

THE CAPE COLONY (1854-1910)

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1 INTRODUCTION

This paper describes the emergence of an embryonic modern fiscal state in the Cape Colony from 1854 (when it obtained representative government) to 1910 (when the British Government merged it with the Natal Colony, the Transvaal Colony and the Orange River Colony to create the Union of South Africa). By 1910, the rapid growth of the gold mining industry in the Transvaal Colony had substantially reduced the Cape Colony's erstwhile dominance of economic activity in the Southern African region. The Cape Colony was still the most populous and administratively most sophisticated of the four colonies, though, and its experience from the middle of the 19th century onwards was a critical element of the broader process of state formation in South Africa.

Politically and economically, the Cape Colony had developed at a lacklustre pace during the first two hundred-odd years after the commencement of European settlement. The discovery of diamonds at Kimberley in the northern parts of the Colony in 1871 and gold in the Witwatersrand area of the Transvaal Colony in 1886, however, drastically changed the size, sophistication and prospects of the Cape economy.¹ These events generated vast resources that also could have expedited the emergence of a modern fiscal state in the Cape Colony. Hence, the Colony's experience from 1854 to 1910 should provide insight into the effects of an unusually large economic windfall on the state formation process in an underdeveloped settler colony. This issue is the focal point of this paper.

The structure of the paper is as follows. Section 2 describes the political and economic states of the Cape Colony in 1854. The contents of this section provide the backdrop for Section 3, which discusses the evolution of the political and fiscal systems of the Cape Colony from 1854 to 1910. The aim of this section is to indicate the extent to which these

¹ At the time of the discovery of gold the Transvaal Colony was known as the South African Republic.

systems came to resemble those of modern fiscal states. The narrative is structured around He's (2013) conditions for fiscal modernisation, and emphasises the effects of and policy responses to the mineral discoveries. Section 4 concludes the paper.

2 THE CAPE COLONY IN 1854

Europeans first settled in South Africa in 1652, when the Dutch East India Company (Vereenigde Oost-Indische Compagnie or VOC) established a victualling station at present-day Cape Town. The VOC governed the bulk of what became the British Cape Colony until 1795. In that year Britain annexed the Cape to secure its trade with the East Indies during the Napoleonic Wars. Britain returned the Cape to the Batavian Republic after the conclusion of the Peace of Amiens in 1802, but the resumption of hostilities with France prompted its re-occupation in 1806. Holland finally ceded the territory to Britain in 1814 after the Congress of Vienna.

It was stated earlier that the Cape Colony had developed slowly until the middle of the 19th century.² This largely reflected its role for much of this period. The VOC never intended to develop a colony at the Cape: The Company established a refreshment station to provide fuel and fresh water, meat and other produce to ships travelling between Holland and the East Indies (Schutte, 1989: 288). It had no interest in the establishment of participatory political institutions.³ In fact, many of the European settlers lived in isolated conditions in the frontier areas as pastoralists and had limited contact with and a weak sense of subjugation to the authority of the VOC. Furthermore, the Company tightly regulated the economy to ensure the availability of fresh produce to passing ships at low prices (Fourie, Jansen and Siebrits, 2013: 55-59). Although slave labour enabled some settlers to accumulate what Fourie (2013) described as "remarkable wealth", the policies of the VOC severely hindered economic progress at the Cape.

The public finance system also reflected the priorities of the Company. The military and judicial establishments absorbed large portions of its budgets (De Kock, 1924: 78), but these outlays mainly benefitted those living in and near Cape Town. The Company did

² As Burman (1984: 11) put it, the pace of development in this era was "of necessity the pace of an ox".

³ De Kiewiet (1957: 35) described the politics of the Cape at the inception of British rule in 1806 as follows: "For all its age the Cape Colony had the political immaturity and formlessness of colonies of very recent settlement. Although the Cape Colony had almost the age of Canada, it did not possess nearly as rich and well-founded a political structure".

little, for example, to settle the disputes between settlers and amaXhosa on the eastern frontier of the Cape from the late 1770s onwards (Welsh, 2000: 79-87). The other main expenditure item was the provisioning of Company ships. The Company levied various taxes, including transfer duties on immovable property, tithes on harvested grain, duties on wine and brandy brought into Cape Town, customs duties on imported goods, stamp duties and auction duties (De Kock, 1924: 78-83). Yet its revenues were inadequate, in part because of poor tax administration and extensive evasion.⁴ The result was a lack of resources for infrastructural investment. Apart from being insufficient, outlays on the construction and maintenance of buildings and other public works were highly variable. The Company attempted to economise on the costs of public buildings and left it to the colonists to erect and maintain roads and bridges (Fourie et al., 2013: 58).

The original reason for British annexation of the Cape remained the official justification for possessing the area throughout the first half of the 19th century: De Kiewiet (1957: 38) points out that "as late as 1849 the Cape of Good Hope was still listed in Treasury accounts not as a Settlement or Plantation, but as a Military and Maritime Station". Yet the period from 1806 to 1854 was marked by various developments that facilitated the emergence of a settler colony with a fledgling fiscal state.

These developments included important changes to social and political institutions. The British administration extended civil rights to the Khoekhoen and other non-Europeans, emancipated the large slave population and reformed the justice system to strengthen law enforcement in the frontier areas and establish equality before the law (McCracken, 1967: 3-4). These steps were accompanied by a series of political reforms that culminated in the conferment of representative government: The Constitution Ordinance of 1853 established a parliament consisting of the governor, a 15-member upper house and a 46-member lower house. This parliament started operating in 1854. From the perspective of the British Government, the most important factors that influenced the granting of representative government were the growing demand for the establishment of parliaments in the Cape Colony and various other colonies, the expansion of the Cape economy in the second quarter of the 19th century, and the desire to shift a greater

⁴ Van Duin and Ross (1987: 21-24) estimate that farmers declared only a third of their grain harvests to tax officials.

portion of the growing cost of maintaining the Cape Colony to the colonists (McCracken, 1967: 6, 8, 10). A notable feature of the Constitution Ordinance was that it granted the franchise to men of all races who satisfied a modest requirement, namely occupation of fixed immovable property valued at £25 or more.

In 1819 the British Government voted an amount of £50 000 for shipping 4 000 settlers to the Cape. This key event in the Cape's transition to a settler colony was motivated by the high level of unemployment in England in the aftermath of the Napoleonic Wars, the desire to establish a buffer against the indigenous amaXhosa peoples and the perceived need to expand the market for British products (Legassick and Ross, 2012: 269). The new arrivals were settled as farmers in the Zuurveld area west of the Great Fish River. Many were ill-suited to farming in this unfamiliar milieu and soon adopted other occupations in towns such as Port Elizabeth and Grahamstown and further afield. With the passage of time, a large portion of the 1820 Settlers became prosperous farmers and merchants; they were also leading participants in campaigns to reform the autocratic and corruption-ridden rule of some British governors (Legassick and Ross, 2012: 269-270; 305-307; McCracken, 1967: 6-9). Settler-owned newspapers became important outlets for political debate and leading settlers, such as Robert Godlonton, powerfully influenced the politics of the Cape Colony from the second quarter of the 19th century onwards.

As far as the economy was concerned, the new administration continued the work begun during the first British occupation by dismantling the remaining elements of the VOC's restrictive trading regime (De Kock, 1924: 87; Legassick & Ross, 2012: 272). It also undertook land tenure reform (the replacement of leasehold tenure by perpetual quitrent tenure); constructed roads, bridges and mountain passes; and introduced postal services (cf. Harlow, 1936: 207-209; Plant, 1936: 765). This contributed to the commercialisation of subsistence-oriented economic activity and allowed settlers to respond to new opportunities. One such opportunity was the increase in domestic purchasing power and, hence, the demand for commodities that resulted from the arrival of the 1820 Settlers and the establishment of a British garrison of between 4 000 and 5 000 men on the eastern frontier (Schumann, 1938: 64). Another was new export opportunities. As early as 1811 Governor John Cradock abolished export duties to allow the colonists to export their produce to British markets. Wine exports received a major boost in 1813 when Cape wines were granted access to the British market at preferential tariff rates. Wine was the

most important export commodity from 1815 until the 1840s, when a series of tariff series initiated in 1825 took its toll (De Kock, 1924: 196). By then, efforts to replace the native fat-tailed sheep with wool-bearing merino had succeeded and wool overtook wine as the Colony's main export item in 1845. In that year, wool exports amounted to £176,741, which represented 41% of total exports of the Cape Colony (Ross, 1990: 150). A decade later it accounted for more than two-thirds of the Colony's exports. Most wool production occurred in the Eastern Cape; hence, the expansion of the sector boosted the economy of that region and, especially, that of the port city Port Elizabeth.

Yet the Colony faced many challenges. The administration headed by Governor George Grey governed a sparsely distributed population estimated at 283 388 in 1854.⁵ The Colony was part of a politically volatile region. On its eastern frontier, a tenuous peace held with the amaXhosa people, who were driven across the Great Kei River during the Seventh Frontier War of 1846-1847. Beyond the northern border of the Colony, the Mfecane (a period of warfare among various indigenous groups that lasted from 1815 until about 1840) had resulted in much loss of life and dislocation. The instability in the interior of present-day South Africa was exacerbated by the Great Trek—the northward movement out of the Colony of some 10 percent of the Dutch-speaking white population that started around 1834 and peaked in 1836 (Legassick and Ross, 2012: 286). By 1854, the so-called Voortrekkers had established the South African Republic and the Republic of the Orange Free State from swathes of territory conquered from indigenous peoples.⁶

The domestic politics of the Colony had also grown in complexity. The Dutch colonists who had not joined the Great Trek generally had accepted British rule and the social and political reforms listed earlier. This partly reflected the popularity of some of the British administration's economic reforms; as Welsh (2000: 121) put it, “prominent Cape gentry who had already shifted allegiance several times and knew on which side their bread was buttered, continued to support the British administration loyally”. The English settlers from the eastern parts of the Colony, however, had become increasingly resentful of the

⁵ This number is taken from a series published in the Blue Books from 1823 to 1856. The report on the first official census held in 1865 (Colonial Office, 1866: ix) expressed doubts about the accuracy of this series, which was compiled from information supplied by civil commissioners.

⁶ The Republic of Natalia, which was established by the Voortrekkers in 1839, was annexed by Britain in 1843 to create the Natal Colony.

perceived neglect of their needs by the Cape Town-based decisionmakers and the Dutch settlers from the western parts. Having borne the brunt of the Frontier Wars, the lack of protection from attacks by the amaXhosa was their main grievance. Concern that self-government would lead to the monopolisation of political power in the western parts of the Colony led Robert Godlonton and others from the eastern parts to form a separatist movement that opposed the conferment of representative and later also responsible government (Davenport and Saunders, 2000: 103-104). Furthermore, debates in the run-up to the passage of the Constitution Ordinance of 1853 revealed deep divisions among the colonists about the political rights of the Colony's substantial African population. The separatists led the opposition to a non-racial franchise (Welsh, 2000: 202-203).

Despite the progress described above, the economy of the Cape Colony still faced major structural problems. Manufacturing activity was underdeveloped, and the economy remained dominated by the agricultural sector. The factors that hindered diversification of economy activity included the rudimentary state of technology, labour shortages (which were linked to the low levels of immigration and exacerbated by the adjustment process after the emancipation of slaves in 1838) and the still poorly developed infrastructure (in 1854 the Cape Colony had no railways, for example). The rudimentary state of the financial sector also hindered economic development (cf. Solomon, 1983: 137-138). Several private banks existed by 1854, but these were all small single-branch establishments that had limited capital and offered few services.

The British authorities extensively reformed the tax system created by the VOC by abolishing some taxes (e.g. monopoly licences and production tithes) and expanding the scope of others (e.g. customs duties) (cf. De Koch, 1924: 386-387). Table 1 compares the averages shares of the various components of the Colony's government revenues in the periods 1829-1831 and 1852-1854. By 1854, customs duties were firmly entrenched as the Colony's largest source of public revenue. This reflected the productivity of the preferential import duty system instituted in 1806.⁷ Other taxes also raised significant amounts, and tax revenue exceeded four-fifths of government revenue. Although in

⁷ According to De Kock (1924: 410): "In 1806, British goods imported in British ships were rendered liable to a duty of 3 per cent, whereas foreign goods brought in British ships and British goods brought in foreign ships were subject to a duty of 7 per cent, and foreign goods imported in foreign ships had to pay 10 per cent".

decline, stamped licences were the largest non-tax revenue item, followed by post office receipts.

Table 1

The composition of public revenue in the Cape Colony (1829-1831 and 1852-1854)

Revenue type	Average percentage shares	
	1829-1831	1852-1854
Tax revenue	61.5	83.7
Customs duties	23.7	47.8
Land revenue	1.3	7.5
Stamp duty	17.9	7.1
Auction duty	11.5	8.1
Transfer duty	7.1	13.3
Non-tax revenue	28.4	16.3
Post office revenue	3.9	4.8
Stamped licences	17.9	7.1
Other non-tax revenue	6.6	4.4
Unclassified revenues	10.1	0.0
Total	100.0	100.0

Sources: Blue Books for the Colony of the Cape of Good Hope (Various years).

De Kock (1924: 388) pointed out that the Cape Colony experienced severe fiscal problems in the 1820s as revenues failed to keep pace with rapidly growing expenditures. The Cape Government incurred various forms of debt to finance the resulting deficits, including inconvertible paper money and occasional borrowing from the Imperial government, the East India Company, the commissariat chest and various local boards (De Kock, 1924: 393). By 1835, the outstanding debt of the Cape government amounted to £265 000—a huge sum relative to the size of the economy. Corrective steps in the 1830s (including retrenchments in the public service in 1831 and 1834) ended the deficits and made it possible to reduce the public debt. John Montagu eventually succeeded in redeeming virtually all debt during his term as Colonial Secretary from 1843 to 1852.

3 1854-1910: THE EMERGENCE OF A FISCAL STATE

He (2013) and others developed four criteria for the identification of a modern fiscal state, namely the capacity to centralise revenues, the ability to establish and maintain a floating debt position, channelling of a large portion of government revenue to enhance the general welfare by means of investments in social and economic infrastructure, and transition to responsible or limited government. Viewed from this perspective, the Cape Colony made considerable yet incomplete progress towards constructing a modern fiscal state between 1854 and 1910. This section outlines the key events and processes that contributed to the emergence of an embryonic fiscal state in this period.

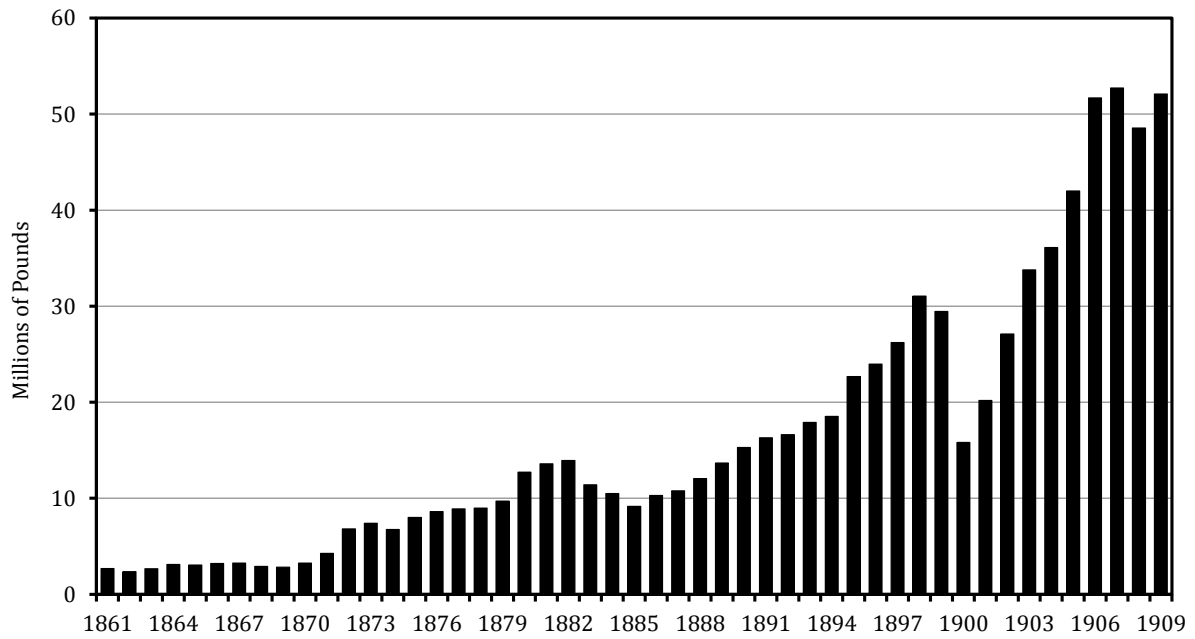
It was stated earlier that the discovery of diamonds in the Colony in 1871 and gold in the Witwatersrand area of the South African Republic in 1886 were pivotal events in the history of the Cape Colony. Up until then the Colony faced bleak economic prospects despite the positive developments in wine and sheep farming, basic infrastructure and the financial sector mentioned in Section 2.⁸ All available evidence, which ranges from earlier compilations of economic statistics by Schumann (1938) to recent estimates of the gross domestic product (GDP) of the Cape Colony by Magee, Greyling and Verhoef (2016), suggests that the mineral discoveries transformed the size and growth potential of the Cape economy. Figures 1 and 2, which show Magee et al.'s (2016) estimates of GDP contain at current prices and in real per capita terms, confirm this.⁹ The question arises how this transformation affected the state formation process via its influence on elements of the public finances such as the size and composition of government revenue and expenditure. The remainder of this section outlines aspects of the political governance of the Cape Colony from 1854 onwards and discusses key implications of the mineral discoveries for the evolution of its government revenue, government expenditure and public debt.

⁸ In a speech in 1867, Governor Wodehouse (quoted in Houghton and Dagut, 1972: 22) questioned the economic viability of the Colony: "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." Copper mining experienced a short-lived boom in Namaqualand in the north-west of the Cape Colony in the early 1850s (Schumann, 1938: 77).

⁹ The GDP estimates, which are available as an online appendix to Magee et al. (2016), are the first ever for the Cape Colony. The trend in the per capita figures is very similar to that in an earlier set of estimates by Fourie and Van Zanden (2013: 482-483; 489-490).

Figure 1

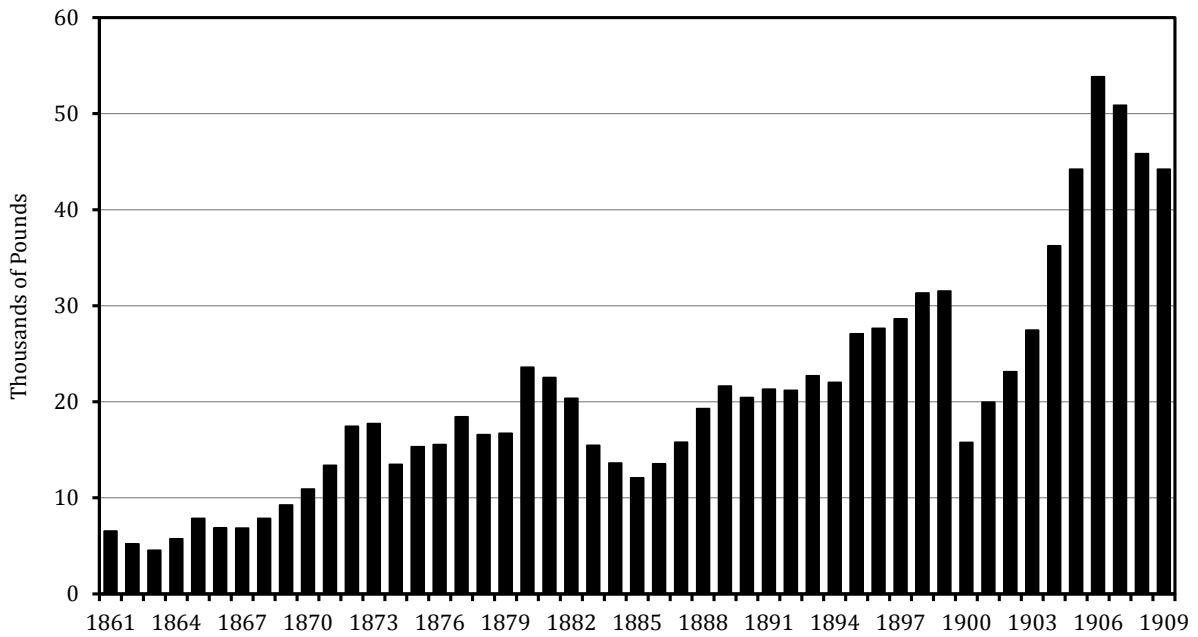
The GDP of the Cape Colony at current prices (1861-1909)



Source: Magee, Greyling and Verhoef (2016: online appendix S1).

Figure 2

The GDP per capita of the Cape Colony at constant 1861 prices (1861-1909)



Source: Magee, Greyling and Verhoef (2016: online appendix S2).

3.1 Political institutions and developments

It took 18 years before the Cape Colony embarked upon the next phase of its political development, namely responsible government. The British government was keen to grant self-government in order to reduce the considerable costs of maintaining the Colony—according to Welsh (2000: 229), the Cape absorbed more than a quarter of all British colonial military spending in the 1860s despite having only 4 percent of the British colonial population—and to achieve its aim of uniting the South African states in a confederation (McCracken, 1967: 24-25).¹⁰ The Cape Parliament long was divided on the issue of responsible government, however, mainly because the eastern separatists feared the withdrawal of imperial troops and the possibility of domination of political processes by the western parts of the Colony. Boosted by threats of troop withdrawals by the British War Office, the proponents of responsible government in the Cape Parliament eventually won the day. The Colony accepted self-government in June 1872, and Sir John Molteno became the first Prime Minister.

The Cape Government's handling of the mineral windfalls was in part a function of the nature and functioning of the colony's parliament. At one level, the institution functioned well: It met annually as intended (two sessions took place in some years) and issued 30 or more acts in half of the years from 1854 to 1909 (McCracken, 1967: 138).¹¹ Responsible government also brought major improvements in some aspects of the governance of the Colony, for example, the quality of the published accounts of the central

¹⁰ The Gladstone Ministry began advocating responsible government for the Cape Colony as a step towards the created of a South African confederation in the in the late 1860s (Davenport and Saunders, 2000: 105). The envisaged components of the federation were the Cape Colony, the Natal Colony, Griqualand, West, Basutoland and the two independent Boer Republics (the South African Republic and the Republic of the Orange Free State).

¹¹ Meeting regularly was a significant achievement, because the opportunity costs of attending four-month long sessions in Cape Town were very high to the many members who were farmers and businessmen. Some members also faced formidable logistical problems. McCracken (1967: 48) provided the following examples, inter alia:

J.F. Ziervogel, M.L.A. [Member of the Legislative Assembly] for Graaff-Reinet, found that the travelling allowance barely covered the cost of the 450-mile journey across the Karroo, especially in seasons when forage was scarce and dear. P.J.A. Watermeyer, M.L.A. for Colesberg, had to travel fourteen days with his own horses and keep them in Cape Town during the session. Members were sometimes held up in Port Elizabeth for three weeks, waiting for a ship to Cape Town, after they had travelled a fortnight by wagon.

government and local authorities.¹² The members of the Cape Parliament were not representative of the population, however: They were all males from the upper strata of the European population and few had experience of politics or policymaking. At least one-third of the members of every Cape Parliament from 1854 to 1908 were farmers; the second largest occupational category was merchants, followed by lawyers and law agents (McCracken, 1967: 54-60). Hence, a degree of bias towards the needs of the agricultural and commercial sectors of the economy was to be expected. And while the non-racial franchise remained in place after the transition to self-government, the Cape Parliament had little enthusiasm for the development of the eastern areas of the Colony, which were populated mainly by Africans. Furthermore, the trouble and expense of participating in parliamentary processes discouraged long parliamentary service (cf. McCracken, 1967: 44-46). New members made up at least a third of each House of Assembly in the Cape Colony, the tenures of one-half of those who ever held seats did not exceed the normal lifespan of one House, and only five men ever held seats for more than 20 years. While alliances developed around issues such as separatism in the eastern parts of the Colony and responsible government, formal political parties were absent until the establishment of the Afrikanerbond in 1881. As a result of these factors, the Cape Parliament (and Cape politics more generally) were dominated by a small group of strong leaders during the period of self-government: John X. Merriman, J.H. Hofmeyr, John Molteno, Cecil John Rhodes, J.W. Sauer and Gordon Sprigg.¹³

The role of Cecil John Rhodes was particularly important in the context of political and economic developments at the Cape in this era (cf. Rotberg, 1988: 10-11). Rhodes came to South Africa from England at the age of 17 and made his fortune in diamond mining in Kimberley. In 1881, at the age of 28, he was elected to the Cape Parliament as the member

¹² The improvements were particularly notable in the previously chaotic accounts of divisional councils. Governor Sir Philip Edmond Wodehouse (1867) commented as follows on the former state of these accounts: "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".

¹³ Hofmeyr served as a minister for only six months, but wielded considerable influence as the leader of the Afrikanerbond. Merriman (quoted in Welsh, 2000: 288) likened him to a mole, "an industrious little animal . . . You never see him at work, but every now and then a little mound of earth, thrown up here or there, will testify to his activities."

for Barkly West. Sheer force of character and an unlikely alliance with J.H. Hofmeyr and the Afrikanerbond propelled Rhodes to a powerful position in the Cape Parliament during the 1880s. In 1890 he was elected prime minister of the Colony. In addition to this role, he then was chairman of De Beers Consolidated Mines (the dominant force in the South African diamond industry) a major player in the gold mining industry in the South African Republic as a director of the Gold Fields of South Africa Company and a director of the British South Africa Company (a chartered company established to advance the interests of British capital throughout Southern Africa). This suite of positions endowed Rhodes with enormous political power during a period in which the Cape Government faced critical choices regarding the use of the mineral windfalls.

For the Cape, self-government was supposed to mean less intervention from London in domestic affairs as well as responsibility for the defence of the Colony. The reality was different. In 1874, the British Colonial Secretary, Lord Carnarvon, launched a plan to realise the envisaged confederation in South Africa.¹⁴ The Cape Government rejected the plan, but Governor Bartle Frere saw the eruption of a squabble between two amaXhosa tribes in 1877 as an opportunity to achieve one of its aims: Annexation of Gcalekaland, the last independent amaXhosa state on the eastern frontier of the Cape Colony (cf. Welsh, 2000: 259-260). Frere cajoled the Cape Colony government into the Ninth Frontier War by dismissing then government of Sir John Molteno and appointing an ally, Gordon Sprigg, as Prime Minister. Despite an inept campaign, the joint British and Cape army defeated the forces of Chief Mgolombane Sandile and gained control over Gcalekaland in 1879.

The implications of the war for the Cape Government extended beyond the direct military cost. The enforced incorporation of Gcalekaland significantly increased the territory of the Colony, which implied additional (and unwanted) financial obligations. Furthermore, the addition of more than 500 000 Africans to the population of the Colony galvanised opposition against the liberal franchise provision of the Constitution Ordinance of 1853. In 1887, Prime Minister Sprigg secured the passage of the Registration Act, which disenfranchised the one-quarter of Africans who resided on tribal land (Welsh, 2000: 294). And in a further blow to the voting rights of Africans, the Government of Cecil John

¹⁴ With this plan, Lord Carnarvon attempted to replicate his success at establishing a confederation of states in Canada in the 1860s.

Rhodes raised the franchise property requirement from £25 to £75 by means of the Franchise and Ballot Act of 1892 (McCracken, 1967: 94-95). These steps further curtailed Africans' access to state resources and were important precursors of 20th century apartheid legislation.

The Ninth Frontier War was but the first of the Confederation Wars fought in various parts of Southern Africa (e.g. Basutoland, Matabeleland and Zululand) until the early 20th century. In some cases soldiers from the Cape Colony participated in the fighting, while in others Colony's involvement was indirect via the role played by Cape-based British High Commissioners, businessmen and politicians. The discovery of the world's richest gold deposits in the South African Republic in 1886 raised the urgency of British attempts to obtain control over the whole of present-day South Africa. The growing hostility between the Imperial Government and the Boer Republics strained their relationships with the Cape Colony as well. This culminated in the extremely costly South African War from 1899 to 1902, in which the Cape Colony was again a reluctant participant on the British side.

3.2 Total government revenue and total government expenditure

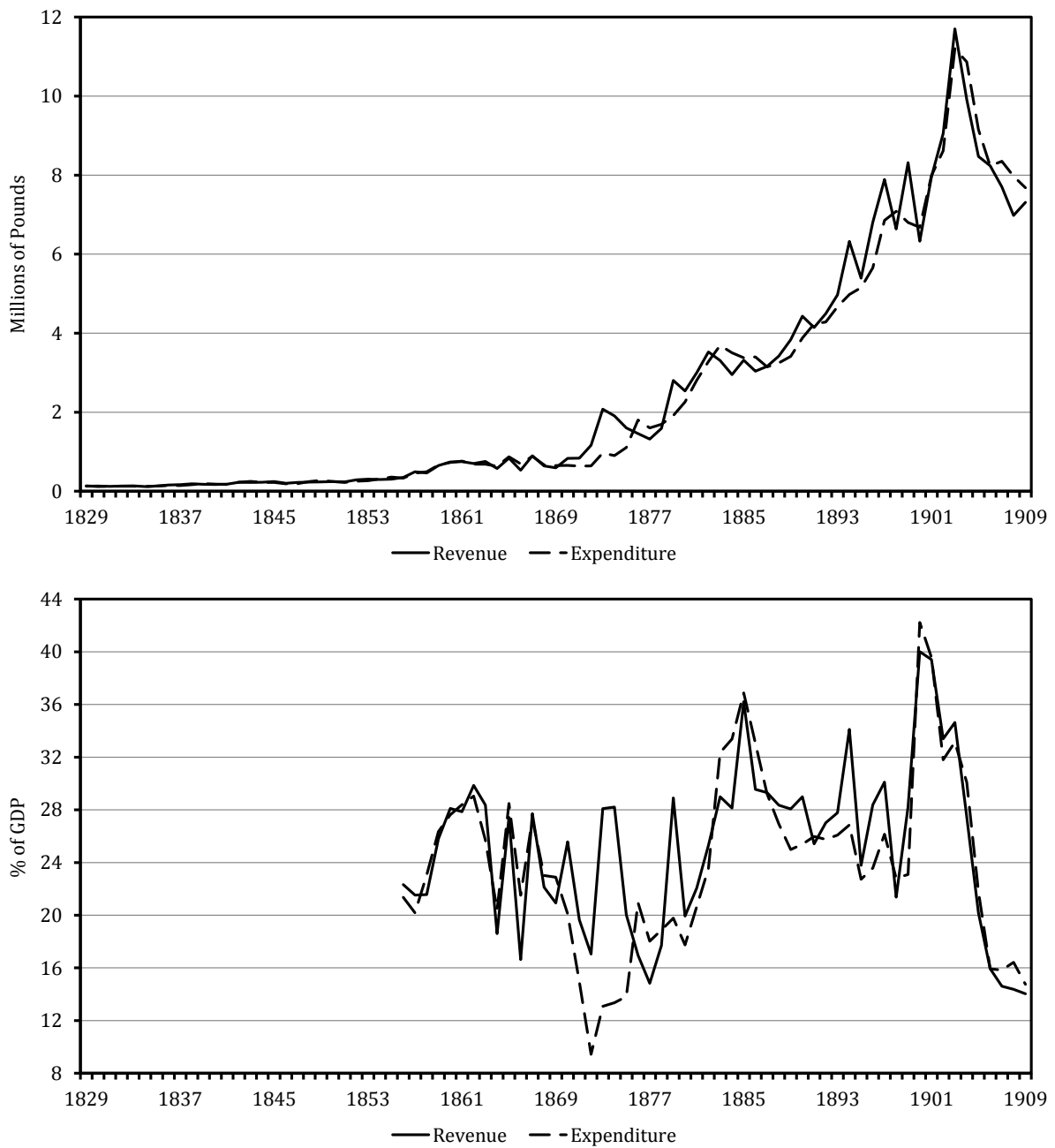
This subsection presents basic measures of trends in the size of the government sector in the Cape Colony, namely the extent of government revenue and expenditure. It also contains a brief discussion of budget balances.

Figure 3 depicts the total revenue and total expenditure of the Cape Government from 1829 to 1909. The two panels of the figure show these aggregates as nominal amounts and as percentages of Magee et al.'s (2016) GDP estimates. The expansion of economic activity fuelled by the discovery of minerals clearly manifested in rapid nominal growth in both fiscal aggregates from the early 1870s onwards. In 1856, the first year for which a GDP figure is available, central government revenue and expenditure amounted to 22.3 percent and 21.4 percent of GDP, respectively. Both ratios then decreased, on balance, until 1871. This was followed by sharp increased during the period marked by the discovery of diamonds and gold: from 1871 to 1885, the revenue-to-GDP ratio jumped by 16.6 percentage points and the expenditure-to-GDP ratio by 22.0 percentage points. Both ratios fluctuated markedly during the remainder of the 19th century, but neither

increased further in structural terms: The modest upward slopes of the trend lines – which are not shown in the figure – merely reflect the large effects of the South African War on GDP and the public finances. Government revenue and expenditure fell sharply as percentages of the Colony's GDP after the South African War.

Figure 3

Central government revenue and expenditure (1829-1909)



Sources: Blue Books for the Colony of the Cape of Good Hope (Various years); Magee, Greyling and Verhoef (2016: online appendix).

The revenue-to-GDP and expenditure-to-GDP ratios in Figure 3 are much higher than the contemporaneous ones for present-day developed countries in Table 2. One possible explanation for this apparent anomaly is that Magee et al. (2016) underestimated the GDP of the Cape Colony. Another explanation, which was suggested by Gardner (2012: 33), is that the small size of African colonial economies at the time artificially inflated these ratios. The sensitivity of the ratios to events that had large effects on private economic activity (e.g. the mineral discoveries in the early 1870s and the late 1880s and the South African War from 1899-1902) suggests that this explanation may be relevant in the South African case. It should also be kept in mind that the fiscal aggregates of the Cape Colony include the revenues and expenditures of the railways and the postal and telegraph systems. If prepared in accordance with modern definitions of the public sector, the central and general government figures in Table 2 should exclude data for railways and posts and telegraph systems.

Table 2

Government revenue and spending in selected OECD countries (1870, 1913)

Country	Percentages of GDP			
	Revenue (% of GDP)		Spending (% of GDP)	
	1870	1913	1870	1913
General government:				
Australia	17.8	16.7	18.3	16.5
France	15.3	13.7	12.6	17.0
Ireland	9.6	11.8	–	–
United Kingdom	8.7	11.2	9.4	12.7
United States	7.4	7.0	7.3	7.5
Central government:				
Canada	4.1	5.5	–	–
Germany	1.4	3.2	–	–
Netherlands	–	6.4	9.1	9.0
Spain	9.4	10.3	–	11.0
Sweden	9.5	6.7	–	–

Sources: Tanzi and Schuknecht (2000: 6, 53).

Table 3 shows government revenue and expenditure in per capita terms in 1853 and in the census years between 1854 and 1910. These figures suggest that both aggregates also grew faster than the population of the Cape Colony from the mid-1870s onwards, that is, after the discovery of diamonds. In sum, the evidence consistently shows that the mineral discoveries were accompanied by accelerated growth in the revenues and outlays of the Cape Government. Sections 3.3 and 3.4 provide more information on the compositional changes that accompanied these trends in the main aggregates and comments on some of the implications for the state formation process.

Table 3
Government revenue and expenditure in the Cape Colony in per capita terms
(selected years from 1853 to 1904)

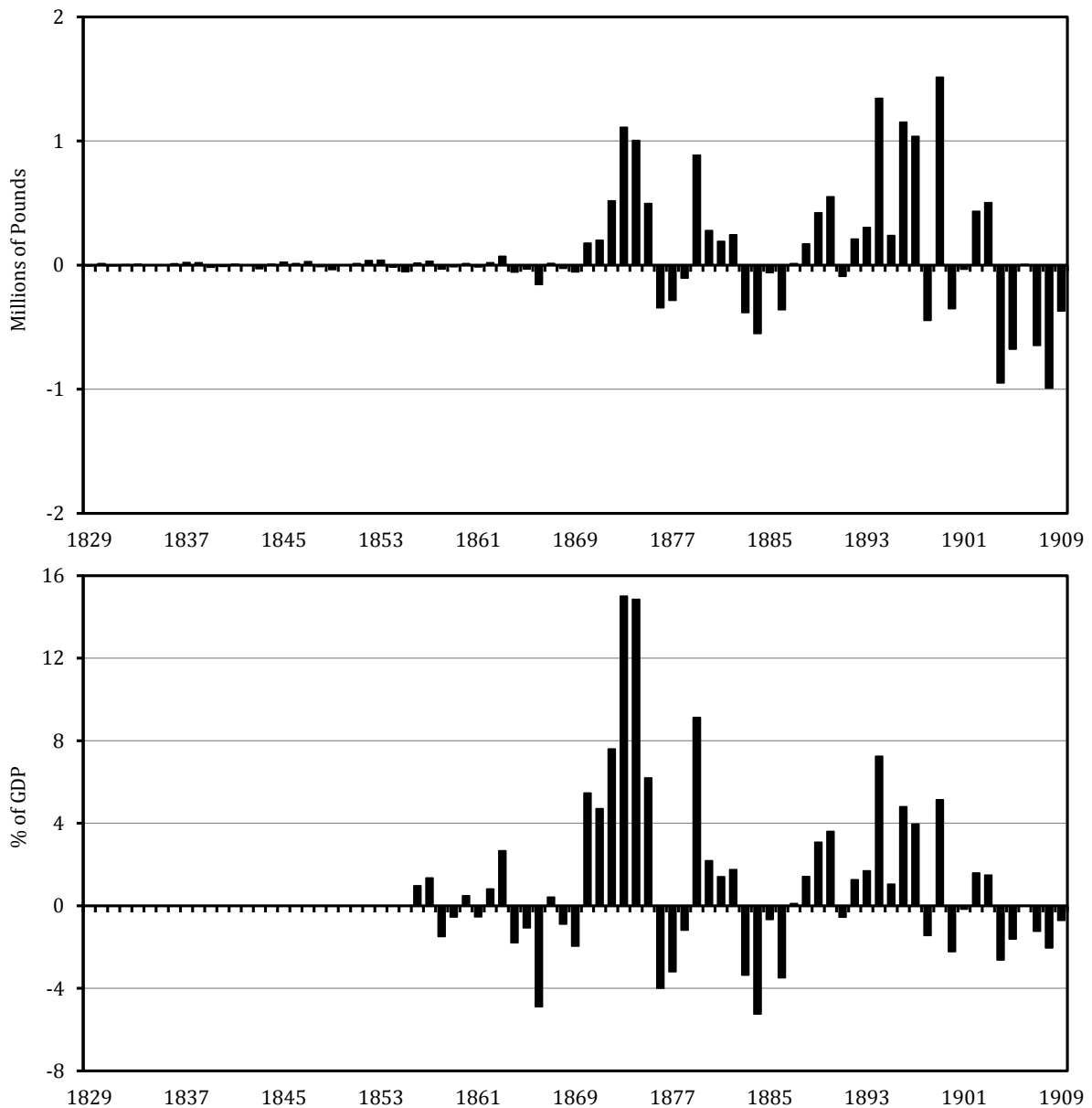
Year	Revenue per capita (£)	Expenditure per capita (£)
1853	1.37	1.23
1865	1.48	1.57
1875	2.22	1.44
1891	2.72	2.87
1904	4.11	4.46

Sources: Own calculations based on information in Blue Books for the Colony of the Cape of Good Hope (Various years).

The information on budget balances in Figure 4 confirms the importance for the public finances of the Cape of the expansion in economic activity and the concomitant increase in government revenue from the early 1870s onwards. It should be kept in mind when interpreting the data that the proceeds of so-called "temporary loans" were from time to time recorded as ordinary revenues (especially prior to 1836 and again from 1851 to 1864). Yet stripping these loans from the figures does not change the reality that budget surpluses were more common and, on balance, bigger in the post-mineral discoveries era of larger total government revenues. Deficits tended to occur when low levels of economic activity repressed government revenues, for example in most years of the first decade of the 20th century (De Kock, 1924: 392).

Figure 4

Government budget balances (1829-1909)



Sources: Blue Books for the Colony of the Cape of Good Hope (Various years); Magee, Greyling and Verhoef (2016: online appendix).

3.3 Government revenue

It was shown earlier that centralised revenue collection had developed in the Cape Colony long before the middle of the 19th century. With regard to the state formation process, the most pertinent question that arises about the years from 1854 to 1910 is whether the evolution of the tax system boosted its sustainability and its capacity for financing

welfare-enhancing government spending programmes and for underpinning resource-augmenting borrowing. The reality that the Colony's base was expanding at the same time because of the "mineral revolution" makes this question particularly intriguing. With this in mind, Table 4 lists the revenue sources of the Cape Colony from 1820 to 1909. The table shows that the Cape Government used a considerable number of taxes and non-tax revenue sources. From 1854 onwards it introduced a number of new taxes (notably the hut tax in 1859, excise duties in 1879 and an income tax in 1904) and augmented these by launching the provision of postal services (1827 onwards), telegraph services and rail transport (both from 1873 onwards) (for more detail, see De Kock, 1924: 410-433).

Table 4

Revenue sources of the Cape Colony government (1820-1909)

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 (1948-1909)
	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)	

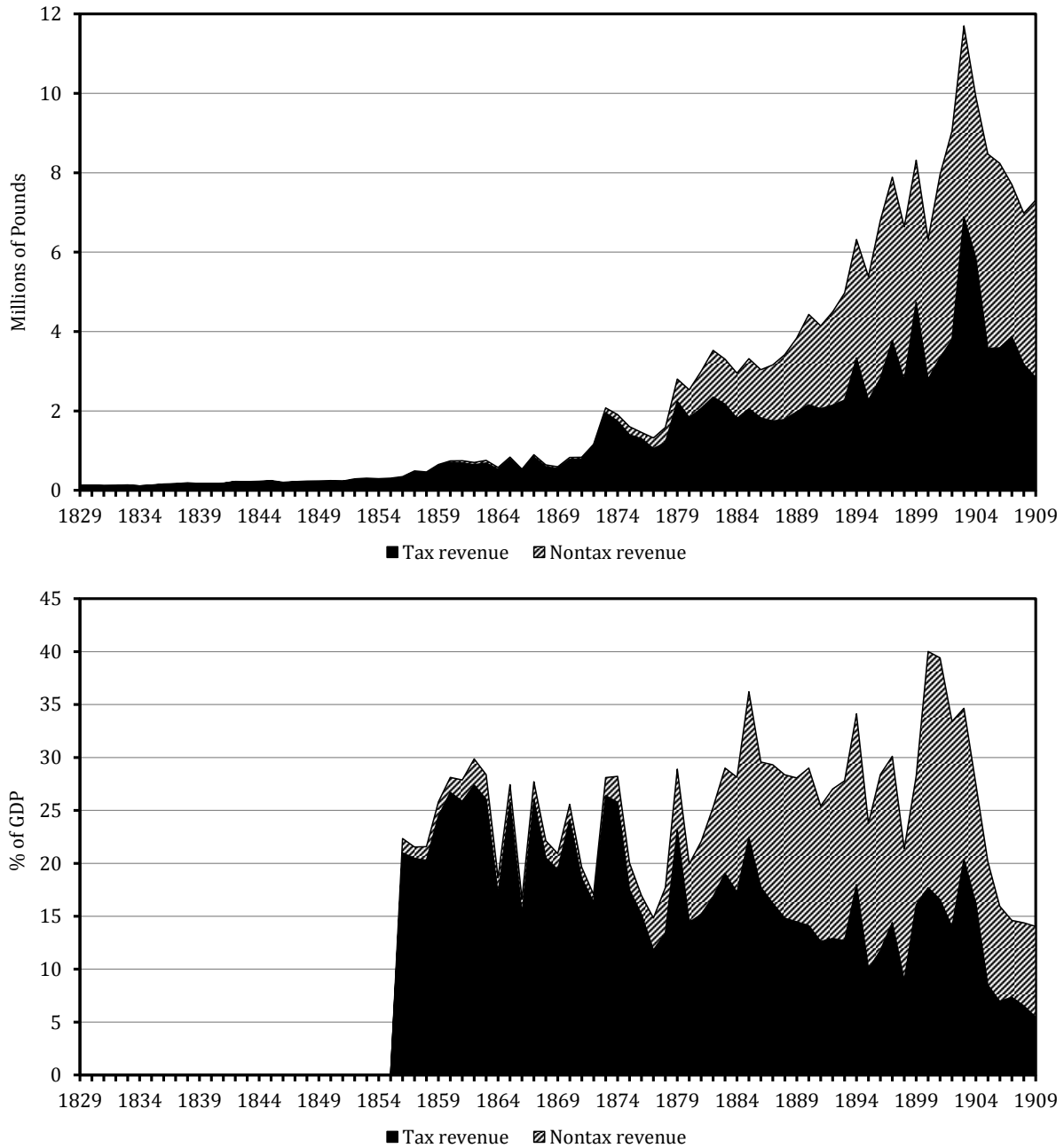
Sources: Blue Books for the Colony of the Cape of Good Hope (Various years).

The evidence presented in Figure 5 and Table 5 suggests that the Cape Government decreased its reliance on tax revenue during the second half of the 1860s. Nominal tax revenues did grow in this period, albeit not as rapidly as non-tax revenues. Yet over the period as a whole, the ratio between such revenues and the GDP estimates of Magee et al. (2016) decreased markedly. Furthermore, it seems that nominal tax revenues hardly grew in per capita terms before the 1890s. It is clear that the Cape Government came to

rely considerably more on non-tax revenues as sources for financing public expenditure programmes than it did before.

Figure 5

Tax and nontax revenue (1829-1909)



Sources: Blue Books for the Colony of the Cape of Good Hope (Various years); Magee, Greyling and Verhoef (2016: online appendix).

Table 5

Government tax revenue and non-tax revenue in the Cape Colony in per capita terms
(selected years from 1853 to 1904)

Year	Tax revenue per capita (£)	Non-tax revenue per capita (£)
1853	1.14	0.22
1865	0.81	0.20
1875	1.49	0.38
1891	1.34	1.54
1904	1.60	1.85

Sources: Own calculations based on information in Blue Books for the Colony of the Cape of Good Hope (Various years).

Mkandawire (2010) uses the durability of tax burdens and structures to link the present-day tax effort of African countries to aspects of their colonial heritage. He finds that former settler colonies, such as South Africa, now have relatively high tax burdens and argues that settler populations were willing to accept high personal taxes in order to enable their governments to deal with the threats posed by oppressed indigenous groups. While intriguing in the context of 20th century South African history, this argument seemingly has limited relevance to the Cape Colony. In the period from 1854 to 1909, customs duties and railway revenues sufficed to finance large portions of the expenditures of the Cape government (cf. Figure 7).¹⁵ Furthermore, the expansionist aims of the British government prompted it to assume a large portion of the costs of the Confederation Wars.

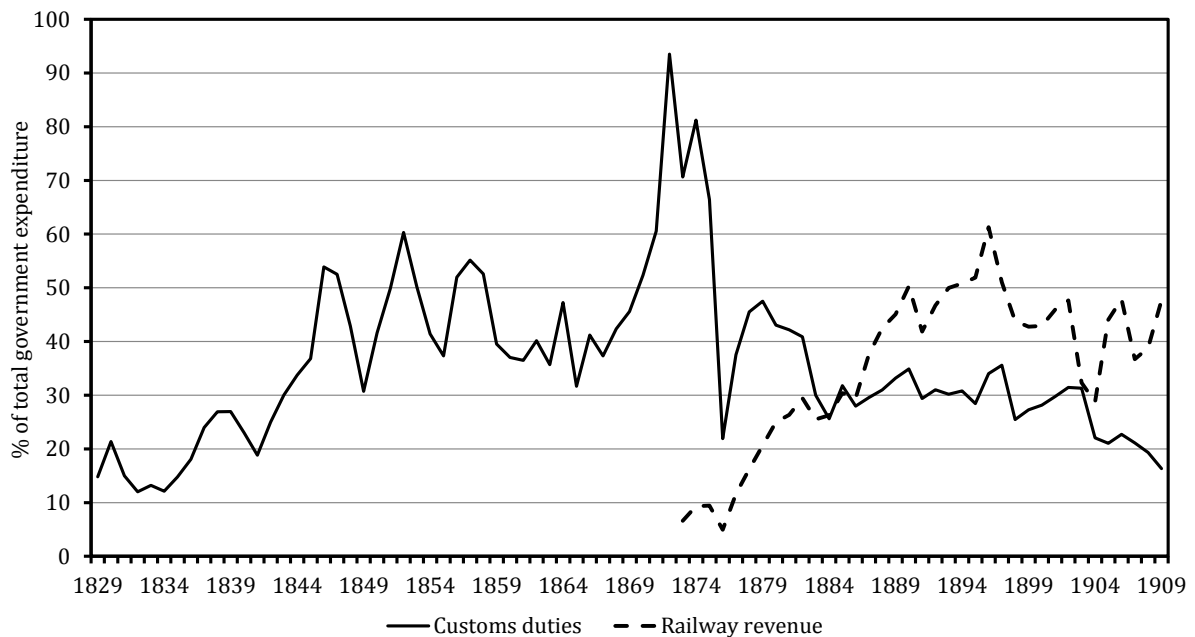
The administrative efficiency of customs duties was one of the most important reasons why the Cape Government relied do heavily on customs duties as a source of revenue during the second half of the 19th century. Hobart-Houghton (1975: 8) states that "[t]he self-subsistence character of much of the economic activity presented grave difficulties because it made direct taxation well-nigh impossible. Customs revenue was a major support of government in the Cape and Natal, where it could be collected cheaply and effectively at the ports". But the phenomenon of "fiscal illusion" might also have been at

¹⁵ For a more detailed discussion of the role of trade taxes in colonies in Africa, see Gardner (2012: 41-46). Railways generated almost half of the government revenue of Kenya in the colonial era (Frankema, 2011: 139).

work. At that stage the notion of direct taxation of income was deeply unpopular in South Africa, as Governor Philip Wodehouse learnt in 1869 when strong opposition scuppered his proposal to introduce such a tax in the Cape Colony at a rate of 1.25 percent (Lieberman, 2003: 112).

Figure 7

Government revenue from customs duties and railway services (1829-1909)



Sources: Blue Books for the Colony of the Cape of Good Hope (Various years).

Much has been written about the pernicious effects of the hut tax in colonial Africa (see, for example, Gardner, 2012: 46-49, 51). The Cape government introduced the hut tax in 1859. In contrast to colonies such as Kenya and Northern Rhodesia (Gardner, 2012: 48-49), hut or poll taxes never became a major source of revenue in the Cape Colony (its share of government income peaked at 1.5 percent in 1908). As was the case elsewhere, however, the hut tax was an important element of the Colony's attempts to solve its labour supply problems by coercing Africans into wage labour. From 1894 onwards it was complemented by the Glen Grey Act, a piece of legislation conceived and enthusiastically promoted by Rhodes (cf. Rotberg, 1988: 467-472). This Act introduced a system of individual land tenure in areas with large concentrations of amaXhosa, but limited the size of individual holdings to an uneconomically four acres and imposed a labour tax on non-title-holders (Davenport and Saunders, 2000: 190). Some provisions

of the Glen Grey Act (such as the one that provided for canteens in African areas) were included at the behest of Afrikanerbond merchants and served to cement the alliance between Rhodes and Hofmeyr's influential party (Rotberg, 1988: 474).

To this section I am adding the following points:

Another reason for the prominence of customs revenue was that all imports the South African Republic and the Republic of the Orange Free State entered through the Cape's harbours. The rapid growth in imports associated with the mineral discoveries yielded large revenues. Among other things, the construction of railways was necessary to protect this revenue stream against possible diversion to the harbours of Durban and Lourenco Marques. This issue caused much tension between the Cape Colony and the South African Republic.

The Cape Colony levied a tax on mining and required mining licenses. These instruments yielded very little revenue. Rhodes and others with interests in mining strongly opposed attempts to tax the sector more heavily.

3.5 Government expenditure

The only elements of government expenditure alluded to in Hoffman's (2015) definition of a state are those linked to the legitimate use of violence, such as outlays on national defence, policing and the criminal justice system. Yet other forms of government spending also matter for the achievement of statehood. Effective government spending on economic infrastructure and social services, for example, can boost productivity and economic growth (Tanzi and Zee, 1997: 187-191). This, in turn, should expand the tax base and advance state formation by improving the mobilisation of tax revenue. Recent writings on colonial fiscal states have touched on related themes. Some writers, such as Booth (2007) and Frankema (2011), suggest that colonial fiscal states ranged from those that mobilised little revenue and provided few services apart from protection against external and domestic threats to those that imposed high tax burdens but invested large portions of the proceeds in growth-promoting infrastructure and social services.¹⁶ This

¹⁶ Frankema (2011: 136-137) links these writings to the ongoing debates about Acemoglu, Johnson and Robinson's (2001) distinction between extractive and growth-promoting colonial institutions.

subsection offers a brief summary of salient trends in the composition of the outlays of the Cape government from 1829 to 1909.

To be sure, this period predates the era of extensive public spending on social services, even in present-day developed countries.¹⁷ Colonies had begun to establish public education and health care systems, however, and some were spending heavily on infrastructure. Frankema (2011: 48) show that public works and administration were by far the largest categories of government spending in eight British colonies in the period 1910-1912.¹⁸ Military spending and outlays on domestic security, education and health care formed a significantly smaller tier of categories in these colonies. Figure 8 summarises the outlays of the Cape government on six categories of items: public works and utilities, the military, law and order, administration, human resources (education and health care) and debt service. The series are shown as percentages of total public spending (1829-1909) and GDP (1855-1909).

In the majority of these years, public works and the costs of utilities was the largest of the six expenditure categories. The influence of the opportunities (and resources) opened up by the minerals discoveries is evident. Railway construction was a particularly important item – the Cape government obtained legislative authority to undertake large-scale expansion of the railway network in 1874, and Figure 8 shows the effect on public works spending in subsequent years – but significant resources were allocated for the construction of roads, bridges and harbour facilities as well as the running of the postal and telegraph systems. The reality that debt service costs were such a large expenditure category from the 1860s onwards reflects the extent to which debt was incurred to finance infrastructure spending (cf. De Kock, 1924: 393-394).

¹⁷ According to Tanzi and Schuknecht (2000: 34, 38), government spending on education and health in Britain amounted to 1.1 percent of GDP in 1910 and 0.3 percent of GDP in 1913, respectively.

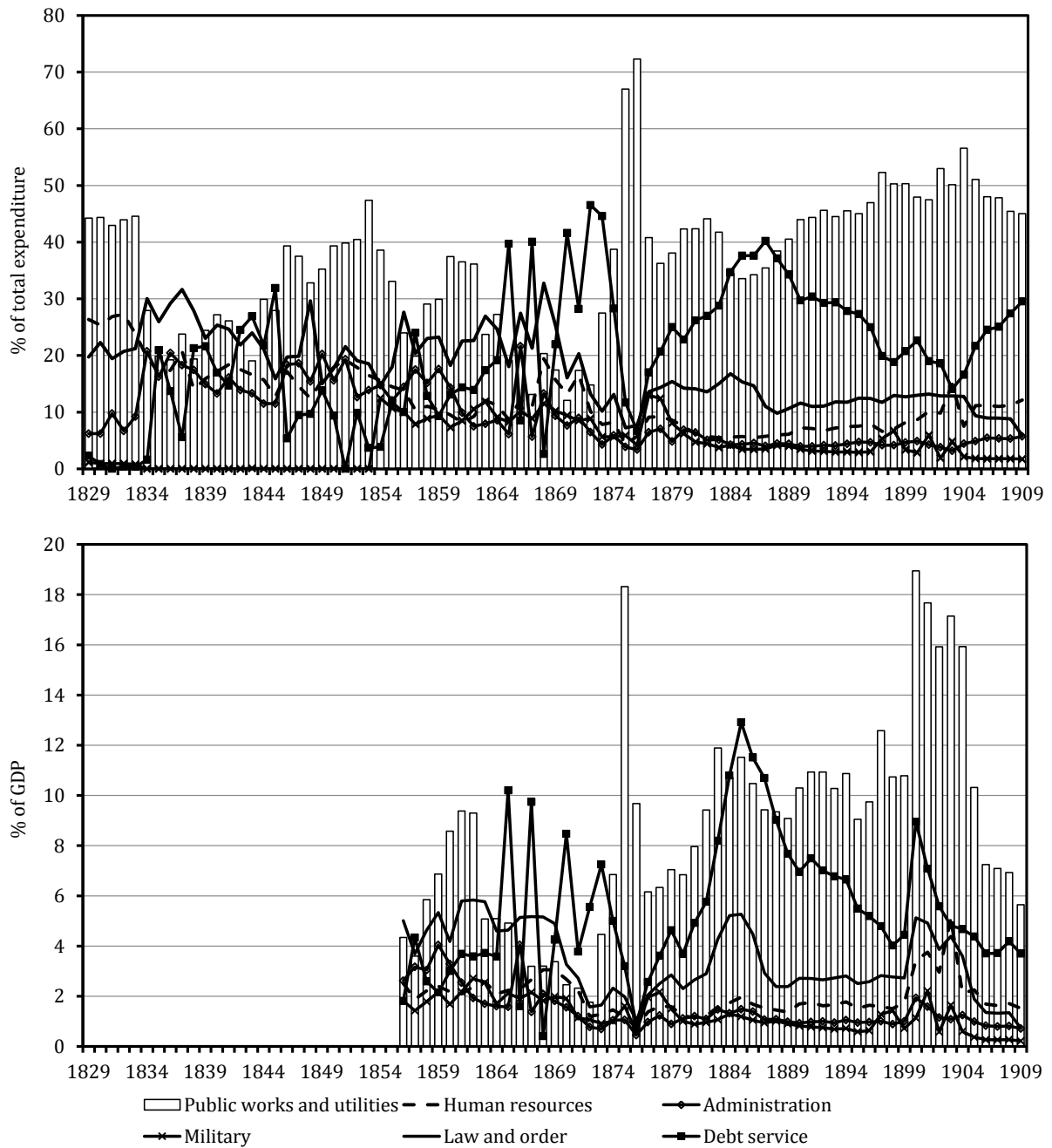
¹⁸ These are the Gambia, Sierra Leone, the Gold Coast, Nigeria, Nyasaland, Kenya, Uganda and Mauritius.

	Administration per capita (£)	Debt service per capita (£)	Health, education and welfare per capita (£)	Law, order and defence per capita (£)	Public works per capita (£)
1856	0.16	0.11	0.16	0.42	1.30
1865	0.09	0.56	0.13	0.35	1.57
1875	0.11	0.33	0.14	0.29	1.44
1891	0.11	0.83	0.21	0.48	2.87
1904	0.19	0.69	0.34	1.13	4.46

Sources: Own calculations based on information in Blue Books for the Colony of the Cape of Good Hope (Various years).

Figure 8

Government expenditure by category (1855-1909)



Sources: Blue Books for the Colony of the Cape of Good Hope (Various years); Magee, Greyling and Verhoef (2016: online appendix).

The relatively modest extent of military spending, even during the last of the frontier wars and the South African War, reflected the degree to which the British government

borne the costs of the frontier and Confederation Wars.¹⁹ Public spending on education and health care amounted to about 2 percent of GDP for much of this period. It rose somewhat higher in the 1850s and 1860s (the New Somerset Hospital and some public schools were built during the governorship of Sir George Grey from 1854 to 1861) and in response to the demands on the health care system during the South African War.

As was the case in other colonies, total public spending on education was low throughout the second half of the 19th century and the first decade of the 20th century. The Cape government established a Department of Education in 1839. An important step as far as the financing of education was concerned was the promulgation of the Education Act of 1865, which introduced a matching grant system in terms of which the government augmented the funds raised by schools on a pound-for-pound basis (Fourie and Swanepoel, 2015: 8). While government assistance extended to mission schools, which provided instruction to some members of the indigenous peoples, low levels of own revenue meant that the majority of these institutions were poorly funded (Molteno, 1984:49). From the perspective of the Cape government, the purposes of supporting the education of indigenous peoples were to expose them to the values of norms of the settlers, undermine the authority of their traditional leaders and accelerate their integration into settler economy as manual labourers. As Molteno (1984: 53) puts it: "Schooling in the 19th century helped to undermine the unconquered, while incorporating the already conquered into the structure of settler society". This approach prepared the way for 20th century apartheid education.

To this section I am adding the following points:

Expenditure on the construction of railways was very high; hence, it is important to distinguish between the gross and net contributions to the fiscus. For the Cape Government, the railways were to serve developmental purposes and revenue generation was a secondary concern. The placement of railway lines (including branch lines) were heavily influenced by the interests of key decisionmakers, especially the mining and agricultural lobbies. Areas where most Africans resided

¹⁹ Davis and Huttenback (1988: 112, quoted in Frankema, 2011: 143) point out that "[o]f all the subsidies enjoyed by the colonies, and by the British investors in those colonies, none was more lucrative than the subsidy for defence".

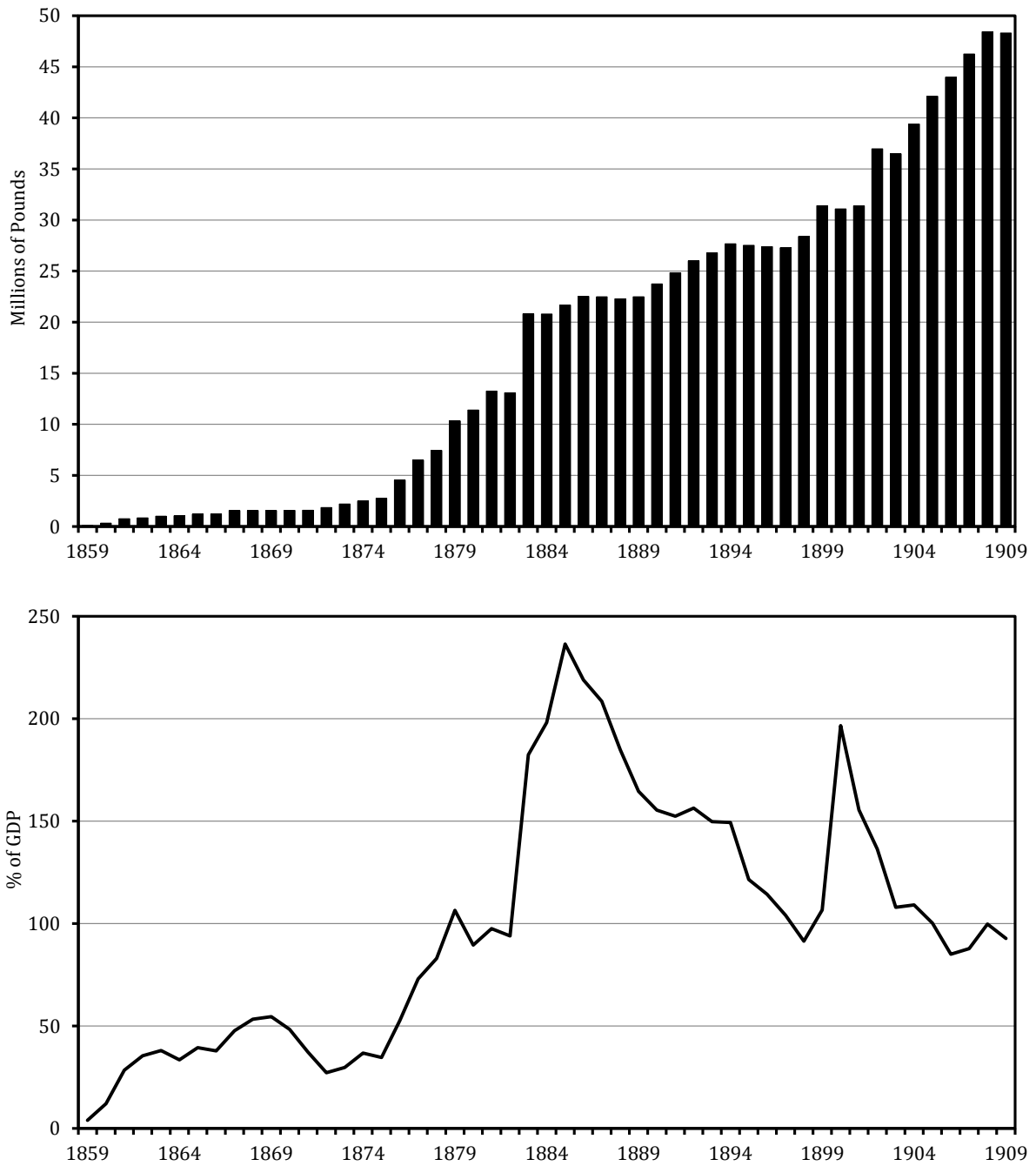
(for example, the Transkei region of the Eastern Cape) were not provided with railways. This contributed to the demise of African commercial agriculture in the late 19th century. For all this I draw heavily on the recent work of Alfonso Herranz-Loncan and Johan Fourie.

More information is provided on the education system, for example, the very low levels of enrolment of children from all racial groups throughout the second half of the 19th century, policy initiatives to increase participation, and the extent of discrimination in the provision of education to white and African children. For this I draw mostly on the work of Sarah Duff. The key point is again how the institutions determined the decision-makers and their responses to the resources flowing from the mining sector and its knock-on effects.

3.6 Public debt

The public debt of the Cape Colony reached very high levels in the final decades of the 19th century and the first decade of the 20th century: it exceeded 100 percent of GDP in the most years from 1880 to 1909, and peaked at well over 200 percent of GDP in the mid-1880s. As was pointed out in Section 6.3, the bulk of this debt was incurred to finance spending programmes that usually generate high economic returns, namely the construction of railways, harbours and other forms of infrastructure. But the Cape government did borrow from time to time to finance war spending and to cover revenue shortfalls during economic downturns (De Kock, 1924: 394). For the most part, the public debt was managed well: the authorities used consolidations and conversions of outstanding debt issues to reduce interest costs, and a Board of Commissioners was appointed in 1897 to administer a sinking fund. Nonetheless, interest payments absorbed a large portion of total government expenditure in most years from 1875 onwards (cf. Section 3.5).

Figure 9
Public debt (1859-1909)



Sources: Blue Books for the Colony of the Cape of Good Hope (Various years); Magee, Greyling and Verhoef (2016: online appendix).

To this section I am adding the following points (mainly drawing on ongoing work by Abel Gwaindepi):

I am adding information about the nature of the Cape Colony's public debt and comparing the extent thereof and yields to those in other colonies (Australia, Canada, India and New Zealand).

More information is also provided about the financial sector of the Cape Colony at the time, including the role of the imperial banks.

The mineral discoveries clearly had a major effect on the Cape's access to international loans. This is linked to the work of Accominotti and others on public borrowing in self-governing British colonies.

4 CONCLUDING COMMENTS

This paper discusses the value of the experience of the Cape Colony from 1854 to 1910 for answering the following question: How do decision-makers in an underdeveloped colony with bleak economic prospects respond to two unexpected discoveries of vast mineral riches, one within and the other in a neighbouring country? While it argues that the specific responses of decision-makers in the Cape Colony were heavily influenced by contemporaneous regional political developments, the paper also highlights the important effects of the institutions governing the distribution of political power. In the case of the Cape Colony, the responses included measures that turned out to be important precursors of later apartheid policies. The reality that connections among natural endowments, political institutions and long-run economic outcomes shaped the experience of the Cape Colony links this experience to the well-known work of Sokoloff and Engerman (2000) on the development of the Americas.

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