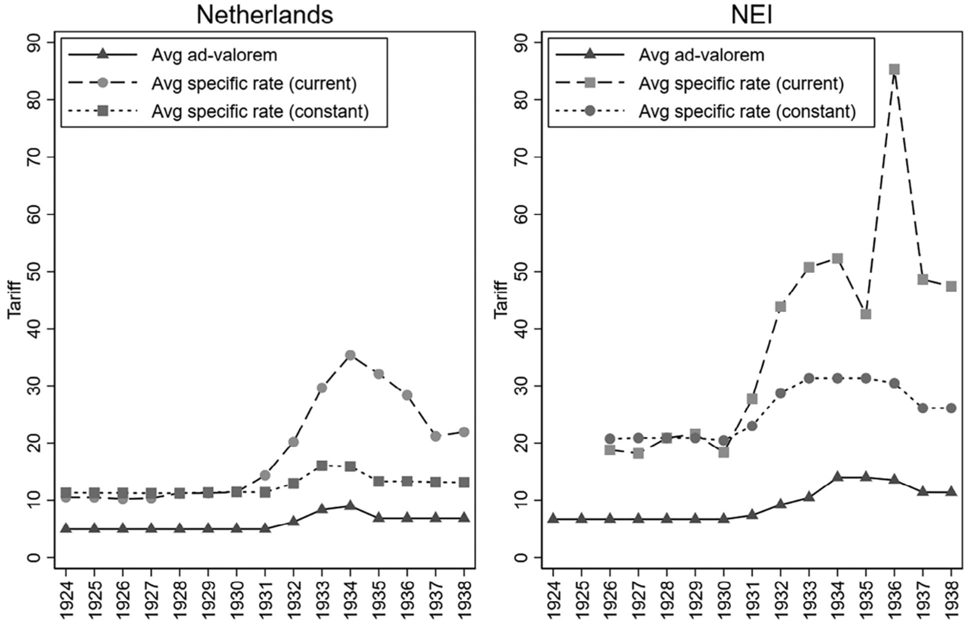


**FIGURE 4** Ad valorem and specific tariffs. *Sources*: see text. Note that for the NEI we only have unit values from 1926, which is why the specific tariff series begins in that year.

in the NEI, the fact that they were raised to higher levels (50 per cent rather than 30 per cent), and that they were extended for a longer period of time.

As noted above, whereas most tariffs were ad valorem, some were specific, and thus their ad valorem equivalents depended on prices. Crucini showed that in the United States, much of the observed increase in ad valorem equivalent tariff rates after the 1930 Smoot–Harley tariff was due to price deflation rather than nominal tariff increases.[60] A substantial share of US imports was subject to specific tariffs: almost 65 per cent in 1925.[61] In the Netherlands, on the contrary, specific tariffs were only levied on 44 out of our 296 goods, representing 7.4 per cent of sample imports in 1928, with the corresponding figures in the NEI being 5 out of 226 goods, or 3.1 per cent of imports.[62]

Figure 4 plots three ad valorem equivalent tariff series for our two countries: unweighted average tariffs for (1) goods facing ad valorem tariffs; (2) goods facing specific tariffs, evaluated using current prices, and (3) goods facing specific tariffs, but evaluated using constant (1928) prices. As can be seen, protection was higher for goods facing specific tariffs, and from 1930 the gap increased substantially. In 1934 Dutch specific tariffs were equivalent to ad valorem tariffs of over 35 per cent, up from 12 per cent in 1928, while in the NEI they rose to as much as 85 per cent in 1936, up from 20 per cent. These increases were mostly due to deflation, as can be seen by comparing the specific tariff series with current and counterfactually constant prices. While only 7 per cent of Dutch imports faced specific tariffs in 1928, price decreases for those goods accounted for about 50 per cent of the total increase in average tariffs in the early 1930s. In the NEI, the share

[60] Crucini, 'Sources of variation'.

[61] Irwin, 'Changes in U.S. tariffs', p. 1018.

[62] From 1934, duties on four more goods became specific and duties on one good ceased to be specific.

of specific duties was lower and their contribution to average tariff changes was less than 8 per cent in the early 1930s.[63] The Netherlands experience was thus qualitatively similar to that of the United States,[64] something not previously noted.

Now, let us shift our focus to quotas. Both countries imposed quotas on a wide range of goods. The first quotas were implemented in the Netherlands in 1931 after the Crisis Import Act, with general quotas being imposed on a handful of products. Only general quotas were implemented in 1932 and 1933, but at the end of 1933 it became legally possible to allocate quotas to certain countries only.[65] From then on, quotas were used as bargaining chips in trade negotiations. As discussed in Online appendix C, several types of country quotas were implemented, but their purpose was similar: restricting trade in certain products while favouring some countries over others.

To determine which products faced a Dutch quota, we relied on Van Schaik and the notes on the quota system published by the government.[66] For information on which countries received country-specific quotas, we relied on the archives of the *Commissie van Advies Crisisinvoerwet* (henceforth: Advice Commission),[67] and on *Handelsberichten* (and its successor *Economische Voorlichting)*, an official weekly publication of the Dutch Ministry of Economic Affairs. The Advice Commission's archives contained two boxes with all Dutch trade treaties, which sometimes contained additional (and often confidential) lists of quotas negotiated between the Netherlands and other countries.[68] In 1936, 70 out of the 296 products in our database faced quotas.

For the NEI we rely on Wirodihardjo and the notes on quotas published by the Dutch government,[69] the Dutch colonial government, and the Netherlands-Indies Organization for Importers-Wholesalers.[70] The quota system was broadly similar to the Dutch one, but simpler: the number of products facing quotas was much smaller (a maximum of 20 products out of the 228 in our dataset). As in the Netherlands, there were general quotas involving an overall upper limit to the quantity of imports permitted. In practice, all goods subject to these quotas came from Japan, which was the most cost-effective Asian producer at the time. As we will see later in this paper, increasing Japanese competition, particularly following the yen's devaluation in 1931, was a major factor driving protectionist NEI quotas during this period.[71] Country-specific quotas were mainly allocated to the Netherlands, although quotas were also given to a few other countries, such as Britain, Germany, and France, in connection with trade negotiations.

[63] See also underlying database.

[64] Crucini, 'Sources of variation'.

[65] Staatsblad 1933, no. 596.

[66] Handel en Nijverheid, 'Nota betreffende de gevoerde contingenteeringspolitiek', 1932; *Nota* 1934; 1936; 1939; Van Schaik, 'Crisis en protectie', pp. 378-381.

[67] Dutch National Archives (NA), The Hague. 2.06.065 Archives of the *Commissie van Advies Crisisinvoerwet*, 1931–1940; various inv. nos.

[68] NA 2.06.065, inv. nos. 14 &15. In particular, the treaties with Austria, Belgium, Czechoslovakia, France, Germany, Italy, Spain, Switzerland and Turkey contained such lists (NA 2.06.065 inv. nos. 14 & 15).

[69] Wirodihardjo, *Contingenteeringspolitiek*.

[70] Economische Zaken, *Contingenteerings- en licentieeringspolitiek*; Handel en Nijverheid, 'Invoercontingenteeringen'; ibid., 'Invoerregelingen'; NIVIG, *Contingenteerings- licentieerings- en andere crisis maatregelen*. See also Van der Eng, 'Why didn't colonial Indonesia'.

[71] Van der Eng, 'Why didn't colonial Indonesia', pp. 1028–9.

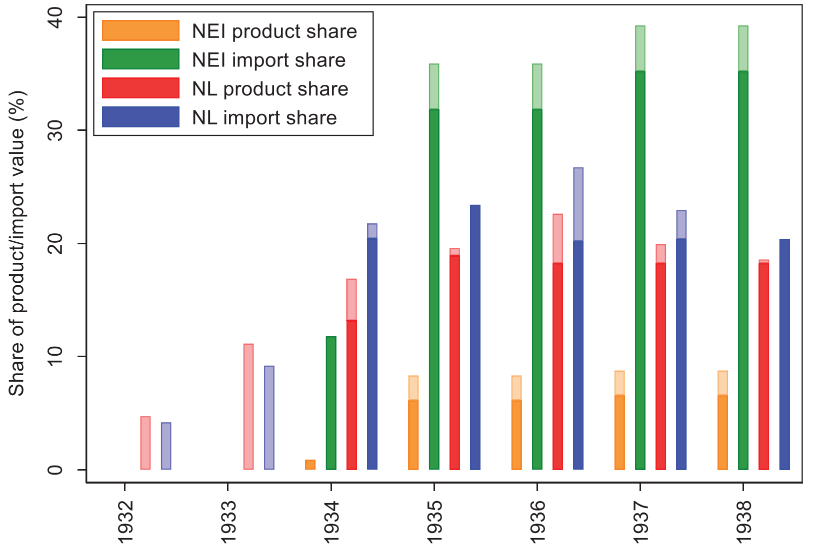


**FIGURE 5** Percentage of products and of imports facing quotas in the Netherlands and NEI. *Note*: Solid colours indicate country quotas; light colours indicate general quotas. Import share uses 1928 weights. *Sources*: see text. [Colour figure can be viewed at wileyonlinelibrary.com]

Figure 5 plots the development of the quota system from 1932. The bars measure the percentage of products in our dataset (296 for the Netherlands, and 228 for the NEI), and the percentage of total imports (using 1928 import values), facing quotas in the two countries in any given year. The solid portions of the bars represent the shares of products and imports facing country-specific quotas; the light portions indicate the shares facing general quotas. For example, in the Netherlands in 1932 almost 5 per cent of all products in our database, equivalent to 4 per cent of the value of imports, faced a quota, and as can be seen these quotas were all general. These figures steadily rose, until at the peak in 1936, 23 per cent of all products, representing 27 per cent of total imports in 1928, faced quotas. From 1934, when it became possible to assign country-specific quotas, these dominated, accounting for between 78 per cent and 98 per cent of all quotas.

In the NEI fewer than 1 per cent of products faced a quota in 1934. However, these products represented no less than 12 per cent of total imports in 1928. In 1937 the share of products facing a quota increased to just below 9 per cent, representing 39 per cent of the total value of imports. The main reason for this discrepancy is that quotas were placed on imports of textiles, which represented a substantial share of all imports. In the NEI, three-quarters of all quotas were country specific.

A third instrument allowing the Dutch government to directly intervene in international trade flows was the designation of some goods as 'monopoly products'. The 'Crisis Monopoly Decree' of 1933 was implemented as part of the Agricultural Crisis Law designed to support the agricultural sector.[72] The Agricultural Crisis Law allowed the Minister of Economic Affairs to designate some products as 'crisis products', eligible for price support from the government via 'crisis organizations'. In return for price aid, farmers had to become members of these crisis organizations and

[72] Staatsblad 1933, no. 443; Staatsblad 1933, no. 261.

**TABLE 1** Unweighted average tariffs in the Netherlands and NEI (ad valorem equivalents, %).

| **Panel A. The Netherlands** | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **1924–29** | **1930** | **1931** | **1932** | **1933** | **1934** | **1935** | **1936** | **1937** | **1938** |
| Agriculture | 7% | 7% | 8% | 12% | 14% | 16% | 18% | 15% | 12% | 12% |
| Raw materials | 5% | 5% | 5% | 6% | 12% | 12% | 5% | 5% | 5% | 5% |
| Manufactures | 5% | 5% | 5% | 6% | 6% | 7% | 7% | 7% | 7% | 7% |
| Revenue goods | 9% | 10% | 11% | 15% | 22% | 28% | 23% | 22% | 18% | 19% |
| **Panel B. The NEI** | | | | | | | | | | |
| | **1926–29** | **1930** | **1931** | **1932** | **1933** | **1934** | **1935** | **1936** | **1937** | **1938** |
| Agriculture | 9% | 9% | 10% | 12% | 13% | 15% | 15% | 14% | 12% | 12% |
| Raw materials | 5% | 5% | 6% | 7% | 12% | 10% | 10% | 10% | 9% | 9% |
| Manufactures | 7% | 7% | 7% | 9% | 10% | 15% | 15% | 14% | 12% | 12% |
| Revenue goods | 8% | 8% | 10% | 13% | 14% | 18% | 18% | 21% | 16% | 17% |

*Note*: 'Revenue goods' are coffee, tea, sugar, tobacco, crude and refined petroleum, raw silk; 'Agriculture' is defined as the non-revenue products in SITC 0 and 1; 'Raw materials' are the non-revenue products in SITC 2–4; 'Manufactures' are SITC 6–8. See Online app. A for further details. All figures refer to the sample. Note that for the NEI we only have unit values from 1926, which is why the specific tariff series begins in that year. *Sources*: see text.

adhere to certain rules (such as providing their employees with adequate wages).[73] Many crisis products were also designated as monopoly products, since (cheap) imports of these goods would undermine efforts to maintain agricultural prices. Only selected crisis organizations had the right to import such goods. These import monopolies were only implemented for a selection of fishing and agricultural goods (see Online appendix B).

## III | STRUCTURE OF PROTECTION

Panel A of table 1 gives the unweighted average tariff per category in the Netherlands. Some notable shifts can be observed. Tariffs on revenue goods, most notably tea and petroleum, were highest throughout the whole period, and also show the largest absolute increases in the 1930s. By contrast, tariffs on manufactures remained low and displayed little dispersion. Both observations fit well with the free trader narrative. Tariffs on raw materials such as wool, rubber, and raw cotton remained the most lightly taxed throughout the entire period, although there was a temporary increase in 1933 and 1934 on vegetable oils, and to a lesser degree, oilseeds. The considerable increase in duties on agricultural products (grains, meat, eggs, and butter) has a protectionist flavour, although only moderately in a comparative perspective.

Panel B provides the equivalent data for the NEI. As previously noted, tariffs were higher than in the Netherlands, with the highest tariffs on imports of 'colonial' revenue goods. Tea and tobacco tariffs were specific, and substantial price declines for these goods, alongside rising tariffs, led to large increases in ad valorem equivalent tariffs. From the early 1930s, the lowest tariffs were on grains, in particular rice which remained duty free, presumably because these goods had to remain affordable for lower income groups. The NEI was a net importer of rice throughout the late colonial era: while Javanese rice was exported to the Netherlands in the 1930s, cheaper rice

[73] These organizations were semi-governmental bodies; the Minister of Economic Affairs had the right to change decisions made by their boards: Staatsblad 1933, no. 410; *De landbouw-crisiswetgeving*, pp. 38–40.

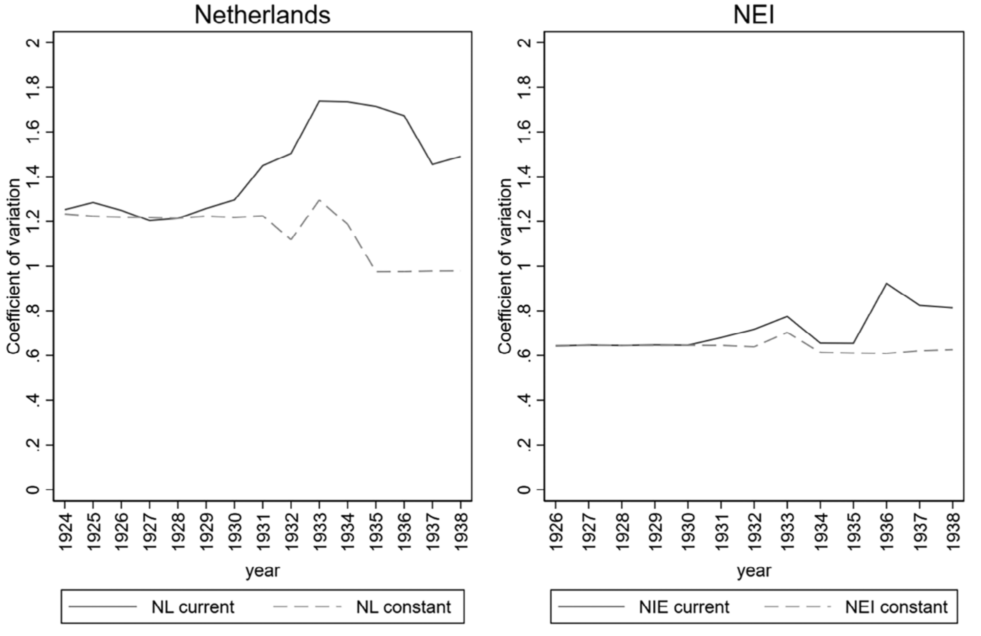


**FIGURE 6** Coefficient of variation of ad valorem equivalent tariffs at current and constant 1928 prices. *Sources*: see text. Note that for the NEI we only have unit values from 1926, which is why the specific tariff series begins in that year.

was imported from Siam and southern Vietnam to feed the Indonesian population. In contrast, duties on meat, eggs, and butter increased considerably from 1932. Duties on many manufactured goods changed only a little, but for a selection of goods, including cars, their motors, silks, and other more sophisticated textiles, ad valorem rates increased from 12 per cent to 30 per cent. Duties on basic metals, manufactured fertilizers, and basic cotton textiles remained low. As in the Netherlands, raw materials remained the least tariffed category throughout, except for 1933, when there was a temporary increase, especially for natural fertilizers.

We have already seen that the interaction between deflation and specific tariffs accounts for a large share of the overall increase in Dutch tariffs. The discussion above suggests that it may also have been a driver of tariff dispersion. To test this, we computed the coefficient of variation of all (ad valorem equivalent) tariffs in the two countries, calculated using both current and constant (1928) prices.[74] As can be seen in figure 6, tariff dispersion would have been constant or even falling had it not been for nominal price changes: the increase in overall tariff dispersion experienced during this period was entirely due to the deflation of the 1930s.

Table 2 gives the percentages of products and of total 1928 import values in each of our four categories that faced Dutch quotas in each year. As can be seen, quotas were widely imposed on imports of animal products and grain to protect Dutch agriculture. Meat and butter were especially protected by quotas from 1932, and quotas on barley were in force from 1933 to 1935. In manufacturing, textile imports were largely subject to quotas. Among the raw materials, coal and coke

[74] To do this, we had to exclude a small number of goods (four in the Netherlands and two in the NEI) for which price data could not be computed.

**TABLE 2** Netherlands quotas per category as percentage of number of products and of 1928 import values.

| | **Panel A. Share of products covered by quotas** | | | | | | |
|---|---|---|---|---|---|---|---|
| | **1932** | **1933** | **1934** | **1935** | **1936** | **1937** | **1938** |
| Agriculture | 10% | 39% | 50% | 48% | 41% | 41% | 41% |
| Raw materials | 0% | 0% | 6% | 6% | 6% | 6% | 6% |
| Manufactures | 8% | 14% | 21% | 27% | 27% | 27% | 27% |
| Revenue goods | 0% | 0% | 0% | 0% | 22% | 8% | 0% |
| | **Panel B. Share of import values covered by quotas** | | | | | | |
| | **1932** | **1933** | **1934** | **1935** | **1936** | **1937** | **1938** |
| Agriculture | 3% | 17% | 25% | 25% | 12% | 11% | 11% |
| Raw materials | 0% | 0% | 28% | 28% | 28% | 28% | 28% |
| Manufactures | 10% | 16% | 23% | 28% | 26% | 26% | 26% |
| Revenue goods | 0% | 0% | 0% | 0% | 44% | 19% | 0% |

*Sources*: see text.

**TABLE 3** NEI quotas per category as percentage of number of products and 1928 import values.

| | **Panel A. Share of products covered by quotas** | | | | |
|---|---|---|---|---|---|
| | **1934** | **1935** | **1936** | **1937** | **1938** |
| Agriculture | 0% | 0% | 0% | 0% | 0% |
| Raw materials | 0% | 0% | 0% | 0% | 0% |
| Manufactures | 1% | 12% | 12% | 13% | 13% |
| Revenue goods | 0% | 0% | 0% | 0% | 0% |
| | **Panel B. Share of import values covered by quotas** | | | | |
| | **1934** | **1935** | **1936** | **1937** | **1938** |
| Agriculture | 0% | 0% | 0% | 0% | 0% |
| Raw materials | 0% | 0% | 0% | 0% | 0% |
| Manufactures | 16% | 49% | 49% | 53% | 53% |
| Revenue goods | 0% | 0% | 0% | 0% | 0% |

*Sources*: see text.

were important products falling under the quota system. For revenue goods, there were quotas on most forms of sugar in 1935 and 1936, and on coffee in 1936.

Quotas in the Netherlands Indies were concentrated on manufactures, especially textiles: in particular cotton manufactures, but also woollen and linen fabrics (table 3). There were also quotas on rubber products (such as tires), manufactured fertilizers, and light bulbs (to benefit the important Dutch manufacturer Philips).

## IV | DISCRIMINATION AND IMPERIAL PREFERENCE

First, we address discriminatory tariffs. After the United States left the gold standard in April 1933, both chambers of the Dutch parliament passed the 'Reprisal' Act in August 1933,[75] which

[75] Staatsblad 1933, No. 417.

**TABLE 4** Netherlands country quotas allocated to top 8 exporters.

| | As share of number of products subject to quotas (%) | | | | | As share of (1928-weighted) value of imports subject to quotas (%) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1934 | 1935 | 1936 | 1937 | 1938 | 1934 | 1935 | 1936 | 1937 | 1938 |
| Germany | 56 | 71 | 76 | 86 | 93 | 93 | 99 | 95 | 99 | 100 |
| Argentina | 2 | 2 | 4 | 10 | 11 | 0 | 0 | 92 | 93 | 95 |
| UK | 70 | 91 | 67 | 76 | 87 | 97 | 99 | 98 | 100 | 100 |
| UK* | 78 | 97 | 81 | 92 | 98 | 99 | 100 | 98 | 100 | 100 |
| USA | 4 | 16 | 37 | 53 | 60 | 6 | 7 | 66 | 54 | 87 |
| Belgium | 66 | 88 | 79 | 85 | 85 | 79 | 94 | 94 | 97 | 99 |
| NEI | 4 | 5 | 6 | 5 | 5 | 64 | 64 | 4 | 22 | 98 |
| France | 62 | 53 | 57 | 53 | 56 | 95 | 96 | 95 | 100 | 100 |
| Br. India | 0 | 0 | 3 | 5 | 5 | 0 | 0 | 4 | 4 | 4 |

*Note*: Countries are ranked in order of their importance in Dutch imports. These countries are the top 8 exporters to the Netherlands in both our sample and the aggregate Dutch trade statistics in 1928. *Sources*: see text.

**TABLE 5** NEI country quotas allocated to top eight exporters.

| | As share of number of products subject to quotas (%) | | | | | As share of (1928-weighted) value of imports subject to quotas (%) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1934 | 1935 | 1936 | 1937 | 1938 | 1934 | 1935 | 1936 | 1937 | 1938 |
| Netherlands | 100 | 74 | 74 | 75 | 75 | 100 | 98 | 98 | 98 | 98 |
| UK | 50 | 42 | 42 | 45 | 45 | 91 | 65 | 65 | 67 | 67 |
| USA | 0 | 16 | 16 | 20 | 20 | 0 | 14 | 14 | 53 | 53 |
| Japan | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Singapore | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Germany | 0 | 42 | 42 | 45 | 45 | 0 | 55 | 55 | 76 | 76 |
| Fr. Indochina | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Br. India | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

*Note*: Countries are ranked in order of their importance in NEI imports. These countries are the top eight exporters to the Netherlands in our sample in 1928. In the aggregate trade statistics, Australia emerges as a slightly more important exporter than French Indochina in that year. *Sources*: see text.

made it possible to discriminate between trade partners and allowed for higher tariffs or even import prohibitions for certain countries. However, this law was never put into practice: almost all countries with which the Netherlands traded, bar Russia, had a most favoured nation (MFN) agreement with the country (Online appendix D).

As we saw above, the quota system was explicitly discriminatory from 1934 onward, when country-specific quotas were introduced and rapidly became the norm. Which countries benefitted most from such arrangements? The Advice Commissions Archives and the *Handelsberichten* and *Economische voorlichting* provide information about which countries received Dutch quotas for particular products. We can thus calculate, for each country, the extent to which it benefitted from country-specific quota allocations.

Tables 4 and 5 do this for each of the top eight exporters to the Netherlands and the NEI in 1928. For example, in the Netherlands, 67 of 296 imported products faced quotas in 1936, representing 26.7 per cent of Dutch imports in 1928 (figure 5). Belgium received country quotas in 53 of these 67 products, or 79 per cent (table 4, left panel). These 53 goods accounted for 94 per cent of the (1928-weighted) value of Dutch imports of goods subject to quotas in 1936 (table 4, right panel). For the Netherlands, the UK appears twice. The first assigns quotas to the UK only when this was specifically reported in the sources; the second, labelled 'UK*', assigns a quota to the UK for all products facing country-specific quotas. The rationale for the second series is that the 1934 agreement between the UK and the Netherlands contained something akin to a 'most favoured nation' clause for quotas, implying that whenever the Netherlands allocated a quota for a particular product to one country, it would do the same for the UK.[76]

Table 4 highlights the extent to which the Netherlands' geographical neighbours – the UK, Germany, Belgium, and France – were favoured by such arrangements. In contrast, India and – strikingly – the NEI were barely allocated any quotas, although the products involved covered a reasonably high share of NEI imports in 1934 and 1935.[77] In contrast, the country-specific quotas allocated by the NEI heavily favoured the Netherlands, and to a minor extent, other Western countries, as presented in table 5. The only reason why the Dutch share of products receiving quotas between 1935 and 1938 was not 100 per cent is that quotas on the remaining products were general rather than country specific.

Regarding imperial preference, trade between the Netherlands and the NEI was considered to be trade between two separate countries. As previously noted, due to British pressure in the previous century there were no discriminatory tariffs implying imperial preference between the two, as was the case in the interwar British Empire. Furthermore, there was a clear imperial preference when it came to quotas, but as we saw above this was highly one sided. NEI quotas favoured the Netherlands, while the Dutch quota system barely favoured imports from the colony.[78] This is difficult to reconcile with descriptions of these policies as having been 'mutually beneficial'.[79]

Other policies did benefit the NEI. Rice and maize were monopoly goods (see section II), but imports from the NEI were not subject to monopoly fees, unlike imports from elsewhere. A 1937 decree prescribed that all foreign sugar imported into the Netherlands should come from the NEI. The difference between the NEI price and (cheaper) world market prices was paid from the government's Agricultural Crisis Fund to Dutch importers.[80] However, the Dutch government refrained from measures it regarded as excessively costly. There was some discussion of lower tariffs for Javanese rice, tea, and tobacco, but the proposal was rejected as 'too expensive' by the Ministry of Finance.[81] The Dutch government used a cheaper mechanism to benefit NEI exports, negotiating with the margarine industry so that the latter bought at least 60 per cent of their oil needs (including palm oil, coconut oil, palm pits, copra, soy beans, and ground nuts) from the NEI.[82]

[76] Lieftinck, 'Buitenlandsche handel', p. 19; NA 2.06.065, inv.no. 15. The UK* share of products is less than 100% because not all quotas were country-specific: see section II.

[77] The share then collapses in 1936 because quotas were introduced for sugar and coffee, with the NEI not receiving any country quotas for those goods.

[78] The only goods with quotas allocated to the NEI were rice (1934–8), chili saltpetre (1934–5), and jute objects (1935–6).

[79] Lieftinck, 'Buitenlandsche handel', p. 30.

[80] *Rapport van de Commissie van Advies*, p. 37.

[81] *Rapport van de Commissie van Advies*, p. 39. The rice tariff reduction was requested by J. van Gelderen in 1934. NA 2.06.065, inv. no. 139.

[82] *Rapport van de Commissie van Advies*, p. 40.

Thus, some of the most important stimuli to exports from the NEI in this period came from private firms, albeit at the behest of the government. In particular, the *Margarine Unie*, a predecessor of *Unilever*, was responsible for a significant portion of the increased share of NEI imports in the Netherlands. These measures primarily benefitted the Indo-European planter class in the NEI, rather than the Indonesian population, since in the 1930s palm oil and sugar were exclusively produced on Western-owned plantations.[83] The stimulus to copra and rice exports benefitted the Indonesian population, however.

## V | DUTCH PROTECTION IN COMPARATIVE PERSPECTIVE

How protectionist was the Dutch empire in a comparative perspective? Like the Netherlands, the UK had been a traditionally free-trading country. There was a sharp reversal in late 1931 and 1932, however, with substantial increases in the overall level of protection in the UK, accompanied by increasing tariff discrimination in favour of imports from the British Empire. A number of agricultural quotas and voluntary export restraints (VERs) were introduced, supposedly to serve the interests of 'the home producer first, Empire producers second, and foreign producers last'.[84] Despite a tradition of liberal trade policy, India started protecting infant industries in 1924, and from 1927 some tariffs discriminated in favour of British exporters.[85] Both the level of protection, and the extent of discrimination, increased after the onset of the Great Depression, and quantitative restrictions on Japanese cotton textiles were introduced in 1934.

Anderson and Neary have proposed a Trade Restrictiveness Index that can be used to compare the overall level of protection across countries and over time.[86] In brief, it is equal to the uniform ad valorem tariff that, if imposed on an economy in the absence of all other trade restrictions, would imply the same level of welfare as the existing configuration of tariff and non-tariff barriers to trade. Calculating the TRI thus requires a CGE model of the economy in question. Fortunately, if import demand curves are linear, the TRI can be approximated as:[87]

$$TRI = \left[ \frac{\sum_i s_i \varepsilon_i \tau_i^2}{\sum_i s_i \varepsilon_i} \right]^{1/2} \tag{1}$$

where $s_i$ represents imports of good $i$ expressed as a share of GDP; $\varepsilon_i$ is the elasticity of demand for good $i$; and $\tau_i$ is the ad valorem tariff on good $i$.

We compute this index for the Netherlands, NEI, United Kingdom, and India using the data on trade and trade policy described above (in the case of the first two), and by De Bromhead et al. and Arthi et al. (in the case of the latter two).[88] We do so using data for our 38 three-digit SITC categories, for every year for which we have data.[89] There are several issues that we have to

[83] Corley and Tinker, *The oil palm*; Touwen, *Extremes in the archipelago*.

[84] Richardson, *British economic foreign policy*, p. 138.

[85] Arthi et al., 'Deliberate surrender'.

[86] Anderson and Neary, *Measuring the restrictiveness*.

[87] Feenstra, 'Estimating the effects', p. 1562; Kee et al., 'Import demand elasticities', p. 677.

[88] De Bromhead et al., 'When Britain'; Arthi et al., 'Deliberate surrender'.

[89] All 38 categories were imported into the UK, while 37 were imported into the NEI and the Netherlands, as explained earlier. In India 35 of the categories were imported, the missing ones being fresh meats, eggs, and maize. For the UK and

address when calculating this index for our four countries. The first is that we have data on imports in our 38 three-digit SITC categories, broken down by country of origin.[90] Since one particularly important dimension of interwar protection was discrimination, we treat each national variety of a three-digit category as a separate good. In other words, the index $i$ in the equation above refers not to our 38 SITC categories, but to $38 \times c$ national varieties of goods, where $c$ is the number of countries of origin represented in our data for the country in question. Second, we only have data for a (large and representative) sample of goods, which does not account for the same proportion of total imports in all countries over time. When calculating $s_i$ in the formula above, we thus adjust the actual figure for gross domestic product (GDP) in the country and year in question down, so that our data match the actual import share of GDP. In other words, let $S$ be the total value of imports in our sample for a particular country and year, let $T$ be total imports taken from the official statistics, and let $GDP$ be the value of GDP.[91] We then calculate a scaled down value of GDP, $GDP^*$, such that $\frac{S}{GDP^*} = \frac{T}{GDP}$. If $m_i$ represents imports of variety $i$ in a particular country and year, we then calculate $s_i$ as $s_i = \frac{m_i}{GDP^*}$.

The third issue to be addressed is how to deal with quotas. Their impact will depend on the extent to which they raised domestic prices above their free trade levels; we consider a 'low' scenario in which a quota is equivalent to a 25 per cent ad valorem tariff, and a 'high' scenario in which it is equivalent to a 67 per cent tariff.[92] How should we deal with countries which received a specific country quota? At one extreme, such preferential treatment might have meant that their exports to the Netherlands or NEI were not constrained at all; in this case the ad valorem equivalent tariff would have been zero for them, and 25 per cent or 67 per cent for countries not awarded country quotas. We refer to this scenario below as the 'country quota' scenario. At the other extreme, receiving a country quota might not have helped at all; in this case the ad valorem equivalent tariff facing them would have been the same as for all other countries (i.e. 25 per cent or 67 per cent, as the case may be). We refer to this scenario as the 'general quota' scenario. There are thus four quota scenarios to be considered: country versus general; and high (67 per cent) versus low (25 per cent), and we compute TRIs for all four. For completeness we also compute a fifth TRI ignoring quotas, and only taking tariffs into account. Fourth and finally, we need to decide what elasticities to use. To maintain comparability across countries and over time, we follow Irwin and assume an elasticity value of $-2$ for all goods.[93]

Figure 7 plots our five TRIs for the Netherlands, as well as the weighted and unweighted average tariffs. As expected, average weighted tariffs are lowest, followed by unweighted average tariffs and the 'tariff-only' TRI. Protection really started to rise in 1932, and so did the gap between our TRIs and naïve average tariff measures. By 1934 the 'tariff-only' TRI stood at 22.5 per cent, as compared with a weighted average tariff of just 11 per cent. Including the impact of quotas, the TRI in 1934

the Netherlands we have data for 1924–38; for India we have data for 1923–37; and for the NEI, as explained earlier, we have data for 1928–38.

[90] We have data on 42 countries of origin for the UK and India; for the Netherlands we have 45 countries of origin, and for NEI we have 54.

[91] We take our GDP data from the following sources: the Netherlands: Den Bakker, 'Dutch interwar economy'; Netherlands Indies: Van der Eng, 'Long-term trends'. For the UK and India see De Bromhead et al., 'When Britain' and Arthi et al., 'Deliberate surrender'.

[92] This range corresponds to the range of values found in De Bromhead et al. 'When Britain' and Arthi et al. 'Deliberate surrender'. Nye, 'The myth', (p. 31) took a value of 50% for French nineteenth-century textile prohibitions.

[93] Irwin, 'Trade restrictiveness', pp. 127–8. As Irwin points out, when a single elasticity value is assumed, the TRI (as calculated above) is invariant to its value, since it is the covariance across goods between tariffs and elasticities that matters.

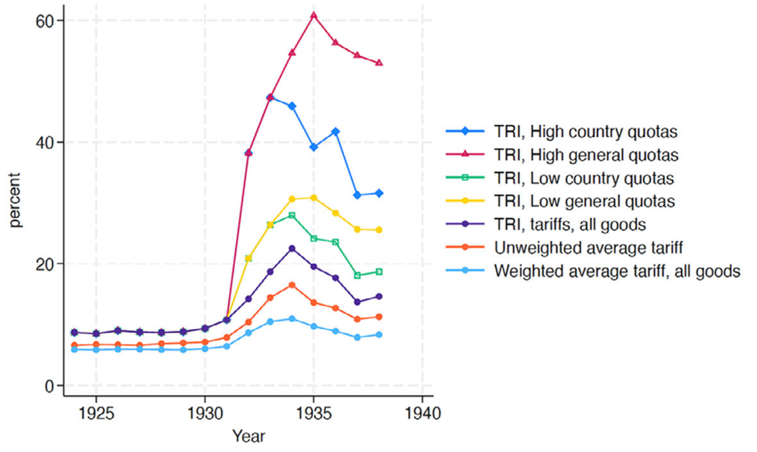


**FIGURE 7** Indices of Dutch protection. *Source*: see text. [Colour figure can be viewed at wileyonlinelibrary.com]

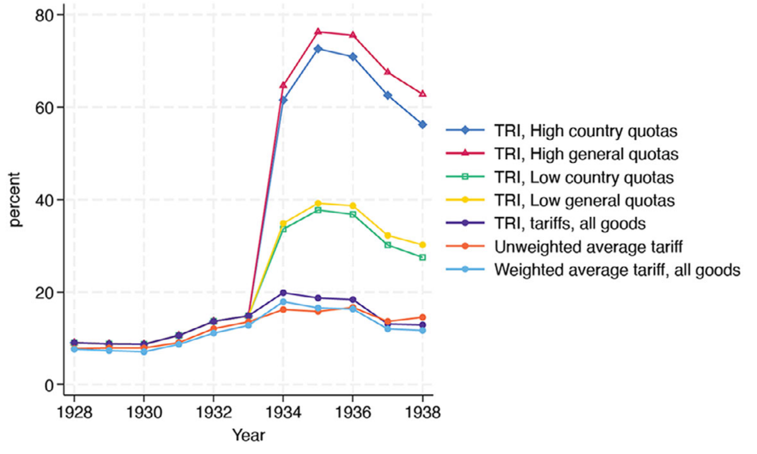


**FIGURE 8** Indices of NEI protection. *Source*: see text. [Colour figure can be viewed at wileyonlinelibrary.com]

varied between 28 per cent (in the 'low country quota' scenario) to a high of 54.6 per cent (in the 'high general quota' scenario). The latter peaked at 61 per cent in the following year.

Figure 8 considers the NEI experience. As we saw earlier, tariffs were higher than in the Netherlands, and the difference between average tariffs and the tariff-only TRI is smaller, with the three series falling in the 16–20 per cent range in 1934. Including quotas, the TRI ranged between 34 per cent and 65 per cent in the same year, and they reached 38–76 per cent in the following year. As can be seen, the TRIs are always higher under the 'general tariff' scenario, and so in what follows we take as our high and low estimates for these two countries the 'high general quota' and 'low country quota' scenarios.

Figure 9 compares protection in our four countries. The first thing that stands out immediately is that in the UK, the three TRI scenarios are virtually indistinguishable: although there were

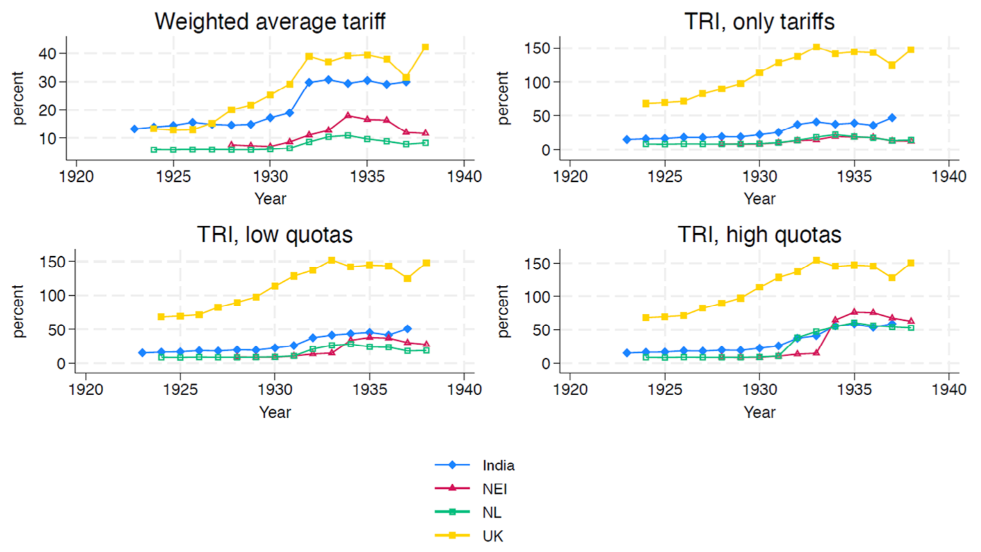


**FIGURE 9** Indices of protection in four countries. *Source*: see text. [Colour figure can be viewed at wileyonlinelibrary.com]

quotas and VERs in place there, these were few in number. The second thing that jumps out is how high the UK TRI is, even before the Depression: it stood at 68 per cent in 1924, rising to a peak of just over 150 per cent in 1933. According to this measure, the UK was clearly much more protectionist than the Netherlands throughout this period. If only tariffs are considered, India was more protectionist than the NEI. On the eve of the Depression, in 1928, the India 'tariff-only' TRI stood at 20 per cent, compared with the NEI figure of 9 per cent. By 1935 these numbers had jumped to 39 per cent and 19 per cent. India was also more protectionist under the 'low quota' scenario, with a TRI of 45 per cent in 1935 as opposed to 38 per cent in the NEI. Only under the 'high quota' scenario does the NEI appear to be more protectionist, with a 1935 TRI of 76 per cent as opposed to 58 per cent.

The very high TRI numbers for the UK, even in the 1920s, may strike readers as surprising: they are due to the very high revenue tariffs imposed on colonial goods such as tea and sugar.[94] Figure 10 therefore repeats the exercise but excludes these colonial goods. Once again, the NEI appears to be less protectionist than India under all but the 'high quota' scenario. The Netherlands and the UK TRI's are quite similar, however, except in the 'high quota' scenario in which the Netherlands clearly emerges as the more protectionist of the two.

In summary, levels of protection in the two empires seem to have been roughly comparable once quotas are taken into account, and (in the case of the UK) non-colonial goods are excluded from the analysis. The Dutch were not free traders during this period, nor were they unambiguously more protectionist than the British, as might have been expected given how long the Netherlands and NEI retained the gold standard. Their greater use of quotas is, however, consistent with Eichengreen and Irwin's argument that countries that stayed longer on the gold standard were more protectionist.[95]

[94] Nye, 'The myth'; Irwin, 'Free trade and protection'; O'Rourke, 'Measuring protection'.

[95] Eichengreen and Irwin, 'Slide to protectionism'.

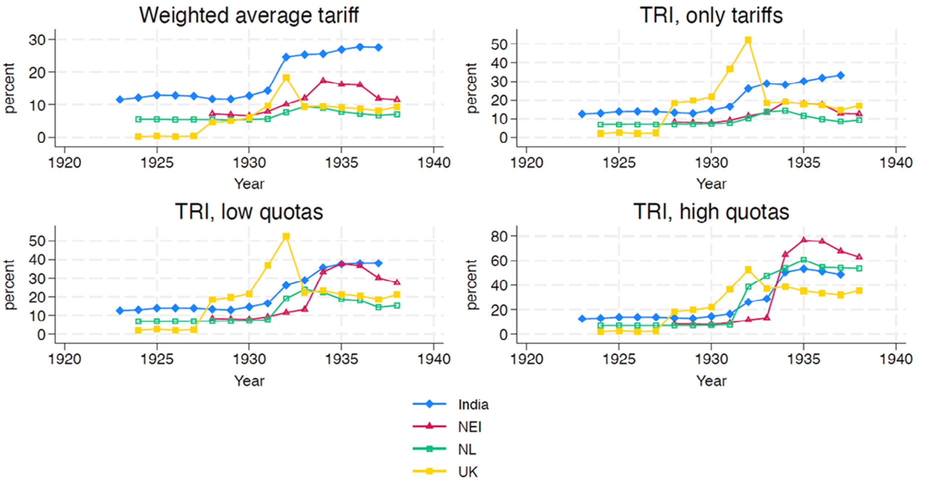


**FIGURE 10** Indices of protection in four countries: non-colonial goods only. *Source*: see text. [Colour figure can be viewed at wileyonlinelibrary.com]

## VI | WERE DUTCH TRADE POLICIES PROTECTIONIST?

The previous section suggests that it was quotas that were mainly responsible for the increase in Dutch and NEI protectionism during the 1930s: tariff increases were modest in comparison with those in the British Empire. It was also claimed at the time and subsequently that Dutch and NEI tariff increases were fiscally motivated.[96] A parliamentary report summarizing the debate on the 1931 law noted that some members of parliament could agree with it 'because it does not lead to protection' and 'tariff increases are legitimate' because of the need for revenue.[97] Nonetheless, such claims regarding the purely fiscal aims of the 1931 tariff need to be treated with caution, since (for example) beef tariffs were doubled, presumably as a result of agricultural lobbying.[98] Indeed, this point was made at the time by some members of parliament.[99] In sharp contrast, necessary inputs for industry, such as raw cotton and silk, remained untaxed throughout.

Non-tariff barriers to trade were clearly designed to be protectionist. Official government publications on the Dutch quota system outlined the protectionist aims of these measures[100] and assessed the extent to which production and employment in the affected industries increased in consequence. The Dutch monopoly system aimed to maintain agricultural prices by insulating them from cheap imports, and was thus clearly protectionist. In the NEI, country quotas aimed to maintain the NEI market for Dutch goods.[101] Both the loss of market share to Japan in cotton textiles, and the Japanese practice of trading only via Japanese (rather than Dutch) merchants

[96] Blaisse, *Nederlandse handelspolitiek*, pp. 204–210; Brugmans, *Paardenkracht*, pp. 522–523; Van Schaik, 'Crisis en protectie', pp. 60–61. See the Minister of Finance, D.J. de Geer's, 'Note of explanation' accompanying the new tariff law of 1931. Tweede Kamer, 1931–2, Kamerstuk 137, no. 3.

[97] Tweede Kamer, 1931–32, Kamerstuk 137, no. 4, p. 3.

[98] Van Schaik, 'Crisis en protectie', p. 232.

[99] Tweede Kamer, 1931–32, Kamerstuk 137, no. 4, p. 3.

[100] *Nota* 1932, 1934, 1936, 1939.

[101] Van Gelderen, Recent development; Kagotani, 'Japan's commercial penetration'.

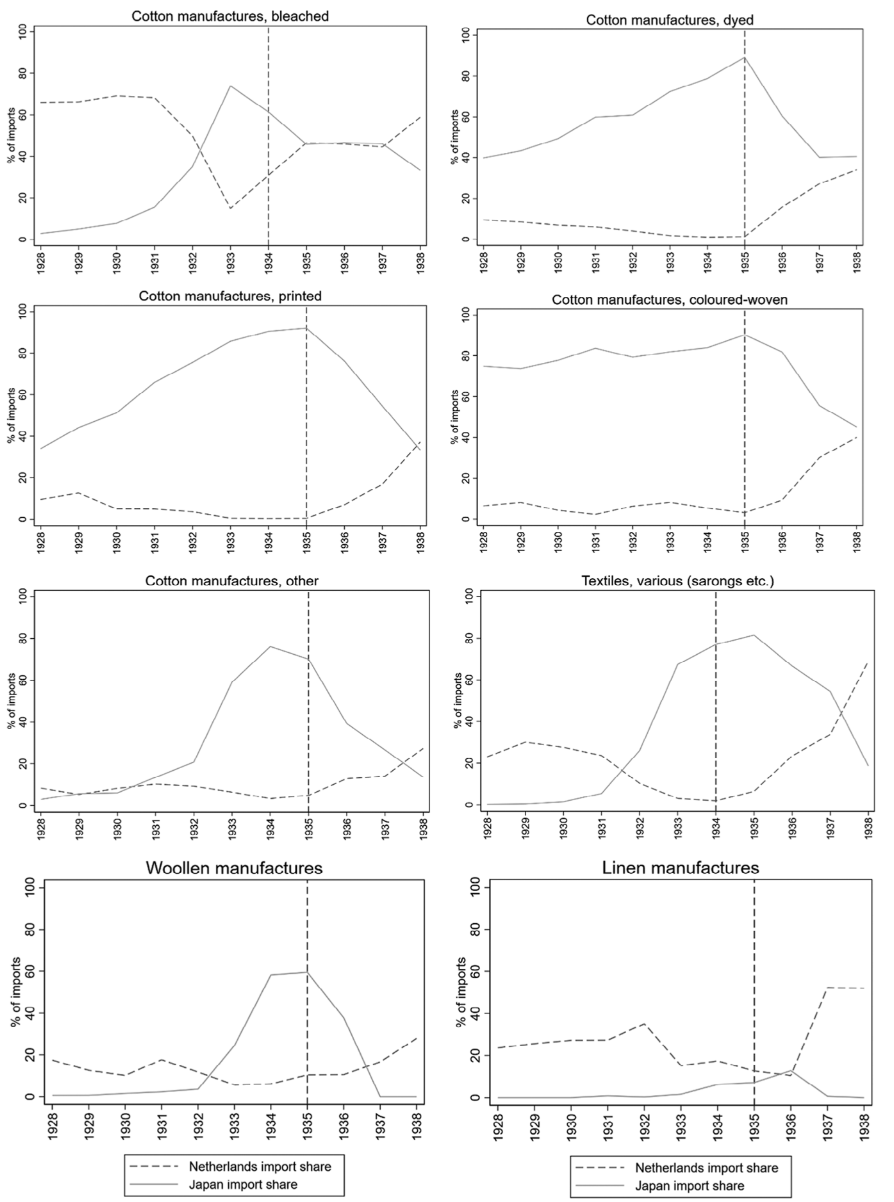


**FIGURE 11** Dutch and Japanese shares of NEI imports: textiles with country-specific quotas. *Sources*: see text. Dashed vertical line = year of introduction of country quotas.

were a cause for concern among the Dutch.[102] To what extent did discriminatory NEI quotas succeed in halting this 'Japanese penetration'?[103]

Figure 11 plots the Dutch and Japanese import shares for eight textiles subject to country quotas. In each case the vertical dashed line indicates when country quotas favouring the Netherlands

[102] Kagotani, 'Japan's commercial penetration'.

[103] Alexanderson, *Subversive seas*, p. 210.

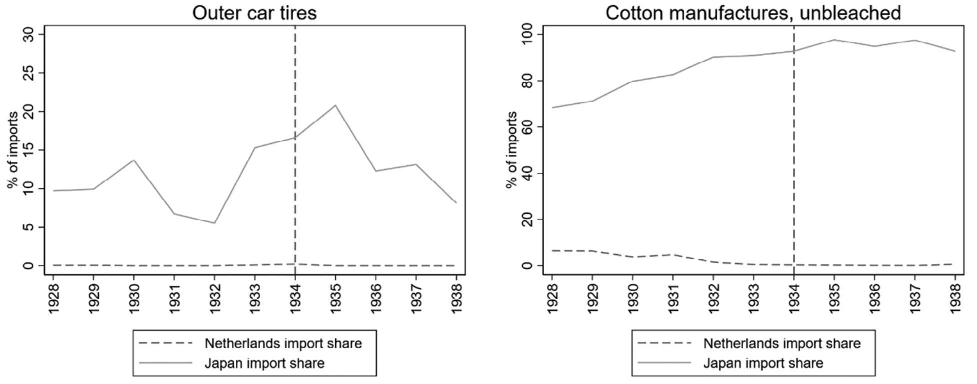


**FIGURE 12** Dutch and Japanese shares of NEI imports: products with general quotas. *Sources*: see text. Dashed vertical line = year of introduction of general quotas.

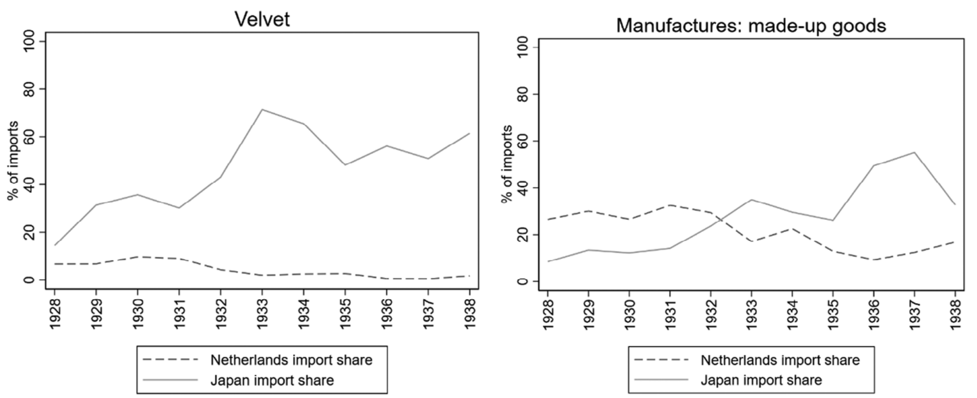


**FIGURE 13** Dutch and Japanese shares of NEI imports: products without quotas. *Sources*: see text.

were introduced. As can be seen, the quotas seem to have been highly effective. During the late 1920s and early 1930s, Japanese import shares substantially increased, but once country-specific quotas were implemented (in either 1934 or 1935) they rapidly declined, while Dutch shares rose. Taking dyed cotton manufactures as an example, the Japanese share fell from 90 per cent to 40 per cent in the first 2 years after the implementation of the quota, while the Dutch share increased from 1 per cent to roughly 30 per cent. In the case of printed cotton manufactures, the Japanese share declined from 92 per cent to 33 per cent while the Dutch share rose from 0 per cent to 37 per cent.

Figures 12 and 13 provide suggestive evidence that the trends in figure 10 were indeed due to country quotas, plotting Japanese and Dutch import shares for two goods subject to general, as opposed to country-specific, quotas (figure 12) or not subject to quotas at all (figure 13). Figure 12 does show a decline in the Japanese share of rubber car tyre imports, but in contrast to figure 11, the Dutch share does not increase. Figure 12 also plots import shares for unbleached cotton textiles, a category representing the best possible comparison with the textiles plotted in figure 11. Strikingly, the Japanese share of imports continued rising, while, if anything, the Dutch share continued to fall. Figure 13 shows that the Japanese share of velvet imports continued to increase after 1935, while the Dutch share remained negligible. Something similar can be observed for made-up ('*afgepaste*') textiles. Taken together, figures 11–13 suggest that discriminatory quotas in the NEI were highly effective in boosting Dutch exports to the colony at the expense of Japan.

## VII | CONCLUSION

The Netherlands of the nineteenth and early twentieth centuries is generally viewed as a champion of free trade. This paper has investigated the changing trade policies of the Netherlands and the NEI during the Great Depression using a new database of tariff and non-tariff barriers to trade for a large and representative sample of products, and compared these with those of the UK and India.

The overall tariff rise was relatively modest in a comparative perspective: to take a non-British example, average US tariffs rose to over 40 per cent during this period.[104] Comparisons of TRIs based only on tariff data suggest lower protectionism in the Netherlands and NEI than in the UK and India, respectively. Nevertheless, average tariffs in both the Netherlands and NEI roughly doubled between 1929 and 1934. A substantial share of the NEI increase was due to levying temporary surcharges on virtually all imported goods between 1932 and 1936. In the Netherlands, much of the increase was driven by a relatively small range of goods facing specific tariffs. In addition, deflation was responsible for about half of the increase in Dutch tariffs between 1928 and 1936. Moreover, these price changes also drove much, if not all, of the increased variation in tariffs across all product categories after 1930. While some tariffs targeted particular sectors, especially in agriculture, the increased dispersion of Dutch tariffs during this period was due more to deflation than protectionism.

Nevertheless, Dutch 'free traders' did not entirely shy away from protectionism: quotas targeted particular products and protected particular sectors. While Dutch rhetoric remained liberal, our data suggest that the Dutch government actively protected Dutch agriculture and the textile industry. Dutch agriculture, in particular dairy and livestock farming, benefitted from some of the highest tariff increases, while the importation of agricultural goods was entirely monopolized by the government. Dutch industry, especially textiles, benefitted from comparatively low tariffs on industrial inputs, as well as the quota system in the NEI, which was largely geared to creating a market for Dutch manufactures. The protectionist purpose of these quotas was achieved: textile categories with country quotas saw a sharp rise in the Dutch share of imports and an equally significant decline in the Japanese share. Such trends are absent from goods facing general quotas or no quotas at all. Taking quotas into account, Dutch and NEI trade policy appears to be quite protectionist: under our 'high quota' scenario, the NEI was more protectionist than India in the mid-1930s, and if we exclude colonial goods the same was true of the Netherlands vis à vis the UK.

While the metropole benefitted from the quota system in the NEI, the reverse was not the case. Only a few NEI goods obtained country-specific quotas in the Netherlands. While some Dutch measures stimulated imports of NEI rice, maize, sugar, palm oil, and copra, these were minor in comparison with the benefits granted to Dutch textile exporters in the NEI. Our data thus support the views of Indonesian members of the *Volksraad* at the time, echoed in Wirodihardjo, according to which Dutch trade policies benefitted the metropole rather than its largest colony.[105] However,

[104] Crucini, 'Sources of variation'.

[105] Wirodihardjo, *Contingenteeringspolitiek*.

this judgement comes with an important disclaimer: separate evidence suggests that the NEI quota system also facilitated the rapid growth of a partially mechanized cotton manufacturing industry in Indonesia.[106]

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[106] Van der Eng, 'Why didn't colonial Indonesia'; ibid., 'Government promotion'; Wirodihardjo, 'Contingenteeringspolitiek'.

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