

# THE COLLAPSE OF THE GRAAFF-REINET BOARD OF EXECUTORS DURING THE GREAT DEPRESSION (1929-1934)

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## INTRODUCTION

As the Depression deepened during 1930 and 1931 severe pressure was exerted on the liquidity and viability of financial institutions all over the world. After the Wall Street Crash in 1929 runs on banks had occurred in America and in May 1931 the Kredit-Anstalt Bank in Vienna failed. In July 1931 the Darmstadter Bank in Germany closed its doors. On 21 September 1931 Great Britain abandoned the gold standard.<sup>1</sup> In South Africa many people withdrew their available funds and sent them overseas in the hope that when South Africa abandoned the gold standard these funds could be brought back with handsome profit.

The gold standard crisis put almost unbearable pressure on South African financial institutions especially those in the small towns of the rural areas. A case in point was the Graaff-Reinet Board of Executors (established 1 August 1856) which suspended all payments and closed its doors on 20 October 1931.<sup>2</sup> It was later placed under judicial management but its failure was the first of its kind in South Africa and focused attention on other such companies which were found in most of the smaller towns of the Cape Province.

These country boards of executors were usually formed with small capital for the purpose, primarily, of acting as executors of deceased estates. This duty, however, became, in time, secondary, and their main business was done in receiving sums of money on deposit, generally giving a higher rate of interest than the commercial banks. These funds were then invested in mortgages on property and in discounting bills of a long duration, which were renewed again and again. Usually no adequate provision was made to have a fair proportion of their assets in a liquid form. They relied upon obtaining advances from the commercial banks to meet claims falling due or when deposits were withdrawn, giving as security a pledge of their mortgage bonds.

However, as the Depression worsened and deepened the commercial banks were not always prepared to increase their advances, and, since so many farmers were in arrears with the interest on their mortgages, the banks were not keen to accept securities which at the same time would tie up their funds for an indefinite period. This is basically what happened in Graaff-Reinet where the collapse of the Graaff-Reinet Board of Executors caused a great deal of uneasiness in other small towns whose boards were experiencing the same problems.<sup>3</sup>

## BUILD UP TO THE CRISIS

During the boom period of 1924-25 many farmers of the Graaff-Reinet district had taken out loans and bought land at highly inflated prices. The Graaff-Reinet Board of Executors and its rival the Midland Agency and Trust Company Ltd (established 30 March 1864) had readily advanced the required monies to the farmers. During the droughts of 1927-28 the farmers had taken additional loans to see them through the lean years. By the time the Depression came, most farmers had quite substantial debts. However, a farmer in debt was nothing unusual. He would, generally, run his farming operations on a bank overdraft settling all his accounts annually, when he received his wool cheque at the end of the year. The problem was that farm produce prices,

especially for wool, fell to such an extent during 1929-1933 that most farmers were unable to reduce their yearly overdrafts. They became so short of ready cash that they were not even able to pay the interest on their loans.

So, during the Depression with the farmer (as debtor to the company creditor) unable to pay interest on his loan, the company in turn could not pay any interest to its depositors. What complicated this situation was the practice of ceding. A client would borrow a certain amount from the company, and register his bond in its favour. The problem often arose that the company would be unable to find a depositor for the whole amount; so it would split the loan among a number of creditors by means of an "underhand cession", so called as it was a cession that was not registered in the Deeds Office in Pretoria to save the stamp duty and registration fee (a sum of about £5). Further complications arose if one creditor wanted to withdraw from a loan. Then another unregistered cession took place. In this way a complicated system of cessions had been built up over the years. Because the companies were regarded as responsible for administering these loans, seeing to it that the various interests were paid and collected, they were held responsible by their fixed deposit depositors for the payment of interest payments on the loans made with the fixed depositors' monies.<sup>4</sup>

On this financial maze the Depression wreaked havoc. Many creditors, needing their money, demanded the payment of their cessions. The situation then arose that the company, unable in the difficult times to find another creditor to take over the cession, had either to call in the entire loan or to take over the cession itself. Both Graaff-Reinet companies, preferring to keep bonds running, chose the latter course and took over the cessions themselves, paying out the fixed depositors from their own reserve funds. The situation was aggravated by the non-payment of interest by farmers. As the companies were held responsible for interest payments to their fixed depositors they began using their liquid assets to pay this interest. It did not help to sequester any of the farmers and to have forced sales, as both Graaff-Reinet financial institutions found themselves selling farms not for their purchase value but merely to recover loans. As the Depression deepened they found they

<sup>1</sup> F.P. CHAMBERS, *This age of conflict: the Western world — 1914 to the present* (New York, 1962), pp. 327-328.

<sup>2</sup> A. DE V. MINNAAR, *Graaff-Reinet and the Great Depression (1929-1933)* (M.A., Rhodes University, 1978), p. 55.

<sup>3</sup> *Commercial Bulletin*, 9(106), November 1931, p. 225.

<sup>4</sup> MINNAAR, *op. cit.*, pp. 51-52.

could not even sell the farms as there was no-one to buy them.<sup>5</sup>

So, even though the local finance institutions' assets exceeded their liabilities, they ran into a liquidity problem. As their problems increased so too did the rumours circulating in Graaff-Reinet and the district. The directors of the Graaff-Reinet Board of Executors slowly became aware that their company was heading for a crisis. Applications for extensions of time to pay interest on loans increased dramatically in 1930 over those in 1929.<sup>6</sup> In July 1930 the company's secretary, H.J. Pienaar, was instructed to write to the S.A. Mutual Insurance Company and the Guardian Assurance and Trust Company to ascertain whether they were prepared to grant the Board a loan of £20 000 for a period of five years.<sup>7</sup> The S.A. Mutual would only consider a loan subject to a pledge of bonds approved by it. The Graaff-Reinet Board of Directors accepted these conditions and ceded ten selected bonds ranging from £1 200 to £5 000 to the S.A. Mutual.<sup>8</sup> While this loan helped to alleviate their immediate liquidity problems, after six months they were forced to take another loan of £12 000 from the same company.<sup>9</sup>



*At this (third) building of the Board of Executors in Graaff-Reinet the run occurred in October 1931.\**

Both the Graaff-Reinet Board of Executors and the Midland Agency and Trust Company were so worried about the situation that they held a round table conference of their respective directors, a totally unprecedented move considering the intense rivalry between them. As a result of these deliberations, a deputation from both institutions was elected to enlist the services of J.E.P. Close, a well-known accountant of Cape Town, who was to endeavour to find ways and means of obtaining "...government assistance for both institutions against the possibility of investors of money withdrawing capital in the shape of fixed deposits on a large scale."<sup>10</sup> He offered to interview treasury officials and to put the position of the two companies before them. He then proceeded to Pretoria and interviewed the minister of Finance on 7 August 1931. Unfortunately the minister, while sympathetic, was unable to offer any assistance, on the grounds that, if given in one case, it would have to be extended to other trust companies and building societies which might also demand assistance. On the suggestion of the minister, Close also interviewed the general manager of the Land Bank, who gave him the assurance that the Bank would be prepared to lend any farmer, who applied, an advance not exceeding £2 000.<sup>11</sup> Close did not stop there but went on to interview representatives of both the Standard and Barclays Banks. He was able to get from them the tentative proposal that they would "possibly come

to the Companies' assistance provided the government guaranteed payment."<sup>12</sup> Unfortunately on his return to the minister of Finance, with this proposal from the banks, the minister refused to consent that the government would guarantee the repayment of any such loans.<sup>13</sup>

Somehow the two trust companies in Graaff-Reinet carried on through 1931. At a meeting held on 12 September 1931 of all the directors of both companies, plus the managers of the local banks and the executives of the Graaff-Reinet Chamber of Commerce and the Graaff-Reinet Wool Growers' Association, an attempt was made to find some solution to the financial problems of the two companies. But no viable solution short of liquidation was found.<sup>14</sup> The previous day the Board of Executors had received a letter from Close advising them that the Standard and Barclays Banks were anxious to come to the Board's assistance; but they insisted on an investigation of the Board's position by Close.<sup>15</sup> The Board's directors offered this solution to the meeting on 12 September and it was accepted as being the only course to follow in the situation.<sup>16</sup>

## THE COLLAPSE

The announcement on 21 September 1931 of Great Britain's abandonment of the gold standard acted as a catalyst on this precarious position and brought the crisis to a head. Those depositors who had surplus funds withdrew them and sent them overseas to London. At a meeting of shareholders of the Board of Executors in February 1932 the chairman, T.E. Murray, reported that the sum of "£100 000 in cash" had been withdrawn the previous year, the major part after 21 September 1931.<sup>17</sup>

The withdrawal of these funds was the last disaster in a dangerous situation. Desperate attempts were made to stave off collapse. On 16 October 1931 Close strongly advised the directors of the Board of Executors to enter into negotiations with the Midland Agency with a view to amalgamating with them.<sup>18</sup> But before anything could be concluded a run developed on the Board of Executors and on 20 October 1931 it suspended all payments and closed its doors.<sup>19</sup>

As the situation developed it was touch and go whether the Midland Agency would also succumb to a financial collapse but fortunately the directors were equal to the crisis. On 21 October 1931, as the news of the Board of Executors' difficulties spread, a run began on the Midland Agency. This withdrawal of funds was arrested by the appearance at the entrance to the Midland Agency building at 22 Church Street, of one of its directors, P.A. Luckhoff, and

<sup>5</sup> *Ibid.*, p. 52.

<sup>6</sup> Graaff-Reinet Board of Executors (GRBE) minute-books (stored at the offices of Syfrets Trust Ltd, Graaff-Reinet): Minutes of annual general meetings for 1929-1931.

<sup>7</sup> *Ibid.*: Minutes, 4.7.1930, p. 291.

<sup>8</sup> *Ibid.*: 18.7.1930, pp. 297-315.

<sup>9</sup> *Ibid.*: 23.12.1930, pp. 374-376.

<sup>10</sup> *Ibid.*: 23.7.1931, pp. 35-36.

<sup>11</sup> Midland Agency and Trust Company (MATC) minute-books (stored at the offices of Syfrets Trust Ltd, Graaff-Reinet): Minutes, 23.8.1931, p. 219.

<sup>12</sup> GRBE: Minutes, 26.8.1931, p. 56.

<sup>13</sup> *Ibid.*

<sup>14</sup> *Ibid.*: 12.9.1931, p. 69.

<sup>15</sup> *Ibid.*: 11.9.1931, p. 68.

<sup>16</sup> *Ibid.*: 12.9.1931, p. 69.

<sup>17</sup> *Ibid.*: 29.2.1932, p. 107.

<sup>18</sup> *Ibid.*: 16.10.1931, p. 97.

<sup>19</sup> Wellwood (Graaff-Reinet district) farm diaries, 20.10.1931.

\* All photographs from the E. Whitlock Collection, Graaff-Reinet.

the chairman, Dr D. Massey, who were able to persuade the crowd not to withdraw their deposits.<sup>20</sup> Further, at an emergency meeting of the directors of the Midland Agency on 28 October 1931, it was decided to impose a moratorium on all capital payments.<sup>21</sup>

## JUDICIAL MANAGEMENT

The Agency's rival institution, the Board of Executors, however, found it too difficult to continue. The directors, on the advice of J.E.P. Close, decided to apply to the Supreme Court for an order placing the Company under judicial management.<sup>22</sup> Dissent immediately arose between the supporters for outright liquidation and those wanting the company placed under judicial management. A committee, working for the former course, was formed under the leadership of G.B. Minnaar. This committee secured the services of a lawyer, C.H. Maasdorp, to act for them in pressing for liquidation. They were able, as a preliminary move, to secure an order on 29 October 1931 that the Board's assets be frozen.<sup>23</sup> However, the opponents of this move were able to count on the support of Dr K. Bremer, MP for Graaff-Reinet, and H. Urquhart, the mayor and also a past vice-chairman of the Midland Agency, and other prominent citizens. This latter group were able to have Close confirmed as judicial manager on 19 November 1931. To allay the fears of those who doubted the efficacy of judicial management a special impartial advisory committee consisting of D. Parkes, Dr J. Rubidge, W. Nicol, D.G. Collet and A. Murray was appointed to check on the judicial manager.<sup>24</sup>

J.E.P. Close immediately set about trying to unravel the financial problems of the Board of Executors, especially the confusion over the cessions. But his efforts in this direction met with difficulties. He discovered that certain bonds registered in favour of the Board of Executors had been set aside by means of underhand cessions (i.e. unregistered). He adopted the attitude that these bonds belonged to the Board of Executors, but certain creditors maintained that the Board had no claim to them. The judicial manager, in order not to create preferences, held that all claimants were to become concurrent creditors. But the bond holders claimed preferential rights, that is, a right to voice an opinion on how their bonds should be administered. Soon accusations of undue preferences were being hurled at the judicial manager though Close tried to be completely impartial and scrupulously fair. He stressed that creditors had to be patient and bide their time till matters improved. Even-

tually he converted the claims of all creditors into £50 debenture shares and the existing securities of the Board of Executors were placed in the care of debenture trustees. A list of all the names of creditors was drawn up. These names were placed in a drum, and once a month a number of names were drawn to determine whose debenture was to be paid. The lucky ones would then be paid out the sum of £50 from the funds that were slowly being accumulated by the careful administration of the judicial manager.<sup>25</sup>

Later this system was dropped as investor clients claimed their securities had nothing to do with debentures. They maintained that the debentures should only have been issued to those who had ordinary deposits with the Board of Executors. Close then proposed the creation of two classes of shares as an alternative to liquidation. This proposal was in some measure a prolonged settlement arrangement. The original shareholders received an "A" class share having a certain paid up value and "B" class shares were given to depositor creditors, which were in partial settlement of claims; for the balance they were given debentures. After this arrangement the dissatisfaction subsided and the situation improved since no creditor lost his investment, although from 1931 to 1934 no interest was paid on any. In 1935 assets were unfrozen and all were paid out their deposits and investments.<sup>26</sup>

## CONCLUSION

The failure of the Graaff-Reinet Board of Executors was in many ways the worst episode of the Depression for many inhabitants of Graaff-Reinet as it was then the biggest financial institution in Graaff-Reinet. The whole population of Graaff-Reinet and of the district suffered from this financial crisis in one way or another. Especially hard hit were the many whose only income was the interest from their investments with the Board of Executors. Those who had spread their funds between all the financial institutions in Graaff-Reinet fared slightly better.

It was because of this financial disaster that at the beginning of March 1932 Dr Karl Bremer, the local MP, introduced the Companies Act 1926 Amendment Bill into the 1932 parliamentary session. This Bill was designed to assist a company, which had been obliged to ask the courts for judicial management power, to keep going until it found itself in a more favourable position. This would prevent these companies going into liquidation which in turn would prevent a large number of debtors being suddenly called upon to pay up their bonds.<sup>27</sup> A number of small companies did seek judicial management during the Depression and this helped them to survive and also protected depositors dependent upon interest income to get through the difficult depression years. So the collapse of the Graaff-Reinet Board of Executors had significance not only for the inhabitants of Graaff-Reinet but also for the wider South African public. ©



The Midland Agency and Trust Company Buildings at the time of the great depression (1929-1934).

<sup>20</sup> MINNAAR, *op. cit.*, p. 55.

<sup>21</sup> MATC: Minutes, 28.10.1931, p. 260.

<sup>22</sup> GRBE: Minutes, 26.10.1931, pp. 103-104.

<sup>23</sup> MINNAAR, *op. cit.*, p. 57.

<sup>24</sup> GRBE: Minutes, 29.2.1932, p. 108.

<sup>25</sup> MINNAAR, *op. cit.*, p. 58.

<sup>26</sup> *Ibid.*, p. 59.

<sup>27</sup> UNION OF SOUTH AFRICA, HOUSE OF ASSEMBLY, *Debates*, 4.3.1932, col. 1868.