The growth and diversity of the Cape private capital market, 1892–1902

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ABSTRACT

The adoption of limited liability in the nineteenth century is considered to have boosted economic growth and expanded capital markets in Europe and North America. Despite similar legal changes in frontier markets such as South Africa, very few attempts have been made to analyse the economic effects thereof. After the Cape Joint Stock Company Act No. 25 of 1892 there was an upsurge in new joint stock companies in the Cape Colony, but little is known about the people who financed them. This study is an enquiry into who they were. Using a list of 6883 shareholders from 263 companies, we show that the Cape’s sources of private capital were a diverse group of people. Unlike previous studies, we find that most capital came from the middle class at the Cape and very little from foreign investors. The paper contributes to our understanding of early financial developments on the frontier and the evolution of capitalism at the Cape. It also contributes broadly to the economic and business history of the late nineteenth- and twentieth-century Cape.

KEYWORDS

Cape Colony; Cape Company Act; joint stock company; private capital market

Introduction

Industrial growth and economic progress in the nineteenth century owed much to the availability of capital both in and out of the colony to drive commercial expansion (Maphosa 2021). This process was dependent on the availability of institutions that provided businesses greater access to capital. As such, innovation of limited liability companies in the nineteenth century was an important source in this financial development. Wright (2002) and Rousseau and Sylla (2005) agree that one of the primary drivers of economic growth in Europe and North America were joint stock companies with limited liability. Prior to this period in Britain, and many other parts in Europe, limited liability was a privilege granted by a royal charter. It was only after the 1844 English Joint Stock Company Act (hereafter referred to as the British Company Act) that it was made accessible to all businesses (Acheson, Campbell, and Turner 2017).

A similar pattern was followed at the Cape. Before the 1844 British Company Act was emulated at the Cape, joint stock companies formed under special acts and ordinances.
Harris (2020) described the early 1800s as a period of experimenting with varieties of limited liability regimes. Although Meltzer (1989) suggests that these ordinances and acts gave Cape companies characteristics that resembled the modern company, only the attribute of a separate legal persona resemble a modern limited liability company as we understand it today (Harris 2020).

Debates about the importance of the limited liability legislation started in the mid-nineteenth century. The Cape business community, possibly inspired by financial developments in Britain, persuaded the colonial government to make limited liability easily accessible. In the Cape Argus (1861), one citizen stated that if limited liability was available in the colony, British investors could leave portions of their wealth at the Cape with ease knowing that risk was limited only to their capital and not their personal property. The need for capital during this period is aptly described in Frankel’s (1938) seminal work on capital investments in Africa. Another concerned citizen wrote to the editor that the delays involved with seeking limited liability in the colony were so frequent that many companies ‘dropped through and nothing came out of them’ (‘Correspondence,” Cape Argus, June 1, 1861, 15). At this point, limited liability was beginning to be widely appreciated as a key component of economic growth and vital in encouraging domestic and overseas entrepreneurs to risk their capital in the Cape’s poorly developed economy.

Faced with such pressure, the Cape government in August 1861 introduced two new Acts: Acts 23 and 24 of Limited Liability Joint Stock and Limited Partnership. Under the first Act, the precursor of the Cape Joint Stock Company Act No. 25 of 1892 (hereafter referred to as the Cape Company Act), all that was needed to register a joint stock company was 25 shareholders. However, there were some differences between this legislation and its ancestor, the British Company Act of 1844. The British Company Act had 380 sections whereas the Cape Company Act had only 23. The main difference was that the British Act said ‘Register the company first and then incur liability’, while the Cape Company Act said ‘Incur the liability first and then register the company’ (Van Zyl 1880). This meant that to be eligible for limited liability, a Cape company had to prove the potential for loss in its business.¹

Over the years, members of the Cape Legislative Council continued to debate the limitations of the 1861 Cape Company Act. One of these was that the number of members necessary to constitute a company had to be reduced to seven from the previously stipulated number of 25.² In 1888, the Cape Limited Liability Act No. 13 was passed, effecting this provision. An additional important feature enabled joint stock companies’ juristic personalities to own land and other property (Burdette 2002).

In 1892, the Cape Company Act No. 23 of 1861 was amended to make way for the Joint Stock Company Act No. 25 of 1892. This legislation was based on the British Company Act of 1855. It was therefore regarded as the first legislation to properly regulate the incorporation of companies at the Cape. This is because it incorporated almost all the provisions of the British Company Act, making it more efficient than its precursor. An important development

¹Limited liability was a legal instrument that limited loss in business partnerships to the amount of capital each partner had invested. Prior to its coming, financial losses in business ventures trickled down to the personal property of business owners and/or partners. In order to avoid this from happening, the idea of the corporation is said to have emerged out of the concept ‘that the persons who compose it are not regarded as persons acting together, but as persons acting as an entity, a source of action independent of themselves’: see Cooke (1950, 7).

²Debates in the Legislative Council, Fifth Session of the Third Parliament of the Cape, June 30, 1886, 106.
brought about by this new Act was that companies no longer had to incur liability to incorporate; their liabilities were limited from the day of registration (Burdette 2002).

For the period before 1892, Mabin (1984) and Meltzer (1989), in their separate studies, found that the so-called ‘commercial bourgeoisie’ of merchants, British financiers, and farmers were the largest sources of capital. Our study builds on this and finds that after 1892, the middle class was the largest group of investors in the Cape private capital market. Although the parameters of the Cape’s middle class in the nineteenth century vary among scholars (Meltzer 1989; Erlank 1996; Malherbe 2010), it is widely agreed that it was small. It comprised of various elements that included religious professionals, professionals, and the political and military elite. Some definitions also include the landed and the commercial elite (Erlank 1996), but this paper maintains the former definition because the commercial elite, as highlighted in Meltzer’s study, belonged to a specific capitalist class. Furthermore, for purposes of comparison with British studies, the landed elite in this study fall under the rentier class.

Reamer and Downing (2016) describes this emergence of the middle class as the ‘democratization of investment’, while Rutterford (2007) calls it ‘people’s capitalism’. These terms are used interchangeably by various scholars to narrate how capitalism became ‘inclusive’ after the British Company Acts. Although this was the case in Victorian Britain, the coming of the Company Acts did not entirely lead to an ‘inclusive capitalism’ at the Cape. Joint stock company investors at the Cape were mainly Europeans and people of European descent, largely because land dispossession and discriminatory and repressive institutions had affected African livelihoods. Colonial labour laws kept Africans’ earnings well below those of their European counterparts, and colonial banks and financial institutions were inaccessible to them throughout the nineteenth century (Verhoef 2017). As a result, Africans hardly participated in the financing of joint stock companies. Despite this dynamic, the Cape Company Act of 1892 enabled more people to participate in private capital markets than before. In this sample, the emergence of Africans as shareholders occurred after 1900 and it signified the gradual inclusion of Africans in modern capitalism.

The dominance of the middle class at the Cape was anchored in the distribution of wealth to all spheres of the population. John Stuart Mill was among the first thinkers to suggest the redistribution of wealth through joint stock companies (Harris 1959). He observed that productivity could be promoted by the accumulation of capital through joint stock companies and the cooperation of the labour force. He emphasized the distribution of wealth and the necessity of managerial reform. He believed that superior productivity would reduce the total cost of labour and increase labourers’ real wages and investors’ profits. Similarly, Simon Kuznets proposed, in his study of capital markets and inequality, that the growth of companies and the expansion of capital markets would increase the distribution of incomes across the population (Totheli 2011).

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3 Meltzer (1989: 88) traces capital and company growth in the Cape Colony from 1840 to 1859. She finds that, partly because of the strong relationship between agriculture and trade, much of the monetary wealth in the Colony was concentrated in the hands of farmers and merchants, who established firms in the Colony both as directors and financiers. Mabin (1984: 64–65), on the other hand, finds that the capital market was largely composed of merchants and foreign investors, but he also notes the presence of what he calls ‘associates of the merchants’, a group that included accountants, lawyers, agents and ‘others’.

4 The rationale behind comparing this paper with other studies focusing on British joint stock companies is that the Cape Company Act was adopted from the English Company Act.

5 By ‘African’ we mean the indigenous inhabitants of southern Africa before the Europeans arrived.
In this paper we explore how this process unfolded at the Cape. We discuss the growth and diversity of the Cape private capital market after the Cape Company Act of 1892, the identity of the investors, and the nature and distribution of their investments.

Data and methods

This paper borrows from a study by Acheson, Campbell, and Turner (2017) of the expanding Victorian capital market. The study reveals the diversity of the British investors, showing that although rentiers dominated that market, many groups participated, each with its distinct investment behaviour. This provides both theory and a structure for our comparative study of the frontier economy of the Cape.

Two groups in particular, the middle class and women, drew their attention and led to enquiries about the factors that may have made it possible for them to enter the market. Green et al. (2011) argue that increased opportunities to save money were the explanation. Levels of real income rose, especially in the second half of the nineteenth century, due to falling food prices, structural changes in the labour market, and increases in nominal wages.

We adopt many of these methods in our study. We sampled records from 263 companies for the period 1892 to 1902, containing information on 6,883 shareholders. This data was obtained from the limited companies records in the Cape Archives Depot (CAD). The transcribed database contains information from both statutory filing provided to the deeds office in memoranda of association, but also individual company records which contain shareholders information and paid capital accounts. A schematic depiction of the information is contained in Appendix 4 (Figure A4).

Following Acheson et al., we transcribed occupational details to assess the socio-economic make-up of the shareholders (see Figure A1 in Appendix 1). Although this was done successfully, information for 35% of the shareholders in our sample was missing. To compensate for these gaps and inconsistencies in the investors’ occupations or residential addresses we used convenience sampling. This is a non-random technique that is used to collect data for a study where it is impossible to sample the entire population. Etikan, Musa, and Alkassim (2016) also state that it is used to study subjects of a population that are readily accessible to the researcher. Critics often argue that this method does not provide a true representation of the population under study and that one may not make inferences using results from this technique. However, for this study, this limitation does not pose a grave problem because the data collected illustrated a consistent trend. The distribution of companies, number of shareholders, and number of registrations were chronologically predictable. Where the results differed, there were reasonable explanations to support why this was so. For instance, in 1902 farmers made up more than 50% of the capital market. This, according to our interpretation, was a response to the effects of the 1896 rinderpest outbreak. The Farmers’ Co-operative Company limited, based on its objectives in the memorandum of association, was founded in 1902 to aid livestock farmers whose cattle had been affected by the

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6Acheson et al. (2017) had adequate data only for the years 1870, 1885, and 1899. To create a robust sample, they included only companies that had intelligible records, which left them with 293 companies with over 172,000 shareholders.
disease. Therefore, given this pattern, it is possible to argue that convenience sampling allowed this investigation to give a general overview of company formation at the Cape as well as the structure of its private capital market.

We also adopted Acheson et al.’s investor classifications, with a few modifications. There were no institutional investors in our study, and we included women and financiers in the middle-class investor category. This was because in our study we classified investors according to Davidoff and Hall’s (2002) ‘separate spheres’ theory and the HISCO (Historical International Standard Classification of Occupations) model. The separate spheres theory refers to men and women’s specific roles in the economy of Victorian Britain and the spheres that they could occupy. Married women, for example, were categorized as middle class. Although many did not earn any formal income, their husbands’ salaries were treated as their income. There were, nevertheless, women who had professional occupations and it was only natural to place them in the middle-class category.

The HISCO model is based on the International Standard Classification of Occupations 1968 (ISCO68), an ahistorical classification of occupations created by the ILO (International Labour Office), designed to be applicable across time (Wrigley 2004). It is also based on 1,000 occupations frequently appearing in Belgian, Dutch, French, Swedish, Norwegian, British, German, and Canadian datasets from the period 1690 to 1970. The occupations in the HISCO tree are categorized into major groups and minor groups with sub-units. Table 1 shows our classification of Cape investors as compared with the British classification of British investors. We retained the businessmen, middle class, and rentiers from the latter and allocated financiers, the working class, institutional investors, and women to other groups, using the separate spheres theory and HISCO model as our guide.

The HISCO model does not classify according to status, though some occupations, such as those in major group 0/1 (professional, technical, and kindred workers) clearly require more education than those in major group 7/8/9 (production and related workers, transport equipment operators, and labourers). This still does not give a clear picture of status in the Cape Colony. We thus also needed to consider contextual differences. For instance, farmers fall under HISCO major group 6, which contains fairly low status occupations. Many farmers at the Cape, however, were equivalent to businessmen in status (see Mabin 1984; Meltzer 1989). For this reason, we classified Cape farmers as a separate investor category. This also explains why rentiers in our study, as in Acheson et al.’s, are classified separately.

Table 1. Investor classifications, 1892–1902.

| British Businessmen | Financiers | Institutional investors | Middle-class | Rentiers | Women |
|---------------------|------------|------------------------|--------------|----------|-------|
| Cape Businessmen    | Company investors | Farmers               | Middle-class | Rentiers | Working class |

The proliferation of joint stock companies and the growth of the Cape private capital market, 1892–1902

On his first visit in 1899, J. A. Hobson observed that the Cape Colony and the Transvaal, unlike other frontier economies in the British Empire, throbbed with industrial and commercial energy. He marvelled at the adventurous spirit and entrepreneurial acumen of

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7Hobson was a British economist and theorist. He is known for his work on poverty, under-consumption, and imperialism.
men who led southern African companies, remarking that never in his life had he ‘been so struck with the intellect and the audacious enterprise, and foresight of great businessmen as here’ (Hobson 1900, 13). This energy was not limited to the famous Alfred Beit and Barney Barnato and other capitalists, but spread across the colonies (Rosenthal 1968). At the centre of this observation was the modern corporation. Limited liability joint stock companies had extended capitalist activities to the population at large, thus expanding the private capital market (Reamer and Downing 2016).

In the last decade of the nineteenth century, joint stock companies multiplied at the Cape and the rate of company registrations increased. In just five years, 160 companies were recorded under the 1892 Cape Company Act, compared to 37 under the 1861 Cape Company Act, as shown in Figures 1 and 2. There were many opportunities to find capital, public and private. Although Rosenthal (1968) and Lukasiewicz (2017) show that the Colony had a formalized platform, similar to the Kimberley Stock Exchange, for trading in securities, the companies in our sample were privately traded. This meant that the trading of shares happened in private secondary markets. We describe below in greater detail some of the various ways this was done.

These companies were diverse and spread across various sectors of the economy. This was a notable shift from the mining, railway and merchant joint stock companies that had dominated the Cape’s commercial landscape before the Company Act of 1892. Their diverse nature resulted in the emergence of a variety of financiers, largely, as noted earlier, Europeans and people of European descent. Africans constituted only 0.1% of the shareholders in our sample of 263 companies.

Three other features of the composition of the Cape company financiers in our sample during this period are noteworthy. The first is that 92% were men, 5% women, and 3% companies or commercial entities. The second, as shown in Figure 3, is that a considerable number were from outside Africa. In explaining the presence of foreign investors in the Colony, Lanning (1979) observes that the connections established in the last quarter of the nineteenth century by South African diamond and gold mining companies were the conduits for large sums of capital invested in Africa from 1867 to 1935. About 75% of this capital came from British investors – both large and small. Traditionally, in the nineteenth century, British capital reached the Cape through government securities for public works. This changed between 1870 and 1935 when most British private capital began to gravitate towards the Colony’s mineral wealth, because it was more lucrative despite being high-risk (Mabin 1984). Rönnbäck and Broberg (2019) note that the returns from investments in colonial South Africa, especially in mining, were higher than anywhere else in the world. This was because of a combination of factors, such as South Africa’s geology and the coercive labour institutions that bolstered profits.

The discovery of precious metals came at a time when industrialization in Britain had created a wealthy upper and middle class – and these owners of capital were looking for

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8Cape Archives Depot (CAD), Limited Company (LC) 1–LC 467, 1892–1902.
9The Kimberley Stock Exchange closed two years after the promulgation of the 1892 Company Act, largely because of the discovery of gold in the Transvaal and the founding of the Johannesburg Stock Exchange: ibid.
10We were able to count the number of African investors because their names were distinct. The ‘coloured’ population, a mixed-race ethnic group resulting from indigenous Khoesan, slave, and European liaisons, was the Colony’s largest ethnic group. It was almost impossible to distinguish them from the European investors, as they shared many of the same names.
new markets to invest their surpluses. London had become the centre of world trade and European capital began to seek new outlets just at the time when Kimberley was looking for more capital to develop its mines (Lanning 1979). In our sample, foreign capital
constituted 8% of the Cape private capital market. Of this population, 92% came from Britain, 2% each from the Netherlands and Germany, 1% from Belgium, and less than 1% from Austria, Australia, India, and the USA. Of the 92% from Britain, 70% lived in London. The addresses and surnames of these investors helped reveal possible networks that existed among foreign financiers. For instance, the address Holborn Viaduct Street, London, appeared more than twice in our sample. Three merchants, Joel Ellis Abrahams, Willie Ehman, and Theodore Bahlsen lived in this area.\textsuperscript{11} We found that 21% of the British investors were in family networks, as shown by their tendency to invest in companies whose owners shared their surnames.

A common strategy used by leading Kimberley financiers to attract capital in far-flung places was to open offices in their main markets, such as London. This was set up as a way to sell diamonds and trade diamond shares (Rosenthal 1968). Other links with Europe were forged by a small group of German and French traders, bankers who had learnt the skills of high finance in Hamburg, Frankfurt, and Paris, before coming to the Cape Colony. Among the leading figures were Alfred Beit and Julius Pam, who had all worked for different merchants or banks in Germany, and Julius Wernher, who was sent to Kimberley by the leading Paris diamond merchant Julius Porges (Rosenthal 1968).

Investors from neighbouring territories also had a noteworthy presence in the financing of Cape companies. In our sample these were mostly investors from the

\textsuperscript{11}CAD, LC 1–LC 467, 1892–1902.
Transvaal, Orange Free State and Natal, and less frequently, Bechuanaland, German South West Africa and Rhodesia. Of these territories, financiers from the Transvaal were the first to appear in our sample of company shareholder lists. However, in the first five years of the period under study, 1892 to 1896, only 27 investors were identified in the sampled data compared to 105 investors in the second five years. Investors from other neighbouring territories only appeared in larger numbers after 1899.

However, despite this international involvement, our records show that 95% of the shareholders in our sample were local. Possible reasons for this include the discovery of gold in the Transvaal, which may have diverted capital away from the Cape. The opening of the Johannesburg Stock Exchange would have accelerated this process. Schumann (1938), for example, argues that while the diamond industry was dependent on local investors, the gold industry relied heavily on foreign capital. Another reason could be investment opportunities elsewhere in the empire for British capital. Mineral discoveries in India, Canada, Australia, and New Zealand may have diverted British capital. As a result, Africa did not attract nearly as much British capital as India, Canada, and the Australasian colonies did (Davis and Huttenback 1988).

Figure 4 shows that the local capital was concentrated in the large cities of the Colony (Cape Town, Port Elizabeth, East London, and Kimberley). At first the western region seemed to have the largest concentration of investors, but between 1900 and 1902 most investors came from the eastern region. The northern region of the Colony only recorded a high number of investors in 1895 and 1897. This was a period of rapid company formation in the mining sector. Most of those who financed mining companies were from the northern region.

The third notable feature of our sample of Cape Colony shareholders is that they were mostly the middle-class. The presence of this group in the British Empire is not a new phenomenon. Lipton (2018) in his study on limited liability in Australia points out that the middle class was eager to invest in company shares. However, little is known about the percentage they constituted in the Australian capital market. At the Cape, Figure 5 shows that the middle class made up 27%. In Britain, rentiers and businessmen were the largest investor groups. In our sample, farmers made up 17% of the private capital market, businessmen 13%, rentiers 5%, the working class 4%, and company investors less than 1%. In addition, Table 2 shows the percentage of foreign capital within each investor group in the capital market. Findings from this analysis support Acheson et al.’s (2017) observation that British rentier investors were keen to invest in overseas companies in the empire. Appendices 2–3 (Figures A2–A3) shed light on this by showing that much of this group’s investments were channelled to the mining sector.

The 15 African investors in our sample were middle class. Most of them were church ministers or missionaries. Two were teachers and one was a journalist. The journalist was John Tengo Jabavu, a well-known political activist who in 1900 founded Jabavu and Company, a media outlet that was the first to publish in isiXhosa (Switzer 1997). These 15 African investors held shares worth £270, less than 1% of the total capital that was injected into joint stock companies in this 10-year period.

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12CAD, LC 1–LC 467, 1892–1902.
13CAD, LC 315, Jabavu and Company Ltd, 1900–1933.
Figure 4. The geographic distribution of limited liability companies’ capital, 1892–1902. Source: Cape Archives Department, LC 1–LC 467, 1892–1902.

Figure 5. The categories of investors in the Cape capital market, 1892–1902. Source: Cape Archives Department, LC 1–LC 467, 1892–1902.
In terms of capital contribution to the market, the middle class contributed 31%, followed by businessmen at 27%, and rentiers at 13%. Although farmers made up 17% of investors in our sample, their total capital contribution was only 2%. Company investors contributed 1%, the working class 1%, and the category with no information 24%. Of the total capital, 11% came from foreign investors. Of these, rentiers contributed 27%, businessmen 12%, company investors 61%, middle-class investors 8%, working class and farmers 1%, and the category with no information 6%.

The dominance of the middle class in our sample may have been an indirect outcome of population growth towards the end of the nineteenth century. As Greyling and Verhoef (2017) note, population size affects savings and GDP. The annual population growth rate at the Cape between 1850 and 1909 was 3.94%, approximately a tenfold increase over the period. Schumann (1938) observes that in 1865, settler society was increasing at an annual rate of 5%. By 1891, we estimate, 41.2% of the population were living in towns. Despite this sharp population increase, Europeans at the Cape remained a minority, constituting only 25% of the total population. The migration of black labourers into industrializing cities, notably Kimberley, and the incorporation of other territories into the Cape Colony, were among the reasons for the population increase during the mineral revolution (Ramela 2018).

Our study period, 1892–1902, was a time of dramatic change. The fact that the number of investors in 1892 was the lowest of any year during the period under study would have been largely the effect of the diamond bubble and speculation crisis of 1881 to 1886 (Greyling and Verhoef 2017). Reports of bank insolvencies in Grahamstown caused widespread anxiety among other financial institutions throughout the Colony. As a result, many banks began to withhold credit for fear of suffering the same fate (Greyling and Verhoef 2015). This affected all industries, but agriculture in particular. The wine industry had experienced difficulties in the preceding two decades. One was the 1878 excise tax. In that year, the colonial government imposed an unexpected tax on spirits and until that time brandy had been the lifeline for most wine farmers. What made this worse was the timing of the bill, coming just when farmers were recovering from losing their special privilege in the Victorian market (Davenport 1966). The final nail in the coffin was the phylloxera outbreak in 1886, which essentially destroyed many hectares of wine farms and crippled their main source of income in the countryside (Scully 1987).  

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**Table 2. The proportion of foreign investors in the Cape capital market.**

| Investor group         | Percentage in the capital market (%) |
|------------------------|--------------------------------------|
| Businessmen            | 4                                    |
| Company investors      | 15                                   |
| Farmers                | 2                                    |
| Middle class           | 5                                    |
| Rentiers               | 9                                    |
| Working class          | 1                                    |
| Information not available | 8                        |

Source: Cape Archives Department, LC 1–LC 467, 1892–1902.

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14We calculated this percentage by combining Greyling and Verhoef’s and Schumann’s population records.
In combination, these factors had long-term repercussions for the farmers, and it was not a coincidence that in the early 1890s they did not feature in the private capital market. Businessmen, the middle class, and, to a lesser extent, rentiers are the only groups that appear in our sample.\(^\text{15}\)

From 1893 to 1895 there was a sharp rise in new company formation, with the number of new investors at an all-time high in 1895. Much of the capital invested during this year went to the mining sector. The minerals rush had much to do with the surge in the financing of companies in the Colony. By way of a similar proxy to growth in share ownership, in 1894 the London market value of South African shares rose from below £20 million in January to £55 million in December (Jones 1988).

It was not only London-listed firms that benefited from the mineral revolution. Although foreign financiers made up only 4% of the investors in our sample of joint stock companies at the Cape, they contributed 48% of the capital that financed these companies in 1895 – clear evidence of substantial involvement in not just public credit markets but also the Cape’s private capital markets. These investors constituted 50% of the rentier class in the Colony, but injected 97% of the capital in this class. Even more remarkably, while they constituted only 4% of the businessmen class, they contributed 61% of its capital. Similarly, while they constituted only 3% of the middle class group, they contributed 40% of its capital. In this year alone, foreign financiers injected their largest amount of capital in a single year in the period under study.\(^\text{16}\)

This boom in investment culminated in the crash of 1896. It is alleged that this crisis started when French investors panicked and unloaded gold shares on the Paris Bourse (Greyling and Verhoef 2015). While this may be true, the Jameson Raid in December 1895 may have been another contributing factor. The failed attempt to oust the Transvaal government resulted in the incarceration of prominent figures in the gold mining industry (Blainey 1965). These factors could explain why in the following year foreign financiers constituted only 0.1% of company investors in the Colony in our sample.\(^\text{17}\)

Apart from the panic, farmers were once again on the receiving end of ecological disasters. Between 1896 and 1897, the Colony was hit by a rinderpest outbreak and a drought. Rinderpest was mostly concentrated in the eastern region of the Colony. In the Transkei, an estimated 90% of cattle were destroyed (Simkins and Van Heyningen 1989). The second disaster was the drought of 1897, which was declared the first serious drought for a decade in the Colony. As a result, both white and African labour was absorbed into the rapidly growing public works in the cities and the mining industries. The primary result of all these hardships was the devaluation of land in the farming districts, leading to much of the ravaged land being put up for sale. Scully (1987) notes that this unexpected loss of land forced white farmers into wage labour and, in the worst cases, abject poverty.

Three things stand out from the next five years. Investment of foreign capital gradually declined, a trend that can largely be attributed to the start of the South African War between 1899 and 1902. This decline was met with an increase in investment by farmers, making them the second largest group of investors in our sample. And thirdly,
middle-class investments expanded substantially. The war thus triggered a shift in the Cape’s private capital market from foreign to local, small-scale investors.

The nature and character of Cape investors, 1892–1902

We were able to ascertain who exactly these investors were by looking at what was happening in the investor categories. For instance, the rapid expansion of the middle class meant that it was also becoming more varied. To discover this, we combined the information on occupations with information about each investor’s socio-economic background obtained from searches on genealogical websites (The South African Ancestry and Family Tree Research 2017).

Furthermore, after placing women into a separate category based on Davidoff and Hall’s (2002) framework, we found that they were diverse in skills or status. A few were formally employed, but most were simply recorded as housewives, widows, or spinsters. We allocated any women who listed the title ‘lady’ as her occupation to the rentier category, as that title indicated that they occupied a higher status in their society than most women. The category ‘women’ includes only women who were housewives, widows, spinsters, or formally employed. They constituted 17% of the investors in the middle-class category and contributed 19% of its capital. Their participation in the private capital market increased substantially between 1899 and 1902, the period when the middle class expanded rapidly.

The largest investor category in the middle class was the ‘lower-middle class’, a group consisting of skilled individuals of a moderate status like teachers, secretaries, agents, students, civil servants, and clerks (Wrigley 2004). They made up 64% of this category of investors and contributed 58% of its capital. The upper-middle class included, among others, medical practitioners, attorneys, architects, and accountants. They made up 20% of this group and contributed 23% of its capital.

The rentier and businessmen categories also had subgroups. We divided the rentiers into gentlemen, ladies, and landowners. Gentlemen constituted 79% of this group and contributed 75% of its capital. Ladies constituted 10% and contributed 18% of the capital, and landowners constituted 10% and contributed 7%.

We divided the businessmen into five investor categories. In our sample this category was made up of merchants, general business owners, capitalists, manufacturers, and contractors. The merchants were diamond, wine, brandy, fruit, and general produce merchants, and some who described themselves as buyers and importers. The merchants constituted 50% of the businessmen group and were also the largest providers of capital, possibly because of their long-accumulated profits in the Colony and their financial links with London. The general business owners, constituting 28% of the businessmen group, were general dealers, butchers, bottle store owners, clothiers, hotel owners, shopkeepers, and others in related trades. The capitalists, a subgroup who described themselves as capitalists, speculators, and prospectors, constituted 11%. The manufacturers constituted 7% and the contractors 4%. The contractors were individuals

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18CAD, LC 1–LC 467, 1892–1902.
19CAD, LC 1–LC 467, 1892–1902.
20CAD, LC 1–LC 467, 1892–1902.
21CAD, LC 1–LC 467, 1892–1902.
who described themselves simply as contractors. The manufacturers were a varied lot. They made boots, clothing, cigarettes, soap, candles, wagons, coaches, and carts. But despite this diversity, they were among the lowest contributors of capital.

Some famous people appear in the Businessmen category in our sample. Cecil John Rhodes was among them. The diverse nature of Rhodes’ investments confirms what many scholars have said about him. Among other things, he was known as a venture capitalist who saw potential where many did not. The growth of the fruit industry, for example, during the late 1890s in the Colony is attributed to the faith he had in it (Burton 1903).

Another famous person in our sample is James Douglas Logan. In The Prominent Men of Cape Colony, a popular gazette at the Cape during the nineteenth century, he was described as a ‘staunch progressive’ in politics, ‘distinctly canny’ in business, and in private life ‘the ideal host’. Allen (2015), on the other hand, describes him as ‘the ideal colonist’, although in 1892 he was entangled in a contractual scandal with James Sivewright, the then Minister of Railways. Apart from his clandestine activities, Logan was known for his investments in Matjiesfontein, where he established a mineral water factory and a hotel. His name appears in four companies in our sample.

Our sample also includes some prominent international businessmen. One of these was Julius Pam, a London-based diamond dealer who channelled much of his investments into three diamond mining companies in Kimberley. Although he often invested in his own capacity, his investment in the Free State Mines company was made indirectly through his Julius Pam Company. Here he committed £38,700, making his company the largest shareholder in the Free State Mines company.

Examples like this show that financial diversification was a strategy some Cape investors adopted. They spread capital across numerous investments so as to cushion themselves against market volatility or risk. This is a common twentieth-century strategy (Rutterford and Sotiropoulos 2016), but recent studies have shown that it was practised much earlier – from soon after the Glorious Revolution in the UK, according to Carlos, Fletcher, and Neal (2015). Although colonies like the Cape barely feature in such discussions, in our sample 8% of the investors allocated capital to more than one company. This is a small portion (92% of our sample committed their capital to only one company) but it does suggest that some Cape financiers were as financially literate and sophisticated as their counterparts in Europe. This is significant, especially when one considers that the Cape’s companies were not yet publicly listed.

Businessmen had a greater tendency than the other groups of investors to diversify their investment portfolios. About 14% of the financiers did this. This is consistent with Acheson et al.’s (2017) observation that businessmen in the British capital market were heavily involved with financing new businesses, unlike other investor groups that

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22CAD, LC 180, Suburban Estates Development and Building Company Ltd, 1897; LC 249, South African Fisheries Ltd, 1898; LC 8, Vaal Prospecting Syndicate Ltd, 1893.
23CAD, LC 150-379, 1896–1902.
24CAD, LC 203, Enterprise Coaching Syndicate Ltd, 1897; LC 249, South African Fisheries Ltd, 1898; LC 379, Paarl Electric Power Syndicate Ltd, 1902; LC 150, James D Logan and Company Ltd, 1896.
25CAD, LC 207, New Elands Drift Mining, 1897; LC 153, Estate Company Ltd and the Leicester Consolidated Diamond Mines Ltd, 1896; LC 83, Free State Mines Ltd, 1895.
26CAD, LC 1–LC 467, 1892–1902.
preferred well-established companies. Only 6% of the farmers in our sample diversified their portfolios, for example.

We found a tendency in our sample to diversify investments within sectors specific to a region of the Colony: the northerners preferred the mining sector, the easterners the trust, merchant, shipping, and real estate companies.27 The westerners exhibited no clear pattern, as their interests were not limited to specific industries or geographic locations. The advanced nature of the economy in the western region partly explains this tendency. Acheson et al. (2017) note that a high percentage of companies in the Colony had their head office in the western region. This meant that investors located here had more companies to invest in than investors located in the frontier regions.

The western region also had the largest number of individuals who invested in more than one company followed by those from the eastern and northern regions as shown in Figures 6 to 8. Although the northern region had the lowest number of individuals who diversified their portfolios, those investors held shares in more companies per individual than the two other groups did. For instance, the only individual in our sample who invested in 10 companies was A. Ramsay, an accountant living in Kimberley.26 He invested in seven mining companies in 1895. His investment pattern further suggests that Cape financiers preferred to invest in businesses with which they were familiar. Thomas Bell, for instance, invested in eight mining companies in Kimberley between 1895 and 1902. Bell, however, was a diamond merchant, which made him even more inclined to invest in mining companies.29

The capital value that financiers from the northern region injected into diversified investments was, however, significantly lower than that from the other regions. For instance, the total capital value of Ramsay’s investment in ten companies was £15230 – very little in comparison with the £11,327 invested in five companies by Conrad Christian Silberbauer, a solicitor from Cape Town. Unlike Ramsay’s investments that were limited to the mining sector, two of the companies Silberbauer financed operated in the utilities sector, and one each in the transport, financial and mining sectors.31 Table 3 provides descriptive statistics of the capital value of diversified portfolios per region.

The distribution of capital shown in Table 3 is consistent with the nature of businesses that operated in specific regions. For instance, mining companies dominated the commercial landscape of the northern region. Considering that mining companies had the lowest survival rate in the Colony, buying their shares was very risky.

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27 The Cape Colony had three main regions: the northern, eastern, and western regions. Today they are known as the Northern Cape, Eastern Cape, and Western Cape. The northern region was known for diamond mining in Kimberley, while the eastern region was known for pastoral farming and the wool industry. The western region on the other hand was widely known for wine and fruit farming, and because it was the most economically advanced region among all of them.

28 CAD, LC 67, Krugersdorp Gold Mining Estate Company Ltd, 1895; LC 69, Provident Diamond Syndicate, 1895; LC 84, Ceres Petroleum Company Ltd, 1895; LC 95, Herbert Gold Fields Ltd, 1895; LC 97, Minter Estates and Gold Mines Ltd, 1895; LC 106, Kimberley-Carnarvon Petroleum Syndicate Ltd, 1895; LC 110, Langberg Estate and Exploration Syndicate Ltd, 1895; LC 223, Eureka Gold Mining and Estate Company Ltd, 1898; LC 279, Kimberley Steam Laundry Company Ltd, 1899; LC 335, “H” Prospecting and Development Syndicate Ltd, 1901.

29 CAD, LC 207, New Elands Drift Mining and Estate Company Ltd, 1897; LC 362, B.R. Syndicate Ltd, 1901; LC 361, C. and W. Exploration Syndicate Ltd, 1901; LC 335, “H” Prospecting and Development Syndicate Ltd, 1901; LC 17, Elands Drift Mining Company Ltd, 1893; LC 371, Hartz Comet Syndicate Ltd, 1902; LC 340, Hartz Comet Syndicate Ltd, 1901; LC 127, Cape Mineral Estates Company Ltd, 1895.

30 Ibid.

31 Ibid.
Because of this, financiers from the northern region were bound to be very cautious when investing in mining companies. This is borne out in their propensity to invest in the largest number of companies per investor, and in the difference between their total and the mean capital contribution compared with those in the eastern and western regions. The low standard deviation also confirms that investors from
the northern region preferred to allocate very little capital to each company in their portfolios.\footnote{Ibid.}

Only a small fraction of the middle class investors in our sample diversified their portfolios, but this group had the largest percentage of investors who were founding members of companies, 56%. The frequency with which middle-class investors appear as major players\footnote{These are people who met the following criteria – (a) propensity to be founding members, and (b) be board members and shareholders of these companies.} in starting companies suggests that they were at the forefront of entrepreneurship and innovation at the Cape by means of the limited liability joint stock company. Not only were they the main sources of capital, they were the impetus behind the proliferation of companies in the Colony. Ramsay, previously discussed, was a founding member of 8 of the 10 companies in which he invested.\footnote{CAD, LC 1–LC 467, 1892–1902.}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{western_region.png}
\caption{Portfolio diversification in the western region, 1892–1902. Source: Cape Archives Department, LC 1–LC 467, 1892–1902.}
\end{figure}

\begin{table}[h]
\centering
\begin{tabular}{|l|c|c|c|}
\hline
Region & North & East & West \\
\hline
Descriptive statistics & & & \\
Mean & 176 & 930.4 & 695.3 \\
Median & 25 & 100 & 100 \\
Maximum & 10001 & 32884 & 88200 \\
Minimum & 1 & 1 & 1 \\
Standard deviation & 695.2 & 3902.1 & 4594.6 \\
Total & 45961 & 159104 & 566701 \\
\hline
\end{tabular}
\caption{Value of diversified portfolios per region at the Cape, 1892–1902.}
\end{table}

\footnote{Ibid.}

\footnote{These are people who met the following criteria – (a) propensity to be founding members, and (b) be board members and shareholders of these companies.}

\footnote{CAD, LC 1–LC 467, 1892–1902.}
Information, investments, and industries at the Cape, 1892–1902

Since the Cape’s joint stock companies were not publicly traded, promotors used various strategies to draw investors from distant areas, such as auctioning in public spaces. Rosenthal (1968) notes that this was the chief mechanism for the sale of shares in the Colony, with some auctioneers specializing in particular sectors. Some described themselves simply as diamond share brokers, while some, such as Gustavas R. Blanch ‘of Main Street’, advertised their services as general broker, auctioneer, or claim and commission agent. There were some such as ‘the legendary’ A. A. Rothschild, also known as ‘The Baron’, who dealt in anything from livestock to mining stock (Rosenthal 1968). These auctioneers could be found in all major cities.

Two factors that contributed hugely to the growth of Cape company financiers were the improvements in communication and transport. The Colony now had state-financed postal services and telegraphic systems, and 6,894 miles of railroad networks, a great leap forward from 63 miles in 1860 (Schumann 1938).

Information on company shares could also be easily accessed from newspapers like the South African Advertiser and Mail, the Cape Argus, and the Peninsula Business News. Information about initial or available share offers was also spread by means of social and family networks. Using investor surnames, residential addresses, and occupations, we found that 35% of the shareholders in our sample invested in a company with at least one person who shared their surname, address, and in some instances their occupation. It was common to find brothers, fathers and sons or even daughters investing in the same company. Husbands and wives also invested in the same company. For instance, Mrs J. E. Croghan and her husband Dr J. Croghan, both medical practitioners based in Johannesburg, invested in the Central Diamond Mining Company (Leicester Mine) in 1902. Mrs Croghan, however, invested a larger portion than her husband.35

Various reasons have been suggested to explain why people prefer to invest in companies where their friends and relatives have invested. Grinblatt and Keloharju (2001) say a firm’s language, culture, and distance from the investor are three factors that might influence an investor’s preference. In a study of Finnish firms they found that investors are likely to hold, buy, and sell stocks of firms that are located close to where they live, communicate in their native tongue, and have chief executives of the same cultural background.

We found possible evidence of this tendency in the clustering of investors with Afrikaans-sounding first names and surnames in the shareholder lists: 95% of those with an Afrikaans first name and surname invested with other Afrikaans investors, thus confirming the role of language and culture in making investment decisions.36 This was also the case with the African investors. All the investors in the companies they invested in had Xhosa surnames. Two of the investors in the Eagle Printing Company were in-laws: Paul Xiniwe and William Dilizintaba Soga.37

Distance also played an important role. Looking at the company address, the company’s distance from an investor’s address, and the company’s area of operation, we

35CAD, LC 402, Central Diamond Mining Company (Leicester Mine) Ltd, 1902.
36We acknowledge some subjectivity in this approach – and the fact that not all those with Afrikaans-sounding surnames actually spoke Afrikaans, or vice versa – but we believe it is a good enough proxy to demonstrate our point.
37CAD, LC 298, Eagle Press Company Ltd, 1900–1909.
found that more than 80% of Cape investors financed companies which had offices within a 100-kilometre radius of their residence, and about 85% of these individuals invested in companies which operated within that radius. There were a few who invested in companies whose head offices were in different cities and operated far from their residence, but these were mostly foreign investors. The median distance between the investor’s address and the company’s office was only two kilometres, but 20 kilometres between the investor’s address and the company’s area of operation.

Finally, investors were sometimes also clients. Examples from the Paarl African Trust Company (PAT) and the African Mutual Trust Company (AMT), both founded in 1900, reveal that share applications served at each Board meeting. The Board exercised their right to reject share transfers. PAT was not interested in shareholders that were passive; the Board hoped that shareholders would bring their personal business to the company (Ehlers 2002, 109–110). That could mean that investors willing to pay a higher price were rejected in favour of investors who were more likely to bring in new business.

These findings suggest that Cape investors were risk averse. Given the history of joint stock companies in the Colony, as well as in Europe in the nineteenth century, this is an expected outcome. As early as the 1850s, during the copper share mania, investors in the Colony lost large sums of money after investing in joint stock companies. The high aversion to risk also explains the type of sectors people invested in: investors prefer to finance companies engaged in sectors with which they are familiar. This generally means that people from different social backgrounds have specific sectors in which they invest. For instance, Acheson et al. (2017) claim that rentiers were more inclined to invest in foreign securities, as well as in companies that were traded in London. They were also averse to small family-owned companies. Businessmen, on the other hand, were venture capitalists who often financed start-up companies. The middle class, as the smallest group in the capital market, were risk-averse financiers, who preferred safer securities provided by trust companies.

However, we found the opposite at the Cape, where the middle class was the largest source of private capital. The middle class was the leading source of capital for 5 of the 11 sectors shown in Figure 9, and the second largest provider of finance for 6 of them. They were essentially the heartbeat of Cape joint-stock companies – evidence that limited liability in the Colony diversified the capital market. Figure 9 was constructed by tabulating the sectors investors in the Cape private capital market financed. The figure shows 10 of these sectors and an additional one labelled ‘other’, which included companies that were involved in less common sectors such as stationery, fishing, sports, cold storage, and advertising.

Most investors were concentrated in the three main sectors: financial organizations, manufacturing, and mining companies. These attracted investors from different socio-economic backgrounds. This pattern was also prominent among foreign investors although they leant more towards mining companies. Figures A2 and A3 in Appendices 2 and 3 show that 50% of foreign capital invested in mining companies and that 42% of its capital was directed to that sector. Furthermore, although only 7% of foreign investors was concentrated in financial organizations, 27% of its capital was channelled towards it. Overall, financial organizations had the largest number of investors in our sample.38

38CAD, LC 1–LC 467, 1892–1902.
Zelizer (1978) notes that the rapid rise of such organizations in the nineteenth century was a result of changing attitudes towards death and mortality. She notes that life insurance was part of a general movement to rationalize and formalize the management of death. In the eighteenth century, widows and orphans were assisted by neighbours and relatives, and by mutual aid groups. In the nineteenth century, financial protection became a purchasable commodity for American families. Trust companies, such as life insurance companies, replaced more informal systems with professional management. Similar developments were witnessed at the Cape during the nineteenth century.

African investors on the other hand were concentrated in newspaper and publishing companies. These were placed in the ‘other’ category. Given that the founder of Jabavu and Company was a famous journalist and African activist, it is possible to argue that the Africans’ propensity to invest in media enterprises had political implications. The joint stock companies may have enabled Africans to make their voices heard and to raise consciousness of the need for political freedom. This is especially important when one considers that some of these media companies had very long life-spans. For instance, The Jabavu and Company Limited Company and the Cape Times Limited Company both operated for more than 30 years in the colony.

Mining continued to be an important sector for investment at the Cape. It was where 21% of the middle class and 23% of the businessmen in our sample invested. Henry (1963) argues that most of the initial capital for diamond company formation came from two sources in the Cape: the claim owners, merchants and professionals in Kimberley, and

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39CAD, LC 315, Jabavu and Company Ltd, 1900–1933.
40CAD, LC 315, Jabavu and Company Ltd, 1900–1933, and LC 214, Cape Times Ltd, 1898–1928.
the established commercial community of the rest of the Colony, through whom funds from outlying areas were channelled. Bickford-Smith (1987) notes that Cape merchants in the early 1870s invested principally in diamond and insurance shares. Our study of limited liability company records found a similar pattern.

**Conclusion**

The Cape Company Act of 1892 expanded the number of company financiers in the Colony. The growth and dominance of the middle class, as we show using newly transcribed limited liability joint stock company records (for 1892–1902), suggests that investment was no longer exclusively an upper-class activity. Our sample of records also shows that foreign financiers played a declining role in financing Cape joint stock companies during this period. Company financiers at the Cape were diverse, with social groups exhibiting different investment behaviour. Although this diversity had its limits – apart from a few exceptions, we find very little evidence of participation in the private capital market of African investors – the openness with which people of the middle classes embraced capitalism at the Cape after the introduction of limited liability legislation is telling. The evidence we present suggests that the economic transformation brought about by the mineral revolution did not just benefit a small (foreign) elite; as the joint stock companies in the Cape’s private capital market show, the economic transformation of the Colony and its neighbours in the last decade of the nineteenth century really did trickle down to ordinary (but largely white) men and women.

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## Appendices

### Appendix 1

**Figure A1.** Sample data of shareholders lists. Source: Cape Archives Department, LC 1–LC 467, 1892–1902.
Appendix 2

Figure A2. Distribution of foreign capital per sector, 1892–1902. Source: Cape Archives Department, LC 1–LC 467, 1892–1902.

Appendix 3

Figure A3. Value of foreign capital per sector, 1892–1902. Source: Cape Archives Department, LC 1–LC 467, 1892–1902.
Appendix 4

Figure A4. Data schematic from company records.