5. Giblin and Keynes

> 'I should say that I am writing this in haste before I have thoroughly digested your method of argument, which is, as I have said, quite novel'. *J. M. Keynes to L. F. Giblin*.[1]

By the onset of the Great Depression Giblin had already developed a theory that would afford a valuable insight into this event: the theory of 'the multiplier'. The theory contended that any stimulus to spending will not be cancelled by a compensating reduction in consumption spending, but will lead to an increase in total spending by an amount several times as large – 'a multiple' - of the initial stimulus; a multiple that depended on the proportion of the amount of income not spent.

This tool was also to be developed by Keynes during the first years of the Depression. The striking coincidence of Giblin's and Keynes' near simultaneous conception of the 'multiplier' concept need not greatly perplex. With his Bloomsbury friends, Cambridge education and cultural interests one might be tempted to describe Giblin as an Australian twig of Bloomsbury. And, in sharing their rationalism, 'paganism', footloose radicalism and intuitive modernism, Giblin arrived at a similar sort of sharp revaluation of classical economic wisdom as did Keynes.

Yet, in spite of the similarities, there were important differences between the minds of Giblin and Keynes, and in the circumstances in which their minds operated. Giblin's mind was, in truth, a native growth, which only partly acclimatised in foreign soil. Despite the elements of common heritage and the empathy for one another, this chapter shows that Giblin and Keynes never truly consummated an intellectual relationship.

Giblin and the multiplier

Giblin's priority with respect to multiplier-style concepts has been conceded by authoritative accounts of the multiplier's genesis for many years (Wright 1956; Moggridge 1993; Dimand 1988).[2] Giblin's version of the multiplier was in print, as *Australia, 1930*, in April 1930 - 15 months before the Cambridge multiplier was, and several months before the Cambridge multiplier was even conceived.

How did Giblin come to formulate the multiplier? The germ of Keynes' multiplier theory is easily traced to economic stagnation in 1920s Britain, and to Keynes'

[1] KCLA 28 August 1929, JMK/CO/2/184.

[2] Giblin's closest contestant for priority is Jens Warming (Boserup 1969). Attention has also been paid to Hawtrey for his multiplier-like comments on Keynes' *Treatise*. (Davis 1980). For pre-1914 anticipators see Wright (1956), Goodwin (1962) and Hegeland (1954).

arguments in his pamphlet of May 1929, *Can Lloyd George do it?*, in favour of the extensive employment benefits of public works.[3] No such line of intellectual descent will serve for Giblin: he had not read *Can Lloyd George do it?*, and suspected it was seeking to defend the discreditable.[4]

A search for the roots of Giblin's ideas tempts us to return to Hobart. In Giblin's youth there lived in Hobart an underconsumptionist, A. J. Ogilvy (1834–1914), who shared the 'left-liberal' outlook of Giblin. He founded the Tasmanian Land Nationalisation Society, and in 1897, the Democratic League, a forerunner of the Tasmanian Labor Party. The author of numerous pamphlets on political economy, in 1892 Ogilvy published *Is capital the result of abstinence*? – answering in the negative – and in 1896 *Saving and spending*.

> Suppose a number of people suddenly determine to save to the extent of a quarter of their income; and let bread, boots and tobacco … be the articles they have been habitually consuming, and in which they now propose to save … What now will be the effect on other people? Those who have been supplying the abstainers with bread, boots and tobacco will suddenly find a quarter of their goods left on their hands … After a while … the sellers … will have to reduce their production for the future in view of demand, thereby throwing so many people out of employment. (Ogilvy 1896, p. 209).

But Giblin did not need to notice or read Ogilvy to come into contact with underconsumptionism – almost every unorthodox economic thinker was an underconsumptionist (see Coleman 2002). In any case, Giblin, as we shall see, was not an underconsumptionist.

A stronger lead to the source of Giblin's thought is found in the doctrines of Alfred De Lissa (1838–1913), a London-born Sydney barrister, who, during the 1890s, published a series of papers that not only explored a variety of effective demand notions, but advanced multiplier–style formula and geometric progressions that related the magnitude of an initial spending stimulus to the final total stimulus.[5] In 1890 he proclaimed the 'Law of Incomes', a 'great

[3] Keynes wrote in 1938: '*History of the multiplier doctrine*. One must distinguish here between some sort of formal statement … and the general notion of there being such a thing as secondary employment … [that] is clearly explained in *Can Lloyd George do it?* …' (CWJMK, XII, p. 806).

[4] Giblin to Eilean: 'I was hoping someone would have sent the Keynes Henderson pamphlet on the L. L. G. [=Lloyd George] unemployment scheme, but no one did … The scheme sounded so like Australian borrowing schemes that I wanted to see a serious defence of it …The immediate interest is over, but the whole thing seems so full of dangers that it would be instructive to have it for the record' (RBA LFG 4 July 1929).

[5] De Lissa's first publication was 'The law of income' in the *Australian Economist* 1890 in which he contends the income of 'primary' (= production) industry supports a certain amount of secondary

economic law which appears to underlie the industry of every country', that turned on a 'physiocratic' multiplier concept in which workers in production support workers in services. In 1890 he explained his ideas in an Advancement of Science conference in Hobart in terms of geometric progressions.[6] By 1898 he had generalised his ideas into a formula, whereby total incomes equal value of production divided by the proportion of income spent on services.[7]

When De Lissa spoke in Hobart, Giblin was already in London, studying under Pearson. Thus reason forbids the fancy from imagining the young Giblin absorbing from the stalls De Lissa's multiplier idea. Yet, as one commentator has obliquely put it: 'It is an interesting coincidence that after De Lissa's, one of the first expositions of the multiplier came from L. F. Giblin' (Goodwin 1962). There is something that adds more piquance to the coincidence: during the 1890s De Lissa also wrote on a topic that was soon to become a preoccupation of Giblin's, the special budgetary treatment of Tasmania in the new Commonwealth. De Lissa 'showed that a fair distribution of national revenues in the new federation required adjusting for differences in the economic product in each colony, effectively to compensate for their varying fiscal capacity' (Hancock and Smith 2001). This sentiment is very close to that principle which Giblin was to adopt and champion. Could Giblin's absorption of the controversies over federal finance have brought him into contact with De Lissa's works in general, and his work on the multiplier? One is lost in speculation.

One moves from speculation to fact with the advent in the late 1920s of the Development and Migration Commission, that had been created to appraise government proposals for the establishment of new industries in the light of their potential to support higher immigration. A railway that the Victorian Government had built to open up some wheatlands came to its attention. In 1952 Copland (writing anonymously) recalled:

> It was clear that the traffic on the railway would not be sufficient to meet debt charges, but it was not clear that the building of the railway would be an uneconomic proposition for the economy as a whole. The

industry: 'if all the workers in a country are divided strictly into primary and secondary workers … the products of these primary workers … will, in addition to the aggregate incomes received by the producers, give aggregate incomes of an equal amount … to all other workers in the community'.

[6] The example De Lissa favoured was 30 m of incomes of primary workers would yield further incomes 15 then 7.5 + 3.75 +1.875 + … etc.

[7] De Lissa writes: $\frac{\text{V(value of production)}}{\text{R(ratio of expenditure)}} = I\text{(total incomes)}$. The 'Ratio of expenditure' is what we would call the 'average propensity to spend on production', or (equivalently) the average propensity to not spend on services. So if production is 100, and the 'average propensity to spend' was 0.25, then total incomes would be 400.

> addition of, say, £1m in exports of wheat to the national income would result in other and indirect additions to the national income. The new wheat farmers would spend their incomes in a certain proportion on local and imported goods and on such tertiary services as education, health services and transport so that the total national income would be greater than the original addition of the income from wheat … Copland was aware of these considerations, but was unable to state the problem precisely in terms of the effect on national income as a whole. *He took this problem to Giblin who produced the first formula of the multiplier*. (Anon. 1952, our italics)

In a similar recollection Torliev Hytten (Hytten, 1960) recorded:

> I well remember when he first brought the general idea in a page or so of typescript to Brigden and myself for criticism. Giblin was rarely excited, but there was something akin to excitement in him as we discussed and finally agreed on its validity.[8]

Regrettably, Hytten's 'page or so' appears to have been lost, but the three other memoranda survive. These are: 'New farms and population', L. F. Giblin, 9 August 1929; 'The correlative increases in production and population', L. F. Giblin c. 1929; and 'Population supported by 1,000 pounds by new export production', J. B. Brigden, 5 September 1929.

These papers are concerned with the total impact on national income of the new income deriving from a new industry.

'New farms and population' was written at the request of the Development and Migration Commission, which had asked Giblin to analyse what would be the gain to Australia's population of the establishment of new wheat farms. Giblin approached this problem by arguing that there would be both a direct gain and an indirect gain. To analyse the direct gain, he estimated the value of production of each new farm at £700 (after making deductions for transport, interest, raw materials used, repairs etc.). He then noted that, as 'Australian population works out at 1 per £100 of income', the £700 of income accruing to the operator of each new farm would support an additional seven population members. Thus the *direct* population gain would be of seven people for each new farm.

It was in the *indirect* effect that Giblin introduced multiplier analysis. He argued that about two-thirds of the income accruing to the operator of a new farm would be spent on domestically produced consumption goods, thus generating additional income for the profit-earners and wage-earners engaged in the

[8] Hytten dates this encounter to 1925, and is surely wrong. The railway issue only emerged in 1928. Giblin later stated: 'The general thesis [of the multiplier] dates from 1928–29' (quoted in Karmel 1960, p. 165).

production of such goods equal to two-thirds of the income accruing to the operator of the new farm. In turn these people would spend two-thirds of their additional income on domestically produced consumption goods, thus generating a further income increase of (two-thirds)^2 times the income accruing to the operator of a new farm. And so on indefinitely. Thus for each new farm established there would be an indirect income gain equal to the direct gain (£700) multiplied by ⅔ + (⅔)^2 + (⅔)^3 + … This infinite series converges on two. The indirect income gain for each new farm established would therefore be £1400, so that the total gain would be £2100.[9] The logic of geometric progression, absent from *Australia, 1930*, is explicit here.[10]

Giblin sent 'New farms' to Brigden: 'I should be glad of criticism, – destructive or constructive'. Brigden responded with a two-page comment entitled 'Population supported by 1,000 pounds by new export production', dated 5 September 1929. This is a bolder, starker analysis than Giblin's. It drew the protectionist implications of Giblin's multiplier analysis without hesitation. It pointed out that the reduction in (what would today be called) 'the propensity to import' would increase national income, and consequently suggested that it was through import substitution that any new industries would create employment.[11] It also used the language 'multiplying' and 'multiplied', terminology that Giblin never used.

It is worth noting that Brigden has also been credited by some of his colleagues with turning Giblin's mind away from the positive impact on national income

[9] 'The correlative increases in production and population' paper was seemingly written by Giblin: the typescript includes annotations in his hand. It adopts a similar multiplier analysis to 'New farms', but uses a propensity to spend of 0.7. It concludes that, after 'allowing for some other deductions, e.g. part of savings not available for employment', the multiplier would be 3 (rather than the 10/3 implied by 0.7).

[10] 'So that any given number of people, say 90, directly supported by new farms will entail a secondary population of ⅔ of this number, or 60. And similarly this 60 will employ ⅔ of 60, or 40, and so on.

For every person supported directly by the new farms we then have an additional population of: ⅔+ (⅔ of ⅔) + (⅔ of ⅔ of ⅔) + … to infinity.

And this series, by the well-known algebraic rule, adds up to exactly 2.

We shall therefore have about two persons indirectly supported by the farms for every person directly supported.'

[11] 'Certainly an industry which merely diverts demand (such as the cinema) cannot add to our population: but production which takes the place of imports sets going the multiplication of income locally instead of abroad'. It is worth noting that the *Enquiry* of the same year explicitly rejected the notion that protectionism stimulated total employment.

of an expansion of exports, and towards the *negative* impact of a *contraction* of exports on national income. 'It was Brigden who first realized the significance of the multiplier working in reverse gear when wool prices fell … When wool prices fell at the opening of wool sales late in August, 1929, he was the first to sound the warning of the impending depression that was to follow …' (Copland quoted in Wilson 1951). Copland states that Brigden's composition of *Escape to prosperity* (1930a) was the occasion of this realisation. The book's opening chapter, 'Australia in 1930', very briefly presents an informal multiplier analysis of the impact of a contraction in exports (Brigden 1930a, p. 5).[12]

Giblin first publicly aired his multiplier ideas in an inaugural lecture for the Chair to which he been recently appointed – the Ritchie Chair at the University of Melbourne.

Giblin had never sought the Ritchie Chair; it would be truer to say it sought him. The Chair had been founded by Mr R. B. Ritchie as a memorial to his son Captain Robert Blackwood Ritchie MC, who had been killed in 1916 while on war service in France. Ritchie had provided an endowment of £30 000 to the University for the purpose.

To fill the Chair, the University established early in 1927 an advisory committee led by Copland, who expectantly told Keynes that they were seeking 'a first class man who would stimulate study generally in Australia'. Keynes soberingly replied: 'My own expectation would be that you would find stronger candidates in Australia than from this country or America' (quoted in Millmow 2005a). A few days later, and evidently quite undiscouraged, Copland shot high, and cabled Edwin Cannan, recently retired from his Chair at the London School of Economics:

> Would you accept invitation new Chair economic research, Melbourne University, see Economic Journal September, Salary 1350 pounds, two years tenure, travelling expenses, 200 pounds each way, two lectures per week during term. (quoted in Milmow 2005a).

Cannan declined, regretfully, '… on account of age and desire to proceed with literary projects'. He further chilled the air by suggesting that younger men would also be reluctant to go to Australia, since, by the time they had returned, 'influential people' would have forgotten them. Cannan's reluctance would not have been diminished by the thoroughly dissatisfied reports of Australian academic life that he had been receiving from Benham, then exiled in Sydney. 'Australia, as I expected,' wrote Benham, 'is intellectually dead' (LSE).

[12] It is uncertain when this was written, but as it was published just a few weeks after Giblin's *Australia, 1930* it is further evidence that Brigden was at the very least *au fait* with Giblin's thinking.

In the face of the failure of Copland's straight-to-the-point cablegram, a more deliberate procedure was settled upon. Two committees of three persons were established, one in England (which included Keynes) and one in the United States (including Taussig and Mitchell). Both committees were charged with finding a suitable person, and authorised to approach them. Several worthy candidates were identified, but none was of sufficient stature to satisfy Copland. They were 'simply not good enough', he declared. And the candidates of a stature sufficient to satisfy Copland – such as Viner, who Copland implausibly had hopes for – were not going to be satisfied by Melbourne.

With Keynes' earliest warning seemingly born out, the search turned to possible candidates from Australia. Copland had been plainly angling for the job himself. 'I am rather attracted to the position myself … I have hinted to the authorities I would be interested'. However, 'I have the impression the University would like me to stay where I am' (UMA DBC 29 June 1928).

Copland then took a 'revolutionary step'; he would recommend Giblin. This needs no rationalisation. The strong man still needed Giblin, as several points in correspondence highlight.[13] And he admired Giblin's intellectual leadership. He told Taussig regarding his recommendation, that Giblin has 'demonstrated his ability to find a way of measuring economic phenomena which has baffled the rest of us'.

The Council was unanimously persuaded by Copland's recommendation, and on 17 October 1928 the Chancellor of the University enquired of Giblin whether he '… would consider favourably an offer of the Chair'. Giblin, however, would not consider it favourably. He broke the news to Eilean: 'They have offered me the Ritchie chair and I have not read any of their damn textbooks'.[14] But Copland rallied his ally: 'Picture yourself as the doyen of Australian economists!'(quoted in Millmow 2005a).

> Copland reminded Giblin how Brigden and Mills had fared even though they too did not have a thorough background in economics so 'Why not you?' Copland cajoled Giblin to think of the post as his duty and to think of the time he would have to think about real economic problems. It was 'the best economics job in Australia'. (Millmow 2005a).

[13] 'I always felt very safe in Tasmania with you', Copland wrote to Giblin at about this time (UMA 6 June 1927).

[14] Clapham, the English economic historian, assured Eilean: 'Economics is mathematics and common sense. We all know about the first and he [Giblin] has more of the second than anybody I know' (quoted in Millmow 2005a).

Giblin was successfully cajoled, and cabled his acceptance of the Chair to Copland. Or so it seemed. For on the same day, 22 August 1928, he cabled again, at 12.40pm.

> Have decided with great regret against Melbourne

An incomplete draft of a letter from Giblin to the Chancellor spoke of his 'amateurish equipment' for the Chair.

But at 2 pm Giblin issued another cablegram.

> Letter Chancellor throws new light cancel previous communication will wire again.

These communications caused 'a little stir' at Melbourne.[15] But Giblin was coming after all. Copland and he were colleagues once more.

Some of Giblin's hesitation to accept is manifested in his prefatory remarks to his inaugural lecture, *Australia, 1930*.

> You may guess my diffidence as a pure amateur in economic studies in attempting to fill an academic chair. I hoped that with the passing months the Professorial robe might come to hang less loosely about me, but I am afraid I am irrevocably an amateur and my surprise at finding myself in this Chair is undimmed. My feeling remains that the action of you, Sir, and of the Council in making the appointment was a tribute to the great Australian genius for gambling on a very speculative event, not, of course, in any vulgar sense, but rather in that suggested by the classical story of George Fox and tobacco. You may remember how in his early journeying through England, denouncing the wickedness of the times, he came one night to a north country inn. A bold young fellow came up to him, sitting quietly in the parlor, and offered him a filled pipe of tobacco. He was minded to refuse according to his habit, but bethought him that the young fellow would go away and say that he had not unity with the creation. So he took the pipe, he tells us, and smoked awhile that it might not be said that he had not unity with the creation. So in respect to gambling I conceived the Council as proving their unity with the creation in making this appointment.

The lecture was delivered on 28 April 1930 in the public lecture theatre of the University. The press was in attendance. The performance was, as the *Argus* truthfully noted, 'long and interesting'. Its 8800 words would have taken a full hour to deliver. The multiplier concept was presented lucidly.

[15] So did Giblin's eventual debut at Melbourne. The Chancellor, Sir John Macfarlane, was, according to Copland, 'astonished' by Giblin's appearance.

Cambridge, Tasmania or Cambridge, England?

While Giblin was delivering his lecture, the Cambridge version of the multiplier was still more than a year from publication (in the June 1931 issue of the *Economic Journal*). Indeed it was not even yet formulated. It was to be conceived by Keynes' star pupil, Richard Kahn, during mid-1930, while on a walking holiday in the Austrian Alps.

Giblin's version of the multiplier is indubitably prior. Although this is recognised, Giblin's multiplier is largely ignored in the historiography of Keynes' *General theory*. Patinkin (1993) never mentions Giblin is his chronology of the *General theory*. Giblin's multiplier is referred to only once in Skidelsky's biography of Keynes – and only by implication, and only in a footnote.[16] And there is a good reason for this silence: neither Keynes, nor Kahn, nor any 'Circus' members ever mention Giblin's multiplier. There is no positive evidence that any of these people read it.[17] In fact, there is some positive evidence that they did not read it. First, not long after Keynes began using multiplier analysis in 1933, Giblin wrote that, in doing so, Keynes was following Kahn, rather than himself.[18] Secondly, Keynes baldly states in the *General theory:*

> The conception of the multiplier was first introduced into economic theory by Mr R. F. Kahn in his article on 'The Relation of Home Investment to Unemployment' (*Economic Journal*, June 1931). (Keynes 1936, p. 113).[19]

Yet, on account of his Cambridge associations, it is intellectually legitimate to consider that Keynes and his circle were aware of the Giblin multiplier. And it is intellectually legitimate to be tantalised by the fact that King's College library

[16] Dimand (1988, pp. 105–8) does give a detailed treatment of Giblin's multiplier.

[17] According to Dimand, 'Giblin's multiplier analysis was entirely ignored' outside Australia, and even within Australia 'thoroughly forgotten' by 1938. This is a slight exaggeration. A 1939 Canadian survey of Central Banking in the Dominions does note the Giblin multiplier (Plumptre 1940, p. 351). Plumptre had married an employee in the economics department of the Bank of New South Wales. That Hytten ran this department is presumably not unrelated to Plumptre's acquaintance with the Giblin multiplier.

[18] Giblin (1933a): 'Last year [1933], however, Keynes used substantially the same argument [as *Australia, 1930*] in his 'Means to prosperity' – following work by Kahn in the *Economic Journal* in 1931.'

[19] Kahn had few recollections of any cognate literature published in 1930. In 1938 he told Keynes he thought 'there was something analogous published by the Berlin Institut fur Konjunctforschung some time in the same year' (Keynes in JMKCW vol. 12, p. 806). This is presumably a reference to a paper by Alfred Schwoner (1930), which has been noted by historians of the multiplier concept (Hegeland 1954, p. 27).

does contain a copy of *Australia, 1930*. Giblin sent it to them. It arrived in June 1930.[20] Nevertheless, there is no positive evidence that Keynes or any of his circle read, or were aware, of Giblin's multiplier.[21] The two multipliers were 'doubletons'.

A simultaneous but independent formulation of the multiplier is made more likely by the fact that two other economists, in languages other than English, advanced the concept (apparently independently): Jens Warming in 1929–30, and Michal Kalecki in 1933 (see King 1998). The following table compares the various multipliers.

Table 5.1. Multiplier concepts from c. 1930

	Giblin	Brigden	Warming	Kahn	Keynes	Kalecki
Date	'1928–29'	5 Sept 1929	1929–30	June 1931	March 1933	1933
Explanandum	employment, income	employment	employment	employment	income	income
Assumptions	open economy	open economy	open economy	open economy	open economy	open economy
	marginal propensity to absorb of ⅔ –0.7	marginal propensity to absorb of at least	marginal propensity to absorb of 0.4	marginal propensity to absorb 0.36-0.48	marginal propensity to absorb 0.49	marginal propensity to absorb of 0.3
	mps = 0?	0.5		mps of workers	mps > 0	mps of workers
				= 0 and mps of business		= 0 and mps of capitalists >0
				men = ⅔ - ⅔		
Technique	geometric series	none	geometric series	geometric series	geometric series	calculus
Terminology		'multiplied' 'multiplying'	'roll on'	'ratios'	'multiplier'	
Symbolism	none	none	none	k = 'marginal propensity to absorb'	none	
Multiplier	3	≥2	1 ⅔	1.56–1.94, 1.75	2	1 ⅔
Policy	deflation	protection	public works	public works	public works	

Giblin's multiplier and Keynes' *General theory*

Additional evidence for independent creation of the multiplier is the distance between Giblin's macroeconomic views of 1930 and the theoretical structure of the *General theory*.

It might be ventured that there are eight doctrines that the *General theory* was especially concerned to defend, and advance:

[20] The King's College copy of *Australia, 1930* records that it was 'Presented by the Author'. The present authors have been unable to discover any other library in Cambridge that holds it.

[21] The then junior PhD student A. K. Cairncross very likely had. In the early 1930s Cairncross was a friend and fellow student of Ronald Walker at Cambridge, whose 1933 thesis drew on Giblin (Cairncross 1998). It was A. K. Cairncross who drew A. L. Wright's attention to the Giblin multiplier.

- effective demand (that is, Say's Law)
- the pervasiveness of 'uncertainty'. To attempt to calculate odds is impossible; we will do better by trusting to animal spirits
- a monetary theory of interest
- a non-monetary theory of prices in situations of unemployment (that is, the invalidity of the Quantity Theory)
- underconsumptionism; the dysfunctionality of thrift
- the dysfunctionality of capital and interest income
- 'disequilibriumism': the economic system does not automatically tend to full employment
- 'stimulationism': public works and monetary expansion as the remedy for unemployment, not wage reductions (except in exceptional circumstances).

How much did Giblin's *Australia, 1930* share this 'larger doctrinal structure' of 1936? Obviously, the multiplier comprehends the first item, *effective demand*. But what of the remaining seven doctrines?

There is no hint of either of *the pervasiveness of uncertainty* or a *monetary theory of interest* in Giblin.

As for *underconsumptionism,* Giblin was not an underconsumptionist. In fact, he was an anti-underconsumptionst. Just six weeks after *Australia, 1930* he published an article in the Melbourne Herald entitled 'The Need for Saving'. 'Saving' Giblin explained to his readers 'becomes capital and we need a lot of it in Australia' He makes his antipathy to consumption quite plain in *Australia, 1930*.

> Three years ago I had the honour of addressing the A[ustralasian] A[association] A[advancement] of S[cience] at Perth on the subject of 'The Road to Ruin'. I conceived it as paved with the extravagant post-war consumption. The case is even stronger today.
>
> Demand seems no longer bridled by the capacity to pay for the desired commodity. Very striking is the new consumption – in motor-cars, movies and talkies, gramophones, tobacco for women, and the increased expenditure in confectionery, and dress, dancing and travelling.

(It will be recalled that Giblin as a student lived on 'ships' biscuits of which he kept a barrel in his rooms', and in maturity 'wore red ties of his own manufacture').

There is nothing of *dysfunctionality'* of capital income in Giblin.

Giblin is not a *'disequilibriumist'*. He explicitly states in *Australia, 1930* that the system would correct itself through wage adjustments. He made it quite clear that the multiplier would be zero if wages (and other incomes) declined.

Giblin in 1930 was not a *stimulationist, either*. In *Australia, 1930* he was a *deflationist*. In 1930 he drew no expansionary policy lesson from his multiplier.[22] On the contrary, the policy conclusion he drew was the necessity of a reduction in wages. '"Wages Must Fall": Professor Giblin's Warning': this was the headline that the Melbourne *Argus* chose for its report on *Australia, 1930*.

Still, for all the distance of his general frame of thought from Keynes' *General theory*, Giblin still developed the export multiplier. But even so, we can ask whether he was convinced of its real world significance? In *Australia, 1930,* after sketching what the concept would imply would be the consequences of an export slump, he asks himself with some perplexity:

> Is, then, this appalling result likely to happen, or is the whole argument affected by a fundamental error?
>
> The matter is obscure. (Giblin 1930b).[23]

Giblin and Keynes discuss – and don't discuss – the multiplier

This is not to say that Giblin did not raise multiplier issues with Keynes in the years of writing the *General theory*. He did so, twice.

In April 1932 Giblin was acting as Commonwealth Statistician and informal economic advisor to the Commonwealth Government. In that month Giblin sent Keynes a copy of a confidential letter he had sent to his patron, and fellow Tasmanian, the Prime Minister Joseph Lyons.

> 13 April 1932
>
> CONFIDENTIAL
>
> Dear Mr Lyons
>
> I have signed the Report of the Committee on unemployment with some hesitation …
>
> The conclusions of the Report are that money can be reasonably and safely be raised by Treasury-bills for public works … provided that the money so expanded shall earn interest.
>
> The criterion of earning interest must be interpreted with some latitude … I suggest, therefore, that expenditure of Loan money might be held

[22] As Cain notes of Giblin: 'In 1929–31 … his attitude to government spending as a recovery multiplicand contrasted with that of Kahn' (1979, p. 109).

[23] In the same vein, the covering letter for 'New farms and population' emphasised that 'this paper was submitted to the Commission as a tentative statement only, and subject to modification and correction'.

> open for consideration if it earned ultimately something less than full interest, say four percent, or perhaps as little as three percent.
>
> Our direct loss of income from the lower price of exports, relative to the cost of imports and interest payments, probably about £30m p.a; from cessation of oversea loans it is not more than £30m, making a total of £60m. But the total loss of income is well over £200m. Much the greater part of the total loss of income and employment is due to the indirect effects of the direct loss of purchasing power spread through the community. *The total loss is three to four times the direct loss.*
>
> Conversely any increase of purchasing power directly by government expenditure or otherwise would result in a total purchasing power of three to four times the original amount. If any number of unemployed were put into employment of any kind at average rates of pay, the added number reabsorbed as a consequence in ordinary industry would be two or three times that number, so long as the original expansion continued.
>
> *An extreme case may be stated. If an additional £20m was raised by Treasury Bills without seriously disturbing general confidence, and used during one year to employ men at shifting sand at Federal award rates, the result would be the direct employment of more than 100,000 men and the rapid reabsorption into ordinary industry of the whole of the unemployed* … [24] obviously such a policy could not be continued without a … currency collapse. But if we were sure of a great increase in export prices a year hence, it would be a reasonable policy.

This articulates a very drastic Keynesianism. Was any government in 1932 receiving recommendations to adopt so strenuous a fiscal expansion from such a high-placed and 'official' source? Was anyone conjuring with a multiplier of three or four?

And mark the massive change since *Australia, 1930* in Giblin's confidence in multiplier analysis. Was the 'appalling' prospect that the multiplier analysis *Australia, 1930* conjured up – and which had so alarmed and perplexed him – now vindicated in 1932 as an extraordinary premonition of the Depression? Did this give him intellectual confidence?[25]

Whatever the case, Giblin was boldly pressing multiplier logic at a very significant time in the development of the *General theory*. During that summer of 1932 Keynes was still thinking in terms of correcting and completing the *Treatise on money*. In fact, he was poised to leave it behind and set out on the

[24] Italics added.

[25] Or was Giblin – to put a different twist on it – given such confidence by the forthright advocacy of public works on multiplier grounds by Richard Kahn in the 1931 *Economic Journal*?

road to the *General theory*. In 5 April 1932 Keynes had written: 'I propose … to publish a short book extending and correcting' the *Treatise*. On 8 May 1932 he rebuffed Joan Robinson's more radical proposals with the words: 'I lack at present sufficient evidence to the contrary to induce me to scrap all my present half-forged weapons'. On 1 June, the day before he replied to Giblin, he wrote that he planned his new book to 'fill in the gap' in the *Treatise* (see Kahn 1984, pp. 112–13).

So: in June 1932 Keynes is dissatisfied with the *Treatise*, but not completely dissatisfied. He learns that Giblin has been urging the Australian Prime Minister that paying men to 'shift sand' would lead to 'the rapid reabsorption into ordinary industry of the whole of the unemployed'. How does Keynes respond?

> 2 June [1932]
>
> Dear Giblin
>
> I have been extremely interested in your supplementary confidential letter to Mr Lyons … If I understand you rightly, I am very much in agreement with you. I am all in favour of pushing public works programs to the limits of prudence … In my judgement anything that looked liked earning three percent should surely be eligible.

There is something anticlimatic about this reply. Keynes is keen to give his support for public works that earn three per cent. But surely the key item in Giblin's 'supplementary confidential letter' was Giblin's favourable assessment of useless public works (such as shifting sand), which would have a conventionally measured rate of return of minus 100 per cent. But Keynes ignores Giblin's favourable assessment of these.[26]

Nevertheless, most historians of the *General theory* agree that over the next nine months – the autumn and winter of 1932 – the critical transition to the *General theory* occurred.

In March 1933 at about the close of this transition, Giblin's multiplier arrived, after a three-year lag, to Cambridge. It does in the doctoral thesis of E. Ronald Walker, an Australian student at Cambridge, entitled 'Australia in the world Depression', and published as a book under the same title. In Chapter 6, 'The theory of repercussions', Walker draws attention to Giblin's theory of the multiplier, and repeats its algebra. He adds in the foreword that: 'these pages owe much to Mr D. H. Robertson, who read and discussed the whole of the ms … On several points I have had the benefit of the criticism of A. C. Pigou, Professor T. E. Gregory and Mr C. W. Guillebaud'. Thus we may conclude that

[26] But Giblin seemed satisfied with Keynes' response. He wrote to Eilean: 'I had a pleasant letter from Keynes, last mail, agreeing very warmly with my attitude. I have sent it on to Lyons' (6 July 1932).

Robertson, and perhaps some other Cambridge names, had became acquainted with Giblin's theory. These are, however, the 'wrong' Cambridge names – Roberston and Pigou – not Keynes and Kahn. And Walker's college was 'the wrong college' – St John's, not King's. [27]

And by March 1933 it was all over, anyway. Keynes had finalised his conception of the multiplier, and published it as *The means to prosperity* (Keynes 1933). This publication was the occasion of a second, more resolute attempt by Giblin to draw Keynes into discussion of the multiplier. In September 1933 he sent Keynes, with apologetic noises, some criticisms of Keynes' multiplier, in particular, its closed economy character. He adds modestly in brackets:

> (I have at times made similar computations here, e.g. on the total increase in income following from a given increase in export production).[28]

He appends four pages of comment and algebra. The day after he sent it, he posts Keynes another note.

> 27/10/33
>
> I must apologise for having sent off to you yesterday – thinking the mail closed then, – a hasty and ill considered scrap[?] on the 'multiplier'. It was done hurriedly in [?] time and I should not have sent it off without more deliberations.

This is, perhaps, not quite the way to market one's thoughts.

Keynes replied:

> Pages 32 and 3 of your typewritten letter are very interesting, but go rather beyond what I was attempting in this short pamphlet … When I come to write about the multiplier in my next book, I shall deal very thoroughly with the principles on which one should try to arrive at the best possible estimate.

Keynes was not interested in discussing the multiplier with Giblin.[29]

[27] Walker was not completely isolated from Keynes. In 1933 he was invited to present a paper to Keynes' 'Political Economy Club'. He 'demonstrated that wage cuts were no cure for unemployment' (Cairncross 1998, p. 49). His argument was presumably the argument for the same claim in his thesis: one that rested on the multiplier.

[28] Is this not also evidence to the effect that Keynes never read *Australia, 1930*? If Giblin had sent it to Keynes, would he need to make this remark?

[29] Keynes was not very interested in discussing the drafts of the *General theory* with anyone outside Cambridge. Ralph Hawtrey and Roy Harrod were some of the very few persons outside Cambridge with whom the drafts were shared.

Nevertheless, Giblin may have succeeded in leaving one foot print on the *General theory*. Upon his appointment to the Commonwealth Bank Board in 1935, Giblin declined to accept two-thirds of his director's fee of £600, and instead allocated £400 it to the establishment of a two-year research fellowship in economics at the University of Melbourne. On 17 September 1935 he wrote to Keynes asking if E. A. G. Robinson – the most senior Cambridge economist with any likelihood of accepting – might be available.[30] He sought to assure Keynes that this new environment would provide Robinson with a valuable intellectual stimulus. For example, in Australia industrial tribunals fixed – or sought to fix – the real wage by law. It is plausible that this observation prompted Keynes to conclude Chapter 19 of the *General theory*, 'Changes in money wages', with a query: what would ensue 'if, as in Australia, an attempt was made to fix by law the real wage' (Keynes 1936, p. 298)? In the absence of such legislation, Keynes' theory implied that the real wage would equal the marginal productivity of labour at that level of output at which aggregate demand equalled aggregate supply. But what if the law attempts to fix the real wage at some magnitude higher than that marginal productivity of labour?

In Chapter 19 Keynes argues that in the attempt to obtain the legislated real wage, nominal wages would be raised. That would produce, however, an equal-sized rise in prices, nullifying any initial increase in real wages. Nominal wages would rise again in a second attempt to increase the real wage, and a wage-price spiral would ensue. The one terminus to this wage-price spiral would lie in an increase in the interest rate, occasioned by the decline in the real money supply, occasioned in turn by the rise in nominal wages. Such a rise in the interest rate would reduce investment, and so aggregated demand, such that the real wage implied by an equality of aggregate demand with aggregate supply is lifted to equality with the legislated real wage.

Whatever the possible impact Giblin's attempt to recruit Robinson had on the *General theory*, Robinson was unavailable for Melbourne, so Keynes suggested that one of his prized pupils, Brian Reddaway, go instead.[31] Reddaway was the chosen apostle sent forth to preach the new gospel. In the words of Alex Millmow:

> Reddaway carried the galley proofs of the *General Theory* on his trip out to Australia. The voyage presented the ideal opportunity to digest the import of Keynes' forthcoming book. Two months after arrival on April 28, Reddaway presented his interpretation of Keynes' theoretical system before the Shillings club, a discussion group of economists, founded by

[30] Joan Robinson was included in the invitation.

[31] Copland wrote to Reddaway assuring him: 'You will not find Australia as interesting as Russia, but I think it has many things to interest anyone who has the blood of the pioneering spirit in them'.

> Giblin and similar to Keynes' political economy club. His presentation, oddly entitled 'Is the idea of a fair rate of interest a mere convention?' was rushed into print in the June 1936 issue of the *Economic Record*. (Millmow 2003).

On 10 March 1936 Giblin wrote to Keynes that Reddaway had been a great success. Two days later Reddaway wrote to Keynes: 'Altogether the outlook seems quite bright, especially as Giblin is such an extremely likable man' (KCLA BR 12 March 1936).[32]

At about the same time Giblin organised study leave in Cambridge for 1938. The voyage to Britain occasioned, wrote Giblin to Eilean, 'a leisurely reading in one piece of Keynes' *General theory* – with not much more definite result than the need to read it again'.

> In so many places I cannot get the convincing picture of things happening just so – there are so many alternatives and qualifications to be thought out. So much seems to require a careful statistical analysis and testing before one can feel it is safely based. K. is a bit off hand on that side – rather the amateur trusting to the impressions of a shrewd and sensitive intelligence than the professional seeker after facts – and not demanding and relying on the professional investigator as a necessary partner in the business. (NLA LFG c.1938).

On arriving, Keynes was not in Cambridge; he was still convalescing from the crippling 'heart-attack' he had suffered on 16 May 1937. Keynes' absence enabled him to lend Giblin his fully furnished rooms in King's College for the duration of Giblin's stay. Giblin noted they are:

> very magnificent, but a little overwhelming. Duncan Grant's frescoes of nudes cover [the?] side of the long [?] room … The special merit of these rooms is having its own bathroom which is certainly a luxury … (NLA LFG 9 February 1938).
>
> Our belongings got rather mixed up by the bed-maker, who had a fine commercial spirit, and for some years after I had socks and handkerchiefs marked J. M. K. (Giblin 1946, p. 2).

During the first part of 1938 Keynes was only to be in Cambridge between 10–14 March and three weeks in May, (during which time he stayed in his Cambridge Arts Theatre flat). So Giblin set out to visit Keynes at his Sussex farmhouse,

[32] KCLA L/36/48.

'Tilton', which neighboured 'Charleston', where Bunny Garnett had been living in 1918.[33]

> Curiously the only other house within a mile – only 200 yards off – I recognised as the house where I first met Keynes 20 years ago. I ran into Lydia at the door, just returned from marketing, and showed me around while Maynard was in his bath. She really is first rate – very jolly and attractive, very sensible and efficient – I was allowed an hour of Maynard who was full of beans – on all things but particularly the inner life of King's over the last 30 years. After an hour I was ejected, not without difficulty for M. was in full spate … His chauffeur, who is not in much use, spends most of his time experimenting with television, with good facilities provided.

Back in Cambridge, Giblin discovered, as others were to later, that key personalities were often inaccessible.

> Dennis Robertson is here but in hiding. Austin Robinson is a bed and breakfast man, spending his days in London; and so on. (RBA LFG 18 July 1938).

Giblin seems to have been most impressed by other visitors, such as Frank Knight - 'certainly anti-Keynes, but not pro anyone else'- one of his precepts being that 'anyone who tried to teach anyone anything was or should be an outcast of society'. Another occasion for visitors was a conference on Tinbergen's pioneering econometric analysis of the business cycle, of which Keynes was fiercely critical. The visiting Oxford economist Jacob Marschak wanted the League of Nations to publish it, but:

> … R[obertson] and C[hampernowne] were rather dubious of its validity. It reaches practical conclusions – such as that interest rates had very little effect on inventory, but the possible errors swamp any certainty in conclusions. [R and C] thought it rather dangerous to publish it. (NLA LFG 18 July 1938).

Giblin arranged for others to visit King's, including an attempt to arrange a meeting between R. G. Menzies and Keynes on the Australian deputy prime minister's 1938 visit.[34]

[33] 'I went to David Garnett's at Hilton – with a good deal of cricket – and opportunity to practise left handed bowling for the match [King's] High Table vs [King's]School next week … Garnett is nearly through the editing of T. E. Lawrence's letters, which looks like being very good reading' (NLA LFG 18 July 1938).

[34] There is no evidence that any meeting of Keynes and Menzies came to pass. In March 1941, on a later visit, Menzies did have a 'long talk' with Keynes. Menzies records in his diary that Keynes 'admires' Copland and Giblin (Menzies 1993, p. 88). Keynes told Copland of his own favourable

Keynes did not neglect Giblin. They saw each other during Keynes' brief visit to Cambridge in May of 1938. Keynes made him a supernumerary Fellow. Giblin's King's College obituarist (almost certainly Patrick Wilkinson) records that at this time Giblin 'took the keenest interest in the business of the College, and had many fruitful talks with Keynes'. 'Occasionally', says this obituarist, 'he was proud to think that he had converted Keynes on some points to his own view' (Anon. 1951). But the impression one gets is that their real tie was King's, rather than some shared realm of economic thought.

After Giblin's return to Australia, he and Keynes continued to correspond in the 1940s. Perhaps half of this correspondence is concerned with war finance. In the remainder they share King's College news, swap views on the wisdom of Bunny Garnett's choice of wife, and discuss Giblin's project to establish a National Theatre in Australia.

On Keynes' death, Giblin recorded: 'Keynes had, of all the men I have known, a personality and mind the most fully armed for all adventures' (Giblin 1946). Paradoxically it was Giblin, the hero of the Klondike, who seemed unwilling to join Keynes in his mental adventures. Giblin wished to be the 'professional investigator' – devoted to 'a careful statistical analysis and testing'.[35] The contrast between the *Enquiry* and the *General theory* illustrates the gulf: one a mass of measurement, the other almost free of fact. Keynes cast out into the open sea to pursue his intellectual argosies. Giblin, wishing to keep palpable truth firmly in view, hugged close to the coastline of fact, carefully mapping its shoals and harbours.

impression of Menzies. 'I had quite a good talk with him and quickly realised how much he depends on you and other economists' (KCLA April 1941, L/A/3).

[35] In sympathy with this aspiration, Giblin was a member of the Econometric Society, the only Australian academic at that time to be so.

Appendix: A formalisation of Giblin's *Australia , 1930* multiplier analysis

This Appendix advances a model that captures the key features of Giblin's analysis in *Australia, 1930*. In particular it captures the hybrid character of the analysis: containing both a 'Keynesian' emphasis on the benefits of demand, and a 'Classical' emphasis on the benefits of wage cuts.

The modelling assumes the existence two factors of production- labour and land – and three goods: food, manufactures and services. Food uses only land in its production and services uses only labour. All manufactures are imported, all food is exported, and services are neither imported nor exported. The money price of manufactures is normalised at 1. The money price of food in Australian currency is P, and determined by the exogenous exchange rate and world price of food in sterling. The money wage is a given, V. The production of food, F, is given by the fixed supply of land.

National income is the sum of the value of services and food.

$$Y = Z + FP$$

As there is zero saving, national income in Australian pounds, Y, is entirely spent. As all spending is on services, Z, or manufactures M, we may write,

$$Y = Z + M$$

The two equalities imply

$$M = FP$$

But outlays on manufactures (equal imports) are proportional to income,

$$M = m\,Y$$

Thus,

$$Y = \frac{FP}{m}$$

This last equality captures the leading 'Keynesian' thesis of *Australia 1930*: national income is a multiple of the value of production of the exportable, FP.[36] A decline in FP will produce a decline in national income several times as large. A decline could arise from (i) a fall in the volume of food production, F, (ii) a fall in P due to fall in the pound sterling price of food, and (iii) a fall in P due to the appreciation of the Australian pound. Thus this equality captures the vulnerability of Australian income to world terms of trade, as well as to the nominal exchange rate.

[36] So FP is the analog of I in the elementary Keynesian model of national income. And m is the analog of s.

But certain 'Classical' features of the analysis are also apparent. As all employment is located in the services sector, which uses no other factor than labour we may write:

$$L\,V = Z$$

And since Z = (1-m) Y we may infer,

$$L = \frac{1-m}{m}\frac{F}{V/P}$$

This amounts to a negative relation between employment, L, and the real wage in terms of food, V/P, as hypothesised by 'Classical' economics. Thus the impact of a fall in P may be read in terms of it increasing the real food wage, V/P and thereby reducing employment. The restoration of employment will require a reduction in real wages, that will be secured by a reduction in the nominal wage, V

It may be objected that V/P is not a measure of 'the real wage' when, by our present assumptions, no food is consumed. But the consumption of food can be allowed for without attenuating the negative relation between employment and the real wage. Suppose that c of national income is spent on food. Then

$$Y = Z + M + cY$$

Given Y = Z + FP we may infer,

$$Y = \frac{FP}{c+m}$$

and so,

$$L = \frac{1-m}{c+m}\frac{F}{V/P}$$

The negative relation between employment and the real wage remains.

Two further points about this last expression:

(i) The size of the multiplier contracts as c rises.[37] Thus c operates like the propensity to save in the ordinary Keynesian model, even if the mechanism is

[37] In 'Repercussions of changes in income' Giblin states that the fraction of new spending that will become new income in the home country depends on:

1. the proportion spent on imports
2. the proportion spent on exportable goods, when this amount does not increase incomes in the country
3. the extent to which new income cancels old income
4. the extent to which new spending is spent on stocks.

Giblin estimated that imports would amount to £53 in every £240, and consumption of exportables £22.

different. c does not represent an increase in 'leakages' as income rises; it represents a decrease in 'injections' as income rises. For c is the amount by which exports are reduced by an extra unit of income. This implies that if c + m = 1 then all of an increase in income goes to either reduce exports or increase imports, and there is no multiplier at all, as Giblin appears to have completely appreciated.[38] The upshot is that the existence of a multiplier requires that at least part of an extra pound of income be spent on the one thing that is neither importable nor exportable: services.

(ii) If m = 0 – the closed economy - then the model reduces to the de Lissa model: national income equals 'production' divided by the propensity to spend on production.

[38] In 'Correlative increases in production', he wrote: 'When exportable goods are consumed, in general, exports are decreased by the same amount, and there is no additional money for Australian incomes'.