

Uncovering a 'Touch of Genius'

Keynes's Dealings With the Australian Underworld

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In the fine tradition of Australian heretical economic opinion, the Great Depression in Australia witnessed a huge outpouring of tracts by 'gifted' amateurs, cranks, and, Douglas Credit followers. The bibliographies in Mackinoly (1981) and Cannon (1996) contain an excellent, comprehensive listing of the profusion of pamphlet literature that marked the Great Depression in this country. Most of that literature was shunned by university economists. And none of it was thought to be ever significant enough to be reviewed in *The Economic Record*. The National Library of Australia, fulfilling its function as a repository of all Australian literature, has a comprehensive collection of the pamphlet literature contained in the bibliographies of both the Mackinoly and Cannon volumes. Much of this literature was associated or inspired by the Douglas credit movement (Pullen and Smith, 1991). Groenewegen and MacFarlane's compendium on the *History of Australian Economic Thought* does not comprehensively list the literature emanating from the economic underworld, but as they freely admit, this was never their brief. All these works, however, share one omission, a book of some consequence; an author whose conceptual vision met with the enthusiastic approval of Keynes.

Keynes complimented the "heretics of the underworld" in Chapter 23 of *The General Theory* who presaged the concept of effective demand and the drastic macroeconomic impact of an oversaving society. It was not unknown for some of these mavericks, or "heretics" to send their work to the Empire's most celebrated economist, J.M. Keynes for comment. Two figures from the Australian underworld of underconsumptionists wrote to Keynes. A.C. Paddison, economic advisor to the then NSW premier J.T. Lang and author of *The Lang Plan: the case for Australia (1931)* wrote to Keynes on 22 February 1932. It was some two months before the Cambridge economist was to write his *Report of the Australian experts*, a commentary reviewing the report of the Wallace Bruce Committee itself charged with examining whether the measures taken in the 1931 Premiers Plan were a suitable enough response in the circumstances (Keynes Papers, Kings College, co/6/1)¹. In his letter to Keynes that included the pamphlet, Paddison spelt out the debilitating economic conditions extant in Australia giving especial attention to the burdensome overseas interest payments facing the country. Paddison then briefly outlined the three planks of the Lang plan (Keynes Papers, Chadwyck Healey edition, Kings College, co/6/1-2). While Keynes sympathised with the onerous burden of overseas interest payments and agreed with Paddison that a further cut in wages was probably unwise, Keynes made it clear that he was not in agreement with Mr Lang's "rather crazy policy" of repudiation (Keynes to Paddison 20/4/32 Keynes Papers, Chadwyck-Healey edition, Kings College, co/6/3). He ended, as he did with his contemporaneous advice to Giblin, Copland and Dyason with the wish that the present financial troubles were not lasting and took the view that countries like Australia, which had already gone as far as they could in readjusting its cost and price levels to lower levels, would just have to wait for the pending adjustment to take place in the world economy.

Three years later Keynes apparently received an unsolicited letter and book entitled "The Monetary Puzzle" from another gifted amateur from Australia. Ian Mackenzie Sutherland wrote to Keynes in December 1934, prompted no doubt by reading Keynes' *Treatise on Money*. Sutherland had his book published in 1933. Two years earlier Sutherland, a civil engineer by training, had published a pamphlet entitled 'Sufficient Real Money: How it might be provided.' The blurb on the title page gave a clue to its radical if convoluted content 'an explanation of labour basis currency and a method whereby unemployed labour, idle plant, unused natural resources and unsatisfied demand, might be liquidated and combined into real prosperity irrespective of the quantity of gold in bank vaults.' At the same time that Federal Treasurer E.G. Theodore had his Fiduciary Notes Bill defeated by the Senate, Sutherland too wanted to circulate more money into the economy. His fanciful idea was to propose a new currency, a new standard of value, based upon the promise to supply labour.

The Monetary Puzzle was to prove in a different league to his earlier pamphlet though it retained Sutherland's lifelong theme of seeing the slump as largely to do with the distribution of purchasing power. "The central idea" of the book, Sutherland wrote to Keynes, "was the transfer of purchasing power from what I call the "Trading Fund" to the "Investment Fund" by means of savings and profit which must be ultimately balanced by a transfer in the opposite direction by means of losses". The short handwritten note rounded off by asking Keynes for his opinion on the book (Sutherland to Keynes 3/12/1934 Keynes Papers, Kings College, co/11/195). Keynes speedily replied the next month, January 1935, saying it had given him great enjoyment. "It is a most brilliant little book." He added "Such quantities of rubbish looking not unlike your book reach one that this is an exceptional pleasure to read something with so much insight and genius" (Keynes to Sutherland 14/1/1935 Keynes Papers, Kings College, co/11/196).

Keynes balanced the effusive praise with the finding that he found Sutherland's views on the rate of interest to be somewhat "deficient". Keynes refused to elaborate but stressed that were Sutherland to understand why the rate of interest was so important he would have to wait for 'my new book' that he hoped Sutherland would find 'more satisfying and helpful' than *The Treatise* (Keynes Papers, Kings College, co/11/196). On the same day, Keynes fired off a letter to D.B. Copland at Melbourne University asking whether he knew anything about Sutherland. Keynes gave Sutherland's address and urged Copland to contact him and 'find out what he is worth.' He closed by saying Sutherland was an exceptionally gifted person and that Copland should try and read the book for himself (Keynes to D.B. Copland 14/1/1935 Keynes Papers, Kings College, co/11/197).²

In February 1935 Sutherland responded to Keynes, appreciative of his praise. He asked whether Keynes knew any booksellers in England that might care to publish it (Sutherland to Keynes 28/2/1935 Keynes Papers, Kings College, co/11/198). Keynes responded that it would be difficult to find a publisher. He did, however, hope that Sutherland would continue to plough his line of thinking. Keynes informed Sutherland that he had urged Prof. Copland to get in touch with him (Keynes to Sutherland 1/5/1935 Keynes Papers, Kings College, co/11/199).

In a letter acknowledging receipt of a manuscript four months later, Keynes again prompted Copland to get in touch with Sutherland for his book had a 'touch of genius' about it (Keynes to D.B. Copland 1/5/1935, Keynes Papers, Kings College, co/11/200). There is mention of this comment on the enigmatic Sutherland in Skidelsky's second volume on Keynes (Skidelsky, 1992, p.416). As Skidelsky recounts, Keynes was himself becoming more heretical so he sought solace in the company of dissidents whose views on effective demand lived only 'below the surface in the underworlds' (Keynes, 1936, pp.370-1). 'Cranks' however was a word in Keynes's vocabulary that still carried full pejorative value.

Australia boasts a great tradition in gifted amateurs like Kelly, Jenson, Grondon and, in Keynes time, underconsumptionists like Theodore and Irvine (Groenewegen and McFarlane 1990). Even though Keynes took an especial interest in Australia's economic readjustment in the crisis years of 1929-31, particularly the unique features of the Copland-Giblin inspired Premiers Plan, surprisingly there is no mention of Theodore or R.G. Irvine in any of his papers. Sutherland was another matter; what was it then about Sutherland's 'little book' that captivated Keynes?

Sutherland's 1933 work, "The Monetary Puzzle and a Possible Solution," has an oddly bifurcated structure. Book I is entitled "The Island". Sutherland uses the allegory of a shipwrecked sailor befalling upon an inhabited but isolated island. Armed with a washed-up chest full of economics manuals, the sailor introduces his hosts to the benefits of a monetary exchange economy. The introduction of coinage is facilitated by mining alluvial gold. The natives quickly adapt themselves to this monetary arrangement. Very early in the piece two sectors of this economy emerge - a produce sector and a savings or investment sector (1933, 12).

Sutherland's stylised economy quickly develops a tendency towards an imbalance between the two sectors since there is an inbuilt propensity for a steady flow of money from the trading or consumption side of the economy into the investment or income producing property sector. This flings the island economy into stagnation and depression (1933, 74). The tale is not unlike Keynes's parable of the oversaving banana plantation. There is also a faint resemblance to Keynes's *Treatise* model of a consumption goods sector and a capital goods sector. However, Sutherland's model comparably is not as illustrative or appealing as Keynes's scheme. Another fault is that Sutherland treats savings and investment as essentially the same activity. The intention behind Sutherland's two-sector monetary model is made clear in the opening chapter of Book II: "The device of the island, without foreign relations, and with distinct and separate trading and investment funds, has been adopted in an attempt to simplify the economics of modern civilised countries" (1933, 71).

Sutherland argued that the cause of Australia's then difficulties was due to the 'old-fashioned virtue of saving, which gives rise to a flow of money in one direction, and the absence of anything except depression to cause a sufficient flow in the opposite direction' (1933, 71). To show this, Sutherland reintroduced his schema where all money or purchasing power form into two distinctly separate funds, namely: (A) A trading fund, used for unconditional purchases of consumable goods and services; and (B) an investment fund, which includes all purchasing power that is devoted to acquiring income producing property be it in the form of rent, profit or interest (1933, 72).

Depression ensued if the flow of money from A to B reduced the money available for making unconditional purchases of consumable goods and services thereby causing stagnation in the trading fund or real side of the economy. That is, depression results from a deficiency of money available for circulation in the trading fund because of the desire to save and accumulate (1933, 70). Ultimately the flow of purchasing power from the trading fund into the investment fund must be compensated by an equal flow from the investment fund back into the trading fund to complete the circulation. Sutherland was at pains to point out that there may be no actual deficiency of purchasing power as such, but the greater proportion of it is in the hands of people who only require a comparatively small quantity of consumable goods and prefer to use their purchasing power to buy income-producing property. Sutherland held that the concentration of wealth in a few hands meant the building up of purchasing power in the investment fund and the depletion of purchasing power in the trading fund. As in his earlier pamphlet the problem of the prevention of business depression was largely a problem of having a more fairer distribution of purchasing power (1933, 80). Sutherland also derided the ethics behind what Keynes would later call the paradox of thrift: "Those who

advocate economy, and saving of money, and accumulation of savings on a universal scale, assume that what is good for the individual is good for society; this is not so (1933, 72).

Sutherland's key proposal was to rewrite inheritance law so as to correct the intergenerational transmission of wealth by having all income-producing property registered at the Title's office. When the owner died the property would revert to the Crown and be sold by auction in the way deceased estates are now sold by executors. The only difference would be that the Government would now receive the money. The proceeds would then be used to replenish the trading fund. This would be achieved in various ways, such as being distributed to individuals in the form of a national dividend, allowing for remissions of taxation, or even used for financing expenditure on public works (1933, 92). The most direct method of redistribution Sutherland believed was by attaching a small dividend to each and every member of the population in the form of savings bank credits, which in turn appears to be the most effective method of increasing the trading fund. The transfer of money from the investment fund to the trading fund will still be at a loss but only at the expense of the deceased estates.

Sutherland's proposal would lead to an increase in production, the absence of depression, and the existence of a continually replenished source from which profits could be drawn, which in turn would act as an extra stimulus to business. His scheme would allow existing wealth to be distributed fairly and, in his cumbersome prose, the missing channel to complete the circulation of purchasing power (1933, 129). Sutherland dismissed the idea that the scheme was socialistic and would destroy the incentive to save. Rather he vouched that it would, as T.R. Malthus had argued much earlier, actually encourage the rich to live riotously which, in turn, would allow young wage earners to save and accumulate capital.

Sutherland admitted his scheme was something of a modification to that of National Credit proposals. His scheme also contained an obvious Georgian theme. By fusing these two strands of heretical opinion together and adding his own fiscal technique of keeping up demand through the distribution of a national dividend, Sutherland might have felt public recognition coming his way. Apparently there was little, if any, response. However, Sutherland's analysis and recommendations did however attract the approval of the world's most eminent economist.³

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Notes

- 1 The Keynes Papers in the Modern Archives Centre, Kings College are incidentally now available in microfilm form at the Baillieu Library, Melbourne University. Available on 166 reels, these archives are known as the Chadwyck-Healey Ltd edition since their referencing annoyingly differs from the one employed at Kings College archive. Nor are they as exhaustively indexed as the collection at Kings College. For instance, the Sutherland-Keynes correspondence is not listed in the user manual that comes with the microfilm edition.
- 2 While there is no correspondence between Copland and Sutherland, it cannot be fully ascertained that Copland did not contact Sutherland by other means since they both lived in inner Melbourne.
- 3 There was a sequel to this story. It seems Sutherland was so moved by Keynes's praise of his earlier effort that he dedicated his last work *Property and War*, to the Cambridge don. To quote from the inscription "The writer is greatly indebted to Mr Keynes for his kindly comment on a previous attempt. Without this encouragement it is possible that this book would never have been written." Surprisingly there is no acknowledgement in the Keynes Papers at King's College that Keynes ever received the book. In that work Sutherland dropped the cumbersome 'investment and trading fund' concepts in favour of 'property.' His last book adopted an almost Leninist flavour namely that the primary cause of war was economic as nations engaged in a desperate struggle for markets and accumulation.

References

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