State building in the colonial era: Public revenue, expenditure and borrowing patterns in the Cape Colony, 1820-1910

by

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Dissertation presented for the degree of Doctor of Philosophy (Economics)

in the Faculty of Economics and Management Sciences

at the University of Stellenbosch

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The financial assistance of the National Research Foundation (NRF) towards this research is hereby acknowledged. Opinions expressed and conclusions arrived at are those of the author and not necessarily to be attributed to the NRF.

March 2018

DECLARATION

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ABSTRACT

We now know that state formation experiences outside Europe were not merely attenuated or failed versions of the European experiences (Herbst, 2000; Hoffman, 2015; Johnson and Koyama, 2016). The diverse paths taken towards the modern state imply that existing knowledge on state formation processes can be enhanced by integrating the experiences of Africa and other developing regions. This dissertation investigates colonial state formation in the British Cape Colony from 1820-1910, a period which saw the consolidation of British rule as well as the discovery of diamonds and gold in the region. The history of the Cape Colony adds a new dimension to accounts of colonial state formation in the 19th century, which are usually based on the experiences of New Zealand, Australia and Canada rather than those of Africa and other developing regions. The history of how the Cape Colony coped with the opportunities and challenges of mineral discoveries also has wide implications for debates on the interaction between mineral resources and institutions. The literature argues that the existing institutional structure shapes prospects for either prosperity or decline in the wake of discovering a resource. The discovery of diamonds in 1867 occurred during the early decades of self-governance at the Cape and the subsequent consolidation of political and economic institutions was heavily influenced by diamond mining as a major source of economic rents.

Given that budgets are the 'skeleton of the state stripped of all misleading ideologies', as Goldscheid famously asserted, the study investigates the fledgling colonial state through the Cape Colony's revenue policies, expenditure priorities and public borrowing patterns. The study contributes to the body of knowledge on the 19th century colonial state by presenting and analysing data on the revenue, expenditure and borrowing patterns of the Cape Colony (the data are contained in Appendices A, B and C). Further, it combines the quantitative data with archival records from the Cape Archives, South African Library, Stellenbosch Library and the British National Archives in Kew (United Kingdom). Budget speeches, debates, and other qualitative material help to contextualize trends in the quantitative data and make them intelligible. By combining these two types of discourse, this dissertation adds a new in-depth case study to research on South African economic history, African colonial states and imperial history in general.

On the revenue side, the salience of customs revenue was established as a major form of indirect taxes. The second most important revenue item was railway earnings from the state-owned railway system. These two major sources of public revenue formed the backbone of the Cape Colony's fiscal capacity development. The tax structure meant heavy burdens for the poor, mainly black Africans, while the available evidence suggests that private interest groups resisted taxes successfully. By the end of its existence, the Cape was in dire circumstances with high public debt and diminishing revenues. This was because the growing rivalry with neighbouring colonies meant that customs revenues and railway earnings dwindled in the Cape as trade was captured by other colonies. The expenditure side was dominated by the elite-driven railway construction that primarily served the mining interests at the expense of all other sectors. Education and other social

spending remained at the periphery of public expenditure while debt-driven and railway-centred infrastructure development took centre stage from the late 1870s when the Cape had attained self-governance and responsible governance. The discovery of diamonds proved to be the major positive economic shock that pushed the Cape economy and therefore public finances to a higher equilibrium. The businessmen with mining interests steered the government towards policies or actions beneficial to their interests through legislation that prevented direct taxation on them. This group with mining interests steered the government's public finance policies to revolve around mining promotion. This shaped what this study characterises as a minerals-railway-complex (MRC). The MRC encapsulates the nature of the state-business informal coalition that determined not only the public finance patterns but also the pattern of economic industrialisation during the Cape's existence. The 19th century business environment, with weak state institutions, meant that public finance policies were distorted to serve the interests of the political and economic elite.

OPSOMMING

Dat staatsvormingservarings buite Europa nie bloot verswakte of mislukte weergawes van Europese ervarings was nie, het onlangs erkenning verkry (Herbst, 2000; Hoffman, 2015; Johnson and Koyama, 2016). Die verskillende roetes wat tot die moderne staat gelei het, impliseer dat bestaande kennis van staatsvormingsprosesse uitgebrei kan word deur die ervarings van Afrika en ander ontwikkelende streke in berekening te bring. Hierdie proefskrif ondersoek koloniale staatsvorming in die Britse Kaapkolonie van 1820-1910, 'n tydperk wat die konsolidasie van Britse heerskappy sowel as die ontdekking van diamante en goud in die gebied ervaar het. Die geskiedenis van die Kaapkolonie voeg 'n nuwe dimensie toe aan verslae oor koloniale staatsvorming in die 19de eeu, wat gewoonlik op die ervarings van Nieu-Seeland, Australië en Kanada gebaseer is, eerder as dié van Afrika en ander ontwikkelende gebiede. Die geskiedenis van hoe die Kaapkolonie die geleenthede en uitdagings van minerale-ontdekkings hanteer het, het ook wye implikasies vir debatte oor die interaksie tussen minerale hulpbronne en instellings. Die literatuur beweer dat die bestaande institusionele struktuur vooruitsigte vir welvaart óf agteruitgang in die nasleep van die ontdekking van 'n hulpbron vorm. Die ontdekking van diamante in 1867 het gedurende die vroeë dekades van selfbestuur aan die Kaap plaasgevind en die daaropvolgende konsolidasie van politieke en ekonomiese instellings is wesenlik deur diamantmynbou as 'n belangrike bron van ekonomiese gewin beïnvloed.

Gegewe dat begrotings, soos Goldscheid welbekend beweer het, die 'skelet van die staat is wat van alle misleidende ideologieë gestroop is', word die jong koloniale staat in die studie deur middel van die Kaapkolonie se inkomstebeleid, uitgaweprioriteite en openbare leningspatrone ondersoek. Die studie maak 'n bydrae tot kennis oor die negentiende eeuse koloniale staat deur statistiek oor die inkomste-, uitgawe- en leningspatrone van die Kaapkolonie te verskaf en dit te ontleed (Bylaes A, B en C bevat die statistiek). Verder kombineer dit kwantitatiewe data met argiefrekords vanuit die Kaapse Argief, die Suid-Afrikaanse Biblioteek, Stellenbosch Biblioteek en die Britse Nasionale Argief in Kew (Verenigde Koninkryk). Begrotingstoesprake, debatte en ander kwalitatiewe materiaal help om tendense in die kwantitatiewe data te kontekstualiseer en verstaanbaar te maak. Deur hierdie twee tipes diskoers te kombineer, voeg hierdie proefskrif 'n nuwe deurdringende gevallestudie by tot navorsing oor Suid-Afrikaanse ekonomiese geskiedenis, Afrika-koloniale state en imperiale geskiedenis in die algemeen.

Aan die inkomstekant is die belangrikheid van doeane-inkomste as 'n belangrike vorm van indirekte belasting bevestig. Die tweede belangrikste inkomste was die spoorwegverdienste van die staatsbeheerde spoorwegstelsel. Hierdie aansienlike bronne van openbare inkomste het die ruggraat van die Kaapkolonie se fiskale kapasiteitsontwikkeling gevorm. Die belastingstruktuur het swaarder laste vir die armes, hoofsaaklik swart Afrikane, beteken, terwyl die beskikbare getuienis daarop dui dat privaatbelangegroepe belasting suksesvol teengestaan het. Teen die einde van sy bestaan was die Kaap in ‘n haglike toestand met hoë openbare skuld en dalende inkomste. Dit was omdat toenemende mededinging met omliggende kolonies beteken het dat doeane-

inkomste en spoorwegverdienste in die Kaap afgeneem het, daar handel deur ander kolonies oorgeneem is. Die uitgawekant is oorheers deur die elite-gedrewe spoorwegkonstruksie wat hoofsaaklik mynboubelange ten koste van alle ander sektore gedien het. Onderwys en ander maatskaplike besteding het aan die rand van openbare uitgawes gebly, terwyl skuldgedrewe en spoorweggesentreerde infrastruktuur-ontwikkeling vanaf die laat 1870's die vernaamste posisie ingeneem het toe die Kaap selfbestuur en verantwoordelike bestuur verkry het. Die ontdekking van diamante was die belangrikste positiewe ekonomiese hupstoot wat ’n hoër mate van ewewig aan die Kaapse ekonomie en dus aan openbare finansies besorg het. Sakelui met mynbelange het die regering in die rigting gestuur van beleid of handelinge wat hul eie belange deur wetgewing bevoordeel het, en hulle van direkte belasting vrygestel het. Hierdie groep met mynbelange het die regering se beleid oor openbare finansies om mynboubevordering te draai. Dit het vorm gegee aan wat in hierdie studie as 'n minerale-spoorweg-netwerk, ’n “minerals-railway-complex” (*MRC*), bestempel word. Die 19de-eeuse besigheidsomgewing met swak staatsinstellings het meegebring dat beleid betreffende openbare finansies verdraai is om die belange van die politieke en ekonomiese elite te dien.

ACKNOWLEDGEMENTS

First, and most important, is my gratitude to God, the father of my Lord Jesus Christ, who has given me life and sufficiency to go through this PhD project and all other previous academic and non-academic endeavours.

I am grateful for the Graduate School of Management and Economic Sciences' (GEM) PhD funding from 2015 to 2017. I also want to express my gratitude to the National Research Foundation (NRF) for their Innovation Doctoral funding which I obtained for 2016 and 2017. I am grateful for NRF's travelling grant that enabled me to go and do archival research at the British National Archives in London, United Kingdom, between 18 May and 30 June 2016. I am also grateful to the Laboratory for the Economics of Africa's Past (LEAP) and the Stellenbosch Economic Department for travel support when I attended conferences where valuable feedback was obtained. The actual PhD dissertation was possible thanks to the guidance of Dr Franz Krige Siebrits who was meticulous in shaping the ideas from the early stages as well as guiding the progress of the work. Chapter by chapter and line by line, his comments and editorial inputs are greatly appreciated. I am also grateful for the guidance and support from my co-supervisors, Prof Johan Fourie and Dr Leigh Gardner (LSE), with the direction of the research and the supply of relevant comments and resources that made this PhD successful.

The work-in-progress for this dissertation was presented at various local and international conferences where valuable input was obtained. These conferences include: the African Economic History Network (Wageningen University-Netherlands, Stellenbosch University-South Africa), Colonial Fiscal States in Africa and Asia (School of Oriental and African Studies), Social Science History Association (Chicago), African economic development (Centre for the Study of African Economies-Oxford University), Decolonising Africa (Bloemfontein –South Africa), Economic History Seminar (London School of Economics). I am particularly grateful for the feedback and comments from Ewout Frankema, Noel D. Johnson, Erik Green, Martin Isaac and Anthony G. Hopkins. While their comments were helpful in shaping ideas in the dissertation, all remaining errors are mine.

I am also thankful to my wife, Kudzai, for her talented support and love throughout the process of my studies, especially as she managed the burden of carrying our first son, Christian-T, during the study period. I am grateful to her for dealing successfully with the intrusive presence of this project in our home and almost everywhere we went together. My colleagues in the Graduate School of Economics and Management Sciences (GEM) and LEAP have been very supportive through their feedback in our weekly seminars. My parents, brothers and sisters have been very supportive as well throughout the journey as they patiently waited for me to finish my studies. I dedicate this PhD dissertation to my father, Phillip Gwaendepi, who, regardless of his humble means, understood the value of education and strove to do all he could to send me, my brothers and sisters to school.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

CHAPTER 1: INTRODUCTION

> In contrast to a recent focus on the clinical role of economists in designing experiments that enable the evaluation of micro-level policy interventions, shifting the spotlight to state capacity obliges economists to engage with the wider concerns of social scientists in questions of state formation and political order, questions which are invariably illuminated by a knowledge and understanding of history (Johnson and Koyama, 2016, p. 3).

1.1 Research background

The dust has not settled as far as concrete conceptualisation of states is concerned. As Hoffman (2015, p. 303) put in: "We do not really understand how states arise in the first place and how they gain the ability to tax". Although he referred to states in general, his statement is most relevant for the developing regions. Very little theorising has been done for these regions. As it stands, however, literature on state formation in developing regions can be divided into two broad strands. The first strand of literature focuses on the European states as ideal-types through which states in general can be understood (Bonney, 1999b; O'Brien, 2012; Acemoglu and Robinson, 2016). The second strand acknowledges that the variants of states in the developing world should not be premised on the European archetypes but should be understood differently (Tilly, 1990; Herbst, 2000; Hoffman, 2015; Johnson and Koyama, 2016). This implies that state formation processes in the developing world should be subjected to further investigation.

Colonialism can be regarded as a shock, whether positive or negative, in the long term processes of state building in the developing world. This study directly deals with colonial states and confronts writings which downplay colonialism in the process of state formation in the long run. For instance Herbst (2000, p. 4) argues that "it was impossible for the Europeans to have changed everything in the few decades that they ruled Africa. They also had to take Africa's political geography as a given because they were unwilling and unable to change the landscape." This view contradicts writings which argue that colonialism altered the course of economic development in the developing world (Acemoglu, Johnson, & Robinson, 2012; Heldring & Robinson, 2012; Mamdani, 2005; Nunn, 2007; Nunn & Wantchekon, 2011). Hence, knowledge of the colonial period is essential for understanding state formation in the developing world. Slavery, occupation, dispossession and many forms of exploitation (of people and resources) that took place imply that colonialism affected the formation and nature of the state that ultimately emerged. In Africa, post-colonial states have been accused of being irresponsible and largely indebted because of a general lack of fiscal foresight and outright corruption (Bates, 2008). Other voices have argued that the colonial history and the process of historical change are important in understanding modern challenges and the prospects of states in Africa (Cooper, 2002; Mamdani, 2005; Mkandawire, 2010). This dissertation emphasizes, by focusing on the Cape Colony's experience in the 19th century, that colonial history is fundamental in understanding long run state formation processes in previously colonised developing countries.

By chronicling change over time the study overcomes pitfalls of broad historical comparisons in which many simplifying assumptions have to be made. As a complex phenomenon, state formation can be understood fully by building evidence through case by case analysis. For instance, after using a case by case approach to seek general trends in the evolution of state formation in Europe, Johnson and Koyama (2016, p. 15) argue that, "in order to fully understand the evolution of modern states and the relationship between state building and economic growth, 'decompressing' history is important." The 19th century Cape Colony was the most important settler colony on the African continent (De Zwart, 2011; Gilbert, 1933; Marks, 1980). Given that the budget is the 'skeleton of the state stripped of all misleading ideologies', as Goldscheid has famously asserted, the study investigates the fledgling colonial state through the Cape Colony's revenue policies, expenditure priorities and public borrowing patterns.

1.2 Research agenda and contribution

Historians have often dismissed the nineteenth-century Cape Colony as a mere garrison colony or half-way house to the East, servicing Britain's commercial and imperial interests. This view reflected, at least in part, the tendency of British imperial authorities to treat the Cape Colony as a strategic outpost during early days of occupation. It inevitably filtered into the academic research over the years and, until recently, the understanding of the colony hardly went beyond its salience as a refreshment station on an important sea route. As a result, there are gaps in our knowledge about the British Cape Colony from 1806 to 1910. Under the Dutch East India Company, from 1652 to about 1806 when the British took over, public revenue and expenditures largely served the interests of the Dutch East India Company (VOC) (Fourie, Jansen, & Siebrits, 2013). Under British rule, however, its revenues grew rapidly. The development of such 'substantial permanent taxation', a defining feature of state formation, over this period means that the detailed study of the colony's fiscal history from 1820 to 1910 can provide valuable insights into the processes of state formation under colonial rule, with important implications for the international literature.

Within South African economic history, diamond and gold mining were central to economic development in the nineteenth century (De Kiewiet, 1957). To understand state formation, however, it is important to consider the period prior to the discovery of minerals because state formation is a long process and initial conditions are important (Dincecco, 2015; Johnson and Koyama, 2016). For the Cape Colony, institutional antecedents from the pre-diamond discovery period are important for how the state became organised. There was immigration of about 4000 British settlers in 1820, the so-called 1820 settlers, who, together with a garrison of about 5000 solders, joined the diverse population of the Colony, composed at that date of black Africans, coloured, Dutch settlers and other Europeans mainly from Germany and France. The arrival of the British settlers set in motion a state building process that eventually incorporated a democratic ethos after 1854 when self-governance was granted. The discovery of diamonds in 1867 transformed the colony's economy in a manner that the prevailing institutional structure permitted. Political changes became influential for fiscal policies pursued by the colonial state. This dissertation interrogates how the economic windfalls resulting from the mineral discoveries influenced the state formation process. This also has wider implications for literature on natural resources and institutions (Gelb, 1988; Mehlum, Moene, & Torvik, 2005; Torvik, 2001; Wenar, 2008).

The discovery of diamonds, migration of settlers to the Cape and political transition make the Cape an interesting case with valuable lessons for understanding state formation and the implications of mineral discovery on existing institutions. Good (1976, p. 601), for instance, argues that the discovery of diamonds in 1867 changed the Colony from 'a mere half-way house to India into a developing powerhouse and a true cornerstone of the empire'. Marks (1980, p. 1) argues that in the nineteenth century the Colony was "probably the most important, most populous and wealthiest British colony in Africa". According to McCracken (1967, p. 8), the Colony's administration and general institutional configuration were modelled on developments in New South Wales and Canada and were very much in the same league as those of the main British dominions. This makes the Colony's absence from many studies that group New Zealand, Canada and Australia as important self-governing colonies or dominions unjustifiable.[1]

This dissertation provides, for the first time, comprehensive accounts of the yearly public revenues, expenditures and public debt of the Cape Colony from 1820-1910. Other colonies in the eighteenth and nineteenth centuries, such as those in the Americas, New Zealand and Australia, have been well documented on the fiscal front. Sokoloff and Zolt (2007, p. 102), for instance, have shown that North America and Canada had high property taxes (for instance accounting for between 76 and 87% of total government revenue in Massachusetts) and that Latin America's large farm-owning elites resisted property taxes. By revealing the full details for the Cape Colony (what was taxed directly and indirectly, and who was taxed, with the accompanying progressive or regressive implications of the tax system, and various expenditure outlays), this study makes it possible to determine per capita tax levels over time and to document the colonial state's commitment to its various roles, such as public education, health and infrastructure.

This study will directly contribute to what Lindert terms the "promising frontier effort of Kenneth Sokoloff's unfinished work, with Eric Zolt, on how inequality of power has shaped the institutions of taxation" (Lindert, 2011, p. 369). Sokoloff, working with Engerman and Zolt, investigated in various studies how factor endowments and the concentration of political power created initial conditions that had a long-term effect on economic development in the Americas (Engerman & Sokoloff, 1994; Sokoloff & Engerman, 2000b; Sokoloff & Zolt, 2007). Their far-reaching general observation is that the British imperial authorities encouraged immigration into North America and Canada, while colonial authorities in South America, mainly in Spanish America, restricted immigration. According to Sokoloff and Zolt (2007, p. 86), North America and Canada

[1] Colonial territories were divided into two main groups. This was aptly summarised by Accominotti *et al.* (2010, p.64) when they argued that "India, Ceylon, Jamaica and other dependent colonies were slave nations, owed nothing and did not grow. Australia, New Zealand and Canada were heavy borrowers, governed themselves and developed." Responsible government was a step further from self-governing because the government became responsible and the top executive was answerable to the members of parliament and could be forced to resign in the event of misconduct or failure to uphold the constitution.

were unique in that “their factor endowments predisposed them toward paths of development with relative equality and population homogeneity”.

The 1820 settlers make the Cape Colony a fertile ground for extending the studies by Sokoloff and his colleagues. The Cape Colony was the most demographically diverse of all dominions and when these settlers came, a *modus vivendi* had to be found for governing a colony where race and class antagonism were soon to be strong.[2] As Sokoloff and Zolt (2007, p. 131) acknowledge, inequality amongst citizens makes progressive tax structures difficult to design. In the Cape Colony, inequality and social stratification were of a racial nature. When the Union of South Africa was formed in 1910, parliamentary institutions of the Colony were simply bequeathed to the union, with three-quarters of the legislators having served in the Colony’s parliament[3] (Kilpin, 1930, p. 111). Thus, twentieth-century South Africa grew directly out of the state institutional antecedents of the nineteenth-century Cape Colony – antecedents which to date have been insufficiently studied. Compared to other African countries, the relative success of industrialisation in the first half of the 20th century in South Africa was built upon the 19th century developments of which the Cape was a major contributor.

In summary, this study is important for three reasons. Most importantly, it will be the first study of pre-1910 South Africa on the fiscal front. Previous studies have focused largely on social history, from such perspectives as Afrikaner nationalism, British settlers or colonialism. In recent years, quantitative economic history research has achieved traction and various studies have explored different aspects of the Cape before it became a British colony (1652 to 1795) (Fourie, 2013, 2014; Fourie *et al*., 2013; Fourie & Van Zanden, 2013). Secondly, this dissertation will illuminate the role of the biggest settler colony of the British Empire on the African continent. Most studies of fiscal history and colonial state formation in British and French colonies have not focused on the Cape Colony (for example see Frankema, 2011; Gardner, 2012; Frankema and van Waijenburg, 2014; Huillery, 2014; Van Waijenburg, 2015). These studies mainly focus on the 20th century

[2] Visser (2004) argued that some scholars have told the history of South Africa as “the story of conflict between Afrikaner nationalism, on the one hand, and British imperialism and black barbarism (sic), on the other”. What embittered the Afrikaners was the fact that they felt they were regarded as an inferior race by the British authorities at the Cape; this would lead them towards a strong drive towards Afrikaner nationalism (Giliomee, 2014, p. 226).

[3] This is supported by Davenport (1978, p. 75) who argued that after the Union of South Africa was formed in 1910 “forms of government adopted by the union were a much closer reflection of British than the Voortrekker institutions”.

while the process of colonial state formation in the Cape Colony took place during the nineteenth century. Thirdly, this dissertation examines how British imperial policies influenced fiscal developments in its dominions in general. According to Davis and Huttenback (1986, p. 7), the Empire's overseas territories developed largely in an *ad hoc* manner. This makes the neglected Cape Colony worth studying.

It follows from these reasons that the study makes a contribution to debates emanating from three strands of literature. The first strand is on the role of institutions in the economic development of colonies with diverse natural resource endowments (Acemoglu, Johnson, & Robinson, 2001; Acemoglu & Robinson, 2016; Engerman & Sokoloff, 1994; Sokoloff & Engerman, 2000b). Given the centrality of the diamond mining industry in the Cape economy, the study brings new insights into this broad literature by focussing on how public finance institutions evolved before and after the discovery of diamonds. Natural resource endowment has been recognised as central to how political and economic institutions evolve leading to favourable or unfavourable economic outcomes (Mehlum *et al*., 2005). In the wake of resources discovery, the prevailing institutions matter for the prosperity or decline of a nation. As a result, certain terminology was borrowed from this literature and the key phrases used when referring to institutions are 'extractive' and 'inclusive'. According to Acemoglu and Robinson (2012), extractive institutions are those that allow a small group of people to exploit the rest of the population in such a way that any economic gains accrue to them as a minority. Inclusive institutions means economic gains are distributed equitably to all citizens.

The second literature to which the study contributes is that on African colonial public finances (Frankema, 2011; Frankema & van Waijenburg, 2014; Gardner, 2012; Waijenburg, 2015). This is important given that the Cape is generally missing from accounts of African colonial fiscal systems despite having been the foremost settler colony on the African continent in the 19th century. Herbst (2000, p. 5) in his famous book on *States and Power in Africa* also omitted South Africa (and hence the Cape) because of "its different history". This study reveals through an in-depth study, that when considering colonial states, South Africa, especially in the 19th century, should not be dismissed as it was a crucial component of African history. With the Cape's public finances explored in this study, the information on African colonial states is becoming more complete. The larger number of settlers in the Cape differentiated it from other colonial states on the

African continent in the 19th century and made it a relatively sophisticated polity by the standards of that era.

Narratives which only emphasise effects of other factors (such as population growth) err by underrating the crucial influence of colonialism on states in Africa (Mamdani, 2005; Robinson, 2002). For instance Herbst (2000, p. 3) rightly argues that "state formation and consolidation in Africa, and in many others parts of the world, proceeded in a radically different manner than it did in Europe" It is his notion that colonialism was irrelevant to the state formation process in Africa that is hard to justify. This may have been true for some territories in which indirect rule existed during the post Berlin conference period but this characterisation of colonialism is not complete, at least as far as this study posits.

The third literature relates to the general understanding of state formation. The Cape stands in the league of the British dominions in terms of its status as a self-governing colony and eventually a colony with a responsible governance. From a developing world perspective, the study contributes to these relationships between imperial powers and colonies and their effects on long term state formation processes. Rich natural resources in the Cape were accompanied by a diverse population in which race and class featured more prominently than in the other dominions. The outcomes observed leaned more to the Latin American developments where the land owning elite controlled how institutions evolved (Sokoloff & Engerman, 2000b). At the Cape the parliamentary institutions were distorted by the elite who leaned more to private gains than to the equitable development orientation observed in Canada, Australia and New Zealand (Greasley & Oxley, 1998).

Using the three strands of literature to which the study contributes, a clear pattern of extractive oriented policies is observed. Elites (mainly mining interests) resisted taxes and set a wrong precedent for other sectors. This meant that the fiscal diversification process was stifled and expenditure priorities skewed to benefit those in power. The confluence of political and economic power, epitomised by Cecil John Rhodes entering the politics of the Cape, meant that *de facto* and *de jure* influence coincided to create strong extractive tendencies. In this light and through analysing revenue (chapter 4), expenditure (chapter 5) and public debt policies (chapter 6), the study posits that diamond mining and the construction of railways formed a 'Minerals–Railways Complex - MRC'). This was an alliance between mining interests and a state-run railway system and the phrase fully encapsulates not only fiscal history and state formation in the Cape Colony but the 'soul' that shaped the Cape's economic progress. Parallels of such leading economic activities or coalitions include the 'maize and gold' alliance of Transvaal from the early 1890s, 'iron and rye in Germany' (Trapido 1971), Minerals-Energy Complex in 20th century South Africa (Fine & Rustomjee, 1996) and even the American military industrial complex (MIC) during president Dwight Eisenhower's era. These were defining activities of the economy at different phases of industrialisation that inevitably shaped fiscal policy priorities. Coalitions and interest groups which existed during these phases were influential in steering public policies in the direction of either inclusive growth or serving their private ends. For the Cape's public revenue policies, expenditure priorities and borrowing patterns, there is a clear imprint of the MRC's dictates through the informal alliances of politicians and businessman in and out of the state apparatuses.

1.3 Research questions

This study seeks to answer important questions relating to the 19th century Cape Colony's public finances. As an in-depth case study that investigates the evolution of the fiscal institutions, the study goes beyond current approaches and studies which avoid nuances and themes that complicate research findings by concentrating on broad cross colony analysis of fiscal regimes. Because the research is foundational as the first study to provide a dataset of this nature, the questions are straightforward and allow the focus of the study to be clear. The study investigates the following research questions:

- What were the major sources of revenue (distinguishing tax and non-tax revenue) of the Cape Colony throughout the period and why were these sources at the forefront? In other words, to investigate whether the main sources of revenue reflected the political economy of taxation or were merely a result of economic circumstances.
- What were the colonial government's expenditure priorities and changes thereof as the Cape Colony changed from being a Crown colony to a colony with self-government and, eventually, responsible government?
- What were the general determinants of the growth of public debt over time in the Cape Colony and its sustainability?

- Finally, the important question for state formation was: How did the interactions between the political institutions and economic institutions shape the emerging state with a particular focus on the role of the elite?

Following similar research in the field of fiscal history (Ajam & Aron, 2007; Bonney, 1999b; Brautigam, Fjeldstad, & Moore, 2008; Browne, 1983; Daunton, 2012; Fourie *et al.*, 2013; Gardner, 2012; Yun-Casalilla, 2012), the overarching approach used in the study was trend analysis and deep historical analysis. This means that the patterns and trends from the data obtained from the Blue books were analysed and complemented with a compendium of qualitative archival evidence. This helped to chronicle the evolution of the Cape's fiscal history using quantitative and qualitative evidence. This has been successfully used by scholars of fiscal history and remains the most preferred approach. It does not impose simplifying assumptions nor try to impose anachronistic models of state formation such as the Schumpeterian views which have been found wanting because of their teleological simplifications (Yun-Casalilla, 2012). The warning of Botticini (2002, p. 595) who argued that there is a danger in economic history because there are "economists who like to be pseudo historians in their spare time and often propose brilliant theories but have never so much as glanced through a primary source" has been heeded.

1.4 Research design, data and methods

1.4.1 Why the Cape Colony?

The changes in governance structure and discovery of diamonds make the Cape Colony a particularly interesting case for examining implications for fiscal development. Political change such as the granting of both self-governance and responsible governance by the British government was one of the key determinants of economic progress of colonial territories. The Cape experienced these political transitions in 1854 (self-governance) and 1872 (responsible governance). Such political changes caused changes in the fiscal institutions as well. As a crown colony, the Cape would have remained with fiscal institutions remotely controlled from Downing Street but these political changes brought autonomy to the Cape and enabled it to chart its own progress as desired by the colonial government.

A second important factor for the Cape was the discovery of diamonds in 1867 which occurred during the political transition. Both the political changes and the positive economic shock in the form of the discovery of diamonds make the Cape an interesting case for analysing the relationship between institutional change (fiscal institutions) and the management of resource rents. These events inevitably shaped the type of state that was emerging in the Cape. In particular the Cape provides a case for understanding how existing institutions matter in the wake of a substantial economic windfall. The colonial state formation emanating from the Cape's 19th century context is important for understanding broader processes of state formation in resource rich countries. Processes of state formation outside Europe were not simply attenuated or failed versions of the European experience (Tilly, 1990, p. 13). The ability of the state to handle economic windfalls such as oil continue to be influential for consolidation of state institutions and the economic progress in developing nations (Mehlum *et al*., 2005; Wenar, 2008).

The justification for focusing on the Cape Colony is also important to highlight in terms of the 19th century South Africa. Up to 1910, when the Union of South Africa was formed, 'South Africa' existed as two British colonies, Natal and the Cape Colony, and two Boer republics, the Orange Free State and the South African Republic (ZAR). The natural question therefore is why this study focuses on the Cape Colony alone? The Cape Colony was the oldest colony formed in 1806 on the foundations of the VOC which had been in control since 1652 and the other three territories were established in the middle decades of the 19th century. Key public institutions were developed first in the Cape Colony because it was the oldest colony. Hence, fiscal institutions were more sophisticated at the Cape than in the other territories, which only caught up with the Cape towards the end of the nineteenth century. For instance, the entire revenue of Transvaal in 1872 was £73 862, 4% of the Cape's revenue that year, and the entire revenue of the Free State was £84 282, 4.6% of the Cape's revenue (South African Railway Report, 1947, p 15). Just before the formation of the union in 1910 Natal was raising about 50% of the Cape's total revenue, Transvaal was raising 64% (the increase came due to gold mining which was taxed directly) and the Orange River Colony was raising merely 11% of the Cape's revenue. Lack of consistent population numbers across all four territories make this comparison difficult to do in per capita terms but from this quantitative angle, other territories remained smaller fiscal states when compared to the Cape Colony.

The status of the Free State and the Transvaal largely remained vague until they became British colonies after the South African war in 1902 (Denoon, 1983). According to Denoon

(1983, p. 92) the British continued to enjoy suzerainty over Transvaal and it was only made independent in 1884 but continued to operate with all the trappings of "a banana republic for most of its survival". Pretorius (2014b, p. 239) supports this by arguing that prior to gold discovery, the Transvaal "led a somewhat precarious existence". The Orange Free State was in many ways linked to the Cape Colony and much smaller than the Transvaal (Van Der Poel, 1933, p. 11). The Cape Colony was made a self-governing colony in 1854 and obtained responsible government in 1872. This implies that as far as statehood and state autonomy were concerned, the Cape Colony was far more advanced than other territories. All these factors make the Cape Colony's experience from the 19th century to the early 20th century a critical part of the broader process of state formation in South Africa. The British tradition was to keep records and so, compared to Boer republics, the Cape has systematic records kept consistently in the Blue books allowing easy access for this study.

More generally, the dissertation focuses on colonial state formation and the South African Republic and the Orange Free State were not colonies except for a short period (1902-1910) after the South African war. Hence, only the Cape and Natal were true colonies with the potential to yield lessons about colonial state formation. The handling of public finances and institutional progress in the Cape Colony and Natal was largely similar in that they adopted British practices (Davenport, 1978, p. 75).

1.4.2 Research design

This study will take the form of an extended case study aimed at providing a detailed historical analysis of the public finances of the British Cape Colony. Such an approach can yield a deep understanding when it comes to state formation and hence serves as an important complement to studies of multiple colonial fiscal systems (Bonney 1999). This makes the case study approach appropriate because it maintains a considerable degree of openness that allows various angles of state formation as a complex phenomenon to be explored[4] (Morgan, 2012, p. 668). Austin (2008b, p. 1021) supports this by stressing the importance of "combining the cross-country, comparative statics, econometric approach with contextually-specific micro studies, as well as other forms of global historical comparison". This suggests that each kind of study is relevant for the bigger picture to

[4] Other benefits of the case study approach for state formation are that it allows dense evidential materials across a range of aspects and it is flexible to a range of methods and techniques to be used (Morgan, 2012, p. 668).

emerge and micro studies and case studies reveal important idiosyncratic features of the colonies to complement and bring nuance to cross country generalisations (e.g. Bonney, 1999b; Subramanian and Roy, 2001; Nunn, 2009; He, 2013). Nunn (2009, p. 32) summed it up well by arguing that:

> As studies become much more focused, evidence from complementary studies from other locations and times are also needed before one can assess whether specific results are part of broad systematic patterns that exist in the data or whether the results are specific to that environment.

The 'extractive vs inclusive institutions' dichotomies have not been adequate for Africa because "in African settler colonies, extraction was more pervasive than in many of the non-settler colonies" (Frankema & van Waijenburg, 2014, p. 375). According to Bonney (1999b, p. 2):

> …without a study of the evolution of different fiscal systems it is impossible to determine whether there has been one path, or a few paths, that all pre-modern financial systems have followed.

The emphasis here is on understanding different stages of the evolving fiscal systems which were shaped by imperial ambitions, local colonists, as well as local colonial conditions. Comparisons of revenue and expenditure figures across colonies have limited value unless underpinned by an understanding of the processes shaping fiscal decisions. Mamdani (1996, p. 12) deplored these cross-colony snapshots by arguing that "they lift phenomena out of context and process by searching for the right analogy to fit Africa, an approach that privileges the European historical experience as a touchstone." Austin (2007, p. 1) was in line with Mamdani when he argued that starting from the developed world, when theorising, "causes a conceptual Eurocentrism that stifles theorisations from Africa outward."

The British imperial projects had complex dynamics, the nuances of which can be understood through the processes of change in different territories over time (Davis& Huttenback, 1986; Edelstein, 1982). Although the imperial powers may have had generic aims in these colonial territorial ventures, local conditions often dictated the actual form of colonial states and fiscal systems adopted. This means that the colonial territories were diverse and can be clearly understood through in-depth historical analysis which considers local context, imperial agendas, resistance from indigenous peoples, colonists' interests and other factors unique to each colony.

Case studies are not primarily used for theory testing in typical hypothesised relationships between variables but for discovery and evidence based conceptualisation (Morgan, 2012, p. 671). This requires flexibility in dealing with existing theories of state formation in a manner that seeks to "infirm" and improve rather than confirm them. This study will borrow from theoretical developments in the fiscal states in the metropolitan powers, and current nascent theories on the different types of colonial fiscal states (Bonney, 1999b; Booth, 2007; Frankema, 2011; Webber & Wildavsky, 1986). It is in line with that of Ellinwood (1998, p. 180), who argued that "our understanding of colonialism as a general phenomenon must be built up from individual examples as well as through theoretical concepts."

By opting for an in-depth case study, the study foregoes the alternative of a comparative analysis with other territories. According to Magee, Greyling and Verhoef (2016, p. 896), comparing colonies in different geographic regions with distinct institutions, ethnicities and political paths "…may not only be somewhat anachronistic, but obscure as much as it reveals about their performance." For instance comparing the Australian colonies with the Cape and Natal entails comparing colonies which were different on many levels. For example, Australian colonies such as New South Wales and Victoria had relatively homogenous populations while the population of the Cape and Natal were markedly more diverse. By the time of federation in Australia the indigenous populations were almost non-existent (below 1% in both New South Wales and Victoria) while Natal and the Cape experienced more growth in the indigenous populations (Magee *et al*., 2016, p. 899). By 1880s "virtually no Aborigines remained in Victoria and very few in New South Wales. They had passed beyond their nadir into oblivion" (Magee *et al*., 2016, p. 900). This is important for fiscal history because the level of inequality and social stratification in South Africa meant a different path in tax structures, politics, and legitimacy of the state to these different groups. That said, the dissertation contains many comparative references to other 19th century colonies and polities such as Canada, Australia, New Zealand, Latin America, Transvaal and India among others. Due to the availability of data, chapter 6 on public debt locates the Cape in a broader scheme of capital movements and ability to borrow by colonies in the 19th century. This makes the chapter more comparative than the rest of the dissertation.

1.4.3 Data sources

This study would have been impossible had it not been for the commitment to recording by the British colonial governments. Over time colonial governors grew infamous for profligacy, wanton extravagance and mismanagement of public funds and the imperial authorities had to introduce record keeping to foster accountability (Gardner, 2015, p. 10). The Cape was no different as Charles Somerset was an example of how advisory councils and records were needed in order "to enlighten head strong governors throughout the colonies" (Kilpin, 1930, p. 37). The library of Stellenbosch University holds all the Blue books of the British Cape Colony in which all public revenues and expenditures were recorded. While the Blue books contain vast amounts of information about, for example, rainfall, deaths, crime and other issues of interest to the Cape Colony Government from 1806 to 1910, the study will only use the government revenue, expenditure and public debt records.

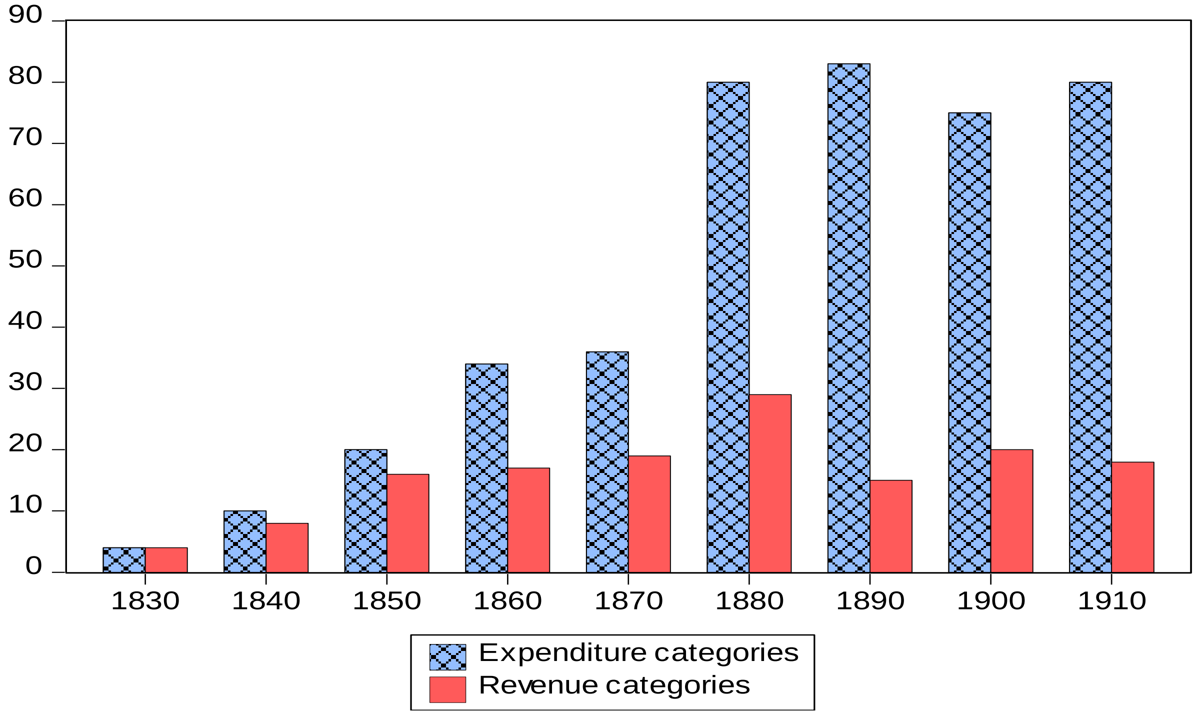
Besides the revenue, expenditure and public debt statistics from the Blue books, this research also heavily drew on primary sources concerning the affairs of the Cape Colony governance. This is an advantage that comes with a historical analysis of a single case. Various angles are crucial for understanding state formation as a complex phenomenon. Parliamentary debates were obtained from the South African National Library and these cover the entire period from 1820-1910 with House of Assembly budget debates which illuminate the contours of the evolution of fiscal institutions. The role of 'actors' was revealed strongly because public finance policies were shaped by various interest groups with representation in parliament. From the British National Archives other supporting primary documents were obtained. These include commissions of enquiry into public accounts, Acts of Parliament, petitions from citizens and business people, and correspondences between colonial governors and the imperial colonial authorities.

These qualitative primary sources in the Stellenbosch Library, Cape Archives and the British National Archives in Kew (London) helped to corroborate figures that came from the colonial Blue books. This means that the general concerns about the Blue books being biased due to the local colonial authorities' desire to portray a positive picture to the imperial colonial secretary were of less significance. A significant corroboration was observed between the Blue books' figures and yearly parliamentary speeches from successive governors which confirmed the bad or good financial position of the colony with figures.

1.4.4 Data collection procedures

The first phase of the research was the transcription of public finance data from the Blue books. Record keeping that spans close to a century poses a challenge of change in content and in terms of format. Attrition is another factor because in this period some revenue sources were abolished, and expenditure outlays stopped. Other items were also added and the degree of details provided concerning each source of revenue or expenditure item differed with time. Since the study focuses on state formation and its consolidation using revenues, outlays and public debt, the first goal was to get a consistent time series data as a building block to understand fiscal history. The strategy adopted was to start at the end of the period of study in 1909 to allow all relevant details to be captured and the assumption was that as time went back from 1909 the records would become less detailed. This allowed the capturing to be more exhaustive and more intuitive than starting with the early 1800 period which had skeletal records. Figure 1.1 below shows these changes in major categories of revenue and expenditure.

Figure 1. 1 Cape Colony's revenue and expenditure categories over time, 1830-1910



Source: Blue books (1830-1910)

Figure 1.1 shows the growth of government expenditure categories as the economy progressed while revenue sources show a modest growth. This is unsurprising because revenue sources tend to be limited but expenditure outlays tend to increase as the state takes new responsibilities. These categories also confirm the notion of structural changes caused by the mineral discovery and political transition that changed the outlook of public finances as shown by a big increase of expenditure categories between 1870 and 1880. With state ownership of railway systems and telegraphic systems in 1872 the expenditure outlays expanded significantly. The granting of responsible governance in 1872 also entailed more autonomy for more government action in terms of public goods provisioning.

Capturing the data from 1909 going backwards entailed that at the end aggregates were to be used instead of finer distinctions or more details. For instance, expenditure on public health was recorded in the 1900s in the form of salaries, transport and services while in the early 1800s it appeared simply as public health with a single corresponding amount. This means that public health consisted of capital investment and recurrent expenditure which cannot be separated for most of the period under study. Similarly, railway expenditure was recorded with sub categories such as maintenance, locomotives and relaying while in early years the figure was simply referring to expenditure on railways. For consistency purposes the aggregates were used in the study and they reflect the totals that went to each category or government department. It is only where the records were consistent that individual items are probed further. For instance, education as a category was recorded consistently under native education and non-native education[5] and this allows further analysis to be done on the commitment of the state not only to education but the demographics of the education's budget allocation.

Further aggregation such as the one done for classifying public expenditures (table 6.4 in the appendix) or classifying revenue into tax or non-tax revenue (figure 4.4 in chapter 4) became important for certain arguments in the study. Currency was changed officially from rixdollars to the British sterling in the Cape Colony from 1826. Currency issues and the difficulty of reading the hand written 1806-26 records meant that data from 1827 onwards are more reliable. Figures for the period before 1827 are provided only when

[5] The use of the word native can be problematic and in the dissertation I have limited its use to instances where I use direct quotes and classifications from the colonial times. For instance, education was a key area divided by 'natives and non-natives' categories

reasonably consistent and these include information on the pre-existing tax system bequeathed to the British era from the VOC period.

It is necessary to clarify the use of nominal and real data. The period being covered was a period of relatively stable prices (1820-1910). The pound sterling was relatively stable during this period and prices were higher from the first WWI onwards and an attempt to express the data in real terms using the index from O'Donoghue *et al*. (2004) did not reveal any major difference. There was no major difference between the real and nominal figures after this change. It is important to also mention that the dissertation makes extensive use of direct quotations. This is because the dissertation relies on quantitative evidence as well as evidence from political and parliamentary documents. Budget and other debates in parliament are crucial for understanding choices made on revenue, expenditure and public debt.

1.5 Structure and outline of the study

Chapter 2 deals with general theories of state formation and the historical experience of a few selected cases which help in foregrounding the Cape Colony case. This chapter has a dual function of reviewing literature on various theoretical building blocks that have been employed in various studies of state formation and fiscal developments in colonies and non-colonies alike. The second function is to provide the basis for interpreting the Cape Colony's experiences. The chapter emphasises that there is no single theoretical framework that is available yet that is universal in explaining colonial fiscal institutions. This is done while emphasising theoretical features which are applicable to the Cape Colony and explanations on why some theoretical frameworks do not fit the unique circumstances of the Cape Colony. General features of fiscal modernity are important but insufficient for fully understanding colonial state formation. Fiscal modernity is defined by the centralisation of government revenue, establishment of long term debt, commitment to welfare provision and the transition to a responsible, albeit limited government (He, 2013). These key tenets of the state are observed at different stages of the Cape Colony's existence and they indeed differentiated the Cape from the Transvaal, Orange Free State and Natal.

Chapter 3 explores the general economic and political developments as well as trends in the public finance figures with the aim of establishing salient features to be taken further in the subsequent chapters. Crucial for the modernisation and transformation of the state was the formation of the 1830 legislative council meant for mitigating outright authoritarianism as experienced during the 1820s. This was followed by the increasing pressure from the separatists and anti-convict campaigns of the 1840s which led to the granting of self-governance in 1854 with consolidation of representative parliamentary institutions. The granting of self-governance in 1854 was the highest form of the limited democracy in the Cape Colony since the franchise requirement was set at a low level allowing access to Africans, although this was later changed. This was also mirrored in the public finances as accountability was fostered as well as various reforms in the way public finances were handled. These included reforms such as the Public Debt Consolidation Act of 1870 and the Audit Act of 1875. Key for the coming chapters is that this chapter establishes major features in the revenue, expenditure and public debt and establishes the basis for further investigation and focus in subsequent chapters.

Chapter 4 investigates the revenue extraction by the central government with wider implications for fiscal capacity building, dependency on tax and non-tax revenue and the clear division between the farming and mining industry with the latter not paying its fair share into the government coffers. The main conclusion from this chapter is that the discovery of diamonds was a decisive factor in the evolution of the Cape Colony's fiscal capacity building. It shifted the attention of the government into public infrastructure, mainly railway projects, whose earnings were substantial to the point of relegating the need to creatively improve and diversify the fiscal capacity over time. The whole tax structure of the Cape was skewed and favoured the mining houses at the expense of the agricultural sector which, through protests and petitions, unsuccessfully tried to induce the government to also impose taxes on the mining industry. Even up to 1909 the income tax (introduced in 1904) was heavy on other sectors save for the mining industry. This exposed the extractive nature of the mining-elite controlled state. Property taxes were not introduced in the Cape because they were heavily resisted by the mining houses who insisted on paying only licence fees. The resistance in the Cape differs greatly from the earlier American colonies in which more than 70% of revenue was from property taxes (Sokoloff & Zolt, 2007). The Cape was closer to Latin American tax structures which emanated from the stratified nature of Latin American societies. This institutional bias formed the foundation of the inequality as the ordinary people suffered under hut taxes, consumption taxes, excises and later income taxes while the mining houses forced their hand on being exempted.

Chapter 5 discusses the railway biased public expenditure regime which came as a result of the strong mining interest group in parliament. Revenue was a matter of what could be obtained from the politically weaker groups while expenditure was based on key decisions made on what the government was to prioritise. This again was induced by the diamond discovery which sparked a sudden rise in public expenditure as the government took ownership of key parastatals such as railways and the telegraphic system. All the expenditure categories as ratios of total expenditure show declining shares except for public works (mainly railways) which show an upward trend. At parliament, the salience of the mineral revolution to the economy was considered important while at the mining fields having the 'right' kind of parliamentarians, and hence policies, was critical for the continued profitability of the mining companies. Rhodes, Merriman, Robinson, etc who were linked both to the parliament and to the mining industry and could steer, sometimes with great difficulty, the Cape government towards heavy budgets on railway construction to link the Kimberley diamond mines and eventually the gold fields in the Transvaal. In other words, public expenditure was a 'tool' for private profit making because the political and economic elite could force the state to assume 'its responsibilities' in a manner that served private interests.

Chapter 6 delves into public debt. This chapter is closely linked to the expenditure chapter because borrowing was initiated as a result of the projects the government wanted to embark on but could not finance with ordinary revenue. The growth of public debt was seen as inevitable if it was to finance capital investment such as railway construction, harbours and the telegraphic system. The argument was that these would pay for themselves after their establishment. The mineral discovery also acted as a big incentive for borrowing and the granting of responsible government gave much needed autonomy for the government to decide on priorities. At the end of its existence, the Cape had a huge accumulated debt relative to its dwindling revenues. It was only through unification that its financial difficulties could be resolved. Of course, the pride of the parliamentarians was strong and they were eager to retrench as much as they could to enter the union as "a self-respecting man not as beggars or supplicants for financial favours …. and to avoid other states saying the Cape joined the union as a bankrupt state" (House of Assembly budget debates, 1909, p. 275). Chapter 7 will conclude the study by outlining key contributions and suggestions for future studies.

CHAPTER 2: DIVERSE PATHS TOWARDS THE MODERN STATE: REFLECTIONS ON THE COMPARATIVE HISTORY OF STATE FORMATION.

> We continued, unthinkingly, to assume that European states followed one main path, the one marked by Britain, France, and Brandenburg-Prussia, and that the experiences of other states constituted attenuated or failed versions of the same processes. That was wrong (Tilly, 1990, p. 13).

> We do not understand how states arise in the first place and how they gain the ability to tax. There are numerous unanswered questions here that economic historians can profitably work on, and their research will be particularly valuable if they model the politics, gather data on taxation and spending by local and central governments and pay serious attention to the historical details and to political behaviour (Hoffman, 2015, p. 303).

2.1 Introduction

State formation remains a complex phenomenon that has received and will continue to receive attention from different academic fields. Wade (2004, p. 345) argued that the continuous debates on state formation as well as the role of the state demonstrate the "power of infinite repetition as an essential tool of modern scholarship". This chapter will cover a range of issues concerning theory and a few historical cases of state formation. It will seek to do three main things: the first will be to show that there is a general story about the rise of fiscal states, based primarily on the European experience. Secondly, the chapter will investigate how colonial state experiences were similar or different from this general state formation narrative. The third role of the chapter is that it provides a context for interpreting the experience of the Cape Colony.

The chapter also reviews the available literature on the evolution of fiscal systems and the theoretical lenses employed in the literature. It surveys the key historical developments in relation to state formation in Britain with brief reviews of how Britain differed from other European and Asian nations. It uses these histories to examine key theoretical building blocks of state formation, and therefore fiscal systems.

Section 2.2 examines definitional issues in state formation and fiscal history literature. Section 2.3 discusses the evolution of the state in history using the main stage theories common in literature. Besides these theories, this section will also identify different frameworks from institutional economics literature used to identify states in different epochs. Section 2.4 will briefly review aspects of state formation processes in history by focusing on England, France, British India, China and the North American experiences Section 2.5 focuses on colonial state formation and various approaches developed so far to understand fiscal developments and state formation in colonial Africa. Section 2.6 concludes.

2.2 States, coercive capacity and taxation

2.2.1 Diverse roads to state formation

While the history of the rise of fiscal states is a well-trodden area, there has never been a single general theory which provides a comprehensive explanation of how fiscal states, and therefore states in general, have evolved over time (Bonney, 1999b; Hoffman, 2015; O'Brien, 2012; Tullock, 2002; Yun-Casalilla, 2012). The body of evidence currently being used to understand the rise of fiscal states is comprised of a number of case studies from as far back as in the ancient regions such as Mesopotamia, Indus Valley, Nile Valley and China (Carneiro, 1970, p. 3; Tilly, 1990, p. 2; Wittfogel, 1957, p. 34). What these studies demonstrate is that 'fiscal states' emerged under diverse conditions and in response to different incentives and it is only towards the end of the eighteenth century that some form of convergence towards the modern fiscal state took place alongside the industrial revolution (Yun-Casalilla, 2012). Dincecco (2015, p. 12) argued that this long history of the evolution of fiscal regime was an outcome of difficult processes and that effective states should not be taken for granted. This explains why the term 'fiscal regimes/systems' is more applicable and often used for the period before the mid eighteenth century when the 'fiscal states' were in their rudimentary stages.

If the history of the rise of states has not been explained by a universal theoretical framework, the theoretical explanations of 'colonial fiscal states' are at a formative stage (Frankema and Booth 2017). Fiscal states, and therefore fiscal institutions, in colonised territories developed under constrained economic and political conditions in which the fiscal discretion and autonomy was a subject of negotiations between colonial governors and the metropolitan centres (Offer, 1993, p. 230). Differences in local populations and economies contributed to the diversity of colonial fiscal systems. Confounding the understanding of colonial fiscal states, as has been emphasised by the critics of Acemoglu *et al.*(2001), is the fact that indigenous agency was important because indigenous peoples in these colonial territories played an important role in shaping the evolution of fiscal states (Austin, 2008b, p. 1020; Austin & Broadberry, 2014). This is especially true for colonial territories in which the colonists did not settle in large numbers. Colonial territories were not simply recipients of the metropolitan blue-prints of fiscal systems even in the so called settler colonies but these institutions had to be adapted to local realities (Frankema & van Waijenburg, 2014, p. 378).

While the colonial fiscal states cannot be understood simply as altered versions of the colonial masters' fiscal regimes, it cannot be denied that metropolitan institutions were adapted and in some instances adopted (Yun-Casalilla, 2012, p. 32). After all, the colonial governors would not re-invent the wheel. The international commerce and the stock of knowledge in the 19th and 20th centuries meant that different forms of taxes were tried in the colonial territories, not only from the metropolitan centres but also from the rest of the world. The role of the Enlightenment period in Europe and the diffusion of knowledge and ideas are also relevant here (Mokyr, 2008). The role of cosmopolitan capital – the free multinational movement of capital – was crucial because "states were not closed laboratories for the formation of fiscal systems" (Yun-Casalilla, 2012, p. 19). Customs tariffs are the key example of how international trade and globalisation brought about an important source of fiscal revenue in colonies and non-colonies alike. This means that any attempt to form a theory of colonial fiscal systems should be undergirded by a full appreciation of the global context of fiscal developments as well as political, economic, social and cultural conditions in these colonial territories. To understand colonial fiscal developments and colonial state formation, general theories concerning the same in sovereign nations in history are also relevant because colonies adapted a lot from the metropoles.

2.2.2 The nature of the state

The Weberian definition of the state emphasises monopoly of the legitimate use of violence in a given territory. In historical research, this has been found wanting because history has many examples of entities considered as states that did not achieve a monopoly on the use of violence (Hoffman, 2015, p. 306). The Weberian approach also precludes ancient city-states because any fiscal legitimacy requires popular acquiescence of those governed (Levi, 1988) and the extension of the franchise is only a late 19th century phenomenon in Europe and mostly a late 20th century phenomenon in Asia, Latin America and Africa. For colonial states it is worth pointing out that some of the laws, such as discriminatory laws, were legitimate in a circumscribed sense because democratic practices were not yet fully adhered to. In other words, laws and rules were legitimate in terms of the colonial governance structures, but not in terms of modern understanding of democratic legitimacy.

According to North *et al*. (2009, p. 258), throughout history, states cannot be seen as specialists in violence but they "…evolved through protracted wars, coalitions and negotiations." This means that any analysis of the state through the Weberian lenses cannot effectively deal with the most common problem of all societies in history, the management or containment of violence (North, Wallis, Webb, & Weingast, 2007, p. 41). The failure or success at management of violence led to some historical states becoming too small to survive or "…too large and heterogeneous to evolve into developmental or Weberian states" (O'Brien, 2012, p. 453). When it comes to understanding the rise of fiscal states, putting the legitimate use of violence as a key tenet of the state is tantamount to putting the cart before the horse. In any case for the colonial territories, legitimacy was circumscribed by widespread injustices (Heldring & Robinson, 2012).

Various definitions which allow for historical analysis have been put forward and a few are worthy of highlighting as they capture the fundamental aspects of statehood throughout history. It is worth noting that literature uses the terms 'state' and 'fiscal state' interchangeably. It seems logical because in any state revenue mobilisation is one important aspect for the state to be able to embark on its projects.[6] According to Tilly (1990, p. 2):

> States are coercion-wielding organisations that are distinct from households and kinship groups and exercise clear priority in some respects over all other organisations within substantial territories. The term therefore includes city-states, empires, theocracies, and many other forms of government.

According to Carneiro (1970, p. 733), a state is:

[6] There are dimensions of the state which have caused conceptualisation issues. It is incorrect to refer to "state capacity" as a single concept, because various types of state capacities can be identified (Levi, 1988). These include extractive capacity (ability to impose taxes, monitor people's income and maximise revenue), coercive capacity (the ability of the state to preserve its borders, enforce policies and maintain order) and administrative capacity (mainly the ability to competently deliver services through a competent bureaucracy) (Hanson and Sigman, 2013, p. 4).

> an autonomous political unit, encompassing many communities within its territory and having a centralized government with the power to collect taxes, draft men for work or war, and decree and enforce laws.

Recently, Hoffman (2015, p. 307) argued that a better definition should have two basic crucial characteristics:

> First, it can employ violence, although it may not have effective monopoly over its use. Second, it can levy substantial permanent taxation …not just temporarily during emergencies but for a foreseeable future.

The definition of the state for North (1973, p. 97) emphasises property rights and that any state that survives and enables economic growth has to be:

> an institutional arrangement that sells protection and justice to its constituents. It does so by monopolising the definition and enforcement of property rights over goods and resources and granting of rights to the transfer of these assets. In return for this service the state receives payment in the form of taxes.

Acemoglu and Robinson (2016, p. 34) seem to go back to the Weberian notion of monopolized violence when they argue that:

> States are identified with some basic components, the monopoly of violence in a well-defined territory, a centralized fiscal system and a bureaucratized administration, and state formation is measured by movement in any of these three dimensions.

Save for North's proposition, it is not a coincidence that these definitions avoided a functionalist definition, which often tends to be too systematic and inflexible for historical analysis (Miliband 1969, p. 46). Once a list of many characteristics are added to the definition of the state, many historical entities no longer meet the standard. The two key themes in all the above definitions are employment of violence or coercion (military or legal) and levying of taxes mostly in a centralised manner. This entails that even tribute, monetary or non-monetary, in ancient states are incorporated into these definitions. Often, brutal coercion was a crucial means to solicit tributes in such early periods, from French monarchs (Ormrod, 1999, p. 20) to African chiefs (Mamdani, 1996, p. 56). Thus, the definitions allow historical analysis of how states have dealt with the scarcity of fiscal revenue from early city-states until public debt became a permanent part of the modern fiscal state. Besides being important for historical analysis, these definitions are also crucial for colonial fiscal systems in which taxation, property rights and justice were indeed contentious issues between the colonised and the colonists. For instance, in Africa, colonial governors were dealing with land issues, taxation and continued rivalry over natural resources and in most of these territories coercion became a key tenet of the fiscal apparatus (Acemoglu & Robinson, 2010, 2012; Austin, 2008b; Gardner, 2012, 2013).

2.3.3 Wars and the need for fiscal resources

It has become a truism that wars made states (Bonney, 1999b, p. 10; Daunton, 2012, p. 130; Isenmann, 1999, p. 26). Wars are important for how one understands colonial states because colonial defence was a contentious issue in the British Empire's self-governing colonies. The imperial authorities wanted colonies to take responsibility for self-defence especially in all self-governing colonies but this proved to be difficult. This was one key way in which colonial states differed from sovereign states (see section 5.3.5). Tilley (1990, p. 72) was more blunt and succinct when he pointed out that, "coercion works; those who apply substantial force to their fellows get compliance, and from that compliance draw the multiple advantages of money, goods, deference, access to pleasures denied to less powerful." What has not been stressed enough is the significance of the fact that the wars did not need to happen and mere preparation was enough for fiscal innovation to take place. This is why coercive capacity is more meaningful because it captures not only the wars which took place but threats of war as well. Coercive capacity building (encompassing wars and threats of wars) was critical for the fortification of the fiscal systems both for internal peace and external security. A qualification stressed by Carneiro is that while wars were critical in the development of fiscal capacity, many wars were fought which did not lead to the formation of the state (Carneiro, 1970, p. 5). It is thus clear that wars were essential but not sufficient for states to emerge as other ingredients and conditions were necessary.

It is clear that wars became less frequent over time because of advances in political thought, military technology, international regulations and democratic constraints on rulers. It remains true that the fiscal boost emanating from wars was important and the causality could flow either way. Tables 2.1 and 2.2 below show wars involving great powers and the strength of the armies in major European countries. With the rise of military power, the corollary is that internal policing and law and order get strengthened as well, thereby making the state effective on the fiscal front too. States which were involved in external wars tended to have internal order exemplified by efficient property rights (Besley & Persson, 2010). Exceptions may be observed in the Soviet Union which had huge armies[7] (see table 2.2) but the political logic of total power meant that the fiscal front was less developed and the ability to collect revenues limited (North, 2005).

Table 2. 1 Wars involving great powers

Century	Number of wars	Average duration (years)	Percentage of years when wars were happening
16th	34	1.6	95
17th	29	1.7	94
18th	17	1.0	78
19th	20	0.4	40
20th	15	0.4	53

Source: Tilly (1990, p. 72)

Table 2. 2 European men under arms 1500-1980

	Troops under arms (000)					Troops (% national population)				
Country	1500	1600	1700	1850	1980	1500	1600	1700	1850	1980
Spain	20	200	50	154	342	0.3	2.5	0.7	1	0.9
France	18	80	400	439	495	0.1	0.4	2.1	1.2	0.9
England/Wales	25	30	292	201	329	1	0.7	5.4	1.1	0.6
Netherlands		20	100	30	115		1.3	5.3	1	0.8
Sweden		15	100	63	66		1.5	7.1	1.8	0.8
Russia		35	170	850	3663		0.3	1.2	1.5	1.4

Source: Tilly (1990, p. 79)

The generic picture presented by table 2.1 shows how the incidence of wars increase as one goes back in history, at least until the 16th century. What is important to emphasise is that these were observed wars and the table excludes those which potentially could have taken place (see section 2.3.3). The implication is that the overall fiscal capacity is underestimated because situations of tension that gave rise to capacity-building are not included. The incidences of war gave rise to the increase in the sizes of the armies as

[7] According to Acemoglu and Robinson (2016, p. 5) such powerful states end up being ‘Real Leviathans’ with prostrate civil society and although they may be able to provide some form of public goods, the logic of their operations will eventually lead to their demise.

observed in table 2.2 although population increases may have caused troops as shares of national populations to remain stable or decline.

Table 2.3 shows that the Dutch Republic, for its small population, was very efficient in raising fiscal revenue compared to major European states and was the leader in Europe prior to the 1800s (Fritsschy, Hart, & Horlings, 2012; Hart, 1999; Pamuk, 2012).

Table 2. 3 Per capital fiscal revenues in selected European countries (grams of silver)

	1500/09	1550/59	1600/09	1650/59	1700/09	1750/59	1780/89
Dutch Republic			76.2	114	210.6	189.4	228.2
England	5.5	8.9	15.2	38.7	91.9	109.1	172.3
France	7.2	10.9	18.1	56.5	43.5	48.7	77.6
Spain	12.9	19.1	62.6	57.3	28.6	46.2	59
Venice	27.5	29.6	37.5	42.5	46.3	36.2	42.3
Austria				10.6	15.6	23	43
Russia					6.3	14.9	26.7
Prussia			2.4	9	24.6	53.2	35
Ottoman Empire		5.6	5.8	7.4	8	9.1	7.1
Poland	1.5	0.9	1.6	5	1.2	0.8	11.2

Source: Broadberry (2013, p. 29)

England on the other hand shows a persistent growth in fiscal revenue per capita and in contrast to most of the countries in the table never experienced a decline in revenue per capita. England's rise and positive trajectory as the first modern fiscal state was indeed founded on its resilience in nurturing of fiscal institutions and consent for taxation from the citizens (see section 2.3.1). The civil war that took place in England played a huge part in this (Daunton, 2012).

2.2.4 Traditional and modern fiscal states

In addition to the fact that the Weberian definition of the state is too strong as highlighted in section 2.2, the difference between modern fiscal states and the traditional ones is not emphasised enough. In other words, the state has not evolved in a manner that allows it to be the same entity it was in the early 18th century but has fundamentally changed especially regarding its functions. He (2013, p.13) has argued that there is need for a differentiation between traditional fiscal states and modern fiscal states. The major difference comes in the fact that traditional states relied on taxes to merely meet current spending obligations while modern fiscal states use taxes as a "means to leverage more financial resources through long term liabilities" (He, 2013, p. 13). The 1850s saw the rise of this modern state and since colonisation of Africa is generally a late 19th to early 20th century phenomenon, colonial states would take up some of the features of modern fiscal states and participate in the international monetary system (see Gardner, 2014).

The modern fiscal state is thus defined by the capacity to centralise revenue collection, use of collected revenue to establish long term permanent debt, commitment to general welfare and some form of democratic representation (He, 2013, pp. 4–5). This modern state seems to differ from the traditional type in the establishment of long term debt and welfare commitments such as education and health while the traditional states experienced warfare much more often (Carneiro, 1970; Daunton, 2012; Tilly, 1990). Franchise expansion entails that modern states, at least the ideal types, have considerable degrees of legitimacy compared to the traditional types. These ideal types are what Acemoglu and Robinson (2016, p. 41) describe as the "basin of attraction" where the state and civil society coevolve in a synergetic or symbiotic relationship that produces inclusive political institutions. Dincecco (2015, p. 2) characterises these as states with strong veto players and parliamentary oversight and transparency. It is important to argue that there were no cut off points or clear cut transition from the traditional states to the modern states but the state evolved concurrently with other developments such as industrialisation and international monetary inventions such as the gold standard. This means that cases are crucial because each state changed when the conditions were ripe[8] into acquiring features of modern fiscal states.

2.3 Stage theories, institutional frameworks, expenditure theories

Various frameworks have been used to understand state formation throughout history. This section seeks to briefly review these theories and frameworks which are important for the discussion of the Cape Colony's revenue, expenditure and public debt. The state can be explored from many angles and this section does not explore all of them but instead foregrounds the detailed account of fiscal development in the Cape Colony in chapters 3 to 6. Stage theories are important for the Cape because it went through many phases in the 19th century. Institutional frameworks are crucial to understand how the Cape handled the discovery of diamonds with its pre-existing institutional set up and the

[8] These could be seen as the door step conditions identified by North et al. (2009) to explain transitions from limited access orders to open access orders.

effect this had on the further development of fiscal institutions. Public expenditure theories are also important in understanding general determinants of the growth in public expenditure and therefore what is applicable to the Cape case.

2.3.1 Periodization and stage theories

In a recent edited volume Yun-Casalilla and O'Brien (2012) have demonstrated through many cases of Eurasian fiscal history that a universal theory is impossible. What was logical in Asian fiscal regimes was not applicable to European regimes due to political realities and economic conditions. For some generic picture table 2.4 below does capture general features and trends endemic in different periods in the evolution of fiscal systems. Although stage theories are criticised they provide historical understanding of when states attained certain features. The transition from the traditional states to modern fiscal states becomes easy to observe when a general timeline of key developments is offered (Tilly, 1990).

Table 2. 4 Evolution of fiscal systems

Era/ Stage	**Period**	**Characteristics**
Patrimonialism	AD900- 1400	Urban militias, Feudal levies, Tribute to monarchies
Brokerage	1400-1700	Mercenary forces, Independent capitalists provided loans, Tax farming
Nationalisation	1700-1850	Mass armies and navies from nationals, Administrative structures, Fiscal centralisation, Limited independent contractors for fiscal and military purposes
Specialisation	1850-2000s	Bulk budgets for military and police, Strong division of labour, Representative institutions , Bigger role of state, e.g. education, health, judiciary, regulatory and adjudicative responsibilities

Source: Tilly (1990, p. 29)

This table does not capture all the dynamic history of fiscal systems and the paths of individual states varied. However, some common features do appear. Schumpeter, while investigating the end of the Hapsburg Austro-Hungarian Empire, argued that all states moved from a monarchical based *domain state* to a modern *tax state* in which governments focused on economic development while taxing citizens to obtain revenue

(Grant, 2013, p. 3). Building upon Schumpeter's work the Bonney-Ormrod model seeks to explain European history using a framework "of four prevailing types of fiscal systems, called tribute, domain, tax and fiscal state" (Bonney 1999, p. 13). These are stages which the states go through and Bonney and Ormrod simply added two more stages to Schumpeter's two stage model. According to Bonney and Ormrod (1995), Schumpeter's focus on the fiscal crises of states at the end of the First World War implied neglect of other variants of fiscal systems prevalent in Europe. Table 2.5 lists key features of each of the four types of fiscal states.

Table 2. 5 Summary of the Bonney Ormrod model

Characteristic	**Tribute State**	**Domain State**	**Tax State**	**Fiscal State**
Public Finance	Plunder and extortion, Surplus produced by the colonised	Surplus produced by domain or other regalia rights, Exploitation	Increasing importance of taxation	Precise planning of taxation with reference to the economy and public opinion
Expenditure	Heavily related to scale of military efforts			Military efforts not dominant
	Reliance on booty and conquests to meet expenditure		Increasing size of navies and armies, technological developments	
		Scaling down of household and military costs in relation to predicted income (except in emergencies).	Escalating military costs during sustained warfare. Acute costs in debt servicing (other costs curtailed).	Fiscal-military states, some gain super power status, Modern sophisticated states with considerable expenditures on health, social security, and other welfare related costs

Source: Waris (2013, p. 34)

What is clear from Tilley (1990), Bonney and Ormrod (1995) and even Schumpeter's early work is that they were all agreeing that states evolve over time and take more responsibilities for more revenue raised. On the other hand, more responsibilities also caused the states to invest more in revenue capacity. According to Seligman (1895, p. 10):

> As long as the economic conditions are primitive, the social obligation to the ruling clan or state is conceived to be equal but as progress happens inequality becomes glaring and reform on taxation has to come in emphasising the ability to pay etc.

The rough equality which existed in the early hunter-gather societies was gradually replaced by a sophisticated capitalistic economic system which allowed some to go ahead while others remained behind. These stages are therefore useful in understanding what to expect in the structure of revenue and expenditure of the state. The finances of early colonial states such as those in North America differed from those of 19th century colonies let alone 20th century colonies (Webber & Wildavsky, 1986, p. 34). It would be unlikely that colonies would overtake the metropoles in terms of public finance institutional development. Certain taxes and spending items should not be expected in colonies before they were introduced in the metropoles.

These different stages and periodization theories speak to the fact that what to expect from the state depends on the era in which that specific state was formed or existed. In trying to conceptualise the connection between political and economic development, North, Wallis and Weingast (2009) developed a framework that explains the institutional set-up of countries at different stages. They identified three main social orders namely foraging order (hunter-gatherer societies), limited access order and open access order. Limited access order or natural state refers to the time or period with a hierarchy of personal relationships among the powerful elite forming the basis of political organisation. Those outside the coalition only experience limited access to privileges, organisations and valuable resources (North *et al.,* 2009). The open access order refers to the impersonal phase of economic and political developments when the opposite of the limited access order characteristics is true in typical advanced democracies. They argued that "Identity, which in natural states is inherently formed by interpersonal connections, becomes defined in open access orders by a set of impersonal characteristics. Impersonal categories of individuals, often called citizens, emerge. These categories allow people to interact over wide areas of social behaviour where none need to know the identity of their partners" (North *et al*,. 2009, p. 2).

The limited access order is important for this study because the 19th century was dominated by personalist forms of public institutions. The state in this era with less competitive political systems was therefore not easily accessible even through impersonal merit based access. Cain and Hopkins (1986, p. 505) used the term 'gentlemanly capitalism' to explain the importance of connections and coalitions which shaped economic progress. Cain and Hopkins's arguments are similar to those of North *et* *al* about the natural state or limited access order (LAO). Personal connections and class consciousness were key to the survival of gentlemanly capitalism and these attitudes were quite similar in the British colonies. Cain and Hopkins (1986, p. 504) argued that "the stress laid on the link between heredity and leadership … the prestige of birth, allowed an unusual degree of freedom of action and the landed elite had an authority beyond any precise professional or functional limits." The authority of the elite and the underdeveloped market economy in the limited access order entailed that there were no strong countervailing institutions to limit privileges sought by the dominant coalitions. For instance writing on Transvaal's gold mining-led economy in the late 19th century Denoon (1980, p. 119) argued that "the influence of capital continued to depend upon the mediating influence of individuals who had the ear (and the pocket) of decision-makers. If the buccaneering and personalist phase of mining capitalist development was doomed, it took a long time to disappear."

By limiting people with access to key organisations the limited access order reduces fighting amongst the few enjoying the economic rents. According to North *et al.* (2009, p. 6), "Systematic rent-creation through limited access in a natural state is not simply a method of lining the pockets of the dominant coalition. It is the essential means of controlling violence". The colonial territories were filled with people with a strong inclination towards rent seeking (O'Brien and De la Escosura, 1998, p. 98) who guarded and legislated the access to these economic rents. It is within this context of the importance of interpersonal connections and the buccaneering phase of capitalism in the 19th century that state formation is to be understood. The discovery of minerals as a major economic windfall that coincided with limited access order institutions was important to the impetus towards either entrenching limited access or the transformation of the economy into an equitable one.

The tenets of LAO are intuitive but applicability remains conceptually and analytically vague. For instance the proponents argue that "The limited access order appears to be the means by which all but a handful of societies have secured order and limited violence for the last 10,000 years" (North *et al*., 2007, p. 6). This means that only a handful of countries have moved out of the LAO phase and the broad application of the framework entails that one has to identify unique features which depicts LAO arrangements. For a colonial setup, it is almost a given that LAO arrangements prevailed and this study demonstrates this through a) the mining magnates' resistance of direct taxes thereby setting a precedent for the colony, b) the control of the mining regime by the elite to manage the resource rents, c) the continuous efforts to disenfranchise the black Africans thereby narrowing the responsibility of the state to a few and d) the hierarchical society based on class and race creating a permanent class abyss that persists to modern South Africa. Yet there are other angles which other theoretical lenses illuminate better. This study reveals that the complexity of state formation processes makes the different theoretical frameworks discussed above non-mutually-exclusive for explaining the Cape's fiscal evolution. Theories of government expenditure and stage theories also have explanatory power and complement the LAO. Writings on the links between endowments and institutions are also important due to the centrality of diamond mining in the Cape. The next section briefly considers this literature.

2.3.2 Resource endowment and institutions

The Cape Colony's diamond discovery provides a case where the nexus between resource endowment and institutional development can be explored. The brief analysis of these issues here foregrounds our analysis of the Cape in later chapters. The discovery of large deposits of mineral resources played an important role in the institutional development of many colonies. The timing of the discoveries was also important because discoveries which coincided with inclusive institutions often led to production friendly paths while discoveries which coincided with poor institutions tended towards grabber or extractive friendly paths (Mehlum *et al.*, 2005). In the wake of discoveries of resources, the prevailing institutions matter for the prosperity or decline of a nation. This is what has been referred to as a 'conditional resource curse' and has been linked to reasons why nations fail (Acemoglu and Robinson, 2012). The state is central to the long term economic development of any nation through ways in which it handles resource endowments among other roles. This is more applicable in colonies where sovereignty was negotiated and those colonies which managed to attain self-governance sooner were more able to use mineral discoveries to leverage their prosperity.

The central thesis of Acemoglu and Robinson (2012) is that that political institutions determine economic institutions by conferring de jure political power. Natural resource endowments have an indirect impact on the economy via institutions and it matters, therefore, whether a colony was a settler or non-settler colony (Acemoglu and Robinson, 2001). Prevailing political institutions determine the nature of resource and rent distribution. Engerman and Sokoloff (1994) argued that Latin America had huge-scale farms and minerals with weak institutions prone to abuse by the elite. This was contrary to North America where there was no tendency towards large farm ownership and where settlers were disposed toward equality in resource distribution. In many developing countries the discovery and handling of natural resources is often cited as the key example of poor economic performance emanating from poor institutions (Mehlum *et al*., 2005). Examples include Nigeria, Bolivia, Papua New Guinea, Peru, Zambia and Chile where resources have been shown to lead to suboptimal economic performance (Auty, 1994; Gelb, 1988).

Resource rich countries have also been linked to the 'Dutch disease' as a common explanation of why the countries experience economic stagnation or slow growth post mineral discovery. The Dutch disease phenomenon means that potential revenue and rents in the resource sectors lead to under-investment in other sectors (Torvik, 2001). During the nineteenth century, natural resource sectors were the driving sectors of most economies but the periphery countries, most of which were colonies, mainly produced resources for the industrialising core (see section 6.5 in chapter 6). The diversification away from extractive industries such as mining was in most cases slow and, given the centrality of resource exports, many of these countries experienced immiserating growth (Bhagwati, 1958). Given that rents were concentrated in the resource sectors, the states had to define property rights in a way that allowed them to obtain revenues. In most cases it was the rudimentary regulatory environment that shaped the exploitation of the natural resources in a biased manner (Davis& Huttenback, 1986). North (1981, p. 28) argued that efficiency in property rights is good for economic growth but leads to lower income for the ruling elite because of costs involved in "metering and collection of taxes" while granting a monopoly right reduces these costs drastically and is revenue maximising to the ruling elite.

The public finance institutions are particularly important when considering the impact of discoveries of natural resources. In the presence of weak parliamentary institutions, political institutions are easily distorted to benefit the minority and an institutionally weak state cannot overcome this challenge. In fact, it is the weak state itself which can be the source of struggle for control of the resources rents, especially when it has failed to define and protect property rights (Acemoglu & Robinson, 2012; North, 1981). Mark Dincecco in *The rise of effective fiscal states in Europe* differentiates between 'the old regime' and the 'effective states' (Dincecco, 2015). The key features, fiscal centralisation and parliamentary oversight of what he referred to as *effective states,* are that they can implement a uniform tax system throughout their territories and that a veto player exists within the national government so that the gathered revenues are channelled efficiently without waste or corruption (Dincecco, 2015).

Resource endowments and institutions were crucial for how revenue and expenditure policies led to specific development paths in colonial states. Extraction or grabber friendly institutions were found in some of the settler colonies which normally should have had inclusive institutions (Frankema and van Waijenburg, 2014). Chapter 6 reveals that through foreign borrowing the colonial state inevitably 'served mammon' because foreign capital and local businesses were the minority benefiting from the resources of the Cape and later from Transvaal's gold fields. The underdeveloped institutions and the buccaneering and personalist phase of mining capitalism meant that a few individuals could be in control of the entire industry (Denoon, 1980). Cecil Rhodes's De Beers Company and his agricultural interests were key examples of how a very large part of the economy could have been in the hands of a few during specific phases of the development process. The gold-maize alliance later in Transvaal (1900 onwards) was another example of elite control of major sectors of the economy (Trapido, 1971). Patronage relations within the ruling elite often meant that tenders were allocated to colleagues and private interests could be pushed in government policy through irregular means (Mosley, 1983). When key economic sectors such as mining are controlled by a minority, the development outcomes are favourable for those with access to state power. Mineral extraction took place before political institutions were fully developed in the colonies. In the face of such vulnerable political institutions, mineral discovery led to extractive growth (Acemoglu and Robinson 2016). For instance, property rights development in the early colonial era was prone to capture by those in business who caused the defining of these rights to be beneficial to their private interests (Davis& Huttenback, 1986; North, 1989).

2.3.3 Theories of growth in government expenditure

Various stylised facts and theoretical explanations have been put forward to understand the growth in government expenditure. According to Tanzi and Schuknecht (2000, p. 6), government expenditure grew in the developed world from an average of 10% in the 1870s to about 45% of GDP in 1996. This mirrored the evolution of economic thought from the classical thinking in the second half of the 19th century to the post WWII era, during which European countries were heavily influenced by social-democratic ideas. Government expenditure growth came from the growing belief that redistribution of wealth was supposed to be part of the legitimate function of the government (Tanzi & Schuknecht, 2000, p. 5). The social spending in the post-WWII period was also crucial because of the aftermath of the war destruction. Government expenditure is a key area of state formation because it is what the state does with the gathered revenue that partly determines its legitimacy. The size of the state itself is often measured by the scope of its responsibilities on public goods provisioning as well as the public wage bill.

Putting war as the common cause of increase in government expenditure, Peacock and Wiseman (1961b) argue that the use of violence towards the establishment of external and internal order is a key leading determinant of rising government spending. They argue that large scale events such as wars leave governments with no option but to spend more and hence to mobilise more revenue. This is again in line with the truism that war made states. Peacock and Wiseman (1961b, p. 14) argue that "governments like to spend more money while citizens do not like to pay more taxes, and that governments need to pay some attention to the wishes of their citizens." In their theory, there is no consensus about a desirable level of government expenditure and the limits of taxation. Nonetheless, there is an equilibrium until a disturbance occurs which can be any huge scale social disturbance such as a war (most common driver of increase in expenditure in history) or other natural disasters. Such large-scale social disturbances cause ratcheting-up of government expenditure onto a higher level that entails the emergence of a new level of tolerable taxes. Mkandawire (2010) argues that this is fiscal inertia, when taxes outlive their initial reasons, and it brings the government to a higher permanent level of expenditure.

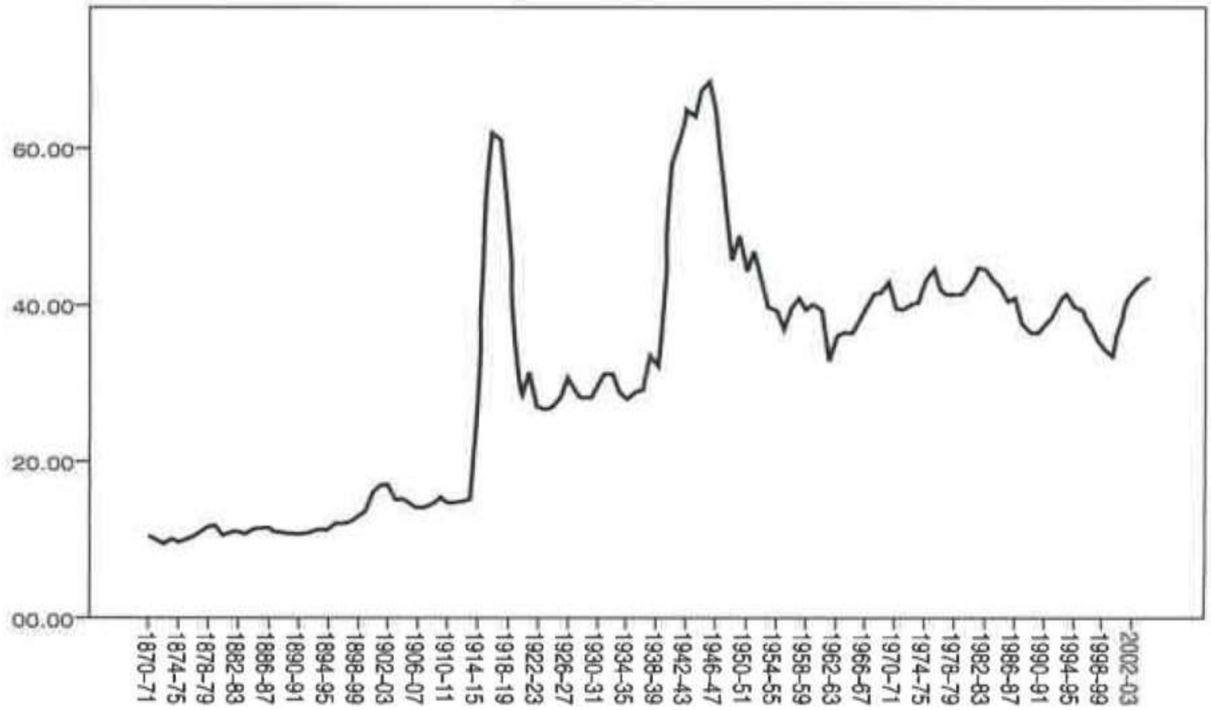
A key outcome of the Peacock and Wiseman hypothesis is the social expenditure implications of major social disturbances. Once the war is over, the need for war reparations, war pensions and debt servicing is realised and through the "inspection effect" citizens start to tolerate higher taxes as they see the government put priority on social issues (Peacock and Wiseman, 1961, p. 14). The dynamics in the colonies were slightly different because the metropolitan centres took responsibility for the financing of these huge scale social disturbances. For colonies and other countries on the periphery there was a type of 'demonstration effect' in operation: once rich-country governments started providing education and health care, spending on such items became more acceptable and more strongly demanded in developing countries as well. It also goes without saying that once a state is formed, what remains is growth of government which is primarily defined by the size of the bureaucracy and the level of public expenditure shares in GDP.

The government expenditure trends in Britain, the USA and Sweden have often been used to demonstrate the Peacock and Wiseman hypothesis. It is clear that the world wars had demonstrated similar effects on these nations' respective levels of expenditure as shares of GNPs (Tullock, 2002, p. 1). The British case illustrates the Peacock and Wiseman hypothesis clearly because both WWI and WWII ratcheted government expenditure to new levels and in both cases it never went below its previous levels (figure 2.1). The US and Swedish cases also portrayed the same upward ratcheting spikes and stabilised levels different from the previous ones (Tullock, 2002, p. 1). According to Rowley and Tollison (1994, p. 127), the Peacock and Wiseman hypothesis has never been falsified in about thirty years of research up to 1994. This is due to the fact that the hypothesis depicts the nature of public expenditure growth in a dynamic way. The Peacock and Wiseman hypothesis is powerful because it captures historical events as they are without attempting to make history linear (Rowley & Tollision, 1994, p. 125).

Underlying the work of Peacock and Wiseman was the earlier work by Adolf Wagner. Wagner also explained the growth of government expenditure by stressing the law of increasing state activity. His central argument was based on the fact that among progressive peoples:

> Central government and local governments constantly undertake new functions, while they perform both old and new functions more efficiently and more completely. In this way economic needs of the people to an increasing extent and in a more satisfactory fashion, are satisfied by the Central and Local Governments (Vinod Sen, 2015, p. 19)

Figure 2. 1 British government expenditure as shares of GNP, 1870-2003



Source: Tridimas (2014, p. 2)

Wagner's law time series analysis has been done for many countries and the approach has not been very useful because such studies simply focus on whether Wagner's law is observed in a given country. Peacock and Scott (2000, p. 1) argued that much of the testing shows ignorance of Wagner's original formulation "leading to misspecifications and obscure objectives in hypothesis testing". The general argument of Wagner concerning the growing government expenditure has become a stylised fact and this study does not test it empirically because the general rise in government expenditure has been a norm in history.

The expansion of the franchise has been decisive throughout history for the increase in government expenditures. Voters' interests and demands compel political leaders to 'deliver' their electoral promises when they enter office. Formally this has been analysed by Meltzer and Richard (1981). Their key argument was that:

> The size of government is determined by the welfare-maximising choice of a decisive individual. With majority rule the voter with median income among the enfranchised citizens is decisive. Voters with income above the decisive voter desire lower taxes and less income distribution. The spread of

> franchise in the nineteenth century and twentieth centuries increased the numbers of voters with relatively low income. The position of the decisive voter shifted down the distribution of income, so taxes rose (Meltzer & Richard, 1981, p. 924).

Thus, unlike Wagner, Meltzer and Richard (1981) emphasised inequality as the important factor rather than absolute poverty. The more people have incomes below that of the median voter the more pressure government receives for redistributive expenditure. The colonial franchise in the 19th century was limited but the limited democracy which prevailed began to push the governments towards the wishes of those who had voting rights. With the franchise limited to the minority, the growth of government expenditure was limited to their needs. With regards to 20th century Africa, Mkandawire (2010, p. 1651) spoke of a 'racist welfare state' for most of African colonies in the 20th century as they considered only the welfare of the white settlers and ignored the black African majority. The 19th century Cape Colony's franchise legislations formed the foundation of this racial stratification of South Africa which culminated in the 20th century apartheid (see section 3.4).

2.4 Europe, Asiatic and North American experiences in the evolution of states

With the acknowledgements of diversity in the paths to modern fiscal systems in literature (Bonney, 2012; Yun-Casalilla, 2012), it is important to briefly review key aspects of state formation in a few countries. England is a key example used in state formation literature but for this study it is important since it was the metropolitan centre for the Cape Colony. Using the existing literature, this section covers some aspects of state formation and more details on England than other cases is warranted since developments there were crucial for its colonies. Other cases will illustrate the diversity of the state formation processes at the same time showing that, over time, convergence on key aspects of the state such as permanent public debt was achieved (He, 2013). The need for self-defence and security is illustrated by all the cases discussed in this section as fundamental in the state formation process. This is where colonial state formation appears to be different since the imperial authority financed the defence of the colonies. If public debt became a permanent feature of the state because of war related expenses in Europe different mechanisms worked to generate public debt in colonies.

2.4.1 England as the leader of state formation

This section discusses England as a prime example or leader in the consolidation of desirable state institutions (Acemoglu & Robinson, 2016). What stands out is the strong legitimacy that emerges because of the co-evolution of state and society in an interrelated progression. To use Evans's phraseology, the state was autonomously embedded within the society (Evans, 1995). The composition of state revenue, expenditure and public debt will be briefly discussed because England was crucial to the Cape since the latter was part of the British Empire. The anticipation is that the Cape will portray similar trends and patterns in its public finances since most of its state institutions had the British character. The section will start by looking at state elements identified in the definitions before moving to the composition of revenue and expenditure.

Between 1272 and 1307, under Edward I the increasing costs of war meant that public taxation had to be the key source of war expenditure outlays (Ormrod, 1999, p. 20). There was a shift as the monarch stopped relying on his own resources such as accumulated treasures and agricultural income. While the English fiscal state sought legitimacy through consent during the Middle Ages in the era of the charters initiated by Magna Carta (Daunton, 2012, p. 116; Ormrod, 1999, p. 25), significant revenue was obtained through coercive means from the tallages of Jews. The Jews suffered coercive revenue extraction practices since the purely British civil society was resistant and was avoided by the monarch. For instance, the royal demands upon Jews grew from £13 333 in 1241 to £40 000 in 1250 and Jewish expulsion in 1290 also meant a loss of this fiscal revenue (Ormrod, 1999, p. 25). While these tallages were not exclusively directed to war expenditure, substantial amounts went into extractive capacity building such as the tallages imposed for King John's expedition into Ireland in 1219.

According to O'Brien and Hunt (1999, p. 55) the period before 1660 can be referred to as the period of fiscal pluralism in England because there was no single authority accounting for and receiving the king's revenues; this was done by boroughs, shires and cities. The era of a centralised fiscal system, a critical feature of fiscal states, had not arrived but war related needs had to be met. The driving force for some form of accountability by close monitoring and assessing revenue was the need to cater for the kingdoms' armed forces (O'Brien & Hunt, 1999, p. 55). According to Daunton (2012, p. 116) the parliament started meeting every year from 1688 and England was the first nation to make its financial statement publicly visible. This had far reaching consequences because the monopoly on the use of violence, to use the Weberian formulation, was established earlier in England with considerably more legitimacy than anywhere else.

The fiscal capacity building from 1688 to 1815 continued to be "overwhelmingly military in form but devoted in large part to defence of the domestic economy from external aggression and to securing colonies and markets overseas for British industry and commerce" (O'Brien & Hunt, 1999, p. 65). Taxes alone were no longer sufficient for England's imperial ambitions and another key feature of fiscal states had to be devised – public debt. The coercive capacity had to be strong not only for the English economy but also for the defence of its overseas territories whenever the need arose and the importance of public debt and even external loans became apparent. Ormrod argued that going back to the 1340s the English Crown depended on a series of Italian merchant banks and the large scale nature of these loans meant that they were out of proportion to the real value of the taxes (Ormrod, 1999, p. 36). Daunton (2012, p. 125) argued that the core strength of the developing British fiscal system in its early phase was the 'miscible'[9] collaborations between the landed and moneyed interests (i.e. merchants, traders and industrialists). These could easily veto the state during parliamentary sessions against defaulting on its credit because any fall in the state's credit worthiness often spilled over to them as well since they also relied on debt.

With the limit of borrowing and the extraordinary revenue requirements which were realised during the height of the Napoleonic wars, England under William Pitt introduced the income tax in 1799 (Atkinson, 2004, p. 125; Daunton, 2012, p. 130). This has been termed the 'tax that beat Napoleon' and while this may be exaggerating, the income tax combined with internal and external borrowing was a major reason England was triumphant. Daunton (2012, p. 128) stressed that Napoleon distrusted debt and never managed to successfully impose extraordinary taxes and as a result " England out-taxed, out-borrowed and out-gunned the French during the wars." Although it was introduced as an extraordinary source of revenue for the war, the income tax came to be the key feature of the British fiscal state from 1842 onwards and it became desirable for other reasons such as its progressive nature compared to other taxes such as excises which were falling heavily on the working class and producers (Daunton, 2012, p. 130). Out of

[9] In the field of chemistry, any two liquids are miscible if they completely dissolve in each other.

the need for war financing, in other words through coercive capacity building, a key feature of the Britain's modern fiscal state was discovered – income tax.

Overall, major tax revenue (table 2.6) in Britain from the 18th and 19th century was comprised of customs, excise, stamps, post office and land related taxes among others (Daunton, 2001, 2012; Hartwell, 1981; Tames, 2005). These are shown in table 2.6 below with the respective percentage shares of total revenue. In many instances no systematic data are available to cover the period of interest, 1800-1900. However, key trends are observable with the available figures in table 2.6. The prominence of the customs and excise taxes is clear from the table and as percentages of total tax revenue these two sources never declined below 45%. Unlike other nations in Europe, the British wages were comparatively higher (Allen, 2011; Goldstone, 1996) from the late 18th century to the early 19th century making such a reliance on excises feasible. The advent of the Napoleonic war caused the customs and excises as major tax revenue sources to decline from 65 % to about 58% but from the 1820s after the war these two sources rose to 71% (Atkinson, 2004; Hartwell, 1981).

Table 2. 6 England's public revenue sources, £ millions (1790-1909)

Year	Customs and excise (£)	%	Land and assessed taxes (£)	%	Property & income taxes (£)	%	Death duties (£)	%	Rest (£)	%
1790-9	13.7	65	3.6	17	0.2	1			3.5	17
1800-9	29.6	59	4.9	10	5.6	11			10.2	20
1810-19	40.8	58	8	11	11.1	16			10.3	15
1820-9	41.2	71	6.5	11					10.5	18
1830-9	38.2	74	4.7	9					8.7	17
1840-9	37.3	68	4.4	8	3.3	6			10.1	18
1850-9	39.3	63	3.6	6	8.8	14			10.5	17
1860-9	42.4	62	3.3	5	8.6	12			14.4	21
1870-9	46.1	61	2.7	4	6.7	9	5.4	7	14.1	19
1880-9	45.8	53	2.9	3	12.3	14	7.3	9	17.8	21
1890-9	51.5	49	2.5	2	15.2	15	12	12	23.1	22
1900--9	68	45	2.6	2	31.1	21	18	12	30.9	20

Source: Tames (2005, p. 124)

The reliance on customs and excise taxes also confirm that the British economy was heavily reliant on its growing trade and the booming manufacturing industries which employed more and more people implying higher yields for excise taxes. This was not different from the colonial experiences as the Cape Colony reveals in chapter four. Even up to 1875, the dominance of customs and excises is evident when the introduction of the death duty took place.

Over time, the burden of insufficient revenue was ameliorated by the ability of the British government to borrow especially for its extra ordinary demands during the war periods. The public debt system had already been institutionalised through the parliament before the 19th century in Britain and borrowing played an important role in the British fiscal system. The end of the Napoleonic war marked the end of the incessant rise of debt (Daunton, 2012, p. 128). An interesting feature of public debt is the sense that it continuously increased and with more wars came more debt as it was the only means available for such extraordinary war circumstances. In eighteenth century England, debt servicing and military spending absorbed more than 80% of public expenditure (table 2.7 below), leaving the remainder for civil government expenditure (Webber & Wildavsky, 1986, p. 289).

On the expenditure side, the industrial revolution in Britain had the consequence of bringing people into towns, initially dominated by ramshackle housing prone to health hazards due to poor sanitation. The 1831-32 cholera epidemics in England were important in bringing consciousness of and the need for public health programmes. This led to the formation of the Public Health Act of 1848, which was a milestone in proactive rather than reactive public healthcare provisioning (Fee & Brown, 2005, p. 866). The corollary of this Act was that the government had to commit to the creation of a permanent department of health that required fiscal commitments each year. According to Chantrill (2015), healthcare expenditure rose dramatically from 1865 onwards. Table 2.7 shows the general patterns of England’s public expenditure.

Table 2. 7 England's expenditure patterns, £ millions (1790-1909)

Year	National debt (cumulative)(£)	Debt servicing (£)	%	Military expenditure(£)	%	Civil government (£)	%	Education (£)	%
1790-9	426.6	11.6	35	19.4	58	1.9	6		
1800-9	599	20	33	35.3	59	4.6	6	0.1	0
1810-9	844.3	28.5	35	47	58	5.5	7	0.2	0
1820-9	801.3	30.4	59	15.7	30	5.6	11	0.1	0
1830-9	788.2	28.9	58	13.1	26	4.9	10	0.1	0
1840-9	794.3	29.2	57	15.1	30	6.1	12	0.3	1
1850-9	808.8	28.4	47	21.9	37	7.9	13	0.7	1
1860-9	751	26.6	41	26.7	41	10.7	16	1.3	2
1870-9	736.1	26.2	40	24.3	37	13.5	20	2.6	4
1880-9	623.8	27.7	36	28	37	18.7	24	4.9	6
1890-9	598.7	23.6	26	36.4	40	20.2	22	9.2	10
1900-9	716.1	23.2	16	79.1	55	30.2	21	14.9	10

Source: Tames (2005, p.124)

The expansion of public expenditure was driven by various needs and the availability of resources as the economy grew. The steady rise of education and civil government expenditure is evident in table 2.7 above as government activities expanded towards the end of the 19th century. Education, as a key category of social expenditure, did not receive much attention in the first half of the nineteenth century. From 1833 the central government only made grants which were meant to help and encourage voluntary church schools to keep operating. It was only in 1856 that the department of education was created (Abramovitz & Eliasberg, 1957, p. 15). Before 1890, as long as the education expansion was dependent on government, it remained limited to elementary schooling – secondary and technical education only came after 1890 (Abramovitz & Eliasberg 1957, p.15). West (1975, p. 3) argued that Gladstone, chancellor of the exchequer, was concerned about the possibility of extinguishing private effort in educational advances by using the exchequer to fund public schools. Hence, he resisted the introduction of public school funding. In general the approach to state expenditure tended to be more reactionary than proactive. Even the introduction of the national health insurance system in Britain after the Second World War reflected the extent to which war-time bombing had brought society to accept hospital services as a necessity of life (Peacock & Wiseman 1961, p.XVIII).

In the welfare sector of British expenditure, poor relief became the main social security spending aspect in the nineteenth century and can be regarded as the expanded "ancestor of modern welfare" (Lindert, 2004, p. 34). In the very early years of poor relief, it was the responsibility of churches to cater for the poor through alms and the state had no role in mitigating the condition of the poor. According to Lindert (2004, p.41), England instituted laws against "…vagabonds, rogues, disorderly and idle people and the state prohibited beggary…" This is confirmed by Gardner (2012, p. 33), who argued that the British state had a minimal role to play on the welfare front under the Victorian norms of political economy and the thrifty Gladstonian ideas concerning the public finances. Besides steps to introduce poor relief, the British system remained a minimalist state in the 19th century.

2.4.2 France as a less successful case compared to England

The major difference between England and France is the issue of legitimacy which was crucial not only for types and levels of taxes imposed but spilled over to the public borrowing reputation (Acemoglu & Robinson, 2016; Bonney, 2012; Johnson and Koyama, 2016). France had the largest population of tax payers in Europe but it had the most frequent fiscal bailouts of all European powers – France's fiscal paradox[10] (Bonney, 2012, p. 93). Venality of office (tax farming and outsourcing of revenue raising) was a main source of the French revenue, peaking between 1620-1634, and this became pervasive because most officials managing the king's finances during war became holders of these offices wielding unchecked powers (Bonney, 1999b, 2012). The tax farming done through these former military chiefs meant that there was no trust built between the state and the society over a long time because the tax system leaned towards repression. These local power holders had a huge negative influence on fiscal centralisation in France. Without revenue centralisation, a key component of state formation, the French state remained legally and fiscally weak for a long time. In support of this, Johnson and Koyama (2016, p. 5) argued that "the French experience of state building differed from the English experience. In the face of far greater resistance from local power holders, it was significantly more protracted and drawn out".

[10] According to Johnson and Koyama (2016, p. 5) France was large with heterogeneous areas and fragmentation of political voice whereas England as a small area "was able to develop fiscal capacity in such a precocious manner due to the relative homogeneity of its people and geography. Where there was more initial heterogeneity, the state building process developed very differently. England was able to successfully build state capacity in part because of its higher level of initial cohesion."

The exigencies of wars and threats of wars were also a crucial factor for France's fiscal system. The army grew from a mere 10 000 men in 1610 to about 400 000 men in 1690 mainly "because of the need to fight in several European theatres of war simultaneously" (Bonney, 2012, p. 98). According to Henneman Jnr (1999, p. 101), state finances in France before 1789 generally were royal finances and the medieval monarchy was only part of many entities which existed with rudimentary state-like features. Coercive capacity building thus was more crucial in a place of so many competing jurisdictions and the area under the royal control kept expanding and contracting (Henneman Jnr, 1999). External threats such as the capture of John II in 1356 had a huge effect on coercive capacity building because the indirect means of soliciting revenue was replaced by a regular and direct permanent form of taxation (Henneman Jnr, 1999, p. 112). The reason for this was that the king had to be ransomed often and there was need to finance defensive wars. Royal ransom taxes were the heaviest form of tax imposed in the French kingdom over a long time (Henneman Jnr, 1999, p. 117). A general point to be made, even shown by table 2.3, is that in the 16^{th} and 17^{th} century France, "armies expanded and became businesses" (Tilly, 1990, p. 79). With mighty armies and lack of fiscal capacity due to political fragmentation the French state building was unbalanced because of poor fiscal resources and lack of access to public borrowing.

The wars from Charles V to Charles VIII and the decision by Charles VIII to invade Italy in 1494 were facilitated by the development of an entrenched fiscal state and the state army on full salary (Henneman Jnr, 1999, p. 120). According to Bonney (1999b, p. 162) the finance ministry in France was only a seventeenth century phenomenon and the "motor of fiscal change in France, as for all main European monarchies, was expenditure on war." Like the income tax in Britain, Louis XIV had promised that extraordinary taxes, mostly direct taxes "were a temporary measure for the war but when faced with huge debt and interest payments he declared in 1715 that the new taxes had to be continued until the debt was paid" (Bonney, 1999a, p. 132). Unlike England, France's finances were chaotic and the first public financial statement made in 1781 was met with disbelief and scepticism (Daunton, 2012, p. 116). Henneman Jnr (1999, p. 108) argued that, due to the lack of transparency, the French people resisted taxes except for the times of outright wars when they saw the need. By contrast, England had an orderly and legitimate fiscal system for a century before 1781.

The failure to consolidate fiscal capacity in France was partly because of the failure by the state to create a positive reputation on public debt as well as general mistrust from the French people. Bonney (2012, p. 99) argued that internally, instruments of credit were underdeveloped and the money in circulation did not increase. This points to the fact that the French had not only difficulties in borrowing from the outside but also their financial and monetary systems were under-developed. According to Daunton (2012, p. 121), France was regarded as a risky nation and it paid a default premium on its borrowing and this was justified by "partial defaults in 1720, 1759, 1770, 1788 and 1789." Financial crises were endemic both in France's *ancient-regime* and in revolutionary France. Debt rescheduling operations had a long history as well and this is shown by the operations of 1598, 1634, 1648, 1661, 1720, 1770 and 1797 (Bonney, 1999a, p. 162). These financial difficulties forced France into pervasive coercive means such as forced loans, selling of offices and brutal tax farming which contributed to the resistance from the nobility and tax payers (Daunton, 2012, p. 114; Hart, 1999, p. 309). In pursuit of coercive capacity in the face of financial crisis, France entered into an alliance with Spain. As a result of this alliance the British navy disrupted the Atlantic trade which was crucial for France's customs and other remittances from America (Gelabert, 1999, p. 237). Showing the importance of the trade and remittances from America, Webber and Wildavsky (1986, p. 271) reported that between 1500 and 1650 " France imported 180 tons of gold and 16000 tons of silver." Without such a crucial source of fiscal revenue later in the late 1700s, France's Napoleon could not stand against Britain which was strengthening and monopolising trade with its colonies (Engerman, 2007, p. 42).

Fiscal strength strengthened the Bourbon monarchy for the first time since the Bourbon Restoration (1814) and the main taxes levied were indirect taxes. This was mainly because Louis XVIII kept his promises made in the Verona Declaration which stressed that no tax was to be established unless it had gone through the votes of the chambers and was allowed by the king (Bonney, 1999b, p. 166). A crucial aspect of this was that the King had to instil trust and loyalty to the officeholders, nobles and higher clergy who were a significant part of the fiscal capacity building.

Napoleon Bonaparte distrusted debt and had a very strict monetary policy. He rejected paper money during the Revolution in favour of traditional rectitude (Bonney, 2012, p. 106). According to Daunton (2012, p. 130), Napoleon "thought that Britain's reliance on debt was to be its downfall – a gnawing worm which will lead to disaster and he regarded financiers as the scourge and lepers of the nation." Indirect taxes, unlike direct taxes, played an influential role in state revenues during the Napoleon wars because they could be manipulated without parliamentary controls. In the 19th century, the fiscal regime went through changes because the political realm changed three times; "three Revolutions, two *coups d'etat* with three types of regimes being monarchical, imperial and republican" (Bonney, 2012, p. 107). Fiscally, from 1815 to the 1830s, a key development was the growth of public debt which quadrupled from 1.272 million livres to 4.627 million in 1830. This period shows that France was catching up to other fiscal states such as Britain which had had public debt as a permanent feature of its fiscal system more than a century back. France's example, compared to Britain, shows that when a state evolves without trust from the citizens, it encounters more difficulties and it becomes difficult to gain legitimacy in the eyes of the fragmented civil society.[11]

2.4.3 The Moghul Empire and British India

The Moghul Empire existed in India between 1500 and 1757 when it got weaker and therefore was replaced by the official rule of the British East India Company (BIEC) which ruled India from 1757 to 1858. The British crown took over the rule of India from 1858 until its independence in 1947. The Moghul Empire and British India (under the company and Crown) offer an important case of how fiscal capacity building changed when the British took over from the Moghul imperial system. It is also important in the sense that it offers an example of how fiscal and coercive capacity was built under colonial conditions (both company rule 1757-1857 and crown rule, from 1858 onwards) and hence provide an important case of some form of colonial fiscal capacity building.

The Cape Colony having been under the Dutch company and later the British authority mirrors the Indian development because the BIEC relinquished power to the British authorities. At the crucial time of its existence, 1850-1914, the British Empire was dominated by India (85% of the Empire's population) in terms of demographics (Offer, 1993, p. 227). According to Richards (2012, p. 410) there was a continuity between the Moghul fiscal system and the British system under the company and imperial rule.

[11] The term 'embedded autonomy' was used by Evans (1995) and is useful in thinking about such state-society coevolution which led to institutionalisation of channels of policy negotiations between the state and society. State-society co-evolution also allows a culture of negotiations that makes a virtuous circle of broad coalitions possible (Acemoglu & Robinson, 2016, p. 42).

Tribute, in the form of coins, was the central form of taxes and all the Moghul Empire's subordinate principalities had to pay it. This differentiates the Mogul empire from Tokugawa in Japan and the Ming and Qing dynasties in China which relied heavily on taxes paid in kind (Ellinwood, 1998; Richards, 2012).

Territorial aggrandisement was the key source of revenue for the Moghul Empire and at its peak in the early 18th century it grew from 150 million people in early 1800 to about 193 million people in 1859 (Richards, 2012, p. 411). The productivity of the Indian agriculture spurred each successive regime due to high levels of surplus until the late 19th century when Malthusian constraints started to set in. The British conquest, under the auspices of the British East India Company, between 1757 and 1859 put India on a form of fiscal militarism which was a strong form of coercive capacity building (Ellinwood, 1998). Military needs drove much of taxation and were the greatest part of public expenditure. Until 1833, profit-maximisation was the key goal for the BIEC while a great army secured the territory from external threats (Richards, 2012, p. 439). The period between 1757 and 1859 has few years in which the British East India and the British armies did not engage in "internal pacification campaigns or external wars" (Richards, 2012, p. 417). Ellinwood (1998, p. 179) emphasises this extra-ordinary need for a strong fiscal military state by arguing that the Indians were perceived to be unreconciled with the notion of British domination.

Under the British East India Company, profits and shareholder dividends drove the logic of the fiscal state which was very minimal and extractive in nature. Offer (1993, p. 228) attested to this when he argued that "Britain kept the Indian market forcibly open for certain classes of British exports. India ran a chronic trade deficit with Britain, which made a big contribution to Britain's balance of payments". This was against the backdrop of India bearing the cost of the British rule in the Indian territories. India subsidised the British Empire by paying for Indian and British troops on campaigns to keep India and the outlying territories in check (Offer, 1993). With no significant investment in infrastructure the Indian economy remained a wealth extraction enclave for the British Empire.

All fiscal resources secured through various taxes were meant for security and defence. The Sepoy Mutiny (an uprising against the British rule) in 1857 was, among other causes such as those of a religious, political and cultural nature, partly caused by unfair and heavy taxes being charged on land by the British East India Company. This was against the fact that the BEIC officials and military officers were well catered for in terms of higher salaries while surplus revenue was extracted from all territories (Richards, 2012, p. 439). Offer argued that with respect to heavy taxes and heavy expenditure on military, "An independent India might have spent the same or more, but it was *not* independent, and had no liberty to defend itself. It paid to support an alien sovereignty" (Offer, 1993, p. 228). It was only in the post Sepoy Mutiny period that normal government expenditures such as observed in non-company governments were increased and for the first time an increase was made towards public buildings, roads, bridges and public works in general (Richards, 2012, p. 441). These major changes were brought because the British crown was trying to avoid further insurrections and to bring legitimacy to their rule after a century of extractive BIEC practices.

2.4.4 China from 1300-1911

The Ming dynasty fell around 1645 after its rule from the 1300s and paved the way for the Qing dynasty which ruled until 1911. Before the 1850s the state, under both the Ming and Qing, was able to supply security and order to a place as large as Europe (Wong, 2012, p. 354). The coercive capacity of the Chinese dynasties was centred on the contributions from peasants both in monetary form and in kind through army recruits and labourers recruited from the country side. According to Deng (2012, p. 339), the Qing dynasty soon after taking power linked all previously existing walls into one line of defence making China the only walled empire in history. While not many great wars were fought, the Chinese empires were kept together by threats of nomadic invasion and raids and the peasants were fully aware that they had to support the state in terms of tax (mostly in kind with items such as clothes and food for the army) (Deng, 2012, p. 340). Wittfogel (1957) in *Oriental despotism* highlights the importance of agriculture for the *hydraulic state*[12] in the Asiatic world, of which China was a dominant player, with the extreme level of power that entailed that citizens who did not serve as bureaucrats were merely slaves of the state.

Besides the need for external security, the fiscal systems of the Chinese dynasties were driven by the need to constantly expand the empire in all directions, collecting revenue

[12] Wittfogel (1957) argued that societies under this system were controlled by the manipulation of water supply and despotic states held absolute power by controlling the water sources.

mostly in kind from its huge population (Deng, 2012, p. 342). Army food and supplies received the lion's share of these collections while the rest went to the bureaucratic system which was vertically integrated and efficient for administering the affairs of the state (Wong, 2012, p. 376). The coercive capacity in China's dynasties was remarkable but it came at the cost of a proper strategy for economic progress and tended to be inward looking (Landes, 2006). In contrast Japan, after the Meiji restoration and after its victory over Russia, moved quickly to secure international capital, mainly on the London capital markets, which supplemented and altered the history of its meagre income from taxes (Nakabayashi, 2012, p. 379).

According to Vries (2001, p. 432) upward social mobility was impossible and there was no increase in demand for status goods in China as compared to Europe. This was further compounded by the fact that Chinese dynasties up to 1911 had no Chinese mercantilism. The Chinese did not have overseas territories and colonies and "In the 19th century the Chinese would live to regret that" (Vries, 2001, p. 439). Landes (2006) aptly summed it up by arguing that when the Chinese saw Europe growing and industrialising, "At first China was unbelieving and contemptuous. Later it became increasingly anxious and frustrated." Broadberry (2013, p. 2) also emphasised the importance of capital accumulation in Europe rather than in the Asian countries, China in particular, as a key determinant in the *great divergence* narrative.

Key features of the Chinese state were the institutionalisation of the low per capita tax regime, bias towards balanced budget, sophisticated bureaucracy and Confucian values (Deng, 2012, p. 349). These created a politically strong coercive capacity but the economic and therefore fiscal capacity was limited in the long run. It would seem that China's great empires quickly faded into primitiveness, "mere succession of ephemera and indifference to science and technology" (Landes, 2006). There was economic stagnation, mostly driven by rural industries (Pomeranz, 2008, p. 84) compared to the fast growing and industrialising Europe. According to Goldstone (1996, p. 3) the Chinese technological adoption was behind the Japanese one by half a century and Confucian customs kept women at home while their counterparts in Europe worked in cotton factories. This laid bare the long term deficiency of China's total power as a coercive apparatus that lacked a long term economic strategy for the globalising world. Considering Tilly's title *Coercion, Capital and European States,* the Chinese fiscal system did not get the *Capital* aspect right while they had coercion in the extreme cases only paralleled by the Soviet Union during its feudalistic 'golden era' (1600-1800).

Despite being a strong coercive system, the Chinese state was politically inflexible and economically it remained primitive for a long time. In his *Understanding the Process of Economic Change*, North (2005) emphasises the need for flexibility in the institutional framework – adaptive efficiency. The Chinese system locked itself into a low and inflexible "equilibrium between the elite and the peasants, national defence and political legitimacy, between rent seeking and Confucian self-discipline" (Deng, 2012, p. 349). The reality of this is that with reliance on taxes in kind, fiscal capacity was limited because the bulk of rural peasants were not part of the cash economy and this made it difficult for the state to collect revenue. In his general formulation North (1981, p. 28) argued that efficiency in property rights is good for economic growth but leads to lower income for the ruling elite because of costs involved in "metering and collection of taxes" while granting a monopoly right reduces these costs drastically and is revenue maximising to the ruling elite. The Chinese empire's ruling elite amassed wealth but at the expense of efficient property rights and economic growth.

2.4.5 Colonial states as 'artificial states' – American example

The 'natural states' were identified by North *et al.* (2009) as the very first states to develop limited access order institutions. I use the term 'natural' or 'artificial' in a different way here. The fact that colonial states did not occur naturally as in sovereign territories entails artificialness in some sense. The colonial state was imposed and the logic of its operations was limited by local resistance, an imperial agenda and the desires of the colonists. To the indigenous people it was an 'alien state' (Booth and Frankema 2017, p. 14). The colonial state was thus not 'organic' and the North American example shows that the features of the colonial state were an outcome of negotiations between the settlers and the mother country. In essence, the colonial state was an outcome of trial and error as interests of the settlers collided with those of the Imperial authorities and local resistance from the original peoples.

The central argument about colonial institutions and therefore fiscal institutions is that territories with benign disease environments became settler colonies in which good institutions were established. While the non-settler colonies have been regarded to have extremely extractive fiscal institutions, the recent debates have focused on the fact that even some of the so called settler colonies did not have benign institutions after all (Austin, 2008b; Frankema & van Waijenburg, 2014; Huillery, 2014). Good institutions, those promoting equality, property rights and economic growth, have been found mostly in dominions namely New Zealand, Australia, the United States, Canada, Hong Kong, and Singapore (Acemoglu *et al*., 2001, p. 1376). The dominions were not perfect but they had characteristics which propelled them in directions with positive effects on long term economic development. Another key difference in certain colonial territories is whether a company was responsible for a particular colony and this was important for the institutional outcomes and long run development. Examples of these companies were the Dutch East India Company and the British East India Company. Companies had monopolistic and profit orientation while colonies with established colonial governments could focus on local development on a broader scale (Fourie *et al*., 2013; Richards, 2012).

The present study is on the Cape Colony as a British dominion and hence the focus towards British colonies and towards their fiscal institutions is inevitable and justifiable. American colonies are highlighted here as illustrative of a negotiated fiscal terrain between local colonial leaders and the British colonial office. The stark difference between Latin America and North America, in terms of fiscal systems in particular and the overall institutional framework in general, depended on the fact that the British favoured their home grown approaches to public finance (Grafe & Irigoin, 2006, p. 46). Engerman (2007, p. 42) supports the general institutional transplantation when he argues that:

> Most of the settlers of northern American colonies were originally from the British Isles. The proprietors from the British Isles were used to enjoying advanced institutions of property rights, functional money markets, banks and paid labour. As a result, they were keen to transform the colonial institutions towards modernity… For instance, the English common law was established in the colonies by the time of the revolutionary war.

While the British authorities did impose taxation on British America, the colonists themselves, with their provincial and local governments, did impose higher revenue producing taxes amongst themselves, and even imposed greater property rights restrictions, in order to allow themselves some form of fiscal autonomy (North, 1989, p. 1329; Sokoloff & Zolt, 2007, p. 87). Restrictive fiscal institutions, which included heavy import duties in the Townshend Acts, were thus another pushing factor in the American Revolution since colonists resented control from the British authorities (Rabushka, 2008; Sokoloff & Engerman, 2000a). This tallies with Adam Smith's view that while the "American colonies were an asset, governing them from London was folly" (quoted in Offer 1993, p.215). This is so even when considering the fact that British authorities encouraged people to move to the new American colonies giving these territories better bargaining power against the British authorities and a tendency towards desire for self-governance and fairer institutions. This is in sharp contrast with Spanish America in which immigration was tightly controlled and as a result powerful elite with large scale farms emerged with proclivities towards inequality enhancing institutions (Engerman & Sokoloff, 1994).

Factor endowments such as fertile soil and mineral resources, meant that the North American colonies became evenly populated (Engerman, 2007; Engerman & Sokoloff, 1994; Sokoloff & Engerman, 2000b). Initial geography mattered, not regarding how and where people settled, but only because of its impact on institutions (Acemoglu *et al.*, 2001). This is a crucial factor for the development of fiscal institutions both at local and central government level. Unlike the American colonists who were establishing themselves, the Dutch East India company and the British East India Company tended to treat their territories as wealth extraction enclaves or rentier capital outposts (O'Brien, 1988, p. 181). The small number of settlers in Spanish America meant that there was no strong *voice* for representative institutions and the elite-peasant/slave divide kept increasing (Alston & Ferrie, 2007).

Trade taxes could have been a very important source of fiscal revenue in the American colonies but this was hindered by the monopolisation of colonial trade by the British colonial office (Smith, 1777). The colonies played a significant role in aiding this mercantilist aspiration by being forced to export cheap raw materials to Britain. According to Engerman (2007, p. 42), the Navigation Acts sought to restrict trade between Britain and its colonies from 1651 onwards. This was not beneficial for the American colonies, which had access to resources such as fertile land, but were hindered as far as manufacturing was concerned by the restrictive effects of the Navigation Acts on capital movements. Engerman (2007) argued that, while British manufacturing boomed, the colonies took very long to switch from extractive activities to manufacturing and this may have been what Britain had wanted in order to avoid competition in value adding activities. Table 2.8 below tries to summarise Britain's heavy handedness on the American colonies when it came to issues of fiscal autonomy and revenue generating activities. It would seem, considering these various Acts affecting revenue, expenditure and debt, that the fiscal regime of colonial America would have developed better with more discretion. This does point to the fact that even though the North American experience was better than the Latin American colonies due to their institutional setup (Engerman & Sokoloff, 1994), imperial authorities still had a bearing on the liberty of the North American colonies before the latter's independence.

Table 2. 8 Tax laws imposed on the American colonies

Time Line and Acts	Description
1651-1663. The Navigation Acts	These were mainly for controlling colonial trade so that England collected all the duties. This caused the colonies to delay manufacturing and rely on agriculture.
1673. Plantation Act	Plantations were supposed to trade exclusively with Britain while redirecting revenue to Britain. Huge resentment led to the Culpeper rebellion in 1677
1696. Salutary neglect	British policy to give colonists some degrees of freedom in economic matters.
1699. Wool Act	Prohibition of cloth made in the colonies
1733. Molasses Act	High taxes (imports) on sugar from West Indies to America and thereby forcing colonists to buy expensive sugar from Britain.
1764. Currency Act	Restrictions on paper money in circulation by the British authorities.
1765. The stamp Act	Stamp duty was imposed on most items such as newspapers, legal papers, pamphlets etc. Heavily opposed and led to its removal.
1765-75. Non-importation agreements	Boycotting of English goods due to newly imposed taxes.
1767. Townshend Acts	Import duties imposed by the British parliament on the colonies on glass, paper, tea, paints, etc. Heavily resisted and repealed eventually.
1773. Tea Act	Law allowing the British East India Company to sell its low cost tea in American colonies. This undermined the tea merchants in the American colonies and led to the Boston Tea Party.
1774. Coercive Acts	A reprisal aimed at containing the Boston Tea Party and reasserting the British control over its colonies.
1775-1783. American Revolution	The end of British rule over American colonies.

Source: Rabushka (2008, pp. 325–437)

There are three points to take away from this brief history of fiscal development in the American colonies. The first is that the metropolitan powers did not have a static agenda but a dynamic one in which some goals were rescinded when causing dissent. The second is that the imperial project was not a certain venture but the imperial powers were learning by doing. The last point is that each colony served a unique purpose in these imperial projects which defined the bargaining power between the imperial authorities and the colonial governors.

2.5 Understanding African colonial states

In the colonial era, the African continent has been mainly under the British and the French authorities. A major question regarding these has been about how one can understand what shaped the evolution of colonial fiscal institutions in these diverse colonial territories. Acemoglu, Johnson and Robinson (2001) have been heavily criticised for 'compressing history[13]' and imposing western colonial experiences onto the understanding of these African territories (Austin, 2008a, 2008b; Mamdani, 2005). The evidence suggests that the colonies did not simply copy the fiscal institutions of the metropolitan powers, because where conditions were similar the fiscal institutions in both French and British Africa were found to be similar (Frankema & van Waijenburg, 2014). How revenue was raised and spent in these territories has been a subject of these recent debates including what local conditions, human or non-human, influenced the shape of fiscal institutions. It is important to point out that much of the literature discussed here for African colonies mostly covers the 20th century while the Cape was mainly a 19th century colony. Although the literature on colonial Africa might have limited relevance for interpreting the experience of the Cape Colony in the 19th century, this study uses the literature to build expectations of what the Cape's fiscal patterns would look like.

In *Taxing Colonial Africa*, Gardner (2012) emphasises diversity in how revenue was raised and how local political dynamics and resource availability played a key role in British colonies. The priority of the British imperial authorities was that colonies should be self-sufficient and any grant in aid was given usually in the early colonial period of any given territory and when extraordinary military needs arose (Gardner, 2012). Huillery (2014) supports this notion by arguing that it was similar in the French colonies as well.

[13] The explanation of this term was given by Austin (2008a, p. 998)) who argued there is a problem with "comparing two moments, nearly half a millennium apart (1500 and 1995). Quite simply, there was so much history between the two that the identity of the actors and categories in the analysis—the content of 'colonial rule' and 'property rights', for example—is far from stable across the era(s)."

She argued, for instance, that French West Africa was largely developed from the proceeds of local taxation rather than any aid from France. She concludes that "…many Africans believe they owe French colonizers for their schools, hospitals, roads, harbours, railways, and various other infrastructures. Yet they financed 98 percent of the cost of running and developing French West Africa with their own resources" (Huillery, 2014, p. 34).

Taxation served various purposes besides financing government expenditure. According to Bush and Maltby (2004, p. 25), taxation was imposed to 'educate' Africans into Anglo-Saxon values and economic values. In some instances, as argued by Frankema (2011), there was no real effort to maximise revenue by the colonial authorities in these territories. This gives some validity to Ronald Robinson's notion that in many instances the British colonial administration in the early phases of African colonialism was a mere "…gimcrack effort run by two men and a dog" (Gardner, 2012, p. 35). For instance in Nigeria, Lugard (Governor General of Nigeria from 1912-1919) did not expect approval from the colonial office to be allowed to have many political officers and these hardly exceeded 40 between 1903 and 1919 (Kirk-Greene, 1980, p. 26). Besides the revenue and civilising mission, labour shortages brought about taxes which coerced Africans to engage in wage employment. Besides wage employment for raising tax payment money the colonial states also relied on corvee labour which was a practice of using labour for little or no pay often used as a form of taxation for those who could not afford to pay taxes. Relying on actual monetary taxes raised by colonial governments underestimates the in-kind assistance the black African people contributed to the colonial state (Waijenburg, 2015). The scarcity of labour contributed to the removal of Africans from their producer roles into workers in order to control labour supply. Taxes such as the hut tax and poll tax were crucial in achieving this goal (Austin, 2008a, p. 619, 2008b, p. 318). Even the Berlin conference Act alluded to tax collection from the indigenous people as part of "effective occupation, administration and legitimisation of power" (Alexopoulou & Juif, 2017, p. 220).

The nature of colonial rule has been crucial in determining the type of fiscal institutions. Lange (2004) in former British colonies found a negative and robust relationship between indirect rule (the system of relying on indigenous chiefs to collect tax revenue and govern parts of colonies), and political stability, effectiveness of bureaucracy and rule of law. This is supported by Mamdani (1996, p. 49) who argued that the British authorities realised the authoritarian possibility for decentralised despotism through African chiefs who were each armed with ruthless control systems of tribute to subjugate the indigenous people. Mamdani (1996, p. 56) argued that:

> With the administrative chiefs in charge of tax collection, revenue hunger was pervasively increased by the introduction of performance appraisal of the chiefs based on the amount they raise in tax rather than the number of people they controlled. Chiefs ruthlessly took cattle, goats, crop produce … Those who failed to raise taxes such as widows were forced to cultivate the chief's land.

This is where the generic picture of settler colonies having good institutions ceases to be useful in understanding African colonial territories. Mamdani is in line with Austin (2007, p. 1) who argues that starting from the developed world, when theorising, causes a 'conceptual Eurocentrism' that stifles theorisations from Africa outward. The pervasive machinery employed by the British system of indirect rule erases all benefits or positive attributes assumed to be in settler colonies. Justifiably, Heldring and Robinson (2012, p. 28) argued that the African colonial institutions had immiserating effects on the Indigenous people because the "European brought racism, discrimination, inequality and seriously warped institutions." With reference to these warped institutions in the post-colonial period Mamdani argued that it was not just the post-colonial state collapsing (Bates, 2008) but "… it is specifically what remains of the colonial state in Africa that is collapsing" (Mamdani, 2005, p. 3). Cooper (2002, p. 4) also emphasised this by arguing that the move from colonial to post-colonial state brought with it continuities and discontinuities because "colonialism was not turned off like a light switch". The main argument, therefore, is that colonial institutions affected African countries after independence because some endured in the post-colonial period while some had long lasting effects.

The dilemmas of conceptualising the colonial state

Following AJR's settler and non-settler colony dichotomy there has been an increase in studies trying to understand colonial fiscal systems through typologies (Lange, 2004; Booth, 2007; Frankema, 2011; Heldring and Robinson, 2012; Fourie, Jansen and Siebrits, 2013). The literature tries to classify colonial states into different categories such as direct vs indirect rule (Lange, 2004), colonies which coincided with centralised pre-colonial states , those of white settlement and the rest (Heldring and Robinson, 2012) and a typology on an extractive, night-watchman, benevolent and developmental state (Booth, 2007; Frankema, 2011). Tripartite periodization has also been applied to African colonies differentiating pre-colonial, colonial and post-colonial phases in order to understand institutional configurations of these phases (Austin, 2008a; Jerven, 2010). Cooper (2002) emphasised all colonial states were 'gatekeepers', a rather broad label for colonial states. He argued that:

> Colonial states had been gatekeeper states. They had weak instruments for entering into the social and cultural realm over which they presided, but they stood astride the intersection of the colonial territory and the outside world. Their main sources of revenue was duties on goods that entered and left its ports … But the post-colonial gatekeeper, lacking external coercive capacity of its predecessor, was a vulnerable state (Cooper, 2002, pp. 5–6).

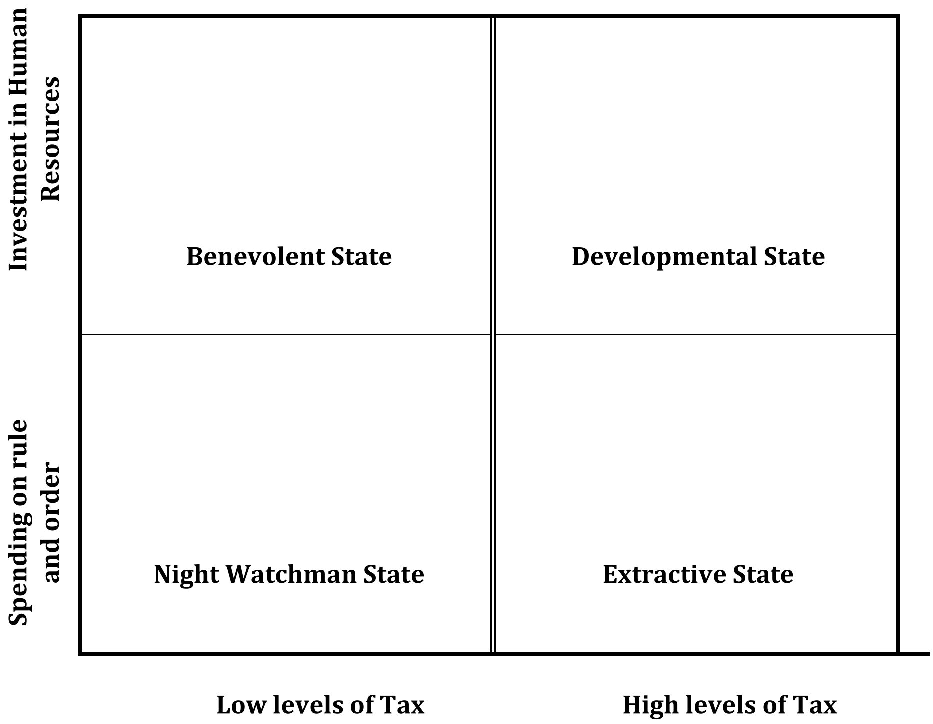
Lange investigated 33 former British colonies and distinguished between direct and indirect rule. His findings are that the British colonialism left favourable political legacies in some countries while negative in others depending on the extent of direct or indirect rule (Lange, 2004, p. 917). He argued that the analysis finds that "the extent of indirect colonial rule is strongly and negatively related to several different indicators of postcolonial political development while controlling for other factors." Where indirect rule was absolute, post-colonial institutions were found to be weak.

Heldring and Robinson divided the colonies into three categories, those of white settlers, those which coincided with centralised pre-colonial states and the rest (Heldring and Robinson, 2012). They conclude that in cases where colonisation coincided with centralised pre-colonial states colonialism retarded economic growth. This was the same in the settler colonies as well. The rest of the cases were ambiguous but the general observation is that it is difficult to construct an argument that colonialism benefited postcolonial development in Africa (Heldring and Robinson, 2012, p. 28).

Another strand of literature tried to theorise the colonial state by formulating typologies of colonial states. This literature also partly borrows from earlier work such as that of the

German philosopher, Ferdinand Lassalle, who in 1862 criticised liberal regimes' roles for being equivalent to a night watchman assuming very limited roles. Chalmers Johnson's developmental state is also invoked (C. Johnson, 1982) as well as work on extractive institutions (Acemoglu & Robinson, 2012). These types are extractive, night-watchman, benevolent and developmental state (Booth, 2007; Frankema, 2011). Figure 2.2 below captures the essence of this recent literature that tried to understand the colonial state by analysing how revenue was raised as well as the expenditure priorities.

Figure 2. 2 Colonial state typology



Source: Frankema (2011, p.138)

The night watchman state is a minimal state which has been categorised as comprising of a gatekeeper state with a minimalist approach to governance (Cooper, 2002). It merely spends money on colonial rule and order without burdening citizens through high taxation. It also neglects social spending aimed at human development as well as infrastructure. The key feature of the night-watchman state was control over international trade and this makes it close to the extractive state in which control of natural resource and its trade is important. The extractive state literally extracts revenue from the citizens but does not justify this by generously investing in human resources and infrastructure; instead it spends only a little to maintain some minimal level of order.

The developmental state[14] charges high taxes but invests in human development and infrastructure. The most generous of all is the benevolent state which, even without imposing a high tax regime, sources funds elsewhere to invest in human resource development.

It is clear from the above that there has been a development from dichotomising states to the above four quadrant approach. This approach has its limitation in that, instead of dichotomies, a few more categories are being added and it thus suffers from the same limitations. While these categories have shaped how one can possibly understand colonial fiscal regimes, there remains huge value in case by case analysis. This approach does not approach colonial fiscal systems with a ready-made framework but builds cases in a bottom up approach and reflects on similarities between colonies. The focus should not be so much on labelling the state as 'developmental' or 'extractive' but to understand what shaped and constrained the colonial government in different stages of political and economic development in Africa (Austin, 2008). One should be cautious with labels such as 'developmental' because for most of the African experiences the state's developmental endeavours were biased to serve white minorities (Heldring & Robinson 2012, p. 10).

In trying to move away from typologies and introduce nuances instead, Booth and Frankema (2017), analysing colonial states in Asia and Africa, used four criteria from He (2013). They argued that these factors, key for conceptualising the colonial state, "are revenue centralisation, debt creation, welfare spending and limited government" (Booth and Frankema 2017, p.12). The problem with this approach is that it again tends to move towards privileging the European metropolitan experiences as its touchstone by prioritising features of the state realised first in European countries. He (2013) used these factors to characterise the state formation and modernisation in England, Japan and China. The applicability of this approach for Africa has to remain flexible because the path to fiscal modernity in the colonies and developing regions was not similar to the European experiences.

[14] Words such as 'development' can be problematic because their meaning change over time. The 19th century 'development' differed markedly from 21st century 'development'. In this regard, words such as development are to "be considered as pervasive metaphors, which should not be confused with the social reality which they illuminate" (Denoon, 1983, p. 7). In this study a developmental state is used to describe 'development' oriented government policies such as expenditure on public infrastructure but as qualified throughout this study, not all 19th century public outlays on infrastructure were for the public benefit.

Research on the formation of fiscal states is starting to move away from typologies and a culture of theoretical *monoculture* of trying to explain everything by one theory. This is a fruitful approach in colonial fiscal states as well since it complements the cross colony econometric studies (Austin, 2008b). How fiscal institutions evolved and how internal and external changes affected the trajectory of colonies is important. This is in line with Jerven (2010, p. 128) who stressed that, rather than seeing African growth or stagnation as caused by one historical root, such as the slave trade (Nunn & Wantchekon, 2011), processes are important rather than the static outcomes. Some colonies moved from being governed by chartered companies to settler societies with colonial governance, some colonies adopted representative institutions while others did not, some colonies benefited hugely from trade taxes due to their strategic positions (coastal or inland) in the world trade routes and global value chains and some colonies had huge reserves of natural resources such as fertile soils and mineral resources and others did not. Contextually relevant analysis will help advance knowledge on colonial states. Compiling multiple datasets for different colonies has its space as well, these two approaches should work in a synergy.

2.6 Conclusion

State formation and fiscal history are areas in which simple questions are not very beneficial. Some of these questions for this study include: Was the Cape Colony extractive or inclusive? Was it a developmental state and for whom? Did it become a modern fiscal state? Was its fiscal capacity better than other African colonies? What shaped its public expenditure regime? Was the Cape overburdened by public debt? These are some of the type of questions which the historical analysis of the evolution of fiscal institutions as an approach inevitably answers directly or indirectly. This study however, goes beyond them by tracing the changing context and terrain as dictated by metropolitan developments as well as purely local factors. This chapter has demonstrated diversity in state formation and this was done in order to avoid pigeonholing the Cape Colony's history in one set of theories or paths. The Cape's beginning went through different phases which no single theoretical lens can explain. The aim with this dissertation is to allow the Cape case to be explained through various angles from this broad domain of state formation literature. Chapter 3 will discuss the general developments in the Cape Colony with particular focus on those which affected the public finance terrain. Political transition (from a crown colony to a self-governing colony and responsible governance) and economic developments (led by the discovery of diamonds) shaped the state formation process. The last part of the chapter will dwell on broad trends in the revenue, expenditure and public debt of the Colony and salient features will be identified which will inform the direction of the rest of the chapters.

CHAPTER 3: THE CAPE COLONY'S ECONOMY, POLITICAL DEVELOPMENTS AND BROAD TRENDS IN PUBLIC FINANCES

> "Now honourable members must never forget that this country has depended almost entirely upon one industry, namely the diamond industry, and that too a very precarious industry" – Mr Merriman. Mr Upington with a contrary view responded that "Even without the diamond industry the country would continue to progress in the future. Why should it go forth that this colony should be bankrupt if there were no diamonds in this country?" (House of Assembly budget debates, 1887, p. 189-199)

3.1 Introduction

The Cape Colony's reliance on the diamond mining industry was a reality which the parliamentarians realised and became the basis of policy antagonism between agriculture and mining as key industries of the colony. The economic progress of South Africa in the 19th century and 20th century was reliant on minerals, mainly diamonds and gold. De Kiewiet (1957, p. 89) summarised it famously for the entire South Africa by arguing that, "South Africa has advanced politically by disasters and economically by windfalls". While political developments were not heavily linked to the economic conditions in the first half of the 19th century Cape, the discovery of diamonds drew the political and economic institutions closer and the coevolution of these two shaped the progress of the colony (Verhoef, 2014, p. 205). For instance, the interests in the mining industry convinced Cecil John Rhodes and business colleagues to venture into politics. Once in parliament they eventually drafted the Diamond Mining Act and many other pieces of legislation that shaped the mining-led economic expansion. Chapter 2 revealed the key features of modern states (central revenue, permanent debt, commitment to welfare –though circumscribed - and limited democracy) and the Cape attained these from the 1870s onwards.

This chapter traces the general trends in the economic and political progress of the Cape Colony. A holistic view is taken in this chapter to give context because the fiscal history of any country or colony is very much a political, social, and economic history. These are not mutually exclusive and any grasp of fiscal history also entails a grasp of the political and economic aspects. Section 3.2 delves into the changing fortunes of the Cape Colony settlers when the colony passed from Dutch company rule to British rule. Section 3.3

traces the broader economic trends of the Cape Colony under British rule since economic progress and growth meant more revenue accrued to the state. This is in line with history because "states reigning over pauperdom were, throughout history, the foremost paupers of those nations" (Goldscheid, 1958, p. 211). The political developments are pursued in section 3.4 with emphasis given to major political developments such as representative governance starting in 1854 and responsible governance from 1872 onwards. Section 3.5 establishes the broad trends and patterns of public finances by briefly discussing the key issues such as major revenue sources and expenditure priorities. Section 3.6 concludes the chapter.

3.2 The Cape Colony's shift from Dutch company to British rule

A huge difference existed on the fiscal front between settler and non-settler colonies, directly and indirectly ruled colonies, colonies under company rule and those under normal colonial governance. For instance, from the 18th to the 19th century the colonies under chartered companies such as India under the British East India Company (BEIC), Nigeria under the Royal Niger Company and the Cape Colony under the Dutch East India Company (VOC) demonstrated limited presence of the state, proclivities towards profit-making and limited desire for extending public works (Berger, 2009; Fourie *et al*., 2013; Gardner, 2012; Richards, 2012). According to Gardner (2012, p. 19), "For such companies, the establishment of administrative control was a means to an end, rather than an end in itself". There was no strong reason why a company that had a primary goal to satisfy its shareholders would concern itself with the provision of public goods save for those that were connected to its profitability such as harbours, lighthouses and wharfs.[15]

The Cape Colony was governed by the Dutch East India Company or Vereenigde Oost-Indische Compagnie (henceforth VOC). The VOC was granted a charter in 1602 by the States General of the Dutch Republic to be its representative in overseas ventures (Fourie *et al*., 2013, p. 51). The VOC governed the Cape Colony from 1652 until 1795 when its economic power declined (Marks 1980, p. i). As a company, the VOC was mainly profit-oriented and the Dutch Cape Colony functioned primarily as a refreshment station for ships on their way to the East Indies (Fourie, 2014; Fourie *et al*., 2013). There was, however, a small group of free burghers at the Cape who were released from the service

[15] The fate of the colonies under company rules were summed well by Adam Smith when he argued that "Of all the expedients that can well be contrived to stunt the natural growth of a new colony that of an exclusive company is undoubtedly the most effectual" (Smith, 1777, p. 464).

of the company from 1657. These burghers began to farm in the surroundings of Cape Town and were allowed to supply only the VOC. Sadie (2002, p. 1) argued that the movement into the interior had the major 'push' factor which was the restrictive monopolistic trade policies of the VOC while the 'pull' factor was the availability of open spaces. The open land constituted an abundant factor of production and natural resources requiring only labour to be used for extensive agricultural production even without much capital, technology and advanced entrepreneurship. Pastoralism and extensive subsistence farming were the most common forms of farming as the free burghers moved to the interior (Sadie, 2002). Being a monopsony (sole buyer) the company offered very low prices to the burghers and did not allow them to trade externally in the global economy nor engage in any form of manufacturing (Fourie & Van Zanden, 2013). This entailed that anything that the company could not buy had to be consumed by the farmers themselves or go went waste (Wickins, 1983, p. 4).

When the British took over from the company in 1806[16], the nature of the Cape Colony's administration changed gradually but the changes altered the economic fortunes of the residents of the colony. According to Marks (1980) it was in 1814 that the British governance of the Cape Colony became official through the Convention of London made with the Dutch government. According to De Villiers (2014, p. 80), the British imperial authorities took over the Cape Colony through an effective strategy and fire-power but winning the support and hearts of the conquered residents proved to be a more difficult task. Giliomee (2014, p. 224) argued that once the British authority was established at the Cape the administrators and governors were "ready to improve and refine the Cape" but events would prove that this was easier said than done. The Cape residents had not been accustomed to heavy-handed governance and were usually used to paying "little heed to government" (Wickins, 1983, p. 5). The dismal outcome of the change in land policy from the freehold loan farm system to perpetual quitrent was a key example of many issues the British colonial governors and their administrations grappled with (Duly, 1965). The Anglicisation of the Cape was not going to be a smooth process, especially with the white Afrikaners who perceived that they were subjugated and treated as second class citizens (Giliomee, 2014; Pretorius, 2014a; Sadie, 2002).

[16] From 1795 to 1806 the Cape was under the Batavian Republic after the French defeated the Netherlands and took over its colonies.

The British dominance was given a boost in 1820 with the arrival of the settlers from England which was reeling in high unemployment and the after-effects of the Napoleonic wars. The Imperial Government in 1819 granted £50 000 for settlers to be shipped to the Cape Colony and the English language was heard for the first time in farmhouses and villages throughout the eastern parts of the country after this emigration process (Theal, 1900, p. 155). The Cape Colony had various complexities that shaped the developing civil society, including the heterogeneity and the wide dispersal of the population (McCracken, 1967, p. 24). Hence, the British Government saw the value of increasing the number of British settlers. This meant that British institutions had to be established (such as the legal system and parliament). For these settlers the Cape Colony gave the prospect of a rosy livelihood compared to Britain and they gave a permanent English character to the Eastern part of the Cape Colony (De Villiers, 2014, p. 104). These settlers speeded up the Anglicisation process of the colony and brought their liberal views and would eventually question the government's tendency towards autocratic rule.

The next fundamental change was the abolition of slavery in 1834 at the Cape which brought significant changes to the way of life of the original free burghers. It was in the slave emancipation that the British rule affected the fortunes of the original Boers in a significant way and in 1832 about 2000 slave owners gathered to protest (Grundlingh, 1937, p. 35). Slaves, being important in a labour scarce environment, were the essence of the productive lives of many farmers. For instance, a life of an Overberg farmer was described as *'lui en lekker'* (lazy and pleasurable) because virtually all work was done by slaves – '*tame huisdieren'* (tamed household animals) (De Villiers, 2014, p. 89).

Even the Great Trek was largely influenced by this slave policy that touched fundamentally on the trekkers' way of life (Wickins, 1983, p. 5). About 20-29% of the Cape Afrikaner inhabitants were prepared indeed to lose their "current European life and they lost the economic habits of the nations from which they had sprung" (Sadie, 2002, p. 7). Giliomee (2014, p. 226) argued that what embittered most of the original Afrikaner colonists at the Cape was that the government treated them with a cold indifference while upholding everything British. The British governor at the Cape, D'Urban, understood their importance but could not imagine that they would in two decades form two independent republics in the interior of South Africa. He argued in a letter to England that "a large number of the Boers who left the colony were members of the oldest and most respected families, and that the departure of those fearless, patient, industrious, law-abiding and devout people was an incalculable loss to the Colony" (Sadie, 2002, p. 8).

At first, the British governance at the Cape seemed to be a mixed blessing to the black Africans because the British settlers seemed sympathetic to the black Africans. The *de facto* progression of events shows that black Africans became worse-off. Slavery was brought to an end but the process of trekking into the interior and the expansion of the Cape borders entailed that black Africans were affected greatly and mostly negatively. The trekking Boers often clashed with black Africans, e.g. the 1838 battle of Blood River, and occupied territories originally occupied by black Africans. Ross (1986) gives a revealing insight for the Khoikhoi people as anexample:

> As European farmers drove deeper into the interior of the Cape Colony, they brought about the steady impoverishment of the Khoisan of each successive region. Stock was lifted, grazing land and water holes were expropriated, game was exterminated and life in any other status than as labourers for the whites made impossible.

Even the British colonial government itself, although it demonised the Afrikaners for slave holding, did not see the black Africans as anything beyond labourers for the white populations. Mr T.H. Bowker, prominent settler in the Eastern part demonstrated that the British settlers were not saints when compared to the Afrikaners when it came to the black Africans when he argued that "the appearance of the country is fine. It will make excellent sheep farms … far too good for such a race of runaways as the kaffirs" (Ross, 1986). The imperial authorities seemed to be indifferent and arguably complicit concerning some of the actions of the governors affecting the black Africans (De Villiers, 2014).

The British occupation brought better fortunes to the English settlers but it was unsettling to the original Afrikaner colonists and increased the rate of impoverishment of the black African populations – everyone's fortunes changed. Political and social positions changed reinforcing a hierarchical structure to the society and far reaching racial biases and prejudices. These changes were to be cemented as the Cape economy developed giving the government stronger fiscal muscle with which to give the state all its fiscal levers to shape various policies. Any ambitious government programmes and state funded projects depended largely on the economic fortunes of the colony as a whole. The trends in economic development are therefore crucial factors in understanding the Cape Colony's fiscal developments. The next section turns to the broad trends in the economy itself so that public finances will be discussed and understood within a broad context of the 19th century economy of the Cape.

3.3 Economic developments

3.3.1 The company logic

The Dutch East India Company had crippled the Cape Colony's economy by its illiberal monopolistic policies till the end of the 18th century. Burman (1984, p. 11) argued that the pace of development of South Africa was "of necessity the pace of an ox". The Dutch company had no incentive to establish roads penetrating the interior. The farmers had no incentive to produce surplus because the company could only buy limited supplies for the ships. The pace of fiscal developments was therefore hamstrung by the sluggish economy under the company rule. Fourie *et al.* (2013, p. 58) summed it up well:

> Three principles guided the VOC's commercial policies, and hence its economic policies as agent of Dutch activities at the Cape and in the East: "Monopoly", "Maximum profits" and "Short-term profits". In addition, whenever a particular activity seemed profitable, the Company would prohibit colonists from participating in it and claim it as their own.

Such an extreme focus on the profit motive meant that the wider economy was at the mercy of the company and fiscal developments were given less attention. This is supported by Fourie *et al*. (2013, p. 65) who concluded that the public finances of the Dutch period at the Cape were in a poor state due to "poor tax collection, tax evasion and corrupt officials". There was no incentive for fiscal capacity development and for developing a proper functional government under company rule giving some validity to the notion that under company rule the Cape tended to be a mere refreshment outpost and an enclave to the few burgers released from company service. This did not mean release from the shackles of VOC control of the economy because whatever profitable economic activity the burgers would initiate, the company would take over.

3.3.2 The first half of the 19th century

It has become common among scholars of South African history to dismiss the first half of the 19th century of South Africa as uninteresting and jump to the diamond and gold period (Ross, 1986). The quantitative economic history drive in recent years has also brought this neglect of any period for which data are not available. For fiscal history, however, understanding what shaped the colonial state's decisions before and after the discovery of minerals is important. Ross (1986) captured this well when he argued that "it would be wrong to begin to study South African economic history with Barney Barnato and Cecil Rhodes."[17] Farming in the Cape was already capitalistic and as Ross (1986, p 30) argued "…agricultural expansion was steady rather than spectacular and the absence of towns did not mean absence of commercialisation". The earlier agricultural production relations became fundamental as the bedrock of subsequent production relations in the mining industry. For state formation, the disenfranchisement of the blacks was predicated on the need for labour and the production relations from the first half of the 19th century were crucial.

What stifled progress in other non-agricultural sectors was that there were remnants of the VOC practices which Somerset's conservative approach did not remove. According to Peires (1989, p. 492), "the VOC confused the business of government with a business of private gain" and the institutional setup created a culture of organised looting (as opposed to one of isolated acts of criminality). There was "a tight oligarchy of businessman closely linked to their official patrons through ties of friendship, family and reciprocal financial obligations"(Peires, 1989, p. 492). The commission appointed in 1822 to inquire into the governance of the new found British territories, the Cape, Mauritius and Ceylon, was crucial in ending the Somerset regime as well as dismantling the mercantilist and monopolistic trade regime at the Cape. The Cape had to be integrated into the liberal political and economic order of the 19th century British Empire.

What the British did well for the economy from the 1830s was to liberalise trade so that the colonists could trade with the outside world freely (Peires, 1989; Trapido, 1980). As early as 1811 governor John Cradock abolished export duties to enable the colonists to export their produce to the British markets more easily. The most important commodity exported by the Cape between 1815 and the 1840s was wine. Wool overtook wine after the 1850s when the British tariff policies on wine changed (Ross, 1983, p. 248). Freedom to trade with Britain in the first half of the 19th century was a great start although the

[17] Barney Barnato was a landlord who controlled the diamond mining industry from 1870s before his mining company was consolidate into the Rhodes DeBeers Company in 1888. He also became influential in gold mining in the South African Republic later.

colonies were still prevented from trading with other nations. The establishment of the British garrison of 4000-5000 men on the Eastern frontier also caused an increase in local buying power and the demand for commodities such as wheat, wine and meat increased (Schumann, 1938, p. 64). Table 3.1 below gives a broad overview of the Cape's agricultural output while table 3.2 gives stock numbers for the same period. What is clear is barley and oats/rye production were stable but had not been increasing steadily, at least not since 1828. Wheat production, too, was rather unstable before 1838 while production of wine and brandy did not show these increases. According to Ross (1993, p. 134), the emancipation of slaves contributed to the marked decreases in the outputs of wheat, barley, oats and rye in 1838.

Table 3. 1 Production of agricultural commodities (1828-1854)

Year	Wheat bushels	Barley bushels	Oats/Rye bushels	Wine leggers*	Brandy leggers
1828	322,635	351,188	329,928	20,405	1,413
1829	520,768	300,625	321,570	15,539	1,060
1830	410,472	224,676	283,785	14,977	1,845
1831	433,693	271,147	282,182	18,467	1,382
1832	306,063	282,380	275,106	16,973	1,394
1833	528,147	286,197	237,012	14,501	1,207
1834	540,528	257,602	276,553	12,005	1,075
1835	NA	NA	NA	NA	NA
1836	NA	218,490	241,185	16,693	1,282
1837	494,280	220,534	211,535	18,103	1,373
1838	463,691	180,847	187,860	21,915	5,846
1839	395,329	203,323	185,759	22,899	5,861
1840	433,454	244,600	197,663	20,229	6,190
1841	471,804	295,718	215,006	25,312	6,161
1842	592,054	271,983	286,075	18,299	1,653
1843	705,647	242,662	392,672	13,426	1,386
1844	771,760	293,569	419,587	16,412	2,075
1845	650,849	262,912	436,526	17,156	1,996
1846	579,421	180,856	350,159	18,640	2,069
1847	NA	NA	NA	NA	NA
1848	516,219	233,667	248,615	10,308	1,671
1849	585,325	265,663	249,307	19,943	2,151
1850	NA	NA	NA	NA	NA
1851	NA	NA	NA	NA	NA
1852	721,755	244,432	451,981	16,261	2,418
1853	864.272	302,753	846,520	23,705	3,393
1854	1,012,488	424,134	925,235	23,088	3,891
1855	994,273	400,237	2.308,777	23,640	3,797

Source: Ross (1993, p. 135), * A legger consists of 152 gallons, or 680 litres

Table 3. 2 Stock numbers in the Cape Colony (1828-1853)

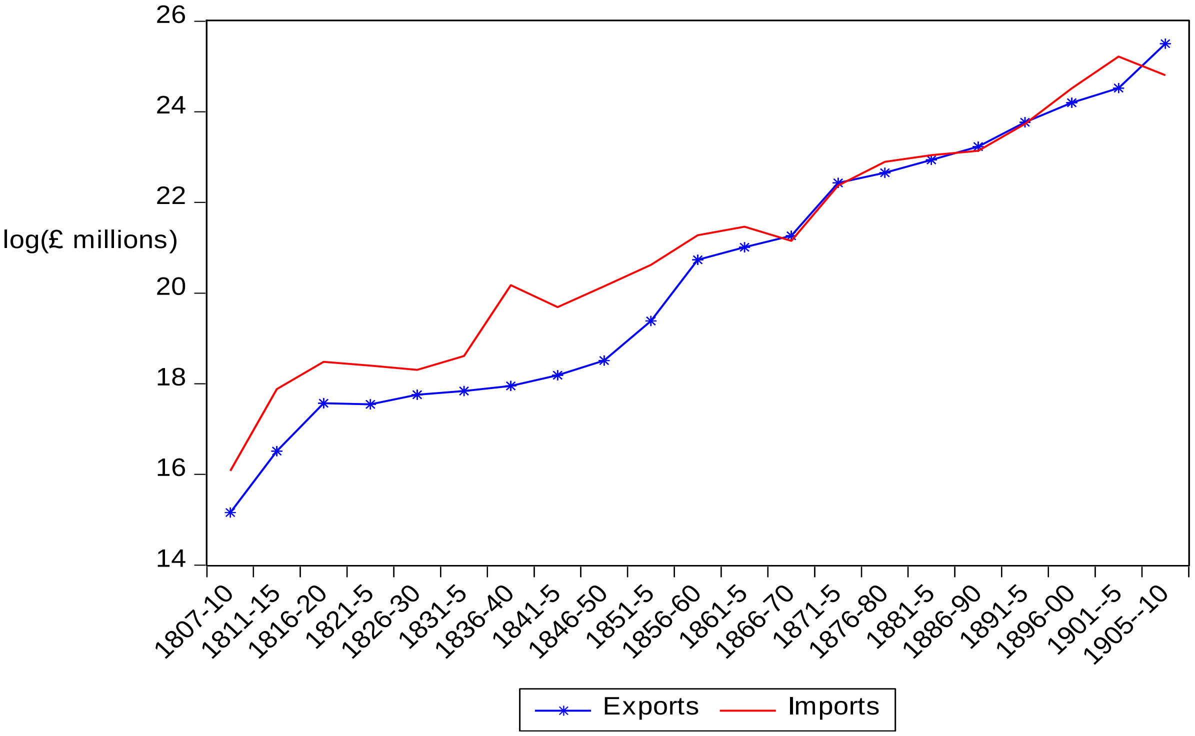
year	Oxen	Other cattle	Wooled Sheep	African Sheep*
1828		357,531		2,181,952
1829		322,021		1,839,402
1830		311,938		1,905,728
1831		315,355		1,087,614
1832		334,907		1,923,132
1833		343,644		1,960,886
1834		312,569		1,919,778
1835		NA		NA
1836		NA		NA
1837		279,818		1,923,082
1838		266,255		2,030,142
1839		306,809		2,339,191
1840		334,201		2,456,176
1841		377,803		3,008,613
1842		451,852		3,706,791
1843		452,852		3,949,354
1844		471,635		4,513,534
1845		466,558		4,557,227
1846	122,720	210,082	1,502,611	1,740,835
1847	NA	NA	NA	NA
1848	169,877	249,189	2,093,074	2,042,767
1849	198,899	390,485	2,283,232	2,114,919
1850	NA	NA	NA	NA
1851	NA	NA	NA	NA
1852	203,058	291,600	2,651,136	1,679,941
1853	198,542	273,112	3,476,209	1,528,386
1854	NA	NA	NA	NA
1855	157,886	292,142	4,827,926	1,625,857

Source: Ross (1993, p. 136), * Until 1846 no distinction was made between oxen and other forms of cattle, nor between merino (wooled) and indigenous Cape sheep.

The separation of indigenous and merino sheep in the records from 1846 onwards allows one to observe the rising prominence of wool as the main export commodity. There were no particular increases observed for the rest of the stocks. The Cape Colony's expanded production only partially satisfied the growth in demand. Hence, imports also increased (Schumann, 1938). Farmers could not meet the new demand and therefore began to produce more. The industrial revolution in England meant that the colonists had access to a secure export market after satisfying local demand (Ross, 1983, p. 249). During the greater part of the first half of the 19th century imports were greater than exports (Figure

3.1). The data in figure 3.1 are for South Africa as a whole but the Cape was the leading colony in South Africa. The data were logged in order to make the difference between exports and imports visually clear. The increasing imports had the effect of increasing the revenue accruing to the government through import tariffs and harbour dues.

Figure 3. 1 South Africa's exports and imports, 1807-1910



Source Schumann (1938, p. 44)

The dominance of imports over exports is clear from the above graph and up to 1870 the imports were decisively above exports. In terms of value the Cape exported only about 45% of what it imported causing the balance of trade to be in the negative to the value of more than half a million British pounds. Agriculture defined the economy in every aspect, while manufactured goods were largely imported. In terms of secondary industries, soap was made from local sheep and soda from salt plants, the profitable home industries of the time, before the 1820s when cheaper imports came (Wickins, 1983, p. 56). From the state revenue perspective, the exports were no longer taxed but imports brought significant revenue to the government, enabling it to begin some form of public goods provision. Most of the public goods outlays had to be met at local level with taxes such as commando taxes, vestry church taxes, kloof toll tax, tax on felled timber and many other such user charges (Commission of inquiry on public finances, 1826, p. 191).

As a predominantly agricultural society, hence economy, facing high demand for its produce, the Cape had a precarious production side. While the abundant factor was land, technology was still limited and labour was problematic after slavery was abolished in terms of availability and skills levels. The emancipation of slaves was a difficult process since the farmers could not simply let go of their slaves and many slaves were inextricably tied to their masters as 'apprentices'. According to Ross (1993, p. 132) the promulgation of Ordinance 50 of 1828 caused the Cape former slaves' *de facto* positions to be different from their previous position as slaves only in that they could not be sold. This was worsened by the near-monopoly which the farmers were able to maintain on the colonial land excluding the labourers' access to land for them to grow their own food and keep their livestock (Ross, 1990, p. 149). The black Africans were thus forced to work on the farms for the greater part of the year. Even after the waning of slavery, labour remained a problem in the Cape Colony. Black African labourers moved between their Transkeian homes and farms in the Cape Colony harvesting crops and sheering sheep (Goodfellow, 1931a, p. 75).

As wine was becoming less economically important in the 1840s in terms of exports the economy became more and more a wool-based economy (Houghton & Dagut, 1973, p. 22; Ross, 1983, p. 248). In 1845 the export of wool exceeded, for the first time, that of wine and was valued at £176,741 which amounted to 41% of the total exports of the Cape Colony (Ross, 1990, p. 150). This wool boom strengthened Port Elizabeth since most wool production took place in the eastern region rather than at the Cape where wine was predominant.

3.3.3. From 1850s to 1910.

From the 1850s to 1870, when diamonds became important, wool was the mainstay of the Cape economy. The 1854 Namaqualand copper boom was short lived when compared to the impact of wool, or the later discoveries of diamonds and gold. The Cape benefited from wool which was also significant in New Zealand and Canada and thus the period 1850-70 may be called 'wool years' at the Cape since wool was comprised of 68% of total exports (Inggs, 1982, p. 65; Schumann, 1938, p. 105). The Cape governor, Sir Phillip Wodehouse's view in 1867 was testimony to the dominance of wool in the Cape Colony when he questioned in his speech:

> For what do we hold this country but for wool? Take away wool and, in one locality, copper and commercially speaking what is left? The cost of governing this country is heavy on account of its great extent and most scant population. Year after year sheep-farmers have gone in search of wealth into regions more and more remote (Houghton & Dagut, 1973, p. 22).

This captured the basis of the Cape economy in 1867 before the discovery of diamonds and it would seem that the trajectory of the economy would have continued in this sombre state without the mineral revolution. The diamond discovery in Kimberley in 1867 initiated the change to the South African history from that of a purely unstable agricultural based economy to a mineral-industrial country. Geographically, the discovery of minerals prompted urbanization in the interior as well as on the coast. The diamond boom brought with it financial developments in South Africa and the banks, six of which were established 1844-50, became very important in the diamond driven economy (Schumann, 1938, p. 73). The increase in banks and other financial developments entailed that the economy became more and more monetised. This is crucial for fiscal development because in a country with more barter trade than money transaction, monitoring, metering and collection of tax revenue is very difficult and expensive.

With the discovery of diamonds there were 'poor in June and rich in December' experiences which brought a general euphoria causing high speculation in diamond shares and over-extension of credit by the banks. The euphoria was augmented by the granting of responsible government in 1872 and the short-lived annexation of Transvaal in 1877 since both events gave the investors more confidence in the British administration at the Cape. Schumann (1938, p. 84) reported that total bank short term loans in the Cape Colony rose from £5 388 861 in 1875 to £10 536 114 in 1881. The result of this was a huge crisis, justifiably referred to as 'the diamond crisis', which was the worst financial crisis to be experienced by South Africa in the 19th century (Schumann 1938, p. 84). Banks started being cautious and withheld credit fearing liquidity problems and the first insolvency was reported in Grahamstown (Greyling & Verhoef, 2015, p. 33). The crisis, 1881-1886, was augmented by the first Anglo Boer war which led to the independence of the Transvaal in 1881. The gold discovery made the recovery from this crisis quick in the Cape Colony; from 1886 to 1890 £22 634 000 was invested in the mining industry and this rose to £ 104 337 000 by 1900 and £ 121 488 000 by 1910 (Greyling & Verhoef 2015, p. 34). While diamond mining was financed largely by the capital raised locally, gold mining was financed largely by foreign capital (Schumann, 1938, p. 90). Gold and diamond mining contributed, directly and indirectly, to the bulk part of South Africa's economic growth and development in the 19th century.

Another important economic game changer was the railway transport industry in the Cape. Until the late 1890s, this only served the Cape Colony. Mining would have progressed slowly had it not been for the railway developments which began in the early 1860s at the Cape. For our consideration of fiscal history, the railway construction was very important to the Cape Colony's public finances because it was intimately tied to customs revenues (Van Der Poel, 1933, p. 11). If the Cape had not become the early developer of railway transport, it was not going to enjoy the huge traffic to and from the mineral fields at Kimberley and Transvaal. The parliamentarians at the Cape were very aware that the loss of traffic to Durban or Lourenco Marques at Delagoa Bay meant imports through the Cape ports were going to dwindle and no revenue was to be earned through railway traffic and customs.

Table 3. 3 South African railway construction

Period	*Mileage Opened*	*Accumulated mileage*	*Basis/ Influence*
1860-3	63	63	Agricultural Interests
1875-85	1713	1776	Diamond mining
1886-95	1462	3238	Gold mining
1896-1909	3656	6894	Agriculture and Industrial interests-Branch extension period

Source of data: Schumann (1938, p. 53)

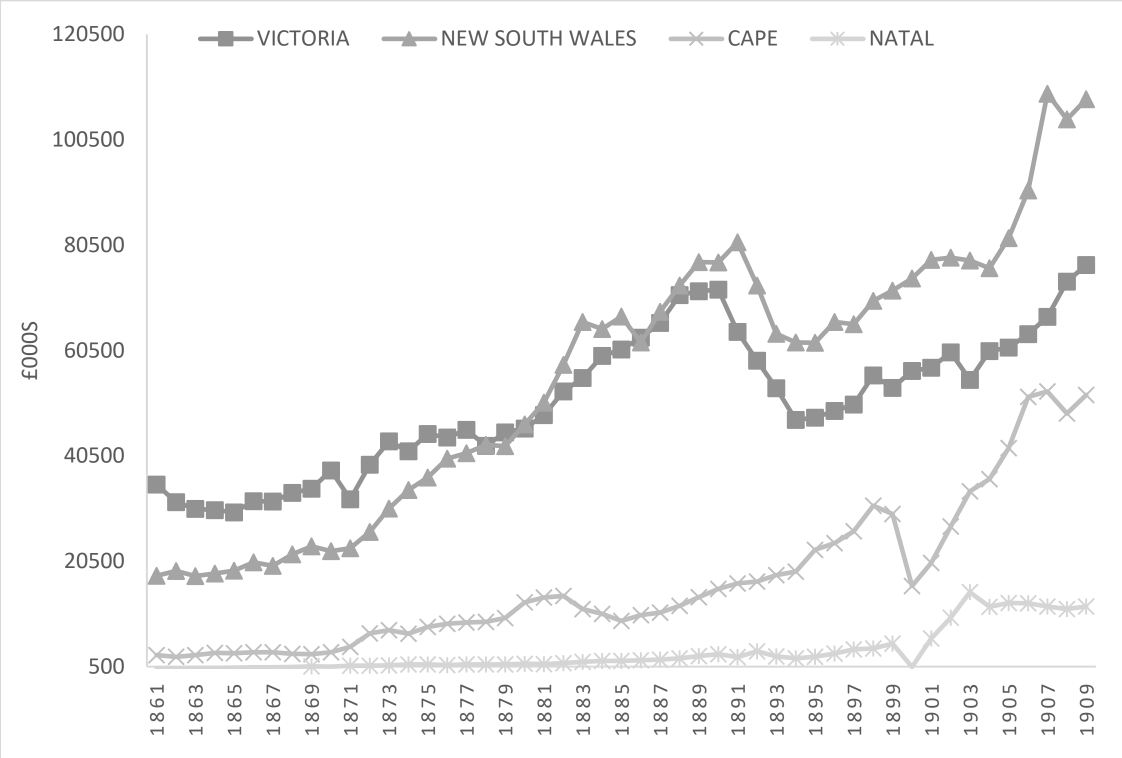
The Cape was at an advantage as the oldest colony with its developed ports and it took advantage of this and built the first state owned railway line to reach Kimberley in 1885 and to reach Transvaal in 1895. The table above shows that much of South African railway success before 1895 was in essence the Cape Colony success and this meant tremendous revenue from railways and customs as most of the mineral traffic had to also use its ports (Burman, 1984; Van Der Poel, 1933). From using the wagons, the railways - the 'iron horse' as it was described - played a huge role as well in the wider economy as agricultural produce could be carried from up the country and remote areas of the colony.

Farmers were very slow to accept the new era of transportation. According to the South African Railways report (1947, p. 16), as late as 1887 there were many anti-railway conferences being held in South Africa with reasons such as “all railways were not necessary, they are detrimental to transport riding on wagons, they are injurious to horse breeding, they encroach on property rights etc.”[18] These fears were not without ground given that the oxen/horse transport diminished and farmers faced stong competition from cheaper imports from overseas. Foodstuffs such as wheat could be produced more favourably in North America than was the case in South Africa (Wickins, 1983, p. 58). Without fully developed railway branches, farmers were at the mercy of the external world since imports arrived at the mining fields quicker than that produced from local farmers in remote areas. This was because “the railways were built in such a way that for economic purposes Australia and England were nearer to Johannesburg than other parts of South Africa” (Goodfellow, 1931a, p. 137). In other words, the railways had to be linked with road networks throughout the country for its economic advantages to be felt by the farmers and the preoccupation of the government with railways meant this was delayed. The contribution of the trinity of railways, customs and minerals to economic growth figures is however undoubted and figure 3.2 shows the rise of the Cape’s GDP from 1856 to 1909.

Prior to 1870 (that is, before the diamond boom showed up in the GDP figures), the economic growth of the Cape Colony and, arguably, South Africa as a whole was very sluggish (cf. figure 3.2). The information given allow a comparative perspective with Natal, New South Wales and Victoria. From 1870 onwards there was a decisive increase in the nominal GDP of the Cape Colony. It reached its highest point in 1882 before declining because of the diamond crisis described in the previous section. The Cape, although growing, was lagging behind the Australian colonies in this period.

[18] Schumpeter (1942) coined the term ‘creative destruction’ and this was what the Cape economy was experiencing because of the introduction of the railway system. Markets were integrated in a way that had not been seen in the era of ox-drawn wagons and horse riding and breeding as well as all forms of transportation were beginning to decline and eventually disappeared.

Figure 3. 2 GDP at current prices (in £000s), (1855-1910)



Source: Magee, Greyling and Verhoef (2016, p. 903)

Table 3. 4 GDP per capita growth rates (%) (1861-1909)

Years	Victoria	New South Wales	Cape	Natal
1861-5	-4.31	-0.09	1.00	11.15
1866-70	-1.51	0.75	14.24	8.21
1871-5	3.43	6.67	3.04	-2.04
1876-80	1.02	1.95	7.69	2.95
1881-5	2.35	-1.03	-9.67	11.55
1886-8	0.27	3.99	16.9	9.85
1889-94	-2.36	-2.26	3.81	-6.31
1895-8	0.81	-0.27	3.87	13.15
1899-1902	0.95	1.09	-9.81	19.34
1903-9	3.27	3.8	13.84	13.25
1861-1909	0.24	1.24	4.06	6.56

Source: Magee, Greyling and Verhoef (2016, p.904)

Table 3.2 demonstrates that per capita growth rates were significantly higher in the South African colonies than in the Australian colonies between 1861 and 1909. Although levels of GDP were higher in Australia (cf. figure 3.2), rates of GDP growth were higher in South Africa. The economic growth was very volatile in colonial territories and “series constructed from colonial data… are typically much less precise than comparable series for the twentieth century"(Magee *et al*., 2016, p. 902). The major upward and downward swings were largely driven by major growth affecting events such as the diamond crisis from 1881 to 1885 and the South African War from 1899 to 1902. The bulk of the fiscal benefits of South Africa's diamonds and gold mining accrued to the Cape Colony while the Free State, Transvaal and Natal could not obtain much in comparative terms. The inland colonies did not have harbours to capture customs revenue while the British maritime colonies (Cape Colony and Natal Colony) did receive customs revenue. Paul Kruger was determined to push trade through Delagoa Bay in order to avoid reliance on the British colonies (Van Der Poel, 1933, p. 18). The Free State was also promised by the Cape that customs revenue collected by the Cape officials would be remitted to the Free State but this was agreed upon in only principle (Goodfellow, 1931a, p. 24).

The fact that the Cape was the first to develop ports and railways meant that with respect to fiscal developments the Free State and the Transvaal remained less sophisticated (Ross, 1986). With very few citizens able to pay taxes and no harbours for customs revenue, Paul Kruger's "railway endeavours were frustratingly slow due to financial problems" (Van Der Poel, 1933, p. 55). Equally the Free State's population was too small for significant revenue and it had no access to harbours. This meant that no ambitious railway plans were made "because the government was not willing to burden the small public revenue with huge costs of railway construction" (Van Der Poel, 1933, p. 11).

The economic progress of the 19th century South Africa was characterised by shocks and the highly volatile government revenue mirrors these political and economic shocks – both negative and positive. The minerals discovery had a positive impact on the economy while other shocks had a negative impact and therefore on the public finances. Table 3.5 below lists these growth promoting and impeding shocks which would ultimately affect the growth in government revenue and expenditures. These are also consistent with the picture given by the GDP graphs in figures 3.2 and 3.3. These shocks are important because they were not only affecting the economy but they also had a huge bearing on the public finances of the colony[19].

[19] Referring to the diamond crisis as an example, Mr Sprigg reiterated the depth of the depression that the Cape Colony was facing in 1882-4. He mentioned that diamond exports fell from £4 176 000 in 1881 to £3 000 000 in 1883 and that the falling trade affected the customs and the railway receipts as well.

Table 3. 5 Cape Colony's economic and political events

Period	Nature of event
1854	Self-governance granted
1866	Economic depression
1867	Discovery of diamonds at Kimberley
1872	Responsible governance granted
1880	First Anglo–Boer war
1882-4	The 'Diamond Crisis'
1886	Gold discovery in Transvaal
1899-1902	The second Anglo-Boer/South African war
1903	Severe drought and post-war economic depression

Sources: Schumann (1938); Verhoef, Greyling and Mwamba (2014); Greyling and Verhoef (2015)

3.4 Political developments

3.4.1 The evolution of parliamentary institutions

A significant institutional change occurred in the Cape Colony's governance in 1807 when a conflict rose between Caledon, a non-military nobleman and General Henry Grey, the garrison commander (De Villiers, 2014, p. 82). The British government then decided to appoint only former army generals as governors of the Cape Colony and this set in motion a development of governance institutions with an autocratic nature. Charles Somerset arrived as the governor of the Cape in 1814 and due to weak countervailing institutions he would not listen to the council of advice which was thought to be a way of subjecting the governors to some form of accountability (Grundlingh, 1937, p. 7; Peires, 1989, p. 476). As a member of the council, Stockenstrom, later governor of the British Kaffraria, was frustrated by the idea of this toothless council. He argued that, "the council as a first step towards reform was the greatest insult that could have been inflicted upon the common sense of any country" (Grundlingh, 1937, p. 11). The 1822 commission's recommendations, namely an independent judicial system, efficient civil service and removal of economic restraints, took long to be effective.

Public revenues were not subject to discussion with the council as they were regarded as private property of the crown and the governors had power over budgeting, which could be abused (De Villiers, 2014; Grundlingh, 1937). The council did nothing to reduce the governors' monopoly on decision making processes with regards to the affairs of the colony and agitations in the Cape reached London in the form of petitions. Partly because of the forgoing reasons, the royal charter of justice was issued and this created the supreme court of the Cape of Good Hope in 1832. The settler agitations also led to the introduction of a representative organ of the government in 1834 and this paved the way for a stronger voice of the colonists with regards to governance (De Villiers, 2014, p. 104).

From Charles Somerset in 1814 to Sir Harry Smith in 1852, the Cape had an absolutist spending paradigm and there was no parliamentary veto to regulate public spending. This period was the incubation period of representative institutions. The new settlers who came in 1820 were used to public meetings and expressing their discontentment through free press and were not willing to let go of this right enjoyed by their fellow men in England (Grundlingh, 1937). Although the imperial authorities were indifferent to some of the details of colonial governance, they were certainly worried about colonial instability and were prepared to allow progress to occur as far as representative institutions were concerned. From the financial standpoint the Imperial government was also keen to allow colonies to be self-sufficient. Financial prudence in the British public finances was going to be easier because the colonies with responsible governments would cease or at least reduce their demands for support (McCracken, 1967).

In 1854 the Cape Colony was granted representative governance to operate as a self-governing colony. This year marked the beginning of parliamentary deliberations of issues concerning the colony and governors had to start working with other representatives from various districts. McCracken (1967, p. 138) argued that from 1854-1909 the number of Acts issued exceeded 30 in each year reaching 40-50 Acts in the period after 1881. These entailed parliamentary deliberations and debates which leaned more and more to democratic practices. De Kiewiet (1957, p. 97) argued that the Cape Colony was fortunate in that it obtained self-governance during a rising tide of economic prosperity as wool and copper were boosting the economy. This is evident in the patterns observed in loans obtained in aid of public revenue. Prior to 1854 only a few loans were obtained but from 1854 onwards the incidence of loans increased showing the increased autonomy of the government to borrow. Prior to 1854 there were no frequent meetings for governance issues but from 1854 the meetings were conducted each year. The maturing colony with power to enact various acts and better economic prospects from the 1870s was ready for another phase of parliamentary developments. Responsible government was granted in 1872 under prosperous conditions. The executive, that is the prime minister and his cabinet, were now held responsible by the legislative council and had to resign if they lost the confidence of the legislature (Grobler, 2014, p. 168).

Some colonists were inclined to make the franchise requirement very high so that the blacks could not qualify and hence not vote. This was unsuccessful because Downing Street gave the Cape representative institutions on the basis that the rights of the black Africans were fully protected (Kilpin, 1930, p. 81). The constitution came to the Cape in 1853 with a low franchise allowing many blacks and coloured to vote (Kilpin, 1930, p. 80). The Cape Parliament consisted of a governor and an elected council of 15 (eventually 26) members headed by the chief justice and an elected house of assembly of 46 (eventually 107). The 1853 constitution granted the vote to every male who was a British subject above the age of 21 with a house or land of at least £25 or a salary of £50 per year ("Ausi," 1956, p. 10). Eventually, after 10 years it was realised that the system of sending key officials from Downing Street was not working and the Cape pushed for a responsible government which was granted in 1872. The fact that a low franchise requirement was in the initial constitution did not necessarily imply a black African majority because the Cape was still small before annexation of the eastern territories and economic conditions were not yet improved for many to qualify. From 1855 the Cape eventually annexed the eastern territories bringing an addition of about one million Africans who would alter the white majority in parliament if the constitution was not amended ("Ausi," 1956, p. 11).

There were low and high franchise requirement supporters at the Cape for various reasons connected to their interests. Trapido (1964, p. 52) argued that "the Dutch speaking people were adherents of a low franchise because they were opposed to the ruling clique of politicians and merchants, and it was only the latter who would have benefited from a high qualification" This was important for the state formation and interest groups that would eventually dominate parliamentary institutions because an elitist parliament would mean that the interests of the majority non-propertied class would not be fully represented. This is also at the heart of Meltzer and Richard's (1981) median voter argument because allowing more poor people to access voting would mean more expectations for government outlays (see section 2.4.3).

Three legislative acts became crucial for the disenfranchisement of the black Africans in the Cape Colony and therefore to the creation of a state that limited the black African participation in the electoral system. These key acts were: the Cape Parliamentary

Registration Act (1887), the Cape Franchise and Ballot Act (1892) and the Glen Grey Act (1894). These acts were meant to reduce the number of African voters whose numbers could have a deciding majority in vote outcomes. The Cape Parliamentary Registration Act of 1887 was more influential in excluding the Africans in the Eastern Cape by removing tribal forms of landholding as a form of property qualification for voting (Davenport, 1978, p. 108). It was during the debate on the introduction of this Act that Rhodes argued: “The native is to be treated as a child and denied the franchise. We must adopt a system of despotism, such as works in India, in our relations with the barbarism of South Africa” (Magubane, 1996, p. 108). The Cape Franchise and Ballot Act of 1892 became more direct and eventually raised the qualification of franchise from £25 to £75 affecting mostly Africans, coloureds and poor whites. Rhodes introduced the additional provision that every person was supposed to be able to sign his name, his address and occupation in the presence of an officer. This effectively excluded the illiterate majority of Africans and was another indication that liberalism at the Cape was a myth and manipulated for political convenience (“Ausi,” 1956). There has not been an exact number in terms of how many people were removed from the voter’s roll but for Africans the number is estimated to be between 20 000 and 30 000 (Mbeki, 1964; Thompson, 1960). According to ‘Ausi’ (1956, p. 11) these pieces of legislation removed about 90-95% of the African voters. While the exact numbers are highly contested, the negative effects were apparent.

In practice the Glen Grey Act meant a concentration of black Africans in a small geographic region with no adequate land to make them supply labour to the mines and farms. It introduced individual land holdings and a labour tax for black Africans who could not prove that they were employed. It complemented other restrictive measures being pursued by the Cape and "various other proclamations and enactments (which were to be extended and elaborated from time to time until the 1930s) [it] laid down the rule of one-man-one-plot in the reserves" (Wolpe, 1972, p. 72). According to Davenport (1978, p. 108) "it excluded property ownership altogether as a voting qualification for blacks who held land under the Glen Grey Act." These measures made it easy for the minority to exploit the black African majority and make their livelihood dependent on the limited civic rights in which they were subservient to the white minority. Rhodes understood that the native question was linked to the labour question and the Glen Grey Act brought this close to fruition. All were only initial legislations which formed the basis of subsequent series of legislative frameworks that were meant to deal effectively with the 'native question' into the 20th century (O'Malley, 1996). There is some evidence to suggest that the state was therefore formed to protect the elite and the eventual expenditure priorities were also protected within this exclusive legislative institutional path. The scope of the expenditure was narrowed since most areas with a black African population would not constitute a majority in parliament and the elite could steer through self-beneficial policies. What constituted the electorate was narrow and legitimised the state's perceived responsibilities in terms of public expenditure. The thorough enforcement of hut tax was partly to ensure that any administrative activities for the black Africans was fully covered by their own contributions (see section 4.3.3). If suffrage of the Afrikaners and Africans was a key indicator of liberalism at the Cape (Trapido, 1980, p. 248), the subsequent legislations aimed at reducing the scope of the franchise negated significant attributes of this liberalism. It is important to point out that this was so in the state institutions but the economy operated in capitalistic norms compatible with liberalism in general (Ross, 1986).

3.4.2 Political and economic interest groups

In the period up to the 1840s there were virtually no parties and the only political relations were mercantile networks of patronage. Even though the British tried to abolish these, they took long to disappear from the Cape and dominated the first half of the 19th century. According to Peires (1989, p. 498), "there was a clammy hand of state regulation which necessarily plunged any commercial transaction into the morass of official patronage networks." While Peires (1989) gives a picture of a radical transformation and effective bureaucracy after the first legislative changes at the Cape, others (e.g. Goodfellow, 1931; Grundlingh, 1937; Ross, 1986) give a sombre picture of slow developments in this period. The abolishment of concessions and monopolies on butchers, bakers and other forms of businesses was important for liberal trade.[20] The governance and representative institutions took longer to become effective. It would seem that Peires (1898) took the Commission's recommendations as given without

[20] This was one of the causes of the Great Trek. One frontier farmer complained, "Now we have a Civil Commissioner to receive our money for Government and for Land Surveyors, a Magistrate to punish us, a clerk of the Peace to prosecute us and get us in Tronk…The Englishmen is very learned …They and the Hottentots will squeeze us all out by degrees" (Peires, 1989, p. 499).

considering whether the implementation of these were necessarily smooth in every aspect.

From the 1850s onwards, citizens of the Cape Colony were unwilling to stand for parliament because of factors such as the lack of payment and the long travel distances to Cape Town. Farmers, merchants, and lawyers often influenced the proceedings of the parliament before the mining magnates and their associates became members of parliament. The lack of concrete party lines, at least before the Jameson Raid in 1895, meant that a myriad of interests were represented and often 'parish pump' politics dominated the debates in the periods before 1870s (McCracken, 1967, p. 50). This means that the political system was vulnerable to capture by any influential group that pushed a particular cause. According to McCracken (1967, p. 61):

> Some entered parliament with a single objective in view – state aid for voluntary schools or protection for the diamond industry, for example. There were the promoters of railway extension or agricultural improvement…, some were ardent imperialists, some enthusiastic nationalists – one member of the house referred to the British forces as the enemy.

Since there were no strong party politics to inform the objectives of the members it was highly probable, as demonstrated in this study, that some interest groups coalesced in instances where their interests overlapped. In a relatively homogenous group, allegiance was given on personal basis (McCracken, 1967, p. 106) and members could easily form cliques around a cause.[21] For instance those who wanted protection for the diamond mining industry and those who supported railway extension coalesced and became influential for the formation of the Minerals-Railway Complex. In the period after the discovery of diamonds, parliamentary debate moved from parochial matters to weightier matters such as regulation of the mining industry as well as construction of railways. The pecuniary implications of these major projects meant that they became important for the government. McCracken (1967, p. 55) stated that "from the early 1880s merchants and farmers were overshadowed by the mining magnates and their associates."

[21] Constituencies being represented were not yet accustomed to the idea of representative governance and hence were not exacting. They hardly placed onerous demands on their representatives after electing them. According to McCracken (1967, p. 51), "John Fairbairn represented Swellendam for many years before he visited it in 1860, and John Merriman was content with visiting his Namaqualand constituency two times a year arguing that "They never wanted to see me, neither did I want to see them.""

The dominant party-like organisation was the Zuidafrikaansche Boeren Beschermings Vereeniging (BBV) (The South African Farmers Protection Association) formed in 1878. This was formed by Jan Hendrik Hofmeyr and the directors of the Wine Farmers Association and its formation was triggered by the imposition of excise tax on colonial brandy. Its major aim was to make sure farmers' interests were represented in parliament. It was soon criticized for being narrow and representing only local interests. This led to the formation of the Afrikander Bond (Alliance) in 1879 which had a vision of uniting all South Africans. This was amalgamated with the BBV in 1882 and had branches across South Africa, including the two Boer republics. The broader focus of the Bond entailed that it remained less effective in really affecting Cape politics. It, however, became a useful organisation for convenient liberalism in the Cape Colony as politicians used its platforms to appeal to the broad interests of the parliamentarians who had relatives in the other republics (Trapido, 1980, p. 267). For instance, Cecil Rhodes took over the premiership on behalf of the Bond in 1890 and strengthened the position of his chartered company. To make the Rhodes-Bond Alliance appear stronger, he effectively bought off many Bondsmen, offering them £1 Charter shares not available on the market, both before and after he assumed the premiership and promised them farms in Mashonaland (McCracken, 1967, p. 114). As Merriman put it, Rhodes had "a toughish term to drive with Imperialists and Bondsmen" (McCracken, 1967, p. 115). With key names coming up in the political economy of the Cape, it is important to give a brief profile of each of these names. A few major names are chosen here and the rest will be briefly explained as they appear in the rest of the dissertation. Depending on the availability of information, it is necessary to give a few details on who these people were, what they represented and their influence in the political and economic progress of the Cape. These profiles are by no means complete and aspects bearing on state formation, public revenue, and public debt will be given. These names recurred in the parliamentary debates and most were the longest serving members in the Cape parliament who had a grip of the Cape's socio-political issues. Longevity in parliament was limited to a few individuals who inevitably steered the debates with decisive authority because of their institutional memory. The connections of the other members to Rhodes are apparent in these profiles and this influenced the success of the MRC in dictating and shaping processes in the public finances of the Cape.

Cecil John Rhodes

A lot has been written on Rhodes as the arch imperialist with a vision to extend the imperial project to the rest of Africa (Thomas , 1996). He was the leading figure in shaping the diamond mining regime of the Cape Colony. From 1877 until his death in 1902 he represented Barkly West which was part of the annexed Griqualand West. In 1880 he was a member of the Diamond Mining Commission which gave recommendations to the government on how the sector was to be regulated. He was the Prime Minister of the Cape Colony from 1890 to 1896 and his success in mining was not only emanating from business acumen but also the fact that as a politician he could influence policies to favour his personal ends. His De Beers Company can be seen as a 'blue chip' of imperialism whose success emanated not only from prevailing rates of return but from his political and economic networks. Being in the mining industry also meant that Rhodes supported railway extension with great enthusiasm, enthusiasm which he did not demonstrate for railway extension to serve farming.

Hercules Robinson

He became a close friend of Rhodes in the period before the Jameson Raid. He was an experienced statesman, having governed in Montserrat (1854-1855), Saint Christopher (1855-1859), Hong Kong (1859 -1869) British Ceylon (1865 -1872), New South Wales (1872- 1879), Fiji (874- 1875), New Zealand (1979-1880) and the Cape Colony (1881-1889). As he was the governor during Rhodes's early days in parliament he became crucial in shaping the mining industry and was a member of the Diamond Mining Commission. According to Thomas (1996, p. 132), Rhodes and Robinson pushed the eventual Mining Act "clause by clause and most of its provisions went through save for the flogging of illicit buyers and sellers".

John Xavier Merriman

He was one of the ablest and longest serving member of the Cape Colony parliament. He was also a diamond investor, although not on a large scale, and he was the one who encouraged Rhodes to consider a parallel life in politics (Thomas , 1996, p. 79). As a railway enthusiast, his interests overlapped with those of Rhodes. He was appointed as

Treasurer General from 1890 to 1893 when he resigned after the "Logan Scandal"[22], which exposed the level of corruption in Rhodes's business dealings. The Jameson Raid in 1895 ruined his relationship with Cecil John Rhodes and he forthwith opposed the mining interests and British imperialism in South Africa. Throughout his political life, Mr Merriman's political and economic views were volatile and erratic. He initially pushed the railway extension towards the ends of the mining industry, resisting any railways to serve agriculture (referring to these lines at one stage as 'pumpkin lines'), but later spoke at length on how agriculture as a key sector had been neglected. He initially fought the responsible governance but by 1875 he supported and was part of the leadership of the responsible government. He was the Prime Minister of the Cape from 1908 to 1910 when the Union was formed.

Jan Hendrik Hofmeyr

He was the chief leader of the Bond after it was amalgamated with his BBV. He shied away from being a top leader but was very influential in the background. Merriman described him as the "'the Mole, an industrious little animal…You never see him work, but every now and then a little mound of earth, thrown up here and there, will testify to his activities"(McCracken, 1967, p. 114). His support for the farming community led him to form the BBV and when it was merged with the Bond, he chose to remain in the background refusing the top position which was taken by Rhodes. His support for Rhodes was also based on his desire to maintain unity between the English and the Afrikaners. His trust in Rhodes's businesses is also revealed by his ownership of shares in Rhodes's mining companies. According to South African history online "Evidence shows that Hofmeyr himself made a large purchase of De Beers shares later, in August 1895, which Rhodes would later use as ammunition to force Hofmeyr to do his bidding." After the 1895 Jameson Raid, "… his condemnation of Rhodes did not extend to supporting Merriman's demand that the British South Africa Company's charter should be withdrawn: his purchase on preferential terms of Chartered shares in 1890 and of De Beers shares in 1895 made him vulnerable to threats of exposure" (McCracken, 1967, p. 116).

[22] James Sivewright, a close associate of Rhodes serving in cabinet, gave a government catering contract to a friend James Logan. The contract involved an 18 year monopoly of catering on the government run railway system. This caused huge protests from parliament (especially from Merriman, Sauer and Innes who refused to serve with Sivewright) forcing Rhodes to resign (McCracken, 1967, p. 115).

Gordon Sprigg

His political career in the Cape spanned from 1879 to 1904. He was mainly in the opposition and remained a federalist throughout his career. He was behind the Registration Bill in 1887 which excluded communal land owners from voting and this was supported by Rhodes who favoured the disenfranchisement of the black Africans. Mr Sprigg was also a railway enthusiast though his proposals were impractical and expensive. His stance on railways and disenfranchisement was in line with Rhodes's own interests. He offered to help Rhodes who had lost support after the 'Logan Scandal' in 1893 and successfully secured the position of treasurer. He remained a vocal Rhodes supporter and this made him to disagree on many issues with the Afrikaner Bond party. For instance he was accused of wanting to favour British towns at the expense of Afrikaner rural areas.

Jacobus Wilhelmus Sauer

He was elected into parliament in 1875 and served continually until 1904. His presence in parliament for over twenty years made him more knowledgeable and his contributions to parliamentary debates were grounded. He was in favour of enfranchisement, supported suffrage for woman and was in favour of incorporation of blacks into parliament. He was a key individual who brought down Rhodes's government after the 'Logan Scandal' and remained a vocal critic of Rhodes and his racism epitomised by his desire to treat blacks as 'poor children'. His support and closeness to Mr Merriman made him a sympathiser of government policies on public finances.

3.5 Trends in public finances

This section seeks to briefly discuss the broad public revenue, expenditure and debt aggregates as well as the budget balances of the Cape Colony throughout its existence. In other words, the section establishes macro fiscal trends (total revenue, total expenditure, the budget balance and total debt). This is done in order to identify major trends and components and issues warranting further investigation in the remaining chapters. The general patterns in this section will help the focus in each of the subsequent chapters.

3.5.1 The budget balances

The budget balances are general broad indicators of the sustainability of the public finances and the commitment of the colonial government to financial prudence. The budget balances also determine the general trends in fiscal policy because when there is a constant deficit the colonial government would be forced to revisit their public expenditure and government revenue policies. Before the 1850s the Cape Colony had been hamstrung by public debt because much of the public expenditures were funded through colonial debt. Revenue collection capacity was not yet fully developed and the Cape struggled to pay annual interest on its debt (Burman, 1984, p. 11). The economy had not developed and the tax base was limited to trade revenue which could be readily collected at the harbours without investing significantly in fiscal capacity. According to Burman (1984, p. 14) significant change came when John Montagu arrived at the Cape in 1843 and "set about to reduce the Cape's debt in two short years by selling land, collecting arrear taxes and selling guano from the offshore islands and he succeeded in wiping the debt out". Only after the debt was paid off did the state programmes such as road construction begin through the use of convict labour.

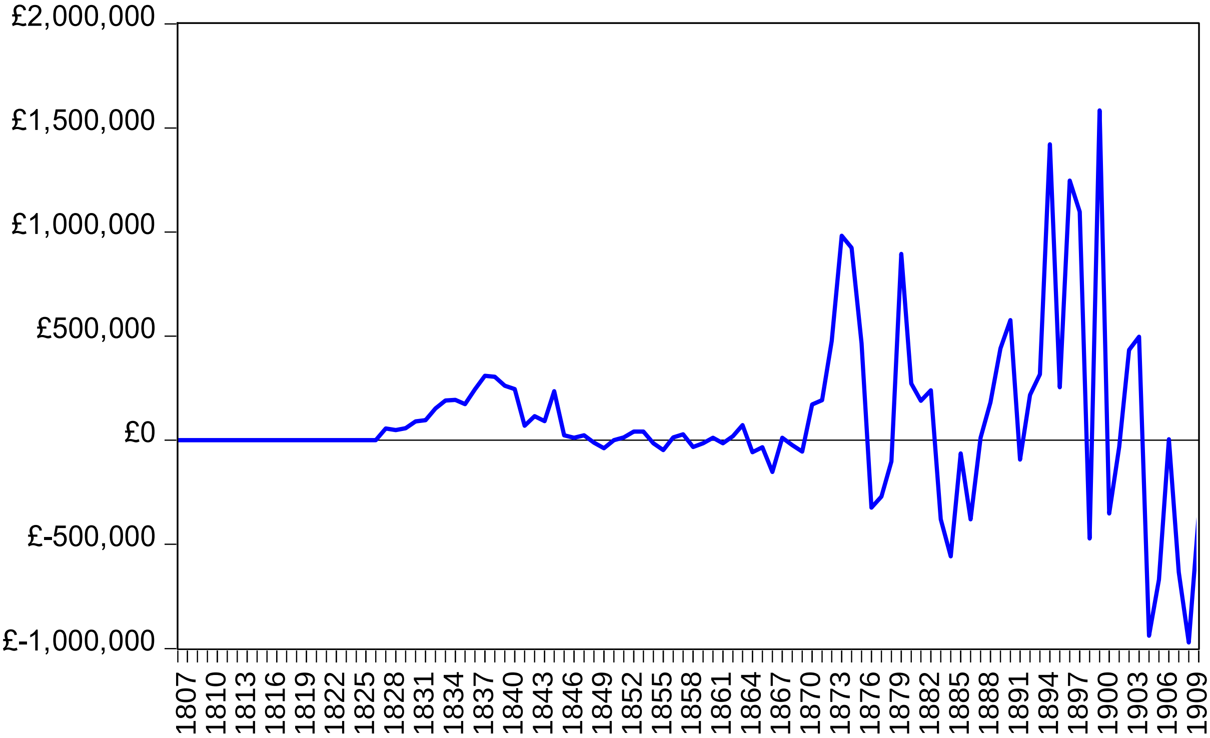
Ordinary expenditures prior to the 1860s were only successfully met through a supplementary system of temporary loans. Transparency was also limited in this era since there was no proper system of auditing revenue which was not separated from these loans and therefore a surplus in revenue could have simply been a deficit concealed by the use of short term loans. Even as late as 1863 the governor's speech revealed this weak state financial position:

> The expenditure of 1863 amounted to £682 868 and £191 613 in excess of receipts…No increase in taxation is expected to boost revenue and recourse must be had to a loan, to meet ordinary expenditure, but I earnestly trust that on this occasion your appeal to the capitalists of England will be accompanied by a substantial pledge of your desire to provide for the gradual, but sure, liquidation of your debt (Wodehouse 1864, p. 2).

Up to 1875 this system of blending ordinary revenue with temporary loans was obscure and from 1875 a separate loan accounting system was introduced. There was increasing pressure on the colonial governor and the cabinet to consolidate the budget of the colony in order to avoid what the governor termed a "financially embarrassing position" (Wodehouse, 1964.p. 4). The number of petitions was increasing from the local capitalists who were against the government's desperate attempt to increase revenue by raising various duties. A significant petition was from the Standard Bank's representatives who expressly stated that "Your petitioners submit that an impost upon the subscribed capital of the Standard Bank would bear with quadruple weight upon its working capital and would be therefore unjust and unfair" (Kirkwood, 1864, p. 1).

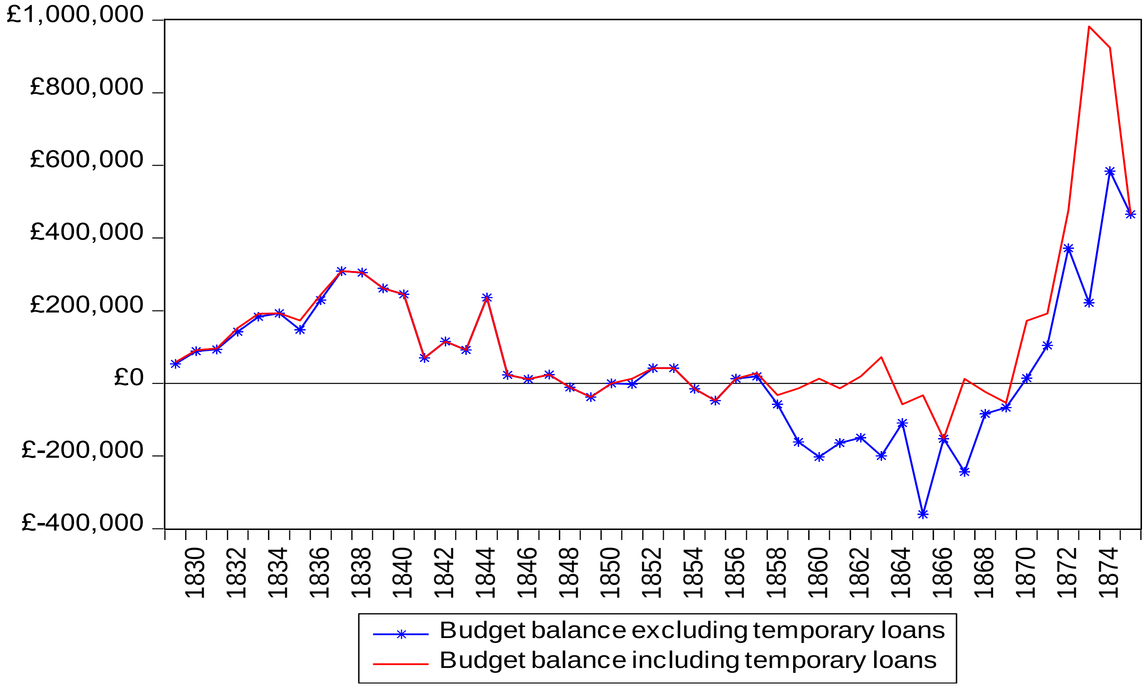
The Cape's public finances in figure 3.4 portrayed up to 1870 a positive balance which is counterintuitive to the qualitative evidence showing a colony in serious debt. The principle of budget balance was in use and the general caution came from the fact that the economic outlook of the colony was not promising hence the government could not be ambitious.

Figure 3. 3 Budget balance 1827-1909



Source of data: Blue books (1806-1909)

Figure 3. 4 The effect of short-term loans on the budget balance (1830-1875)



Source of data: Blue books (1830-1909)

The temporary loans were useful in this period up to 1875 as figure 3.5 shows. The temporary loans in aid of revenue aided the budget balance especially from 1857 when it curtailed significant financial problems by reducing the deficit. The debt of the Cape Colony was not recorded prior to 1875 and all that constituted debt in the Cape public records were the temporary loans while the real external public debt did not show up in the public accounts. These temporary loan figures are explicitly shown to be exclusive of long term borrowing. With the increase of business activity due to the discovery of diamonds the governor reported in the fourth session of parliament that "The larger portion of surplus revenue has been devoted to extinguishing the temporary loans which had been raised by the government in the former years to meet ordinary expenditure" (Barkly, 1873).

While the temporary loans mitigated the deficit, part of the positive picture prior to the accelerated economic growth in the 1870s onwards lies in the fact that there was a general prudence and rationality among the Cape governors. British pragmatism and budget balance were adhered to in the true sense of the Gladstonian preferences of limiting government to a minimalist role. They were reluctant to begin any ambitious public expenditure projects unless reasonable means and economic benefits of such projects were ascertained. This general exercise of prudence was strong if one considers various unsuccessful petitions made on the government with calls from the Eastern Cape settlers to build a railway linking Grahamstown and Port Elizabeth. No amount of petitions and letters calling for state driven projects would move the government but as soon as diamonds were discovered the government started building the Cape Town to Kimberley railway line and the construction of lines was initiated also from Port Elizabeth and another from East London (Burman, 1984, p. 51). In light of this, the rather surprising positive picture of the budget balance prior to mineral discovery is a sign of hesitancy by the state to be ambitious with its meagre revenue and focus only on the real necessities of the colony. The balanced budget principle became difficult to follow strictly when the economy started to grow and when the government took over private railways. The balances started to fluctuate heavily contrary to the close watch of budgets portrayed in the period before 1870.

3.5.2 Sources of public revenue

The VOC bequeathed its tax structure, albeit poorly run, to the British administration. With no mission beyond profit, the company could not invest in fiscal capacity building. Table 3.3 lists all sources of revenue in the British Cape Colony divided into direct tax, indirect taxes and non-tax revenues.

Table 3. 6 Public revenue sources by different categories

Direct taxes	Indirect taxes	Non-tax revenue
Hut tax (1859-1909)	Customs duties (1820-1909)	Post office revenue (1827-1909)
Land quitrent (1820-1909)	Excise duties (1879-1909)	Railways revenue (1873-1909)
Tithes on wine and grain (1821-1842)	Transfer duty (1820-1909)	Telegraph revenue (1873-1909)
Income tax (1904-1909)	Stamp duty (1820-1909)	Property sales (1848-1909)
	Auction duties (1820-1909)	Office fees (1820-1909)
	Mining tax (1882-1909)	Fines and forfeitures (1826-1909)
	Bank notes duty (1865-1910)	Rents (1849-1909)
	Succession duty (1864-1909)	

Sources: Cape Colony's Blue books (1820-1910)

What is important to note is that over time some taxes inherited from the company were abolished while others were introduced as the economy progressed. For instance, land taxes and tithes on grain were two forms of direct taxes introduced by the company and hut tax and income tax were introduced under the British system.

Table 3. 7 Revenue sources and shares in total revenue over time.

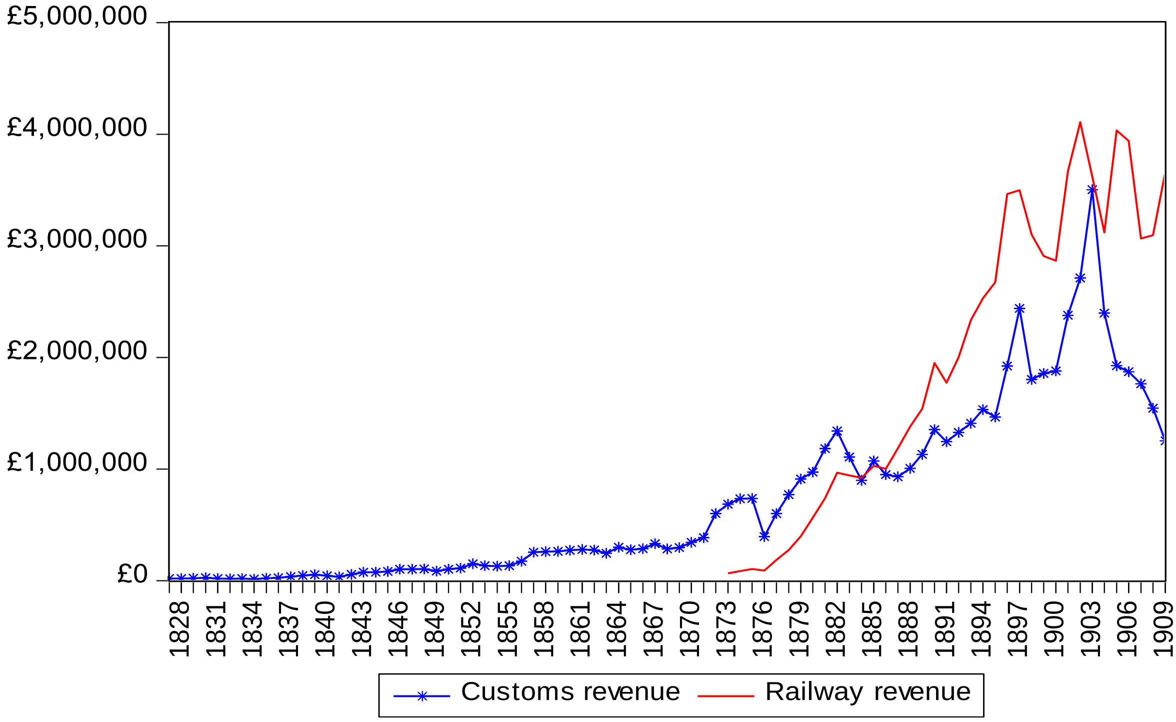
Sources	**Years**	**Importance**
Customs revenue	1820-1909	Below 20% from 1821-1844; 30-60 % between 1845 and 1880 and 15-30% from 1880-1909
Railway revenue	1873-1909	Rose from to 30% in 1886 and remained between 30 -50% from 1886-1909.
Loans in aid of revenue	1821-1874	Unsystematic fluctuations reaching 51% of total revenue
Land revenue	1820-1909	Above 60% of total revenue between 1821 and 1825 but never exceeded 10% for the rest of the period.
Transfer duties	1821-1909	Rose to about 15% in 1856 but declined gradually to under 2% in 1980
Post Office	1882-1909	Remained under 4% throughout the period
Telegraphic lines	1873-1909	Oscillated below 2.5 % the whole period
Interest	1849-1909	Oscillated below 2.5 % the whole period
Stamp duty	1820-1909	Fluctuated between 4-10% between 1821-1870 and declined to the 2-3% band from 1870-1909
Auction duty	1821-1896	Rose to about 8%in 1856 but declined drastically to below 1% in 1896
Tithes on wine and grain	1821-1842	More important in the 1820-1830, about 8-15.5 % but declined to below 1%
Excise duty	1879-1909	Rose to about 3-5% only in 1905 -1909
Sale of Government property	1849-1909	Oscillated below 1.5 % the whole period
Fees of office	1820-1909	Remained under 2% of total revenue
Fines and forfeiture	1826-1909	Fluctuated between 0-2% of total revenue through the period except in 1867 when it went into 2-3 %
Hut tax	1859-1909	Rose gradually reaching to about 1.5 % of total revenue in 1909.
Mines	1882-1909	Oscillated below 1.5% throughout the period
Rents (exclusive of land)	1849-1909	Oscillated below 1.6% throughout this period
Bank notes duty	1865-1909	Oscillated below 1% throughout the period
Succession duty	1864-1909	Below 1 % during the whole period
Income tax	1904-1909	Between 4-6% in this short period

Source of data: Blue books (1830-1909)

On the tax side the British colonial government's key new taxes were the hut taxes (1859), excise taxes (1879) and income tax (1904). The major sources of non-tax revenue were direct revenue from service provision from the state owned and controlled railways

(1873 onwards), telegraphs (1873 onwards) and postal services (1882 onwards). Customs was a major source of revenue throughout the period and the most important among indirect taxes. Table 3.3 above shows that if the major sources of revenue were to be isolated it would be customs revenue and railway revenue. Figure 3.6 below depicts the contribution of railways and customs as the two major sources of revenue and railways seem to outperform the customs from 1885 onwards. In terms of revenue coming to the coffers, there was no doubt that railways became the chief revenue source for the colony. There was a fundamental problem with this practice of mixing tax revenue and non-tax revenue because the revenue contribution from railways was not based upon the viability of the system but it was a revenue collection exercise. This created an illusion in the public finances. After analysing railway reports, Mr Merriman in the 1902 parliamentary session remarked, "I could find nothing strange, no alteration as far as I could see, they have gone on in the same old jog-trot way of putting the railway revenue into the general pot" (House of Assembly budget debates, 1902, p. 163).

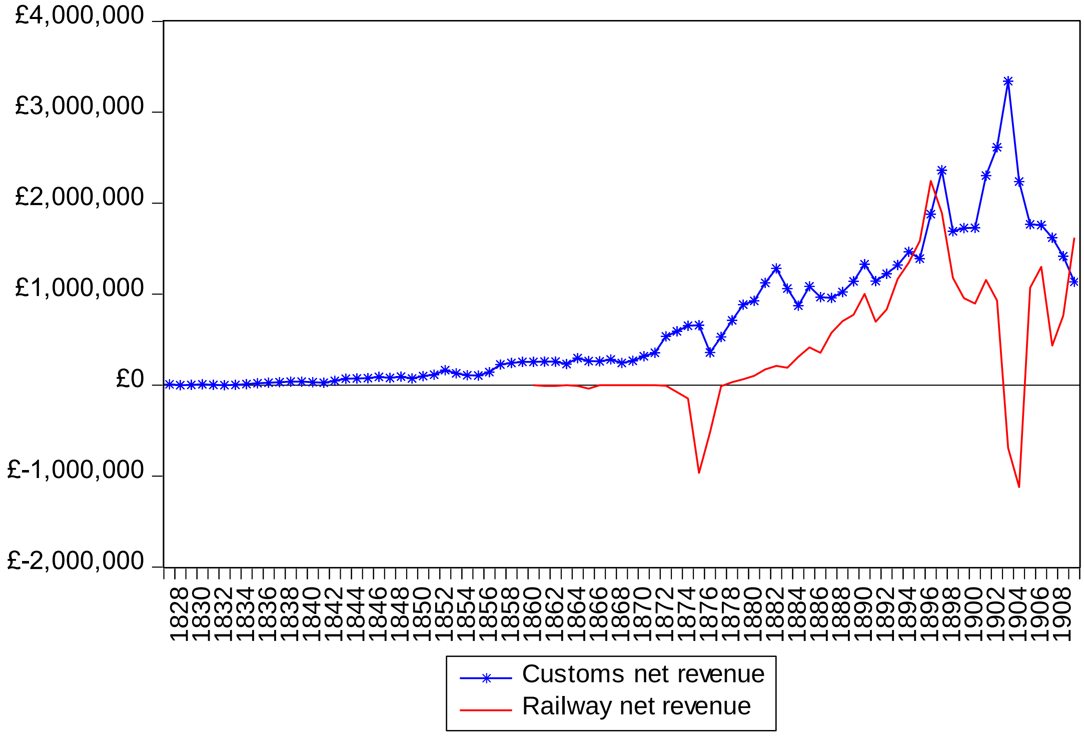
Figure 3. 5 Customs and railway receipts



Source of data: Blue books (1830-1909)

The problem with putting everything into the 'general pot' was that the government revenue grew significantly but fiscal sustainability was not an immediate concern. While looking at the revenue received from customs and railways shows that railways were chief contributors from 1885 onwards, net revenue (receipts minus expenditure) shows that customs revenue remained the major revenue source of the colony. This was because the railway system absorbed more costs on the expenditure side than customs which needed few officers. The costs of the railways comprised of maintenance, new locomotives, relaying and other related costs. The cost side of railways made the customs a better revenue contributor, with its expenditure side never taking more than 16% of the receipts and a yearly average of 6% for the 83 years under review. The problem is that this approach of treating each parastatal separately was never the way in which the government operated the state owned entities. This was not unique to the Cape and some countries also went into the 20th century including state owned enterprises in the accounts of governments.

Figure 3. 6 Customs and railway gross incomes



Source of data: Blue books (1830-1909)

Goodfellow (1931b, p. 38) shed more light on the railway system when he argued that no system was put in place to determine what portion of revenue went into capital expenditure or profits and the whole system was "…taxation by railways due to the need to bring more revenue into central government's revenue coffers." It was left to the minister who was a member of the cabinet to determine how much to surrender to the government's coffers and the minister was only subject to questions in parliament (Goodfellow, 1931b). Van der Poel (1933, p. 128) also support this by arguing that all South African 19th century governments of the railway operating states tacitly used railways as instruments of taxation because they had no other meaningful sources. The import tariffs of the maritime Cape and Natal colonies also purely remained an expedient revenue collection exercise instead of elements of a trade related policy. Mining equipment import tariffs were significantly higher in the Cape and Natal than those in Canada and Australia (Goodfellow, 1931a, p. 104).

The other state-owned and controlled entities were the postal and telegraphic systems. While the post office was already functional in the late 1820s, the telegraph system started functioning in the same year as the railway system (1873). The two state owned entities were meant for service provision and not necessarily for profit making but since they formed a huge source of state revenue in the 19th century, it is worthwhile to assess their net revenues. The telegraphic system was the worst performing of all state owned entities and always operated at a loss except during the period of the Anglo Boer war when the telegraphic system was in heavy usage. Expenditure as a percentage of revenue collected was on average 131% of total telegraph receipts except in the war period when it declined to 80%. The post office on the other hand shows a normal trend. In the early years expenditure was quite high, 80-140% of the receipts, but remained within the 30-50% band up to 1900. Unlike the telegraphic system which only realised a revenue surplus during the war, the post office revenue and expenditure rose significantly during and immediately after the war.[23]

For the smaller items of revenue hut tax is worth a closer look not only because before the income tax in 1904 it was the second form of direct revenue after land taxes but also because of its impact on the Africans. Disregarding the railway receipts since they dwarfed the shares, the revenue collected through hut taxes was rising steadily reaching close to 3% of total revenue in 1908.[24] In this period the allocations for the education of

[23] Mr Sprigg in his budget speech in 1900 highlighted the increase in communication during the war causing telegraphic and postal receipts to increase. He reported that, "There was a huge increase in postal and telegraphic returns during this period of war owing to the increase of people mainly soldiers who constantly communicated with their relatives and friends across the world" (House of Assembly budget debates 1900, p.259).

[24] Act 3 of 1869 was imposed to enable harsh treatment for all non-compliance. For instance, "Seizure of cattle was done whenever the hut tax was not paid in the required time and where nothing is obtained in terms of the actual owners, such hut was destroyed"(Kilpin, 1930).

black Africans was barely 1% of the total expenditure. When one considers the process that impoverished the black Africans through the encroachment of the European settlers on black African land, the wealth available to the black Africans meant that the hut tax was a huge burden. These developments were similar in the Natal colony as well where the hut taxes were imposed and collected by black headmen and were meant for British administration – quite similar to Mamdani's decentralised despotism argument (Mamdani, 1996, p. 49). In 1872 Chalmers, the Tambookie (Xhosa tribe) Agent, in a report on political and social conditions of black Africans, revealed the resentment of hut taxes by the black Africans:

> There is no desire on the Tambookies to be annexed to the colony and any proposal for such will causes dissatisfaction and cause them to mistrust the government and a major reason they moved out was to avoid being subject to the colony …they have a dread of colonial law and tax-paying (Chalmers, 1872, p. 5).

This also speaks to the huge impact the hut tax had on their way of life since they would be, for the need for tax money, forced to supply labour to the surrounding farms and industries within the Cape Colony. In proportion to the 'services' provided to Africans by the Cape government, the requirement for paying hut taxes was baseless. The post slavery period caused a lot of disillusionment to ex slaves and the only available help was from mission stations which could not support many who thronged them (Ross, 1993, p. 144). Those who remained 'apprenticed' on farms could not escape "cycles of thraldom and debt peonage" and those who sought independent rural lives had to pay tax (Ross, 1993, p. 145).

3.5.3 Public expenditure

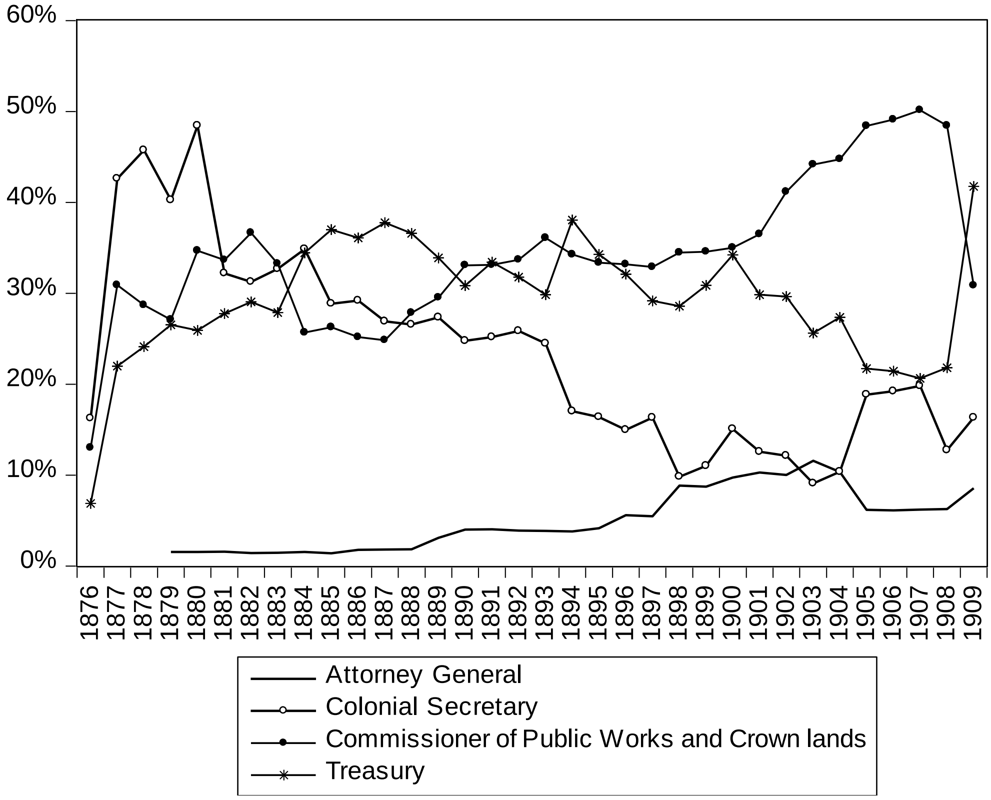
Expenditure of the Cape government was in the initial period, 1806-1840, focused on securing the colony and establishing order. In 1815 the British government took over the Cape Colony and had to shoulder the expenditure on the military for a newfound colony which could not defend itself. With settlers penetrating the interior and the Eastern frontier districts, policing, magistracy and other protective measures to allow human settlement were a priority. It is natural that for a colony, the first thing to worry about is establishing law and order justifying large expenditure on police, magistrates and prisons before thinking of education and public health care. Furthermore, public social spending was small throughout the world at that time. The Cape governor Edmond Wodehouse's view in 1867 was testimony to the limited and low government outlays in the Cape:

> Year after year sheep-famers have gone in search of wealth into regions more and more remote. You have thought it right to follow them with posts, police and magistracy which they are now most desirous of retaining (Houghton & Dagut, 1973, p. 22).

This clearly shows the initial concern of settlers as they moved into the interior and this would justify significant part of the expenditure to be for securing the colony. It is important to consider the various ministerial divisions where data is available to see how expenditure was divided between the different ministries. Again this is possible for the period for which data are reasonably detailed and the picture in Figure 3.8 below sums this up well. This split of expenditure by ministerial division was done from 1875 when the Blue books were using ministerial divisions when recording the expenditure side. It is clear that the 'Colonial Secretary', 'Treasury' and 'Public works and crown lands' dominated the expenditure of the colony (figure 3.8). The colonial secretary represents various expenditure items which were of great importance to the general affairs of the colony. These include public health (lunatic asylums, hospitals), security and order (police and gaols, Cape colonial forces), education and welfare (Robben Island, paupers, public worship).

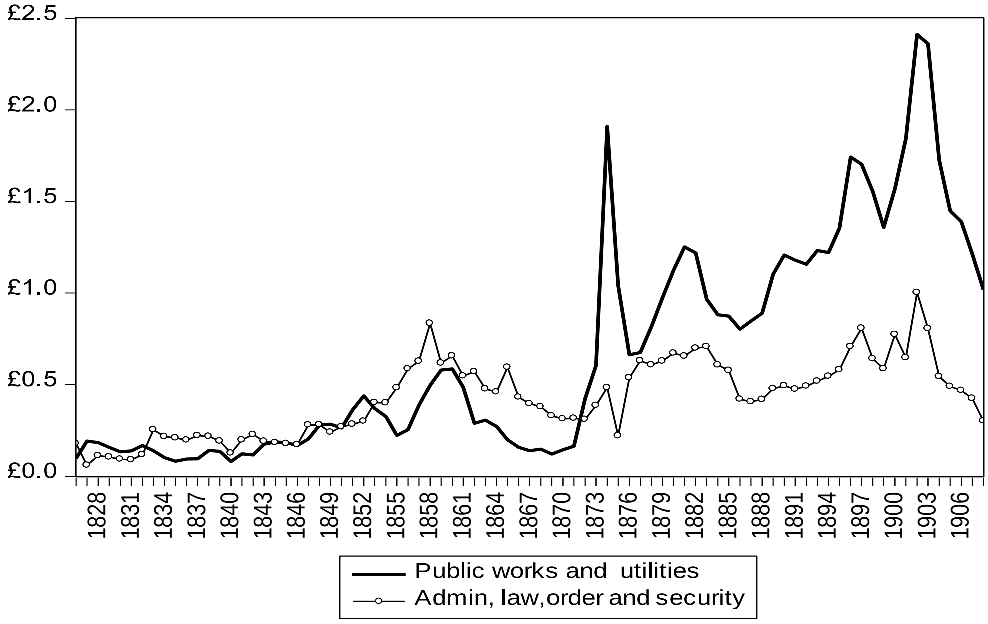
Figure 3.9 supports the general notion discussed above that there was no significant departure from providing colonial order in the early decades of the Cape's existence under the British colonial administration. Figure 3.9 captures the reality of the colony over time by taking the total expenditure and dividing it to trace the changing shares of 'Administration, law and order'-related expenditure versus 'public works and utilities' which shows development-oriented investment. This is a rough measure that divides the total expenditure in two categories but it demonstrates the changing pattern of public expenditure from the 1870s. Since this is shown in per capita terms, it shows that mineral discovery brought structural change to the expenditure regime as more was spent on pro-development investment. What is clear from figure 3.8 is that from 1873 there was a sudden change from the colonial focus on administration, law and order to the state driven focus on infrastructural development led by the investment in railways and the telegraphic system.

Figure 3. 7 Expenditure by ministries, as shares of total expenditure



Source of data: Blue books (1875-1910)

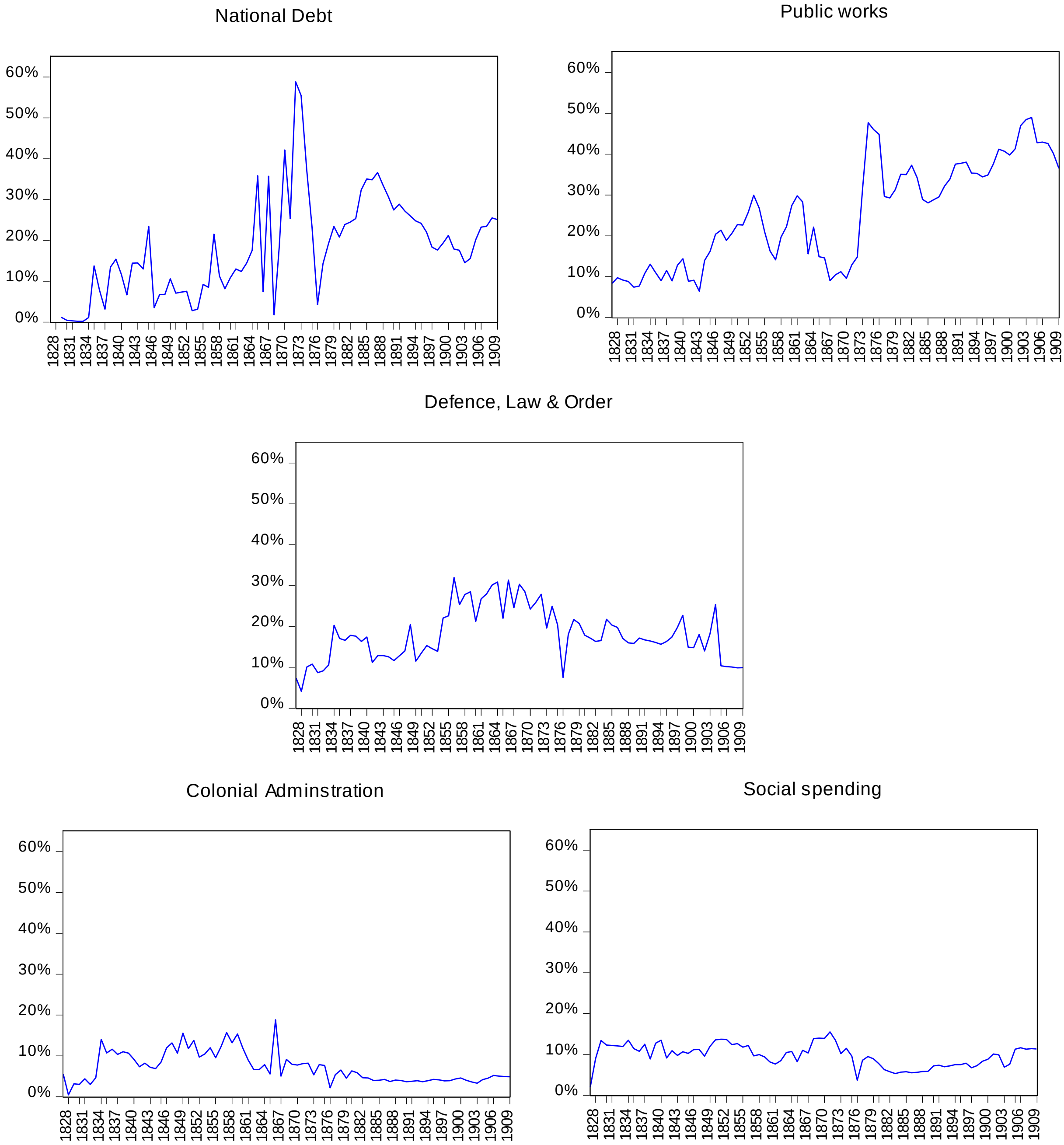
Figure 3. 8 Per capita expenditures over time.



Source of data: Blue books (1830-1909)

The ministerial division of expenditure is too aggregated and further classification is necessary to see the expenditure priorities of the colony. In other words, information is needed on the functions discharged by the Cape Government, and analysis of ministerial divisions is an inadequate basis for obtaining such information. As a result, it is important to have a functional classification. Six categories were developed namely *human resources*, *colonial administration*, *defence and military, law and order, national debt services and 'public works and utilities'* (public works henceforth). This classification was adopted from Peacock and Wiseman (1961a) and the Appendix (Table 6.4) has the list of items in each category. Figure 3.10 below shows how expenditure of the Cape changed over time. In the period prior to 1870, the expenditure on colonial administration and on law and order took significant proportions compared to the period after 1870. Expenditure on public works was important but did not exceed the other categories by a huge amount.

Figure 3. 9 Functional classification of expenditure



Source of data: Blue books (1827-1909)

From the 1870s onwards, when the Cape economy grew through diamond mining, the dominance of public works and national debt servicing is clear from figure 3.10 above and this was the leading cause of the high level of the debt/GDP ratios discussed in chapter 6. Public works is generally the highest and is due to the role of railway construction and the 1875 spike was because of the substantial amount spent by the Cape government on the Port Elizabeth railway construction. Much of the borrowed funds, as indicated by Robertson (1935, p. 14), became sunk capital in construction works. The overall trends shown by expenditure is that the leading shares of total expenditure were public works driven largely by public debt and as a result debt servicing occupied the second place.[25] The expenditure side is therefore incomplete without the story of the growth of the public debt in the colony.

3.5.4 Public debt

When and why was debt necessary and in what form? When the economy showed signs of improving from the 1860s and 1870s after self-governance was granted, public debt became an important source of financing for public expenditure projects. Buying out private railways and the telegraphic system was done through government debentures listed in London capital markets. Developing these public utilities also entailed a substantial increase in public debt. Analysing the parliamentary budget speech debates from 1820 to 1910 reveals that public debt was a subject of contention praised by some parliamentarians and abhorred by others. The parliamentary debates highlight the contradictory views which constantly recurred concerning public debts in the debates until the union was formed in 1910. The main argument for higher debt levels was that there was need for capital in the country if progress was to be made and resorting to debt, foreign debt in particular, was the only option since local financial markets were not fully developed. The opposing view was that the Cape's economy was not grown yet to support high levels of public debt and that the increasing debt was going to be unsustainable. For instance in opposition of higher debt Mr Merriman stood and remarked (also bringing the municipal debt in):

> I classify myself amongst these pessimists who consider a gigantic debt not as a satisfactory feature of the colony. How is it that towns do not seem prosperous? There seems to be a dead weight upon them. Why? It is because of the enormous size of municipal debt. The municipal debt is now £5 700 000 whereas in 1891 it was £885 000. They had more than doubled the public debt between 1899 and 1905. …The easy way in which money can be raised is an inducement to extravagance among municipalities; it encourages them to rush to the treasury to borrow money for what they are pleased to call

[25] The accumulation of debt was gradual but the debt servicing grew to become a huge burden on the colony. For instance, Mr Merriman in 1908 remarked in parliamentary debate that, "The total debt of the country stands at £55 421 000 and the interest payable on the loan is £1 905 000. This is an unsatisfactory feature that we send such an amount over the water to Europe every year (House of Assembly budget debates 1908, p.97).

> improvements. Why, some of the most stinking villages in the Colony, reeking with typhoid fever, have magnificent town halls? (House of Assembly budget debates, 1906, p. 215).

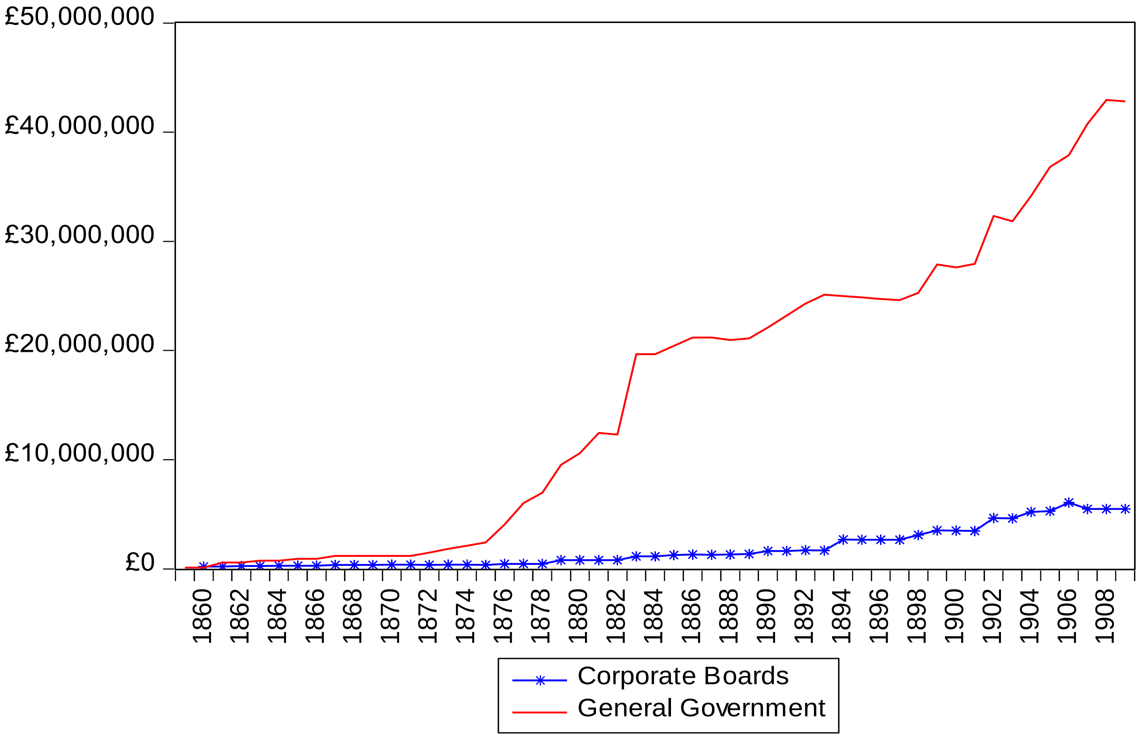
The above quote from Mr Merriman shows the one side which heavily opposed public debt in the colony while other parliamentarians treated it is as necessary for development. The leading sector attracting public debt was railway construction followed by harbours which were administered by harbour boards. The municipal debt was also important and it varied between the municipalities with the bigger municipalities borrowing more. Figure 3.8 shows the debt recorded as a percent of GDP. This is the combination of the debt by the central government and the harbour boards which constituted a smaller portion of public debt.

There is a clear rise in public debt of the colony peaking in 1886. This is the period when the Cape government borrowed heavily in the aftermath of the 'diamond crisis'. The debt was raised for further investment in the railway system from Kimberley to Johannesburg. Before the 1870s government borrowing was limited and the desire of the government to avoid ambitious public works also worked indirectly to keep public debt low. Once the mineral led economy started growing, the expenditure was possible and hence public debt also started growing rapidly as shown from 1873 to 1886 depicted by figure 3.11. According to De Kiewiet (1957, p. 98):

> A low public debt, so necessary in the sixties was no longer wise, for the time had come to knit this sprawling land together and to bridge, in more ways than one, the gap between the coast and the interior.

Figure 3.11 below shows the picture described above very well. The debt of the colony was growing very slowly from the 1860s up to 1875 when there was a sudden increase. What this demonstrated was that when governments did not own big parastatals such as railways, there was no big need for massive expenditure justifying huge debt. Corporate boards, mainly harbour boards, were not highly indebted and in most cases their debts were underwritten by the state. This means that the Cape's debt obligations mainly fell on the government since it had to guarantee the debts of the municipalities, divisional councils and harbour boards as well.

Figure 3. 10 Cape Colony's debt



Source of data: Blue books (1860-1909)

The Cape Government had autonomy as far as public debt was concerned. Overall, the picture of the Cape government public debt is that it rose drastically and was the key driver of the public expenditure. The picture given is most likely to be an underestimate because the municipal debt is not included in the above graph. This is because it was not recorded systematically but a future study focusing on the municipalities will be able to complement this central government debt discussion.

3.6 Conclusion

This chapter has demonstrated that the shift from a company run colony to a British settler colony brought many changes with far reaching implications for the history of South Africa. Transvaal, Natal and the Orange Free State emerged out of the developments at the Cape and this means that the Cape played a big role in shaping the South African history in the 19th century. If the case for a modern fiscal state can be argued, it is clear that the Cape had these features (central revenue, permanent debt, commitment to welfare and limited democracy) from 1872 onwards. These features were not perfect, like in many early forms of fiscal modernity, but were refined over time. The evolution of public finances followed general political and economic developments at the Cape.

The discovery of diamonds at Kimberley shook the economy from a lower equilibrium in which the government was not ambitious and strictly followed the norm of balanced budgets, resisting pressure from people for more and better infrastructure such as roads and railways. In this low equilibrium there was nothing to justify high levels of public debt and the government relied heavily on short term loans to support its meagre revenues whenever the need arose. The low equilibrium was unsettled by the positive shock of the discovery of diamonds which also coincided with self-governance and responsible governance at the Cape. Once the government took over the railways and telegraphic systems, there was a strong push towards public works and the state became enterprising using the public purse. The inadequacy of revenue for capital intensive investment in public works (railways, harbours, telegraphs, roads) entailed that public debt had to become a permanent feature of the colonial finances.[26] This led the expenditure on public works and debt servicing to take the biggest portions of the public finances.

What comes out clear in this chapter is the dominance of customs revenue followed by railway receipts. On the expenditure side, public works dominate and represented above 80% of all 'public works and utilities' of the colony throughout its existence. Public debt thus follows a pattern driven by the railway expenditure and towards the end of its existence, the Cape had about 55 million pounds of debt that required 2 million pounds each year to service it. This was in the face of diminished railway traffic – and hence railway receipts – and diminished customs revenue. It is upon this foundation that the subsequent chapters are built.

[26] The governor, Henry Barkly, in his speech in 1871 remarked that "Reproductive works such as harbours should not be left subject to such provision as can be afforded from year to year out of the annual revenue of the colony, but that it would be better and more economical, in the long run, that whenever the engineering plans have been approved, and it has been decided to commence their execution, and Act should be passed, authorising the raising as speedily as occasion may require of funds for the estimated costs."

CHAPTER 4: THE EVOLUTION OF THE CAPE COLONY'S FISCAL CAPACITY

> As usual, and in an increasing measure, the revenue rests upon great sources of Customs and Railways; which together produces more than two thirds of colonial income, while they exhibit fluctuations impossible to forecast that are a despair of any colonial Treasurer who has to base his expenditure on forecast of returns (Mr Merriman in the House of Assembly budget debates, 1892, p. 28).

> The Cape (*by the end of its existence in 1909*) was in dire circumstances having handled 80% per cent of the Transvaal carrying trade and were now reduced to 12%. The practice of using the railways as instruments of taxation was tacitly accepted by all states as they had no other sources of revenue besides railway and customs (Van Der Poel, 1933, p. 128).

4.1 Introduction

The above quotes confirm what has been shown in chapter 3 concerning the dominance of customs revenue followed by railway receipts. Minimising effort rather than maximising revenue has been a strategy of other African colonies as the colonial governments avoided costly interventions and direct clashes with the citizens. The Cape Colony, by virtue of having many settlers of Dutch and British origin, portray an interesting dynamic because the tax structure had to be aligned with the expectations of the different races and classes. The discovery of diamonds was a crucial event that determined whether the Cape was going to build diversified fiscal institutions or allow vested interests to determine the tax structure. This chapter seeks to investigate why the colonial government could not diversify away from customs taxes and railway revenue. It also investigates the extent to which the Cape sought to maintain internal peace and order by avoiding burdensome direct taxes which could be costly to administer and potentially prone to raise dissent by the citizens. It also investigates whether the reliance on customs (indirect taxes) and reliance on state owned railway service provision was the best of all possibilities for fiscal capacity-building. The different interest groups represented by the political and economic elite were decisive with regards to the structure of the tax system. Chapter 2 discussed England's income tax, introduced in 1840, which took more time in the Cape being introduced only in 1904. The resistance to direct forms of taxation, led by the mining interests, is what is exposed as the major problem causing the poor diversification of the fiscal system.

Section 4.2 will discuss the general determinants of tax and non-tax revenue. This is important in order to tease out whether the Cape Colony had attained a level of development that allowed more extraction of revenue given the available tax handles. Section 4.3 delves into the effects of the British Imperial policies on the Cape's fiscal strategy. Section 4.4 discusses the effects the discovery of diamond and its legislative environment that shaped and acted as a benchmark to many other industries. Section 4.5 discusses fiscal decentralisation and the complementary role played by municipal fiscal developments. Section 4.6 concludes the chapter.

4.2 Determinants of tax and non-tax revenue

In each country, the taxation charged has to be negotiated between government and citizens and this means legitimacy is important for voluntary compliance from citizens. This entails that each country imposes taxes that are guided by the prevailing social contract with more acquiescence being sought in democratic leaning regimes. Things were not necessarily so in colonial times when many of the modern democratic norms were not fully applied. The fact that the Cape had many settlers made it a better settler colony administratively than cases of indirect rule where there were no elaborate state institutions. State–society interaction was more involved and there was a sense of the need to empower the state with fiscal means for it to roll out basic functions like administering justice. The integration of the black Africans remained a continuous challenge and the Cape colonial government had to introduce black African taxes such as hut tax.

The challenge of dealing with a 19th century colony is properly contextualising the revenue expectations and this is a useful premise in order to make sure we are not asking too much from the colonial government operating in the 19th century. The kind of taxes to be expected are usually consonant with the period being considered. For colonies, the metropolitan developments were vitally important in informing taxation. This is in line with chapter 2, and prevailing practices in Britain and other European countries provide a broader context within which the Cape was located. For instance section 2.3.1 shows that in Britain customs and excises constituted about 45% of total revenue and this helps to build expectations for the Cape. While the taxes of the colonial governments were not entirely transplanted from the metropolitan centres, it makes sense that the colonies at least followed the lead of fiscal developments of the motherland.

In trying to understand the current challenges of taxation in Africa, Mkandawire (2010) has tentatively pushed the boundaries backwards into colonial history. He followed Amin (1972) by dividing Africa into three distinct regions – Africa of the labour reserves, Africa of the colonial trade and Africa of the concession companies. The premise of this argument is that the economic and political setup of the colonies were important because they determined the fiscal inertia and what is seen today is a path-dependent outcome of colonial systems. Mkandawire's conclusion is that the current relative success of the former 'Africa of the labour reserves' in raising tax revenues depends largely on the inherited practices that constitute 'initial conditions' of the structure of the economy, politics and degrees of formality of economic activities. Mkandawire (2010) gave the need for security by settlers as a possible explanation of why settler colonies, included those in his 'Africa of the labour reserves', have higher tax levels in the current period. With lower levels of informalisation in labour reserve economies, alternative ways of life were fewer than in cash crop economies (Mkandawire, 2010, p. 1653). He further argued that settler colonists had a Faustian bargain with the colonial state given that they were constantly at war with the indigenous tribes[27] and this led to them to accepting higher taxes which persisted into the modern day tax structure. This is the fiscal 'inertia' argument that argues that taxes and the behaviour they incentivise tend to outlive the initial reasons for which they were introduced (Peacock & Wiseman, 1961b; Zolt & Bird, 2005).

One of the key challenges to Mkandawire's (2010) thesis is that an implicit assumption is made that the imperial influence, direct or indirect, is held constant over time and across colonies. This also implies that the imperial government's relations with colonies did not matter in how tax revenues were raised. This is problematic because the legislature behind the tax regimes of some British colonies in Africa was indirectly influenced by capital from London and imperial diplomacy. To assume that the colonial tax systems

[27] This was evident, though to a lesser degree, at the Cape when in the face of the depredation by the black Africans a commando tax was imposed which was meant to be for protection from the black African tribes on the frontier. Those on the frontier keenly paid the tax rather than clash with the tribes on their own. The commission of inquiry on public finances (1826, p. 191) reported that "The early commando taxes were also raised in order to administer protection of the frontier from independent tribes."

were outcomes of entirely colonists' wishes and other purely local economic determinants is problematic. Even the so called self-governing colonies or dominions had to have their bills assented to by her Majesty's government – the so called 'signification'. Once this assumption is relaxed, it is clear that what is referred to in literature as 'colonial states' are actually mere colonial territories whose status in sovereignty was less than that of an ancient village with a king. A 'colonial state' should be understood as an unnatural state.

Before considering the complicating imperial effects on the revenues raised in colonial territories, it is important to briefly look into the general factors considered to affect the overall tax performance. These are factors which in theory should bear on the tax base of an economy, whether it is a colony or a sovereign country. Musgrave (1969) has been highly influential and informed most studies on tax efforts. His argument is that structural variables (or tax handles), other than the efforts of government, such as the extent of economic diversification and the character of economic activities, determine the taxable capacity and hence expected tax performance. For instance, agricultural economies, especially those dominated by peasant farming, are very difficult and even irrational to tax but over time the expectation is that industrialisation brings more taxable capacity through different avenues such as manufacturing, trade and increased consumption. The literature shows that usual tax handles (structural features of an economy that facilitates tax collection) include, among others: The level of GDP, shares of imports and imports to GDP, population density, urbanisation, share of agriculture in GDP and share of manufacturing in GDP (Davoodi & Grigorian, 2007; Mkandawire, 2010; Stotsky & WoldeMariam, 1997; Teera & Hudson, 2004). The tax effort, an index that compares expected to realised revenues, is only a crude measure which has to be carefully considered and applied differently given the circumstances of each country – rather a guiding metric that should not be mechanistically applied. According to Teera and Hudson (2004, p. 797):

> It is however important to emphasize that a low index of tax effort does not necessarily indicate that the country should raise taxes nor does a high index indicate that taxes should be lowered. Such a decision should emerge from a careful consideration of expenditure needs, alternative sources of finance, the

effects of the particular taxes that would be changed, administrative capability, and the political acceptability of the program.

It is clear that this approach, although a good guideline of what could be expected in taxes given the existing tax handles, does require intimate knowledge of each country before any advice can be given. This also reflects on the importance of country studies and case studies which investigate the socio-political factors (Musgrave, 1992). The above approach is even difficult to extend to the colonial period in which data are unreliable or simply unavailable and as a result tax effort and fiscal performance in general tend to be measured through the use of blunt measures. Consequently, in the colonial period additional qualitative evidence is needed not only for complementing the quantitative measures but also to unpack the influence of the imperial factors affecting the levels of tax revenue in a colonial setup. According to Good (1979, 610), the difficult feature known by the colonists continuously was the "inelastic and slow administration from Downing Street" – making any fiscal reform difficult. The example of North American colonies discussed in chapter 2 attests to this.

The explanatory variables of the tax effort literature, mentioned above, are also important as a guideline to understand the Cape Colony's fiscal evolution and indeed a selected number of variables are possible to quantify with the available data. The literature works only as a guideline that helps to point out key tax handles of the colony since some of the economic determinants of tax levels tend to be similar in colonies and in sovereign countries. In other words, we seek factors that explain the growth of the tax/GDP ratio of the Cape by looking at various sources of revenue. These indicators, which are consistent with the tax effort literature, include per capita GDP from Magee *et al*. (2016), imports and exports from Schumann (1938) and external debt from the compiled public finance data from the Blue books. Economic factors were very important because the GDP growth, growth of exports and imports, external debt, agriculture, mining, transportation and communication industries had major implication for the taxable capacity of the Cape.

These factors became more important as the Cape economy expanded. The liberalisation of local trade and international trade by the British administration strengthened the taxable capacity of the Cape over time. This chapter will present trends in the level and composition of government revenue, and use these general factors affecting the tax revenue in relation to GDP to discuss and structure the qualitative evidence used in the discussion of the patterns.

4.3 The imperial effect on the Cape Colony's revenue strategy

4.3.1 The colonial status and state capacity

Here the emphasis is given to those aspects of the empire-colony relationship which had a strong bearing on the fiscal capacity development of the Cape Colony. These factors were important, besides the usual economic tax handles discussed above, in shaping a unique social and political order within which taxation was levied. The 'empire effect'[28] was strong in the Cape, as the first major imperial project on the African continent, through avenues of the evolving colonial status and state capacity, the pre-eminence of British capital and the native issues. These were quite interwoven issues which plagued the British Empire administrators not only at the Cape but also in almost every British colony and it is important to see how these affected the Cape's fiscal trajectory.

The Cape Colony's status in the early decades was, from the British Government's perspective, a crown colony that served to secure the route to the East Indies. In the words of Kilpin (1930:37) it also served as "a convenient asylum to Britain's surplus population which was in poverty and the depression of the aftermath of the war with France and the industrial revolution". The behaviour of governors who had been told that colonial revenue was the private property of King George IV was unquestioned by local colonists as long as the governors had been trusted with the colony by Downing Street in the first place (Grundlingh, 1937, p. 11; Kilpin, 1930, p. 50). India and other colonies had charters, even the VOC as the predecessor of British rule at the Cape had one, which had full guidelines as to how these colonies were to be run but the Cape relied on one autocratic governor up to 1833 when the legislative council was put in place (Grundlingh, 1937). In the first half of the 19th century:

[28] According to Gardner (2017, p. 237) the 'empire effect' was the "willingness of investors to trust imperial institutions over unpromising local economic fundamentals" in the colonies. It is premised on the notion that the British authorities desired colonies to prosper and were willing to assist especially with easy access to capital. The implicit guarantees to colonial government loans was therefore important to the favourable reputation enjoyed by British colonies. The usage of this term (empire effect) in the study also broadly covers the advantages, beyond easy borrowing, enjoyed by the Cape by being part and parcel of the British Empire.

> New governors could bring new constitutions in much the same way as one might bring out a new suit of clothes for a distant relative, trusting to luck and the tailor that the suit would be a good fit (Kilpin, 1930, p. 50).

As a result of the above 'trial and error' approach, there were many institutional vicissitudes from the British imperial authorities as they tried many approaches to handling the Cape's affairs. Outright authoritarianism and disregard for popular opinion from settlers had failed given the immigration of the 1820 settlers. The success of the anti-convict protest in the 1840s testified to this relevance of public opinion. The attempt by the British government to make the Cape a penal colony was strongly resisted between 1840 and 1850. The key argument from the settlers was that the Cape was emerging from the era of slavery and many of the former slaves would be contaminated by the new convicts which were to be brought to the colony. Despite the fact that Montagu had managed to improve roads using convict labour, the notion of becoming a penal colony did not agree with both Natal and the Cape Colony settlers (Anderson, 2016). Of importance is the argument that "This was an important moment for the Cape's growing independence from London and the development of political unity" (Anderson, 2016, p. 439). The subsequent granting of self-governance was spurred by this growing unity among the citizens and this was important for the advancement of representative institutions and the formation of state institution. With regards to the colonial status and state capacity, a crucial event for the Cape's colonial status was the introduction of settlers in 1820 who had been used to British freedom and the ideals of liberty.

The settlers awakened Downing Street into worrying about the affairs of the Cape and forced them to allow reforms that put the Cape on the path towards representative institutions in 1853 and responsible government in 1872 (McCracken, 1967). During the early decades the public revenue was mainly obtained from transfer duties on immovable property, duties on wine and brandy imports, stamp duties, customs duties and auction duties (De Kock, 1924, p. 83). To a large extent these sources were bequeathed to the British administration by the VOC which had long relied on these taxes (Fourie *et al.*, 2013). What the British Cape government did was to extend these taxes, abolish some and gradually introduce new ones. The commission of inquiry in 1826 shows this removal by the British colonial government at the Cape of impolitic trade restrictions of the VOC dispensation. The commission pushed for the:

> …removal of various taxes such as tithes on the produce of the country brought to Cape town and Simon's town by land; trade in bread and corn be declared free; import and export of corn to be permanently free of duty; reduction of taxes levied on sheep and oxen slaughtered in Cape Town; an entire reduction of market duties. Privileged and licenced butchers were to be stripped of many privileges which inhibited the remote areas of a fair trading practice (Commission of Inquiry on Public Revenue, 1826, p.36).

In light of the above developments, state capacity and therefore legitimacy took different shapes starting from an autocratic kind in the early decades towards a representative and responsible government which could not ignore the popular desires of the electorate. Responsible governance in 1872 meant the creation of a veto player and the end of absolutist spending patterns, to use the language of Dincceco (Dincecco, 2015). Although the democratic institutions were not fully operative and representative, the state could not disregard the wishes of the people, at least the white males and the few members of other races who had voting power and therefore political voice. The franchise, despite being pegged sufficiently high to exclude the indigenous people, entailed that the state could induce a quasi-voluntary compliance among the tax payers (Levi, 1988) justified by the legitimacy of providing basic functions. It is worth noting that the state's coercive capacity at the Cape Colony (discussed in chapter 2) was reinforced by the British Government's financial support to the garrison at the Cape – a feature of the Cape's public expenditure to be covered in chapter 5.

Mkandawire (2010, p. 1651) argued that colonists in settler colonies dominated in numbers by the indigenous majority were preoccupied with the need for security. He argued that the feeling of insecurity "produced in the minds of the denizens of the enclave a 'laager mentality', and the need for the construction of strong state apparatus for both administration and security." This means that the settlers were ready to tolerate high taxation levels in exchange for a strong state that could protect them (Mkandawire, 2010, p. 1651). Data on taxes, especially direct taxes, shows that the colonists did not bear any strong burden for their security and defence. External defence responsibility is a defining feature of strong states (Besley & Persson, 2010, p. 528).

4.3.2 The pre-eminence of British capital

If the British Empire's success story is told, capital ought to be recognised as the leading tool of imperialism (Davis& Huttenback, 1986; Edelstein, 1982). This was true especially in the 19th century when mercantilism was giving way to cosmopolitan capital, which could move freely between major trading countries and centres. The role of British capital in the Cape Colony, be it in terms of private investors or loans obtained through government bonds, was very influential to the nature of the economy and the development of taxable capacity in its economy. This capital was crucial in railway construction, harbour developments, telegraphic systems and most importantly in private mining industry. The broad argument of this chapter hinges on the discovery of minerals as an external shock that set the Cape's fiscal regime on an extractive and unsustainable path. The power of private business is strongly revealed by the Diamond Commission's representation to the Cape government in1881:

> It is a notorious fact that the amount of money invested in Mining Companies is far beyond the resources of the community; and that, as a remedy for this, it is absolutely necessary that European and foreign capital should be introduced. This can be done only by the re-floating of Companies in the European market. If, however, a heavy tax, namely 4%, is put upon transfer, it will most seriously hamper such undertakings, and such a tax is absurdly disproportionate to the just dues of Government (Diamond Commission[29], 1881, p, 144).

Once such advice was given to the state by the commissioners, some of whom had mining interests, there is ample evidence that the tax regime around mineral activities was benign due to the liberal tax legislation which favoured capital. The Diamond Commission represented the manner in which extractive institutions played out at the Cape because mining companies' representatives entered parliament and then formulated how mining should be regulated. Mr Molteno's argument in parliament points to the incidence of tax on diamonds and the fact that the diamonds were supposed to do more for the economy. He argued that:

[29] The point to note is that the Diamond Commission comprised of people with vested interests in the mining industry as well as the state: Cecil John Rhodes, John X. Merriman, J.H. Lange, L. Hoskyns, et cetera.

> It seems to me that some members opposite think that they manufactured diamonds, put them in to the ground. Every stone they take from the ground deprived the country of its wealth. The diamond buying syndicate absolutely control prices and that if we tax diamond it is not the industry which will pay it; it is the people all over the world who will pay -the vain man and the vain woman. Does the rich man care what he pays for diamonds? (House of Assembly budget debates, 1906, p. 248).

The commission of inquiry into diamond mining in 1880 was a brainchild of Rhodes and his fellow parliamentarians with mining interests. According to Thomas (1996, p. 132), Rhodes and Robinson pushed the Act "clause by clause and most of its provisions went through serve for the flogging of illicit buyers and sellers". With the dominance of mining, farming remained stagnant[30] and yet heavily taxed while not receiving much support from the mining controlled government. Mr Stiglingh in support of Mr Molteno in 1906 expressed the skewness of prevailing taxes in favour of mining and punitive against agriculture:

> There are about 3455 wine farms in the country, which reckon £3000 each and in aggregate represent a value of £10 365 000. De Beers, with its four mines, is worth more than £14 - 15 million. Now why should the wine farmers pay £165 000 more in taxes than De Beers? A tax on diamonds will be a very fair one. What did the Wesselton mine mean for the country? Annually it produced half a million worth of diamonds and not a sixpence was received by the government. No licence fee were paid, and yet police, magistrates, inspectors etc., had to be appointed and paid by the colony (House of Assembly budget debates, 1906, p. 265).

The counter argument for capital was that the Cape Colony, being poor, had to create a conducive environment for business to thrive. This would have been more meaningful if diamond mining during this time had many forward linkages such as those found in

[30] In his address on the financial position of the colony Mr Merriman argued for the focus on the "common denominator" which refers to the exports of the country excluding diamonds, gold and copper since they were rather fortuitous commodities on which not much hope had to be placed. Considering exports of the agricultural sector and all other produce of the colony outside minerals there was no difference between the exports realised in 1874 and 1890 and this to him reflected 16 years of stagnation of real economic prosperity of the colony.

manufacturing. The government had to rely on direct revenue from its railway lines and customs revenue as the major two sources of revenue. Due to fear of being 'punished' by capital, diamond mining was spared of direct taxation and this was the position of the Cape Government as distorted by the influence of the industry. The parliamentary debates show, through persistent representations, that the mining houses were left untouched by the tax regime. The mining benefits to the economy were not through government revenue, but spill overs through financial developments, and a nascent manufacturing sector alongside the wool based agricultural sectors (Schumann, 1938; Verhoef, 2014). This means that the Cape remained mainly a primary exporter of raw commodities up to the formation of the Union in 1910. The Cape's case seems to be worse than a resource curse because government actually made things easier by providing transport infrastructure for the mining regime that was exclusive. The railways primarily linked the mining fields and before the union they had not brought much return to the Cape Colony's remote interior places (Goodfellow, 1931a; Van Der Poel, 1933, p. 11). The railways could be seen as, from the fiscal perspective, simply assisting easy access to the Cape's, and thus South Africa's, minerals through a mineral-railways complex.[31] The argument for a mineral-railway complex is elaborated further in Chapter 5.

4.3.3 The black Africans and taxation

Regarding taxation, the mining and agricultural interests were usually in rivalry from the 1870s with the mining occupying the enviable position. Taxes were paid by farmers and other small businesses in the form of excises, land quitrent and customs duties on all imported goods. The black Africans' role is also crucial because they also paid hut taxes and their in-kind contribution cannot be ignored. Over time the black Africans were compelled into a form of life in which their sustenance was derived from land and assets owned legally by the settlers (Austin, 2008a, p. 613; Good, 1976, p. 606; Plaatje, 1915, p. 23). Amin (1972, p. 519) argued:

> We must remember that their (*colonisers in the scramble for Africa*) target was the same everywhere: to obtain cheap exports. But to achieve this, capital at

[31] This was an unplanned and represented an unintended outcome from prevailing state institutions which were weak and could be manipulated by networks of businessmen, politicians and financiers. The businessmen involved in politics pushed the government towards a pro-mining tax regime and expenditure policies benefiting a few. This phrase is adopted from the work by Fine and Rustomjee (1997) when they studied 20th century South Africa and referred to a 'minerals-energy complex'. In this case the role of the minerals–railway complex, was strong in influencing the direction of taxes and the spending patterns of the Cape.

> the centre – which had now reached the monopoly stage – could organise production on the spot, and there exploit the cheap labour and the natural resources, by wasting or stealing them, i.e. by paying a price which did not enable alternative activities to replace them when they were exhausted. Moreover, through direct domination and brutal political coercion, incidental expenses could be limited by maintaining the local social classes as 'conveyor belts'.

Amin's argument exposed the other dark side of the colonial systems which was the devastation of the indigenous people's lives (Good, 1976, p. 601). These arrangements make the revenue calculations quite difficult, and at best an underestimate of the actual, because cheap labour and some of the forced economic activities are not taken into account – at best all the colonial measures of economic activities need to be approached with caution (Smith, 1777; Waijenburg, 2015). The primacy of capital posed a fundamental dilemma for the Cape government of striking a balance between creating a conducive business environment versus a mere rent-seeking environment. While it may be true that the intentions of the state was to create a business friendly environment, the businessmen involved in politics pushed to distort these desired outcomes. With limited forward and backward linkages in the primary extractive industries such as the mining sector, diamonds were essentially a non-renewable resource (Blattman, Hwang, & Williamson, 2007). Giving the mining sector control over the mining legislation meant that conducive business environment easily became inclined to extraction instead of spurring productive institutions.

The parliamentary debates show that the level of taxes proposed was fair to the mining houses, as done in Transvaal, but there was strong resistance from the mining linked parliamentarians. The mining sector, therefore, successfully resisted taxes while it was the key beneficiary of government expenditures through public revenue. The payment of fees and licences for mining claims was not based on the profit or output and as a result they were puny compared to the value of exported diamonds. The Cape was thus locked into a path of extractive institutions which could not be easily reversed because accumulated debt needed to be serviced. The discovery of diamonds happened during the early phase of institutional development which left the dominant interest group with no countervailing intuitional forces.

Among the chief concerns of the imperial government in South African territories was the native affairs and the proof is in volumes and volumes of archived correspondence titled 'native affairs' or broadly about the 'native question'. In the Cape Colony this was complicated by the presence of the British colonists, Dutch colonists, former slaves and indentured labour. The granting of responsible government in the Cape was delayed because the British government worried about how the black Africans were going to be treated. The desire for a union or federation in the 1870s, in the British government's perspective, was a move to provide a uniform policy towards the black Africans so that the European states in South Africa would not appear to be divided on the native question. The last few of the series of frontier wars had been costly to the colonial office and having an agitated black African majority lingering around, rightly referred to in archival dispatches as 'threatening conditions of the native affairs', was seen as a huge risk.

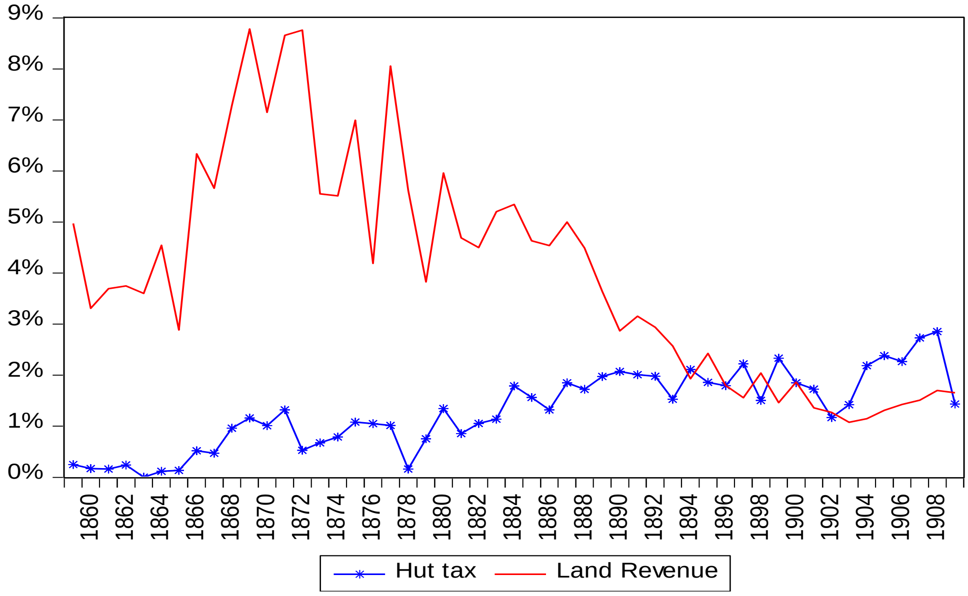
From the perspective of the British Government, however, the concern for black Africans was mainly to avoid the creation of uncertainty and instability which had huge pecuniary implications (The colonial secretary, 1880, p. 3). Being seen by other powers as presiding over chaotic colonies would create a bad image and probably conjure other nations into thinking that the empire was insolvent and could not defend its territories. For this reason, the imperial authorities maintained that "the subject of defence and native policy should on no account be delegated to any subordinate authority" despite calls by colonists to be allowed to handle native issues (The colonial secretary, 1880, p. 1).

With reference to the native question, the uniqueness of the Cape Colony in terms of population diversity meant that, although the Cape became a self-governing colony, it was still going to be remotely controlled from Downing Street. On the face of it, the imperial government seemed to be more sympathetic, for instance, to the proposed constitution with a low franchise, but their remoteness meant the default position was indifference as long as peace prevailed in the colonies. This indifference allowed the colonists to practically shape how the colonial government was going to relate with the black African population. This allowed a paternalistic relationship, along race and class lines, to develop at the Cape Colony over time with the black Africans reduced to an underclass only good to serve their European masters. Davenport (1978, p. 76) argued that the relationship between the settlers and the black Africans was moulded by British colonists' "…paternalistic and circumscribed liberalism."

With confinements such as proposed in various legislative vehicles and loss of their prime land by various means, a huge labour reserve was formed – a migrant labour force whose traditional way had been fundamentally destroyed (Amin, 1972). Legislatively, the Cape Parliament Registration Act of 1887, the Cape Franchise and Ballot Act of 1892 and the Glen Grey Act of 1894 had far reaching consequences in disenfranchising the black Africans. Later, in Transvaal, a similar logic was at play as has been highlighted by Trapido (1971) in his exposition of the marriage of convenience between maize and gold mining. According to Morrell (1988, p. 619), "The gold and maize alliance also rested on a shared interest in the creation and preservation of a highly exploitable and disciplined black wage labour force." The mines survived on farm produce, mainly maize, while farmers had a ready market and labour could be shared between these two major sectors which complemented each other.

For the Cape, the implication for the fiscal regime was important. Of all the direct taxes in the Cape a major form of direct revenue was the hut tax which directly affected the way of life of the black Africans and complemented the legislative vehicles mentioned above. According to Act 3 of 1869, the Hut Tax Consolidation Act, heavy penalties were imposed on non-payment of hut tax, through cattle seizure and burning of any hut for which no owner could be ascertained. There was no sign of such draconian measures taken against non-payment among settlers. Of all the direct tax revenue sources (income tax, tithes on wine and grain, land taxes and hut tax), the hut tax and land tax are the only two that endured as direct taxes for a long time. Income tax came to be implemented only in 1904 meaning that the indigenous people bore the heavier direct tax burden if ability to pay principle is considered. Figure 4.1 below compares land quit rent and hut taxes as key forms of direct taxes in the Cape Colony.

Figure 4. 1 Major sources of direct taxes (as shares of total revenue)



Source of data: Blue books (1860-1909)

Figure 4.2 shows that land revenues shrank as a share of total revenue while the hut taxes, brutally enforced, grew over time to out-perform land revenue from 1902 onwards.[32] Assuming that quitrents were paid by both settlers and the few black African land owners, while hut taxes were mainly obtained from blacks, it is easy to see the increasing burden on the blacks.[33] It is therefore possible to argue that the hut tax was not only meant for revenue extraction but also for organising black Africans in a way that made them depend on their labour for survival.

This tax structure of the Cape left the tax burden on colonists very low, at least as far as direct taxes were concerned, and consequential on the black Africans and their livelihoods. The black Africans, after their pastoral and other means of livelihood were decimated, did consume the imports of the colony in terms of food items and textile products hence they paid indirect taxes to the state besides their direct hut taxes. This was especially true for those who were becoming more and more dependent on supplying

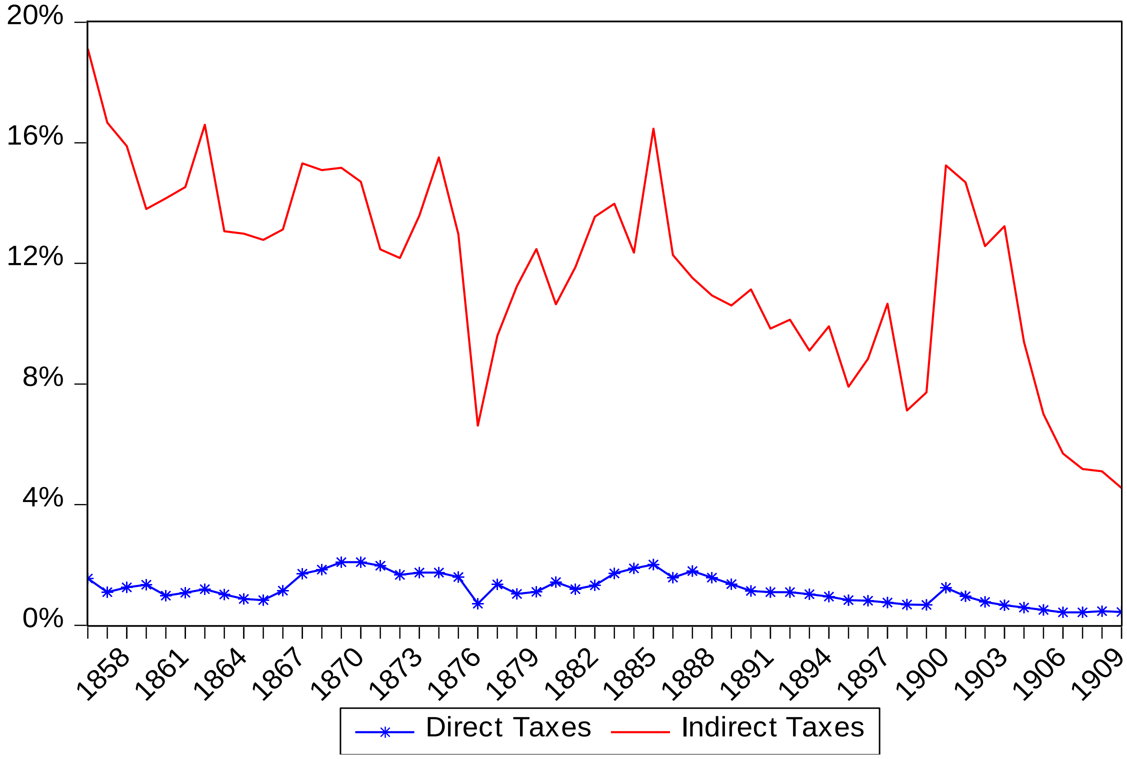
[32] Lord Milner's argument in 1902 is revealing concerning the low to insignificant land taxes when he argued that "I do not think for example, that a charge of one shilling on every 100 acres should be called a tax, and indeed I believe it is not" (quoted in Davis and Huttenback 1986, p. 232).

[33] Mr Hay argued in parliament in 1896 that "It is well to know that these (black Africans) people are contributing handsomely to the taxation of the country and that they are paying up the large amount of money demanded from them. These people could do even more than they were doing at the time if only they were delivered from the curse of cheap drink." Later in 1906 Mr Walton argued that for the first time in the colony the expenses of the native administration have been covered entirely by revenue raised through hut taxes (House of Assembly budget debates 1906, p. 171).

their labour for survival. The colonists who could afford expensive imports did pay taxes through customs. Within the black African population the taxable capacity was very low and hut taxes could push them to supply their labour to farms and mines in order to raise not only hut tax but also livelihood after their means of life had been discontinued by the colonial system. In both Natal and the Cape Colony, chiefs were used as a way, although their powers were reduced gradually, of indirectly controlling the black Africans (Grobler, 2014, p. 161). In other words, the British Government's preference for peace and stability throughout the Empire meant that revenue for the administration of native affairs had to be sourced from the black Africans themselves while the imperial authorities heavily protected the settlers through financing defence and security.

The difference between direct tax and indirect tax reveals important facts about the nature of the fiscal system. According to Levi (1988) voluntary acquiescence of taxpayers comes from their perception of the legitimacy of the state. The 1840s in the Cape Colony was the period of dissent, aggravated by the anti-convict protests as discussed previously and in such an environment, where the composition of the legislature itself was questioned, it was difficult to impose any form of direct taxes. This was also the period when Britain itself was reintroducing income tax and it was for the first-time delinked from the wartime needs. In this regard the resistance to more direct forms of taxes in the 1840s were justifiable, since the metropolitan had not introduced such a tax, compared to the period from the 1870s onwards. For the rest of the period direct revenues remained very low making the tax regime less diversified compared to that of Britain where income tax was permanently introduced in 1840. Figure 4.2 shows the patterns of direct and indirect taxes from 1856 to 1909. Direct tax revenue never exceeded 2.4% of GDP while the indirect taxes were substantial but declined over time from 20% of GDP in 1860s to about 5% in 1909.

Figure 4. 2 Shares of direct and indirect tax in GDP (1856=1910)



Source: Blue books (1830-1910)

The dire financial situation in the second half of the 1860s led to the proposition of direct taxes in the form of income tax and property taxes with incomes of less than 50 pound per annum being exempted (Wodehouse, 1860, p. 1). This was rejected and over the years non-contentious indirect taxes were adjusted frequently as this did not alter the prevailing social contract of no payment of burdensome direct taxes. With more economic prosperity in the Cape, other indirect taxes such as excise taxes from 1879 were introduced, together with revision of the existing rates of these indirect taxes. One difficulty of this period was that merchants and farmers with mining interests often made it into the legislative council and the house of assembly where they resisted the increase of taxes. Foreign capital, in mining and other sectors, was also not easy to tax directly and with the company regulatory framework not yet fully developed the onus was simply on the company to argue why they could not pay a certain tax. One example of such a petition was from Standard Bank in 1864 against the government's proposed stamps and licence bill:

> That your petitioners beg to submit to your honourable house that the proposed mode of raising a duty upon the subscribed capital of joint stock

> companies, as set forth in the schedule annexed to the bill, is one which is wrong in principle and inequitable in its nature. This will stop shareholders from being interested in this colony from the mother country and other parts. Your petitioners submit that an impost upon the subscribed capital of the Standard Bank would bear with quadruple weight upon its working capital and would be therefore be unjust and unfair (Kirkwood and three others, 1864).

The only remaining means of government to raise revenue from companies was mainly through the imposition of licences and stamps for companies wishing to conduct business in the Cape. This made the prospect of owning public utilities an attractive role for the government because it could easily guarantee the sufficiency of the government revenue by making railways a tool of revenue. This extended to other public utilities such as telegraphic systems which in many ways were already, even under private ownership, subsidised by the state (Barkly, 1872). The reliance on indirect taxes had negative implications for the poor and the black Africans who were also paying these taxes through consumption taxes. Expediency was dominating any sound policy on revenue because whatever yielded the least dissent was adopted.[34] The reliance on indirect revenues meant that the following statement applied to the Cape:

> Despite an official commitment to free trade, simplification of collection and minimisation of political turmoil appear to have carried more weight with the treasury and colonial office than the words "comparative advantage" (Davis& Huttenback, 1986, p. 235).

When the existing social contract is difficult to navigate on the tax front, one British India tax officer's view holds. He argued concerning India that you have to "hit your man where you can hit him" (Davis and Huttenback, 1986, p. 237). This entails that even if the policy goals such as free trade promotion are violated in the process, it does not matter as long as revenue accumulates for the state. An important distinction was that some colonies had no option but to stick to specific taxes available while others had more room for

[34] Although there is no full information on the tax structure of the Colony of Mauritian, the burden was high for the poor. For instance the Governor of Mauritius, Hamilton Gordon, in 1871 remarked "I am appalled by the incidence of taxation on the Island. It falls almost wholly on the poor, who are made to pay in almost every conceivable way, while the rich are pretty well exempt from taxation" (Davis and Huttenback 1986, p.236)

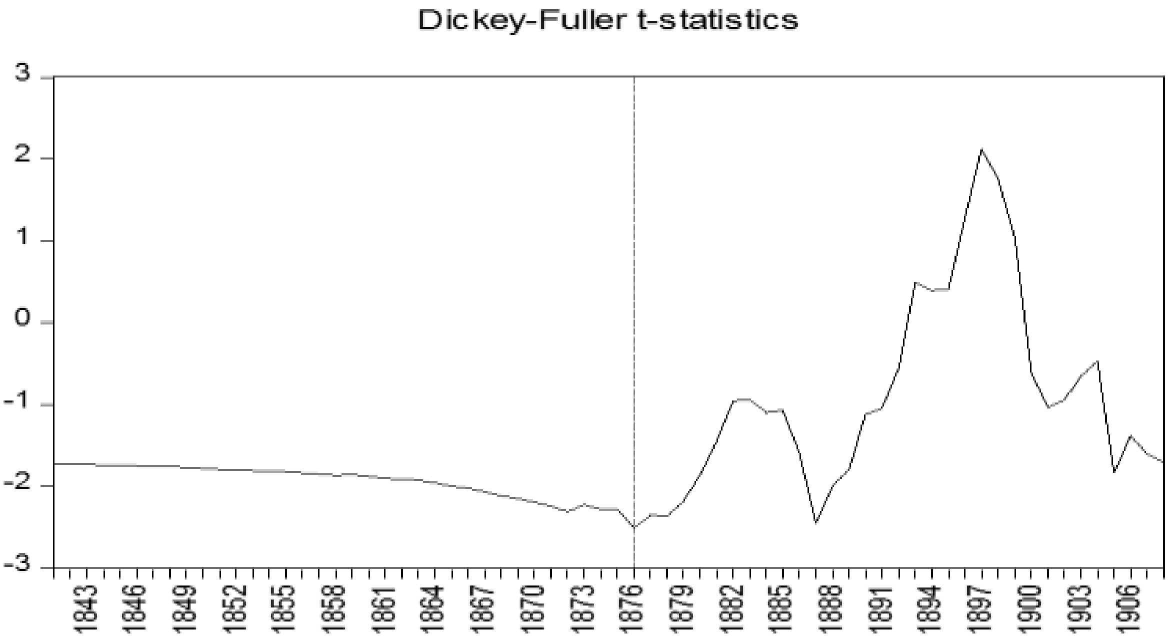
exploiting their tax bases and did not do it. The Cape, I argue, fell into the latter group where the outcome was not an inevitable outcome of prevailing economic conditions or existing tax handles but of political and economic interest bargaining.

4.4 The discovery of diamonds, responsible governance and the tax regime

4.4.1 Structural changes to the economy

The discovery of diamonds brought structural changes to the Cape economy. Most of the revenue trends in chapter 3 show significant shifts or breaks in the mid-1870s as a result of the mining boom and state ownership of railways as a key revenue producing entity. Figure 4.3 below also supports this shift in the 1870s and the structural break test identified 1876 as the break year.[35] This was the year in which mining activities became significant and this was manifested in the revenue of the Cape as phrases such as "financial prosperity" or "unprecedented prosperity" featured more in the public finances section of the governor's speeches in parliament. The annexation of the diamond field, a territory contested between Transvaal, Orange Free State and the chief of Griqualand, was seen to be economically beneficial to the colony which mainly relied on wool farming prior to this period.

Figure 4. 3 Structural break in the total non-tax revenue

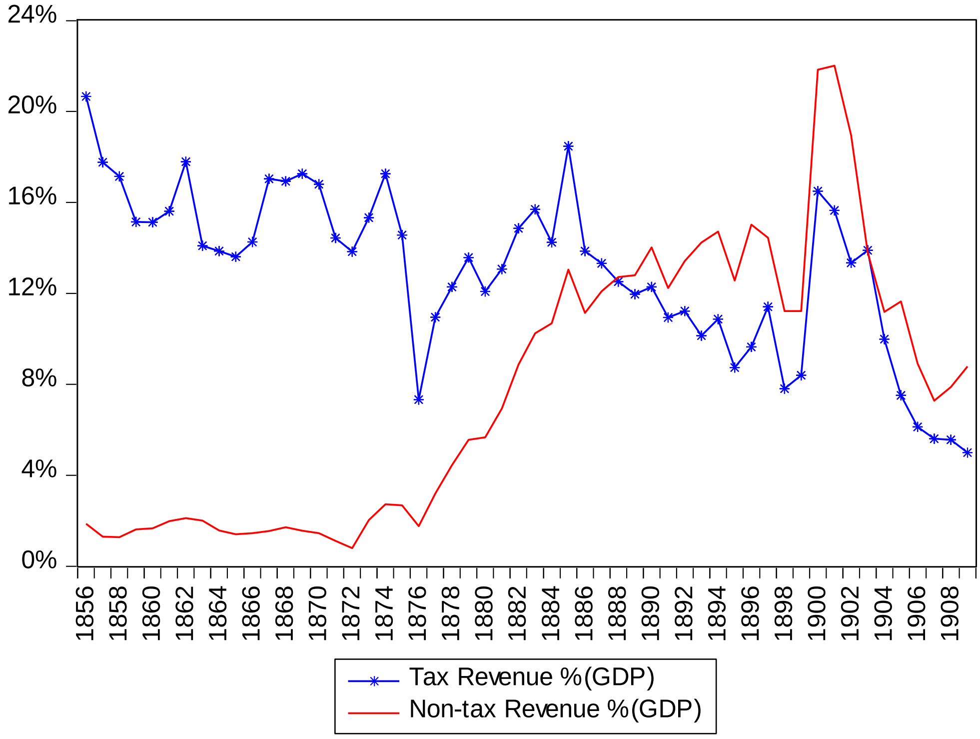


Data source: Blue books (1940-1910)

[35] The structural break observed for public revenue is consistent with the recent work enquiring when exactly South Africa became integrated into the global economy. Boshoff and Fourie (2017, p. 19) argued that, "…the start of South Africa's integration into the global market economy was in the 1870s."

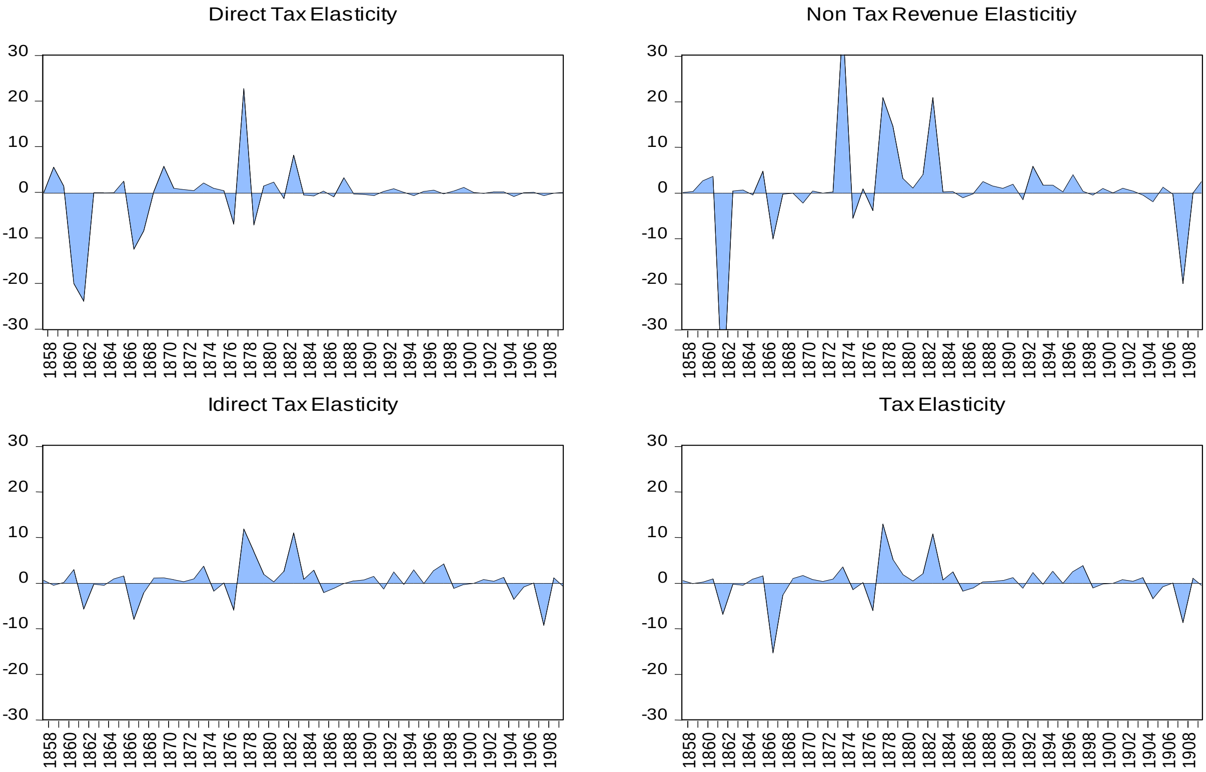
The graph only depicts the non-tax revenue category because it directly made the difference in the public revenues through public utilities. Tax revenue took time to reflect the changes because the government did not respond with new taxes while the purchase of privately owned railways by the government meant a sudden leap in revenue captured by the break in figure 4.3. It is clear that the major response of the Cape government to the newfound mineral 'jackpot' was the acquisition of public utilities, mainly railways and telegraphic systems, which then became instruments of revenue. Figure 4.4 shows the general trends in tax and non-tax revenue as percentages of GDP. The non-tax revenue percentages rose sharply from 1876 and this was mainly driven by the railway gross receipts. Tax revenues declined over time and this supports the unsustainability of the fiscal path which the Cape was pursuing. With the economic buoyancy, there was no diversification of taxes as the non-tax revenue was growing as a share of GDP.

Figure 4. 4 Tax and non-tax revenue (% GDP)



Sources: Blue books (1850-1910); GDP figures form Verhoef *et al*. (2014, pp. 29–30)

Figure 4. 5 Elasticities of government revenue components, 1855-1910



Sources: Blue books (1850-1910); GDP figures from Verhoef *et al*. (2014, pp. 29–30)

Figure 4.5 shows that revenue from different sources grew as the economy (GDP) grew and this supports the structural change argument as all the revenue sources show higher magnitudes of positive responsiveness (1876-1880s). The responsiveness of tax revenues to changes in GDP (tax elasticity) shows that as the GDP changed so did the taxes. Breaking down the tax revenue into direct and indirect tax revenue shows that it was only indirect taxes which were very responsive – especially from the mineral discovery period. From 1885 onwards the direct tax category shows a less responsive pattern and it was low compared to the rest of the categories and pointing to low efforts towards fiscal diversification. The influence of the mining industry in resisting direct taxes was the leading factor and throughout the parliamentary debates any direct tax on other sectors was resisted with the mining sector being a negative benchmark. The mining companies showed unwillingness even regarding the meagre taxes they were supposed to pay, such as licences, and had to be pushed to pay. The colonial Treasurer, Mr Sprigg, expressed this in his 1885 speech when he argued that:

> There is an important body of which a great deal has been heard in this House recently, the Mining board of Griqualand West. Perhaps the house will be

> surprised to hear that this wealthy mining board, these people who represent themselves to be the great financial stay of the colony, owe revenue of £20 000, and I am sorry to say that I cannot get it out of those people. They admit their liability but they don't pay (House of Assembly Budget debates, 1885, p. 114).

4.4.2 Responsible government and financial overhaul

The early 1870s was an eventful time in the Cape Colony and these events include the granting of responsible government, mineral discovery and the formation of state utilities. The new responsible government could not operate on a non-transparent basis because they now had to be accountable about their ability to run the colony transparently not only to the imperial authority, but also to the electorate. Earlier, during the early council years, the financial discussions were "very circumscribed and the council was left in an awkward position of not being able to repeal taxes which by common consent were no longer required" (Kilpin, 1930, p. 63).

There was a great need for financial system overhaul because, with the advent of responsible governance in 1872, public accounts were to be laid before parliamentary scrutiny every year. From 1872 onwards the 'Receiver general 'was replaced by a fully-fledged treasury department which was no longer a mere depository of revenues and moneys, charged only with the custody and issue, but all the duties and responsibility, such as the Chancellor of the Exchequer in England had. Before the 1870s the system was not systematic and transparent and it made auditing difficult. For instance, the Select Committee on the State of Public Finances in 1860 reported to the house:

> The committee has experienced much difficulty, in consequences of no fixed, definite, clear and easily understood plan being adhered to, in making out of the public accounts, and the fact that loans and advances being mixed up with revenue (Select Committee on Finance, 1860, p. 4).

This was not only a problem at the central level, inherited from the early decades of British Cape Colony years; the divisional districts' revenues were also problematic. With the advent of responsible government, a commission was set up in 1874 to investigate the system of audit and public accounts of the Cape Colony and they recommended the treasury department to be led by a "Controller and auditor general of public accounts." This was enacted into legislation in the Audit Act of 1875.

The further speeches and commissions of enquiries into public revenue show that the responsible government brought with it significant changes in public accounts even in the manner of accounting practices. More transparent reporting was now required to replace the obscure old system of handling of public accounts. The growth of the British Empire and the incessant reports of absentee governors earning high salaries also called for more robust accountability by the British government on all its colonies (Gardner, 2015, p. 10). For instance, the commissioners appointed by the governor in 1874 to investigate the system of audit and public accounts recommended in 1875 that:

> The revenue of certain heads such as customs, stamps, licences be stated in greater detail and the same should be done for expenditure in order for a clear comparison of votes and actual expenditure and that a 'Controller and Auditor General of public accounts' should be appointed (Commission of Inquiry into Public Finances, 1874, p. 184).

For the divisional councils, the financial system was even more chaotic and in need of change since it was subject to corruption and more obscure. Governor P.E Wodehouse's speech was revealing:

> With a cursory examination the accounts of the divisional councils are very unsatisfactory and indeed worthless. Transactions of every description are blended together, legitimate revenue is mixed up with sums borrowed without authority of law and in many cases accounts are not signed by auditors nor is it known if any have been elected. The accounts submitted are deficient, evincing great carelessness on the part of the officers charged with the accounts (Wodehouse 1867, p. 1).

The responsible government would no longer operate with such great carelessness especially with growing revenues from the growing economy. More generally, the representative and later the responsible government was partly going to be pivotal for the extension of the Cape's political and economic interests towards the interior. In other words, the period of greater autonomy coincided with other developments that required decisions about the scope of the Cape Colony's political and economic influence. For instance, the period of representative government coincided with the rise of and implementation of the confederation idea in the British imperial policies, which meant that the Cape government was pulled into the Confederation Wars against indigenous peoples and the Boer republics. These political developments are epitomised by politicians and capitalists such as Cecil Rhodes and Alfred Milner who had a huge role in the agitations leading to the Anglo-Boer war and political turmoil which led to the unification of South Africa in 1910.

Within the captured data, the overhaul of public records is evident in that, instead of the revenue sources being classified vaguely as was the case before 1870, more details were provided. Before the Audit Act in 1875 the regulatory framework was inadequate and could not provide checks on unauthorised expenditures. The customs revenues from 1876, for instance, were divided into import duties, export duties and wharfage duties for better clarity instead of being recorded as a single figure. The same applies to the expenditure side where clear categories had to be established for each department, in terms of how much went to salaries, transport and contingencies among others. Transparency was brought into the system and each year the various departments were supposed to make estimates of expected revenues to allow expenditure estimates to be done. In most years from the 1870s the estimates were quite conservative and they were in many cases exceeded by the actual revenue eventually received.

Another important aspect of the public accounts overhaul was the Public Debt Consolidation Act 30 of 1870 which removed obscurity from public revenues. Before this Act, the ordinary revenues were mixed with short term loans and this rendered it difficult for the Cape government to accurately assess its financial position. The Act enabled the ordinary revenue accounts to be separated from the loan accounts and these two were managed separately henceforth. The public finance overhaul was imperfect in the sense that it did not separate public utilities such as the post office, railways and telegraphic systems out of the ordinary revenues. This provided a false sense of vibrant public accounts because these public utilities were run as tools of revenue without a clear fiscal strategy being pursued. This weakness in the financial accounts overhaul was invisible as long as the economy was performing well and the state received direct earnings from its utilities.

4.4.3 Non-inclusive legislative policies

The discovery of diamonds gave the colonial state an opportunity to determine the legislative framework to maximise the public revenue but this failed because of vested interests. This is seen through the systematic resistance to paying taxes by the mining houses. Mr Molteno explicitly agreed with this premise:

> I have a shrewd suspicion that what I call the dishonest finance, the cruel finance of the government, a financial policy purely arranged in the interest of a certain section, and mostly in the interest of the people who do not live here, will be seen, and that scales will be taken off the eyes of the people (House of Assembly budget debates, 1906, p. 248).

A clear contrast is observed in Transvaal where Gold Tax was introduced, going as high as 30 percent on output or profit, and the government also invested directly in gold mining (Colonial Office, 1897, p. 154). The Cape government, soon after annexing the diamond territory, moved in with a heavy handedness and relegated the established Diamond Committee into the background and appointed an inspector and a mining board. On this path the Cape was heavily involved in the activities of the mining fields and the miners disliked it since they were inclined towards self-governance through their self-appointed committees. The miners wanted the government to intervene only in protecting lives, through safety engineers and property rights. According to the Diamond Commission Report (1881, p. 144), De Beers was involved in pressuring the government into making new legislation which was brought in in 1880. The new legislation gave power to the mining companies to govern themselves without government intervention.

The mining legislation was thus heavily influenced by the mining companies whose owners were also influential in the Cape parliament. This seems to suggest some kind of a minimalistic legislative framework meant to allow the mining interests to have their way without countervailing institutional checks. Section 2.4.2 in chapter 2 highlighted that in the wake of the mineral discoveries, weak institutions cause a conditional resource curse and the state will not be able to leverage the resources for prosperity for all. Powerful groups can easily overwhelm the weak institutions and steer them in grabber friendly rather than production friendly directions (Mehlum *et al*., 2005). While there is no evidence of outright corruption, the available evidence suggests that the mining houses took advantage of the lack of maturity of the legislative institutions. For instance, a closer look at the requirements for one to own a mining licence reveals that the legislation was meant to protect the few big companies. For instance, for one to get a certificate for a claim, a certificate of good character was to be obtained from local resident magistrates (Diamond Commission, 1881, p. 15). This effectively excluded most black Africans from owning mining claims since they were easily legislated out of the mining activities since the requirement was abused to exclude them.

In comparison to the revenue from utilities such as railways, the post office and the telegraphic system the licences from the mining firms were puny. With a tax resistant mining industry, other sectors would not yield to direct taxation when the mining industry had set the standard for the rest of the economy. Land revenue was another key direct revenue which shows drastic decline and this could be partly attributed to the precedent set by the mining sector in resting direct taxation. The exit threats were quite strong from capital so that the government was left with no option but to leave capital to have its way and affected the other sectors making fiscal diversification difficult. These exit threats seem to be less real considering later developments in the Transvaal, which had no option but to tax gold mining heavily since it had no railways nor ports of entry to get government revenue through customs. Gold mining activities did not dwindle because of these high tax levels on output but instead the government managed to embark on many developmental projects based on the receipts from mining activities (Denoon, 1890). This could not have been the case had the Transvaal relied on licence fees only as the Cape did.

Considering the liberal legislative environment, which could be seen as a 'conducive business environment', the Cape lost a lot of potential revenue which could have easily accrued to the government. The railway construction by the state was a developmental endeavour but this mostly did not help to drastically transform the society. Goodfellow (1931b) argued that due to the manner in which the railway system was built – targeting mining regions only – Canada was closer than some remote parts of the Cape. The Cape Colony itself remained uneven in terms of development and the areas through which the railways passed had better prospects besides the major coastal towns and mining towns.[36] This entailed that, besides direct revenues for the government, railways were more beneficial in the period post 1910 when branches were developed.

[36] In 1902 Mr Merriman opposed Mr Sprigg about the conditions of the colony arguing: "But in regard to the state of prosperity of this country, my hon. friend is living in a fool's paradise…the prosperity alluded to by the honourable member was perhaps only in the Cape Peninsula (*around Cape Town*) and not in the rest of the country where no land has been tilled" (House of Assembly budget debates 1902, p. 162).

4.5 Municipal revenues and fiscal decentralisation

The Cape Colony's capital city had been Cape Town, even during the VOC rule since 1652, and, as a result of this, the commercial, judiciary and other public services were easily accessible to those in the vicinity of Cape Town. While there was no problem during the VOC period, the British colonial government had to expand its administrative reach by a significant stretch due to the high number of the settlers in the eastern region. In 1873 a Bill was passed for the introduction of provincial governments in the colony, and the Bill acknowledged that the remote regions suffered many difficulties and disabilities because they were "far removed from the Seat of Government in Cape Town". The colony was then divided into three provincial governments namely Western, Midlands and Eastern provinces – each with its own provincial legislature. The railway system was also divided according to these provinces.

Even before the provincial governments were introduced, municipalities and divisional councils were an earlier phenomenon in the Cape Colony. The first one was the Municipal Ordinance (No 9 of 1836) for the creation of municipal boards in towns and villages of the Colony. The government's reach to all remote towns and villages was limited and as a result complaints were incessant at the doors of the colonial administrators at Cape Town regarding many challenges faced by colonists in the remote districts. Security, law and order were the priorities of the Cape government and later infrastructural projects. There was no need for the parliament in Cape Town to continue to receive parochial requests, such as "lack of shelter at train stations in Uitenhage" (McCracken, 1967, p. 137), which could be dealt with by municipal or divisional boards. With municipal boards and provincial legislatures, the separatists[37] were to some extent appeased as they now had a degree of autonomy in their local affairs.

The municipal and divisional boards were given, through various ordinances and Acts, permission to raise local revenues to defray local expenses such as police, street lights, roads and bridges. In the event of loans being raised, the central government had to assent to this because central revenues in most cases were used to guarantee these loans. The Cape's decentralisation was, when carefully considered, not a 'luxury' creation but a necessity in a diversified society in which regional and racial fault lines could easily

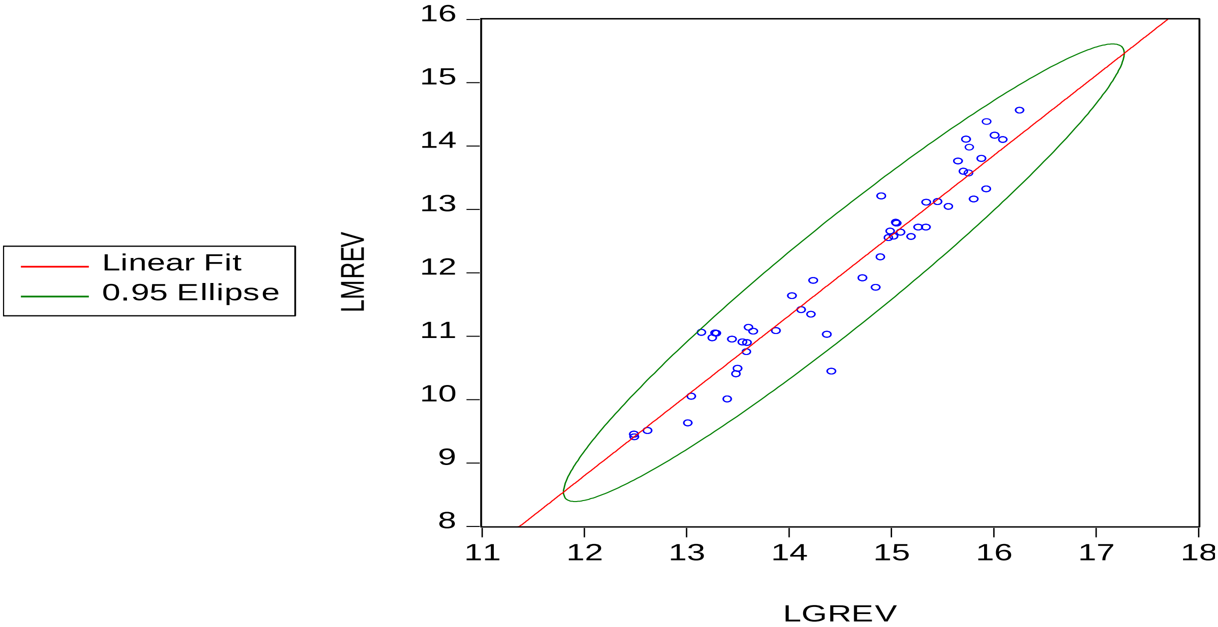
[37] These were the settlers in the Eastern region who felt far removed from the seat of parliament at Cape Town and kept agitating for a separation of administration power and for them to have their own administration in the Eastern region of the colony.

destabilise the colony. The revenue of the municipalities, like those of the central government, depended on the broader economic performance of the colony.

The aggregate municipal revenue trend shows a similar trend to that of the central government. From a simple log-log correlation of municipal revenue on central government revenue (LGREV), a percentage increase in central government revenue was matched by more than a one percent increase in municipal revenue (LMREV) (figure 4.6). In other words, the economic growth mattered for increasing public revenues, but municipal revenues were influenced by other factors such as regional economic dynamics, population, structure of economic activities and many other local factors. The correlation between the central government revenue and municipal revenue is very strong (figure 4.6*)* because in most cases the government had to consent to municipal revenue strategies. This was because the municipalities required funds beyond what the government could provide and they had to be allowed to borrow for local development.

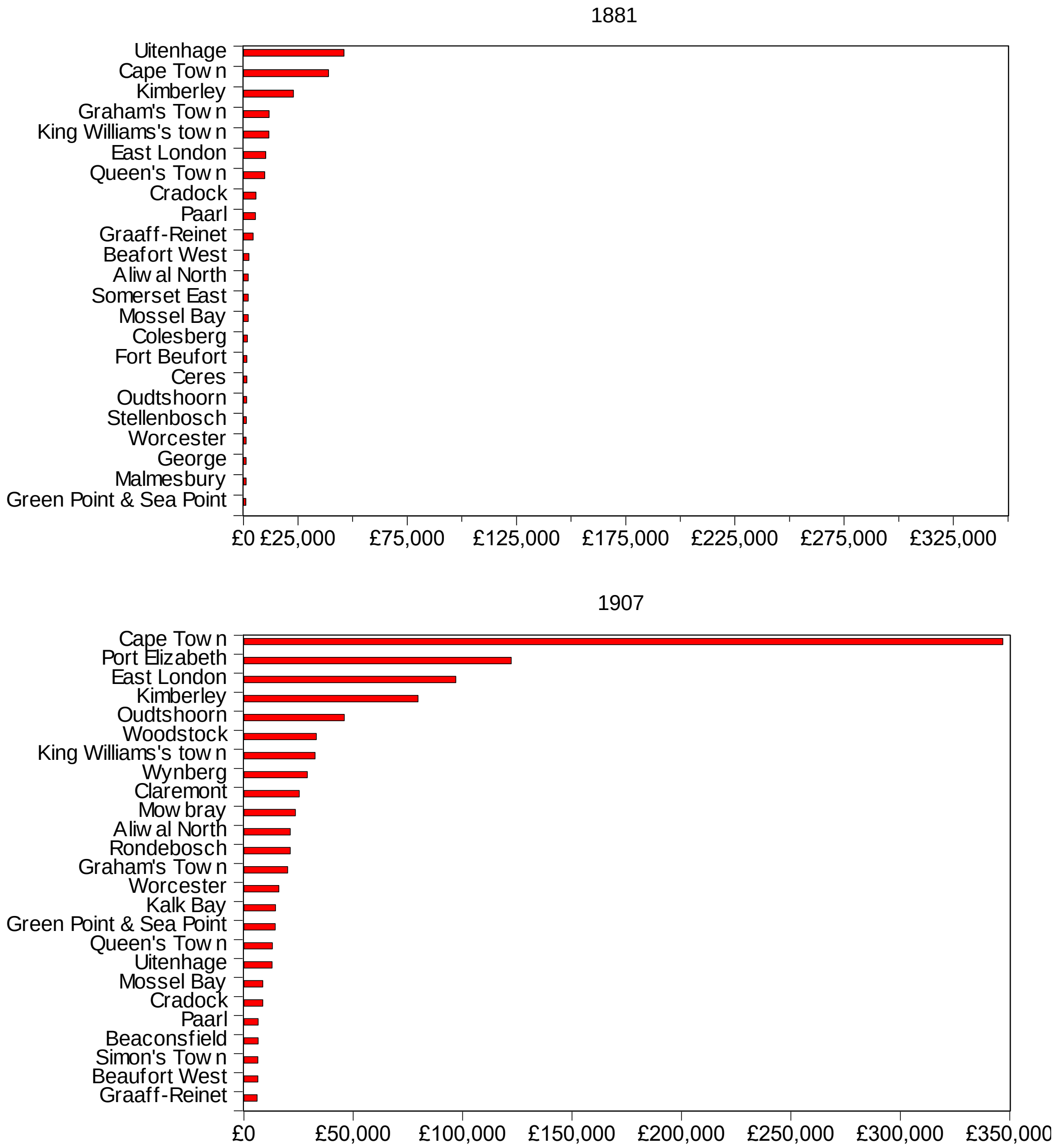
The municipal revenues (total aggregate revenues from each municipality's sources) grew between 1881 and 1907 and the shifts in the top five municipalities in terms of receipts highlight important dynamics of the economic progress of the Cape Colony. Cape Town municipality as the hub of the Cape's political and commercial activities remained in the top five municipalities between 1881 and 1907.

Figure 4. 6 Correlation of the central and municipal revenues



Source: Blue books (1830-1910)

Figure 4.7 Municipal revenues (1881 against 1907)



Source: Blue books (1881 & 1907).

The 1870s and early 1880s were the period of the wool boom and the economic activities were more focused on the eastern region hence making Cape Town come second in terms of revenues. Once wool farming had declined, Uitenhage's revenues declined and in 1907 it was relegated to number eighteen in the list. Economic geography has also explained such regional and geographical dynamics that affect economic performance of countries in general. These factors include distance to the coastlines, population, railways, major economic activities and climate. The municipalities which dominated in terms of revenue were the coastal municipalities. Kimberley municipality, and to some extent Uitenhage with its wool washing industry in late 1870s and early 1880s, was the inland municipality to rival the coastal municipalities because of diamond mining activities which attracted many people and businesses.[38] This means that the municipality could easily raise revenue through rates and other forms of local taxes which other inland municipalities with few economic activities could not raise. De Kiewiet, the South African historian, observed:

> In a year after the rush, Kimberley was the most populous place in south Africa outside Cape town with two churches , hospital, theatre and probably as many grogshops as the rest of South Africa put together (De Kiewiet, 1957).

The concentration of people around such a major economic activity made Kimberley a testing ground for the Cape's social welfare policy (more on this in chapter 5). Archival evidence also shows that Kimberley was difficult to handle legislatively hence it was also a testing ground for the legislative capacity due to the volumes of mining disputes solved each year. The diamond commission recommended a mining tribunal to be formed, after the manner of the Australian Courts of Mines, to specifically handle mining disputes but this was rejected on grounds of costs. In such a difficult legislative environment, for instance underground mining claims disputes were interwoven with surface land ownership disputes, the main issue was the land owner and the digger's rights on the land, water, business stands, buildings to be erected and the diamonds themselves. On the surface the proprietary rights were to be observed while beneath the soil diamonds meant a different legislative framework.

4.6 Conclusion

The main conclusion from this chapter is that diamond discovery and responsible governance were decisive factors in the evolution of the Cape Colony's fiscal capacity building. Besides boosting revenues that accrued to the state coffers, they shifted the attention of the government into railway projects whose earnings were substantial to the point of relegating the need to creatively improve and diversify the tax regime. Settlers did not, throughout the period, pay high direct taxes to the government as argued for settler-labour reserve colonies by Mkandawire (2010). This was because the British Government viewed the Cape as a key colony and was ready to defend it from external

[38] Port Elizabeth is puzzling because its revenue is not available for 1881 and whether it was under Uitenhage is not clear. The Blue Books show no record for Port Elizabeth in this year but it is clear that with the wool industry, Uitenhage was doing well in this period.

threats as well as securing its colonists from the indigenous population. With no need for a huge defence and security budget, the Cape Colony's revenue needs were below what the case would have been if it was fully responsible for its own defence.

On the one hand, indirect taxes were a major feature of tax revenue, the bulk of this being customs revenue and, on the other hand, non-tax revenue was important from 1870s, the bulk of this being direct railway earnings. This meant that the Cape's fiscal regime was on an unsustainable path because the railway traffic was mainly for the mining fields, be it equipment or supplies of other imported items. The fact that railway revenue was recorded on a gross basis (chapter 3) made it look like a significant source of revenue. Customs revenue itself was more a matter of revenue collection than an organised policy with developmental goals such as the post WWI import substitution policy (Goodfellow, 1931b, p. 25). The status of having developed railway lines meant that the Cape's ports became the preferred and easy ports of entry into the interior mining fields in South Africa.

As long as the Cape had no competition, because it was the first colony to complete railways, customs duties were guaranteed and overall government revenue was in good shape. The Cape's agriculture and manufacturing business enjoyed reduced rates on the Cape's railway lines and were not significant sources of government revenue. After the opening of the Transvaal line via Lorenzo Marques, the Cape lost the gold mining traffic and, therefore, the customs revenue because traffic on Cape lines declined from 80% to 12% of gold mining traffic. The loss of the control of the bulk part of gold traffic and customs meant that the revenue loss was catastrophic. This exposed the fact that the Cape had not strategically thought about its fiscal regime, having used the railway system as an instrument of taxation, and was thrown into a sort of querulous despondency – eagerly waiting to throw its financial burden onto the unionized South Africa (Goodfellow, 1931b; Van Der Poel, 1933). Municipalities also played an important role and ignoring them may lead to an incomplete picture by under-estimating the revenue raised for meeting local needs (Gardner, 2015). Municipal revenues also complemented the central government revenue and the bigger cities and economically important cities such as Kimberley tended to have higher revenues than smaller and less economically important places.

CHAPTER 5: "SERVING TWO MASTERS"? THE POLITICAL ECONOMY OF PUBLIC EXPENDITURE IN THE BRITISH CAPE COLONY, 1810-1910.

> The functions of the state are indeed protective, commercial, and developmental as well as executive, legislative, and judicial. But to assume that all public expenditures are for the direct and deliberate promotion of these governmental functions is to assume intelligence, an honesty of purpose and a concern for the social goods such as is not characteristic of the average citizen or legislator… Expenditure is an empiric fact, while functions of the state are part and parcel of social philosophy (Guest, 1930, pp. 41–42).

> Those who governed the settlers suffered the difficulties of simultaneously serving God and Mammon. Reliance upon Mammon in the form of foreign capital had a consequence which could not have been foreseen at all clearly (Denoon, 1983, p. 71).

5.1 Introduction

Public expenditure should not be seen as merely representing the traditional functions of the state. For colonial governments the desire for social goods was limited in many instances. The agenda of colonial states was pushed through state expenditure and it will be superficial for instance to see huge expenditure outlays and assume there was an honesty of purpose for 'development'. Colonial governors, at least those who governed in most settler colonies, were faced with a huge challenge of meeting local political demands while placating scarce international capital. Public expenditure policies in these territories required a careful balance between appeasing the electorate, as democratic structures became more institutionalised, and ensuring that profitability was guaranteed to foreign capital. Interest payment on foreign loans became a major component of public expenditure. The reality that colonial governments were the main recipients of this foreign capital, through government bonds and debentures, complicated everything. As Denoon argued "Capital did not act directly on the citizens but had its influence refracted by the state" (Denoon, 1983, p. 93). In so far as capital was foreign, mainly from London, colonial territories had an undeniable dependency on it given that in most of these territories local capital markets were still small. This, nonetheless, did not dissolve the autonomy of these settler colonies because their governments, political and parliamentary institutions were fully functional. This is a paradox that requires a careful consideration of the political economy of the Cape and public expenditure offers an important avenue to analyse how different interests bargained or lobbied for priority in public expenditures.

In this chapter the Cape Colony is used to unpack, through public expenditures, the difficult political economy terrain of public expenditure policies in colonial times. It has been established throughout the colonial and non-colonial polities that "one bright spot for an easily identifiable tax base throughout history is the foreign trade sector" (Musgrave, 1969, p. 129). Evidence from the previous chapter, and many other studies on colonial taxation, is clear that customs were the single most important revenue earner in most countries (Waijenburg, 2015). Yet the volume of foreign trade actually depended on the economic activities in which foreign capital was a significant player. The form of public expenditure followed a pattern that had to keep foreign trade flourishing so that more customs revenue could be extracted.

Section 5.2 shows the determinants of the growth of public expenditure of the Cape by analysing public infrastructure, social spending and, law, order and defence. Section 5.3 discusses the implications of British pragmatism on the Cape's public expenditures. Section 5.4 focuses on elite control of the state and how the colonial government was steered towards an extractive path by the mining interests. Section 5.5 concludes the chapter.

5.2 Determinants of the growth in public expenditure in the Cape Colony

5.2.1 Initial conditions

If the Cape had been limited to a garrison colonial possession of Britain, there was nothing to talk about in terms of public expenditure growth because the empire was going to take care of its territory. The desire on the part of the British government to promote immigration, due to many push factors caused by the Napoleonic war, changed the prospects of public expenditure growth in many British colonies. The first important factor leading to the growth of public expenditure at the Cape was population growth, especially that of the settlers. Reference is often made to the 1820 settlers coming to the Cape but over time, especially with the discovery of diamonds in Kimberley, more Europeans came to the Cape creating more reasons for the growth in public expenditure. As more and more settlers moved into the interior and the frontier regions of the colony, there were public goods they needed which could not be provided privately. For instance, the occupation of land often meant exposure to the infamous 'depredation of the black Africans'[39] and conflicts within and across different races. This naturally gave rise to the need for general security and order to be provided by the colonial government (Mkandawire, 2010). While expenditure for outright wars was the preserve of the imperial armies, general day to day administration meant that the state had to provide its service such as local magistracy, district policing and many others. The expenditure rose as new territories were established in the interior and frontier regions.

The changing structure of the Cape economy was also crucial in determining the growth of public expenditure. From wine production in the early decades, wool in the 1860s-70s, to diamonds from the 1870s onwards meant that the structure of the economy changed and with it so did the demands for state funded public goods. Law and order outlays received priority in the early decades of colonial occupation. If the government had not intervened in these circumstances, one can only imagine that anarchy would have prevailed in these remote areas. With the shift from the pre-eminence of wool to diamond mining there were new challenges and the impact on public expenditure was enormous. Unlike wool farming the mining industry had the effect of bringing people into one locality causing high population density –urbanisation has high disease risks among other implications. While this might have meant ease of collection of taxes depending on the tax structure, as discussed in chapter 4, the Cape government remained reliant on customs duties. More was required on the expenditure side in terms of resources and private businesses could not solve all the expenditure needs of the mining industry. The fundamental problem was access to the diamond fields and the state could not consider any comprehensive welfare programmes before establishing easy access through reliable railroads, roads and communication through a telegraphic system.

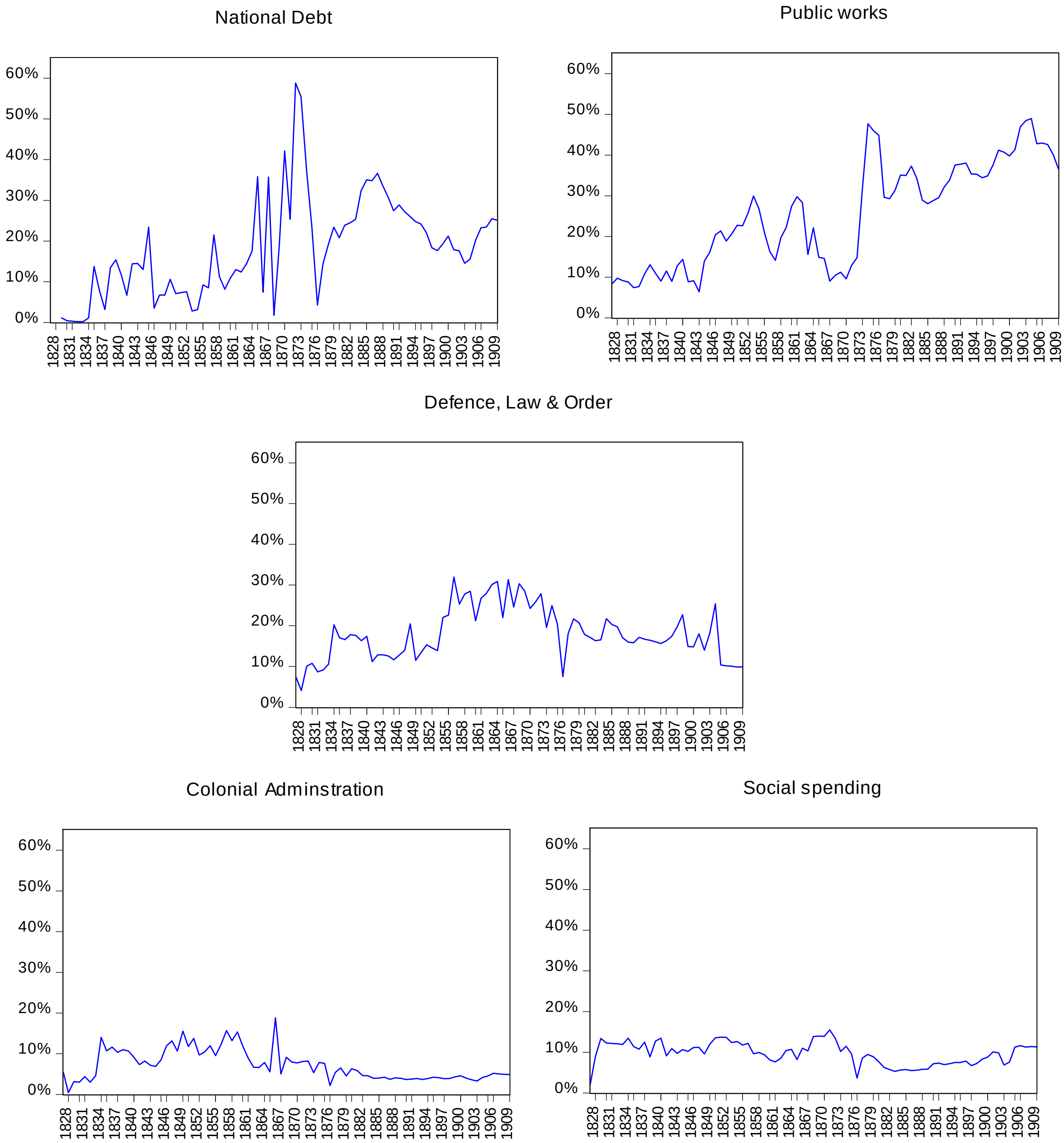
5.2.2 Broad categorisation of expenditures

Figures 5.1 and 5.2 show a recap of the general classification alluded to in chapter 3. The dominance of public works and debt servicing is clear as these were leading as shares of total expenditures. The period from 1876 shows a clear break and shift in the expenditure

[39] For instance one perspective argues that between 1834-35, they invaded the Eastern district of the Colony and were claimed to have "murdered every man they could find; burnt 450 farm houses; carried off above 4000 horses; 100000 head of cattle and 150000 sheep and goats making the district of Albany and Somerset a desert. The disturbed state of the eastern frontier continued till 1847 when another Kaffir war erupted which cost the country 1 million pounds and another million in the Kaffir war of 1851-52 (Memoranda of Southern African Colonies 1856, p3.).

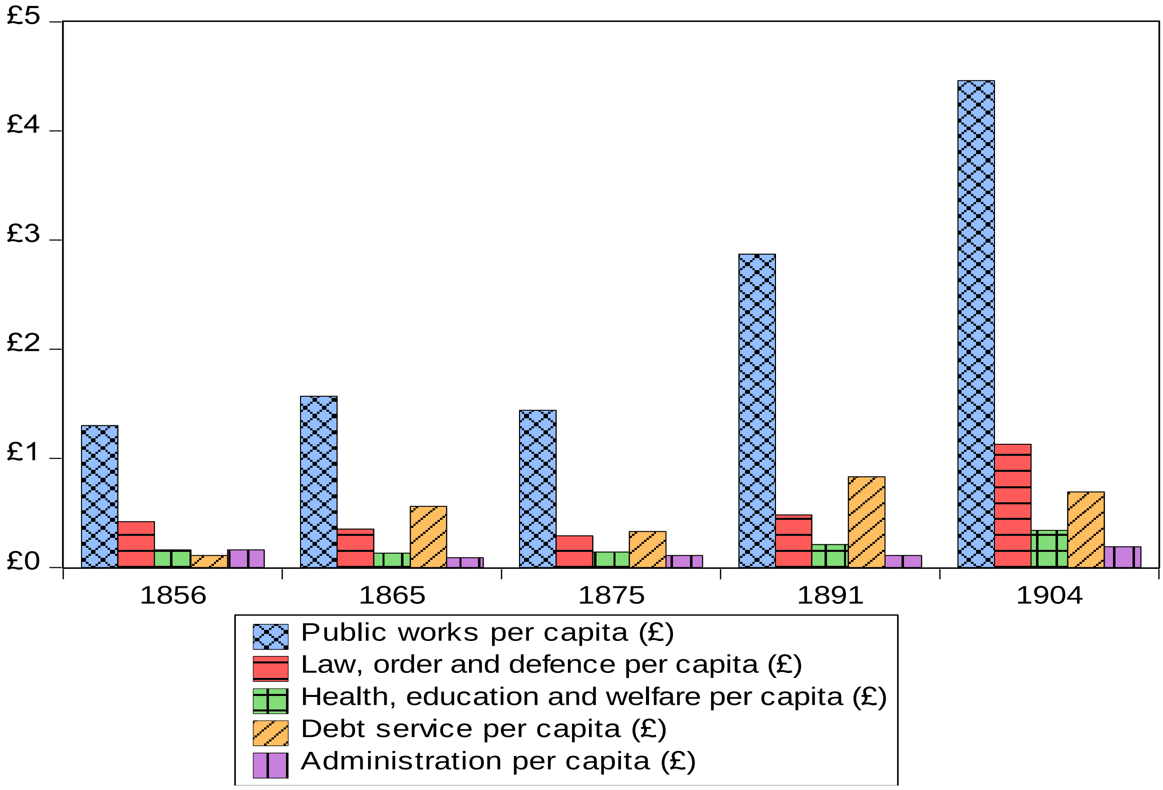
as the public works and debt servicing took the lead. The pattern was that high expenditure on public works was only made possible through public debt hence the debt servicing inevitably grew as more was borrowed for these projects.

Figure 5. 1 Broad expenditure classification as shares of total expenditures, 1830-1910



Source: Data from Blue books (1830-1910)

Figure 5. 2 Per capita expenditure by various categories, 1856-1904.



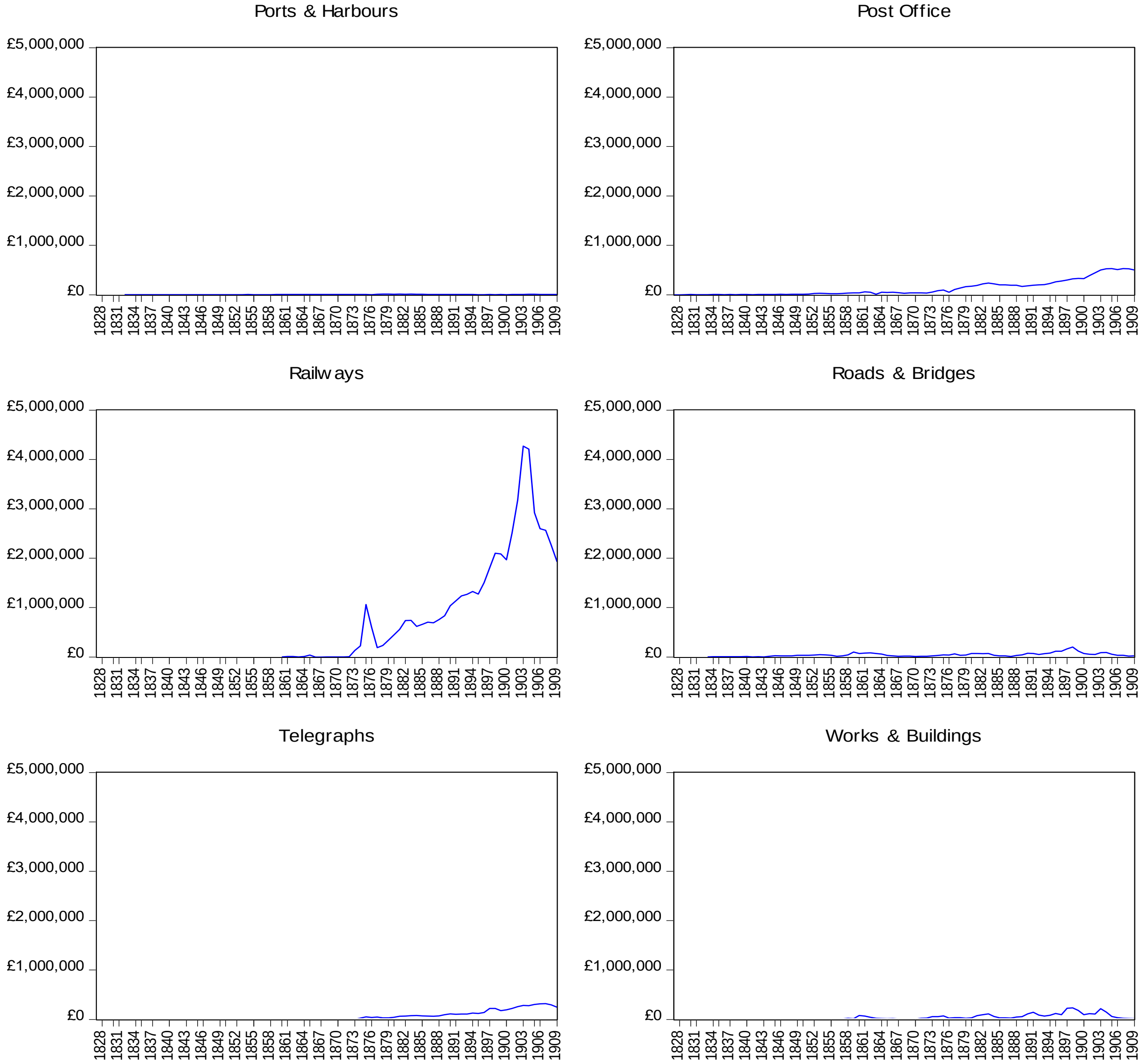
Source: Blue books (1856-1910)

Figures 5.1 and 5.2 allow dominant trends to be observed in order to identify the leading expenditure categories and relatively high levels of spending on these items of public works and debt servicing. Law and order and defence were higher than debt servicing in 1904 because of the aftermath of the South African war which caused a huge increase in war related expenditure and this was acknowledged in parliament as well. In the post war period the Cape was responsible for some of the remaining soldiers and their post-war needs hence this made the defence expenditure considerable in this period. Mr Sprigg noted in 1904 that "The war also meant increase in expenditure with regards to items such as railways guarding which took about £50,000 each year and war medals taking about £8,000" (House of Assembly budget debates, 1904, p. 259).

5.2.3 Public works and public utilities

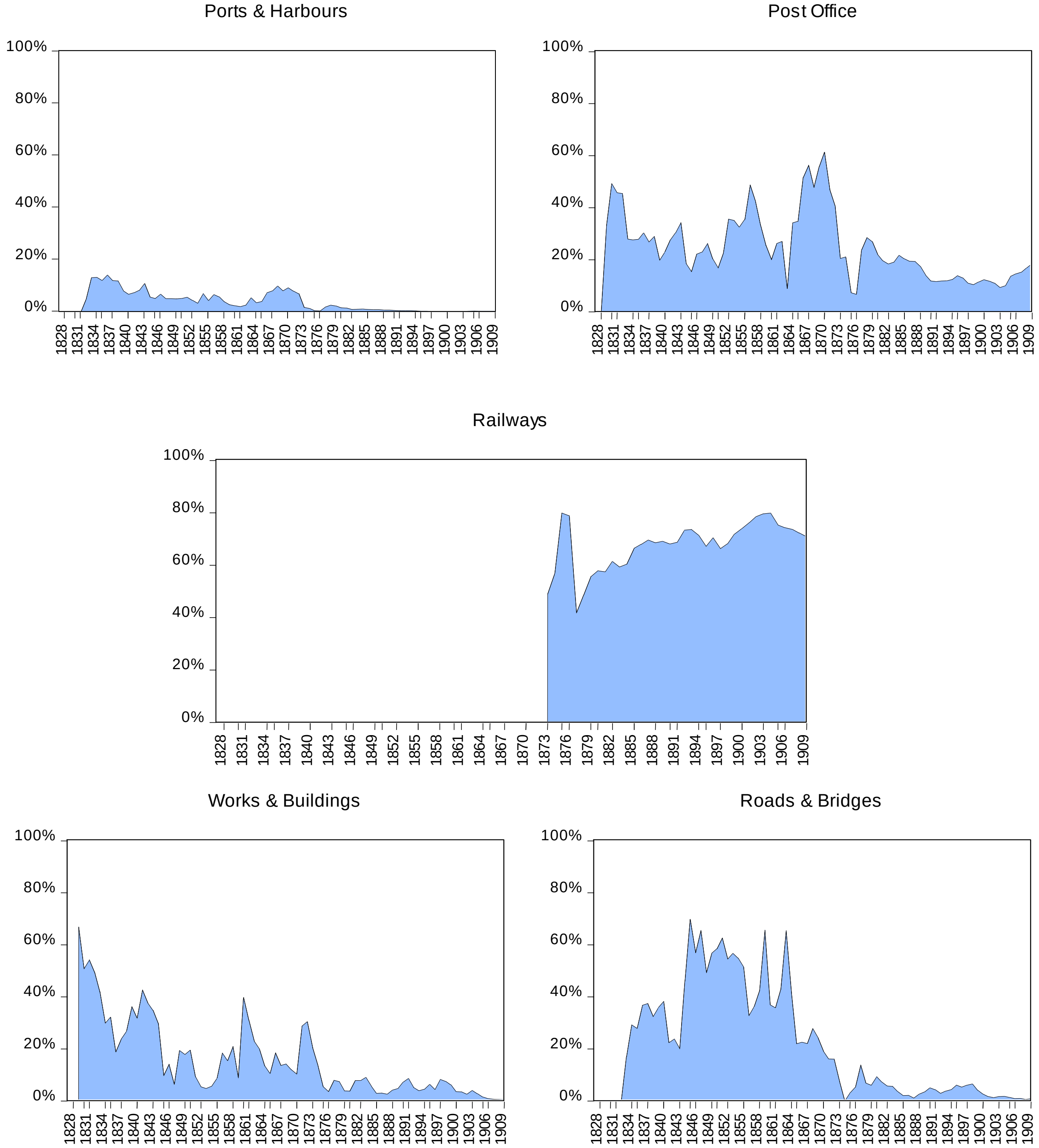
It has been acknowledged that prior to the 1870s the pace of economic development in South Africa, and therefore the Cape Colony, was very slow (Burman, 1984, p. 11; Feinstein, 2005, p. 3). These views should not be completely disregarded for the macroeconomic fundamentals depicting the general economic progress of the colony. The contrary views have drawn evidence from micro studies by demonstrating that some members of the settler population were prosperous (Fourie, 2013). It was indeed the diamond mining which became the sparkplug for the economic progress. After all, there was no strong incentive at the Cape during Dutch occupation and the early decades of British occupation to construct roads, bridges and mountain passes penetrating the interior. Returns on wool farming alone could not bring these expensive projects to fruition and the imperial government concerned itself with defence issues. Figure 5.3 shows expenditure in public infrastructure and the dominance of the railway system. The size of railway expenditure makes it difficult to present the data but it demonstrates that other outlays were peripheral to the railway construction.

Figure 5. 3 Public infrastructure expenditures, 1827-1910



Source: Data from Blue books (1827-1910)

Figure 5. 4 Expenditure shares total public works, 1827-1910



Source: Data from Blue books (1827-1910)

Expenditures on public works particularly took off in the post-diamond discovery period as feasibility was more apparent to the colonial government. This does not mean that no work was done prior to the discovery of diamond as is evident in figure 5.3 which shows that decent expenditure outlays went to harbours and ports, post office, roads and bridges[40] and works and buildings. In figure 5.4, telegraphic and railway outlays only feature from 1873 onwards and there is a definitive dominance of railway expenditure compared to telegraphic systems which did not require much capital. A shift in attitudes from the parliamentarians was obvious and they were no longer resistant to the idea of construction of railways and developing telegraphic lines. One clear fact was that the growth in public expenditure, mainly through these public works, meant that the government had to commit and demonstrate to the foreign capitalists that they employed wise parsimony in their finances and were willing to keep the colony solvent.

As figure 5.3 has demonstrated, more roads, bridges and mountain passes were also built alongside the development of railways and telegraphic lines but these remained secondary to railway construction. In one of his parliamentary speeches Governor H. Barkly reported the diamond-induced shift of attitude towards telegraphic lines as a key communication infrastructure:

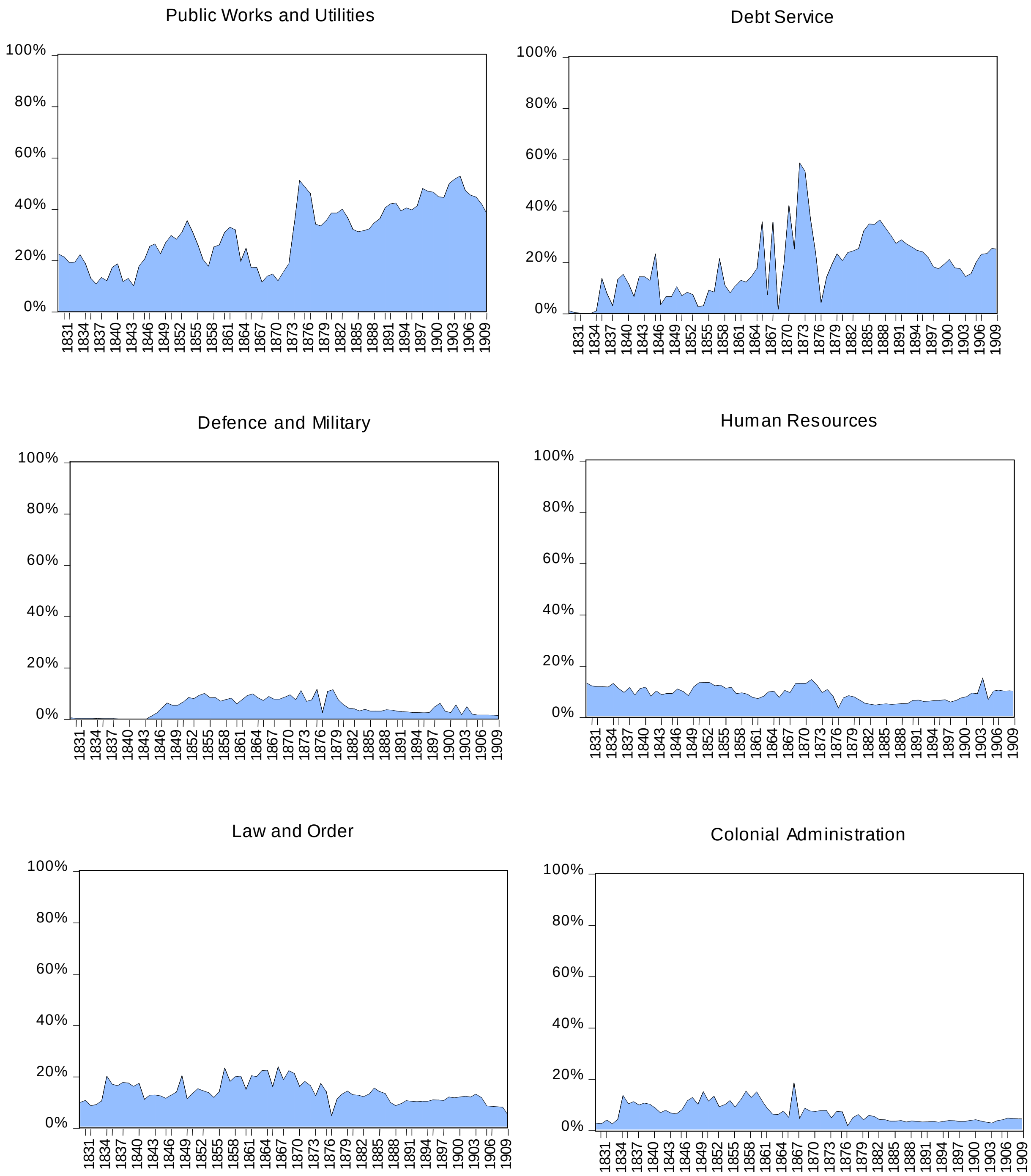
> The reason that induced the committee to recommend that a line to Queen's Town should be constructed without delay with a view to further extend it towards the Free State have gained a tenfold force through the subsequent discovery of diamonds (Barkly, 1872 p.1).

Development of infrastructure would have probably followed the coastal lines had diamonds not been discovered but the prospects and euphoria around it changed the attitudes of the parliamentarians. When the whole public works and utilities sector is considered it is clear that railways absorbed a higher range of 4-5 million pounds at its peak while the rest never exceeded £600 000 (figure 5.3). Even when combined at their peak years, harbours, bridges, post office, and telegraphic outlays could not rival the outlays on railway construction. There is no doubt that railways dominated the public works category. Figure 5.5 below shows that, as shares of total expenditure, public works and debt servicing were unique with an upward trend while other categories depict general downward trends. It is expected that public works and debt servicing had upward trends because much of the Cape's public debt was linked to the railway construction. According to the Blue books, it was only during the years in which the borrowed funds

[40] There was indeed the road enthusiast, Montagu, who used convict labour in the 1840s and the graph on roads and bridges shows a significant rise during this period (Burman, 1984, p. 14). He was influential in wiping out the Cape's debt through land sales, selling guano and collecting arrears in taxes.

slightly exceeded the railway needs that funds were directed towards other public works such as roads and bridges.

Figure 5. 5 Classification of total public expenditure, 1830-1910



Source: Data from Blue books (1830-1910).

Table 6.4 in the appendix shows list of items in each category of expenditure in figure 5.3. As share of total expenditures the debt driven public works is the only sector with a sharp rising trend followed by debt servicing while others decrease over time. Indeed, in parliament, public works was a leading spending category attracting huge contestations. Mr Merriman in 1885 argued in parliament that:

> At first I am bound to say there was some little difficulty on the part of some officers who had so long indulged in the vicious practice of spending money unauthorised without reference to government and some attempts were made to defy the authority of the treasury. The department of public works has been the great sinner in this regard. There is something in the profession of a civil engineer which leads a man to spend money (House of Assembly budget debates, 1885, p. 113).

Bemoaning the growth and growing demand for railway expenditure, Mr Merriman in 1898 argued in parliament that:

> There has never been a motion in the house to limit or reduce expenditure towards railways. I have seen hundreds of motion for further facilities and further facilities means money. Extravagance is working tremendously upon the railway system. They want more trains, express trains. They say the stations are not good enough. It is astonishing to see people who travelled in carts at the rate of six miles an hour desire to travel on railway at 30 miles an hour. It is ridiculous to pass a motion in the house requiring £500 000 for building better palatial stations in Cape Town when the rest of the colony wallow in poverty as farmers have to also access light railway lines (House of Assembly budget debates, 1898, p. 184).

The bias towards railways is strong throughout the period and its links to mining were unquestionable. What the quotes above do not explicitly reveal is that very strong vested interests were at play for this bias. It was strong to the extent that money could be borrowed by some officials unauthorised and without due procedures being taken to fund railway projects (Chapter 6). This is consistent with the limited access order arguments in chapter two in which few individuals decided on self-serving policies that had ramifications for the rest of the nation. There was an informal coalition of business and parliamentary elites which evidently steered the parliamentary debates towards mining friendly policies as well as construction of railways that led to rapid accumulation of public debt. The continued focus on railway construction was easy because longevity in the Cape parliament was restricted to few members and the formation of a Rhodes led coalition[41] was not difficult. This clear bias towards 'mining railways' can be contrasted with unanswered calls and petitions for light railway lines for the development of the Cape's agricultural activities. For instance, Mr Merriman rejected the calls for a railway line to Oudtshoorn and said that there was no need for "these pumpkin lines" while Mr Sauer called it a "political line" (House of Assembly budget debates, 1894, p. 448).

5.2.4 The social spending and the nascent welfare state

There are limits to the use of the 'welfare state[42]' concept in the 19th century because social spending was a very small component of public expenditure in all countries (Lindert, 2013; Tanzi & Schuknecht, 2000). The concept originated in the 20th century and it would be anachronistic to expect high levels of social spending in the Cape Colony in the 19th century. The Scandinavian countries are the usual exemplars of the welfare states but the growth of social spending in the second half of the 20th century has caused wider application of the concept (Esping-Andersen, 2002; Lindert, 2004). It is important, however, to trace how the social friction arising from high density living during industrialisation in the Cape context exposed the inadequacy of the railway-biased public expenditure. This was not unique to the Cape because Australian colonies had an extreme level of government intervention and a considerable welfare state given the context of the 19th century in which Britain's welfare state was itself very nascent (Gilchrist, 2013). The initial conditions of a convict colony meant that the large role of the government was established and could not be reversed easily in Australia (Gilchrist, 2013).

In the Cape Colony, social spending seemed to lag that of the British system and the state did not go ahead of Britain in terms of social spending. No serious attention was paid towards establishing many social expenditure programmes prematurely when physical investment in roads and bridges was not yet done. A reactionary approach to welfare needs was used even in England which only changed in the 1830s when epidemics jolted the state into action. It was the general practice for England to institute laws against "…vagabonds, rogues, disorderly and idle people and the state prohibited beggary…"

[41] Names that also feature in the parliamentary debates had a dual character of being politicians and business people. Among others, these included: John. X. Merriman, Barney Barnato, H. Robinson, Gordon Sprigg, Rudd, J.H. Hofmeyr, John Molteno and J.W. Sauer (Whiteside, 2014, p. 24)

[42] It was William Beveridge who identified five social evils, namely ignorance, squalor, idleness, disease and want. The welfare state focused on these and many other social-related ills. His famous Beveridge report went on to be popular and became the foundation of the British national insurance, national health service and other reforms which constituted a safety net (Whiteside, 2014, p. 24).

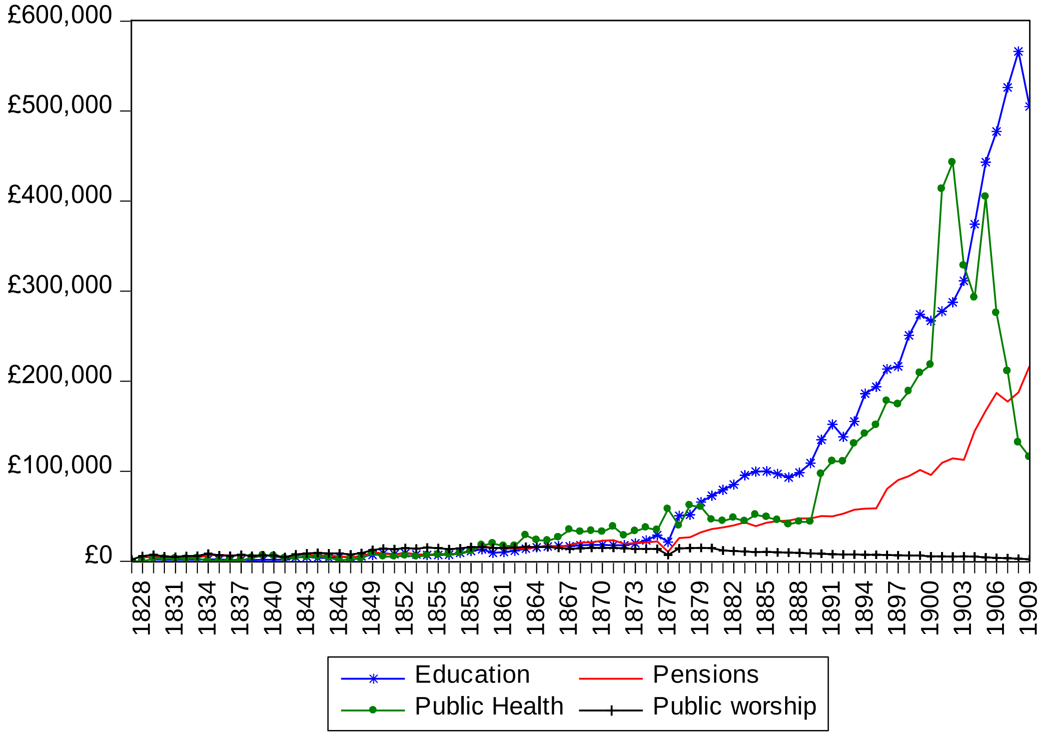
(Lindert, 2004, p. 41). The 1831-32 cholera epidemics in England were important in bringing consciousness and a change of attitudes, around the need for public health programmes. This led to the Public Health Act of 1848, which was a milestone in proactive rather than reactive public healthcare provisioning (Fee & Brown, 2005, p. 866). The corollary of this Act was that the government had to commit to the creation of a permanent department of health that required fiscal commitments each year. Later into the 20th century, the aftermath of WWII also caused the welfare state to grow significantly. Without these social disturbances, as famously postulated by Peacock and Wiseman (1961a), there was a general slow acceptance of the ideas of the welfare state in the 19th century (section 2.3.1).

In the Cape Colony, once diamond mining took off, the state could not only be concerned with the railway construction, provision of police and magistracy but also had to think about welfare. As the welfare concerns of the public broadened, these included safety in and around the mines, health care, education, asylums and paupers, the demands for more social spending programmes were growing. Thomas (1996, p. 74) paints a sombre picture of the diamond mining industry and indeed reveals it as a cradle and testing ground for the Cape's welfare state:

> But the worst danger was disease. The shortage of water, the open latrines, the rotting carcases and plagues of flies contributed to severe outbreaks of typhoid and dysentery in the summer of 1871-72. Scurvy, brought on by a lack of fresh fruit and vegetables raged through the camps. The flies and the all - pervading dust caused serious eye infections and turned 'a slight break in the skin into a villainous wound'. There were no hospitals and nurses were unknown. To make matters worse most diggers were not earning enough to make ends meet.

The diamond mining did not kick start the Cape's social spending which existed prior to this period in the form of pensions, asylums, public worship and health care. Mining, however, increased the scope and need for more elaborate government plans because of mining related injuries and high density living at Kimberley's diamonds fields. The Government pension system, education, and public health (see figure 5.6*)* show huge rises in absolute terms when diamond mining activities increased in 1870. The government did finance all these state programmes through taxation. Borrowing was essential (chapter 6) and this caused another factor of increasing government expenditure, namely public debt servicing. Early modern states borrowed heavily mainly for war expenditure and the rising of post war expenditure was partly explained by debt servicing, war reparation, pensions for retired soldiers, etc. (Lindert, 2004) – the so called ratcheting effect (Peacock & Wiseman, 1961a). The Cape's borrowing was mainly for the establishment and running of the state-owned entities, hence its debt servicing was actually the second largest outlay. Figure 5.7 below depicts the four major categories of social spending which were education, pensions of soldiers and government employees, public health and public worship.

Figure 5. 6 Major social spending programmes of the Cape Colony, 1827-1910



Source: Data from Blue books (1830-1910)

Figure 5. 7 Social spending categories as shares of Cape's total expenditure, 1827-1910

Source: Data from Blue books (1830-1910)

Spending on education and healthcare grew significantly in absolute terms from 1876 onwards. Prior to 1876 there is clear stagnation and the structural changes that followed the discovery of diamonds also affected the attitudes of the government towards social spending. In terms of shares of total expenditure, education shows a steady rise and a sharp increase in the early 1900s. Welfare spending was not readily accepted and the parliamentary report of the conversation surrounding Kimberley is revealing as Mr Merriman opposed the call for state support to victims of mining accidents when he argued that:

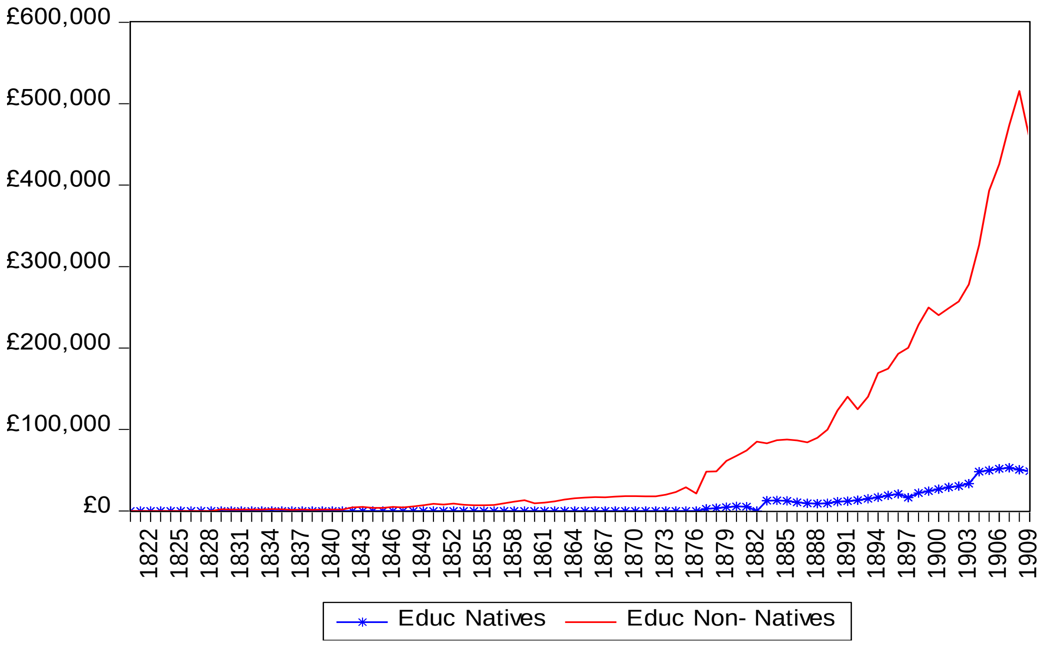
> I think that the people who come away maimed with legs and arms off should be provided for by people who employed them. They should be provided for out of the employer's liability fund. Surely the wealthiest city in the colony should do something to support these people who are at present so dependent on the public treasury.

Mr Tudhope rose in response to argue that:

> Although £6 000 set apart for Kimberley hospitals seemed somewhat excessive as other members argued, there is a great deal of sickness at Kimberley and a large number of patients to provide for and in the previous year there were about 700 deaths (House of Assembly Budget debates, 1888, p. 288).

The expenditure on public health rose sharply around 1900 as a result of the rinderpest epidemic and the South African War the government was dealing with. Veterinary services had to be expanded during this period too as the colonial government dealt with the epidemic. Education deserves more attention because it was disaggregated by native and non-native groups. Figure 5.8 shows that while expenditure on education for the settlers had been part of the public outlays since the early 1830s, from 1876 the state started devoting public finances towards the native population's education. There was a clear division between education for 'natives and non-natives' and the former did not increase substantially even when a huge education drive started after 1900.

Figure 5. 8 Education expenditure of the Cape over time, 1830-1910



Source: Data from Blue books (1830-1910)

Missionary education for the black Africans was seen as inadequate for the first time in 1876 and the state had to channel money towards the black African education, however circumscribed. The civilisation mission for the black Africans was accepted as far as it assisted the settlers in attaining their goals.[43] The movement of labour from farms and coastal towns towards the mining fields and the effect of the general increase in labour costs meant that some minimal training was necessary for the black Africans to meet the developing economy's labour needs. The education expenditure rose significantly in the early 1900s but was heavily skewed against the black Africans. This was in line with developments in England which took time to invest heavily in public education (see chapter 2, section 2.3.1). Mr Merriman acknowledged this growth by arguing that, "Our education now cost more than the whole revenue and expenditure put together of fifty years ago; we are spending a great deal more money" (House of Assembly budget debates 1909, p. 245). The black Africans were, however, to be kept at the periphery of the education system so that they could remain in the cheap labour reserve status to supply labour. It was realised that the Africans needed some form of education as the mining industry grew and labour shortages became potentially problematic. Evidence of this can be inferred from the governor's speech when he spoke about some of the outcomes of the discovery of diamonds:

> …the exodus of young and active men to the diamond fields, has had an effect of raising the salaries given by the Banks and Commercial establishments, especially in the eastern districts from 20 to 25% increase. This has also meant that the government has been pressed with demands from its employees for increase in salaries which indeed had been reduced in the previous years of hard economic situations[44] (Barkly 1872, p. 6).

With the discovery of diamonds and the changing structure of the economy evidently causing increases in salaries, the large scale investment projects such as expansion of railway lines and telegraphic systems meant that public expenditure had to grow as the state took ownership of these entities and personnel. The colonial state was better placed to deal with the volumes of capital required for these projects (Barkly, 1871) and it was not the case only in the Cape Colony but New Zealand and Australia experienced similar

[43] For instance Molteno (1984, p. 53) argued that: "Schooling in the 19th century helped to undermine the unconquered, while incorporating the already conquered into the structure of settler society". Such an approach was influential and indeed a foundation for the 20th century apartheid education in South Africa.
[44] This was consistent with the so called Baumol's disease, similar to Wagner's law of increasing state expenditure, which entailed that as productivity increased in the mining industry, the public wage bill had to also increase to maintain the prevailing salary levels or risk the flow of skilled labour to the higher paying mining sector.

state-led development (Boot, 1998; Denoon, 1980; Gilchrist, 2013). Private capital in colonial territories was not yet developed to a large extent and only the state could mobilise investments in foreign markets, mainly London capital markets (Davis& Huttenback, 1986; Stone, 1999). The fact that there is a literature devoted to 'colonial socialism' in Australia (see a review by Gilchrist, 2013) shows that the state was the main promoter of economic development and this meant that growth in public expenditure was inevitable. Boot (1998, p. 90) argued that three quarters of Australia's budget was taken up by roads, railways and their operations continued to dominate public expenditure. He argued that until the end of the 19th century railways absorbed half of all government expenditure on new capital formation. For New Zealand, Denoon (1983, p. 74) revealed similar trends when he argued that:

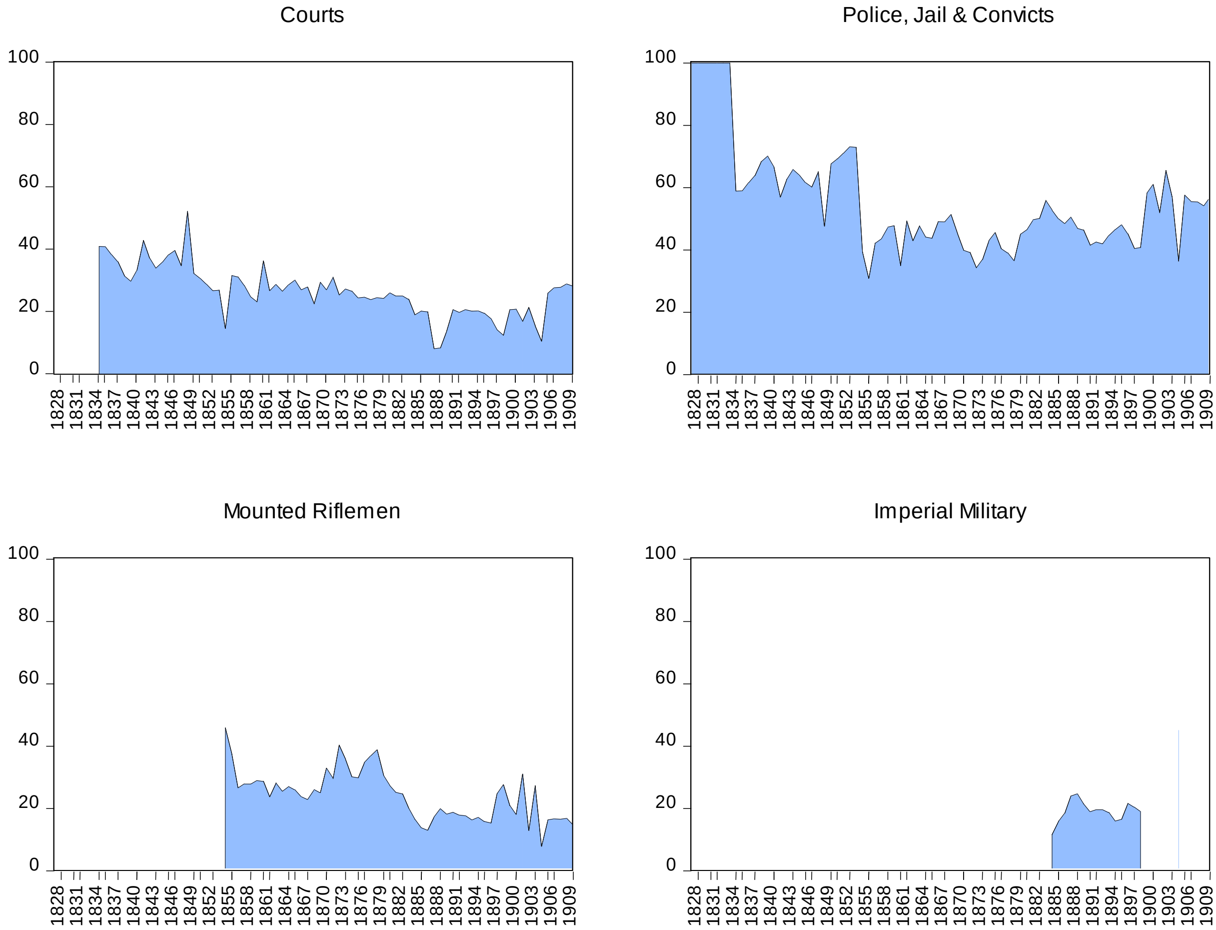
> By 1890 the state was the largest landowner and receiver of rents, the largest employer of labour. It owned nearly all the railways and all the telegraphs, and was establishing a state system of telephones. It entirely controlled and supported the hospitals and lunatic asylums and the whole charitable aid of the country. It was the largest trustee, managed the largest life insurance business, and educated more than nine-tenths of the children.

The Cape took ownership of the private railway company and telegraphic systems in 1872 when the diamond rush had proved to be more than a quick passing windfall for the Cape's economy. By the 1880s the Cape government thus directly owned and controlled the railway company, post office, the telegraphic system, hospitals, asylums and public schools with huge implications for public expenditure. The main three state owned entities – railways, telegraphs and the post office – were crucial for the Cape economy and they caused the general rise in public expenditure of the Cape economy due to huge capital investment needs. The traffic linked to diamond mining provided the bulk of the revenues of the railway system and in the mid-1880s, when diamond mining was in crisis, revenue dwindled drastically sending the state finances into disarray. The news of gold in Transvaal meant another similar strategy based on the notion that extending the Kimberley line to the gold fields would solve the Cape's crisis. In both cases the Cape's drive for railways was based on serving mining activities and it is thus impossible to talk about the Cape's revenue and the expenditure side of the public finances without talking about railways and the mining industries.

5.2.5 Military and defence expenditures

External security and internal order have been key defining features of early modern states and, as shown in chapter two, the cliché 'war made states' is linked to the state's ability to defend itself while not imploding with disorder. The 19th century colonies had a fundamental problem of starting out as one thing and then evolving into something else. For instance the Australian colonies were convict colonies while the Cape was a garrison colony, run by a governor who was a military officer, and the Australian colonies' dependency on the British government for external security and general internal security concerns were complete. This was a fundamental problem which went on to haunt the British colonial offices for a long time and the desire to extend self-governance and responsible government was partly linked to the huge military outlays by the British government on its colonies. Figure 5.9 shows a breakdown of the money spent for internal order and external security by the Government of the Cape Colony.

Figure 5. 9 Cape Colony's expenditure on defence and law and order, 1827-1910



Source: Data from Blue books (1830-1910).

What is clear is that in the beginning of the occupation, police, jail and convicts took the total amount devoted to the internal order and external security as the concerns of the colonial government were law, order and security. Mounted riflemen were introduced in the early 1850s while imperial military aid was sporadic and only recorded in the Blue books for a few years. The direct nature of the military intervention and poor accounting meant that it was not easy for the colonial office or the colonial government to keep all records of the military aid. For instance, the first Anglo Boer war, various frontier wars and eventually the South African war required huge sums from the colonial office. What is clear, however, is that expenditure declined over time and in the early years the Cape's administrative reach was limited. The colonial government avoided shouldering responsibility making the imperial authorities bear as much as the governors could solicit from them. Davis and Huttenback (1986, p. 12) supported this argument for the self-governing dominions when they argued that:

> Increased autonomy, however, allowed colonial legislatures to reject British requests for financial support in what London assumed a shared responsibility – the administration and defence of the empire. The marriage of war and colonies was not a happy one.

Responsible governance in this regard was thus a strategic error for the British imperial authorities because colonies abused the fact that they were indispensable. Archives have volumes of dispatches between the Cape governors and the imperial authorities debating the fact that the Cape had to take responsibility and pay a fair share of its defence. In documents of colonial conferences of the self-governing colonies, many pages were devoted to the issue of expenditure on defence and a concomitant issue at these conferences was the issue of federating colonies geographically closer to each other so that they could pool resources and defend themselves. In view of this transferred responsibility for defence, the Cape's public expenditure picture is not the complete picture because the need for maintaining British troops and expenditure on various wars up to the South African war could have easily bankrupted the Cape. The Cape's 'colonial state' therefore was a weak state without imperial security guarantees and one may think that railways would have not taken precedence over huge budgets on defence and security – a primary concern and a key feature of a state.

The Cape parliamentarians were adamant that security was the duty of the British government not the colonial government. In 1865 and 1867 governor Wodehouse in his exchange with the colonial secretary argued in a letter that:

> If the colony were now called on for a serious military contribution, the Parliament would, in all probability, request the removal of the troops in preference to paying for them; and you ought to be aware of the political consequences of such a step, if assented to by Her Majesty's government (Wodehouse 1865, p. 165).

Again in 1867 the Cape parliament's position was clear as the governor elaborated on the reasons why the British government was to continue supporting the Cape's military endeavours:

> Great Britain must continue to provide military protection because in 1820 certain settlers were brought out and located on the frontier, under an implied pledge of protection.... The turning point of the whole controversy is that to me it appears to be inconsistent with sound policy, and opposed to the judicious administration of affairs, that in a colony inhabited by antagonistic races, where the whole political power is concentrated in the hands of one of them, where the war of races is familiar to the minds of all, that in such a place, the amount of military force , the sufficiency or insufficiency of military protection, should be made dependent on a pecuniary bargain between the white race in the Colony and the mother country (Wodehouse 1867, p. 171).

At times it was not necessarily clear what constituted imperial and local government's responsibilities when it came to defence and military responsibilities. As Davis and Huttenback (1986, p. 146) argued, it was a case of "point-counterpoint as to what constituted an 'imperial' as opposed to purely local concern, and the colonies were never loathing to exploit that ambiguity". According to Morrel (1966, p. 177), one key argument in the Cape parliament's armoury was a plea of poverty. In England the Colonial Office and the Treasury were at loggerheads regarding the colonial military and defence budgets. In 1886 for instance the colonial office, as the one being in touch with events and conditions in the colonies, favoured an expenditure for defence of Table Bay, Simon's Town and Cape Town but the treasury strongly opposed it. Robert Meader, one of the colonial undersecretaries, captured the conundrum for the Cape Colony when he defended it by arguing that:

> Defence is an ambiguous word in relation to a colony like the Cape with 1) a large black African population, and 2) a seaboard liable to attract enemies in war. If we claim in general that the imperial troops are there for defence and that the colony ought to pay for their cost, the colony might in turn request to make use of them in native wars, which would be a losing bargain for the home government in the end, and might lead to incalculable expenses (quoted in Davis & Huttenback, 1986, p.148).

With developments such as the discovery of diamonds at the Cape, the military officers in Britain regarded it as unfair that the military expenditure at the Cape was not partly covered by the colonial state which indeed benefited from the peace and was prospering economically. The Colonial Office argued that self-defence responsibility was supposed to be considered a privilege instead of a burden to the Cape Colony because it was a most important training for a colony that would become sovereign one day. The colonial government was known to generally be strategic when dealing with the British government and would thus easily take advantage of the uniqueness of the Cape Colony for continued military support.

Part of the big problems was that the war department in Britain continued to provide for military expenditure in anomalous and unequal ways and the embarrassment, confusion, and expenses caused by the prevailing unorganised system were great. The growth of the colonies had not been carefully considered in terms of military expenditure, and outbreaks of war in the colonies only caused panic and hasty decisions on military expenditure. Table 5.1 shows the 1858 snapshot of imperial and colonial military responsibilities. Of the total military expenditure of the Cape Colony of £830 597, the Cape government contributed only 4.1%. One clear fact in table 5.1 is that, while the actual wars caused huge increases in supplies such as ammunition, maintenance of these garrisons was a huge cost in terms of salaries and allowances for about 10 000 soldiers.

Table 5. 1 Cape Colony's military expenditure (1858)

Payment and allowances	£600107
Stores	£8042
Recruitment expenses	£7712
Barracks and fortification	£7326
Departmental expenses	£122012
Transport and freight	£50995
Total imperial government	**£796194**
Total colonial government	**£34403 (4.1% all military expenses)**

Source: Data from Blue books (1858)

Compared to expenditure in other colonies, such as Australia, New Zealand, and Canada, the Cape's military expenditure by the British government's war department was enormous. The report on colonial military expenditure in 1857 clearly put the Cape's outstanding position as the recipient of the lion's share of imperial military outlays:

> If we were to omit the Mediterranean garrisons, which evidently are a special class, it would be found that the Cape contained in 1857 one-third of the whole force in the Colonies, and occasioned nearly one-third of the direct military expenditure… The result has been to produce an excessive drain of British resources for a single Colony; the expenditure is enormous and is not likely to be materially reduced except by radical change of policy (Colonial Office report 1858, p. 3).

If the expenditure was enormous during the 1860s, the South African war would cause it to be way beyond the Cape's financial resources. Even the first Anglo-Boer war, which led to the independence of Transvaal in 1878-79, cost Britain about £5.5 million (Schumann, 1938, p. 84). This was a significant amount given the short duration of the war. Later after the South African war reports on the official statement from the House of Commons revealed that the South African war had cost the British Exchequer £1 500 000 per week which amounted to about £6 million a month and led to an economic crisis through deficiency in the exchequer. Davis and Huttenback reported that in total the Anglo-Boer war cost the British Exchequer (most was paid by the British tax payers) about £217 166 000 (Davis& Huttenback, 1986, p. 151). This was much greater than the total government expenditure of the Cape Colony which peaked at only £11 million clearly showing that the Cape would never have managed to foot such a bill. The counter fact is that the Cape would not even have started such a war in the first place but these numbers bring an important perspective. The Chancellor of the Exchequer had to negotiate for a special type of tax and a loan. For the earlier period, the Blue books did not record these military outlays and it is known that the last frontier wars, the 1879 first Anglo Boer war and the Anglo-Ndebele wars were funded by the British government as well. The Cape in a sense was an administration colony facilitating and helping the British government with war logistics. It seems, therefore, that the interests of the British government and its involvement in these wars in South Africa had the indirect effect of giving the Cape's defence system a boost.

The Cape was only responsible for its mounted rifleman, Cape forces and general police which could be funded through ordinary revenues of the Cape. An additional role for the Cape was to provide transportation and road access to the British contingents whenever war broke out. In essence the war had some implications for the Cape's expenditures. In 1902 Mr Sprigg's argument in parliament revealed the need for and evidence of extraordinary outlays during the war:

> For 1901-2 the extraordinary expenditures were £249 597 for the plague and £2 600 000 for the war the total being £2 850 000 making the total expenditure, both ordinary and extraordinary expenditure being £11 232 000 while the revenue for the same year was £9 072 755 (House of Assembly budget debates, 1902, p. 158).

It is however clear that the Colony did not bear the full brunt of the war expenditure and the Cape parliamentarians also took advantage of the salience of the Cape Colony to the interests of the British government's African and Asian regional strategies. It was as if the greatest loser, by imperial troop withdrawal, was the British government with dire consequences. The Cape route had coaling stations for ships going to the East, which were also very important for the Britain's naval power. Evidence from a report on the 'Defence of the Cape of Good Hope' was revealing:

> The security of the route by the Suez Canal might, under certain contingencies, become very precarious, and the risk attendant on sending commercial ships through it so great as practically to preclude its use; in which case the long sea route, through the Cape, would be the only one available. In addition, the Cape route was not only important for commercial reasons but strategically played

> a far higher important role to the Empire at large, as being essential to the retention by Great Britain of her possessions in India, Mauritius, Ceylon, Singapore, China and even Australasia. It is by this route alone that reinforcements of troops could be sent from the United Kingdom with any degree of certainty or security (Defence of the Cape of Good Hope, 1881 p. 6).

The British imperial authorities were at a dilemma because they could not neglect certain colonies that were critical for the survival of the empire itself. Egypt was critical for the Suez Canal, and Hong Kong, St Helena and Bermuda were important coaling stations and guard centres for British trade. Troops had to be permanently present in these territories seen as 'imperial fortresses' (Davis & Huttenback, 1986, p. 146). The irony, according to Davis and Huttenback, was that the dependent colonies were actually paying a higher proportion for their defence as compared to the self-governing colonies, the Cape included. It would seem that the granting of self-governance, de facto, brought net costs to the British government while beneficial to the colonies (O'Brien & De la Escosura, 1998). The colonists could enjoy all the benefits of a strong state, backed by a military defence guarantee, while not paying as much for it as the British tax payers were doing. The secretary of state for war, Edward Cardwell, complained to the colonial office's George Granville that:

> It is not, I think satisfactory to Parliament…that the Australian colonies and the Cape…shall contribute at much lower rate than required from Ceylon, a crown colony, or that the Dominion of Canada, the most powerful and not the least prosperous of her majesty's possessions shall…be an exception to the rule which requires contribution from the colonies (quoted in Davis & Huttenback 1986, p.148).

The self-governing colonies could plead their way out of their obligations while the dependent colonies had no choice as they were merely reserved for surplus extraction. The imperial authorities could not impose anything on the self-governing colonies and could only cajole them through reasoning why military defence was a responsibility any colony aiming for full sovereignty should shoulder. For the Cape, the fiscal inertia of public works on a large scale meant that the Cape was soon to be in difficulties with huge debt payments that left no room for defraying defence related expenses. It is in this area that the Cape's statehood is questionable considering that external coercive power was the preserve of the imperial government.

5.3 Solid public expenditure policies or *ad hoc* solutions to colonial development?

Being a British colony, the Cape leaned towards the English traditions in many ways but the public expenditure outlays did not strictly follow a given policy framework (Goodfellow, 1931b, p. 25). The Cape government seemed to follow a survival mode economically and politically with government functions being rudimentary. Pragmatism took centre stage as Davis and Huttenback argued for the whole British Empire that:

> British Empire was founded in a fit of absence of mind, and that the largely ad hoc development of overseas extensions owed itself to traditional British pragmatism rather than to any master plan emanating from corridors of Whitehall. Inadvertence, greed, humanitarianism, personal ambition, missionary zeal, fear of foreign intervention, and that curious phenomenon, 'prestige imperialism' which towards the end of the century wetted the British appetite for expansion – all may have played their part (Davis& Huttenback, 1986, pp. 7–8).

The above perspective shows that the imperial expansion has to be understood as a complex case and each colony likely dealt with the colonial office differently as their circumstances dictated. One thing that might have been borrowed from the British system itself was that deficits were to be avoided at all costs and the budget had to be kept in balance if not in surplus. This norm would generally be relaxed during wars but the colonies which were protected by metropolitan powers did not have to borrow for war. Indeed, this idea was the prevailing norm until the Keynesian era when government expenditure was regarded as key for stimulating the economy (Lindert, 2004). If the Cape budget speeches are considered, the budget balance principle was the driving force of public expenditure thinking even before political reforms such as representative government (1853) and responsible government (1872).

From the 1830s onwards the British pound sterling replaced the Rix dollar and with the advent of the legislative council and the eventual consolidation of parliamentary institutions, fiscal prudence of keeping expenditure within the revenue limit was observed. Comparing revenue estimates and the actual revenues realised reveals that the colonial government tried to contain the expenditure within the means of the public revenues. Pressure was mounting in the 1860s when Cape Town had its early railways run by private companies. Various letters and petitions were sent from different regions of the Cape Colony, especially from the Eastern Cape. These petitions followed one line of argument summarised by what was recorded in the Port Elizabeth Herald in 1862:

> No! Let us have cheap railroads, worked by cheap locomotives; but let us have railroads. We are convinced that if only the colony will make railroads, that rail roads will make the colony; it is the practical experience of other countries, it is the established dictum of other men (quoted in Houghton & Dagut, 1973, p. 112).

Most of these petitions were indeed based on sound economic grounds measured with traffic flow in most of these coastal towns, but the state was not hasty to fall for these representations without thinking about the feasibility of these projects. Equally important were counter petitions which opposed these pro-railway petitions, based on the fact that railways would benefit only those close to the lines while non-beneficiaries in remote areas from the proposed lines would be required to pay as well, but the state was reluctant to succumb to these growing demands. For instance, in 1868 Governor Wodehouse's speech is testimony to this; indeed, similar sentiments prevail in most of these parliamentary speeches:

> The government has abstained as far as practicable from proposing an addition to salaries or other ordinary charges. While pressure lasts, the government must, I think, continue to be conducted on the most economical principles. It is easy to find in every direction objects on which money should be spent to the satisfaction of those in the vicinity. But it will be the duty of the government in the interest of all, to deny itself the pleasure of yielding to local solicitations, and to trust to the general support of the whole community in the exercise of a wise parsimony (Wodehouse, 1868 p. 2).

Free trade and expenditure containment were doctrines clearly adhered to by the Cape government even without a written framework to follow. Economic historians have attributed this fiscal prudence to the Gladstonian philosophy exemplified by his insistence on balanced budgets (Gardner, 2012; O'Brien, 2011). This strictness with the expenditure regime was seemingly loosened when minerals were discovered. This could be attributed to the access to international capital which partly allowed the colonial government to expand public goods provision since public revenue growth allowed it to be more feasible. Once the state took over the railway company, there was less resistance to embark on a spree of public borrowing for the expansion of railways. It is evident in the Cape Colony that the doctrine of a balanced budget became less important when the colonial government took ownership of strategic entities.

What is important for our argument is that the dominant *ad-hoc* progress of the Cape Colony leaning towards British pragmatism was liable to capture by vested interests. The absence of institutional constraints meant that whoever was dominant in parliament could push their agenda and thus direct public expenditure. At a practical level, the limited knowledge and experience of most members of the Cape parliament seem to have facilitated mining-biased policies. Since it took many years before proper political parties developed, personal alliances and relationships long played very important roles (McCracken, 1967). The minerals-railways complex took centre stage and became the driving force of what government was supposed to focus on. In 1908 there were strong arguments that "The government led by Dr Jameson (Cape Prime Minster, 1904-1908) was dubbed the De Beers government and representatives of capitalism" (House of Assembly budget debates, 1908, p. 139). The parliamentary debates seem to suggest that indeed the mining sector was the unjustified winner in terms of government's stance on revenue and expenditures. For instance, Mr Jones, after being a member for twelve years, rose in opposition to the treasurer's speech which gave a positive picture about the conditions of the colony. He argued:

> The prosperity of the country has been lost sight of by successive governments for the 12 years during which I have been in the house. No government has brought in a Bill for the construction of one mile of railway for the development of the country. They have not brought up one Bill which can increase railways into agricultural districts of the colony. Any increase in mohair, postal returns, railways and other matters as being indications of the country's prosperity is entirely owing to the fact that the country has become a great carrying country for Transvaal (House of Assembly budget debates, 1896, p. 241).

Through the parliamentary debates and the evidence from public expenditure, it seems that the elite in parliament pushed the government towards huge outlays on the railway construction for easy access to the mining areas. The railway receipts legitimised this because top revenue earners were railways and customs so there was no sense of strong contestation. The fact that railway revenue was brought to the general 'pot' made things worse because it brought a false sense of prosperity since the expenditure side was not an immediate concern. In any case the expenditure side was seen as capital expenditure and was never investigated separately. As long as railways brought revenue there was no need for any alarm. When it comes to business interests hijacking the state towards their preferred end, the Cape does show features observed elsewhere in the nineteenth century as argued aptly by Davis and Huttenback:

> The evidence shows that 19th century business people realised that if government could be made to assume '**its responsibilities**' any number of '**free**' services could be produced that would drastically reduce the costs of doing business…When the cost of all physical capital investment and improvements are assessed directly against the business sector, private profits plummet (Davis and Huttenback, 1986, p. 118) (emphasis in the original).

This argument brings the question of whether the kind of state capture as observed in the Cape was common and necessarily positive. Whereas this study does not show that there was corruption going on, the available evidence suggests that the state institutions were distorted to serve private interests. In corruption the outcomes are not easily predictable but in state capture the benefits accrue to the private interests and for the Cape Colony the Diamond Trading Act was the fundamental regulatory tool produced entirely by the private mining interests and was brought to government for approval. Regarding the Act, Mr Rudd, for instance, who was linked to the mining sector, rose in parliament to argue that:

> The Diamond Trade Act is unjustifiably delayed to be carried through despite my discussion with the Attorney general of the colony …In the view of the probable passing of the diamond trade bill, through the house and of similar legislation in the Free State, will the government put itself in communication with Natal and the Transvaal with the objective of inducing the legislatures of

> these countries to adopt measures of a similar nature? (House of Assembly budget debates, 1885, p. 148).

A clear sense of wanting to be able to uniformly control the diamond trading activities was in Mr Rudd's question above. Regulatory framework was important in terms of legitimising the mining activities and the purpose was to tailor it for maximum profits while key decision makers in government (businessmen involved in politics) preferred this outcome and made laws to this effect. Railway construction was a key example of such private interests driven state programmes. This view moves a step further from the general 'railways were good for development' thesis (Herranz-Loncan & Fourie, 2017) which is broadly correct but does not go further to unpack the personalist phase of capitalism in which stronger groups dominated and dictated government policy.

5.4 The evolving statehood and governance by small coalitions

A multiparty political system presents a strong veto in parliament and would influence the direction of public policy and therefore expenditure without a single group determining the outcomes. This also depends on how competitive such systems are at any point in time. Competitiveness was not necessarily present in most colonial territories whose parliaments were small and few individuals could make a coalition on a motion and obtain their preferred outcome. This was also true for New Zealand which had the transition from government by cliques to government by major parties after the 1890s. The Cape's government, far from being fiscally careless otherwise the public loans would not have been obtained, was in the hands of the common merchants, farmers and business people who formed various cliques which were somewhat easier to capture by any coalition that could be powerful at each time. By virtue of having parliamentarians who seldom represented the working class of the society but were leading merchants, farmers, and business people, it was easy for government expenditure to lean towards business interests. This was the outcome of 19th century franchise systems that usually restricted the vote to property owners. In Britain itself, heads of urban working-class households who paid property tax got the vote in 1867; this was extended to rural areas in 1884. The Cape parliament, unlike the New Zealand one, according to McCracken (1967, p. 138), "… was quite an instrument of ascendancy and unlike the Australian colonies it showed no tendencies for democracy". In other words, some of these parliamentarians pursued their own interests. Thomas (1996, p. 13) argued, for instance that:

> Rhodes had a way around even the Queen herself and local politicians could be bought with flattery and a few thousand pounds. One thing is clear with Rhodes, he embraced the imperial ideal when it served his purpose. If there was ever a conflict of interest he could be as anti-imperialist as a Fenian or a Boer.

Davis and Huttenback also argued in general depicting the same for the self-governing dominions when they argued that colonists:

> …importuned the British government to underwrite military operations designed solely to expand the empire in direction that the colonists thought profitable. In many ways, the Great Britain seemed a helpless giant as it faced its self-confident and often arrogant offspring (Davis& Huttenback, 1986, p. 152).

Understanding how Rhodes navigated politics and business is important if one has to fully understand the Cape Colony's public expenditures. It was John Merriman, a serving member of the Cape parliament and a fellow diamond digger – though less successful than Rhodes himself - who encouraged Rhodes to consider a parallel life in politics (Thomas , 1996, p. 79). The commission of inquiry on diamond mining in 1880 and the Diamond Mining Act of 1881 were formed by Rhodes and his fellow parliamentarians with mining interests and of course he had no difficulty adding more support to his side. According to Thomas (1996, p. 132), Rhodes and Robinson pushed the Act "clause by clause and most of its provisions went through save for the flogging of illicit buyers and sellers". The Act, besides being meant to deal with mining regulations, was important for changing the labour market regime of the Cape Colony. The Act, passed before the Diamond Trading Act, was the first to provide a systematic way of dealing with black African labour, a model followed in the later period for industrial and agricultural employment, with the imposition of fixed periods of contracts, pass laws and closed compounds (Thomas , 1996, p. 133). The state apparatus had begun to systematically initiate the far reaching racial and to a lesser extent class struggles which would affect South Africa for a century to come.

State expenditure on railways, pushed by business interests within parliament, was contested heavily and the government ended up constructing three lines to the diamond fields from Cape Town, Port Elizabeth and East London. Thomas (1996, p. 127) argued that one of the key frustrations of Rhodes with the government was the delay to approve a railway line to Kimberley. Railways were an easy area to justify huge outlays for the 'development' of the colony, yet under the motivation were a coalition of vested interests. The whole system was driven by the minerals–railway complex in which the state owned railway system and the mining houses had a pervasive coalition which was easy because the mining interests were represented in parliament. The precise ways in which the railway projects benefited the public remain uncertain. Despite inducing economic growth through transportation it can be argued that economic growth might have been much higher if public money was invested differently via other sectors such as agriculture.

5.5 Conclusion

Growth of public expenditure took a definite upward shift from the discovery of diamonds and state ownership of railways and the telegraphic system. Of all the expenditure categories railways grew most sharply and became the largest outlay followed by debt servicing. Education and health only grew rapidly in the early 1900s but remained very small categories compared to the railway expenditures. While outright corruption was not a problem of the Cape Colony government, evidence provided from both quantitative and qualitative sources suggest that the ruling elite influenced the public expenditures of the Cape Colony. Business interests in mining shaped public expenditure policies and the undeniable bias towards railway construction has been established.

The spending regime was an outcome of the minerals-railways complex as the defining feature of the Cape Colony's public expenditures. Since the public railways and the mining sector were involved, economic development was also dictated by the developments in this complex. Businessmen involved in politics had an undeniable influence on the budgetary processes in parliament and heavily influenced what the colonial government was to spend its money on. This is compatible with the LAO institutions discussed in chapter which imply that the elite dominated rent creation and management. It is important to point out that this was not necessarily conspiratorial in nature but a case of the elite exploiting the weaknesses in state institutions. To the extent that social spending grew, it remained subordinate to the typical 19th century public expenditure outlays such as railways. When these physical investments in public works are considered without the minerals-railways complex, one could argue that the Cape was pursuing 'developmental' goals. This was, however, broadly capital-serving and extractive in nature. The social spending facet augments the foregoing notion of an extractive system. Education and pensions were observed right from the early decades of the British occupation of the Cape but it was only from the 1870s onwards that some attention was given to the black African education. The heavy emphasis on railway construction undoubtedly reduced the availability of funds for education spending, especially on African children and in the 19th century this might have been normal. The repressive legislative regime also meant a permanent stratification of the Cape society through 'legal-official' means and as a result it cemented the relegation of the black Africans to the lower class.

The absence of strong institutional constraints meant that those who lobbied well could win and weak institutions could be distorted for the benefit of the few. The fact that only those involved in diamond mining brought the Acts to parliament shows that the weakness of the system led to regulatory capture as well. Regulations around public borrowing for instance, meant that representatives of companies used their political power to get the government to borrow to finance projects that benefitted the companies and made the state liable for debt obligations primarily serving business interests. Mammon was served but only in a way that benefited a small enclave of business interests locally. On the other hand, mammon was served as the state paid interest to British investors for railways which primarily served private interests. The majority of businesses, mainly farmers, did not benefit much as they watched the state at the mercy of the dictates of a small group of mining elites. The following chapter (chapter 6) completes the argument built so far by fully investigating the public debt of the Cape Colony.

CHAPTER 6: LESSONS FROM THE CAPE COLONY'S PUBLIC DEBT IN A COMPARATIVE PERSPECTIVE

> With regards to debt, I do not like to say that it is not a large debt for this country, and I will say this, that debt in a young country is a valuable thing, provided that the money is being prudently and wisely expended. It only becomes a burden to the country when the debt becomes an unproductive debt to the colony and I have little patience with the pessimists who go about the country bewailing this debt. It is obvious that in a young country like ours we must have capital to develop our resources and that can only be obtained through borrowing (Mr Walton in House of Assembly budget debates, 1906, p. 174).

> I class myself amongst these pessimists who consider a gigantic debt not as a satisfactory feature of the colony. The total debt of the country stands at £55 421 000 pounds and the interest payable on the loans is £1 905 000. This is an unsatisfactory feature that we sent such an amount over the water to Europe every year (Mr Merriman in the House of Assembly budget debates, 1908, p. 97).

6.1 Introduction

The above quotes from the budget speech debates reveal two important issues about the Cape Colony's public debt a few years before the formation of the Union of South Africa in 1910. The first issue is that the public debt had grown significantly by the end of the Cape's existence being £55 421 000 in 1908 while its total revenue was only about 12. 7% of this accumulated debt. This was accumulated over time through various bonds, loans and debentures which were mainly floated in the British capital markets. The second issue is that the parliamentarians were polarised concerning the public debt levels and this was evident in most budget debates. One side represented by Mr Walton's position in the first quote above was that public debt was indispensable in a capital scarce colony such as the Cape and foreign borrowing was inevitable as long as the debt was to finance 'development'. The opposite side, represented by Mr Merriman's quote above, was that public debt was not a good thing and the colony had accumulated a burdensome debt which it would be unable to service. The dwindling revenues in the last five years of the Cape's existence were a sure sign of this problem (chapter 4).

This chapter will deal with a few important questions concerning public debt. The first question is to consider whether the Cape Colony overborrowed given its prevailing fiscal capacity investigated in chapter 4. Various measures will be explored to establish whether the Cape was overburdened and this will allow a more systematic exposition of the polarisation between the pro-debt and anti-debt groups. The second important question is the role played by self-governance, responsible governance and the discovery of minerals in the growth of public debt in the colony. The chapter is linked to the debates on how colonies with poor economic fundamentals could access capital on better terms, the so called 'empire effect' (Accominotti, Flandreau, & Rezzik, 2011; Ferguson & Schularick, 2006; Gardner, 2017). Reference will be made to other 19th century self-governing colonies, mainly Australia, New Zealand and Canada, to investigate whether the Cape's debt levels were atypical or were in line those of these colonies. Ceylon, Jamaica and Mauritius are the other set of colonies which are discussed to illustrate how colonial status (self-governance or indirect rule) affected borrowing patterns. The reflection on other colonies is merely to contextualise the Cape and not meant to give a fully comparative discussion because level of debt in each colony had to be related to the fiscal capacity of each country and the ability to meet debt service requirements.

Section 6.2 will discuss the politics of public debt in the Cape before major institutional changes such as self-governance and responsible governance and how becoming a dominion might have influenced the ability to easily access capital markets. The section will trace institutional changes which made public debt a permanent feature of the colony. Section 6.3 will analyse the Cape's level of indebtedness using different measures and where data are available compare it to other dominions. Section 6.4 will examine the general implications of being a self-governing colony and compare the Cape with other main colonies. Section 6.5 will discuss the effect of the discovery diamonds on the growth of public debt and also discuss how capital was attracted by minerals. This section argues that discovering of key natural resources had a huge role in attracting capital. Section 6.6 will conclude the chapter.

6.2 Self-governance and responsible governance and ease of borrowing

6.2.1 Diamonds discovery, self-governance and responsible governance

From the information in earlier chapters it is clear that the public revenue was barely covering the ordinary expenditure of the government prior to the 1870s. In this environment, the Cape Colony resorted to short term borrowing just to make sure the government itself remained afloat, discharging only critical activities such as magistracy, policing and general administration. Wool farming was the mainstay of the Cape Colony's economy and it was evident that it was not enough to spur and justify ambitious public expenditure projects through large scale borrowing by the colonial government. The output of wool, at the mercy of global price fluctuations, could not initiate an industrial boom in the Cape Colony despite a few shearing and washing firms in the eastern districts. Backward and forward linkages of wool farming were not sufficiently large to change the industrial outlook of the economy. The fact that wool farming was concentrated close to eastern port of Port Elizabeth meant, fortunately, that no massive infrastructure was required to warrant huge public debt which the Colony could not afford. The government, with the backdrop of meagre public revenues, was also unyielding to popular requests for railway construction.

In the mid-1860s the government had already been borrowing for ordinary expenditures after retrenching public works in the face of insufficient revenues. Throughout the history of the development of fiscal states, public debt was an option for extraordinary circumstances such as wars (Bonney, 2012; O'Brien, 2011). Borrowing under normal circumstances was not a good sign and the Cape Colony was already in difficulties since its financial position was 'embarrassing' in the words of the governor (Wodehouse, 1864, p. 3). Without real economic prospects, potential lenders from London would be difficult to satisfy with a mere pledge and any public borrowing had to be very limited reflecting the Colony's ability to pay shown by its limited fiscal capacity. The complicating factor was that, with no substantial economic prospects, the Cape was in a difficult position because no substantial imports would be realised to warrant more customs revenue. The existing taxes had already been resisted by the merchants and business people as injurious to their businesses and petitions were rampant to the colonial governors to reduce and not impose any new taxes (section 4.3.3). One crucial element at this time was that the Cape Colony was already a self-governing colony but responsible governance had not yet been given. In other words, the ongoing negotiations regarding responsible government had a bearing on the prospects of public borrowing. This is still consistent with the argument in this chapter because for foreign borrowing it helped to be seen as a stable self-governing and responsibly run colony (Gardner, 2017). The real important factor, however, was that the primary commodity endowment made the investors in London more certain that the government in such favourable economic conditions would be worthy of receiving their capital. Most of the government borrowing at the Cape was done through London capital markets and Act number 8 of 1860 explicitly stated that only when favourable interest rates could be obtained locally was the government going to avoid floating debentures in the London capital markets.

The late 1870s at the Cape coincided with responsible government and the expanding diamond mining and economic activities. In the face of abundant revenue from various sources including railways, public borrowing was soon to grow and become a permanent feature of the Cape's fiscal system. More revenue did not obviate the need for borrowing to finance large capital projects, but made it easier to service debts. In the presence of surplus revenue, the governor's speech revealed the emerging scope to deal with debt. The governor argued in 1871 that:

> Good harvest and increase of commerce, resulting from diamond discoveries, has caused the revenue to significantly increase not only to meet extra expenditure but to leave a surplus of £35 518 and this has served to bring down public debt (Barkly, 1871, p.5).

It is important to note that without a stronger staple commodity in demand worldwide such as diamonds the Cape had not experienced a meaningful revenue surplus since its inception in 1806. Before the 1870s the Cape Colony could not escape debt accumulation to support ordinary expenditures and natural resources were the major source of economic hope.[45] With surplus revenue accruing to the Cape Colony's public coffers, the reduction of public debt became easier and once the debt was eliminated surplus revenues would soon go to revive the previously retrenched public works. This also meant the improving credit worthiness of the Cape Colony since potential lenders in London would not hesitate to invest in government bonds of a self-governing colony.

Legislatively there was need for improvement in terms of financial transparency not only because of the pending responsible governance but also the handling of the increasing public revenues needed to be more systematic for auditing and other purposes. The deficits experienced prior to the 1870s had caused revenue raised through loans to be mixed with ordinary revenues from taxes for a long time (section 4.4.2). The select

[45] In 1841, for instance, the Cape had accumulated half a million pounds in debt and licences from guano, another natural resource, eliminated this debt (Memoranda on South African colonies, 1856 p.1).

committee appointed for an inquiry into the state of public finances of the Colony reported their difficulties in trying to make sense of the procedures and ways in which finance records were kept. It would seem that the introduction of the Blue books for record keeping and accountability was necessary but insufficient without the improvement in accounting standards. The accounts remained obscure for a long time after the Blue books were introduced (Wodehouse, 1867, pp. 1-3). As a self-governing colony that soon thereafter was granted responsible government, the Cape Colony could not continue with this opacity in its public finances. This was not only happening with central revenues but it also filtered into local public finances of municipalities and divisional councils. The governor in 1867 confirmed this in his speech in which he was reporting on the Auditor General's report and stressed that accounts of the divisional councils were "indeed worthless" (Wodehouse 1867, p. 3).

When the public revenue was meagre, this might have been problematic because low levels of revenue require proper financial management to ensure that basic services are provided. With large sums of money coming from the growing economy, the scale of mishandling public funds would increase and be more problematic. Possibly, corruption would also easily occur given the messy records. This chaotic state of public accounts would not be good for the Cape's public borrowing credibility because investors could not access meaningful public accounts records with which to assess the credit profile of the Cape Colony. The problem was that creditors would want to know how much was ordinary revenue and what part was borrowed and for what purposes, while the debt repayment history would be required too. Although the legislative institutions allowed the Cape Colony to raise loans through Acts of parliament, the financial reports and record keeping needed to improve as well.

The 1870 Public Debt Consolidation Act was passed to solve this problem and thus helped to bring clarity and simplicity to the public accounts. The Act was for the conversion, redemption, payment and discharge of several colonial debts. Any revenue raised under this Act was henceforth supposed to be managed under a separate public debt account and to be removed from ordinary revenues. The use of public debt was also more institutionalised by this Act and debt was to be used for capital expenditure rather than using tax revenue. The argument was well articulated by Governor Henry Barkly:

> Reproductive works such as harbours should not be left subject to such provision as can be afforded from year to year out of the annual revenue of the colony, but that it would be better and more economical, in the long run, that whenever the engineering plans have been approved, and it has been decided to commence their execution, an Act should be passed, authorising the raising as speedily as occasion may require of funds for the estimated costs (Barkly 1871, p.5).

With responsible governance granted in 1872, a new era came during which ordinary revenues were meant for ordinary expenditures while the debt account was meant for non-ordinary outlays such as harbour works, railways and other capital investments.[46] Public borrowing was also not uniformly passed through a single act but various targeted loans were raised as long as the parliamentarians agreed and voted on them, a practice now common worldwide. For instance, the Railway Purchase Act of 1872 came with the power of government to raise loans through debentures to facilitate the purchase of the railway system from a private company.

Harbour boards were also authorised to borrow subject to approval by parliament since they were responsible for the interest payments on their loans while the government only guaranteed their loans. This was also true for municipal borrowing which was allowed only through acts of parliament but the responsibility for the repayment was solely on the municipalities. What this shows is that the capital flows into the Cape Colony through loans was not limited to the central government alone but municipal boards, harbour boards and divisional council boards were influential. The debt of these boards, except for harbour boards, do not feature in the central government debt. This implies that the indebtedness is underestimated when municipal debt is not included.

6.2.2 Borrowing at the Cape

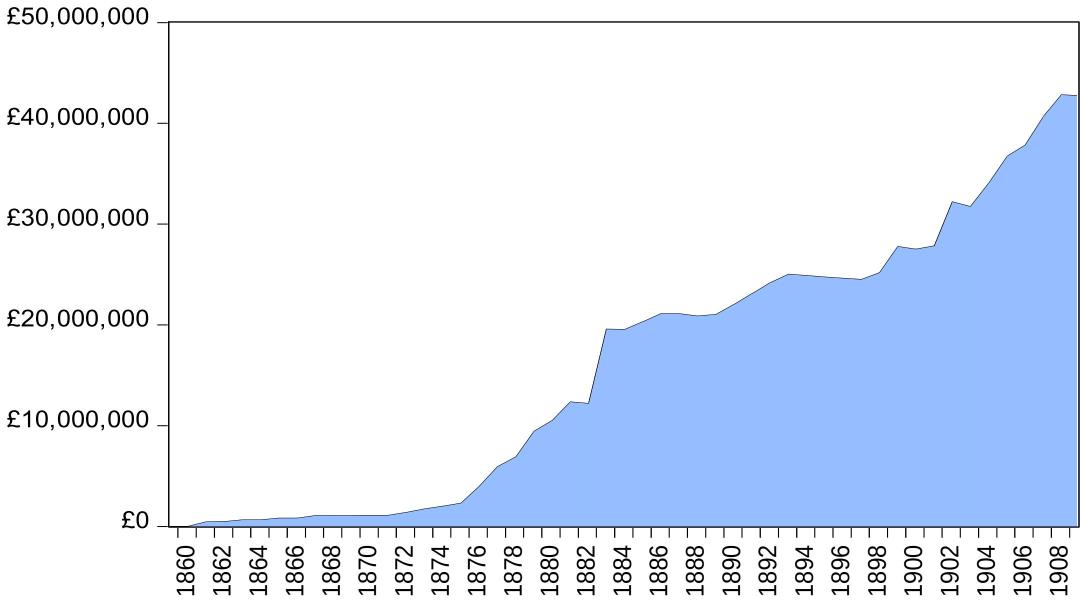
The Cape Colony government borrowed internally and externally but foreign debt dominated government borrowing. The instruments of borrowing were not systematically reported but throughout the archival documents a few types often come up. These include government bonds, debentures, local loans and irrigation bonds (House of Assembly budget debates, 1892, p. 80). As the local banks grew and increased in

[46] This arrangement satisfied a well-known principle known as the "golden rule of fiscal policy" which restricted government to borrow only for investment and not for current spending.

number more and more loans were obtained locally but mostly when it came to (especially) large amounts the London capital markets were used.

Figure 6.1 below shows the total central government debt of the Cape Colony from the 1860s to 1910. What is evident is a sharp increase in public debt in the second half of the 1870s which is the period when diamond mining proved to be more than a passing small discovery. The Cape Colony had resisted the temptation of investing in unaffordable public infrastructure such as railways throughout the period before 1870. With the evidence from the petitions requesting the government to construct railways in various districts prior to 1870, it is evident that the government could not be pushed to invest in let alone own the public utilities by buying them from private companies. This is exactly what happened once diamonds were discovered as the government bought the railway company and telegraphic system, and continued expanding the postal services which it had already been running. The revenues were increasing beyond the needs for ordinary expenditures and with surplus revenues the government was better placed for large scale investment which required capital beyond the means of private companies. Public borrowing, mainly through government bonds, became the natural way of financing these large scale investments under the ownership of the colonial government. The public debt, once institutionalised as a permanent feature of the fiscal system, grew continuously for the entire existence of the Cape.

Figure 6. 1 Cape Colony's central government debt, 1860-1910



Source: Data from Blue books (1860-1910)

The graph also shows that the early 1880s saw a sharp hike in public debt. This is consistent with the diamond crisis which prompted the Cape government to borrow for further railway construction to connect Kimberley with the gold mining fields in Transvaal discussed in earlier chapters (De Kiewiet, 1957; Goodfellow, 1931b; Schumann, 1938). The speculative bubble was going to burst at some stage and this meant a bleak picture for the Cape which had invested massively in railway lines to the diamond fields. Traffic was not as high as expected and the lines were barely recovering the maintenance and running costs and half of the interest payments had to come from ordinary revenue (Van Der Poel, 1933, p. 8).

The Cape Colony's only hope for more railway revenue was gold mining which by this time was attracting high levels of capital, hence the Cape had to borrow for the extension of the railway line to Transvaal's goldfields. The issue was that if the Cape did not have its line extended to Transvaal it was going to lose out not only on its traffic revenue but also on customs on all imports destined for the goldfields. As long as no other colony or government had developed railway lines from the sea to the goldfields, the Cape's railways and ports racked in significant amounts of money through direct traffic revenue and customs, enabling the Cape to meet its debt obligation with ease. When railway transport and harbours were developed in other territories such as Natal and Lourenco Marques, rivalry emerged in the form of railways and customs wars (Van Der Poel, 1933). The Cape began to lose customs revenue as other ports were preferred and this entailed loss of traffic for railway revenue as well. The result was that public debt rose uncontrollably in the Cape until 1910 when the Union of South Africa was formed. Debt became a defining feature of the Cape's fiscal problems. Archival sources show that many of the acts of parliament passed after 1872, when responsible government was granted, were related to public debt.

Borrowing at the Cape was inevitably linked to the public expenditure of the colony for which railway construction was key. The political and economic elite controlling the public expenditure policies realised that borrowing was necessary. Since it was the state, and not their private firms, that would pay for debt servicing it was easy for them to push for more borrowing even to deviously do so behind the scenes with no due processes being followed. For instance, Mr Sprigg in 1885 argued in parliament that:

> The great offense that the government has committed is that it has been able to negotiate a loan of £400,000 from the imperial government for the construction and maintenance of Kimberley railway without the authority of parliament, and the honourable member of Namaqualand said that our action in that matter was grossly illegal and grossly unconstitutional (House of Assembly budget debates, 1885, p. 112).

Mr Merriman in response argued:

> I am not bringing a charge against the honourable member, but point to it to show that when charges of gross unconstitutional practices are so freely thrown about, honourable members should inquire whether people who are throwing stones so readily have not themselves at one time lived in a glass house (House of Assembly budget debates, 1885, p. 113).

Mr Merriman seems to admit the malpractice and his response also accuses the treasury of similar practices before. This may suggest that weak institutional constraints were prone to manipulation and such non-procedural borrowing happened due to stronger interest groups exploiting weak institutions. This means that looking at the actual figures spent and assuming an honesty of purpose for 'development' can be misleading for colonial government expenditures. Ultimately, the key question is whether the elite's private goals coincidentally aligned with desirable investment in infrastructure and public works. The evidence shows that the contrary is true because irrigation and light railway systems for agricultural regions were not developed yet. Over and over the parliamentarians acknowledged that true prosperity was to be obtained from agriculture and other non-mineral resources which were supposed to be seen as the real measure of the Cape's prosperity.

6.3 Measures of state indebtedness in the nineteenth century

A crucial question is whether the Cape Colony was at a critical stage with its accumulated public debt. In other words, was there any debt crisis to talk about in the first place or did the economic growth make the high levels of debt viable? The answer to this question lies in the manner in which debt was negotiated in the first place in terms of yearly interest payments. The government bonds were taken out at different times with differing interest rates and times to maturity for the payment of the principal amount. Initially capital was reluctant and interest rates were higher but over time, with economic buoyancy, access to capital became easier. As long as the Cape was able to service its public debt with its own public revenues there could not be any problem or need to cap the public debt at a certain level. This section refers to these basic measures of fiscal sustainability and here it is important to consider mostly 19th century measures rather than modern measures which were not in use then.

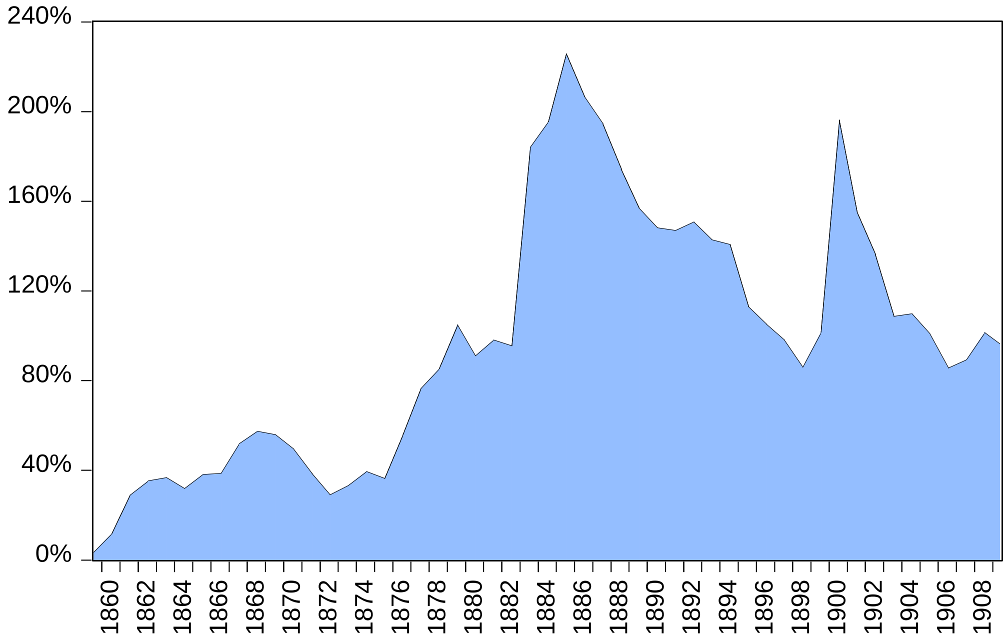
In this period, once a default happened and a country renegotiated its loans, the markets inflicted heavy penalties on previous defaulters who would also fall into "the countries which would be junk nations in modern terms" (Flandreau & Zumer, 2004, p. 32). The Cape, though considered a high risk, was not relegated to that group at any time of its existence hence it could go on seeking loans from the London markets. Herein lies the source of the public debt trap because as long as investors thought the Cape could continue borrowing, since no repayment failure had been recorded, easy access made borrowing to continue at the Cape. The Cape's favourable status with regards to borrowing was highlighted by Mr Sprigg in 1900 when he argued that:

> I trust that if we go to the public market we shall find ourselves as well served as we have been in the past. I recollect the period of three years ago when the securities of this country stood the highest in the world, next to the British consols and I look forward hopefully to the time when we shall again occupy that distinguished position. At the present time our securities stand fairly well in the public market but I hope in a short time they will stand higher (House of Assembly budget debates, 1900, p. 262).

Measures of indebtedness in the19th century were different from what is used in modern times and assessments of indebtedness have to come from the use of various measures which may be less popular in modern times but were important then. The information set available to investors was limited in the nineteenth century and miscalculations were unavoidable because of the information asymmetry which was also worsened by the sheer distance and rudimentary communication systems between capital markets and colonies on the periphery. The Crown Agents helped to solve this information asymmetry problem and helped to promote colonial borrowing. They helped the colonies from the 1860s onwards and were a "semi-autonomous body which acted as a general commissary service for colonial administration…and were active in trying to ensure the marketability of colonial loan issues" (Gardner, 2017, p. 245).

One measure to be considered was the debt/GDP ratio whose threshold has been recently contested between various economists (Taylor, 2013). The debt/GDP ratio is used here in retrospect because GDP numbers were not compiled yet at that time. As such, these ratios are meaningful for us today but played no role in debt assessment then. Figure 6.2 shows the Cape's debt/GDP ratio. What is revealed here is that the debt/GDP ratio reached its peak during the diamond crisis in the mid-1880s. As a ratio this simply means that GDP, as a denominator, declined while debt remained on an upward trend.

Figure 6. 2 The Cape Colony's debt to GDP ratio, 1860-1910



Sources: Blue books (1860-1910); Verhoef *et al.* (2014, pp. 29–30)

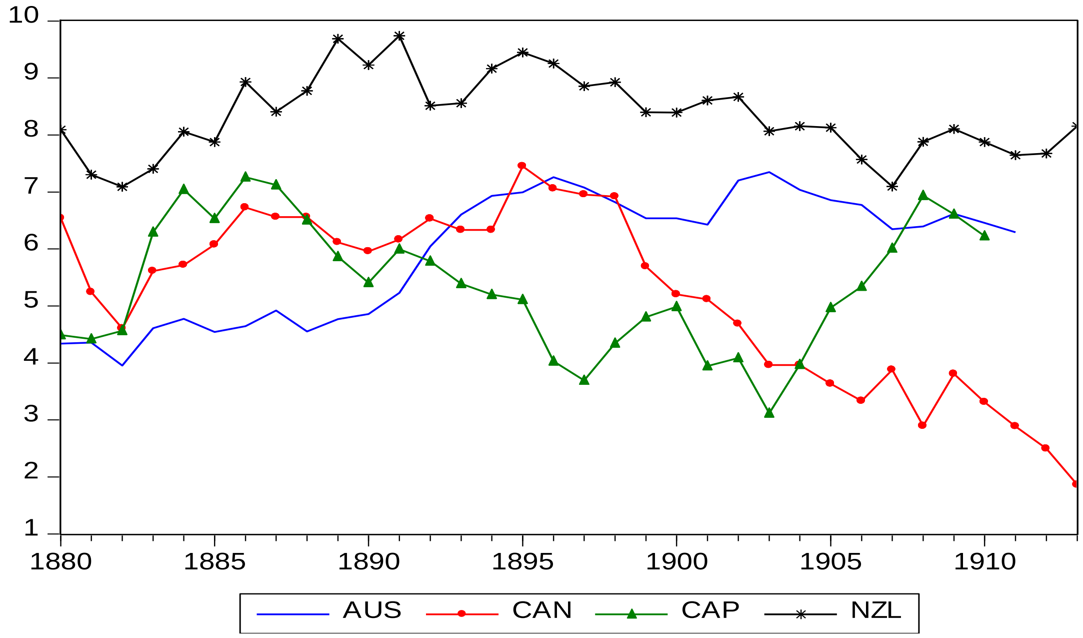
The ratio entails that high levels of public debt in the face of slow economic growth may be problematic. Comparatively no other colonial territory had reached this level (200%) before WWI making the debt of the Cape Colony exceptionally high. Australia's debt/GDP ratio rose steadily between 1850 and 1900 but only reached 120% in 1895 and dropped below 100% post 1900 (Taylor, 2013, p. 5). Canada's debt/GDP ratio barely rose beyond 40% between 1870 and 1910 and only exceeded 100% during WWII (Taylor, 2013, p. 6). The UK's debt/GDP ratio exceeded 200% before 1815 because of the Napoleonic wars and declined to less than 60% in 1875 (Taylor, 2013, p. 18). In light of this comparative perspective with colonial Canada and Australia and Britain, the Cape Colony debt/GDP ratio in the period 1880 -1885 was exceptionally high considering that it was peace time. With the benefit of this recently compiled GDP series, this comparative view suggests that the Cape Colony's debt was exceptional by prevailing norms in other dominions. According to Taylor (2013, p. 22):

> Even if high debt does not spark a financial crisis, high Debt/GDP ratios can constrain economic growth making it more difficult to break the burden of the debt. Above all, politics determines who bears the costs. With low interest rates or economic growth, politicians can continue to run deficits. The interest groups with the least political influence are the ones who will pay the price.

Although Taylor's argument was written in modern times, it does depict that to some extent the debt/GDP ratio can give tell-tale signs of financial problems. If politics determined who bore the risk in the nineteenth century, the colonial government knew that there was an implicit guarantee. Because of the issues around the debt/GDP ratio as an inadequate measure of indebtedness, other measures may be useful so that the actual assessment is done with a large compendium of information (Flandreau & Zumer, 2004, p. 30).

Other measures are important for a more comprehensive picture and one such measure is the public debt/revenue ration which traces changes in the level of debt as a share of annual revenue (figure 6.3). Although there was no standard threshold, a comparative picture helps to place the Cape in the context of the other dominions in the 19th century. With this ratio the Cape compares relatively better than the other dominions.

Figure 6. 3 Public debt/revenue, 1880-1910



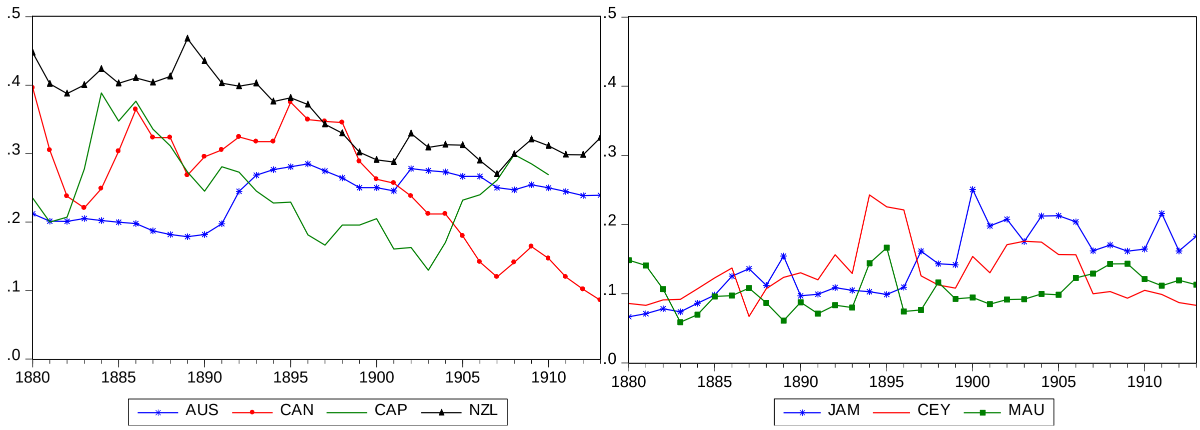
Sources: Blue books (1830-1910) and Accominotti *et al.* (2011)

A better and more precise measure is debt servicing as a share of the yearly revenues. This measure traces the burden faced each year by the government by comparing what the government is paying for servicing its debt to the actual government revenue raised each year. If this ratio is one or 100% it means that all the country's public revenue goes to debt servicing and this is not a good position, while zero means that the country had no debt to service. As a rule of thumb:

> Whenever the interest service to government revenue ratio is lower than 35%, the greatest prudence is in order, and creditors can still feel reasonably confident. Above 45% the situation starts looking bleak. But when one reaches 55 or 60%, the slightest problem shall induce the opening of negotiations with creditors ... No sovereign bankruptcy has ever occurred with this ratio standing below 40% (Flandreau & Zumer, 2004, p. 52).

Figure 6.4 shows the Cape Colony's debt burden measured as interest service to government revenue, also known as the tax test (Flandreau & Zumer, 2004, p. 37). The graph also shows how the Cape Colony compared to other dominions from 1880. The tax test also indirectly measured the efficiency of the state managed monopolies and companies because their losses entailed less state revenue realised. The graph shows that from the 1880s the Cape Colony's ratio rose to 40%, the level considered to be safe by the contemporary standards as argued above. The dependent colonies, Jamaica, Ceylon and Mauritius, were generally less indebted than the self-governing colonies and they were less burdened using this measure.

Figure 6. 4 The Cape's tax test (debt servicing /total revenues)



Sources: Blue books (1830-1910) and Accominotti *et al.* (2011)

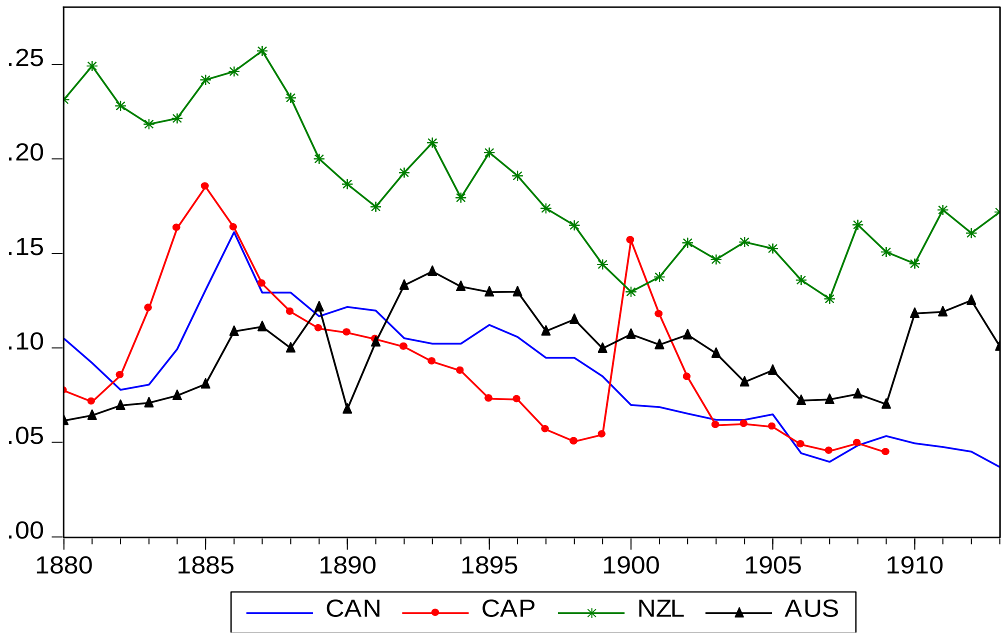
When viewed with respect to other colonies, the Cape Colony's ratio was consistent with the declining trends of other colonies towards and during the early 20th century. While this is not a bleak picture for the colonies, it should be viewed with the totality in mind because there is a missing variable that would have ballooned this ratio to a potentially unsustainable level. The colonies shied away from their responsibility for defence which was throughout history a fundamental feature of state formation and this differentiated the borrowing of the sovereign nations from that of colonies (Holtfrerich, 2013, p. 3). This means that spurts of wars or conflicts, which the colonial authorities paid for, would have easily inflated the public debt through extraordinary war time borrowing. More critical is the ramification of war or conflicts for the sustainability of government revenues since the economic conditions would decline and drastically affect public revenue. Had the Cape paid in full the costs of its defence, the debt burden would have been very high and defeats in wars or unresolved conflicts would have meant an even worse scenario. During the South African war the British exchequer suffered a huge dent in its finances, about £1 500 000 a week (Military report, 1903, p. 6). While the Cape was not fully responsible for the war, there is evidence that the Cape government did spend significant amounts on some wars. This was reflected in its expenditure when Mr Sprigg reported that "For 1901-2 the extraordinary expenditures were £249 597 for the plague (rinderpest) and £2 600 000 for the war (House of Assembly budget debates, 1902, p. 158).

Another useful way of measuring indebtedness is by using the trading activities of the colonies and this was known as trade test measured as debt services as a ratio of exports. The argument was that countries with high export values possessed commodities other countries needed. Exports denoted trade openness which was good for economic progress. This measure is consistent with the argument in this chapter in that exports were mainly the commodities which each colony had in abundance and thus public debt servicing would, presumably, have been easier for countries with higher export values. The colonial economy at this stage was mainly export based so the debt/export ratio provides a rough measure of the size of the debt relative to that of the economy. The argument for the trade test was put forth by Nash in 1889 who argued in line with views at the time that:

> There is perhaps no better test of a nation's wealth than its foreign trade for, as a rule, countries which are rich have those things which other nations covet, and countries which are poor have not" (quoted in Flandreau and Zumer, 2004, p. 48).

Figure 6.5 shows the Cape's debt/export ratio in a comparative perspective. Given the threshold was suggested to be 0.4, this ratio shows the Cape and other economies were doing well.

Figure 6. 5 Trade test (debt servicing/exports), 1830-1910



Sources: Blue books (1830-1910) and Accominotti *et al.* (2011)

Natural resource exports influenced this ratio and it does remain a rough measure. The increase around 1900 is noticeable for the Cape due to the South African war which affected exports. The fact that this ratio was used only until the 1890s shows that it was imprecise and needed to be replaced by the tax test. For the Cape Colony, trade was soon to be affected by rivalry from the use of other ports in Lourenço Marques and Natal. Two major sources of government revenue were to be hugely affected because losing the position of the preferred port of entry entailed losing both railway traffic and customs as goods were imported through elsewhere. Van der Poel (1933, p. 139) shed more light on the difficult position of not only the Cape but Natal as trade moved away from these two British maritime colonies:

> The Cape ports having been sucked as dry as natural conditions would permit. The accumulated poverty of five lean years had thrown Natal and the Cape into a sort of querulous despondency. They were weary of their financial burdens and ready to lay them upon a united South Africa but at the same time they were jealous of the rich Transvaal and suspiciously watchful of their remaining interests, seeing that the union was yet to be achieved.

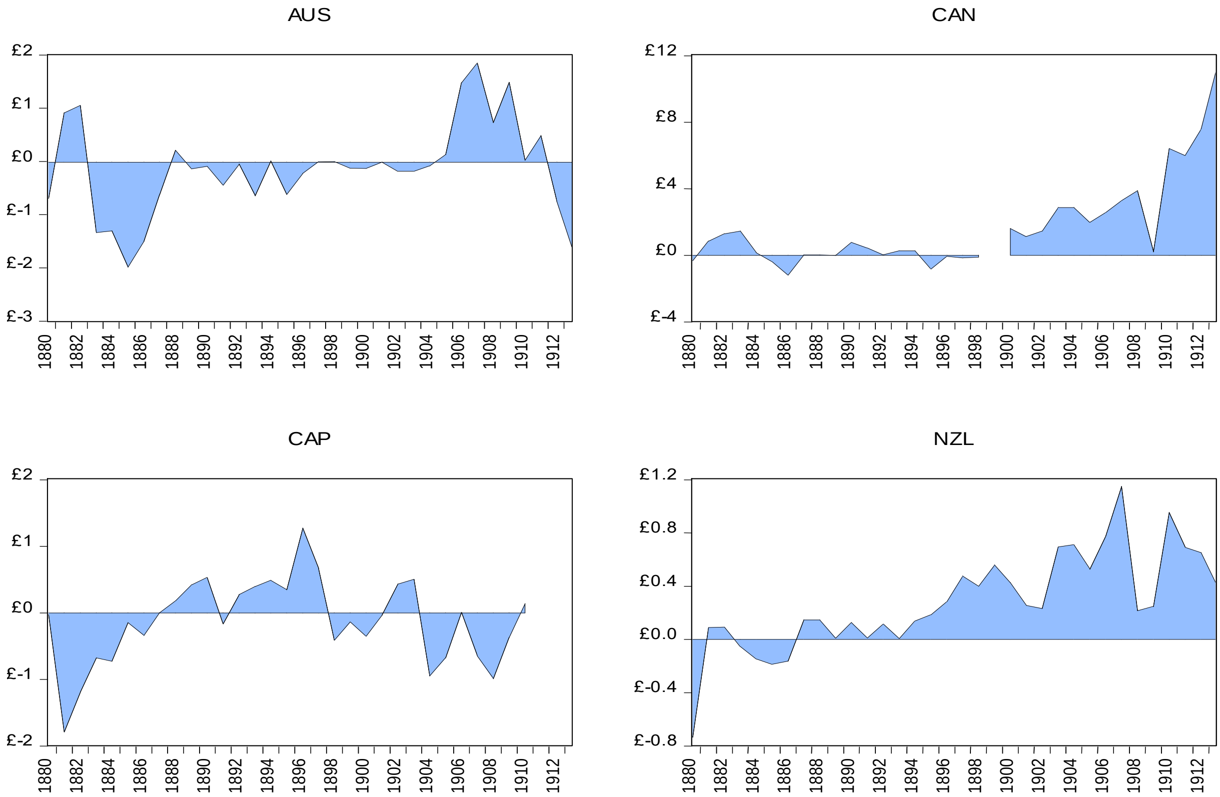
The public debt had not been reduced when this happened and the means of servicing the loans by the Cape government was limited after ports had 'dried' and railway revenue dwindled. The unification of the four South African colonies would be the only means for the Cape to lay its financial burdens upon a united South Africa (Van der Poel, 1933, p. 139). How the debt was dealt with upon the union formation is another interesting subject beyond this study but the financial difficulties were apparent at the end of the Cape Colony's existence. Using total debt and total revenue shows that in the time of diminishing revenues, such as during the second half of the 1880s and the second half of the first decade of the 20th century, the public debt of the Cape was in a dire state. The Cape government would have needed seven times its annual revenue to retire all outstanding debt simultaneously. Of course, this was a most unlikely scenario. While there is no threshold or benchmark for this ratio, the trends portrayed shows that if debt increases and the government does not become more creative with fiscal capacity, revenues become incapable of servicing the accumulated debt. By 1909 the Cape needed to commit about 25% of its dwindling revenue on servicing debt.

If only there were no huge public debt obligations, cutting back expenditures would be possible to alleviate the financial problems of the Cape Colony but the debt remained a huge external obligation which could not be wished away. By this time, in addition, the ordinary expenditures had also grown through the public employees' wage bill since the government owned most of the key parastatals and the government could not avoid retrenching workers.[47] High public debt in the Cape Colony signalled the need for the increase in taxes in the future for government to raise enough revenue to service interest payments. This was difficult or almost impossible given the fact that capital was shifting towards goldmining in Transvaal. The business environment became less buoyant in the Cape, as Johannesburg became the most important business centre, meaning that the tax base was eroded and this was worsened by the fact that the Cape had relied heavily on easy-to-collect customs revenues and did not invest in exploiting other forms of direct taxes. The budget deficits also give an idea of the ability to deal with debt issues. Figure 6.6 below shows the Cape in an unstable pattern compared to Canada, New Zealand and Australia.

Being the most unstable colony with more deficits than surpluses and the worst debt to GDP ratio suggest that the Cape's debt level was not sustainable. New Zealand and Canada had less debt given that over time they accumulated a higher revenue surplus than the Cape and Australia which were in the negative most of the time. Australia was particularly closer to the Cape because of the strong role played by the state which was heavily interventionistic attracting the label of colonial socialism (Attard, 2007; Boot, 1998; Gilchrist, 2013; Greasley & Oxley, 1998). All the measures point to the fact that the Cape Colony was a risk territory to invest in but it retained the favour of the London investors although with a high risk premium. Figure 6.7 shows that the yields of the Cape Colony were comparatively higher than those of the other self-governing dominions due to the Cape's risk profile.

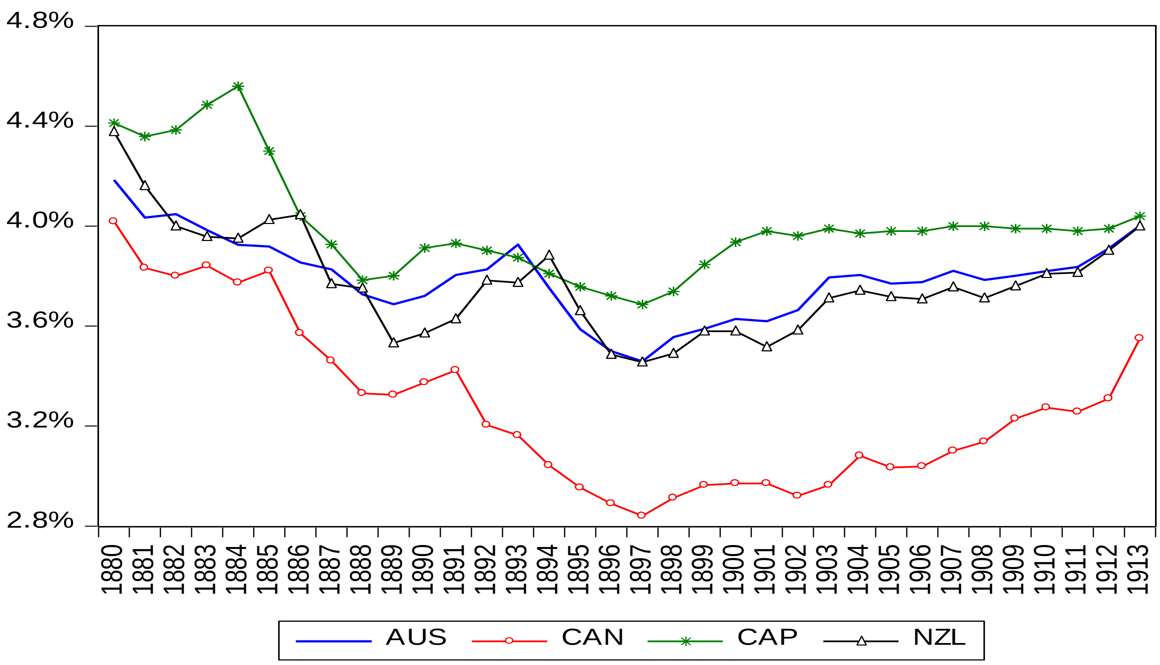
[47] Mr Sauer said that within the year 1908-1909 they had retrenched on railways about 1817 people which included white and coloured, clerks and men in the workshops. The saving caused by that amounted to £200 000. The next largest item was train mileage which was reduced by 750 000 miles and the saving on that was £90 000. These two gave nearly £300 000 saving on the expenditure side (House of Assembly budget debates 1909, p. 281).

Figure 6. 6 Budget balances in comparative perspectives (£ millions), 1880-1914.



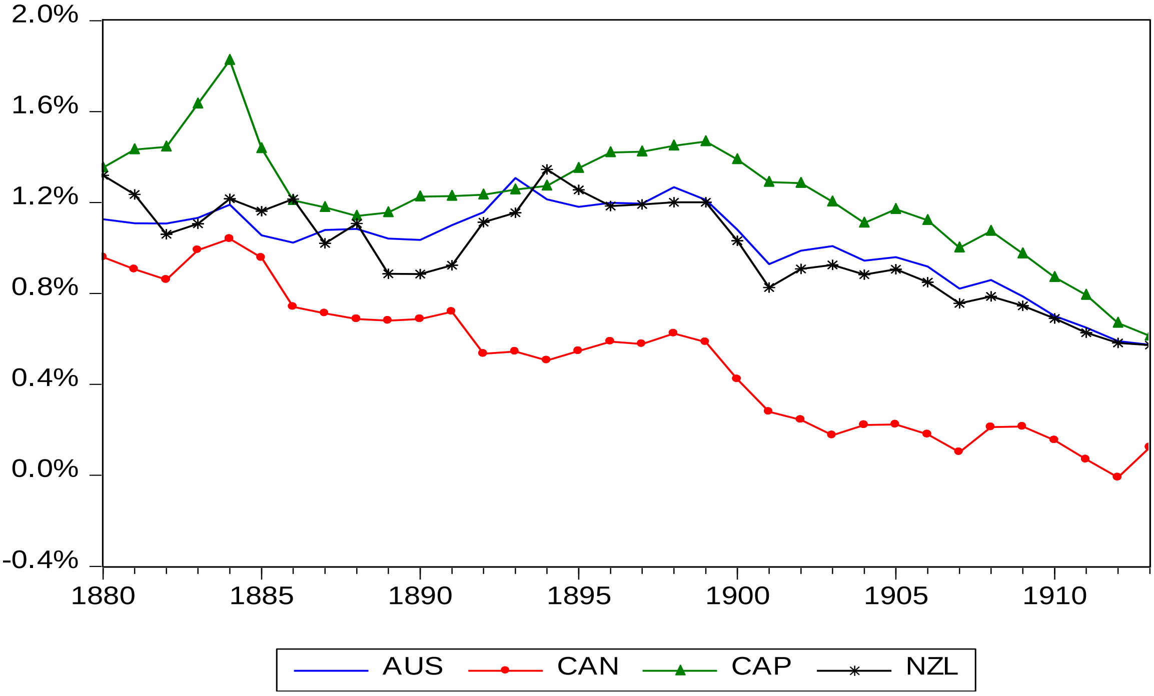
Source: Accominotti *et al.* (2011) and Blue books (1830-1909)

Figure 6. 7 Bond yields of the Cape Colony and other settler colonies, 1880-1910.



Source: Accominotti *et al* (2011) and Blue books (1880-1910)

Figure 6. 8 Spreads over British consols, 1880-1910



Source: Accominotti *et al* (2011) and Blue books (1880-1910)

The high returns on the Cape's bonds implied a risk premium on the public debt of the colony. This was not a problem for the Cape government because it had no difficulties raising loans through these bonds (House of Assembly budget debates, 1900, p. 262.). Therein lay the recipe for a continuous increase in public debt for a colony which was evidently not faring well in terms of its public revenues. The reality that yields differed across the colonies suggests that investors had at least some sense of risk profiles. The British consols are the usual benchmark bond yields used to compare investment returns in other sovereign countries and colonies. The spreads over the British consols in figure 6.8 show that these colonial territories systematically yielded more than what could be obtained in the British system. The spreads help to isolate general trends in the Cape and global trends of declining yields generally. For instance the spreads show that prior to 1900 the decline was not as pronounced in the Cape as compared to the general yields shown in figure 6.7. This calls for further review of what self-government entailed for the Cape Colony which the next section deals with.

6.4 Contextualising the Cape among the self-governing colonies

The British Empire was at its zenith in the nineteenth century and the salience of its London capital market facilitated easy borrowing by colonies. For the British colonies foreign capital was therefore secured within the British system. The access to capital within the Empire was not purely based on free market principles. According to Stone (1999, p. 14):

> Despite minimal government interference in the London capital market, there was a complete absence of laissez-faire. There were permanent clients for certain banks and certain countries relied only on a few specific credit providers…Well over 90% of colonial and provincial obligations were issued for the governmental bodies within the British Empire. Major borrowers included Australia, India, Canada, New Zealand and the Cape.

This inclination towards the governments within the British Empire implied that other sovereign nations could access London capital with limited prospects. For the British colonies the Crown Agent was responsible for negotiating all colonial loans but this was ended in 1881 by Her Majesty's government. This was to distance the British government from the potential misunderstanding because the investors would assume the imperial government was directly responsible for all loans given to its colonies. Sunderland (2004)documented in detail how the crown agents were in serious principal agent problems when acting on behalf of colonies. The solution was not in getting rid of the self-governing colonies because they were in many ways still important to the Empire's existence. Investors were well aware of the relationship between the imperial authorities and self-governing colonies as sub-units of the Empire. Investors could take recourse to the imperial authorities in the event of default by the colonies. This led to the introduction of the Colonial Stock Act of 1877 which subjected the governments of the colonial territories to the British judiciary system. In the words of Accominotti *et al.*(2011, p. 396):

> Perhaps most critically, local capitalists holding these (colonial) securities could seek the support of Britain, which provided them with legal mechanisms for protecting their property rights. As far as debts were concerned, colonial legislation was subordinated to English law and imperial arbitration. Self-governing colonies were fiscally sovereign, but not judicially sovereign.

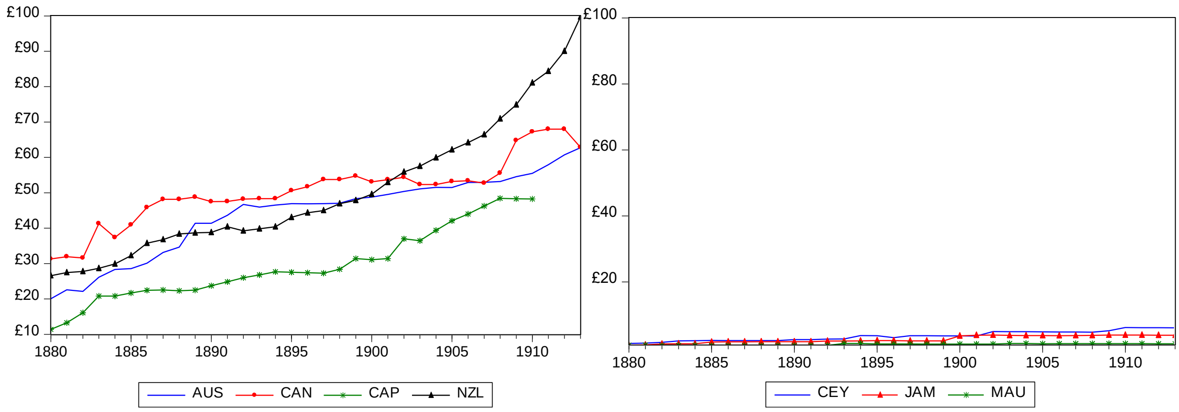
These details gave the British investors more reasons to invest in colonial bonds because, unlike other sovereign nations, the imperial government assured them that in matters concerning colonial bonds they could use the British justice system. Countries borrowing from outside the empire had to prove that their macroeconomic fundamentals (budget balances, trade flows, exchange rates, etc.) were strong because these could default while default was not an option for the British colonies inside the empire. This, however, was problematic and led to huge debts in the colonies whose unscrutinised ability to borrow gave way to rising debt as long as default and outright bankruptcy could be hidden under the imperial 'wings'. This makes any study that seeks to compare historical data across all countries, including previously colonised countries, superficial if the investigators ignore the nuances and structural effects of being in the British Empire (Ferguson & Schularick, 2006).

The fact that colonies which were self-governing or settler colonies had fiscal autonomy is a useful point of departure when trying to understand the growth of public debt in the nineteenth century. The degree of autonomy that came with self-governance was nearly complete and indeed gave the self-governing colonies certain advantages over the sovereign nations which had no imperial backing. For instance, the fact that the imperial government had to shoulder a huge part of colonial defence meant that self-governing colonies were left with room to focus on purely developmental goals while not worrying about military defence. This left the self-governing colonies in an enviable position but a potentially precarious one because there was a loose sense that the British Government guaranteed colonial governments' debt. This was going to happen through moral hazard since the colonial states knew the British authorities would not allow fiscal embarrassment, through default, in its key colonies (Vogel, 1887, p. 15).

The argument being advanced in this chapter is that self-governance was a necessary but insufficient ground for the growth of colonial public debts. It was the availability of primary resources which altered the public debt terrain of the colonies and not simply the fact that a colony was self-governing. This argument is consistent with the resource-curse literature and the narratives of economic development and underdevelopment of the periphery countries in Africa, Asia and Latin America in which primary commodities played a key role (Blattman *et al*., 2007; Thomas , 2003). What has not received enough attention is the link between public debt and natural resources and this is important for state formation as well as fiscal narratives in the periphery.

Public debt and therefore the debt servicing burden (the ratio of interest payment over government revenue) in self-governing colonies were systematically higher than those of dependent colonies due to more government autonomy to borrow in the former. Dependent colonies could not do much to alter their future and in most cases the crown agent acted on their behalf through a governor acting as the representative of the imperial government. Nominal debt levels shown in figure 6.8 reveal the fact that the self-governing colonies were in a different league compared to dependent colonies with regards to public debt. An important point to make is that besides differences in autonomy to borrow shown in figure 6.9, the dominions and dependent colonies were also at different levels in terms of the size of their economies. This would also matter in the size of nominal debt of these two different sets of colonies.

Figure 6. 9 Nominal debt, settler vs non settler colonies (£ millions), 1880-1914



Source: Accominotti *et al.* (2011) and Blue books (1880-1910)

The debt levels of self-governing colonies were stretching towards 100 million pounds while those of the dependent colonies hardly exceeded seven million pounds showing a systematic and structural difference in these two categories. This confirms the argument by Accominotti *et al.* (2010, p.64) that "India, Ceylon, Jamaica and other dependent colonies were slave nations, owed nothing and did not grow. Australia, New Zealand and Canada were heavy borrowers, governed themselves and developed." The high debt levels also translated to debt servicing in these two categories of colonies as shown previously in figure 6.3.

Using the Cape Colony as an example in comparative perspective the argument is that self-governance led to parliamentary institutional consolidation, growth in public revenue and expenditure and stronger autonomy for colonial governments to borrow. This is what is generally acknowledged by historians of self-governing colonies. This chapter brings the Cape Colony to the fore and argues that borrowing was spurred not only by the autonomy from self-governance but also by the availability of natural resources needed by the industrialising countries. With no primary resources or endowments, the investors would not be encouraged to invest in places with no economic prospects brought by mining. This argument was made by Sunderland (2004, p. 149): "Funds were required to build infrastructure, but the very lack of transportation networks and economic activity reduced the likelihood that they would be forthcoming at a price the colonies could afford". This was the 'catch 22' challenge of colonial development faced by the imperial government which desired its colonies to prosper {Gardner 2017, p. 238). For the Cape Colony, the discovery of diamonds was an important stimulus that unlocked economic activities and helped the colony to be perceived as wealthy.

The prime movers of railway infrastructural development in the 19th century South Africa were diamonds and gold just as railways in Chile were linked to nitrate mining (Denoon, 1983, p. 88). This argument is applicable to self-governing colonies and dependant colonies, the difference being that private companies, chartered or not, played more important roles in the latter, limiting the benefits of any infrastructural developments to private interests. Government borrowing had an advantage of broadly focusing on public goods provision compared to private companies whose primary concerns were profitability. This does not mean that the government borrowing in settler colonies was primary driven by altruistic motives for investment in public good provisioning. The Cape's borrowing regime was underpinned by the minerals-railways complex which resisted investments in other sectors and focused on railway construction.

6.5 Capital chasing primary resources

The colonial territories were a huge part of the price taking periphery and the developments which took place were largely concomitants of the role played by the periphery in the industrialising Europe through natural resources. The commodity lottery[48] argument is influential for public debt because the nature of demand for a given commodity determined whether investors would be interested in a particular colony's government bonds or not. The commodities also determined the level of confidence and

[48] The concept refers to the nature of available natural resources or commodities. The commodities with potential value addition and stable prices provide better prospects for economic expansion than other commodities did. It is a lottery whether a country will have a commodity that has potential for value addition or not (Blattman et al., 2007).

therefore size of the loans colonial governments would reasonably seek. It would have alarmed Downing Street if one of its dominions got into a borrowing binge with no economic basis. The reasonable size of public debt was assessed from the investor's perspective with the colony's economic potential in mind –commodities being key. The nature of the available commodities also mattered because they differed in importance at the global markets and some would become obsolete as time went by. Thomas (2003, p. 15) argued that:

> Commodities also differ in terms of their demand characteristics. Some products (e.g. cattle), lend themselves naturally to forward linkages through further processing for exports, whereas others (e.g., bananas), offer little prospect. Others, such as gold, have no close substitute, whereas others, such as cotton, face competition from synthetic products…In some products (e.g., cocaine), Latin America has a monopoly of world supply; in others (e.g., sugar), international competition is fierce. The geographical and geological diversity … meant that each republic had only limited choice of commodities to export.

The weakness of the periphery was that public debt was incurred on the basis of the commodities most governments had no control over in terms of availability, quality, potential for value addition and world prices. Worse still, most governments were not directly involved in the trade or extraction of these commodities which spurred public borrowing. To the extent that the export led growth happened, it largely depended on how the periphery capitalised and adapted to changing world demands. For instance the development of refrigeration in New Zealand meant that wool farming, when wool prices dropped, was replaced with sheep farming for frozen meat exports alongside butter and cheese (Hawke, 1985, p. 5). The Cape Colony on the other hand was lucky because dropping wool prices were cushioned by the discovery of diamonds. Overall, the commodity lottery entailed that those countries which hit the jackpot of the 'right commodities' stood a better chance of diversification of their economies, provided their governments had foresight, and therefore could easily escape the debt trap. Being stuck with less demanded and less economically favoured commodities let alone changing global prices could simply lead the governments to become stuck in debt.

Table 6.1 shows that of all the recipients of British capital within the British Empire, the Cape Colony rose to the 5th position between 1875-9 and to the 3rd position in the1884-5 period before losing these positions to gold rich Transvaal later. This table shows both capital flowing to the private and public sectors but it is clear that the discovery of diamonds, self-governance and responsible government between 1867 and 1872 played an important role in the ascendancy of the Cape Colony amongst the major recipients of British exports of capital. No wonder during this diamond period the Cape Colony could attract the description of "a developing powerhouse and a true cornerstone of the empire." (Marks, 1980, p. 1). Capital would not flow to the Cape Colony without this mineral resource which made government's infrastructural goals feasible.

Table 6. 1 Top recipients of British capital in the Empire (£million), 1860-1914

1865-9	1870-4	1875-9	1880-4	1885-9	1890-4	1895-9	1900--4	1905--9	1910--14	1865-1914
India (32107)	Canada (18034)	Australia (23385)	Australia (49664)	Australia (66601)	Australia (43637)	India (53524)	**Transvaal (51962)**	Canada (76928)	Canada (191577)	Canada (412283)
Australia(8220)	India (18667)	India (18667)	India (25023)	India (40539)	Canada (26435)	Australia (48275)	India (23658)	India (46550)	Australia (46550)	Australia (339001)
Canada (3477)	Australia (9772)	Canada (15462)	**The Cape (15085)**	Canada (34204)	india (23039)	**Transvaal (34385)**	Australia (21294)	**Transvaal (29761)**	India (36502)	India (317174)
New Zealand (3022)	New Zealand (5382)	New Zealand (13559)	Canada (14362)	New Zealand (12662)	**Transvaal (10399)**	Rhodesia (17822)	Canada (17996)	Australia (21911)	**South Africa (26185)**	**South Africa (138202)**
Asia (1025)	Tasmania(1065)	**The Cape (8054)**	New Zealand (10735)	**Transvaal (7497)**	New Zealand (5733)	Canada (13808)	**The Cape (15914)**	Rhodesia (8908)	New Zealand (16185)	New Zealand (84495)
Percentage shares of the top five										
91	93	93	89	93	86	82	73	79	84	80

Source: Stone (1999, p. 418)

Equally important were other commercial developments such as private banks whose activities got traction during this period (Schumann, 1938). This could not be said when copper was discovered in Namaqualand in 1854 because it was short-lived and proved to be inconsequential from the point of view of broader economic development. When only investment of British capital in raw materials is considered, the bulk of which were minerals, table 6.2 below shows the ascendency of the Transvaal to the top position in worldwide between 1865 and 1914 because of the importance of gold. Transvaal is South Africa's immediate counter-example of economic benefits of being under the imperial wings. It illustrates how self-governing colonies in the Empire had more advantages because even with the top position in the raw material category Transvaal never out borrowed the Cape Colony government. Transvaal's railway progress was frustrating and very slow due to lack of access to easy borrowing. According to the South African railway report:

> The entire revenue of Transvaal was £73862 in 1872 and the Orange Free State had £84282 so that there was no question of guaranteeing interest on any loan as the Cape Colony had achieved. Even when Mr Burgers reached Amsterdam he found out that bankers were not keen to subscribe for such hazardous venture in Africa (South African Railways 1947, p.15).

It was indeed 'cold' outside the empire and Transvaal's failure to speed up its infrastructural programmes, for lack of access to capital, was evident and for Transvaal even non-British capital and other financial markets were difficult to access.

Table 6. 2 Top recipients of British investments in raw material (£million), 1860-1914

1865-9	1870-4	1875-9	1880-4	1885-9	1890-4	1895-9	1900--4	1905--9	1910--14	1865-1914
U.S.A (870)	U.S.A (7527)	U.S.A (878)	U.S.A (4947)	U.S.A (6181)	**Transvaal (5816)**	**Transvaal (29789)**	**Transvaal (15463)**	**Transvaal (14265)**	**South Africa (10947)**	**Transvaal (74530)**
India (851)	Spain (1725)	Spain (574)	Spain (4460)	**Transvaal (5654)**	U.S.A (4091)	Australia (22517)	Gold Coast (5419)	Australia (5799)	U.S.A (10482)	U.S.A (45821)
Ceylon (451)	Italy (828)	India (417)	India (3899)	Australia (4769)	Australia (2314)	Rhodesia (11415)	Rhodesia (5328)	U.S.A (4684)	Malaya (9380)	Australia (45333)
Brazil (243)	Canada (819)	Canada (308)	Venezuela (1863)	Chile (4507)	Chile (1761)	India (5413)	Australia (4785)	Rhodesia (3501)	Russia (8230)	Rhodesia (27274)
Australia (224)	India (730)	France (180)	**Transvaal (1511)**	Mexico (2241)	India (1382)	U.S.A (4967)	Canada (2146)	Malaya (2781)	Rhodesia (6686)	India (18867)
Percentage shares of the top five										
67	71	70	69	68	71	73	71	56	46	52

Sources: Stone (1999, p. 390)

Being a self-governing colony of the British Empire was thus important for public borrowing. In many ways several benefits of the gold mining in Transvaal accrued to the Cape Colony economy because it had developed ports, railroads and commercial banks. The benefits accrued to the Cape most importantly because it was a self-governing colony, the first to construct a railway line to Transvaal's gold fields. This was primarily because it could access capital markets more easily than Transvaal. With no superior imperial authority to report to, Transvaal unlike the Cape Colony had feeble parliamentary institutions which made accountability difficult and this was not good for the government's credit profile. Public debt would not grow to the extent it did in the Cape Colony whose responsible governance status worked as a badge of good behaviour and credibility to London investors. With no domestic refinery and mint, raw gold bullion was Transvaal's only export commodity (Gilbert, 1933) and the Transvaal could only obtain revenue from gold tax and concessions to mining companies. This makes the label "banana republic of classical perfection" a close description of the affairs of Transvaal (Denoon, 1983, p. 92). After the British takeover, post Anglo-Boer war, this was soon to be different because Transvaal was brought under the British Empire's wings and capital could be accessed easily.

The dominance of the settler colonies, such as Canada, Australia, New Zealand and the Cape Colony, in receiving British capital exports is evident in table 6.3. The table shows capital exports to governments or reflect which colonies were leading in the public borrowing from the British capital markets.

Table 6. 3 Top five British investments in colonial governments (£million), 1860-1914

1865-9	1870-4	1875-9	1880-4	1885-9	1890-4	1895-9	1900--4	1905--9	1910--14	1865-1914
Australia (7151)	Canada (7027)	Australia (19256)	Australia (36012)	Australia (44983)	Australia (28539)	India (32087)	**Transvaal (32811)**	India (24176)	Australia (33082)	Australia (214917)
Canada (2478)	Australia (5351)	India (12098)	**The Cape (11135)**	India (17848)	India (15650)	Australia (13396)	Australia (13439)	Canada (16417)	Canada (27888)	India (142351)
New Zealand (2461)	India (4825)	Canada (9584)	India (8126)	Argentina (14265)	Canada (7066)	**The Cape (4400)**	**The Cape (10368)**	Australia (13705)	India (17585)	Canada (86822)
Mauritius (800)	New Zealand (4627)	New Zealand (9010)	New Zealand (5260)	Canada (9545)	**Natal (2833)**	U.S.A (3012)	India (9956)	Brazil (7359)	New Zealand (12508)	New Zealand (46943)
U.S.A (664)	Argentina(3215)	**The Cape (7329)**	Argentina(4827)	New Zealand (7112)	**The Cape (2212)**	Canda (2516)	**Natal (8761)**	**The Cape (5684)**	**South Africa (10840)**	**The Cape (42243)**
Percentage shares of the top five										
94	86	94	86	94	89	88	89	73	84	76

Sources: Stone (1999, p. 384)

This supports the notion that investors in London had categorised the settler colonies as safe. According to Accominotti *et al.* (2011, p. 387) "...the main 'effect' of being a settler colony was not a marginal reduction of borrowing costs 'other things being equal'. The 'empire effect' was a structural change in the way colonies were perceived by investors."

Table 6.3 also reveals that the Cape Colony Government was one of the largest public borrowers and the table further reveals the importance of the Cape as one of the key dominions. Between 1865 and 1914, if India is omitted, the Cape was ranked fourth after Canada, New Zealand and Australia in terms of government-bound capital exports from the British capital markets. India only features because of the sheer size of its population which made its government related borrowing comparable to the settler colonies.

6.6 Conclusion

The first major finding of this chapter is that public debt grew rapidly in the Cape Colony from the 1870s onwards. Several factors such as self-governance, responsible governance, discovery of minerals and state ownership of the railway system and the telegraphic system caused the growth in public debt. The growth of the public debt was favoured by some and abhorred by others in the colonial government. The fact that public debt was primarily benefiting railway construction caused those who criticised government expenditure to criticize borrowing for the same reasons that it was biased towards the minerals-railways complex. The colonial government found itself with huge accumulated debt and burdensome debt servicing and by the end of the Cape's existence it was clear that the dwindling revenues would not sustain debt servicing. With all the measures of indebtedness explored the evidence suggests that public debt was among the key financial challenges of the Cape Colony before it joined the Union of South Africa in 1910.

Fiscal miscalculations and lack of long term fiscal strategy may lead to financial disaster. This is what this chapter has demonstrated. Public debt growth of the Cape was pushed with more zeal than careful planning and undeniably the politicians with interests in mining distorted the political process towards debt driven public investments beneficial to them. The colonial government's interests, by virtue of the business men, famers and popular colonists being in parliament, were not necessarily separable from private business interests because a thin line existed between the two groups. Fiscal foresight was therefore sacrificed at the altar of short term profitability and extractive institutional apparatus which distorted the political process for private gains. It is important to note that this was subtle because most of public investments such as railways were passed or voted for as good for economic progress and for public good while in actual fact these immediately benefited mining houses and businesses in general by reducing transport and other costs of doing business. In other words, for the Cape, what is generally termed 'public investment' in the 19th century was very much beneficial to the private sector's interests at the expense of a broader development focus. It is therefore superficial to regard the growth of public debt in the Cape as growth-promoting without exposing that it was unbalanced and biased towards mining. And it becomes problematic when investments in economic infrastructure are skewed by private interests which, in the Cape, it was the mining sector at the neglect of agriculture and other key sectors.

Having established that the Cape was very much among the self-governing and key responsibly governed colonies, the public debt evolution elevates the salience of natural commodities in 19th century colonial state formation. The self-governing colonies were structurally at an advantage when accessing British capital markets yet self-governance alone was not sufficient though necessary for growth in public debt. The assumption, of course, is that growing and permanent public debt is a fundamental feature of colonial fiscal states just like permanent debt was an important feature of state formation in Europe. Commodity availability was central to how this permanent public debt came to be since commodities determined the business and economic orientation of these colonies. Exports of British capital also prove this fact because dominions with natural resource endowment were always amongst the top recipients of British capital. This differentiates state formation in sovereign nations and state formation in the colonial territories on the periphery. Wars and armed peace were central to the formation of modern fiscal states in the former while these were not central to the colonial world where imperial authorities considered defence for their colonies important.

CHAPTER 7: CONCLUSIONS AND IMPLICATIONS OF THE STUDY

7.1 Summary of the study

Colonial history will continue to be a contested subject and the narratives will continue to be questioned based on what assumptions are made and what evidence is used. In South Africa, to use Shula Marks's words "there will always be a need to maintain a healthy air of scepticism" as colonial historical research accumulates [49](Davis, 2012, p. 1). Colonial history has social, economic and political implications which exceed the competences of any single researcher. It is clear that our understanding of the past does not come from catch-all narratives but has to be built up over time from a multiplicity of studies which focus on different aspects of the past. This does not entail unidimensional history but it elevates the relevance of more focused studies which, individually, will contribute to the bigger picture of the past. This study has endeavoured to contribute to literature and debates on the colonial state and its role by looking at the public revenues, expenditures and public debt of the British Cape Colony from 1820 to 1910.

This study has used Blue books to reconstitute public revenues, expenditures and public debt of the British Cape Colony in the nineteenth century. To complement the patterns observed in the data obtained from the Blue books, other quantitative and qualitative records were used. These include archival documents from the Cape Archives, Stellenbosch University Library and the British National Archives in Kew. The primary budget speeches and debates were also analysed for the years from 1820 to 1910. The use of the foregoing various sources, including secondary literature, has allowed for a comprehensive historical study of the Cape's fiscal history development.

The study has been located in global and focused literature on state formation in sovereign and colonial territories (chapter 2). Both strands of literature emphasise the diversity of paths to fiscal modernity in sovereign and colonial states and no universal theory has been used to explain the rise of states. This was important for setting the context for the Cape Colony state as it demonstrated different phases of state transformation until the late 1870s when it had attained fundamental features of modern

[49] According to Davis (2012, p. 1), "Anyone who takes on the task (of writing South African history) must presumably gird their loins in defence of accusations of non-inclusiveness, political bias and cultural relativism. Perhaps as a result of this, there have been few of these kinds of works produced before now."

states such as permanent debt, centralised revenues, commitment to social spending and limited democracy (He, 2013). Being a colonial state, the Cape relied heavily on the imperial government for military spending. When this is considered, the imperial tie represented an 'umbilical cord' that kept the colonial state strong but nonetheless potentially weak if the imperial tie was to be cut. This, as Cooper (2002) argued, was the fundamental problem of the colonial state which relied heavily on the imperial government for one of the defining features of states, namely external protection (Hoffman, 2015; Yun-Casalilla, 2012). From this angle the Cape and other colonial states are to be seen as having some sense of incompleteness or artificialness.

The events and developments in the Cape Colony shaped the nature of the evolution of the colonial state. Chapter 3 has demonstrated key political features that shaped the public finances of the Cape from the autocratic phase (1800-1840s), towards representative government (1854-1872) and to responsible government (1872 -1910). This had a huge bearing on the public finances because as the parliamentary institutions became more transparent over time, so was the handling of public finances through reforms brought about by the financial system overhaul that allowed better monitoring and auditing. The discovery of diamonds at Kimberley in 1867 was a huge economic shock that shifted the economy and therefore public finances onto a higher equilibrium. Responsible governance was granted in 1872 and it coincided with and was partly influenced by the mineral led economic buoyance.

The fiscal developments of the Cape were not spontaneous and did not self-evolve as time went by but the windfall in the form of the discovery of diamonds was key in how public finance institutions developed. There was a clear bargaining process that underpinned the type of taxes and expenditure policies which eventually prevailed. Chapter 4 demonstrates that the tax regime was biased against the agricultural sector, small manufacturing firms and black Africans. This feature of an elite driven tax structure was also observed in Latin America. Sokoloff and Zolt (2007, p. 131) for instance acknowledged that inequality amongst citizens makes progressive tax structures difficult to design and adopt in the face of opposition from elites. The political and business interests controlled the mining sector and demonstrated that they never bore their fair share of taxes by continuously resisting them in parliament. This was despite the fact that the mining sector absorbed 70% of total expenditures in railway links to the mining fields. While the available data did not allow relative tax burdens to be precisely measured, the patterns reveal that indirect taxes were more prevalent as compared to direct taxes which mainly remained land quitrent and hut taxes; income tax only came in 1904. The non-tax revenues bolstered the fiscal outlook of the Cape because of the use of a general 'pot' approach that meant all revenues were brought to the central government coffers. Fiscal capacity diversification was, therefore, underdeveloped as the Cape relied heavily on customs revenues and railway receipts which dwindled heavily exposing this weak fiscal position from 1900 to 1910.

The expenditure side (chapter 5) exposed the power of the elite control in the Cape government because the same elite who controlled mining demonstrated strong bargaining power to influence spending policies. It was clear that expenditure benefited a minority who relentlessly used many ways to get the government to spend more on railway infrastructure as a means to access the mining fields easily. This mineral-railway complex, as the study posits, was at the centre of the Cape Colony's expenditure policies and generally shaped economic progress. The government ownership of key parastatals such as the telegraphic system, railway system and post office entailed that private interests from within the state could steer government towards certain 'public' expenditure policies meant to benefit them.

Most expenditure projects were impossible without public borrowing (chapter 6). To start with, even the change of ownership of railways and the telegraphic system happened through the use of public debt. The government had no other means of paying for these huge purchases. Chapter 6 cements the argument about the ability of private interests to use the government for meeting their private ends. Public debt accumulation was ever increasing and borrowing was biased to finance mainly railway projects. Given that during the time there was no mineral beneficiation, the public debt simply created a conducive infrastructural apparatus for the extraction of the minerals. By the end of the Cape's existence, public debt was imposing a huge burden on dwindling revenues which were underpinned by an unsustainable fiscal path. Comparatively the Cape over-borrowed more than other dominions and this meant that it was left with a huge debt. While outright debt crises did not occur, it was clear that public debt was one key feature of the Cape's financial problems just before the Union of South Africa was formed.

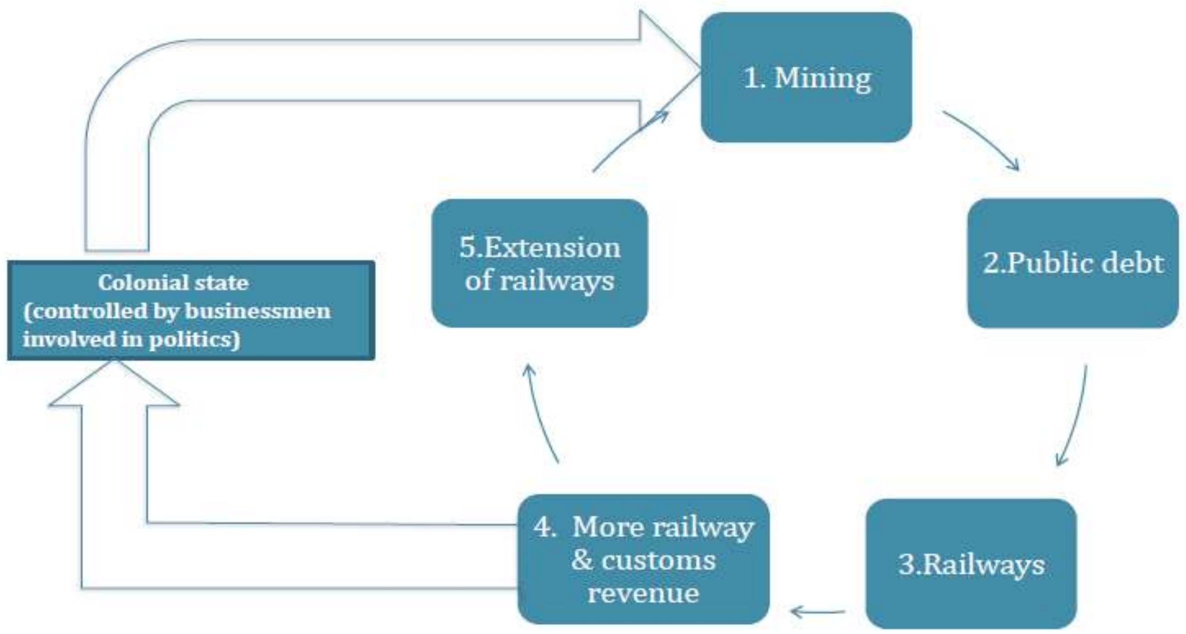
7.2 Key conclusions

The British colonial government, unlike the preceding company government, managed to fully utilise the coastal location by unlocking the Cape's potential through a liberal trade regime. With the growth of trade, especially imports, came easy access to an indirect revenue source for the government in the form of customs duties. This was not unique because other coastal colonies portrayed the same reliance on trade taxes since the limited number of ports meant that modest administrative capacity was required (Gardner, 2012). Due to lower administrative requirements, customs revenue was cheaper to collect and politically less problematic because it was a less obvious burden on citizens than more direct forms of taxation were. State ownership of the railway and telegraphic systems affected the fiscal capacity building at the Cape by limiting the scope and need for diversification of revenue sources. Railway receipts became the second major source of public revenue after customs and direct receipts from railway traffic also constituted another less administratively burdensome or costly source of revenue. Few officers on the few lines in operation meant an easy and cheaper way of revenue raising using the railway system.

Reliance on customs and railway receipts exposed the vulnerability of the Cape's fiscal capacity because revenue grew over time although this was not accompanied by a necessary diversification of the fiscal capacity. It would seem that the VOC had a more diversified fiscal system given the range of taxes it imposed and pursued, many of which were abolished during the British occupation. Serious consideration for income taxes or more direct forms of taxation came up in the parliamentary debates in the 1870s but income tax was only imposed in 1904. In essence the Cape enjoyed huge public revenue flows because it had developed better ports into 'South Africa' and was the first colony to develop railway lines reaching the interior and specifically the mining fields (Herranz-Loncan & Fourie, 2017). As soon as Natal developed its lines and Transvaal developed its lines to Lourenco Marques, the Cape's ports were considered less preferable because the journey was shorter to the mining fields from its rival colonies. In essence being a coastal colony helped the Cape as long as no other ports were developed elsewhere with shorter distances to the interior of 'South Africa'. The Cape therefore had to compete not only for traffic for its lines but customs revenue was inextricably linked to the railways because goods were now imported through other ports.

The expenditure regime and public debt were linked because much of the infrastructural developments were due to the fact that the government could borrow in London. The study reveals two important aspects when considering colonial governments and their fiscal history. The first aspect is what can be considered as the simplistic view. This is in line with neoclassical development economics and for the Cape it would argue that the Cape Colony had diamonds as the abundant natural resource, and therefore there was an inevitable need for large investments in the transportation system to make mining accessible. This is also in line with comparative advantage arguments because diamonds were in demand worldwide hence the Cape economy had to focus on diamond mining after wool farming declined in the late 1870s. This argument sees the bias towards railway construction as natural and high level of public debt as inevitable for a colony that had to develop its resources. The role of the elite or actors is ignored in most of this first simplistic view and this study elevates the role of actors. It does so without dismissing the simplistic view because the lesser is contained in the greater. The second, greater, view is that which encompasses the political economy because public revenues and expenditures were not merely devised for the provisions of public goods. Figure 7.1 encapsulates the central argument and conclusion of this study.

Figure 7. 1 The Cape Colony's self-reinforcing minerals-railways complex (MRC)



Source: Author's formulation

Figure 7.1 shows that there was, at the Cape Colony, a self-reinforcing minerals–railways complex (MRC)[50] underpinning the revenues, expenditures and public debt. This could have been a minerals-infrastructural complex but there was, throughout parliamentary debates, a resistance to more roads, light railways for agriculture and expansion of harbours in other coastal towns such as Port Elizabeth and East London. For main roads, harbours and anchorages and anything which was not seen as pro-mining the message to the petitioners was that "these people must put their hands into their pockets and pay for them" (Merriman in House of Assembly budget debates, 1884, p. 227). This makes the minerals-railways complex an apt description of the forces underpinning the public finances of the Cape Colony and its economic development in general. The triggering point was the discovery minerals (1) which needed heavy infrastructural development. The mining interests then penetrated the colonial state and influenced it towards the investment in railway construction through public debt (2). With railway lines constructed (3), revenue was boosted through railway receipts and customs receipts (4) which were invested in further development and extension of the railways (5). An important point to note is that the government, when it took ownership of the railways in 1872, wanted to "suspend the works or curtail the expenditure on them in adverse times whenever it suited its convenience" (Barkly, 1871, p. 1). This could not be the case anymore when the MRC was at full force because the railway project grew consistently without halting projects in unfavourable economic times. For instance, the diamond crisis in the first half of 1880 saw an increase in borrowing for railway extensions, instead of curtailment or halting of railway projects as the government had envisioned for such times. What the study unpacks is therefore not a case of a planned dominance by the elite but weak state institutions exploited for private ends.

At face value the MRC could be seen as a virtuous cycle of mining =>railways=>revenue (customs and railway receipts) that kept the colonial fiscal state afloat. The "virtuous-trade revenue cycles" have been observed for other coastal French and British colonies where customs revenue allowed investment in infrastructure that boosted commerce and trade and therefore increased customs revenues (van Waijenburg, 2015). This study,

[50] A qualification is important here. The argument that elevates the MRC does not deny that other issues than railways and mining were important in the fiscal history of the Cape. The MRC was the main driving force of public expenditures, public debt and taxation policies in a particular period of the colony's existence.

moving from the foregoing generalised proposition, undertakes a closer examination of the Cape and argues that what was observed was beyond a clean 'virtuous-trade-revenue cycle' but a vicious cycle of extraction of minerals by an elite group that controlled the state.

Mining activities attracted state railway development which boosted revenues through direct earnings and increased customs revenue. This was so at the surface but the truth was that the MRC was cutting deeper while placating the government with the balance which existed in the revenue and expenditure side of the complex. The balance was that on the revenue side government seemed to benefit from customs and railway receipts and other forms of taxes accompanying these two major sources. The fact that the railway system was seen as chief among revenue sources made it irresistible for government to undertake the railway projects pushed by the private interests. The mining interests, well represented in parliament, arm-twisted the state towards massive railway projects benefiting the mining industry while they completely resisted any form of taxation.

The developed ports and railways system meant that the Cape became a carrying nation due to high volumes of imports going to the mining fields. This gave the Cape government a desire to incur further debt when gold was discovered in the Transvaal to extend the railways to the goldfields for the MRC cycle to continue. The state was bent on maximising revenue cheaply from these two major sources while the elite wanted to maximise private profit by shifting major costs to the state. It appeared to be a positive sum game until early 1900 when the unsustainable fiscal path was exposed. This is consistent with early observers of imperial and colonial history. For instance, Davis and Huttenback (1986, p. 142) argued that in most colonial territories "the British warped the political process to bolster the profit of their business community (mainly local and not British businesses)". The burden which was gradually growing was the debt servicing burden. Borrowing is inconsequential if done for someone else. This is exactly what happened when private interest interests borrowed unsustainably on behalf of the state which was to be responsible for yearly interest payments from its revenues. The railway expenditures progressed with enthusiasm rather than careful consideration.[51] It was Merriman who in 1902 acknowledged that "I am afraid if we keep going on with railways in a reckless manner we will find ourselves burdened with many useless lines." Accumulation of railway mileage in the face of dwindling traffic was going to be costly in the sense that most of the loans had many years to maturity and this meant a long period of servicing the debt. When the Union of South Africa was formed in 1910, there is every evidence that the Cape was heavily indebted. South Africa, after 1910, benefited from the railway lines when the economy eventually expanded but the Cape did not experience many benefits during its existence as a colony.

It is important to note that by elevating the MRC the study does not trivialise the important work done by the Cape Colony in other key areas of public goods provisioning such as social spending, other public works (such as roads, bridges, etc.) and securing property rights. Notable was the increase in education expenditure from 1900 onwards although it was biased against the Africans. The late introduction and expansion of education expenditure was consistent with developments in England as discussed in section 2.3.1. Pensions were a feature of social spending in the Cape throughout its existence and the archival records reveal a strong concern growing in the aftermath of the South African war concerning 'poor whites'. This may point to the suggestion of a fledgling 'racist welfare state' which gave some legitimacy to the prevailing racial order as argued by Mkandawire (2010, p. 1651). The MRC was, however, at the centre of public policy that kept other sectors at the periphery receiving meagre portions of the budget which primarily paid for railway construction and debt servicing as leading outlays throughout the period from the 1870s. In any case the budgetary allocation for other state functions remained meagre and was never going to be a source of public debate or contention. The budget debates show that anything that could rival mining oriented railways in terms of magnitude was easily defeated in parliament.

[51] There was a misconception hidden in the fact that railway receipts were brought to the coffers because it then appeared as if railways were the biggest contributor yet the net revenues (revenue less expenditure) show a moderate picture. Bringing the railway earnings to the general 'pot' was thus problematic and gave a false sense of prosperity. If the railway minister was allowed to only bring net revenues, the story would have been different. The decision makers were mainly driven by revenue and not by the costs which were covered mainly through borrowing.

A key question would be if the Cape's experience differed from those of other 19th century colonies or dominions. The answer to this question may extend beyond the scope of this study but reliance on customs revenue, concentration on railway infrastructure expenditure and reliance on economic staples such as wheat, cotton and minerals was common place. The MRC helps to unpack the fact that railway projects, though they can be regarded as a commonplace in colonial environments, brought uniqueness to the state and its operations. The interaction between mining interests and the state run railways system gave the state certain attributes that became relevant in impeding or promoting long run economic development.

Control of labour and the gradual disenfranchisement of the black Africans narrowed the state's mandate to serving those who qualified to vote. For instance, the demographic diversity of the Cape meant that the state became indifferent to what Trapido (1970, p. 15) called the 'quasi militarization' of the control of the African labour in mining barracks. This became entrenched by legislation that systematically reduced the Cape franchise legitimising and being a foundation of the official policy of segregation and apartheid in 20th century South Africa (Thompson, 1960; Wolpe, 1972). In so far as the Cape's public finances reveal 19th century features observed elsewhere it was not unique but the manner in which this happened is crucial for our understanding of state formation outside Europe. This follows the argument that state formation processes outside Europe were not merely failed versions of the European experience (Tilly, 1990). State formation in many developing countries in Africa and elsewhere is complicated by colonial history and in many instances modern governments simply built upon the colonial states' remnants. Understanding the colonial state formation process becomes an important part of fully understanding the variants of states outside Europe.

Another key issue is how governments in developing countries handle natural resource discoveries and political change processes. When states 'hit a jackpot' of natural resources it is difficult to predict what happens because the outcomes depend on the pre-existing institutions. For the Cape, the discovery of diamonds coincided with weak institutions which allowed the mining interests to distort fiscal institutions to meet their private ends. This is consistent with Latin American economic history where tax structures favoured the landed elite who ended up having enormous power causing the state to become a mere 'paper leviathan'[52] (see Acemoglu and Robinson, 2016). The state under the sway of the powerful interest groups lacks capacity and resoluteness for its development policies and, in the event of economic windfalls, 'grabber institutions' flourish rather than production oriented ones (Mehlum *et al*., 2005).

7.3 Implications of the study

On public finances, pre-1910 South Africa has not been investigated before in a systematic way save for the recent study by Fourie *et al.* (2013) which investigated public finances of the Dutch period up to 1800. The British Cape Colony from 1800-1910 has not been investigated on the fiscal front. Many of the existing works done in the past have given glimpses into the state finances which could not allow a full understanding of public finances (Davenport & Saunders, 2000; De Kiewiet, 1957; De Kock, 1924; Goodfellow, 1931a; Houghton & Dagut, 1973; Marks, 1980; Pretorius, 2014a; Schumann, 1938). In their texts, these scholars have given compelling accounts of South Africa's social, political and economic history. With varying degrees of focus, they reflected upon some issues affecting public finance mentioning major economic events such as the discovery of minerals, trade, agriculture and the interactions between Europeans and the black Africans. Where an attempt is made to talk about fiscal matters these studies give snippets of the fiscal regime of the 19th century South Africa which leave many questions unanswered.

This study is, therefore, a significant contribution that not only investigates the under-studied 19th century Cape and therefore a big part of South Africa's fiscal history but makes available a systematically reconstituted data series for the entire existence of the Cape Colony. This data, see appendices A, B, and C, will allow future studies to continue using a fully developed dataset that allows various issues to be investigated for the Cape Colony as a key colony whose institutional apparatus was bequeathed to the Union of South Africa in 1910. With the recently compiled GDP series of the Cape Colony by Greyling and Verhoef (2015), the Cape public revenues, expenditures and debt becomes a major complementary contribution that overcomes the general lack of data for South Africa's past. The ongoing transformation debates on undoing the legacies of the past and

[52] The example used of a 'paper leviathan' is Colombia which lacks the monopoly of violence, fiscal resources, and bureaucratic capacity and is structurally unable to provide basic services such as a census (Acemoglu and Johnson, 2016, p. 23). Although their argument refers to modern Colombia, there is a strong parallel with the Cape colonial state which was heeding most of the short term desires of private interest groups at the expense of a long term development strategy.

what has been termed 'decolonisation' will benefit fundamentally from this study. This is so because the colonial past is fully understood through the policies pursued, polices reneged on and various ways in which the colonial government pragmatically navigated the challenges it confronted in pursuit of its desired ends. The myths about colonialism being good or bad are also exposed by such systematic studies which follow both patterns in data and political economy of budgeting by the colonial government.

Given the importance of the Cape Colony as a bigger settler colony in terms of the number of Europeans settlers on the African continent, this study is significant for the narratives of colonial fiscal regimes in Africa. It thus is an important contribution to how we can begin to understand state formation processes in the global south. The influence of the colonial dynamics of the Cape on the Southern African region has been established and a good example is how the Cape's Cecil John Rhodes established Southern and Northern Rhodesia with his British South African Company (BSAC). The Cape settler colony represented an earlier form of a settler colony that influenced the British colonial traditions across colonial Southern Africa in the 20th century. Hut tax and poll tax, for instance, were originally levied at the Cape in 1859 and they became not only an important source of revenue in most African colonies but a major coercive institutional tool to force Africans into wage labour. This became easy when hut tax was used in conjunction with other legislation such as the raising of franchise qualifications and the Glen Grey Act which controlled where Africans could work and stay. The study of the 19th century Cape provides a foundational and fundamental first mover case of the settler colonies in Africa. The data provided will also allow future studies to have wider comparisons which have hitherto excluded the Cape Colony for lack of data.

Of importance is the fact that the Cape was the 19th century's most advanced colonial fiscal state in Africa and was in the league of Britain's major self-governing colonies such as Australia, New Zealand and Canada. The brief comparative picture given in chapter 6 proves this point. This means that when the colonial state in Africa is discussed, the Cape was the prime example of settler colonies in Africa in the 19th century which influenced 20th century colonial developments, especially in Southern Africa. One important fact the study unveils is the difficulty of describing the colonial states as only extractive, developmental or benevolent among other names. They were more complex and often with many facets which generic descriptions of development or extraction fail to capture.

The African colonial state, the Cape being the prime example, could not easily fit into these generalised archetypes because the state itself changed over time.

Even when the modern features of fiscal states were visible in the late 1870s, such as centralised revenues, welfare commitment, permanent public debt and limited democracy, no single word suffices to capture the many facets of the colonial state. On one side it was brutal for the black Africans who were forced to pay hut taxes and confined through complementary coercive policies such as the Glen Grey Act and continual disenfranchisement through various legislative measures (Trapido, 1971). On the other hand, it was 'developmental' to the few in the mining business who benefited most from the infrastructure projects and arguably for the Western Cape farmers, coloured workers and all who were in the vicinity of the lines. On the other hand, those non-propertied remained on the fringes and for these it would seem the state was extractive in nature. How one defines the colonial state, therefore, depends on the position one decides to take and what one chooses to ignore about the reality of colonial policies.

The global or international implications of the study are also important besides the local and African perspectives alluded to above. It has been argued that "the British Empire was founded in a fit of absence of mind, and that the largely *ad hoc* development of overseas extensions owed itself to traditional British pragmatism rather than to any master plan emanating from corridors of Whitehall" (Davis& Huttenback, 1986, p. 7). The implication is that the Cape Colony, "a true cornerstone of the empire" in Africa in the 19th century (Marks, 1980, p. 1), is important for the wider debates on imperial history and British colonial history. The Cape's experience with public finances and foreign borrowing brings new light to the imperial project on the African continent in the 19th century – 'high age of imperialism' to use Edelstein's phrase (Edelstein, 1982). So far the Cape features in studies of colonial finances hidden in colonial aggregates when comparative studies trace colonial history (Accominotti *et al*., 2011; Davis& Huttenback, 1986; Stone, 1999). These studies include the Cape only in the aggregates for dominions such as the public debt of all self-governing colonies. This study is complementary to these studies whose global orientation allowed no specific in-depth exposition of individual colonies.

For the international literature, the institutional implications of the study are also important. The famous settler and non–settler colonies classification and what to expect from each (Acemoglu *et al*., 2001) is interrogated further in this study by investigating the Cape's fiscal history. The problem here is not so much this distinction but the coupling of each category to specific types of institutions. The coupling of each category to specific institutions has been found wanting in Africa because extraction has been found to be endemic in colonies classified as settler colonies (Bowden, *et al* 2008; Frankema & van Waijenburg, 2012; Frankema & van Waijenburg, 2014).

This study has exposed how extractive institutional apparatus were formed on the fiscal front with policies that favoured a minority even among the settlers themselves. Broadly, the Cape Colony thus experienced what has been referred to as 'extractive economic growth' driven by elite controlled extractive political and economic institutions (Acemoglu & Robinson, 2010, 2012, 2016). The Cape colonial state had state capacity to enforce property rights and maintain internal order but the fiscal policies were heavily controlled by a minority through the state. The fiscal institutions, observed through revenue, spending and borrowing policies, reveal a 'grabber' friendly orientation which eventually left the state heavily indebted. Natural resources with 'grabber' institutions rather than producer institutions, to use Mehlum *et al.* (2005)'s terminology, led to poor fiscal capacity building and hence poor development outcomes. Fiscal resources could have been used to advance agriculture and promote manufacturing, as rightly revealed by petitions to the state – a more sustainable economic approach rather than simply providing railways for the extraction of mineral resources.

A qualification is important here. It is generally understood that South Africa was, in the first half of the 20th century, comparatively better than other African countries on many development indicators. The corollary of this observation is that the colonial experiences had a major positive role to play. I argue that the Cape Colony was a single political entity whose development prospects were different from the impending Union of South Africa which benefited from pooled resources and unity of the whole geographic region covered by the four colonies in the post South African war period. The railways and customs wars (Van Der Poel, 1933), driven by desire for economic gains, fought by the four colonies points to this argument. Unification was good as it removed unnecessary rivalry on many fronts and the Cape alone had declining prospects had the Union of South Africa not been formed.

7.4 Implications for future studies

This study has many implications for future studies. The first important one is that by the scope of all revenue sources (tax and non-tax revenue), expenditure outlays (summed up through the functional classification) and public debt, the study remains more of a bird's eye view. This means that work still needs to continue that further investigates different aspects in more detail and expands on what has been done in this foundational study. The second most important implication for future studies is the implication of the formation of the Union of South Africa into which the Cape was absorbed with all its outstanding debt and financial problems. The joining of colonies in closer geographic regions was one of the key desires of the imperial government but how outstanding issues were dealt with remains to be seen. For the Cape Colony, a study that investigates the formation of the union and the financial implications and policies adopted should shed more light on how individual colonial debt was handled from 1910 onwards. This is even more important because the period of the formation of the union coincided with the era of more formal policies, such as import substitution policies, and a more systematic way of dealing with public policies.

With the data obtained on various issues of the Cape Colony, there is now more scope for studies that seek to compare different aspects of the Cape's fiscal development with other African or other colonial territories in other regions such as Asian and Latin America. Given that the Cape was a prime settler colony in 19th century Africa, it is also interesting to investigate continuities and discontinuities of colonial fiscal developments with other territories in the 20th century such as Southern and Northern Rhodesia. This will go a long way in contributing to debates on whether South African colonial experiences caused the infamous 'South African exceptionalism' on many fronts. This was critically exposed by Mamdani (1996, p. 30) when he argued "The problem with South African studies is that it has been a home grown exceptionalism while that of African studies has been a turnkey import developed by stargazing academics parched in distant ivory towers" The study has shown that on many issues of taxation the experiences in the Cape Colony informed colonial practices in other British colonies in Africa given the similarities. Further research will unpack other fiscal differences between South Africa and other Southern African countries.

APPENDIX

Table 6. 4 Classification of expenditure into various categories

Human Resources	Colonial Administration	Defence and Military	Law and Order	National Debt Service	Public Works & Developmental Utilities
-Pensions -Education -District surgeons -Public health -Public worship -Hospitals (Eastern Cape and Somerset)	-Controller and Auditor general -Agent general -Treasury -Colonial secretary -The governor -Crown forests -Joint parliamentary services -Transkeian territories -Immigration -Rents/ rates/ gas/ lights -Headman & Chiefs allowances	-Cape Town & frontier mounted rifleman -Cape forces -Imperial military expenditure -Defence and military allowances	-Divisional courts -Registrar of deeds -High sheriff -Superior courts -Police and gaols -Convicts	-Loans repaid -Public debt servicing -Unpaid advances from previous year.	-Railways -Roads & Bridges -Works and buildings -Conveyance of mails -Telegraph -Post office -Ports and harbours -Customs -Mines -Lands and agriculture -Surveyor general, -Engineer and inspector of works -Lighthouse -Commissioner of public works

Table A 1 Cape Colony revenue by sources (£)

YEAR	Total Revenue	Customs	Transfer Duty	Excise Duty	Stamp Duty	Auction Duty	Mining Tax	Bank Notes Duty	Succession Duty	Hut Tax
1827	**149834**	17739	19253		12113	12414				
1828	**162396**	17889	12720		18972	12414				
1829	**179370**	20066	6563		16642	9757				
1830	**203971**	25945	6940		15784	10974				
1831	**205033**	19358	6250		17262	11258				
1832	**267865**	15225	7227		16742	11993				
1833	**317387**	17211	8161		17501	12265				
1834	**321091**	14673	9422		16465	10808				
1835	**312275**	19898	8330		14614	8422				
1836	**381090**	26683	11750		15826	11913				
1837	**441706**	34985	18190		19995	13490				
1838	**456746**	45340	24345		21241	19423				
1839	**423966**	51968	20472		20603	18906				
1840	**395748**	41807	16921		16719	16385				
1841	**216130**	32649	14224		14064	8686				

1842	**323231**	56485	20343		19288	11627				
1843	**350648**	75190	18498		18887	12910				
1844	**466847**	75358	16769		19638	11750				
1845	**244709**	82372	16679		21247	13065				
1846	**191231**	102099	16590		18679	10993				
1847	**187387**	101735	23050		18040	15470				
1848	**226974**	105458	24505		19497	16583				
1849	**245821**	84256	20714		17949	17257				
1850	**269193**	102173	24928		18447	17079				
1851	**256947**	111259	23993		16403	15666				
1852	**328794**	152281	31551		19420	21185				
1853	**318870**	134595	42119		21312	25499				
1854	**266802**	129402	44124		21239	24603				
1855	**268137**	134354	36291		20856	23805				
1856	**305231**	173080	43076		21365	23783				
1857	**452202**	254178	47658		23821	24490				
1858	**468097**	260322	34887		25924	23703				
1859	**665389**	262801	43137		30079	19982				1615
1860	**734635**	270328	46860		31579	21223				1272
1861	**725218**	278585	44863		34353	20516				1197
1862	**695422**	274538	57167		34472	20517				1698
1863	**770416**	243764	55722		37533	17924				1630
1864	**597636**	299503	53198		49975	14425			1023	1680
1865	**856140**	275558	47321		58668	15213		1365	1039	1140
1866	**517701**	285056	44851		58798	14743		3937	1102	2786
1867	**818732**	330242	46110		55218	14013		3916	3153	4215
1868	**590936**	283023	40808		60112	11636		4028	3432	6181
1869	**574511**	295661	39122		60861	11167		3299	6389	6897
1870	**804962**	341992	35238		65463	12301		3247	4776	8384
1871	**801260**	384808	35667		67601	12053		4130	4066	11052
1872	**1068624**	601586	52540		76737	17488		7983	6969	10656
1873	**1838425**	683472	84415		83034	18776		15036	4386	12273
1874	**1755315**	733513	92223		92417	25243		15387	6251	11816
1875	**1504779**	735379	92625		96759	25758		14889	8896	14857
1876	**1371542**	395504	41743		70812	12917		12179	2343	14065
1877	**1251069**	601800	77367		95354	20993		8135	6192	13337
1878	**1537862**	770616	72082		99980	19651		6957	7221	3864
1879	**2834629**	911490	86703	63522	118872	26959		8387	7565	30263
1880	**2482930**	972477	98936	74103	138121	24732		9306	8456	30441
1881	**2967646**	1184074	129063	49066	181950	32503		13081	7659	21898
1882	**3450462**	1341481	146603	58293	213433	34617	22919	18731	11351	24927
1883	**3271082**	1106443	123441	43102	219463	31284	26036	15739	12530	23168
1884	**2985984**	897426	99966	19468	214121	21078	37628	11066	11637	40945
1885	**3468977**	1073372	93797	94685	250147	18295	24271	9980	12999	31912
1886	**3215176**	950601	74117	5994	237247	17644	31699	8025	10403	26049
1887	**3381169**	930408	69257	12316	237743	16164	37638	14536	11511	37781
1888	**3616618**	1006334	60150	2360	248262	14169	44513	7287	11715	39622
1889	**4010483**	1132661	70124	123	251259	14651	36684	6236	10242	48971

1890	**4631416**	1353751	100449	695	250797	17012	43953	7196	12858	49141
1891	**4283554**	1243392	103882	1678	250723	17479	27063	7632	13098	50172
1892	**4646872**	1328840	119756	216	255288	17623	24842	7010	12572	52213
1893	**5197178**	1408176	120245	169	136218	18567	23016	7132	16883	58022
1894	**6684648**	1532371	108667	362	260828	18965	23672	7006	18056	57358
1895	**5766228**	1465259	112439	578	277260	19389	21161	6059	16243	62195
1896	**7364115**	1922516	150046	327	148229	16939	29574	5907	17904	78875
1897	**8343411**	2437678	129278	9829	323738		30507	7267	17260	78503
1898	**7017882**	1803316	122478	7873	349372		27303	8216	19630	81474
1899	**8695646**	1856685	114947	6870	345513		28550	8144	25634	80720
1900	**6326274**	1879408	144724	4860	328789		18766	9392	30271	79402
1901	**7957499**	2376341	128645	3725	373521		29777	12966	40481	85458
1902	**9050371**	2710118	195141	3661	423217		29504	14677	31105	94396
1903	**11575331**	3503479	302136	36501	533932		32028	15388	37160	96605
1904	**9807254**	2396684	222222	269012	534822		28491	13508	160055	97004
1905	**8381202**	1925879	144695	284506	500541		27689	10788	13999	102292
1906	**8148311**	1870956	134871	337464	473305		45112	11010	40404	105070
1907	**7537337**	1763400	134515	242892	462636		21700	11761	36104	106130
1908	**6833323**	1543088	106269	287216	422421		24122	11135	28374	104128
1909	**7081203**	1253051	112820	321046	450203		38515	9316	112820	105094

Table A 2 Cape Colony revenue by sources (£) (continued)

YEAR	**Total Revenue**	**Land quitrent**	**Post Office**	**Railway**	**Telegraph**	**Property sales**	**Office fees**	**Fines and Forfeitures**	**Rents**
1827	**149834**	7313	2083				4268		
1828	**162396**	1588	3274				5824	1917	
1829	**179370**	1719	3540				5366	725	
1830	**203971**	944	3629				5168	788	
1831	**205033**	840	3636				5258	980	
1832	**267865**	718	3808				5323	933	
1833	**317387**	663	3719				5419	921	
1834	**321091**	8910	3965				5247	1163	
1835	**312275**	7791	3933				3678	1027	
1836	**381090**	10252	4927				2908	1074	
1837	**441706**	13343	5967				2487	1112	
1838	**456746**	13233	5918				3739	1202	
1839	**423966**	9893	5591				3768	828	
1840	**395748**	12092	6119				3023	1397	
1841	**216130**	1040	4314				3264	924	
1842	**323231**	1680	6454				3810	889	
1843	**350648**	1597	8018				3968	1202	
1844	**466847**	2023	8323				3823	1167	
1845	**244709**	1678	8889				3694	1076	
1846	**191231**	2093	8260				2949	881	
1847	**187387**	1482	9724				3453	1162	
1848	**226974**	1512	10936				4686	1086	
1849	**245821**	14516	16087			160	1979	4779	731
1850	**269193**	22267	11541			89	1940	4256	573
1851	**256947**	11852	13652			474	1729	4595	475
1852	**328794**	17617	14364			612	2112	4964	290

1853	**318870**	25248	14045			709	2751	6124	556
1854	**266802**	23032	13893			373	2900	4785	503
1855	**268137**	23091	14626			535	2986	5279	534
1856	**305231**	21197	13227			852	3200	6677	1507
1857	**452202**	22989	15602			361	3593	7121	640
1858	**468097**	27314	15334			799	3614	7549	298
1859	**665389**	33083	17510			1005	4467	9634	9005
1860	**734635**	24303	19203			1439	4991	8449	9530
1861	**725218**	26800	21029			5485	4624	9453	10994
1862	**695422**	26057	22793			3227	5072	10306	7841
1863	**770416**	27737	24521			2585	5362	12537	9536
1864	**597636**	27160	23418			966	5110	11161	9972
1865	**856140**	24701	24922			838	4674	11739	1734
1866	**517701**	32796	26801			479	4402	13000	521
1867	**818732**	46378	28209			2002	4422	10919	250
1868	**590936**	43020	28430			458	4297	12480	141
1869	**574511**	50445	25478			991	4085	11387	1017
1870	**804962**	57550	26479			1014	4680	12619	982
1871	**801260**	69354	28397			866	3995	11044	1241
1872	**1068624**	93623	32440			629	4731	12268	1421
1873	**1838425**	102092	41478	63949	3361	3534	6193	12669	1737
1874	**1755315**	96748	48566	84376	9575	1834	6299	16485	2031
1875	**1504779**	105221	53128	104378	10099	1794	7750	23253	1183
1876	**1371542**	57446	28594	89049	9491	185	3735	9779	1163
1877	**1251069**	100771	30305	186439	21658	3165	8078	17894	2373
1878	**1537862**	86460	61481	274544	23418	2744	5990	15673	2630
1879	**2834629**	108466	70541	396162	29632	11942	15112	13740	8951
1880	**2482930**	147977	77630	564532	35836	1458	3296	15156	7994
1881	**2967646**	139236	92088	739205	54740	1700	6744	18566	19405
1882	**3450462**	155211	109886	966856	63223	2726	10562	24792	31433
1883	**3271082**	170254	106530	941508	52271	1272	6599	24950	23275
1884	**2985984**	159642	114619	920066	50809	931	6408	21348	20435
1885	**3468977**	160727	128574	1027029	52300	796	5148	16577	19648
1886	**3215176**	145898	124669	1001768	48600	787	5867	16821	12853
1887	**3381169**	169058	128355	1184753	50661	559	6610	13409	11047
1888	**3616618**	162424	140819	1379454	61119	10247	7415	10934	12508
1889	**4010483**	145886	142783	1538659	85026	32205	6248	11119	13027
1890	**4631416**	132756	159523	1950762	85652	24100	5354	13965	2028
1891	**4283554**	135176	165415	1772751	69627	33666	1068	17984	1138
1892	**4646872**	136661	174264	2002039	67236	41484	1048	19350	2825
1893	**5197178**	133658	183578	2332266	72092	54084	1252	18401	2616
1894	**6684648**	129021	200816	2528296	67700	62279	1094	21241	2518
1895	**5766228**	139938	219491	2672854	84240	45490	2615	19739	1773
1896	**7364115**	132231	242919	3463372	115320	53066	2625	18215	2211
1897	**8343411**	130090	294069	3496763	129890	50667	2605	22617	7906
1898	**7017882**	143389	327737	3101818	150971	68387	2532	24154	8619
1899	**8695646**	127166	303640	2907730	137923	70550	2042	23661	10178
1900	**6326274**	118053	302092	2864880	164001	82576	2232	27131	10320
1901	**7957499**	108245	410086	3668023	233679	78748	3134	40727	10744
1902	**9050371**	115056	484916	4106998	323941	147987	2285	60451	10423
1903	**11575331**	124455	506392	3617867	297662	82492	2882	83712	16729
1904	**9807254**	112610	502308	3120261	232895	49715	3437	71438	16730
1905	**8381202**	109974	477479	4033039	210661	49274	3015	50829	14883
1906	**8148311**	116164	256067	3940788	206917	88086	2930	50739	14587
1907	**7537337**	113967	351338	3065379	184971	96324	3757	39227	12241
1908	**6833323**	116311	339214	3094444	167764	83805	2868	43886	12429
1909	**7081203**	117130	451624	3662533	175099	78657	3409	48616	13682

Table A 3 Cape Colony revenue (£) by different categories

YEAR	GDP(Greyling and Verhoef, 2015)	Total Revenue	Total tax Revenue	Direct Taxes	Indirect Taxes	Non-Tax Revenue
1827		**149834**	68832	7313	61519	6351
1828		**162396**	63583	1588	61995	11015
1829		**179370**	54747	1719	53028	9631
1830		**203971**	60587	944	59643	9585
1831		**205033**	54968	840	54128	9874
1832		**267865**	51905	718	51187	10064
1833		**317387**	55801	663	55138	10059
1834		**321091**	60278	8910	51368	10375
1835		**312275**	59055	7791	51264	8638
1836		**381090**	76424	10252	66172	8909
1837		**441706**	100003	13343	86660	9566
1838		**456746**	123582	13233	110349	10859
1839		**423966**	121842	9893	111949	10187
1840		**395748**	103924	12092	91832	7516
1841		**216130**	70663	1040	69623	8502
1842		**323231**	109423	1680	107743	7343
1843		**350648**	127082	1597	125485	13188
1844		**466847**	125538	2023	123515	13313
1845		**244709**	135041	1678	133363	13659
1846		**191231**	150454	2093	148361	12090
1847		**187387**	159777	1482	158295	14339
1848		**226974**	167555	1512	166043	16708
1849		**245821**	154692	14516	140176	23736
1850		**269193**	184894	22267	162627	18399
1851		**256947**	179173	11852	167321	7273
1852		**328794**	242054	17617	224437	22342
1853		**318870**	248773	25248	223525	24185
1854		**266802**	242400	23032	219368	22454
1855		**268137**	238397	23091	215306	23960
1856	**1366943**	**305231**	282501	21197	261304	25463
1857	**2100061**	**452202**	373136	22989	350147	27317
1858	**2170094**	**468097**	372150	27314	344836	27594
1859	**2579330**	**665389**	390697	34698	355999	41621
1860	**2613463**	**734635**	395565	25575	369990	43612
1861	**2603041**	**725218**	406314	27997	378317	51585
1862	**2329002**	**695422**	414449	27755	386694	49239
1863	**2715721**	**770416**	382710	27767	354943	54541
1864	**3211465**	**597636**	444942	27840	417102	50627
1865	**3122328**	**856140**	425005	25841	399164	43907

1866	**3113155**	**517701**	444069	35582	408487	45203
1867	**2954512**	**818732**	503245	50593	452652	45802
1868	**2670042**	**590936**	452240	49201	403039	45806
1869	**2745527**	**574511**	473841	57342	416499	42958
1870	**3148006**	**804962**	528951	65934	463017	45774
1871	**4078762**	**801260**	588731	80406	508325	45543
1872	**6268783**	**1068624**	867582	104279	763303	50068
1873	**6545195**	**1838425**	1003484	114365	889119	132921
1874	**6221279**	**1755315**	1073598	108564	965034	169166
1875	**7513411**	**1504779**	1094384	120078	974306	201585
1876	**8087325**	**1371542**	592944	57446	535498	141996
1877	**8435931**	**1251069**	923949	114108	809841	269912
1878	**8686692**	**1537862**	1066831	90324	976507	386480
1879	**9808802**	**2834629**	1331964	108466	1223498	546080
1880	**12457422**	**2482930**	1504549	178418	1326131	705902
1881	**13449291**	**2967646**	1758530	161134	1597396	932448
1882	**13640295**	**3450462**	2027566	180138	1847428	1209478
1883	**11284961**	**3271082**	1771460	193422	1578038	1156405
1884	**10616592**	**2985984**	1512977	200587	1312390	1134616
1885	**9580308**	**3468977**	1770185	192639	1577546	1250072
1886	**10877906**	**3215176**	1507677	171947	1335730	1211365
1887	**11536825**	**3381169**	1536412	206839	1329573	1395394
1888	**12754579**	**3616618**	1596836	202046	1394790	1622496
1889	**14290269**	**4010483**	1710601	194857	1515744	1829067
1890	**15975670**	**4631416**	1961412	181897	1779515	2241384
1891	**16850616**	**4283554**	1842663	185348	1657315	2061649
1892	**17194588**	**4646872**	1930388	188874	1741514	2308246
1893	**18707123**	**5197178**	1896387	191680	1704707	2664289
1894	**19598633**	**6684648**	2130335	186379	1943956	2883944
1895	**24248797**	**5766228**	2120521	202133	1918388	3046202
1896	**25944219**	**7364115**	2502548	211106	2291442	3897728
1897	**27720257**	**8343411**	3164150	208593	2955557	4004517
1898	**32838889**	**7017882**	2563051	224863	2338188	3684218
1899	**30799352**	**8695646**	2587359	207886	2379473	3455724
1900	**15813851**	**6326274**	2608805	197455	2411350	3453232
1901	**20192713**	**7957499**	3159159	193703	2965456	4445141
1902	**27104104**	**9050371**	3616875	209452	3407423	5137001
1903	**33422622**	**11575331**	4645183	221060	4424123	4607736
1904	**35713220**	**9807254**	3565396	209614	3355782	3996784
1905	**41545068**	**8381202**	3120363	212266	2908097	4839180
1906	**51132249**	**8148311**	3134356	221234	2913122	4560114
1907	**51588282**	**7537337**	2893105	220097	2673008	3753237
1908	**47515800**	**6833323**	2643064	220439	2422625	3744410
1909	**50438180**	**7081203**	2519995	222224	2297771	4433620

Table B 1 The Cape Colony expenditures (£)

YEAR	Total Expenditure	National Debt Servicing	Total Railways	Roads & Bridges	Works & Buildings	Divisional Courts	Registrar of Deeds	High Sheriff	Superior Courts
1827	**93682**				7793				
1828	**113935**				11082				
1829	**120896**	1404			7410				
1830	**112874**	462			5031				
1831	**108969**	360			4392				
1832	**115582**	211			4399				
1833	**126023**	223		2313	5695				
1834	**127875**	1403		4877	4995			861	9812
1835	**139112**	19158		4254	4897			800	8944
1836	**137088**	10687		4536	2326			716	8014
1837	**132822**	4166		5718	3640			699	7863
1838	**151982**	20418		4419	3662			694	7771
1839	**162637**	25005		7473	7533			654	7309
1840	**150559**	17536		8254	6889		971	642	7166
1841	**146375**	9755		2910	5542		1004	494	5546
1842	**207943**	29984		4502	7133		1363	712	7932
1843	**258702**	37380		3333	5791		1775	802	8821
1844	**230992**	30023		14840	9589		1802	734	7934
1845	**221267**	51752		24962	3469		1562	707	7629
1846	**179726**	6262		20872	5166		1290	662	7217
1847	**163480**	10934		22902	2248		1155	589	6248
1848	**238216**	15952		22152	8703		857	734	7173
1849	**283479**	30036		33183	10443		961	1080	8536
1850	**269050**	19055		35758	11917		1093	1190	10069
1851	**244073**	20560		34590	5134		1082	1206	8569
1852	**286784**	21619		40207	3989		1148	1266	8831
1853	**277148**	7646		47019	3964		1136	1188	8107
1854	**281881**	8865		41368	4210		1086	1052	7043
1855	**315464**	29106		33921	5782	13508	1049	957	7179
1856	**291904**	24807		15575	8752	19175	1008	768	8227
1857	**423822**	91169		21698	9277	20108	1362	746	8520
1858	**500427**	56235		41606	20623	21710	1468	886	10545
1859	**679414**	55424		99212	13450	32945	1514	910	9781
1860	**721843**	78438	1821	72942	78624	43109	1762	805	10100
1861	**739134**	96138	10497	78883	68411	40908	1794	801	9764
1862	**676439**	83567	8885	81940	43964	41621	1875	1099	10040
1863	**698040**	101103	424	71132	21518	42887	1960	1174	10296
1864	**655305**	115172	10441	60280	19463	44748	1976	1300	10386
1865	**889424**	318406	38030	29145	13974	42387	1968	1183	13706
1866	**669888**	49726	600	21996	17990	41435	2038	1145	12409
1867	**806317**	287744	879	16017	9885	41630	1758	1069	11270
1868	**614639**	10960	209	17832	9091	28066	1782	1083	11203

1869	**628246**	116813	456	16921	8422	37823	1905	1150	12219
1870	**632728**	266640	897	11549	6303	27217	1942	1164	11469
1871	**609044**	154173	1763	12698	22639	34438	1914	1160	11639
1872	**591849**	348052	5249	14024	26656	25079	1864	1108	14065
1873	**856005**	474360	133969	20848	55691	31838	1775	1062	11408
1874	**830954**	311306	226024	31065	53337	38514	2140	1285	13449
1875	**1039118**	240075	1062241	41055	72686	33568	2658	1451	14364
1876	**1694443**	72323	599289	39919	27783	22921	1197	682	6910
1877	**1520666**	216877	188197	62206	35892	37964	3082	2482	22556
1878	**1640053**	314163	233017	32827	35970	59941	2857	3736	21343
1879	**1939361**	453807	337507	36891	23449	68703	3001	2797	23687
1880	**2210227**	459148	448863	72294	29530	72826	2965	2858	24867
1881	**2777631**	661904	558538	69957	76044	79502	2989	3459	34171
1882	**3211079**	786166	735413	68308	93787	91644	3143	4649	33096
1883	**3650311**	924861	742043	70247	113054	96720	3455	4293	41154
1884	**3543100**	1145799	617961	36538	57753	96784	3532	6110	41148
1885	**3532405**	1237284	659060	20405	29201	98460	3544	4800	39067
1886	**3595040**	1251896	704175	22611	31512	96152	3716	4947	37949
1887	**3368563**	1233678	691320	11614	25667	158860	3787	4637	37504
1888	**3435243**	1151184	756959	29255	46049	158621	4054	4258	36907
1889	**3569759**	1097198	835351	41607	56808	101356	38924	3937	36212
1890	**4055240**	1111610	1037075	76689	110084	100857	400	5319	38572
1891	**4376976**	1262636	1136556	71529	142960	98442	4325	4784	38515
1892	**4429297**	1205683	1236260	48845	85898	102120	4605	5711	38994
1893	**4880052**	1268350	1269153	65148	67859	108125	4721	5483	41569
1894	**5263546**	1303260	1326096	81030	84000	113115	5062		49586
1895	**5511157**	1331591	1273070	114283	121225	117628	5303		53610
1896	**6116728**	1346233	1503318	114105	94202	129853	5991		54248
1897	**7246201**	1327370	1807219	164851	224627	142287	6681		56192
1898	**7489281**	1320463	2101200	202200	232523	154627	6958		52904
1899	**7112270**	1370012	2083907	118414	179775	156644	6927		57661
1900	**6677651**	1415684	1966448	70076	95172	149310	6263		51706
1901	**7990161**	1429231	2512237	55531	115860	170676	7499		67690
1902	**8617626**	1513716	3178841	52686	106358	175520	7032		76535
1903	**11077562**	1610270	4270376	88526	215547	208915	8071		98916
1904	**10746061**	1668905	4208303	92846	146819	210914	8908		72222
1905	**9051116**	1820540	2920486	53507	57865	174064	8664		63013
1906	**8143206**	1893612	2598903	32541	32541	163214	8545		59425
1907	**8171671**	1916859	2564313	35223	24337	160164	8518		61319
1908	**7804073**	1988361	2264936	18755	17659	154801	9332		59267
1909	**7438737**	1866166	1926472	22169	14132	145503	8962		54503

Table B 2 The Cape Colony expenditures (£) (continued)

YEAR	Conveyance of mails	Telegraph	Post Office	Ports and Harbours	Customs	Pensions	Education Natives	Education Non-Natives	District Surgeons
1827					5792				
1828					16649	4511			
1829			3680		16139	4384		1813	
1830			4882		14345	4146		1537	
1831			3705		12871	4083		1636	
1832			4045	451	13574	4150		1607	
1833			3796	1780	14480	4270		1605	
1834			4614	2212	4564	6414		2094	
1835			4250	1838	3785	7081		1901	
1836			3735	1741	3109	6185		1300	
1837			4104	1835	2809	6629		1568	
1838			3931	1608	2570	6251		1275	
1839			4121	1674	4651	6187		1592	
1840			4991	1465	4230	6334		1664	
1841			3585	955	2688	4244		1550	
1842			5736	1566	5602	6789		4235	
1843			5701	1805	6343	7200		4834	
1844			5969	1814	5525	6376		3683	
1845			5519	1821	6783	6335		3573	
1846			8122	2489	7011	5400		4914	
1847			8023	1766	6140	4576		4285	
1848			11790	2263	7347	5213		5398	
1849	9717		2190	2878	13044	9892		6826	
1850	10320		2245	3136	12985	8743		8676	
1851	9792		2702	3070	8213	7065		7829	
1852	21620		4675	3278	8525	9244		9050	
1853	24597		4564	2782	9877	7736		7540	
1854	20828		3726	5254	7273	6797		6848	
1855	19316		4087	2886	11805	8246		7022	
1856	19077		4080	3140	6950	7462		7272	
1857	20468		4892	3423	8639	8175		9204	
1858	26201		6309	3700	20072	11214		11268	
1859	30543		7858	4310	14185	17046		13102	
1860	31263		8380	4560	12957	14969		9189	
1861	49350		8406	4402	12129	14149		10166	
1862	42507		9168	4832	13586	13587		11596	
1863	40705		9742	5828	16380	14342		13885	
1864	39378		10162	5046	14340	15480		15497	
1865	35293		10678	5195	17477	17743		16279	
1866	39906		10475	7130	14648	15660		16910	
1867	31629		9226	5801	17645	18088		16534	

1868	30699		9013	6360	17690	20794		17681	
1869	30176		9031	5698	18542	21109		17985	
1870	28510		8668	5582	13292	22675		17990	
1871	28160		8658	6227	12909	23526		17755	
1872	26341		9116	6061	19797	19217		17780	
1873	45465	1963	10548	4646	13950	20298		19884	
1874	69834	28416	13544	5227	23192	21182		23194	
1875	82148	50360	15248	5253	30369	22030		28885	
1876	84865	38364	51363	2924	13827	10429		21458	7140
1877	89764	48122	17638	8404	41447	25839	2461	48102	4655
1878	117621	28894	19136	12209	34484	26717	3292	48441	5166
1879	163644	31773	19825	13590	36561	32147	4472	61323	5386
1880	170879	42095	21065	11724	26278	35646	5356	67534	5339
1881	163757	63428	26384	13997	48323	37450	5224	74187	5186
1882	186405	68038	34140	10525	31279	39883	75345	85089	6518
1883	197162	73703	41010	12248	32429	43059	12574	82984	67801
1884	179753	79216	42134	10816	32357	38916	12719	86750	7509
1885	153359	71052	48689	8753	37851	42765	12250	87768	7731
1886	152111	67730	49163	8116	36568	44726	10445	86486	7716
1887	143807	64315	48785	7919	36942	45102	9235	84040	7853
1888	143500	70575	49605	7610	40271	47668	8844	89596	7933
1889	117332	97315	52606	7719	42003	47588	9337	99754	8031
1890	119315	110398	60752	7392	84976	50060	11422	123464	8547
1891	123411	102244	68715	6926	140641	49769	11821	140220	8752
1892	125932	107520	72939	6981	150474	52770	13070	124942	8785
1893	124798	108730	80655	7761	151317	57296	14969	140125	9300
1894	142746	128513	87954	5922	156131	58555	16733	169265	9357
1895	166195	120481	96741	3569	175534	58727	18909	174737	9782
1896	172447	140854	106064	3388	199980	80553	20762	192827	10084
1897	176729	223025	123464	4128	214271	90086	16300	200208	11124
1898	184251	222352	138325	3945	215016	94618	22063	228663	11485
1899	186272	177601	145516	4169	212952	101391	24314	249645	17310
1900	178246	193377	148883	3858	150430	95716	26582	240335	16256
1901	210534	222000	177797	4342	72186	109381	28926	248725	16529
1902	228939	259159	214215	5129	95601	114428	30511	257035	16711
1903	259392	283567	241806	5484	124875	1125744	33421	277958	18033
1904	262040	280056	263667	8726	133410	144494	48168	326236	19036
1905	261970	303403	265699	11430	137184	167330	49788	393390	18664
1906	257969	313877	252149	6286	92459	187120	51770	425711	17673
1907	269078	317929	260733	6521	105472	177348	52889	473499	17391
1908	265635	296410	261644	5116	92511	187604	50669	515551	18962
1909	260971	245775	241475	4902	79050	216854	48851	456363	17544

Table B 3 The Cape Colony expenditure (£) (continued)

YEAR	Public Health	Cape Town & frontier Mounted riflemen	Police and Gaol	Convicts and Prisons	Public Worship	Eastern Cape hospital and lepers	Somerset , old and new Hospital	Robben Island
1827			6924		1882			
1828			603023	4704	5675			
1829			5446	6706	7272		2741	
1830			4808	7388	5361		2833	
1831			4392	5101	4865		2531	167
1832			4841	5762	5624		2571	180
1833			5006	8342	6105		3019	205
1834			6401	8868	8483		3731	223
1835			5389	8623	6592		3612	317
1836			4927	9079	6045		4003	1174
1837			5801	9327	7304		3846	1082
1838			5047	13232	5891		3780	1863
1839			5519	13117	6739		3877	2314
1840			4958	12465	6365		3385	2464
1841			3297	6020	4581		1834	1122
1842			5392	11338	7405		3022	1220
1843			8703	13244	8570		2455	2022
1844			8750	9823	9347		2214	2914
1845			8439	7413	8825		1948	1961
1846			7957	5912	8662		1036	1680
1847			6853	8049	7620		290	1551
1848			5893	17324	9083		781	2373
1849			21883	10563	12507		2369	1603
1850			24997	11632	13904		5178	1763
1851			26583	12891	13442		5038	1836
1852			30520	14361	14475		6357	1596
1853			28081	16358	13855		5114	1635
1854	4941	28508	24389	18638	15230		1823	1289
1855	5368	26619	22020	120120	14504		855	1061
1856	5431	24795	22753	16523	13360		828	1153
1857	6692	29905	26717	19931	14418		933	1295
1858	8701	38746	43063	22765	15816		1150	1507
1859	11644	55909	53241	39229	15669	3218	1255	1585
1860	13323	43865	52499	949	14948	3409	1192	1789
1861	10832	47028	48725	48780	14923	3264	1191	1711
1862	10047	53256	48866	32323	15105	3611	1490	1832
1863	20605	53699	62171	38104	16013	3589	1648	2813
1864	15379	54592	51850	37549	15810	3621	1552	2734

1865	14960	50746	49336	36173	15704	3718	1468	2747
1866	17626	49756	55982	46998	14726	4401	1555	2836
1867	26967	45459	55384	41824	13720	3351	1643	4671
1868	22297	48461	49235	46325	14151	5002	1707	3647
1869	23138	44858	47627	33685	14843	4950	1549	4048
1870	22052	50525	38649	22557	14941	5027	1598	3840
1871	27562	46532	34826	26921	14842	5005	1856	3875
1872	18130	66375	35992	20499	14146	4390	1879	4028
1873	22487	59985	41742	20190	13824	4934	2027	3808
1874	25105	62517	56498	32754	13801	4921	2387	4713
1875		63222	70866	25591	13670	17301	6710	10664
1876	16037	44460	36839	14759	6976	10893	5671	12036
1877		101556	78512	28702	14139	8082	12724	13799
1878	19963	137930	93051	36904	14447	8991	12792	15023
1879	11727	115463	121461	59645	14941	10838	14904	17348
1880		107866	120529	62756	14594	9546	13051	18211
1881		119774	183966	52684	11897	9598	12219	17580
1882		129625	210810	52068	11402	10636	12894	18038
1883		120810	274365	62768	10654	12821	14477	17066
1884		126911	334804	71398	10113	13767	14550	15937
1885		99096	288947	69728	10432	12508	14799	14096
1886		92705	264040	80459	9953	11756	11750	14517
1887		99144	203890	85875	9617	10137	10360	12677
1888		109163	183423	73744	9139	9203	13242	13330
1889		102725	190058	71988	8716	12298	9807	13616
1890	43712	130138	192248	96636	8278	13799	11238	19762
1891	49180	130718	212532	98336	7673	14991	12893	25155
1892	45181	128556	213373	91781	7572	12813	13409	30668
1893	52252	128430	235400	115250	7412	16741	13312	38901
1894	51278	140600	254032	128399	7278	19601	16506	44578
1895	61068	141905	284187	147467	7212	20676	16780	42917
1896	71445	162910	319893	158962	7046	26392	16185	53914
1897	71888	354771	394113	183471	6668	28642	16039	46723
1898	82917	470063	499975	194046	6390	30933	16725	46842
1899	102509	221595	437175	181128	6211	31073	8067	50124
1900	116541	179039	453682	149626	5472	31404	9121	44873
1901	307381	446225	586845	159745	5358	33815	8713	47205
1902	337148	155988	622157	166677	5255	32513	7464	49133
1903	198540	550900	981617	170849	5335	36991	9117	65603
1904	164934	213670	831000	161421	5058	39446	8165	61343
1905	145346	153565	328246	212692	4168	40237	117547	82848
1906	129301	138157	286868	174075	3728	38477	9960	80094
1907	116572	136134	284061	170562	3295	40653	10356	77074
1908	37608	128910	256826	159292	2849	41368	10563	75459
1909	25570	108568	260103	160958	2171	40893	11036	72639

Table B 4 The Cape Colony expenditures (£) (continued)

YEAR	Colonial Secretary	The Governor	Imperial Military Expenditure	Crown Forests	Joint parliamentary expenses	Transkeian territories
1827		5202				
1828		5236				
1829		5195				
1830		5783				
1831		5269				
1832		5631				
1833		6305				
1834	3983	6783				
1835	3484	5171				
1836	3136	4699				
1837	3135	4568				
1838	3367	5007				
1839	3209	4473				
1840	3105	4393				
1841	2075	3274				
1842	2798	4859				
1843	3617	5381		212		
1844	3672	7769		207		
1845	3740	5924		239		
1846	3475	4608		361		
1847	3263	5471		335		
1848	4058	6687		375		
1849	5298	5807		382		
1850	5943	6145		643		
1851	5848	6142		570		
1852	5408	6401		553		
1853	4029	6010		580	1666	
1854	4181	4103		507	10559	
1855	4957	5405		451	8304	
1856	5052	4964		815	7766	
1857	5136	5061		781	6872	
1858	6978	5753		943	10445	
1859	7233	5640		1087	11040	
1860	6967	5886		1126	9633	
1861	6973	4737		1144	9249	
1862	7076	6372		1201	9342	
1863	6845	5782		1323	8581	
1864	6962	5772		1292	14808	

1865	6774	5761		1289	13967	
1866	6515	5506		1218	92725	
1867	5590	5096		1245	12093	
1868	5963	4975		1270	15609	
1869	6514	5313		1395	11781	
1870	6194	4945		1370	11069	
1871	6167	5521		1305	11536	
1872	5996	5261		1214	13142	
1873	4750	5471		1207	9655	
1874	5514	5807		1565	13992	
1875	5755	6465		1742	12716	
1876	2969	3225		2358	9361	
1877	6663	6700		3827	6332	
1878	7861	10178		3975	12518	
1879	8538	8287		4346	16192	
1880	9341	8174		6131	16961	61761
1881	8743	11110		5886	28933	70512
1882	8510	7312		6601	18938	63872
1883	9774	7587		8068	12870	79455
1884	9954	7333	89727	14078	18678	51257
1885	10176	7952	113582	11573	20039	47361
1886	10296	8073	131065	11582	30228	47424
1887	9488	9207	137523	13662	9391	39775
1888	9988	9970	135441	13972	20517	42743
1889	9627	8982	121322	14641	23442	43011
1890	10111	11614	132222	19961	27284	45847
1891	10851	11432	143097	21244	26146	54379
1892	11604	13475	142380	21945	28040	49073
1893	11481	12484	146190	34456	32605	49087
1894	11217	13641	131247	38762	34106	52046
1895	14013	12843	147992	42265	34367	62510
1896	17797	13869	228662	49705	32633	69061
1897	16602	12430	291306	54426	42017	72168
1898	16008	15303	323912	56179	28958	78428
1899	22628	12941		58150	31974	80061
1900	23763	12754		48104	33425	84337
1901	24468	13041		49843	28479	86787
1902	25527	13960		54631	11377	81404
1903	28882	16655		58857	33859	84974
1904	36617	15290	1229070	72932	60191	106937
1905	37476	13181		65042	44865	88848
1906	40641	15462		56321	16542	71029
1907	36551	16031		3484	40816	74492
1908	26437	12796		371	46350	79115
1909	18818	11625		3707	42213	78307

Table B 5 The Cape Colony expenditure (£) (continued)

YEAR	Mines	Rents, rates, insurance, gas , electric light	Surveyor general	Commissioner for public works	Headman & chiefs allowances	Defence and colonial military allowance
1827						12857
1828						3464
1829						709
1830						502
1831						457
1832						471
1833						506
1834			2877			
1835			2932			
1836			2648			
1837			2508			
1838			2414			
1839			2795			
1840			2263			
1841			1657			
1842			2556			
1843			3520			162
1844			3477			
1845			2734			
1846			2232			
1847			2162			
1848			1783			
1849		2652	2266		2900	
1850		3212	2388		3377	
1851		3193	2329		1458	
1852		3203	2927		1140	
1853		2634	2275		992	
1854		2753	2176		929	
1855		2706	2058		960	
1856		3507	2098		6033	
1857		4277	2697		7588	
1858		5107	3284		9193	
1859		7594	4111		7228	
1860		6907	4122		7323	
1861		6466	4000		7948	9684
1862		6309	4318		7191	9892
1863		6319	4492		5900	15633
1864		6508	4319		6899	15280
1865		6497	3765		5738	15333

1866		6707	4114		5087	9684
1867		6867	4114		1811	18218
1868		7601	3647		12173	10569
1869		7001	3894		9413	9684
1870		6670	3517		10292	9684
1871		6148	3480		9932	9463
1872		5307	3463		9026	6892
1873		6990	3475	1748	8505	6540
1874		7234	4139	2462	4366	5065
1875		7773	4895	3366	4656	57657
1876		0	2368	1697	4456	926
1877		0	12403	3907	4185	63544
1878		8929	20592	4224	4055	50443
1879		10548	28636	5071	3569	146596
1880		10962	30504	6045	2960	17086
1881		11109	28165	6226	2748	16078
1882	6640	12314	28176	7316	2925	16796
1883	9569	13633	40863	8269	3080	11698
1884	9049	13916	49851	8495	3039	10928
1885	8118	13531	45255	8890	3050	14663
1886	8228	12743	37204	9257	2846	21309
1887	5768	12440	31637	8940	2793	9101
1888	6147	11266	21493	8629	2636	19956
1889	5997	11748	21836	8013	2423	26241
1890	5305	11296	12525	8010	2660	
1891	4958	11619	22120	8294	2763	
1892	3165	17297	17875	9777	2833	
1893	4024	18693	23751	5512	3013	
1894	4111	19541	19072	5041	2912	
1895	3859	21698	22831	5595	2979	
1896	4599	22885	18194	7855	2695	
1897	4047	26128	18831	10156	2869	
1898	4302	27548	11491	11272	2813	
1899	4707	28820	18596	10868	3034	
1900	3251	30789	18856	11163	2783	
1901	3401	37511	18617	11078	2855	
1902	3459	37734	14502	11841	2722	
1903	5641	41464	23668	14793	2837	
1904	3815	46593	23402	16980	2789	
1905	3699	59022	28026	14935	2787	
1906	5454	53112	66684	18359	2631	
1907	5607	45071	28307	40892	2765	
1908	6059	41941	29797	35234	2813	
1909	5340	33651	24995	20871	2918	

Table C 1 Cape Colony's public debt and debt servicing (£)

Year	GDP (Greyling & Verhoef, 2015)	General government	Harbour boards	Total public debt	National debt servicing
1859	2579330	101269		101269	55424
1860	2613463	120050	200000	320050	78438
1861	2603041	565056	200000	765056	96138
1862	2329002	577560	257000	834560	83567
1863	2715721	751550	258000	1009550	101103
1864	3211465	751550	288000	1039550	115172
1865	3122328	916630	288000	1204630	318406
1866	3113155	928159	288000	1216159	49726
1867	2954512	1178150	368000	1546150	287744
1868	2670042	1178150	368000	1546150	10960
1869	2745527	1178150	368000	1546150	116813
1870	3148006	1182957	387900	1570857	266640
1871	4078762	1199898	387900	1587798	154173
1872	6268783	1484641	366459	1851100	348052
1873	6545195	1832441	370150	2202591	474360
1874	6221279	2116558	368250	2484808	311306
1875	7513411	2405328	364850	2770178	240075
1876	8087325	4068158	464350	4532508	72323
1877	8435931	6028259	464050	6492309	216877
1878	8686692	6980359	462750	7443109	314163
1879	9808802	9527459	801150	10328609	453807
1880	12457422	10583759	808059	11391818	459148
1881	13449291	12460559	801150	13261709	661904
1882	13640295	12302759	795650	13098409	786166
1883	11284961	19671859	1139150	20811009	924861
1884	10616592	19658267	1145865	20804132	1145799
1885	9580308	20417227	1254035	21671262	1237284
1886	10877906	21194286	1323776	22518062	1251896
1887	11536825	21194286	1289439	22483725	1233678
1888	12754579	20971201	1323833	22295034	1151184
1889	14290269	21120784	1369717	22490501	1097198
1890	15975670	22114159	1634762	23748921	1111610
1891	16850616	23206206	1632962	24839168	1262636
1892	17194588	24289606	1717162	26006768	1205683
1893	18707123	25118738	1680141	26798879	1268350
1894	19598633	24999761	2675417	27675178	1303260
1895	24248797	24861401	2672517	27533918	1331591
1896	25944219	24728188	2668617	27396805	1346233
1897	27720257	24615788	2666617	27282405	1327370
1898	32838889	25277445	3106477	28383922	1320463

1899	30799352	27884078	3525677	31409755	1370012
1900	15813851	27613947	3483878	31097825	1415684
1901	20192713	27922657	3470778	31393435	1429231
1902	27104104	32329151	4641778	36970929	1513716
1903	33422622	31841371	4627878	36469249	1610270
1904	35713220	34171053	5214651	39385704	1668905
1905	41545068	36820385	5289177	42109562	1820540
1906	51132249	37901226	6078886	43980112	1893612
1907	51588282	40773590	5488700	46262290	1916859
1908	47515800	42948263	5483539	48431802	1988361
1909	50438180	42834752	5480039	48314791	1866166

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