Public finances under private company rule: The Dutch Cape Colony (1652–1795)[1*]

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Abstract

This paper provides an overview of the public finances of the Cape Colony in the period during which it was governed by the Dutch East India Company (1652–1795). Using information from secondary sources, the paper discusses the expenditures and revenue sources of the Company at the Cape; in addition, it reports findings on the composition and distribution of the tax burden derived from an analysis of the "opgaafrolle" (the annual censuses that were undertaken to determine tax obligations). It shows that the Company's expenses exceeded its revenues throughout the period under review and that the tax system was broadly progressive. While the Dutch East India Company invested little in the economic development of the Cape Colony, it did not use the fiscal system to extract as much surplus as possible.

Keywords: South Africa; Colonial tax; Fiscal policy; Extractive; Inclusive; Institutions; Cape Colony.

Introduction

The Cape Colony was governed from 1652 to 1795 by the Dutch East India Company (Vereenigde Oost-Indische Compagnie, hereafter VOC), a private company that in 1602 received a charter from the States General of the Dutch Republic to act on its behalf in its overseas territories. This paper discusses two aspects of the public finances of the Dutch Cape Colony: the degree to which its fiscal system was extractive, and how fairly it distributed the tax burden. To this end, we present an overview of the revenue sources and the outlays of the VOC at the Cape based on secondary sources, as well as the findings of an analysis of the "opgaafrolle" (the annual censuses that were undertaken to determine tax obligations). We systematise the available information about an under-researched aspect of the economic history of the Dutch Cape Colony,

1 *An earlier version of this paper was presented at the Colonial Fiscal Policy Session at the 16th World Economic History Congress, Stellenbosch, on 11 July 2012.

and provide evidence that has a bearing on contemporary debates about the nature and effects of colonial fiscal systems.

Colonial fiscal systems

Drawing on Booth's discussion of state types in south-east Asia in the late colonial period, Frankema identifies four types of colonial state according to different configurations of tax burden and levels of public outlay (Image 1):[2]

- "Developmental states", which have relatively high tax burdens, but whose revenues are used productively to promote economic development by financing essential public goods.
- "Benevolent states", which have access to external sources of revenue (e.g. subsidies from the colonial power) that make it possible to keep tax burdens relatively low and still invest heavily in human resources.
- "'Night watchmen' (or minimalist) states", which collect low levels of government revenue that preclude adequate human capital investment and limit public spending to the maintenance of law and order and basic administrative functions.
- "Extractive states", which strive to maximise government revenue, using it mainly to expand the area of the colony or to enrich officials, investors and other members of colonial elites.

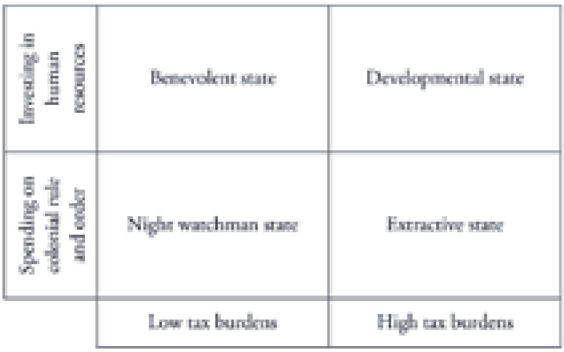
Fiscal systems changed markedly from the second half of the seventeenth century to the first half of the twentieth, as did views about the nature of states and the rights and obligations of citizens and rulers. Hence, caution must be exercised when applying Frankema's taxonomy (which is based on the fiscal systems of late colonial states) to the Dutch Cape Colony. It remains pertinent, however, to locate the fiscal system of the Dutch Cape Colony along the spectrum from extractive to developmental, provided that such an assessment reflects the norms and realities of the time.

In a well-known passage in "An inquiry into the nature and causes of the wealth of nations", Adam Smith denounces the Dutch practice of governing colonies by means of a private monopoly company: "Of all the expedients that can well be contrived to stunt the natural growth of a new colony, that

2 A Booth, "Night watchman, extractive, or developmental states? Some evidence from late colonial south-east Asia", *Economic History Review*, 60(2), 2007, pp. 241–266; E Frankema, "Colonial taxation and government spending in British Africa, 1880–1940: Maximizing revenue or minimizing effort?" *Explorations in Economic History*, 48, 2011, p. 138.

of an exclusive company is undoubtedly the most effectual."[3] Although the context of this statement was Smith's intense dislike of monopolistic trading practices, the notion that a profit-seeking company with a mandate to govern colonies would also suppress their economic development by imposing heavy tax burdens and underproviding important public services has considerable intuitive appeal. Furthermore, this notion is strongly reminiscent of the treatment of taxation and public expenditure issues in two influential papers that link contemporary economic outcomes to institutions established in colonial times. Acemoglu, Johnson and Robinson argue that predatory tax systems were among the extractive institutions established by colonial authorities in territories where disease environments hampered European settlement.[4] Sokoloff and Zolt, augmenting an earlier account by Engerman and Sokoloff, claim that the elites in the American colonies used the fiscal system to entrench economic inequalities: they note that, compared to the colonies with fairly equal economic outcomes, areas with higher levels of inequality developed more regressive taxation systems dominated by consumption taxes and devoted fewer resources to redistributive social programmes.[5]

Image 1: Colonial state types



Source: E Frankema, "Colonial taxation and government spending in British Africa, 1880–1940: Maximizing revenue or minimizing effort?" *Explorations in Economic History*, 48, 2011, p. 138.

3 A Smith, *An inquiry into the nature and causes of the wealth of nations*, 1776, E Cannon (Ed.) (London, Methuen & Co., 1904), IV.7.44.

4 D Acemoglu, S Johnson and J Robinson, "The colonial origins of comparative development: An empirical investigation", *American Economic Review*, 91(5), 2001, p. 1375.

5 K Sokoloff and EM Zolt, "Inequality and the evolution of institutions of taxation: Evidence from the economic history of the Americas", S Edwards, G Esquivel and G Márquez (Eds), *The decline of Latin American economies: Growth, institutions, and crises* (Chicago, University of Chicago Press, 2007), pp. 83–136; S Engerman and K Sokoloff, "History lessons: Institutions, factors endowments, and paths of development in the new world", *The Journal of Economic Perspectives*, 14(3), 2000, pp. 217–232.

Yet there are ample grounds, including challenges to the view that imperialism was highly profitable to colonial powers and recent analyses of Spanish and British colonies,[6] for eschewing generalisations about the extractive effects of colonial fiscal systems. Irigoin and Grafe argue that the Spanish colonies enjoyed considerable fiscal autonomy and that the relationship between the Spanish crown and the colonial elites was marked by negotiation, rather than command.[7] They therefore reject the notion that the tax systems of these colonies were highly extractive: "We suggest that this was not a system primarily aimed at the extraction of resources or revenues from the colonies for the benefit of the metropolis. Instead it successfully aimed at making the colonies self-sufficient, with intra-colonial transfers covering the needs of regions that either could not or would not raise sufficient revenue."[8] In a study of the tax systems of thirty-four British colonies, Frankema finds that settler colonies such as Australia, Canada and New Zealand had relatively high tax burdens that enabled adequate investment in growth-promoting spending programmes and helped to maintain macroeconomic stability.[9] He concludes that an inability to collect enough tax revenue to fulfil developmental functions, because of institutional and geographical factors, may well have been a more serious barrier to the development of the British non-settler colonies than excessive tax burdens. A subsequent analysis of the combined effects of the taxation and public expenditure systems of eight British colonies reports marked differences in the degree to which they were extractive.[10]

These findings by Grafe, Irigoin and Frankema confirm the validity of Austin's warning that bifurcating colonial regimes and institutions (such as fiscal systems) into the categories "inclusive" and "extractive" oversimplifies reality.[11] Austin points out that colonial institutions and policies varied markedly over time and space and proposes that the extent to which they were extractive should be measured on a continuous rather than binary scale. This

6 PK O'Brien and L Prados de la Escosura, "The costs and benefits for Europeans from their empires overseas", *Revista de Historia Economics*, 16(1), 1998, pp. 29–89.

7 MA Irigoin and R Grafe, "The Spanish empire and its legacy: Fiscal redistribution and political conflict in colonial and post-colonial Spanish America", *Journal of Global History*, 1(2), 2006, pp. 241–267; R Grafe and MA Irigoin, "Bargaining for absolutism: A Spanish path to nation-state and empire building", *Hispanic American Historical Review*, 88(2), 2008, pp. 173–209.

8 MA Irigoin and R Grafe, "The Spanish empire…", p. 263.

9 E Frankema, "Raising revenue in the British empire, 1870–1940: How 'extractive' were colonial taxes?" *Journal of Global History*, 5, 2010, pp. 447–477.

10 E Frankema, "Colonial taxation and government spending in British Africa, 1880–1940: Maximizing revenue or minimizing effort?" *Explorations in Economic History*, 48, 2011, p. 138.

11 G Austin, "The 'reversal of fortune' thesis and the compression of history: Perspectives from African and comparative economic history", *Journal of International Development*, 20, 2008, pp. 996–1027.

proposal underlines the potential value of case studies for testing and refining hypotheses about the nature and effects of colonial fiscal systems, including those of company-governed territories such as the Dutch Cape Colony.

The VOC and the economic development of the Cape Colony

It was never the intention of the Lords Seventeen, the shareholders of the Company, to establish a colony at the southernmost tip of Africa, but merely to establish a refreshment station.[12] The high incidence of scurvy on the VOC ships made a steady supply of refreshments roughly halfway between Holland and the East Indies essential. The Portuguese had long used St Helena as a refreshment station, but increasing competition between them, the Dutch and the English made the island a less secure refuge. Instead, the shareholders of the VOC decided to support the construction and operation of a fort in Table Bay, with its only purpose being to supply fresh produce, water, meat and fuel to the passing ships. Jan van Riebeeck, the first commander of the station, arrived in April 1652 and immediately built a fort. To supply the passing ships and sustain the approximately one hundred soldiers and officials who resided in the fort, Van Riebeeck also established a vegetable garden and initiated the planting of wheat. He soon realised, however, that the help of settler farmers would be necessary to supply fresh produce to the several thousand sailors who arrived every year as well as the permanent workforce of the Company. He had hoped that the native Khoe, a pastoral people, would trade their prized cattle for European luxuries, but a constant supply of meat was not forthcoming.[13]

Accordingly, Van Riebeeck released nine Company servants in 1657 to become free burghers.[14] This step started a process of expansion that continued, first in a northward and later in an eastward direction, until the British occupied the Cape Colony in 1795. By then the total settler population had reached 7 129.[15] Van Riebeeck's initial plan was to establish a small, close-knit community of intensive wheat farmers around the fort.

12 G Schutte, "Company and colonists at the Cape, 1652-1795", R Elphick and H Giliomee (Eds), *The shaping of South African society, 1652–1840* (Cape Town, Maskew Miller Longman, 1989), p. 288.

13 R Ross, "The Cape of Good Hope and the world economy, 1652-1835", R Elphick and H Giliomee (Eds), *The shaping of South African society, 1652–1840* (Cape Town, Maskew Miller Longman, 1989), p. 244.

14 CW de Kiewiet, *A history of South Africa: social and economic* (London, Oxford University Press, 1941), pp. 5-6.

15 P van Duin and R Ross, *The economy of the Cape Colony in the eighteenth century* (Leiden, Center for the History of European Expansion, 1987), p. 115.

Yet, by 1663 the area Van Riebeeck had hoped would have settled a thousand farmers, had been filled by only fifteen families on large, extended plots that were used predominantly for grazing cattle. The arrival of Simon van der Stel in 1679 marked the beginning of a further expansion of the boundaries of the Colony into the fertile regions of Stellenbosch and Drakenstein, where the Mediterranean climate and favourable soils allowed crop farming.[16] Viticulture thrived in these areas, having been bolstered by the winemaking skills of the 159 French Huguenots who arrived in the Colony in 1688 and 1689.[17] Fourie shows that by the mid-eighteenth century the average Cape farmer had attained living standards equal to, or even higher than, those of the wealthiest countries in Europe, namely England and Holland.[18]

The wealth of the settlers was partly a result of using slave labour. The first slaves had arrived in 1658 from Angola, but most came from the East, either from the Indonesian Archipelago and India, or from Madagascar, Mauritius and the Mozambican hinterland.[19] While slaves were mostly employed by the Company during the seventeenth century, farmers increasingly began to prefer slave labour to expensive European wage labour ("knechts"). Requested by the Lords Seventeen to advise whether to encourage European immigrants or slave imports to the Cape, six of the seven members of the Council of Policy in Cape Town recommended slave imports to reduce the farmers' input costs.[20]

Minimising farmers' costs was necessary if the practice of setting low agricultural output prices was to continue. The Company was a monopsonist (that is, a sole buyer of goods from many sellers) that bought wheat, wine and meat at predetermined prices and sold this produce to Dutch ships and, at much-inflated prices, to the non-Dutch ships that visited Table Bay.[21] In truth, then, it was the low slave labour costs at the Cape (and the exorbitant prices paid by non-Dutch ships) that subsidised the costs of trade between Holland and the East Indies. Naturally, the farmers complained vehemently throughout the period, as epitomised by the Patriot movement of the late

16 L Guelke, "Freehold farmers and frontier settlers, 1652–1780", R Elphick and H Giliomee (Eds), *The shaping of South African society, 1652–1840* (Cape Town, Maskew Miller Longman, 1989), pp. 73–84.

17 J Fourie and D von Fintel, "Settler skills and colonial development: The Huguenot wine-makers in eighteenth-century Dutch South Africa", *The Economic History Review*, in press.

18 J Fourie, "The remarkable wealth of the Dutch Cape Colony: Measurements from eighteenth-century probate inventories", *The Economic History Review.* 66(2), 2013, pp. 419–448.

19 R Shell, *Children of bondage: A social history of the slave society at the Cape of Good Hope, 1652–1838* (Hanover, NH, University Press of New England, 1994), pp. 41-42.

20 AL Müller, *Die ekonomiese ontwikkeling van Suid-Afrika* (Cape Town, Academica, 1979), pp. 15-16.

21 R Ross, "The Cape of Good Hope and the world economy…" p. 245.

eighteenth century, but the Company continued with the practice until the British takeover in 1795.[22]

Three principles guided the VOC's commercial policies, and hence its economic policies as agent of Dutch activities at the Cape and in the East:[23]

- "Monopoly": Although the Dutch had long abhorred monopolies, the VOC was granted monopoly rights to counter Spanish and Portuguese trading in the East Indies more effectively and to avoid the destructive competition that had taken place earlier when several Dutch companies were allowed to operate in the East Indies. These monopoly rights excluded competition in all trading between the Dutch Republic and the East Indies. They allowed the VOC to monopolise all inter-regional trade in the East Indies and control all profitable trade within the territories it ruled. Apart from distributing the rights to undertake commercial activities between itself and private agents, the Company strictly controlled private activity. Clear examples of such control were the conditions imposed on free farmers and traders in the Cape Colony, which included limiting the types of activities allowed and determining the prices at which private agents were allowed to sell produce to the Company. Trading monopolies in important products were often granted to the highest bidders at public auctions.
- "Maximum profits": The desire to maximise profits was one of the considerations behind entrusting Dutch activities in the East Indies to a single company rather than several competing ones. This principle resulted in strict economising on expenses, reflected in the low salaries and benefits of VOC officials, small armed forces in VOC territories and poor maintenance of fortifications.[24] Another manifestation of the profit motive was the constant striving to sell goods at the highest prices possible. This included restricting supply – in some cases by force, as in Ambon and Banda in the East Indies when the production of cloves and nuts exceeded the Company's needs. In some territories, agreements bound the rulers of indigenous groups to supply high demand commodities to the Company at low or zero prices on an annual basis in exchange for assistance in local disputes.
- "Short-term profits": The VOC was strongly oriented to short-term profiteering. This was clear in its approach to the Cape, where a settlement was established primarily for indirect rather than direct commercial benefits. Agricultural activities were encouraged only to the extent required by the VOC and little was

22 R Ross, "The rise of the Cape gentry", *Journal of Southern African Studies*, 9(2), 1983, pp. 193–217.

23 HB Thom, "Die beleid van die Nederlandse Oos-Indiese Kompanjie", AJH van der Walt, JA Wiid and AL Geyer (Eds) *In Geskiedenis van Suid-Afrika – Deel II* (Cape Town, Nasionale Boekhandel Beperk, 1951), pp. 131–150). For a more detailed discussion of the policies of the VOC, see FS Gaastra, *The Dutch East India Company: Expansion and Decline* (Zutphen, Walburg Pers, 2003).

24 AL Müller, *Die ekonomiese ontwikkeling…*, pp. 12-13.

done to improve techniques or to import crops and livestock that could have been useful to indigenous and other private farmers. The expenses required to establish viable wool farming in the Cape, for example, were deemed excessive and were therefore eschewed. Free colonisation of Dutch-controlled areas was mostly discouraged (allowing French Huguenots to settle at the Cape was a major exception), probably also because the required costs were not consistent with the Company's short-term orientation.

It was clear early on that the settlement at the Cape was to yield little direct profit to the VOC, in part because of the paucity of trading opportunities with indigenous peoples. Hence, attempts at economising were common, especially with regard to the erection and maintenance of public buildings (for example, the Company hospital, warehouses for storing corn and the Castle) and the remuneration of officials. The possibility of savings on Company salaries also played a part in the decision to allow free colonists.

The policy of monopolising or strictly controlling all activities that promised immediate profits, however, hampered the economic impact of private economic activity. The VOC intervention to restrict bartering in livestock and trading in fish in 1658 is an example of the difficult conditions faced by private agents under VOC control. The development of new industries such as whaling, although few fishermen were successful, was dampened by export tariffs.[25] In addition, whenever a particular activity seemed profitable, the Company would prohibit colonists from participating in it and claim it as their own. Towards the end of the seventeenth century when grain production became adequate to supply the settlement and passing ships, Company officials dragged their feet in response to a directive from the Lords Seventeen that they should refrain from competing with the colonists by producing crops at various outposts.[26]

As agricultural production at the Cape increased, the monopsonist position of the Company and the low prices it offered created major marketing problems for Cape farmers. These problems were exacerbated by transport difficulties: to reduce costs, the Company left the responsibility for erecting and maintaining roads and bridges to the colonists themselves, albeit under the supervision of local officials.

25 A Böeseken, "Die Nederlandse kommissarisse en die 18de eeuse samelewing aan die Kaap" (Doctoral thesis, Stellenbosch, University of Stellenbosch, 1943), p. 194.

26 MH de Kock, *Economic history of South Africa* (Cape Town, Juta, 1924), p. 67.

Such Company policies were implemented with the aim of making the Cape Colony self-supporting. The expectation was thus that farmers would sell their surplus produce to the Company (at regulated prices) and then purchase their necessities from Company shops.[27] To pay for the necessary expenditures, the Company levied rents and taxes as compensation.

The public finances of the Dutch Cape Colony[28]

Income

The Company obtained income from its trading and other commercial activities. It had a monopoly in the trading of foreign commodities and the colonists were obliged to purchase their commodities from its stores. The profits from trading were relatively low, however, because of the high levels of evasion of the various trade restrictions and the corrupt and fraudulent activities of many Company officials. The Company therefore depended heavily on taxes for its income. Image 2 shows trading profit statistics in selected years from 1725 to 1794.

Image 2: Trading profits, 1725–1794

Year	Trading profits (guilders)
1725	102 000
1750	131 000
1794	145 000

Source: MH de Kock, *Economic History…*, p. 78.

Taxation

The VOC levied two types of taxes in the Cape Colony: general taxes, which were collected by the Governor and the Council of Policy and used to cover the costs of administering the Colony, and local taxes, which were collected by the "landdrosts" and used to defray the expenses associated with their duties.

27 MH de Kock, *Economic history…*, p. 76.
28 One rixdollar equalled 48 stuivers, while one guilder equalled 16 stuivers at the Cape and in the Netherlands Indies and 20 stuivers in the Netherlands. See P van Duin and R Ross, *The economy…*, p. viii.

General taxes

The "tithe" (a tax of one tenth of the harvested grain) was imposed on the grain brought to the Cape for sale to ships, Company employees and private citizens.[29] This tax was raised only on the wheat that entered the market for consumption, and not on that set aside for seed.[30] Tax evasion was extensive and the "opgaaf" returns show that there was much under-reporting of wheat production. Van Duin and Ross estimate that farmers declared only a third of their grain harvests to tax officials.[31] Farmers also attempted to reduce their tax burdens by selling their grain to each other and to passing ships.[32] Opposition to these taxes grew over time, especially during periods when farmers experienced bad harvests and when grain prices were low (such as in the 1730s).[33] The extent to which the proceeds from the tax on grain increased after the authorities introduced stronger measures to reduce tax evasion in 1790 confirms the low degree of compliance in earlier years (Image 3).

Image 3: Taxes paid on grain, 1790–1797

Year	Tax income (guilders)
1790	8 647
1791	35 866
1797	47 899

Source: A Böeseken, "Die Nederlandse kommissarisse en die 18de eeuse samelewing aan die Kaap" (Doctoral thesis, Stellenbosch, University of Stellenbosch, 1943), p. 199.

The production of wine and brandy was taxed when it was brought into the Cape for sale at a flat rate of one rixdollar per leaguer until 1743 and three rixdollars per leaguer thereafter.[34] De Kock points out that this tax was inequitable, because the rate was not related to the price or quality of the wine.[35] In addition to other miscellaneous sources of income such as monopoly leases and auction duties, the Company also raised revenue from customs duties.

29 MH de Kock, *Economic history…*, p. 81.

30 L Brunt, *Property rights and economic growth: Evidence from a natural experiment*, Discussion paper, Norwegian School of Economics, Bergen, p. 33.

31 P van Duin and R Ross, *The economy…*, p. 21–24. See also JHD Schreuder, "Die geskiedenis van ons graanbou, 1752 - 1795" (Masters thesis, Stellenbosch, University of Stellenbosch, 1973), p. 68.

32 A Böeseken, "Die Nederlandse kommissarisse en die 18de eeuse samelewing aan die Kaap" (Doctoral thesis, Stellenbosch, University of Stellenbosch, 1943), p. 199.

33 P van Duin and R Ross, *The economy…*, p. 30.

34 GJ Jooste, "Die geskiedenis van wynbou en wynhandel in die Kaapkolonie, 1753 - 1795" (Masters thesis, Stellenbosch, University of Stellenbosch, 1973), p. 5.

35 MH de Kock, *Economic history…*, p. 82.

Land-related taxation had been part of the tax system since 1677.[36] Transfer duties were introduced in 1686 and were levied on immovable property; these sources of revenue included a tax on landed freehold property and transfer duties on houses and the buildings on loan farms. The tax on landed freehold property was differentiated, with a higher rate of ten percent levied if freehold land was sold within three years of receiving the grant from the Company.[37] The transfer duty decreased on a sliding scale, according to how long a colonist retained ownership. This was done to discourage the sale of property soon after receiving the grant.

The VOC's policies with regard to land ownership and the taxation of land helped to shape the early economic development of the Cape Colony. In 1657 the first free farmers received full title to their land and exemption from all taxes for twelve years. For a number of years after the exemption expired, little effort went into collecting these "tithes", because the Company recognised the cultivating difficulties faced by the free farmers and the burden of their obligation to repay debts incurred with the Company. This changed after Commissioner General Hendrik Adriaan van Rheede made the payment of tithes obligatory. Evasion was rife, however, since farmers had to transport their tithes to the Castle. In 1710 the Company decided to lease out the collection of the "tithes", but no bids were forthcoming. In 1714, Governor De Chavonnes and the Council of Policy finally brought certainty to the system by instructing farmers to bring tithes to the Castle. The instruction also announced the introduction of an annual fee of twelve rixdollars for grazing rights.

The land tenure system under Company rule had fiscal implications. After the initial issuing of freehold land, the Company instituted the loan farm system and, as the demand for land increased, began to charge rental income to defray the growing administrative costs and outlays required to protect farmers. At first, the holders of loan farms were restricted by certain boundaries to prevent the colonists from moving into frontier districts. The aim of these restrictions was to avoid increases in defence costs to protect these outposts. Eventually, however, movement into frontier districts was allowed, particularly after the threat of conflict with indigenous people had diminished and increases in rental income had lessened the fiscal burden on the Company.

36 W McCluskey, L Lim and P Davis, *Land value taxation: An international overview* (available at www.dfpni.gov.uk/rating-review/uuj_-_land_value_tax_report.pdf, p. 20), as accessed on 26 September 2013, p. 20.

37 MH de Kock, *Economic history…*, p. 81.

The Company received considerable revenue from the rental charges it imposed on the various property leasing schemes. The increase in the leasing of loan farms partly reflected the pressure on the Company to reduce its budgetary shortfalls by increasing revenue during the period of war with France and Spain (when Company ships were under attack and higher defence expenditure was required). Colonists had to pay annual rental charges on the loan farms of twelve rixdollars, later increased to twenty-four rixdollars per annum, regardless of differences in land fertility or its location.[38] In 1732 a further system of loan tenure (quitrent) was introduced, which allowed the leasing of property for a specified period (fifteen years) at an annual payment (differentiated on the basis of soil fertility).

Local taxes

The VOC clearly stated the responsibilities of the "landdrosts" and "heemraden" who administered the districts of Cape Town, Stellenbosch, Swellendam and Graaff-Reinet. They dealt with financial matters to do with infrastructure (construction and maintenance of roads, bridges, churches and other buildings), remuneration (paying their own salaries and those of secretaries, district surgeons and other officials and workers), and numerous incidentals (firewood, stationery, hunting of beasts of prey, caring for lepers, and so on).[39] The Company expected the district authorities to be self-financing and made no provision for what is now known as intergovernmental fiscal transfers.[40] The district authorities therefore levied three types of local tax to defray their expenses: poll tax, livestock tax and house tax.[41]

The poll tax (known as "head money") was implemented at the discretion of the "landdrosts" and "heemraden" in the districts of the Cape, Swellendam and Stellenbosch. In Cape Town and the Cape district, this tax was levied on the basis of property ownership.[42] Property owners were taxed according to

38 MH de Kock, *Economic history…*, p. 79.
39 PJ Venter, "Landdroste en heemrade", CG Botha, C Beyers, JLM Franken and HB Thom (Eds), *Argiefjaarboek vir Suid-Afrikaanse Geskiedenis – Deel II* (Cape Town, Government Printer, 1960), pp. 146–147.
40 PJ Venter, "Landdroste en heemrade", CG Botha, C Beyers, JLM Franken and HB Thom (Eds), *Argiefjaarboek vir Suid-Afrikaanse Geskiedenis – Deel II* (Cape Town, Government Printer, 1960), p. 141. According to PJ Venter, "Landdroste en heemrade"..., p. 161, the Company did not even provide disaster relief to the inhabitants of Stellenbosch in the aftermath of the devastating fire of 1710.
41 MH de Kock, *Economic history…*, p. 83–84.
42 MH de Kock, *Economic history…*, p. 83 points out that this was the oldest tax in the Cape Colony. It was originally a dedicated tax used for the killing of wild beasts and hence known as "lion and tiger money".

the ability-to-pay principle, whereas those without property had to pay a fixed amount of thirty-two stuivers per annum. The burgher council purportedly used property values and incomes to determine taxpayers' liabilities, but the application of the ability-to-pay principle was marked by much arbitrariness and unfairness. In the districts of Stellenbosch and Swellendam the poll tax applied to persons aged sixteen or older who did not own any sheep or cattle: thirty-two stuivers per annum in Stellenbosch and thirty-six in Swellendam. Since ownership of cattle and sheep was a clear indication of wealth, this was the basis of another local tax in the districts of Stellenbosch, Swellendam and Graaff-Reinet. In these districts, colonists originally had to pay one stuiver per head of black cattle and sixteen stuivers per group of one hundred sheep, but the rates apparently varied over time.[43] The third local tax, which was levied only in Cape Town, was the house tax (or "hearth money") of four rixdollars per annum. This, too, was introduced as a dedicated tax that was used to finance the guarding of the town. It was levied originally on residential property, but later extended to commercial properties as well. According to Venter, the district authorities also earned small amounts of revenue from mill fees, the leasing out of mills, and fines.[44]

From 1686 onwards, VOC officials travelled the Colony with the "landdrosts" every year to determine the burghers' tax liabilities. This proved a time-consuming and expensive procedure for collecting taxes and the process was eventually entrusted solely to the "landdrosts" and "heemraden". Already by 1720, local officials were undertaking this task in Stellenbosch.[45] In an early example of taxpayer-friendly revenue collection practices, district officials (many of whom were farmers themselves) structured the process to minimise disruption of burghers' farming activities.[46] The Company's view that the districts should be financially autonomous was reflected in its initial decision not to entrust their financial management to its official representatives, the "landdrosts". Instead, "heemraden" were appointed as treasurers, albeit assisted by secretaries (who were Company officials). However, the ability of many "heemraden" to fulfil the functions of treasurers was hampered by

43 PJ Venter, "Landdroste en heemrade", CG Botha, C Beyers, JLM Franken and HB Thom (Eds), *Argiefjaarboek vir Suid-Afrikaanse Geskiedenis – Deel II* (Cape Town, Government Printer, 1960), p. 142. See also HB Thom, *Die geskiedenis van die skaapboerdery in Suid-Afrika* (Amsterdam, NV Swets & Zeitlinger, 1936), p. 379.

44 PJ Venter, "Landdroste en heemrade", CG Botha, C Beyers, JLM Franken and HB Thom (Eds), *Argiefjaarboek vir Suid-Afrikaanse Geskiedenis – Deel II* (Cape Town, Government Printer, 1960), p. 142.

45 PJ Venter, "Landdroste en heemrade", CG Botha, C Beyers, JLM Franken and HB Thom (Eds), *Argiefjaarboek vir Suid-Afrikaanse Geskiedenis – Deel II* (Cape Town, Government Printer, 1960), p. 144.

46 PJ Venter, "Landdroste en heemrade", CG Botha, C Beyers, JLM Franken and HB Thom (Eds), *Argiefjaarboek vir Suid-Afrikaanse Geskiedenis – Deel II* (Cape Town, Government Printer, 1960), p. 145.

the demands of their private interests and their lack of expertise in financial matters, and the "landdrosts" became increasingly active in the financial management of the districts.[47] The effects of this development on the quality of financial management in the districts varied.[48]

The district authorities were often unable to balance their books and thus they accumulated debts (Image 4). The unwillingness of the central authority to provide assistance forced the districts to borrow from the Orphan Chamber and wealthy residents.[49]

Image 4: Accumulated debt of Stellenbosch and Swellendam in selected years, 1702–1793

Stellenbosch		Swellendam	
Year	Guilders	Year	Rixdollars
1702	4 025	1760	4 333
1720	2 000	1770	4 333
1729	4 000	1780	4 333
1740	4 000		
1753	9 000		
1766	18 500		
1794	13 000		

Source: PJ Venter, "Landdroste en heemrade", CG Botha, C Beyers, JLM Franken and HB Thom (Eds), *Argiefjaarboek vir Suid-Afrikaanse Geskiedenis – Deel II* (Cape Town, Government Printer, 1960), p. 157.

Expenditure

Expenditure by the Company can be divided into four broad categories, as shown in Image 5. The statistics for 1795 clearly show the importance of military expenditure by the Company in protecting its outposts. Further (negligible) items of expenditure included the cost of maintaining the Company's slaves and the ships that were permanently based at the Cape. De Kock also mentions expenses that were incurred by the regiments (including the sick and convalescent members) that were not directly responsible for

47 PJ Venter, "Landdroste en heemrade", CG Botha, C Beyers, JLM Franken and HB Thom (Eds), *Argiefjaarboek vir Suid-Afrikaanse Geskiedenis – Deel II* (Cape Town, Government Printer, 1960), pp. 147–152.

48 PJ Venter, "Landdroste en heemrade", CG Botha, C Beyers, JLM Franken and HB Thom (Eds), *Argiefjaarboek vir Suid-Afrikaanse Geskiedenis – Deel II* (Cape Town, Government Printer, 1960), p. 144 mentions that Landdrost Van Baalen found the coffers empty when he arrived in Graaff-Reinet in 1792. Information provided by other officials led him to conclude that public money had been "a good milch cow".

49 PJ Venter, "Landdroste en heemrade", CG Botha, C Beyers, JLM Franken and HB Thom (Eds), *Argiefjaarboek vir Suid-Afrikaanse Geskiedenis – Deel II* (Cape Town, Government Printer, 1960), p. 157–159.

defending the Cape.[50]

Image 5: Expenditure by category, 1795 (guilders)

Civil and judicial establishment	350 000
Military establishment	340 000
Costs of provisions of Company ships	100 000
Construction and maintenance of public works and buildings	-[5]

Source: De Kock mentions considerable fluctuations in the extent of spending on public works and buildings but provides no exact figure. See MH de Kock, *Economic History…*, p. 78.

Another cause of expenditure was the maintenance of outposts. The importance of the Company's trade in products from the East made the provision of refreshments to its shipping fleet crucial. When the Company received complaints from the ships' captains about the insufficient supply of provisions, it expanded the capabilities of the Cape as a provision station by creating outposts beyond Table Valley. These outposts were essentially manned decentralised services under the management of the Cape Council of Policy.[51] The staff stationed at these outposts received a salary like other soldiers, and also free accommodation and a food allowance. Their job was to deliver important goods such as grain products, meat, wood and fresh vegetables to the colony and the fleets. However, according to Sleigh, these outposts were financed by the Company at great cost and were not necessarily successful.[52]

Net revenues

The evidence of revenues and expenditures published over the course of the eighteenthth century supports the conjecture that the Cape Colony was never self-supporting. According to Groenewald, the Company, from the beginning, "ran at an enormous loss".[53] This trend continued throughout the period of Dutch rule, with expenditure consistently exceeding tax revenues, although the deficit shrank in later years. The losses were partly due to poor tax collection, tax evasion and corrupt officials. According to De Kock, after

50 De Kock, *Economic history…*, p. 77.

51 D Sleigh, *Die Buiteposte: VOC-buiteposte onder Kaapse bestuur 1652–1795* (Pretoria, Protea Boekhuis, 2004), Voorwoord.

52 D Sleigh, *Die Buiteposte…*, p. 739.

53 G Groenewald "'More comfort, better prosperity, and greater advantage': Free burghers, alcohol retail and the VOC authorities at the Cape of Good Hope, 1652–1680", *Historia*, 57(1), 2012, pp. 1.

the war with England (1780 to 1784) expenditure increased because more soldiers were being stationed at the Cape to fend off any foreign attacks.[54] But it was also true that the governor at the time, Van de Graaff, incurred wasteful expenditure.

The important point to note for our argument is that even though the taxes described above seem severe, they never surpassed what the Company spent. Image 6 shows the revenue and expenditure (in guilders) in the Cape Colony for the period 1777 to 1794. The Colony experienced a deficit throughout this period. The deficit to GDP ratio increased to forty percent in 1789, probably because of poor harvests and a high wage bill, but decreased to eleven percent in 1792. Even with this reduction, the consistently significant budget deficits certainly do not reflect a highly extractive system.

Image 6: Revenues, expenditures and deficits (in guilders) as percentages of GDP

Year	Revenue	Expenditure	Deficit	GDP	Rev/GDP ratio	Exp/GDP ratio	Def/GDP ratio
1777	200 000	454 000	254 000	2 391 000	8%	19%	11%
1787	282 000	1 586 000	1 304 000	4 014 000	7%	40%	32%
1789	341 000	1 744 000	1 403 000	3 472 000	10%	50%	40%
1791	---	1 300 000	---	3 499 000	---	37%	---
1792	416 000	758 000	342 000	3 253 000	13%	23%	11%
1794	588 000	818 000	230 000	---	---	---	---

Source: MH de Kock, *Economic History…*, p. 78.

Reconstructing the fiscal base from microdata

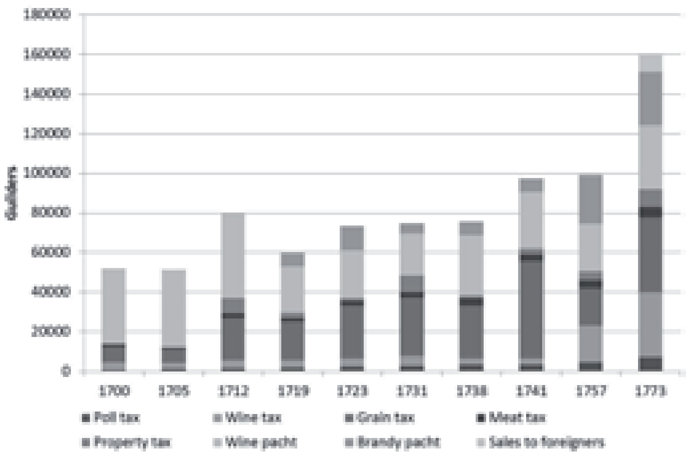
Most of the evidence presented thus far consists of data aggregated at the macro-level and gathered from secondary sources. Although this shows that the Cape was less extractive than previously thought, perhaps tax income was highly regressive, which may suggest that the elite exploited poorer settlers through the fiscal system. We therefore turn to data at household level – the annual censuses drawn up for the purposes of tax collection, the "opgaafrolle" – to investigate the incidence of taxation or, in other words, to establish which groups in Cape society bore the greatest tax burden.

The "opgaafrolle" provide a wealth of individual-level production and asset

54 MH de Kock, *Economic history…*, p. 77.

data. The household records include information on an individual's district of residence, family size, number of slaves owned, number of cattle, horses, sheep and pigs owned, number of vines planted and barrels of wine owned, inputs and outputs of wheat, barley and rye, and weapons owned. A full discussion of the "opgaafrolle" is provided by Fourie and Von Fintel.[55] Using our information about the various taxes, we can estimate individual taxes as follows. Individuals with no assets paid only the basic poll (or "head") tax of thirty-two stuivers. Individuals who owned slaves but no agricultural assets (excluding horses) paid hearth tax of four rixdollars if they lived in Cape Town; those outside paid thirty-two stuivers. Wine was taxed at one rixdollar per leaguer before 1743 and three rixdollars thereafter. Wheat, barley and rye were taxed at ten percent of the yield. We obtain a wheat price of six rixdollars per muid from Fourie and Von Fintel.[56] We follow Brunt, who shows that barley and rye prices were roughly half those of wheat, and we therefore value it at three rixdollars per muid.[57] Livestock ownership was taxed at one stuiver per head of cattle and sixteen stuivers for each one hundred sheep. The only direct taxes we do not include are property taxes as the "opgaafrolle" do not include information on property ownership. Indirect taxes, such as customs duties, are also excluded.

Image 7: Company revenue by income stream, 1700–1773



Source: Several opgaafrolle; own calculations, 1700–1773.

55 J Fourie and D von Fintel, "The dynamics of inequality in a newly settled, pre-industrial society", *Cliometrica*, 4(3), 2010, pp. 229–267.

56 J Fourie and D von Fintel, "A history with evidence: Income inequality in Dutch South Africa", *Economic History of Developing Regions,* 26(1), 2011, p. 39.

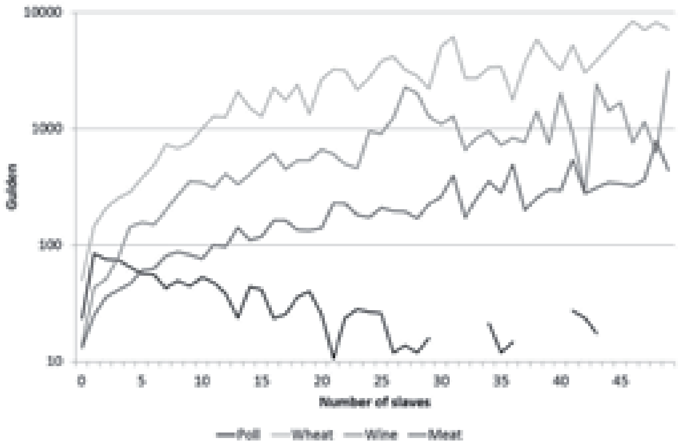
57 L Brunt, *Property rights…*, pp. 43-44.

Image 7 shows Company revenue by income stream between 1700 and 1773. The revenue from the sale of wine pachts was the most important source of income during the early years of the eighteenth century. It was only after the 1730s that tax income exceeded income from the sale of wine pachts. By 1773, income from direct taxes was more than sixty percent of total revenue.

We believe these numbers obtained from micro-level "opgaafrolle" data to be fairly accurate. Consider Image 6 again: revenue in 1777 as published by the Company was 200 000 guilders. Our estimate for revenue for 1773 is 174 434 guilders. Extrapolating a linear trend from 1773 to 1777, we calculate total tax revenue as being very close to 200 000 guilders per annum.

To identify which group in society bore the heaviest tax burden, we have to rank society from poorest to richest. There are several ways to do this. Our selection is based on the available evidence. In Image 8, we rank households by the number of slaves they owned. As several historians have argued, slaves permeated Cape society and the number of slaves is an accurate reflection of a household's wealth. Fourie also shows that slaves are the most accurately measured asset in the "opgaafrolle".[58] We then split tax revenue by the four sources of revenue: the poll tax, the wheat tax, the wine tax and the livestock tax. Image 8 aggregates all the years in our sample (the same as those represented in Image 7).

Image 8: Four sources of household taxes by number of slaves owned



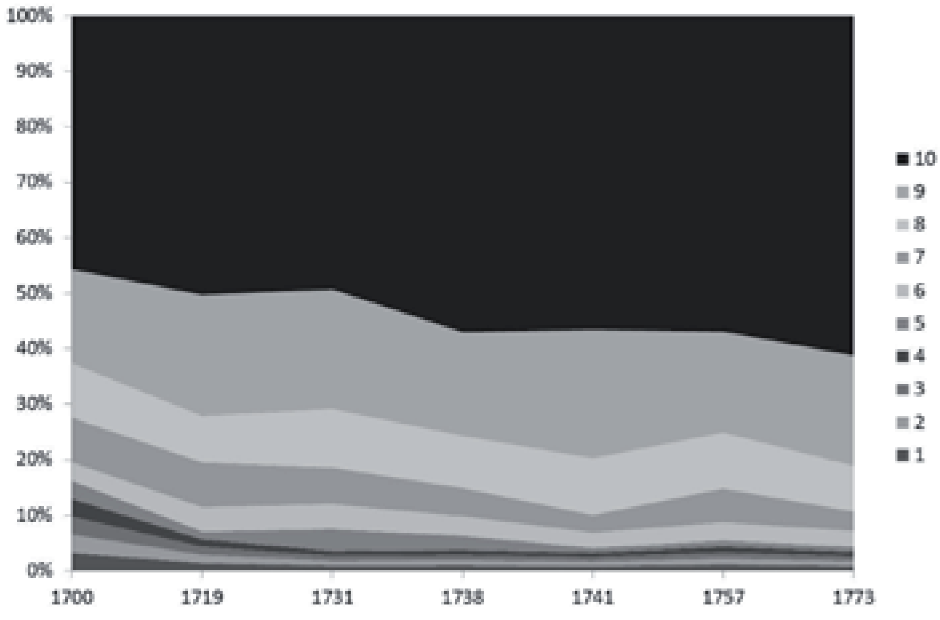
Source: Opgaafrolle; own calculations, 1700–1773.

58 J Fourie, "The remarkable wealth of the Dutch Cape Colony: Measurements from eighteenth-century probate inventories", *The Economic History Review.* 66(2), 2013, p. 434.

The results point to two important trends. Firstly, the poll tax was a regressive tax, meaning that the burden fell more heavily on the poorer part of society. This is expected, as economic theory shows that lump sum taxes like the poll tax are efficient but unfair.[59] Secondly, as Image 8 shows, the amounts paid of the other three taxes increased as wealth increased (wealth is proxied here by the number of slaves owned). Unfortunately, because we use a measure of wealth, it is not possible to establish whether this is a regressive, proportional or progressive tax: such classifications are usually done with reference to levels of income, although a positive correlation between levels of income and wealth is likely.

Another way to measure tax incidence is to construct slave-owning deciles, rank them from poorest to richest, and then show the tax burden by decile. The result can be seen in Image 9: in 1700, the wealthiest ten percent of individuals at the Cape bore less than fifty percent of the tax burden; by 1773, their burden had increased to above sixty-one percent.

Image 9: Tax revenue by slave-owning decile, 1700–1773



Source: Opgaafrolle; own calculations, 1700–1773.

59 PA Black, E Calitz and TJ Steenekamp, *Public economics* (Cape Town, Oxford University Press, 2011), p. 185.

These results offer strong evidence that the tax system imposed by the VOC was progressive on the whole, meaning that the wealthiest in society bore most of the tax burden, and that this progressiveness increased over the course of the eighteenth century. There is thus little in the household-level data to support the view that this was an extractive regime as defined by Frankema, with high levels of taxation to maximise revenue in order to enrich the colonial elites.[60] Rather, its tax regime was relatively equitable and spending by the colonial authorities far surpassed the revenue from the various income sources. Austin's criticism of the bifurcation between "extractive" and "inclusive" colonies seems relevant; in the Frankema framework, a "night watchman regime" or even a "benevolent regime" would be a more apt classification of the fiscal regime of the Cape Colony.[61]

Conclusions

Collecting taxes and using such revenue to finance public expenditure are core tasks of countries' executive authorities. Analyses of economic policymaking in democracies often assume, either explicitly or implicitly, that elected officials attempt to promote or maximise long-run societal welfare. Yet, when a territory is governed by a company whose shareholders reside elsewhere, the aim of the authorities may well be to extract as much surplus as they can without endangering the continued viability of economic activity in the country.

This paper used the Dutch Cape Colony as a case study to investigate fiscal policymaking by the Dutch East India Company (VOC). We showed that, in contrast to the perceived extraction claimed by Adam Smith and the eighteenth-century settlers, the Cape spent considerably more in public expenditure, including salaries for officials and soldiers stationed in Cape Town, than its revenue from production and trade taxes justified. We supported the limited secondary evidence with a reconstruction from household-level "opgaafrolle". These "opgaafrolle", collected for the purposes of tax collection, allowed us to segment the taxes by revenue source: we showed that the income from the sale

60 E Frankema, "Colonial taxation and government spending in British Africa, 1880–1940: Maximizing revenue or minimizing effort?" *Explorations in Economic History*, 48, 2011, p. 138.

61 G Austin, "The 'reversal of fortune' thesis and the compression of history: Perspectives from African and comparative economic history", *Journal of International Development*, 20, 2008, p. 1021; E Frankema, "Colonial taxation and government spending in British Africa, 1880–1940: Maximizing revenue or minimizing effort?" *Explorations in Economic History*, 48, 2011, p. 138.

of wine pachts was the most important source of revenue for the Company during the early years of settlement. Only during the 1730s did revenue from tax overtake wine pachts as the dominant revenue source.

The "opgaafrolle" also allowed us to identify the incidence of taxation. We showed that wheat and wine producers paid taxes more progressively, i.e. the richest paid a larger share of their income in taxes than cattle farmers did. The poll tax is the only tax that was certainly regressive. We then created wealth deciles to show that, by 1773, the richest ten percent of settlers paid more than fifty percent of the taxes. The Cape's tax system was not only progressive but was becoming more so.

Our findings raise questions. Why did the Company tolerate such a large deficit for such a long period of time? How equitable was the expenditure side of the Company's budget? And were the settlers justified in their unhappiness with government tax policies or were they just reacting as taxpayers have always done? These are questions our dataset cannot readily address. But our results do suggest an answer to the fundamental question: did Adam Smith get it wrong in his assessment of the extractive nature of Company rule? Looking at the evidence of the "opgaafrolle", we suggest a tentative yes.