



The Origin of Extractive States in Africa: The Case of the British Cape Colony, 1834-1909

Abel Gwaindepi and Johan Fourie

ERSA working paper 783

May 2019

Economic Research Southern Africa (ERSA) is a research programme funded by the National Treasury of South Africa.

The views expressed are those of the author(s) and do not necessarily represent those of the funder, ERSA or the author's affiliated institution(s). ERSA shall not be liable to any person for inaccurate information or opinions contained herein.

The Origin of Extractive States in Africa: The Case of the British Cape Colony, 1834-1909

Abel Gwaindepi* and Johan Fourie†

May 16, 2019

Abstract

The majority of African states continue to be regarded as extractive states. We use the Cape Colony's public expenditure to account for the emergence of extractive states in Africa. With a sub-imperial role for Southern African colonial expansion, the Cape Colony became a template for extractive practices that continue to characterize the region. Using public expenditure data, budget debates and existing historiography, we trace the elite competition for limited public resources that associated the Cape's transition from an agrarian society to a mining-led economy. We find that the mining elites managed to make dominant coalitions that derailed public expenditure decisions towards self-serving ends. With political and economic influence, their desires could not be vetoed in budget votes and this inevitably gave the state its extractive character. The competing interests of farmers and miners/industrialists; the lack of capital for infrastructure investment; and limited executive constraints – widespread features of modern African economies – led to state capture by a narrow elite. The main lessons derived are that narrow/limited democratic spaces, politics of personalities, exclusion based on race or class and monopolies in key economic sectors are breeding grounds for extractive states.

1 Introduction

AN EXTRACTIVE STATE IS ONE RULED by an elite who extract wealth from the populace rather than giving everyone access to prosperity. Most states in Africa are regarded as extractive. Their abundant natural resources provide easily collectable rents and give them a comparative advantage.¹ Many African

*Postdoctoral researcher at Lund University, Department of Economic History. abel.gwaindepi@ekh.lu.se/abelgwaindepi@gmail.com

†Associate Professor at Stellenbosch University, Department of Economics johanf@sun.ac.za

¹The World Bank, (2005). 'Economic Growth in the 1990s: Learning from a decade of reform', Washington DC 2005).

elites pursue self-enriching goals that are inimical to broad social progress.² Why these extractives states emerge, and what to do about it, are issues high on the research and policy agenda. The role of the state in managing strategic sectors of the economy has received much research attention.³ We first look at that role in some African states today, before turning to the history of the British Cape Colony to show how an extractive state can develop.

Despite pockets of efficiency in some African countries the postcolonial experience of African states in managing natural resource rents is far from remarkable.⁴ The heart of the challenge for African countries is dealing with the often diverging needs of international capital, donors and a local electorate while managing asymmetries of information, volatile prices and currencies, and weak institutional capacity. While the current influx of Chinese capital and firms is considered as a viable alternative to the western funders, the effectiveness of Africans to manage this rapidly changing landscape continues to attract debates.⁵ The handling of donor funds or foreign capital directed to the natural resource sectors by the state authorities pose huge challenges for good governance.⁶ The prospects of the elites being embroiled in pervasive patronage networks, rent-seeking and corruption loom large⁷. For instance, the recent coalition of self-interested elites and private firms in the alluvial diamond mining in Zimbabwe, unfortunately, suggests that this behaviour is indeed widespread.⁸ From 2008 to 2012, discreet and irregular state intervention only precipitated another case of ‘blood diamonds’ in Zimbabwe where political officials were affiliated to the private firms.⁹

All is not gloomy for prospects of growth in Africa but, as was the case for Japan and the Asian Tigers’ catch-up, industrialization strategies in Africa require the state’s success in agency and ability to navigate international geopoliti-

²Daron Acemoglu and James A. Robinson. ‘Why is Africa poor?’ *Economic History of Developing Regions* 25 (2010): pp. 21-50.

³Thandika Mkandawire, ‘Thinking about developmental states in Africa’, *Cambridge Journal of Economics*, (2001), 25, pp. 289–313. Nic Cheeseman, Carl Death and Lindsay Whitfield, ‘Notes on researching Africa’, *African Affairs*, (2017), pp. 1–5; Stelios Michalopoulos and Elias Papaioannou, ‘Historical Legacies and African Development’, (2018) *NBR Working Paper Series No. 25278*.

⁴Ellen Hillbom and Juta Bolt, Botswana – A Modern Economic History: an African diamond in the rough (Springer, Cham, 2018); Brautigam, *Contingent capacity: Export taxation and state building in Mauritius* (Cambridge University Press, London, 2008).

⁵Deborah Brautigam, *The Dragon’s Gift: The Real Story of China in Africa* (Oxford University Press, Oxford, 2009); Jon Phillips, ‘Who’s in charge of Sino-African resource politics? Situating African state agency in Ghana’ *African Affairs*, 118, 470 (2018), pp 101-124.

⁶William Reno, ‘African weak states and commercial alliances’ *African Affairs* 96 (1997), pp 165-185.

⁷G.R Chimonyo, Solomon Mungure and Paul. D Scott ‘The Social, Economic and Environmental Implications of Diamond mining in Chiyadzwa’(Centre for Research and Development, Mutare, 2008); Phillips, ‘Who’s in charge of Sino-Africa resource politics’.

⁸Chimonyo *et al.* ‘The Social, Economic and Environmental’; Richard Saunders and Tinashe Nyamunda, *Facets of Power: Politics, Profits and People in the Making of Zimbabwe’s Blood Diamonds* (Wits University Press, Johannesburg, 2016)

⁹Richard Saunders, ‘The Many Facets of Marange’s Diamonds’, in Richard Saunders and Tinashe Nyamunda (eds) *Facets of Power: Politics, Profits and People in the Making of Zimbabwe’s Blood Diamonds* (Wits University Press, Johannesburg, 2016) p.1

tics.¹⁰ This happens through capitalizing on what Africa can offer to the world. Besides acting as markets for different products produced in the Western or Asian countries, most African countries offer primary resources to the international markets but the quick returns in the extractive sectors pose challenges of rent seeking. The problem emanates from the modes of productions in the resource sectors. For many countries, what precludes state-led extraction is limited funds and the reluctance of funders to trust such projects due to the fear of ‘resource nationalism’.¹¹ When private firms are involved, the public expenditure policies are shaped by the needs of the extractive processes. This was also the case for infrastructure projects in colonial history.¹² We turn to a historical case, the nineteenth-century Cape Colony, to show the colonial origins of extractive states in Africa.

There are primarily three reasons why the Cape Colony between 1834 and 1910 provides a useful case study for scholars of development policy. First, the nineteenth-century Cape transitioned from an agricultural economy to a mining-led industrial economy, a transition many African countries are currently still in the process of making. Second and most important, the Cape discovered diamonds in a context of underdeveloped transport infrastructure, communication systems and lack of capital – as many African countries face today. After the mineral discovery, elite competition for resource rents arose and this is a common feature among many African countries. The uneasy coexistence of the Europeans of British and Dutch origins with the African tribes gave racial cleavages prominence and the Cape provides lessons for Africa’s ethnic fragmentation issues today. The management of ethnic fragmentation through expenditure policies targeting different ethnic groups or regions remains an important issue for the political stability of some African countries.¹³ Finally, the Cape was the originator of many of the institutions that still permeate many African countries, notably in British Eastern and Southern Africa. The practices and policies of influential figures in the Cape government spread far beyond the borders of the Colony, most notably those of Cecil John Rhodes, in the eponymous Northern and Southern Rhodesia. As an extensive literature now shows, these extractive institutions can persist well after independence.¹⁴ Due to its sub-imperial role in Southern Africa, understanding the Cape Colony’s institutional formation can provide both an understanding of the roots of current extractive states and caution against the pitfalls of elite agency in the context of weak economic and political institutions.

¹⁰Ewout Frankema and Marlous van Waijenburg, ‘Africa Rising? A historical perspective’ *African Affairs* 117, 469 (2018), pp. 543-568.

¹¹Phillips, ‘Who’s in charge of Sino-Africa resource politics’, p. 118.

¹²Jeffrey Herbst, *States and Power in Africa: Comparative Lessons in Authority and Control* (Princeton University Press, Princeton, 2000); Remi Jedwab, Edward Kerby and Alexander Moradi, ‘History, Path Dependence and Development: Evidence from Colonial Railways, Settlers and Cities in Kenya’ *The Economic Journal* 127, 603 (2017) pp.1467-1497.

¹³Daniel N. Posner, ‘Measuring Ethnic Fractionalization in Africa’ *American Journal of Political Science* 48, 4 (2004), pp. 849-863.

¹⁴Stelios Michalopoulos and Elias Papaioannou. ‘The long-run effects of the scramble for Africa.’ *American Economic Review* 106.7 (2016): pp. 1802-1848.

This study focuses on the evolution of the Cape Colony’s public expenditure priorities between 1834 and 1910. Historians have done extensive work covering different aspects of the Cape and South African history.¹⁵ However, no systematic exposition of public expenditures exists besides scattered and anecdotal references in the existing studies. Visser provides a brief, though inexhaustive, summary when he argues that existing studies have focused on ‘the conflict between Afrikaner nationalism, on the one hand, and British imperialism and black barbarism, on the other’.¹⁶ How the coexistence of the Afrikaner ethnicity and solidarity, white colonialism, and British imperialism affected the public expenditure priorities is less well known. As a result, this study contributes to this lacuna in two different ways. First, it is the first systematic study on the political economy of public expenditure using systematic time series data. This allows us to avoid a common problem of ‘non-inclusiveness, political bias and cultural relativism’ that has long been the main critic of any study on the complex history of South Africa¹⁷.

Second, and important for South Africa and sub-Saharan Africa, the study attempts to make an objective contribution on the historical and contemporary debates regarding the accurate role and legacy of colonialism by looking at shifts in expenditure priorities. By analysing expenditure allocation towards infrastructure investment, education, health and other social outlays, the paper touches the heart of the colonial state through its expenditure priorities and decisions that characterize extractive states today. We investigate the changing elite interests to trace how these interests shifted colonial expenditure towards a narrow minority. To achieve this, the paper uses a recently reconstituted public expenditure data.¹⁸ Since public expenditure policies reflect political choices, the paper also draws from a compendium of qualitative archival material from the Cape colonial budget debates, parliamentary speeches of governors, and correspondences between the Cape Colony and imperial authorities in England to identify those factors that lie at the root of the Cape’s transition from a

¹⁵Thomas R.H. Davenport and Christopher Saunders, *South Africa: A modern History* (McMillian press, London, 2000); Cornelis W. De Kiewiet, *A History of South Africa: Social and Economic* (Oxford University Press, Cape Town, 1957); Charles Feinstein, *An Economic History of South Africa: Conquest, Discrimination, and Development* (Cambridge University Press, New York, NY, 2005); Hermann Giliomee, ‘Western Cape Farmers and the Beginnings of Afrikaner Nationalism , 1870-1915’ *Journal of Southern African Studies* 14, 1 (1987), pp. 38-63;); Fransjohan Pretorius, *A History of South Africa: From the Distant Past to the Present Day* (Protea Books House, Pretoria, 2014); Mordechai Tarmarkin, *Cecil Rhodes and the Cape Afrikaners: The Imperial Colossus and the Colonial Parish Pump* (Frank Cass and Co, London, 1996). George Theal, *South Africa: The Cape Colony, Natal, Orange Free State, South African Republic, Rhodesia and All Other Territories South of the Zambezi* (G.P Putman’s Sons, New York, NY, 1900); Wessel Visser ‘The mineral revolution’, in Fransjohan Pretorius, *A History of South Africa: From the Distant Past to the Present Day* (Protea Books House, Pretoria, 2014)

¹⁶Wessel Visser, ‘Trends in South African historiography and the present state of historical research’ (Conference at the Nordic Africa Institute, Uppsala, Sweden, 2004), p. 4.

¹⁷Rebecca Davis, ‘Writing SA’s history: only for the brave’, *The Daily Maverick*, 14 March 2012, <https://www.dailymaverick.co.za/article/2012-03-14-writing-sas-history-only-for-the-brave/#.WS3DuOuGNpg> (4 March 2019).

¹⁸Author reference

development-oriented colony to one where rent extraction for a tiny elite became pervasive, with devastating consequences for the colonies that were to follow this blueprint.

2 The Cape Colony as the first African settler colony

In terms of the number of European settlers, the Cape was the biggest settler colony in Africa in the 19th century.¹⁹ When the Cape Colony was under the Dutch company (*Vereenigde Oost-Indische Compagnie* – VOC) between 1652 and 1800, there was not much in terms of public expenditure. British colonial rule brought British settlers to the Cape (several thousand as part of the garrison and as settlers on the eastern frontier) and British institutions. The British did not intend to create a self-governing colony *de novo*, but various changes took place in the first half of the 19th century that led to the consolidation of a colonial state.²⁰ The frontier wars and the perceived risk of predation by the amaXhosa partly played an important role in the rise of the colonial state which could priorities security of the settlers. Frontier conflict, however, and a lack of land pushed groups of white settlers by the 1830s deeper into the interior. This also partly gave the Cape Colony an impetus to consolidate its state power in order to maintain peace and order within its growing borders.

The Cape colonial government did make significant progress in consolidating state institutions in the first half of the 19th century. The supreme court of the Cape of Good Hope was created in 1832. Continuous agitations of the settlers who felt oppressed also led to the formation of a representative organ of the government, the legislative council in 1834.²¹ The attempt to make the Cape a convict colony was heavily resisted in the 1840s and this partly became ‘an important moment for the Cape’s growing independence from London and the development of political unity’.²² The constitution with a colour-blind franchise was granted by the Colonial Office in London in 1853 and the Cape Colony became a self-governing colony. The process was more protracted given the antagonisms between the high franchise and the low franchise supporters.²³

¹⁹Kenneth Good, ‘Settler Colonialism : Economic Development and Class Formation’ *The Journal of Modern African Studies* 14, 4 (1976), p. 597-620; Shula Marks, *Government publications relating to the Cape of Good Hope , 1860 to 1910* (Microform Publishers, London, 1980).

²⁰Davenport and Saunders, ‘South Africa; A modern History’; L.C. Duly ‘The Failure of British Land Policy at the Cape, 1812-28, *Journal of African History* 3, 6 (1965), pp. 357-371; Giliomee, ‘Western Cape Farmers and the Beginnings’.

²¹J. De Villiers, ‘Cape colonial society under the British rule, 1806-1834’, in Fransjohan Pretorius, *A History of South Africa: From the Distant Past to the Present Day* (Protea Books House, Pretoria, 2014).

²²Clare Anderson, ‘Convicts, Carcerality and Cape Colony Connections in the 19th Century’ *Journal of Southern African Studies* 42, 3. (2016), p. 439.

²³Stanley Trapido, ‘The Origins of the Cape Franchise Qualifications of 1853’ *Journal of African History* 5, 1 (1964), p. 37-54.

The pinnacle of consolidation of state institutions took place in 1872 when the Cape was granted responsible governance. This meant the introduction of a prime minister and cabinet ministers. Henceforth, the executive was held responsible by the legislative council and had to resign if they ever receive a vote of no confidence from the legislature.²⁴ With these state institutions and booming mining economy, the Cape was seen by some as ‘the most populous and wealthiest British colony in Africa’²⁵ and ‘a developing powerhouse and a true cornerstone of the empire’.²⁶ The Cape was inhabited by recent British settlers, descendants of earlier European migrants (later to be known as Afrikaners), descendants of slave migrants who had also intermixed with European, Xhosa and the indigenous Khoisan groups to constitute a heterogeneous community known as Cape Coloureds, as well as the black, Xhosa-speaking tribes like the Mpondo, Mfengu and Thembu on the eastern border of the Colony.

3 Expenditure trends and patterns

The main driver of colonial government expenditure in sub-Saharan Africa was the need for physical infrastructures such as railroads and roads. According to Huillery, European capital investment took place in areas where exploitable resources promised quicker and the most extractive returns.²⁷ Railroads formed the greatest of public expenditure outlays but they largely served extractive purposes since they were hardly built to simply connect the coastal regions with the interior.²⁸ The colonial infrastructures caused path-dependent outcomes that continue today.²⁹ What is often lacking from these cross-country studies, or even those that focus on the persistence of colonial investment within one country, is an understanding of the interaction between the political regime, expenditure type and economic outcome. Many of these studies lack a dynamic view of state formation as a bargain between elite groups. This is what we want to contribute here. Next, we begin by looking at broad trends in public expenditure

²⁴J Grobler, ‘State formation and strife, 1850-1900’ in in Fransjohan Pretorius, *A History of South Africa: From the Distant Past to the Present Day* (Protea Books House, Pretoria, 2014), p. 168.

²⁵Shula Marks and Anthony Atmore *Economy and Society in Pre-Industrial South Africa* (Longman Inc, New York, NY, 1981), p. 1.

²⁶Good, ‘Settler Colonialism’

²⁷Elise Huillery ‘The impact of European settlement within French West Africa: Did pre-colonial prosperous areas fall behind?’ *Journal of African Economies* 20, 2 (2010), p. 271.

²⁸Herbst, ‘States and Power in Africa’; Jedwab *et al.*, ‘History, Path Dependence and Development’; Joan Ricart-Huguet ‘The Origins of Colonial Investments in Former British and French Africa’ (Princeton Politics Department, 2018).

²⁹Jedwab *et al.*, ‘History, Path Dependence and Development’; Michalopoulos and Papaioannou, ‘Historical Lagacies and African Development’.

4 Broad trends and patterns

Between 1830 and 1910 revenue sources grew by 350% while expenditure outlays grew by 1900%. Regardless of this variation, we can make some stylized claims. The concerns of the settlers in the early settlement period, mainly in the first half of the 19th century, were on security, with most expenditure categories falling under what can be considered as administration of law and order as compared to what could be seen as developmental aims such as infrastructure provisioning and schooling. We begin by showing the total expenditure of the Cape Colony in two coarse categories of ‘Administration and order’ and ‘developmental’ is displayed in figure 1. We smooth the series with the Hodrick-Prescott filter that removes short-term cyclical components, a common solution when dealing with high volatility that characterizes historical data.³⁰

During the first few decades, the colonial government desisted from burdening the meagre finances with ambitious public expenditure. A crucial aspect of this was the principle of enlightened conservatism that prevailed in England and spread to its self-governing colonies too.³¹ The ability of the government to control public expenditure was regarded as a key virtue of public office holders. This has also been associated with the Gladstonian philosophy of expenditure containment in the 19th century.³² The colonial government was unyielding to various demands for expenditure outlays that would cause unsustainable growth in public expenditure. Competition for government resources was not yet at a higher level because mining had not availed easy rents that would trigger rent-seeking to increase. For instance, Giliomee argued that ‘While there had been little to contest in the 1850s and 1860s, the struggle for control over the state’s resources became a serious matter in the 1870s’.³³

Prior to the 1870s numerous petitions came from all regions of the Cape Colony, especially from the Eastern Cape where 1820 settlers constituted a strong voice. These petitions can be exemplified by what was recorded in the Port Elizabeth Herald in 1862: ‘We are convinced that if only the colony will make railroads, that railroads will make the colony; it is the practical experience of other countries, it is the established dictum of other men’.³⁴ The state was

³⁰The same approach is used when the concern is long term trends. For example see: Lorraine Greyling and Grietje Verhoef, ‘Slow growth, supply shocks and structural change: The GDP of the Cape Colony in the late nineteenth century’ *Economic History of Developing Regions* 30, 1 (2015), p. 23-43.

³¹Edwin G West, ‘Educational slowdown and public intervention in 19th-century England: A study in the Economics of bureaucracy’ *Explorations in Economic History* 12, 1 (1975), p. 3

³²Leigh Gardner, *Taming Colonial Africa: The Political Economy of British Colonial Rule* (Oxford University Press, Oxford, 2012); Patrick O’Brien, ‘The nature and historical evolution of an exceptional fiscal state and its possible significance for the precocious commercialization and industrialization of the British economy from Cromwell to Nelson’ *Economic History Review* 64, 2 (2011), p. 408-446; Jane Veverka ‘The growth of government expenditure in the United Kingdom since 1790’ *Scottish Journal of Political Economy* 10, 1 (1963), p. 111-127.

³³Giliomee, ‘Western Cape Farmers’, p. 41.

³⁴Hobart Houghton and Jenifer Dagut, *Source Material on the South African Economy, 1860-1970. Vol. II, 1899-1919* (Oxford University Press, Oxford, 1973), p. 112.

not hasty to agree to these representations without thinking about the feasibility of these projects. In 1868, the governor's speech demonstrates this restraint on public expenditure.

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 wise parsimony.³⁵

Similar sentiments prevail in most of these parliamentary speeches before 1870. Expenditure control kept the colonial government in a relatively sound financial position until the 1870s. The disaggregation of public expenditure into functional classification help us understand the shift that was caused when diamonds were discovered. The exercise of disaggregating expenditure data by functional classification has been done often for sovereign countries and is also useful for understanding colonial priorities.³⁶ We use the taxonomy of Peacock and Wiseman to classify public expenditure into five categories as percentage shares of total expenditure between 1827 and 1910 (see Table 1 in the Appendix)³⁷. Figure two reports the results.

There is no distinct pattern before the 1870s amongst all categories in this period when administration, law and order were the main concerns of the colonial government. From the 1870s onwards, public works and debt servicing account for more than 70% of government expenditure. The rest of the categories show declining trends. Prior to 1870, public works show a relative temporary increase in the 1840s before falling back to the common trend of the pre-1870 period. The qualitative sources show that this temporary increase in the pre-1870 public works owed to the enthusiasm and hard work of a colonial secretary, John Montagu. He used convict labour to construct roads and was also influential in wiping the Cape Colony's debt through lands sales, guano sales and collection of arrears in taxes.³⁸ The post-1870 trends are very different from the pre-1870 trends since rising state resources gave rise to elite contestations as different groups sought to benefit. Rising public expenditure in public works and debt servicing after 1870 were caused by the growth of the public sectors through the formation of the state-owned railways system (CGR) and telegraphic system.

³⁵ Phillip Edmond Wodehouse 'Speech on the accounts of the several divisional councils for the year' (Historical Government Records, Stellenbosch Library, 1868, p 2)

³⁶ Allan T Peacock and Jack Wiseman, *The Growth of Public Expenditure in the United Kingdom* (Princeton University Press, Princeton, 1961); Carolyn Webber and Aaron Wildavsky, *A History of Taxation and Expenditure in the Western World* (Simon and Schuster, New York, NY, 1986).

³⁷ Peacock and Wiseman 'The growth of Public Expenditure'

³⁸ John Montague was successful colonial secretary who adapted 'existing administrative machinery to meet needs [and] laid the soundest foundations for a parliamentary structure'; Jose Burman, *Early Railways at the Cape* (Human and Rousseau Ltd, Cape Town, 1984), p. 14.

Unpacking the growth in public expenditure also mean dealing with the expenditure of state-owned entities since these were the main drivers of the growth in public expenditure in the 19th-century colonies. The next section analyses the infrastructure expenditure mainly underpinned by state-owned enterprises.

5 Infrastructure investment

A central concern in the public expenditure literature is the question of what should be counted as public expenditure and what should not. Drawing a line between government departments and state enterprises is often difficult. According to Peacock, ‘in reviewing the causes of growth in government, it may be central to the analysis to regard growing nationalization as one of the options open in political decisions to increase the role of government’.³⁹ Throughout the 19th century, the demand for government services evolved from providing basic public goods such as law and order to a greater variety of services, including transport, communication, education and health. New technologies, like railways and the telegraph, for example, required huge capital outlays and was unlikely to be funded in full by private enterprises.⁴⁰ Attempts to eliminate state-owned entities for the 19th century will leave one with less meaningful public expenditure data. Colonial governments were also the biggest employers in the settler colonies of the 19th century.⁴¹

For Cape, the construction of railway lines advanced at a fast pace once diamonds were discovered in Kimberley. Miles of tracks grew from merely below 100 miles to above 3000 miles in 1910⁴². Miles travelled by the trains also grew in this period to above 12 million. In the initial stages of the railroads, the colonial government was cautious about how to proceed with railways construction work aiming to ‘suspend the works or curtail the expenditure on them in adverse times whenever it suited its convenience’.⁴³ Profitability was certainly not a major factor for the colonial government at the outset of the development of the railroads and telegraphic system⁴⁴. Common interests of the broader

³⁹Allan T Peacock, ‘The Growth of Public Expenditure’ in Rowley and Schneider (eds), *The Encyclopedia of Public Choice* (Springer, Boston, MA, 2004), p. 271.

⁴⁰Lance E Davis and Robert A. Huttenback, *Mammon and the pursuit of Empire: The political economy of British imperialism, 1860-1912* (Cambridge University Press, Cambridge, 1986); Livio Di Matteo, *A Federal Fiscal History Canada, 1867-2017* (Simon Fraser Institute, Vancouver, 2017); Irvind Stone, *The Global Export of Capital from Great Britain, 1865-1914: A Statistical Survey* (St Martin’s Press, New York, NY, 1999)

⁴¹Di Matteo, ‘A Federal Fiscal History’; David J. Gilchrist, ‘Refinement and Refutation: N. G. Butlin’s 1959 Monograph ‘Colonial Socialism in Australia’ and Explanations for Public Capital Formation, 1850 to 1890’ (Seminar presentation, University of Western Australia, 2013); David Greasley and Les Oxley, ‘A tale of two dominions: Comparing the macroeconomic records of Australia and Canada since 1870’ *Economic History Review* 51, 2 (1998), p. 294-318.

⁴²The Blue Books provide summaries (1960-1910).

⁴³Henry Barkly, ‘Speech to the members of the House of Assembly’ (Historical Government Records, Stellenbosch Library, 1871, p. 2).

⁴⁴Alfonso Herranz-Ioncán and Johan Fourie, ‘For the public benefit ‘? Railways in the British Cape Colony’ *European Review of Economic History* 22, 1 (2018), p. 73-100.

development of the colony prevailed as indicated by the governor in 1873 when he argued that the aim was ‘to secure for the Cape Colony a permanent place among the most prosperous and important of the colonial possessions of the British Empire’.⁴⁵

Infrastructure clearly was an important concern for the government. Figure 3 shows the investment that went into infrastructure namely harbours, public buildings, railways, roads, bridges and telegraphs, reported as the share of the total spending on infrastructure. The dominance of railways is unparalleled. For main roads, harbours and anchorages and anything which was not seen as pro-mining railways, the message to the petitioners was that ‘these people must put their hands into their pockets and pay for them’.⁴⁶

The rise of railway expenditure crowded out other infrastructure.⁴⁷ Expenditure on roads and bridges in the first half of the century show the Montagu enthusiasm but his death signalled the decline of this category. The mining industry was the beneficiary of railways and farmers complained often about being neglected.⁴⁸ Not even crises could halt the construction boom. For instance, the 1893 financial crisis in Australia caused railway construction work to cease.⁴⁹ By contrast, the diamond crisis of the early 1880s did not halt railway construction by the Cape government but the authorities borrowed massively in this period to extend railways to the goldfields discovered in Transvaal. Such foresight and restraint was no longer part of the Cape Colony’s expenditure approach. This expenditure spree was the subject of much debate in parliament due to its bias towards mining interests. For instance, Mr Jones, after being a member for twelve years, rose in opposition to the treasurer’s speech which gave a positive picture of the conditions of the colony. He instead argued that:

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.⁵⁰

Like Mr Jones, many were beginning to realize that the obsession with railways was primarily for extractive purposes while the rest of the country was not advancing economically. For instance, for the non-mineral sectors, there was no difference between the exports realized in 1874 and 1890 reflecting 16 years of stagnation of ‘real’ economic prosperity. Mr Merriman argued in parliament

⁴⁵ Phillip Edmond Wodehouse ‘Speech to the members of the House of Assembly’ (Historical Government Records, Stellenbosch Library, 1873, p. 5).

⁴⁶ Cape of Good Hope, *House of Assembly Budget Debates*, (May Murray & Leger Printers, Cape Town, 1884, p. 227).

⁴⁷ The expenditure on railways here is an underestimate because it focuses on the operations of the CGR and excluded much of the initial borrowed capital used. The railways were funded through debt and above 80% of public debt in the Cape were for railway construction.

⁴⁸ Cape of Good Hope, ‘House of Assembly Budget Debates’

⁴⁹ R.V Jackson, *Australian economic development in the nineteenth century* (Australian National University Press, Canberra, 1977), p. 169.

⁵⁰ Cape of Good Hope, *House of Assembly Budget Debates*, (May Murray & Leger Printers, Cape Town, 1896, p. 241).

two years later echoing the same sentiments:

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 mean money. Extravagance is working tremendously upon the railway system. . . .when the rest of the colony wallow in poverty as farmers have to also access light railway lines⁵¹.

As has been argued elsewhere, railway engineers focused on making sure that the tracks would go through the least-cost routes to the minerals fields.⁵² The shortest distance to the mining towns was sought to reduce transport costs and time required to finish the job. Any benefits to farmers in the vicinity were fortuitous. In fact, petitions from farmers for branch lines into farming regions were resisted and ridiculed as ‘pumpkin lines’ or ‘political lines’.⁵³ Because of its exorbitant influence on the public finances, railways were largely responsible for the poor state of the colony’s finances at the beginning of the twentieth century’.⁵⁴ In 1902, Mr Merriman argued in response to another member of parliament who had spoken positively about the colony:

But in regard to the state of prosperity of this country, my honourable friend is living in a fool’s paradise. . . the prosperity alluded to by the honourable member was perhaps only in the Cape Peninsula and not in the rest of the country.⁵⁵

6 Social Spending

Expenditure on education, health and pensions play a key role in human capital development. Figure 4 below shows the outlays on social spending as shares of the total expenditure of the colony. Education shows a steady rise, with a sharp rise after 1900, while public health was quite volatile owing to several epidemics that the colony had to deal with. For instance, expenditure on public health would rise in response to plagues such as the rinderpest that caused ‘the extraordinary expenditures of £249 597 to be allocated’.⁵⁶

Kimberley, a city that sprung up quickly because of the diamond mines, was a focal point for discussions about the extent of government-provided social services. The colonial government was reluctant to see expenses spiral out of control. For instance, 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

⁵¹Cape of Good Hope, *House of Assembly Budget Debates*, (May Murray & Leger Printers, Cape Town, 1898, p. 184).

⁵²Jedwab et al. ‘History, Path Dependence and Development’

⁵³Cape of Good Hope, *House of Assembly Budget Debates*, (May Murray & Leger Printers, Cape Town, 1894, p. 448).

⁵⁴*The Economist*, (1892) ‘The Finances of Cape Colony.’ 6 Aug. 1892, p. 1000. (The Economist Historical Archive, 1843-2014)

⁵⁵Cape of Good Hope, *House of Assembly Budget Debates*, (May Murray & Leger Printers, Cape Town, 1902, p. 162).

⁵⁶Ibid, p. 158

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.⁵⁷

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.⁵⁸

With a shortage of water, open latrines, lack of fresh fruits and vegetables, Kimberley initially demanded a disproportionately huge portion of the government spending. Unlike the coastal towns which had been slowly developed and expanded, Kimberley had to have hospitals, schools, police and other public amenities in a short time. De Kiewiet argued that '[i]n 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'.⁵⁹

Education spending was separated by broad racial lines namely 'native education' vs 'non-native education'. Figure 5a and 5b below shows that for the period 1877 to 1910, the Cape devoted very little towards 'natives'. Some form of support for the native education began in the late 1876 but remained very low compared to what went to the non-native educational allocation which rose steadily until the early 1900s after which it increased sharply. The increase in the early 1900s was acknowledged by Mr Merriman when he noted that education now cost 'more than the whole revenue and expenditure put together of fifty years ago'.⁶⁰ It was from 1890 that there was a steady rise in expenditure for non-native educational allocation.

Using race categories later used by the Union of South Africa, Figure 5b shows how this panned out in the Union of South Africa. These racial differences came to be through shared white interests regarding the place of Africans in society. The need for cheap labour in mines and farms being the main. The Cape, as was other colonies in South Africa, was a 'good' testing ground for white supremacy that was given official recognition by the 1909 South African Act.⁶¹

Besides the public expenditure on education by the colonial government, missionaries played an important role. Even across Africa, the 'British colonial administrators outsourced educational investments to Christian missions'.⁶² For the Cape colony, Fourie and Swanepoel found that missions had lasting effects

⁵⁷ Cape of Good Hope, *House of Assembly Budget Debates*, (May Murray & Leger Printers, Cape Town, 1888, p. 288).

⁵⁸ *Ibid.*, p. 289.

⁵⁹ De Kiewiet, 'A History of South Africa'

⁶⁰ Cape of Good Hope, *House of Assembly Budget Debates*, (May Murray & Leger Printers, Cape Town, 1909, p. 245).

⁶¹ Evans Lieberman, 'National Political Community and the Politics of Income Taxation in Brazil and South Africa in the 20th Century' *Politics and Society*, 29, 4 (2001), pp. 515-555.

⁶² Michalopoulos and Papaioannou, 'Historical Legacies and African Development' p. 17.

on schooling for Black and Coloured inhabitants of the Cape Colony. Public expenditure on schooling was often more political than developmental⁶³. Molteno, for example, argued that '[s]chooling in the 19th century helped to undermine the unconquered while incorporating the already conquered into the structure of settler society'.⁶⁴

7 Military and defence

One key problem that existed in the self-governing colonies such as Cape Colony was that self-governance did not imply self-defence. The increasing autonomy permitted through self-governance allowed colonists to reject any British request 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'.⁶⁵ At best, the colonies could be only cajoled to take responsibilities for defence. Scholars of state formation acknowledge that being able to defend a territory is a key feature of a durable state.⁶⁶ The Cape Colony had armed rifleman and policeman who did not perform the functions of an army because the British troops in the Cape were responsible for any form of external or internal aggression beyond basic policing. This was so for the frontier wars as well as the second South African war.

The Cape parliamentarians insisted that security was the duty of the British government rather than 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.⁶⁷

Again in 1867, the Cape parliament's position was clear as the governor elaborated why the British government needed to keep supplying troops and pay for the defence of the colony:

'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

⁶³Christie Swanepoel and Johan Fourie, 'When selection trumps persistence: The lasting effect of missionary education in South Africa', *Tijdschrift voor Sociale en Economische Geschiedenis* 12, 1 (2015), p.1-29.

⁶⁴F. Molteno, 'The historical foundations of the schooling of black South Africans' in P. Kallaway (ed) *Apartheid and Education: The Education of Black South Africans* (Ravan Press, Johannesburg, 1984), p.53

⁶⁵Davis and Huttenback, 'Mammon', p. 12.

⁶⁶Timothy Besley and Torstern Persson, 'State Capacity, Conflict, and Development' *Econometrica* 78, 1 (2010), p.1-34; Mark Dincecco, 'The Rise of Effective States in Europe' *Journal of Economic History* 75, 3 (2015), pp. 1-23; Mark Dincecco, James Fenske and M.G Oronato, 'Is Africa Different? Historical Conflict and State Development' (IMT lucca EIC working paper series No. 08, 2015).

⁶⁷Phillip Edmond Wodehouse 'Speech to the members of the House of Assembly' (Historical Government Records, Stellenbosch Library, 1865, p. 167).

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 country⁶⁸.

One problem exploited by the colonists in self-governing colonies was the grey area regarding what really constituted the responsibility of the colonial government or the British government. According to Davis and Huttenback, 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’⁶⁹. In the shortage of reliable military expenditure time series data, the Blue Books show that the government of the Cape contributed only about 4.1 % of the total military expenses in 1858. For the year 1857, a colonial office report had also highlighted that the Cape was a huge drain on the British military expenditure.⁷⁰ The Cape, like other strategic colonies such as coaling stations on coastal routes (such as St Helena and Bermuda), was almost indispensable because it was one of the ‘imperial fortresses’ and the colonists took advantage of that.⁷¹

Without a strategy on the public investment programmes, the fundamental question is what shaped public expenditure decisions of the Cape Colony. The budget votes were crucial in expenditure allocation but were they free from the sway of the narrow elites. Allocation of expenditure reflected ideas and choices of those in power and the direction they thought the colony was to take. The next section uses the diamond discovery as a critical juncture into spending driven by special interests as the scramble for economic rents intensified.

8 The discovery of diamonds and the rise of special interests

In a recent study, Beramendi, Dincecco and Rogers underscore the fact that ‘industrialization may prompt ‘new’ capitalist elites to challenge the traditional political dominance of the ‘old’ agricultural elites’.⁷² The discovery of diamonds in the Cape brought new players who challenged the old merchants and farmers who had been the incumbent holders of power. The discovery also coincided with a government which was at its formative stages owing to the infancy of

⁶⁸ Phillip Edmond Wodehouse ‘Speech to the members of the House of Assembly’ (Historical Government Records, Stellenbosch Library, 1867, p. 171).

⁶⁹ Davis and Huttenback, ‘Mammon’, p. 146.

⁷⁰ Colonial Office, ‘Report on Millitary defence of the Cape of Good Hope’ (British National Archives, file CO 51/229, 1857, p. 3).

⁷¹ Davis and Huttenback, ‘Mammon’, p. 146.

⁷² Pablo Beramendi, Mark Dincecco and Melissa Rogers, ‘Intra-Elite Competition and Long-Run Fiscal Development’, *The Journal of Politics* 81, 1 (2019), pp. 49-65.

party politics in the 1870s. Intra-elite competition is a useful angle in understanding public expenditure as a heavily contestable area of public policy.⁷³ This approach is compatible with political settlement approaches⁷⁴, as well as institutional approaches relating to North *et al.*'s Limited Access Order (LAO) as well as general institutional approaches.⁷⁵ Both political settlements and LAO theoretical lenses place elite power, competition for rents, and management of violence at the centre of understanding the political economy of development in the periphery. The two approaches share qualities of being fluid and thus applicable to complex political-economy issues that require 'non-parsimonious approaches'.⁷⁶

Using central ideas from these frameworks, the schema in Figure 6 foregrounds the discussion on elite dominance underpinning the Cape's extractive state. The schema can be criticized for its taxonomic accuracy but it captures, in a heuristic manner, the economic transition and elite dominance in the period under review by discussing three phases of the Cape economy's transition. The dominance of elite power is two dimensional. Once one has political power, they can also acquire economic power. Similarly, with economic power, one can attain political power. The elites are limited here to three groups namely farmers, merchants/traders and miners. These occupy a place as elites and they can be: a) gaining dominance, b) dominant c) not dominant or d) losing dominance. To maintain dominance, the groups have to coalesce politically (through party formation) and economically (buying shares or venturing into major sectors such as mining).

In the 1834–1872 phase, the farmers and merchants were the dominant political and economic elites.⁷⁷ Mining was not yet a big part of the economy and mining elites were not dominant. In phase two, 1872–1896, mining rose

⁷³Ben W. Ansell and David J. Samuels *Inequality and Democratization: An Elite-Competition approach* (Cambridge University Press, Cambridge, 2014); Beramendi et al. 'Intra-Elite Competition'; Mushtaq H. Khan 'Debate: Political Settlements and the Analysis of Institutions' *African Affairs* 117,469 (2017), pp. 636-655.

⁷⁴Jonathan Di John and James Putzel, 'Political settlements: Issues paper' (Governance and Social Development Resource Centre GSDRC, University of Birmingham, Birmingham, 2009); Mushtaq H. Khan 'Debate: Political Settlements and the Analysis of Institutions' *African Affairs* 117,469 (2017), pp. 636-655; Mushtaq Husain Khan, 'State failure in weak states: A critique of new institutionalist explanations', in John Harriss, Janet Hunter, and Colin M. Lewis (eds), *The new institutional economics and third world development* (Routledge, London, 1995), pp. 71–86; Mushtaq Khan, 'Introduction: Political settlements and the analysis of institutions', *African*

Affairs, Virtual issue: Political settlements research in Africa (2018), pp. 636–655; Tim Kelsall, 'Debate: Towards a Universal Political Settlement Concept: A Response to Mushtaq Khan' *African Affairs* 117,469 (2018), pp. 656-669.

⁷⁵Douglass C. North, *Institutions, institutional change and economic performance* (Cambridge University Press, Cambridge, 1990); Douglas C. North, John J. Wallis and Barry R. Weingast, *Violence and social orders: A conceptual framework for interpreting recorded human history* (Cambridge University Press, Cambridge, 2009)

⁷⁶Hazel Gray and Lindsay Whitfield, 'Reframing African Political Economy: Clientelism, Rents and Accumulation as Drivers of Capitalist Transformation', (LSE Development Studies Institute Working Papers, 2014), p. 10.

⁷⁷Giliomee, 'Western Cape Farmers and the Beginnings'; J. L. McCracken *The Cape Parliament 1854-1910*, (Oxford University Press, London, 1967).

to prominence and brought important shifts to elite dominance. Farmers and merchants began to consider mining as an option and some were co-opted. According to McCracken, Rhodes bought ‘favours’ from farmers by promising them farms in Mashonaland (in Southern Rhodesia) as well as offering them 1£shares in his chartered British South Africa Company. This inevitably made the most influential Cape parliamentarians loyal to Rhodes.⁷⁸ As a result, they could not veto most of the pro-mining policies. The mining elites, once their mining activities were paying off, managed to also make inroads into agriculture⁷⁹. In the last phase, 1896–1910, the rise of Afrikaner nationalism was consolidated through a strong Afrikaner movement that grew, fuelled by the Anglo-Boer war.⁸⁰ The rise of Afrikaner capitalism was also a way of securing financial means of domination.⁸¹ We now turn to the mechanisms that made mining elites the ‘winners’ of the elite competition, at least before 1910, thereby giving the Cape government a very extractive character associated the ‘primitive accumulation’.⁸²

What led to an extractive state was the fact that diamond mining was cartelized and was far from being an enabler of economic development due to lack of backwards and forwards linkages inherent in agriculture or manufacturing. The government had no management role of diamonds as a natural resource or any access to significant mining incomes.⁸³ The farmers and merchants, besides being heavily taxed, were overpowered by the mining elites in terms of influence on spending policies. The apathetic political behaviour of the farmers in the early periods did not help the situation.⁸⁴ The fact that the first political party, the Afrikaner Bond, came from the farmer’s association trying to secure a voice in parliament is a testimonial to the power the miners were gaining. The farmers as the incumbent power holders, saw their power being eroded and had to organize to secure a strong voice that would hopefully influence the colonial state’s spending policies in their favour or at least avoid the risk of being completely marginalized.

The bias of the Cape expenditure towards railroads to the mining fields owes its existence to the power the diamond clique had created from the 1880s. The diamond mining commission was instituted in 1880 and managed to set the mining industry towards self-regulation. This was self-reinforcing: wealth

⁷⁸ McCracken ‘The Cape Parliament’, p. 114.

⁷⁹ Chris Aucamp, ‘Rhodes Fruit Farms: A small beginning in the Paarl Valley, 1897-1910’ *Contree* 31, 1(1992), pp. 11-18.

⁸⁰ Giliomee, ‘Western Cape Farmers and the Beginnings’

⁸¹ Giliomee, ‘Western Cape Farmers and the Beginnings’ Robert Ross ‘The origins of capitalist agriculture in the Cape Colony: A survey’, in William Beinart, Peter Delius and Stanley Trapido (eds) *Putting a Plough to the Ground: Accumulation and Dispossession in Rural South Africa, 1850-1930* (Ravan, Johannesburg, 1986), pp. 57-100; J L. Sadie, *The Fall and Rise of the Afrikaner in the South African Economy* (Stellenbosch University Press, Stellenbosch, 2002).

⁸² Donald Denoon, *Settler Capitalism* (Oxford University Press, Oxford, 1983); Onur Ulas Ince *Colonial Capitalism and the Dilemmas of Liberalism* (Oxford University Press, Oxford, 2018).

⁸³ Author reference,

⁸⁴ Giliomee, ‘Western Cape Farmers and the Beginnings’

brought power, and power wealth: ‘Rhodes had a way around even the Queen herself and local politicians could be bought with flattery and a few thousand pounds’.⁸⁵ The holding power of the Rhodes coalition became increasingly stronger when he became a member of parliament in 1880. By 1890 when he became the Prime Minister of the Cape, he had achieved a lot in terms of consolidating his popularity and power in the parliament as well.

Having an ardent imperialist for a prime minister of a settler colony proved to be problematic. As the head of the cabinet, Rhodes held a position that would allow him to abuse authority in favour of his private interests and the interests of his colleagues.⁸⁶ The widely known example is the Logan corruption scandal in 1893 when Rhodes in association with James Sivewright, the minister in charge of railways, gave a 15-year monopoly to James Logan for catering on the government-run railway system.⁸⁷ This event led to the collapse of Rhodes’s first government as the liberal politicians regarded his actions to be a gross breach of public office ethics.⁸⁸ Even the ultimate fall of his second government in 1895 and permanent split from the Bond party was based on another breach of trust when he got involved in the planning of the Jameson Raid.⁸⁹ This is crucial in political settlements literature as the Rhodes-Bond alliance allowed stability at the Cape for a while until Rhodes breached the trust.

The Cape officials lost a cautious approach to government expenditure when the mining magnates pushed railway infrastructure building at all costs. When the Rhodes coalition could not push for more money for railways in parliament, debates suggest that unconventional means were used to continue borrowing without the authorization of the legislature. For instance the executive bypassed the parliamentary processes to secretively obtain railway loans in London.⁹⁰ The reports in parliament about ‘vicious practice of spending money unauthorized’ also shows that the colonial government lost control of public expenditure.⁹¹ The treasurer hinted on his fading grip on finances when he argued that, ‘I think it is still my duty to keep a watchful eye on the public expenditure, and not to lose the key of the Treasury.’⁹²

What happened at the Cape was in sharp contrast to developments in Canada during the same period. The nation-building programmes made sure that ‘the Canadian Pacific Railway line joined the manufacturing regions of the east with the western agricultural settlement frontier into a new national economic space.’⁹³ The same was true for Australia where ‘mileage was shared more

⁸⁵Anthony Thomas, *Rhodes: The Race for Africa* (Jonathan Ball, Johannesburg, 1996), p. 13.

⁸⁶McCracken ‘The Cape Parliament’, p. 114.

⁸⁷Kenneth Wilburn, ‘Friend of the Native?’ James Sivewright and the Cape Liberal Tradition’ *South African Historical Journal* 62, 2 (2013), pp. 271-292.

⁸⁸Ibid,

⁸⁹Ibid; Chris Ash, *The If man: Dr Leander Starr Jameson, the inspiration for Kipling’s masterpiece* (South Publishers, Pinetown, 2012).

⁹⁰Cape of Good Hope, *House of Assembly Budget Debates*, (May Murray & Leger Printers, Cape Town, 1885, p. 112).

⁹¹Ibid, p. 113.

⁹²Ibid, p. 119.

⁹³Di Matteo, ‘A Federal Fiscal History’, p. 24.

or less evenly between the four mainland colonies. This meant that the less populous colonies of Queensland and South Australia had much more track than New South Wales or Victoria in relation to their population'.⁹⁴ Furthermore, pastoral farming was critical in Australia and triggered railway construction in agricultural regions such as Riverina.⁹⁵ Without attempting a full comparison, an immediate difference in expenditure outlays of the Cape and other dominions was that the other self-governing colonies never neglected agriculture. Public investment remained focused on common interests.

Franchise limits and other discriminatory laws were important for elitist expenditure policies. The most referenced are the Masters and Servants Act (1890), the Glen Grey Act (1894), and the Cape Franchise (1891-2).⁹⁶ After the incorporation of the eastern territories into the Cape Colony, black inhabitants significantly altered the racial composition of the population. The success of these measures to disenfranchise black Africans have been questioned but they represented a reversal of institutional progress made in the 1850s and 60s. But it was not only black inhabitants that lost out to the capturing of the state by a special interest group. Wool farming, wine farming and other farming activities did not benefit from public expenditure when the colonial state was captured by the miners. Those living in the low-lying regions with good terrain for rail tracks were randomly boosted when the railway tracks had to pass through their regions but the rest in remote regions were not so fortunate.

Towards the end of the Cape's existence as a single polity, public expenditure had grown beyond the means of the colonial finances. With a sense of trepidation, the Prime Minister asked in parliament, '[c]an we hope to enter the union as a bankrupt state... chill penury has repressed noble rage'.⁹⁷ To contain the problem of deficits, 'drastic retrenchments through major cuts in salaries and lowering of the income tax threshold' were introduced but still 'failed to balance the Budget'.⁹⁸ Between 1908 and 1909 retrenchment in the railway system amounted to a total of 1817 people who included coloured and whites who worked as clerks and in workshops; railway miles were reduced by 750,000 miles and these actions saved about £300,000 but it was not sufficient to clear the deficit.⁹⁹

Comments in parliament were often in the form of complaints about special interests who caused the government to pursue a 'public finance policy purely arranged in the interest of a certain section'.¹⁰⁰ In 1908 the Jameson government was described as 'the De Beers government' owing to the influence the

⁹⁴Jackson, 'Australian economic development', p. 86.

⁹⁵Ibid, p. 88.

⁹⁶Wilburn, 'Friend of the Natives', p. 279.

⁹⁷Cape of Good Hope, *House of Assembly Budget Debates*, (May Murray & Leger Printers, Cape Town, 1906, p. 95).

⁹⁸*The Economist*, 'The Finances of Cape Colony.' 6 Aug. 1908, p. 14. (The Economist Historical Archive, 1843-2014).

⁹⁹Cape of Good Hope, *House of Assembly Budget Debates*, (May Murray & Leger Printers, Cape Town, 1909, p. 281).

¹⁰⁰Cape of Good Hope, *House of Assembly Budget Debates*, (May Murray & Leger Printers, Cape Town, 1906, p. 248).

mining sector had in the public expenditure policies of the Cape Colony¹⁰¹. Special interests had used the public expenditure policies to target expenditure towards an extractive and unsustainable path. Diamonds, which had unlocked the potential of the colony, became the basis of rent-seeking and retardation to broader economic progress.

9 Conclusion and lessons for modern African states

This paper has highlighted that the discovery of diamonds was a critical juncture that led to a reconfiguration of existing elite power and interests. Prior to the 1870s, the colonial government was well-intentioned and expenditure priorities were for common interests or developmental/nation building aims up to the late 1870s. The expenditure priorities, henceforth, shifted to mining promotion. Special interests and rent-seeking became widespread. Public expenditure votes reveal that the farmers consistently lost to the mining magnates who pushed expenditure towards their narrow interests in the extractive and monopolized diamond-mining sector. The Cape's development path became marred with overt resource extraction enabled through the land, labour and disenfranchisement policies, all of which were harbingers of the Apartheid policies in the 20th century.

While the Cape leaned to the other British dominions and went through similar institutional consolidation, Rhodes and his inner-circle could exploit the racial cleavages that had existed once the Cape Colony's borders had expanded and included a large number of black inhabitants on the eastern frontier. Strategic alliances with groups that feared black political participation gave Rhodes the political power to push through expenditure policies that would benefit the mining elite of which he was the kingpin. This institutional shift from a common-interest expenditure system to a system catering to elite interests would be replicated in other African colonies, notably those in which Rhodes himself had an interest, like Rhodesia. The Cape government's exorbitant expenditure on railways thus put the Cape and the colonies in British Africa that would follow, on an extractive path from which it would be difficult to recover.

There are lessons to be derived from the extractive state that was formed at the Cape. First, the natural resource sectors pose high temptations and once a natural resource is discovered, it awakens elite competition for rents. Pre-existing institutions matter during such periods. Without strong executive constraints, the state is not insulated from capture and self-enriching practices proliferate. Second, the modes of resource extraction are important if the states have to leverage natural resource for broad economic benefits. The delicate balance of regulating and taxing the extractive sector without scaring investors away is important. This is so when the extractive sector can only be practically

¹⁰¹Cape of Good Hope, *House of Assembly Budget Debates*, (May Murray & Leger Printers, Cape Town, 1908, p. 139).

explored through private sector firms. Mutually beneficial partnerships have to be forged between the state and key stakeholders in the extractive sectors. Third, broader political participation is important in making sure that state authorities are held accountable if they pursue elite-driven spending priorities. These are no quick fixes or panaceas but at least they should continue to occupy the minds of the citizens, researchers and those in the state apparatus.

References

- [1] Alfonso Herranz-Loncán and Johan Fourie, ‘For the public benefit? Railways in the British Cape Colony’ *European Review of Economic History* 22, 1 (2018), p. 73-100.
- [2] Allan T Peacock and Jack Wiseman, *The Growth of Public Expenditure in the United Kingdom* (Princeton University Press, Princeton, 1961).
- [3] Allan T Peacock, ‘The Growth of Public Expenditure’ in Rowley and Schneider (eds), *The Encyclopedia of Public Choice* (Springer, Boston, MA, 2004), p. 271.
- [4] Anthony Thomas, *Rhodes: The Race for Africa* (Jonathan Ball, Johannesburg, 1996), p. 13.
- [5] Ben W. Ansell and David J. Samuels *Inequality and Democratization: An Elite-Competition approach* (Cambridge University Press, Cambridge, 2014).
- [6] Beramendi et al. ‘Intra-Elite Competition’; Mushtaq H. Khan ‘Debate: Political Settlements and the Analysis of Institutions’ *African Affairs* 117,469 (2017), pp. 636-655.
- [7] Capital Formation, 1850 to 1890’ (Seminar presentation, University of Western Australia, 2013).
- [8] Cape of Good Hope, *House of Assembly Budget Debates*, (May Murray & Leger Printers, Cape Town, 1906, p. 95).
- [9] Cape of Good Hope, *House of Assembly Budget Debates*, (May Murray & Leger Printers, Cape Town, 1909, p. 281).
- [10] Cape of Good Hope, *House of Assembly Budget Debates*, (May Murray & Leger Printers, Cape Town, 1906, p. 248).
- [11] Cape of Good Hope, *House of Assembly Budget Debates*, (May Murray & Leger Printers, Cape Town, 1908, p. 139).
- [12] Cape of Good Hope, *House of Assembly Budget Debates*, (May Murray & Leger Printers, Cape Town, 1884, p. 227).

- [13] Cape of Good Hope, *House of Assembly Budget Debates*, (May Murray & Leger Printers, Cape Town, 1896, p. 241).
- [14] Cape of Good Hope, *House of Assembly Budget Debates*, (May Murray & Leger Printers, Cape Town, 1898, p. 184).
- [15] Cape of Good Hope, *House of Assembly Budget Debates*, (May Murray & Leger Printers, Cape Town, 1894, p. 448).
- [16] Cape of Good Hope, *House of Assembly Budget Debates*, (May Murray & Leger Printers, Cape Town, 1902, p. 162).
- [17] Cape of Good Hope, *House of Assembly Budget Debates*, (May Murray & Leger Printers, Cape Town, 1885, p. 112).
- [18] Cape of Good Hope, *House of Assembly Budget Debates*, (May Murray & Leger Printers, Cape Town, 1888, p. 288).
- [19] Cape of Good Hope, *House of Assembly Budget Debates*, (May Murray & Leger Printers, Cape Town, 1909, p. 245).
- [20] Carolyn Webber and Aaron Wildavsky, *A History of Taxation and Expenditure in the Western World* (Simon and Schuster, New York, NY, 1986).
- [21] Charles Feinstein, *An Economic History of South Africa: Conquest, Discrimination, and Development* (Cambridge University Press, New York, NY, 2005).
- [22] Chris Aucamp, 'Rhodes Fruit Farms: A small beginning in the Paarl Valley, 1897-1910' *Contree* 31, 1(1992), pp. 11-18.
- [23] Christie Swanepoel and Johan Fourie, 'When selection trumps persistence: The lasting effect of missionary education in South Africa', *Tijdschrift voor Sociale en Economische Geschiedenis* 12, 1 (2015), p.1-29.
- [24] Clare Anderson, 'Convicts, Carcerality and Cape Colony Connections in the 19th Century' *Journal of Southern African Studies* 42, 3. (2016), p. 439.
- [25] Colonial Office, 'Report on Military defence of the Cape of Good Hope' (British National Archives, file CO 51/229, 1857, p. 3).
- [26] Cornelis W. De Kiewiet, *A History of South Africa: Social and Economic* (Oxford University Press, Cape Town, 1957).
- [27] Daniel N. Posner, 'Measuring Ethnic Fractionalization in Africa' *American Journal of Political Science* 48, 4 (2004), pp. 849-863.
- [28] Daron Acemoglu and James A. Robinson. 'Why is Africa poor?' *Economic History of Developing Regions* 25 (2010): pp. 21-50.

- [29] Davenport and Saunders, 'South Africa; A modern History'; L.C. Duly 'The Failure of British Land Policy at the Cape, 1812-28, *Journal of African History* 3, 6 (1965), pp. 357-371.
- [30] David J. Gilchrist, 'Refinement and Refutation: N. G. Butlin's 1959 Monograph 'Colonial Socialism in Australia' and Explanations for Public.
- [31] David Greasley and Les Oxley, 'A tale of two dominions: Comparing the macroeconomic records of Australia and Canada since 1870' *Economic History Review* 51, 2 (1998), p. 294-318.
- [32] Davis and Huttenback, 'Mammon', p. 12.
- [33] Davis and Huttenback, 'Mammon', p. 146.
- [34] Deborah Brautigam, *The Dragon's Gift: The Real Story of China in Africa* (Oxford University Press, Oxford, 2009).
- [35] De Kiewiet, 'A History of South Africa'
- [36] Di Matteo, 'A Federal Fiscal History', p. 24.
- [37] Donald Denoon, *Settler Capitalism* (Oxford University Press, Oxford, 1983).
- [38] Douglas C. North, *Institutions, institutional change and economic performance* (Cambridge University Press, Cambridge, 1990).
- [39] Douglas C. North, John J. Wallis and Barry R. Weingast, *Violence and social orders: A conceptual framework for interpreting recorded human history* (Cambridge University Press, Cambridge, 2009).
- [40] Edwin G West, 'Educational slowdown and public intervention in 19th-century England: A study in the Economics of bureaucracy' *Explorations in Economic History* 12, 1 (1975), p. 3.
- [41] Elise Huillery 'The impact of European settlement within French West Africa: Did pre-colonial prosperous areas fall behind?' *Journal of African Economies* 20, 2 (2010), p. 271.
- [42] Ellen Hillbom and Jutta Bolt, Botswana – A Modern Economic History: an African diamond in the rough (Springer, Cham, 2018); Brautigam, *Contingent capacity: Export taxation and state building in Mauritius* (Cambridge University Press, London, 2008).
- [43] Evans Lieberman, 'National Political Community and the Politics of Income Taxation in Brazil and South Africa in the 20th Century' *Politics and Society*, 29, 4 (2001), pp. 515-555.
- [44] Ewout Frankema and Marlous van Waijenburg, 'Africa Rising? A historical perspective' *African Affairs* 117, 469 (2018), pp. 543-568.

- [45] Fransjohan Pretorius, *A History of South Africa: From the Distant Past to the Present Day* (Protea Books House, Pretoria, 2014).
- [46] F. Molteno, 'The historical foundations of the schooling of black South Africans' in P. Kallaway (ed) *Apartheid and Education: The Education of Black South Africans* (Ravan Press, Johannesburg, 1984), p.53
- [47] George Theal, *South Africa: The Cape Colony, Natal, Orange Free State, South African Republic, Rhodesia and All Other Territories South of the Zambezi* (G.P Putman's Sons, New York, NY, 1900).
- [48] G.R Chimonyo, Solomon Mungure and Paul. D Scott 'The Social, Economic and Environmental Implications of Diamond mining in Chiyadzwa' (Centre for Research and Development, Mutare, 2008).
- [49] Hazel Gray and Lindsay Whitfield, 'Reframing African Political Economy: Clientelism, Rents and Accumulation as Drivers of Capitalist Transformation', (LSE Development Studies Institute Working Papers, 2014), p. 10.
- [50] Henry Barkly, 'Speech to the members of the House of Assembly' (Historical Government Records, Stellenbosch Library, 1871, p. 2).
- [51] Hermann Giliomee, 'Western Cape Farmers and the Beginnings of Afrikaner Nationalism , 1870-1915' *Journal of Southern African Studies* 14, 1 (1987), pp. 38-63.
- [52] Hobart Houghton and Jenifer Dagut, *Source Material on the South African Economy, 1860-1970. Vol. II, 1899-1919* (Oxford University Press, Oxford, 1973), p. 112.
- [53] Ibid; Chris Ash, *The If man: Dr Leander Starr Jameson, the inspiration for Kipling's masterpiece* (South Publishers, Pinetown, 2012).
- [54] Jane Veverka 'The growth of government expenditure in the United Kingdom since 1790' *Scottish Journal of Political Economy* 10, 1 (1963), p. 111-127.
- [55] Jeffrey Herbst, *States and Power in Africa: Comparative Lessons in Authority and Control* (Princeton University Press, Princeton, 2000).
- [56] J. De Villiers, 'Cape colonial society under the British rule, 1806-1834', in Fransjohan Pretorius, *A History of South Africa: From the Distant Past to the Present Day* (Protea Books House, Pretoria, 2014).
- [57] J Grobler, 'State formation and strife, 1850-1900' in in Fransjohan Pretorius, *A History of South Africa: From the Distant Past to the Present Day* (Protea Books House, Pretoria, 2014), p. 168.
- [58] J. L. McCracken *The Cape Parliament 1854-1910*, (Oxford University Press, London, 1967).

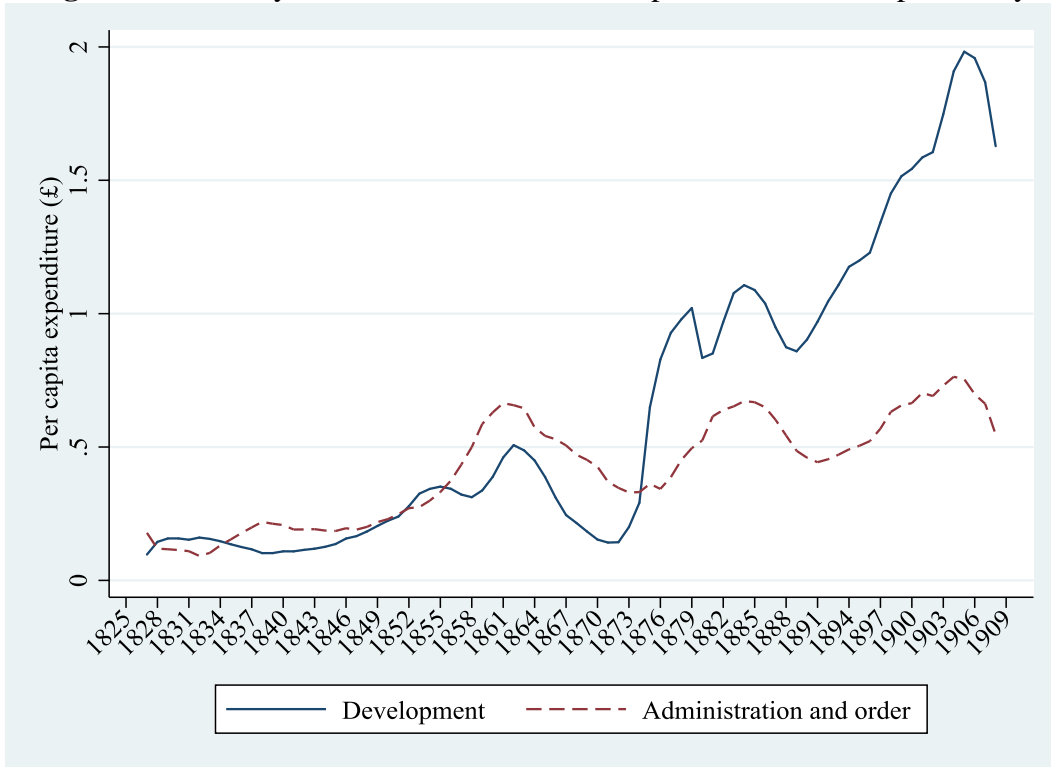
- [59] J L. Sadie, *The Fall and Rise of the Afrikaner in the South African Economy* (Stellenbosch University Press, Stellenbosch, 2002).
- [60] Joan Ricart-Huguet ‘The Origins of Colonial Investments in Former British and French Africa’ (Princeton Politics Department, 2018).
- [61] Jonathan Di John and James Putzel, ‘Political settlements: Issues paper’ (Governance and Social Development Resource Centre GSDRC, University of Birmingham, Birmingham, 2009).
- [62] Jon Phillips, ‘Who’s in charge of Sino-African resource politics? Situating African state agency in Ghana’ *African Affairs*, 118, 470 (2018), pp 101-124.
- [63] Jose Burman, *Early Railways at the Cape* (Human and Rousseau Ltd, Cape Town, 1984), p. 14.
- [64] Kenneth Good, ‘Settler Colonialism: Economic Development and Class Formation’ *The Journal of Modern African Studies* 14, 4 (1976), p. 597-620.
- [65] Kenneth Wilburn, ‘Friend of the Native?’ James Sivewright and the Cape Liberal Tradition’ *South African Historical Journal* 62, 2 (2013), pp. 271-292.
- [66] Leigh Gardner, *Taxing Colonial Africa: The Political Economy of British Colonial Rule* (Oxford University Press, Oxford, 2012).
- [67] Lance E Davis and Robert A. Huttenback, *Mammon and the pursuit of Empire: The political economy of British imperialism, 1860-1912* (Cambridge University Press, Cambridge, 1986).
- [68] Livio Di Matteo, *A Federal Fiscal History Canada, 1867–2017* (Simon Fraser Institute, Vancouver, 2017); Irvind Stone, *The Global Export of Capital from Great Britain, 1865-1914: A Statistical Survey* (St Martin’s Press, New York, NY, 1999)
- [69] Lorraine Greyling and Grietjie Verhoef, ‘Slow growth, supply shocks and structural change: The GDP of the Cape Colony in the late nineteenth century’ *Economic History of Developing Regions* 30, 1 (2015), p. 23-43.
- [70] Mark Dincecco, ‘The Rise of Effective States in Europe’ *Journal of Economic History* 75, 3 (2015), pp. 1-23.
- [71] Mark Dincecco, James Fenske and M.G Oronato, ‘Is Africa Different? Historical Conflict and State Development’ (IMT lucca EIC working paper series No. 08, 2015).
- [72] Mordechai Tarmarkin, *Cecil Rhodes and the Cape Afrikaners: The Imperial Colossus and the Colonial Parish Pump* (Frank Cass and Co, London, 1996).

- [73] Mushtaq H. Khan ‘Debate: Political Settlements and the Analysis of Institutions’ *African Affairs* 117,469 (2017), pp. 636-655.
- [74] Mushtaq Husain Khan, ‘State failure in weak states: A critique of new institutionalist explanations’, in John Harriss, Janet Hunter, and Colin M. Lewis (eds), *The new institutional economics and third world development* (Routledge, London, 1995), pp. 71–86.
- [75] Mushtaq Khan, ‘Introduction: Political settlements and the analysis of institutions’, *African Affairs*, Virtual issue: Political settlements research in Africa (2018), pp. 636–655.
- [76] Nic Cheeseman, Carl Death and Lindsay Whitfield, ‘Notes on researching Africa’, *African Affairs*, (2017), pp. 1–5.
- [77] Onur Ulas Ince *Colonial Capitalism and the Dilemmas of Liberalism* (Oxford University Press, Oxford, 2018).
- [78] Pablo Beramendi, Mark Dincecco and Melissa Rogers, ‘Intra-Elite Competition and Long-Run Fiscal Development’, *The Journal of Politics* 81, 1 (2019), pp. 49-65.
- [79] Patrick O’Brien, ‘The nature and historical evolution of an exceptional fiscal state and its possible significance for the precocious commercialization and industrialization of the British economy from Cromwell to Nelson’ *Economic History Review* 64, 2 (2011), p. 408-446.
- [80] Phillip Edmond Wodehouse ‘Speech on the accounts of the several divisional councils for the year’ (Historical Government Records, Stellenbosch Library, 1868, p 2)
- [81] Phillip Edmond Wodehouse ‘Speech to the members of the House of Assembly’ (Historical Government Records, Stellenbosch Library, 1873, p. 5).
- [82] Phillip Edmond Wodehouse ‘Speech to the members of the House of Assembly’ (Historical Government Records, Stellenbosch Library, 1865, p. 167).
- [83] Phillip Edmond Wodehouse ‘Speech to the members of the House of Assembly’ (Historical Government Records, Stellenbosch Library, 1867, p. 171).
- [84] R.V Jackson, *Australian economic development in the nineteenth century* (Australian National University Press, Canberra, 1977), p. 169.
- [85] Rebecca Davis, ‘Writing SA’s history: only for the brave’, *The Daily Maverick*, 14 March 2012, <https://www.dailymaverick.co.za/article/2012-03-14-writing-sas-history-only-for-the-brave/#.WS3DuOuGNpg> (4 March 2019).

- [86] Remi Jedwab, Edward Kerby and Alexander Moradi, ‘History, Path Dependence and Development: Evidence from Colonial Railways, Settlers and Cities in Kenya’ *The Economic Journal* 127, 603 (2017) pp.1467-1497.
- [87] Richard Saunders, ‘The Many Facets of Marange’s Diamonds’, in Richard Saunders and Tinashe Nyamunda (eds) *Facets of Power: Politics, Profits and People in the Making of Zimbabwe’s Blood Diamonds* (Wits University Press, Johannesburg, 2016) p.1
- [88] Robert Ross ‘The origins of capitalist agriculture in the Cape Colony: A survey’, in William Beinart, Peter Delius and Stanley Trapido (eds) *Putting a Plough to the Ground: Accumulation and Dispossession in Rural South Africa, 1850-1930* (Ravan, Johannesburg, 1986), pp. 57-100.
- [89] Shula Marks, *Government publications relating to the Cape of Good Hope, 1860 to 1910* (Microform Publishers, London, 1980).
- [90] Shula Marks and Anthony Atmore; *Economy and Society in Pre-Industrial South Africa* (Longman Inc, New York, NY, 1981), p. 1.
- [91] Stanley Trapido, ‘The Origins of the Cape Franchise Qualifications of 1853’ *Journal of African History* 5, 1 (1964), p. 37-54.
- [92] Stelios Michalopoulos and Elias Papaioannou, ‘Historical Legacies and African Development’, (2018) *NBR Working Paper Series No. 25278*.
- [93] Stelios Michalopoulos and Elias Papaioannou. ‘The long-run effects of the scramble for Africa.’ *American Economic Review* 106.7 (2016): pp. 1802-1848.
- [94] Thandika Mkandawire, ‘Thinking about developmental states in Africa’, *Cambridge Journal of Economics*, (2001), 25, pp. 289–313.
- [95] *The Economist*, ‘The Finances of Cape Colony.’ 6 Aug. 1908, p. 14. (The Economist Historical Archive, 1843-2014).
- [96] *The Economist*, (1892) ‘The Finances of Cape Colony.’ 6 Aug. 1892, p. 1000. (The Economist Historical Archive, 1843-2014)
- [97] The World Bank, (2005). ‘Economic Growth in the 1990s: Learning from a decade of reform’, Washington DC 2005).
- [98] Tim Kelsall, ‘Debate: Towards a Universal Political Settlement Concept: A Response to Mushtaq Khan’ *African Affairs* 117,469 (2018), pp. 656-669.
- [99] Timothy Besley and Torstern Persson, ‘State Capacity, Conflict, and Development’ *Econometrica* 78, 1 (2010), p.1-34.

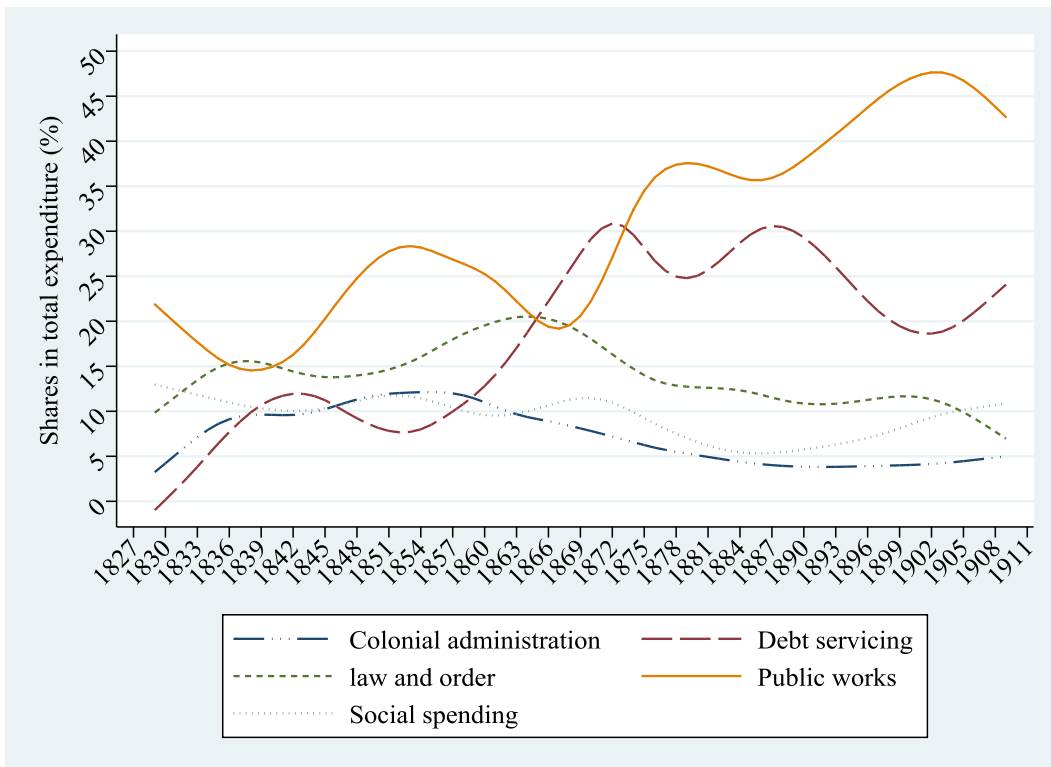
- [100] Thomas R.H. Davenport and Christopher Saunders, *South Africa: A modern History* (McMillian press, London, 2000).
- [101] Wessel Visser 'The mineral revolution', in Fransjohan Pretorius, *A History of South Africa: From the Distant Past to the Present Day* (Protea Books House, Pretoria, 2014)
- [102] Wessel Visser, 'Trends in South African historiography and the present state of historical research' (Conference at the Nordic Africa Institute, Uppsala, Sweden, 2004), p. 4.
- [103] William Reno, 'African weak states and commercial alliances' *African Affairs* 96 (1997), pp 165-185.

Figure 1: Two-way classification of the total expenditure of the Cape Colony



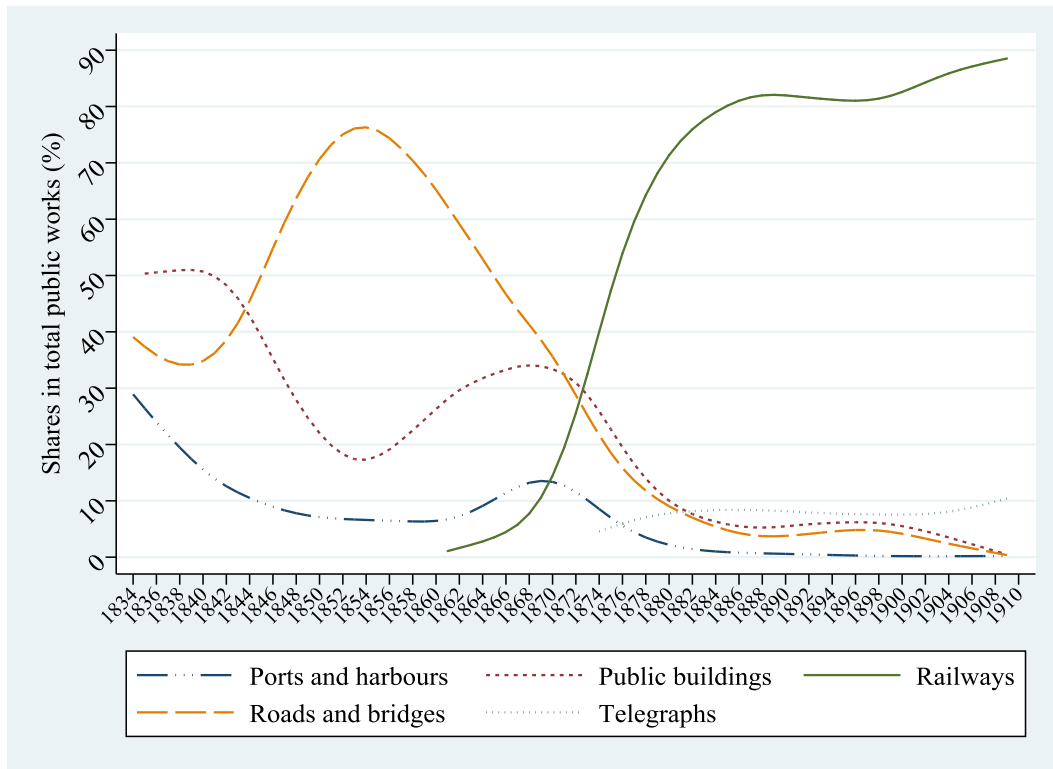
Source: Data from Blue Books (1827–1910)

Figure 2: Expenditure classification as shares of total expenditures, 1830–1910



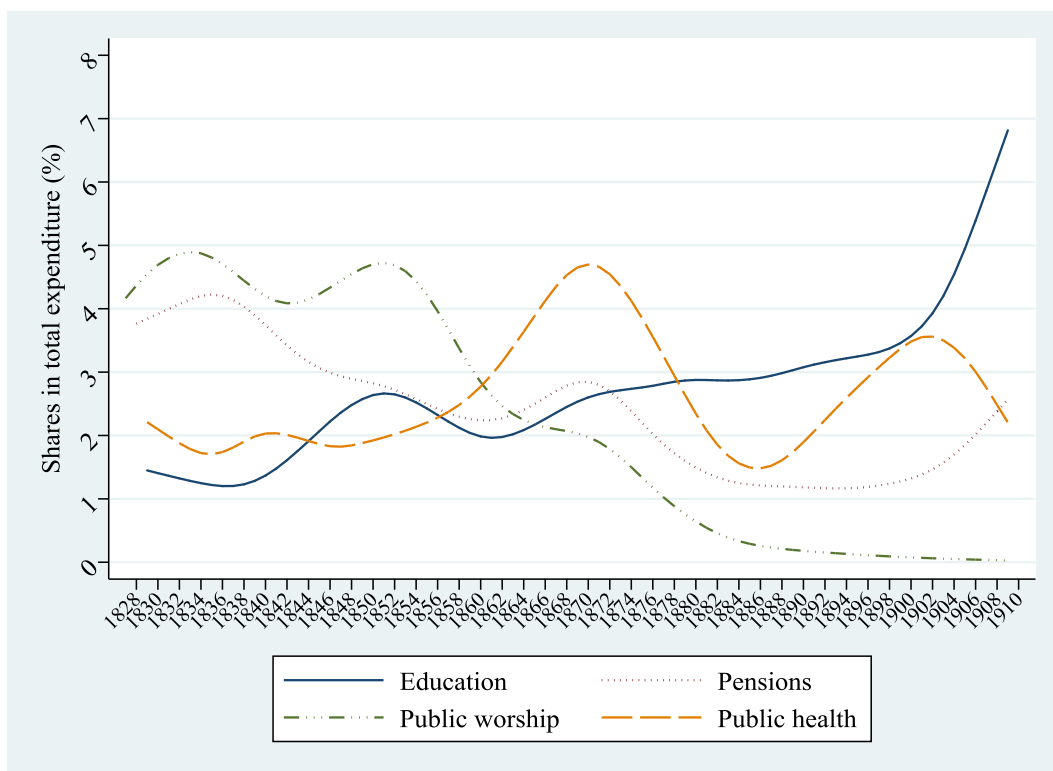
Source: Data from Blue Books (1830–1910)

Figure 3: Investments in public infrastructure



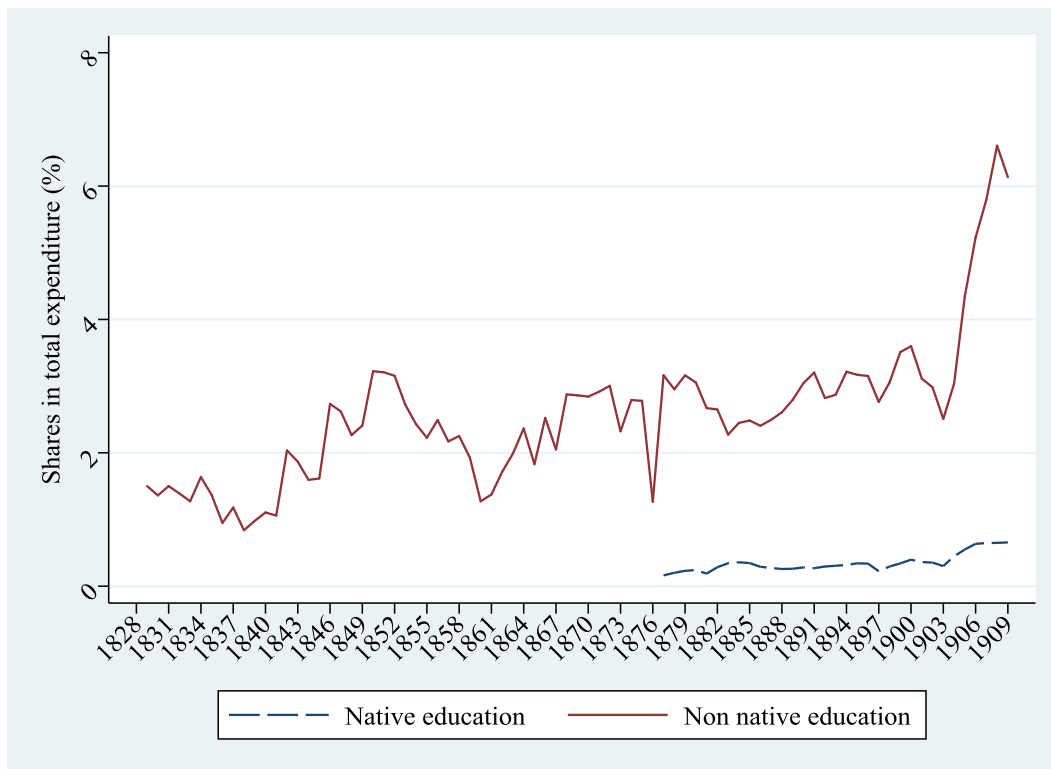
Source: Data from Blue Books (1830–1910)

Figure 4: Social spending categories as shares of Cape’s total expenditure, 1827-1910



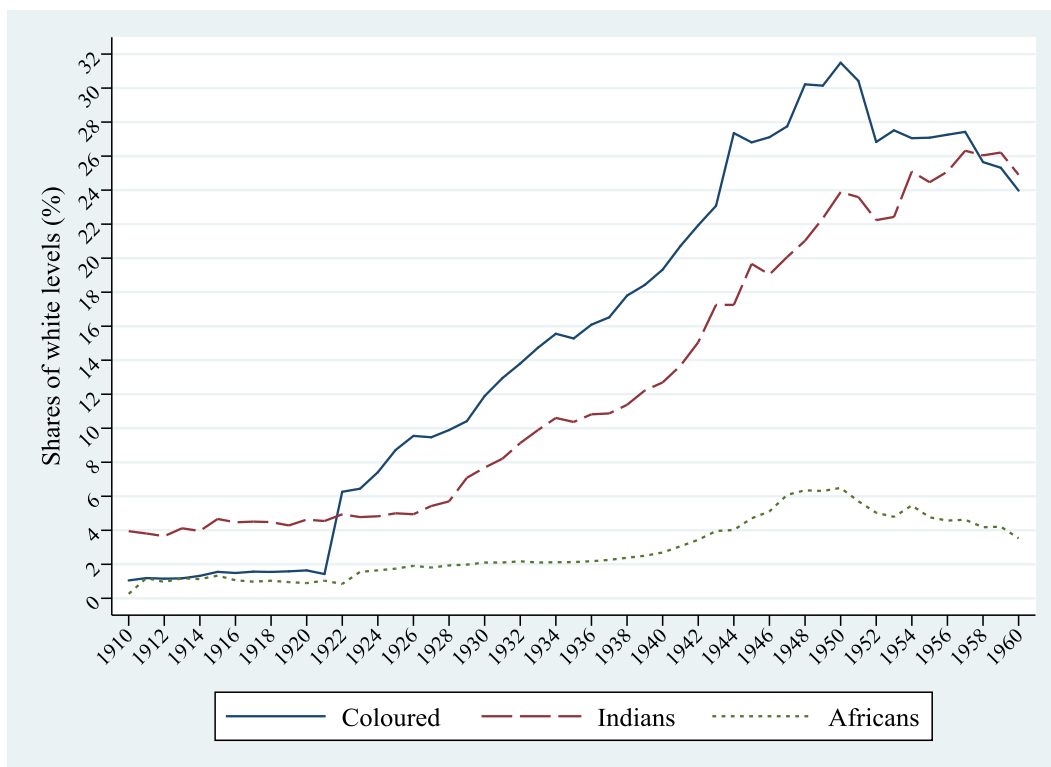
Source: Data from Blue Books (1830–1910)

Figure 5a: Education on natives and non-natives as shares in total expenditure



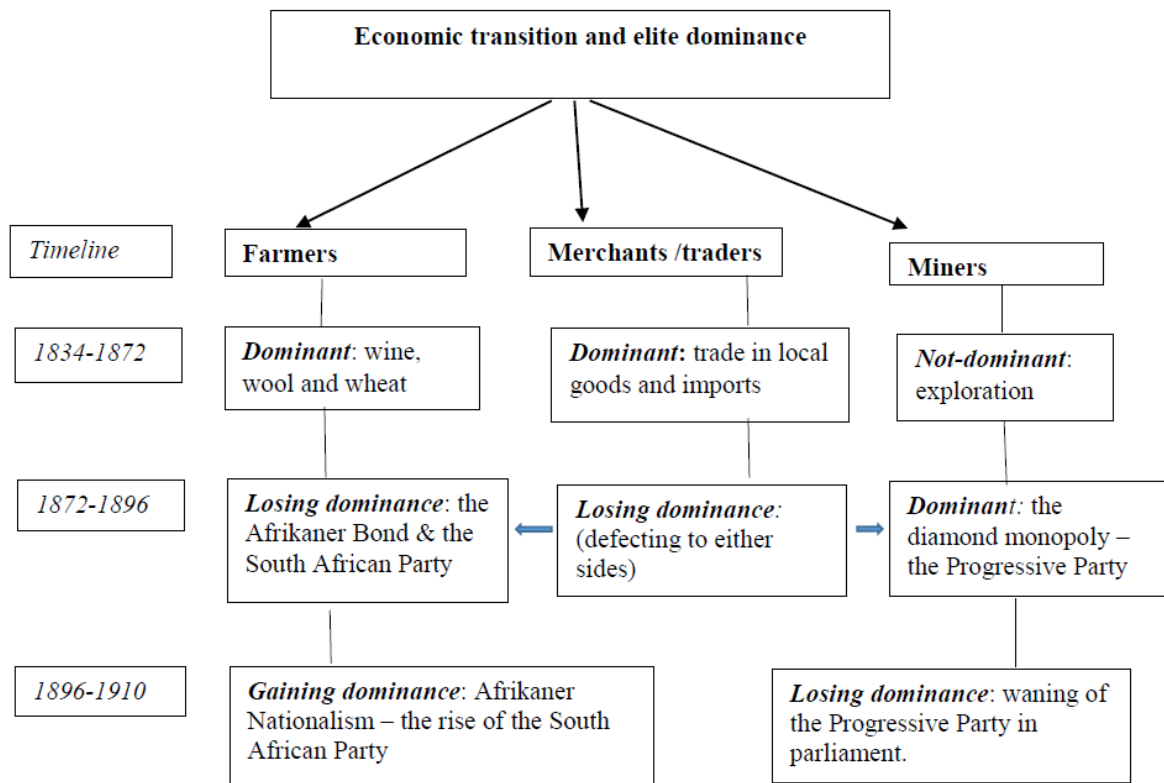
Source: Data from Blue Books (1830–1910)

Figure 5b: Education per capita levels in percentages of white levels, 1910-1960



Source: Data from Author reference

Figure 6: Elite competition and dominance at the Cape, 1834 to 1910



Source: Authors' formulation based on the Cape Colony historiography. Theoretically, the schema is premised on elite competition, political settlements and broad institutional approaches.

Appendix

Table 6.1: 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 the 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