

OSWALD TOYNBEE FALK: KEYNES' MODEL ECONOMIST?

BY
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Oswald 'Foxy' Falk was the enigmatic figure who understood, probably more than any other person, how the mind of Maynard Keynes operated. Regrettably, Falk never wrote a memoir on Keynes or even expanded upon his long professional association with him. Equally, there has been relatively little written of Falk in the economics literature. This article attempts, at least, to address that gap. The character and philosophy of Falk are examined through the prism of a lengthy correspondence he had with another businessman who knew Keynes, William Sydney Robinson. Their letters reveal why Keynes fell out with his former business partner but also, more importantly, how, in talking about the great and the good, lesser mortals are inclined to tell the occasional mistruth.

I. INTRODUCTION

Oswald Falk is regarded by Robert Skidelsky as the man who understood, more than any of his contemporaries, John Maynard Keynes' mind. He argues that it was Falk who gave Keynes "his superb understanding of the unruly financial mechanism of capitalism," which distinguished his work from that of his contemporaries (Skidelsky 1992, p. 25). The London stockbroker Nicholas Davenport recalled that Falk spent a lot of time with Keynes, speculating in currency and commodity deals. According to the economist Tommy Balogh, who worked for Falk, it was his mentor who gave Keynes the insights to develop his theory of liquidity preference by understanding the gilt-edged securities market. Skidelsky (2000, p. 495) regrets that Falk, "the most perceptive contemporary Keynes-watcher," did not write a memoir of Keynes when

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perhaps he could have. It was Falk who discerned that his friend had many masks to his personality (Skidelsky 1992, p. 23).

This article inspects some aspects of Falk's economic thought, expressed and gathered through the prism of a correspondence with one of his closest friends, the Australian mining magnate William Sydney (W.S.) Robinson, and explores the correspondence between the two when they were both in their late seventies but not in their dotage. The paper focuses in particular on Falk's recollections of Keynes and on his views on why Keynesian economic policy in Britain would be tested under fixed exchange rates. As will become apparent, Falk's economic and political views, conveyed to Robinson, grew apart from Keynes'. From his youth, Falk had been marked by a peculiar sense of pessimism about Britain, and he became more stridently conservative and politically intemperate as he grew older, which is likely to have led to the complete break with Keynes after 1942.

II. FALK AND ROBINSON

Oswald Toynbee Falk and W.S. Robinson are both honored by each having an entry in their respective country's national dictionary of biography (Slinn 2004, Richardson 1988). Both were businessmen and financiers who came into each other's company in London in the 1930s. Falk was a respected figure in the City of London, while Robinson was, after a stint as a financial editor with *The Age* newspaper in Melbourne, a key figure in Australian mining, especially associated with the Collins House Group of companies. Robinson was one of the Australian Labor party's *grise eminence* after having undertaken wartime dealings on behalf of John Curtin, Ben Chifley, and Bert Evatt. Before then, Robinson had acted as a London intermediary for the Scullin government in 1930. Using his London connections, Robinson spent some time in London, especially during the Second World War, ensuring that Britain had access to ample supplies of minerals—namely, zinc and other metals—for its war effort. Crossing into this other world, Robinson had some direct dealings and correspondence with Keynes. For six months, Keynes had provided political and economic briefings for Robinson's Melbourne-based Collins House Group of mining concerns before he gave up, believing that the service he was rendering to the Australian company was not worth much.¹ In one celebrated incident, Robinson, with his business associate Clive Baillieu, along with the Australian press baron Keith Murdoch, hatched an extraordinary plan to bring him out to Australia for a lecture tour while writing exclusively for the latter's newspapers—for the princely fee of £2500. Falk relayed the proposal to Keynes.² According to Lord Horne, Chancellor of the Exchequer in the Lloyd George government, Robinson was regarded as “one of the really great men of the British Empire.”³ The British were indebted to Robinson for several reasons. According to Brendan Bracken, who was a close adviser to Britain's wartime prime minister, Winston Churchill, Robinson, through his wide contacts in Germany and knowledge of the aircraft industry, channeled information to Churchill about the rise of Nazi air

¹“JMK and Self,” Box 5, W.S. Robinson Papers, University of Melbourne Archives (UMA).

²O. Falk to J.M. Keynes, 17/3/1932, Keynes Papers, King's College.

³B. Bracken to C. Gilroy, 29/6/1948, Brendan Bracken file, Robinson Papers, UMA.

power during the 1930s. During the Second World War, Robinson helped Britain access metals below world price levels with the only proviso being that he wanted neither publicity nor honors.⁴

Falk did not leave a memoir. What is extant, however, is some correspondence with Keynes, Margot Asquith, and Robert Boothby, and a trove of letters to Robinson, upon which this article will draw. As Robinson (1967, p. 217) notes, Falk did not publish his views, so the cast of his thought was known only to a select circle. There is, however, a fair sampling of his thought in lively correspondence with Robinson. It ceased only after Robinson, a sprightly eighty-seven-year-old, died in September 1963. Falk motored on till November 1972, reaching the age of ninety-three. *The Times* marked his passing with an obituary penned by Nicholas Davenport, who knew Falk well.

Robinson's life, in contrast, is reasonably well documented, and by 1963 he had almost completed his memoirs. One revelation from his correspondence is how, on a private visit to the White House during the Great Depression, he "rather facetiously remarked that a ten dollar bill on everyone's plate at breakfast time marked 'good for spending on the day of receipt only' might revitalise the economy."⁵ The proposal was taken seriously. Falk appreciated the reference to Silvio Gesell, the underworld economist Keynes mentioned in *The General Theory*. One of the last letters Falk wrote to his old friend complained about the trials of growing old: "How difficult it becomes in old age to cope with as one attempts to finish and never can."⁶ It proved prophetic since Robinson died a few months afterwards with his memoirs unfinished. The memoirs were completed by the Australian historian Geoffrey Blainey, and published in 1967, entitled *If I Remember Rightly*.

An inveterate letter writer, Robinson had many other correspondents, such as, for example, the Australian economist Douglas Copland and Brendan Bracken. An outspoken advocate for growth and development himself, Copland would regard Robinson as his mentor, and described him as "the Bernard Baruch of Australia."⁷ When Robinson's memoirs were published in 1967, Copland recalled how intellectually he "had profited enormously from my association with him."⁸ Robinson's correspondence with Falk, however, was the more enjoyable in that these two minds developed a tremendous rapport and warmth partly because of their age and background. As the correspondence reveals, after a decade of contact and after meeting Robinson in London, Falk was moved to tell him: "Knowing your mind as I do, I know more or less what you are bound to think about any new development in the piece." He went on: "I had the same experience with Keynes. We knew each other so well that talk and letters were almost superfluous. And Keynes often commented on something I was going to say before I said it. Nevertheless our association was, I believe, very fruitful for both of us. Certainly it was for me."⁹ The association with Robinson would prove

⁴*Ibid.*

⁵W.S. Robinson to O.T. Falk, 21/4/1958, O.T. Falk file, Robinson Papers, UMA.

⁶O.T. Falk to W.S. Robinson, 20/5/1963, Robinson Papers, UMA.

⁷D.B. Copland to W.S. Robinson, 18/4/1963, Copland Papers, National Library of Australia (NLA).

⁸D.B. Copland to M. Mawby, 22/11/1967, Copland Papers, NLA.

⁹O.T. Falk to W.S. Robinson, 9/9/1960, Robinson Papers, UMA.

equally nourishing. Falk must have felt so because he wrote to Robinson, thanking him for one of the “best days of my life. I really mean this.”¹⁰

Oswald Toynbee ‘Foxy’ Falk was born in 1879 to a well-established family in Liverpool. He attended Rugby School, then Balliol College, Oxford, where his uncle, the social philosopher and historian Arnold Toynbee, once taught. Trained as an actuary, he told Robinson how, in his schooldays, he solved Cambridge Tripos mathematical problems in his sleep and wrote out the solutions in the morning.¹¹ In 1914 he left the actuary profession, where he had been employed by National Mutual Life Assurance Society, and was admitted as a member of the London stock exchange. It is not known whether Falk did any formal studies in economics, but in 1917 he was invited to work at the Treasury, where he proved himself “a gifted practical economist” (Slinn, 2004).

At the invitation of Keynes, Falk (1918) submitted an article to the *Economic Journal*, anticipating that Britain could not make a smooth transition to peacetime conditions. So it was to prove, with Britain coming off the gold standard and sterling floating in March 1919 due to the post-war boom and the lifting of wartime currency controls. The Committee on Currency and Foreign Exchanges, with the Governor of the Bank of England, Lord Cunliffe, in the chair established in January 1918, had proclaimed that post-war financial policy should be all about a return to the gold standard at the pre-war parity (Moggridge 1992, p. 414). The Lloyd George government accepted this finding. The fact that sterling was floating and trading below the pre-war rate of \$4.86, and backed by regulations on the export of gold, gave the government breathing space until 1925, when the rate would become operational.

Falk was one of the first analysts to see that Britain could not so readily return to the gold standard after the war. He drew Robinson’s attention to the fact that Keynes wrote a memorandum for the Chancellor of the Exchequer, Austin Chamberlain, advocating a return to the old dollar parity for sterling after the armistice.¹² This is not true, and there is no evidence of such a memorandum being written. It was a case of Falk’s wrongly recollecting the past or perhaps embroidering it. Keynes was, by then, not enamoured of the gold standard, as were some of his peers. He did, however, welcome moving towards the old parity if it would quell the post-war boom that was getting out of hand. To that end, Keynes wrote a memorandum to Sir John Bradbury of the Treasury, proposing a tax on the export of gold. This measure would allow sterling to be pegged at 10 to 15% below the pre-war rate, yet offer the means by which to edge sterling back towards the gold standard. The proposal went nowhere (JMK, XVII, pp. 168–171; Moggridge 1992, pp. 414–415).

Another inaccuracy or misrepresentation on Falk’s part is contained in the same letter to Robinson where he reported that he never “agreed with Keynes’s idea of fixed exchange rates and the adjustment of parities by big jumps when they became inevitable.” Keynes, of course, was not in favor of fixed exchange rates *in toto*, and

¹⁰*Ibid.*

¹¹O.T. Falk to W.S. Robinson, 12/1956, Robinson Papers, UMA.

¹²O.T. Falk to W.S. Robinson, 15/8/1957, Robinson Papers, UMA. This memorandum or advice is not in *The Collected Writings of John Maynard Keynes*. One might conjecture that Falk would have been equally disapproving of Keynes’ private advice to Austin Chamberlain to kill an outbreak of inflation in 1920 with a short, sharp, shock of dear money.

his 1923 *A Tract on Monetary Reform* squarely outlined his opposition to fixed exchange rates and the merits of a ‘managed’ currency. On exchange rates, Falk was generally of the view that

[t]he only solution is to recognize the inescapable fact that exchange rates for many have to be adjusted to changing rates of equilibrium in economic affairs. . . . And I believe that the continuous adjustment of floating exchange rates are better than large adjustment by jumps following crises in the foreign exchanges. Moreover, in my opinion, it is a fundamental mistake to attempt to achieve stable rates and money prices by adjusting economic needs to that stability. Money should be the servant not our master.¹³

Keynes would have had no disagreement with this.

Another example of Falk’s faltering memory concerns the 1919 Paris peace conference, which both he and Keynes attended as part of the Treasury delegation. While Keynes famously resigned in protest and went off to write his polemic against the harsh peace terms foisted on Germany, Falk, equally pessimistic about a lasting peace’s being achieved, was awarded an imperial honor. Falk later told Davenport (1974, p. 45) that Keynes had written *The Economic Consequences of the Peace* in “the white heat of fury” because he had heard that Lloyd George was going to sack him. Falk is guilty here of gross exaggeration.

In his recollections on Montagu Norman, governor of the Bank of England, which he wrote out and gave to Robinson, Falk noted that he was against moving to restoring the gold standard. In an article for a literary journal, Falk speculated that Britain would have no alternative but to suspend the free flow of specie payments. In April 1922, Falk gave an address at the Royal Society of Arts on the problem of currency stabilization. He concluded his paper by noting:

The pre-war financial policy will not work under post-war conditions . . . and the Treasury and Bank of England are better fitted for the work of operating an old policy than for the very different task of devising a new one. Our problems should be submitted to a fresh committee on currency before we attempt a return to the gold standard. If this is not to be, then may Heaven deliver us from the Norman Conquest of \$4.86.¹⁴

In this, Falk partly got his wish, as the Chamberlain Committee, established in 1924 and comprised of mostly those who had sat on the earlier Cunliffe Committee, was given the task of examining the economic and financial problems of returning to gold (Moggridge 1992, p. 418).

When Montagu Norman decided in April 1925 that it was best if the gold standard was restored, Falk, “who was always sharp in his personal relations,” cut off all contact with him (Davenport 1974, p. 45). In Falk’s eyes, Norman had committed the cardinal sin of trying to fix the currency value when the state of the domestic economy required its flexibility. It violated a principle that Falk had adopted since his undergraduate days: the teachings of the Greek philosopher Heraclitus that “All is

¹³O.T. Falk to W.S. Robinson, 20/10/1950, Robinson Papers, UMA.

¹⁴O.T. Falk Memorandum, “To point a moral or adorn a tale,” 1/10/1960, Robinson Papers, UMA.

flux, nothing is stationary.” Falk and Robinson agreed with that maxim. Falk had come across it in his student days and it had become his “guiding principle ever since.” Falk told Robinson, “The trouble with Montagu Norman and so many others in charge of our affairs . . . has been not stupidity . . . but unwillingness to accept the disturbance of their peace which the Heracleitus truth involves.”¹⁵ The conflict between trying to ensure internal and external stability under a fixed exchange rate regime would become a perennial topic of conversation between the two. Robinson once confessed to Copland that “I am one of those poor benighted beings who sees no merit whatsoever in controlled exchanges without controlled prices and if this cannot be achieved I would welcome complete freedom of exchanges.”¹⁶ Both Robinson and Falk, and, of course, their common friend Keynes, believed, therefore, that the pursuit of some automatic control mechanism, liked fixed parities to govern the economy, was a will-o’-the-wisp.

It was inevitable that Keynes and Falk were drawn to each other, but it was in money making in the markets that the relationship reached its highs and lows. Tall and broad-shouldered, Falk had “a brilliant mind and an explosive personality,” and was “quick, rude and decisive” (Davenport 1974, p. 44). Both men loved the art of conversation and eschewed the telephone because it was, to their minds, detrimental to conversation (Davenport 1974). An art collector and *bon vivant*, Falk introduced Keynes to the world of ballet, claiming (more accurately—exaggerating) that he booked the seats at the Coliseum, which led to his friend’s first casting eyes upon Lydia Lopokova (Davenport 1974, p. 46). Earlier, Falk had Keynes join the Tuesday Club, which he had founded in 1917 (Skidelsky 1992, p. 22). It was a private gathering of influential economists, businessmen, and politicians who met at the Café Royal in London to discuss economic and financial matters (Moggridge 1992, p. 278). Falk noticed how Keynes quickly dominated the proceedings at the Tuesday Club and liked to shock the gathered with new ideas. In a memoir of the club, Falk noted how Keynes “loved the footlights and was impatient if he was off stage for a minute, almost more impatient if he was not the central figure on it” (Skidelsky 1992, p. 23).

After leaving the Treasury, Falk joined a stockbroking firm called Buckmaster and Moore. He was mindful that the new economic order had changed radically from the Edwardian era. Having already credited him as “a natural economist” (Harrod 1951, p. 220), Keynes joined with Falk to form a syndicate to speculate in currency movements. Keynes lost his fortune in 1920 with money borrowed from both his father and Falk. His father reproached him: “I do hope, Maynard, this will be a lesson and you will be more cautious in the future” (Davenport 1974, p. 49). Maynard, however, could not resist, and was a continual speculator for himself and, of course, for King’s College, where he became Second Bursar from November 1920. Davenport (1974, p. 50) perceived a two-way gain here: “Speculation improved his economics and economics improved his speculation.” Harrod (1951, p. 300) said it was a case of economists putting their money where their gumption was about the gyrations in the trade cycle.

¹⁵O.T. Falk to W.S. Robinson, 19/2/1961, Robinson Papers, UMA.

¹⁶W.S. Robinson to D.B. Copland, 21/4/1963, Copland Papers, NLA.

Impulsive and dogmatic in his financial dealings with clients, Falk “would not look after any private client unless he was given *carte blanche* to do what he liked. The poor victim either made a killing in the market or was wiped out completely” (Davenport 1974, p. 44). It was Falk who concocted a new strategy known as “active investment,” which was not for the faint-hearted. Sinn (2004) recounts how he told “investors to give advisers the wildest possible discretion and not tie their hands by rules of investment which may have worked tolerably well in the comparative calm of the Victorian age but which are utterly useless in the typhoons of this generation.”

Using his influence, Falk got Keynes a seat on the board of National Mutual Life Assurance in September 1919. Before long, the two had convinced the company to take up some equity placement instead of just holding railway shares. Keynes subsequently became chairman of the board in 1921, and held it for seventeen years.

It was Falk who, in a letter to *The Times* in March 1930, basically wrote off British manufacturing, telling investors to buy shares in American companies. In a related note for clients, Falk wrote, “I believe that the industrial prosperity of England is much more than temporarily depressed, and that we are some way down the road of a long decline, at the end of which we still find our relative industrial position entirely different from what it was in the 19th century.”¹⁷ He urged investors to buy American and Canadian shares. The advice inflamed opinion within the city and city editors mentioned Falk by name, thereby breaking a long-standing convention between them and stockbroking firms. Keynes took opportunity of the controversy raised by Falk’s remark that selling domestic securities and reinvesting the proceeds abroad were in the national interest. He wrote to *The Times*, making the point that Falk’s actions were better at least than those who furtively were doing the same, “and without believing that it is in the national interest” (JMK, XX, p. 331). While he did not share his friend’s views on the vitality of British industry, Keynes praised Falk’s “frankness” and “sincere speech” in the memorandum because it called into question whether *laissez faire* in investment was, in any case, always in the national interest (JMK, XX, p. 332). Falk intimated to Robinson that he had been a “pessimist about the British outlook since 1902” simply because “Our dynamism is fading us.”¹⁸ Keynes and Falk remained in partnership until 1929 when their entity, Independent Investment Trust, lost all its capital in the great crash. Keynes and Falk had to hand over the concern to a city firm of merchant bankers. That, along with perhaps Falk’s dismissive view of British industrial stock, led to “a flaming row” between the two (Davenport 1974, p. 50). While they remained friends, they never went into direct business management again, preferring to be on the board of the Independent Investment Company and, of course, on the board of National Mutual (JMK, XII, pp. 31–35).

When Keynes retired from the National Mutual board in 1938, Falk was one of the mooted successors but was considered too headstrong, and his long-held views against investing in British industry did not help. He did, however, remain the economic consultant to National Mutual even in his retirement, giving the company forty years of service. In 1932 Falk formed the finance house O.T. Falk and Partners. The company became a pioneering investor in Frank Whittle’s invention of the jet

¹⁷*Time Magazine*, 31/3/1930.

¹⁸O.T. Falk to W.S. Robinson, 8/3/1956, Robinson Papers, UMA.

engine. During the war, Stafford Cripps, the minister for aircraft production, compulsorily acquired the shares for a song, which left Falk fulminating against socialism (Davenport 1974, p.140).

III. MY DEAR W.S.—MY DEAR O.T.F.

In the hundreds of letters that flowed between Falk and Robinson over twelve years, enough can be gleaned to fill out Falk's economic philosophy, recollections of Keynes, and where the Keynesian economic revolution, at least in policy terms, had gone astray. The correspondence also rambled over the state of the British, American, and Australian economies, literature, international relations, political philosophy, and, most of all, changing ideas. Falk explained the last aspect: "To some people the inevitability of ideas seems boring. It isn't because the events which give rise to the ideas are a constant source of surprise—we have to improvise every day."¹⁹ Moreover, Falk was adamant that in promoting "progress there cannot be any substitute for ideas and the application of them by human action."²⁰ Robinson wrote a little more often than his English counterpart. However, Falk's writing is studded with gems of prose or provides fascinating pen portraits and anecdotes of key figures in interwar British history. Elsewhere, Robinson would underline passages of Falk's letters, and have them typed and circulated to associates. Robinson had asked for some "Boswellian type" notes of key characters to adorn his memoirs.²¹ More specifically, he asked Falk for "any notes you care to supply on Maynard's life, overlooked by Harrod's dull book."²² Sometimes the correspondence flagged but then began anew, and Falk volunteered that "putting an ocean of thought into a bucket" was difficult.²³ There was a lapse, too, in the late 1950s of some eighteen months when Robinson's health had "crumbled a bit," but the correspondence resumed in 1959.²⁴ Falk thoughtfully stopped writing to Robinson when informed of his poor health as he did not want his friend to come under any further strain.

The content of Robinson's letters was replete with news about Australian politics and the state of the economy, along with Robinson's travels around Australia, looking at new mineral developments. Like Falk, Robinson was intrigued by the struggle between economic stability and development on the one hand and, on the other, between freedom and control. Living an active, peripatetic life, Robinson spent a part of the year resting in Surfers Paradise, Queensland, Portsea or Arundel Farm in Keilor, both locations just outside Melbourne. In contrast, Falk's letters always hailed from Oxford, first from a flat on the High Street and then Boar's Hill, where he lived with his lover. In this correspondence, Falk would never divulge anything about his social life; how, for instance, at one stage he was involved in a marriage *à trois* with Violet Asquith and Maurice Bonham Carter (Davenport 1974, p. 45–46). Another

¹⁹O.T. Falk to W.S. Robinson, 9/9/1960, Robinson Papers, UMA.

²⁰O.T. Falk to W.S. Robinson, 17/2/1958, Robinson Papers, UMA.

²¹O.T. Falk to W.S. Robinson, 9/9/1960, Robinson Papers, UMA.

²²W.S. Robinson to O.T. Falk, 20/9/1957, Robinson Papers, UMA.

²³O.T. Falk to W.S. Robinson, 9/1/1957, Robinson Papers, UMA.

²⁴O.T. Falk to W.S. Robinson, 22/1/1959, Robinson Papers, UMA.

sensation was that Falk had apparently been the devoted lover of the Russian ballerina Anna Pavlova. In the 1950s, Robinson would visit London annually. It provided happy memories, he having first arrived there in 1908 where, with his brother Lionel, it marked the origins of the large Anglo-Australian business that became known as the Collins House Group. Now, meeting Falk for a reunion over lunch was another happy occasion.

Apart from the odd references to the history of economic thought, the issue that kept cropping up in their correspondence was macroeconomic management; specifically, how to keep macroeconomic balance under fixed exchange rates. Both Falk and Robinson were Keynesians but were convinced that exchange rates had to be unhinged, otherwise excessive domestic demand would create endless balance-of-payments difficulties. There was also the danger, too, of consumption-led over-expansion. To Falk's eye, Keynes had "underestimated" excessive internal consumption as a risk to macroeconomic balance.²⁵ Here, Robinson reminded Falk of the salutary lesson of John Law. One of the lessons Law taught was that the "freedom of exchange was the only effective safeguard to excessive creation of credit. When he abandoned this safeguard, his empire and his reputation crashed almost instantly. John Law is despised by reminder of his failure and as a consequence, the lesson taught by his failure is almost universally neglected."²⁶ Robinson passed on to Copland what he had already told Robinson: "We should never forget that Thomas Gresham's famous law is not limited to currency—it applies equally but is far from being limited to economic beliefs."²⁷

IV. DREAMS AND DISSENT ABOUT MAYNARD

For his memoirs and own edification, Falk provided Robinson with notes about his recollections with Keynes. Apart from the fact that most of them were not used by Robinson, they are inherently interesting because here was a man who, as mentioned earlier, had known Keynes better than most since 1917. In 1956 Falk told Robinson: "I had an odd dream last night. Maynard came back to Earth to inspect the scene and in a talk with me cursed everything that is being done, particularly in the field of monetary policy. I suppose my dream revealed my idea of what his views would be."²⁸ The dream might have been sparked after Falk had listened to two talks by Kahn on the BBC radio in May 1956, which took the view that Keynes felt the general public, especially trade unionists, were responsible beings.²⁹ This sounded a false note to Falk, who suggested, contrary-wise, that "Maynard held that the public would learn its lessons after not before making a mistake." Falk believed Kahn was "asking for the moon" if he felt wage earners would make a responsible choice between consumption and investment in their wage campaigns. Instead, under "adult

²⁵O.T. Falk to W.S. Robinson, 20/5/1954, Robinson Papers, UMA.

²⁶W.S. Robinson to O.T. Falk, 4/11/1955, Robinson Papers, UMA.

²⁷W.S. Robinson to D.B. Copland, 21/4/1963, Copland Papers, NLA.

²⁸O.T. Falk to W.S. Robinson, 4/6/1956, Robinson Papers, UMA.

²⁹These talks, entitled "Lord Keynes and Contemporary Economic Problems," are reproduced in Kahn (1971).

suffrage we have revolved in some respects to the conditions of a primitive society, and we know what primitive societies did with their seed corn.”³⁰ Falk divined the intent of the post-war order for his Australian friend: “One of the interesting monetary developments of our time, dear W.S., is that you and I have lived under the gold standard and the gold exchange standard and now find ourselves living under what one might call the union or labour standard. The currency of this country is, of course, largely or perhaps unwittingly shaped by the unions.”³¹ In other words, the behavior of money wages growth would play a large part in determining the viability of a country’s exchange rate.

It had been very different in February 1936, when Falk wrote to Keynes, congratulating him on the publication of *The General Theory*. Falk acutely and perceptively dissected how his old friend had come to visualize the work:

I wonder . . . whether analysis is your fundamental process, whether it doesn’t follow, with a somewhat grudging struggle at rational justification, rather than precede synthetic ideas, which are your true delight, and with which from time to time you startle and shock the majority. Didn’t Newton once say that his ideas reached him by some mysterious route which he could not explain? And isn’t there something in the view that a new idea . . . may . . . be the product of the . . . moral feeling of an age, floating around us, and ready for apprehension by the most *sensitive* minds by other than reasoning processes. And isn’t it the artist rather than the scientist who apprehends these ideas? (Cited in Skidelsky 1992, p. xxii).

Keynes warmly responded:

I have read your letter about my book; and I would like to say how much pleasure it has given me. The extent to which one sees one’s destination before one discovers the route is the most obscure problem of all in the psychology of original work. In a sense it is certainly the destination which one sees first. But then a good many of the destinations so seen turn out to be mirages. Only a small proportion of one’s initial intuitions survive the struggle of trying to find a route to them.³²

Falk had no doubts either about what Keynes’ political persuasion, and wrote to Robinson: “Incidentally, in accessing Maynard’s contribution to economic theory I think it is essential to remember that he was a liberal, or that his plans were designed not merely for a liberal economy but a liberal economy which worked as he wanted it to work. In spite of his advanced thinking he was in some respects rather old fashioned.”³³

Falk, in reminiscing about Keynes’ way of thinking as well as his politics, recalled how he and Keynes would dabble in considering the consequences of assuming to be true the exact opposite of the usually accepted truth. “Scepticism,” he told Robinson, “is a fruitful source of new ideas.” He also referred to Keynes’ “elasticity of mind,” reflected, of course, in his changing his mind on great matters with great rapidity and

³⁰O.T. Falk to W.S. Robinson, 4/6/1956, Robinson Papers, UMA.

³¹O.T. Falk to W.S. Robinson, 9/9/1960, Robinson Papers, UMA.

³²O.T. Falk to W.S. Robinson, 19/2/1936, in “To point a moral or adorn a tale,” 1/10/1960, Robinson Papers, UMA.

³³O.T. Falk to W.S. Robinson, 28/12/1951, Robinson Papers, UMA.

without much notice. In another anecdote, Falk recalled the time Irving Fisher, after a discussion with Keynes, took Falk aside and asked, “Was Mr. Keynes a hundred per cent serious?” Falk reminded Robinson that to understand Keynes, “It was necessary to understand the value he attached to fantasy.”³⁴ In another reflection, brought about by Roy Harrod’s response to Clive Bell’s comments on his book, Falk told Robinson,

Maynard was not an easy character to understand. I saw much of him but never really knew him. I suspect that Clive Bell whom I saw often experienced a very different side of Keynes from anything he shared to Harrod. I wonder whether anyone knew what Maynard was like when quite alone and with himself. Of course, most people are frightened of the possible results of meeting themselves.³⁵

Falk assured Robinson that he had strong Keynesian sympathies. He told Robinson, for instance, how, in 1904, he had used in a memorandum the idea that idle savings and unemployed men were “potential positives.”³⁶ In another letter, he wrote, “Like Maynard, I have always feared that in spite of this rapid change the private economy would allow slack to develop in the total volume of activity at times unless supplemented by adequate social expenditures.”³⁷ He invoked J.K. Galbraith’s idea contained in the then-recently released *The Affluent Society* for an increase of social expenditure on a multitude of things. Neither was Falk intimidated by debt: “I am convinced that a continuous creation of debt both public and private is an essential condition of progress and prosperity . . . but the debt creation should be mainly for capital construction.”³⁸ He also realized that default and sovereign risk were a price worth paying, and that debt cancellation “need not be catastrophic.”³⁹ In their earlier years as friends, Falk had eased Keynes’ mind about the risk of default and sovereign debt. It is in that context one can make light of Robinson’s comment: “I am reading Harrods’s life of Maynard—parts of pg. 566 *et seq* are really interesting and provide much evidence of your deep influence on his mind.”⁴⁰

Like Robinson, Falk was for “expansion and growth . . . even at the risk of some foreign exchange difficulties and crisis.”⁴¹ Falk showed a fine eye for sustaining aggregate demand in the sense that capital accumulation not be geared to current consumption but many steps ahead of it. He drew Robinson’s attention to the “dangerous return to the 19th century view that increased savings and a low rate of interest will automatically increase capital investment.” Falk said that these factors would, in fact, decrease investment in the private sector but might facilitate more government capital spending.⁴²

Falk thought that capitalism could have full employment, provided there was continuous innovation to ensure flexibility, and that this would all take place against rising prices. But in the post-war era, Keynesian economic policy had become

³⁴“To point a moral or adorn a tale,” *ibid.*, Robinson Papers, UMA.

³⁵O.T. Falk to W.S. Robinson, 11/2/1958, Robinson Papers, UMA.

³⁶O.T. Falk to W.S. Robinson, 22/1/1959, Robinson Papers, UMA.

³⁷O.T. Falk to W.S. Robinson, 22/1/1959, Robinson Papers, UMA.

³⁸O.T. Falk to W.S. Robinson, 18/9/1957, Robinson Papers, UMA.

³⁹O.T. Falk to W.S. Robinson, 10/8/1957, Robinson Papers, UMA.

⁴⁰W.S. Robinson to O.T. Falk, 13/2/1961, Robinson Papers, UMA.

⁴¹O.T. Falk to W.S. Robinson, 8/2/1961, Robinson Papers, UMA.

⁴²O.T. Falk to W.S. Robinson, 17/2/1958, Robinson Papers, UMA.

diverted from its true mission. In his last letter to Falk, Keynes seemed to suggest that there might be difficulties ahead in designing the ideal and sustainable macroeconomic policy. He told Falk:

The basic trouble is, I suspect, that I am getting too elderly to have any fresh ideas well in advance of the times. I have run as fast as I could and am now out of breath. If practical forces catch one up, what can one do about it? Certainly no help to transfer into monkish ruminations. That, whether right or wrong, good or bad, is not playing the same game a different way. It is a different game altogether.⁴³

It is not known why the correspondence ceased but there is, perhaps, a hint in the letter Falk wrote to Keynes, congratulating him on his appointment to the House of Lords: "I won't say farewell, but I can't think of you within the walls of the B of E. and the H. of L." (cited in Skidelsky 2000, p. 265). One was not to infer here that Falk resented Keynes' becoming part of the establishment. Falk, if anything, was far more conservative than Keynes.

An elitist Tory, Falk derided the 1942 Beveridge Report on creating what would become the welfare state as "the road to the moral ruin of the nation . . . it is the way tending to weaken still further the sprit of initiative and adventure, the stimulus of competition, courage and self reliance."⁴⁴ Underpinning this whole critique was Falk's great doubt "about the ultimate result of the liberal experiment" of democracy. Robinson agreed, saying that democracy "had been handed out to people not yet sufficiently developed mentally to understand either its dangers or their responsibilities."⁴⁵ But Falk went further: "Democracy of this type, socialism, and social security are based on a fundamental mistake regarding the moral and psychological development of the mass of mankind."⁴⁶ Falk felt that commitment to full employment, either by priming aggregate demand or excessive credit creation, would compromise economic management. It was not a matter of indifference how the slack in aggregate demand was taken up by more consumption or by more investment. He much preferred the latter. However, "under democracy" there would be simply monetary expansion to maintain full employment. Falk maintained "that Maynard was wrong and that his policy would end in disaster."⁴⁷ The breakdown would come not from the decline in investment but from a balance-of-payments crisis and pressure on the pound. There was another related aspect to maintaining full employment by beefing up expenditure. As he put it,

I don't believe the Socialists, or Maynard for that matter, have ever realised fully that internal rigidity must result before long in external elasticity in the form of collapse, and in the long run in unemployment on a vast scale. People never seem to learn the old lesson of history, that animals, individuals and communities must adapt themselves to changing conditions or perish. In other words, internal rigidity as a long term aim is unattainable.⁴⁸

⁴³"To point a moral or adorn a tale," *ibid.*, Robinson Papers, UMA.

⁴⁴*The Times*, 5/12/1941.

⁴⁵W.S. Robinson to O.T. Falk, 11/6/1956, Robinson Papers, UMA.

⁴⁶O.T. Falk to W.S. Robinson, 31/5/1956, Robinson Papers, UMA.

⁴⁷O.T. Falk to W.S. Robinson, 11/11/1956, Robinson Papers, UMA.

⁴⁸O.T. Falk to W.S. Robinson, 14/5/1951, Robinson Papers, UMA.

When Robinson echoed one of Douglas Copland's views that credit expansion could not compensate for a decline in productivity or a decline in real income, Falk readily agreed, adding, "Perhaps I am wrong but I always thought Maynard tended to overlook this point."⁴⁹

Falk took a remarkably relaxed approach to inflation; it was the price of progress. He told Robinson, "It is difficult to believe that after all the centuries of recorded economic history those who think they control our affairs are blind to the fact that the instability of prices and fluctuations in them are inevitable."⁵⁰ He was, therefore, not a dear money man. In 1957 he attacked Peter Thorneycroft, Chancellor of the Exchequer in the Macmillan government, for his dear money, which saw the bank rate increase from 5 to 7% to combat external pressures on the pound. Falk took to task a poor Treasury official at the Tuesday Club:

In this new-fangled world, in which we have to struggle for survival against the advantages of great Continental economies, we shall be fatally handicapped if we listen to the Polonius-like maxims of a rentier-minded Government. Borrowing does not dull the edge of husbandry. On the contrary, it is the instrument of progress. At present it appears likely that after a short business recession we shall experience again the high rate of activity associated with rapid technological changes and other innovations. If a rising price level proves to be the inevitable and not unusual feature of this phase of history, we shall be wise to accept it as part of the cost. Better fifty years inflating than a cycle of decay (cited in Davenport 1974, pp. 193–194).

In short, Falk was convinced that resort to the old prescription of boom and bust or "stop, go" policies would lead to the destruction of capitalism.⁵¹ However, Falk did not support getting into a needlessly inflationary situation in the first case. It was the result, he told Robinson, of too much defence spending, housing, and investment all at once. With full employment and a high rate of consumption, the level of savings would prove inadequate. With this mix prevailing in post-war Britain, he pondered, "Which breaks first, the pound, full employment or the free economy? Will they all have to go?"⁵²

By 1963 the correspondence between the two gentlemen was coming to a natural end, tinged with sadness. In one of his last letters to Robinson, Falk said that he hardly read the newspapers any more and was instead reading ancient history along with the Shakespearian tragedies.⁵³

V. CONCLUSION

At first glance, the correspondence between Falk and Robinson might appear as that of tired old men raging at how the world was passing them by. However, examination of the letters reveals alert, crisp minds, well aware of the emerging post-war political

⁴⁹O.T. Falk to W.S. Robinson, 24/10/1952, Robinson Papers, UMA.

⁵⁰O.T. Falk to W.S. Robinson, 1/2/1961, Robinson Papers, UMA.

⁵¹O.T. Falk to W.S. Robinson, 25/2/1958, Robinson Papers, UMA.

⁵²O.T. Falk to W.S. Robinson, 20/2/1956, Robinson Papers, UMA.

⁵³O.T. Falk to W.S. Robinson, 15/4/1963, Robinson Papers, UMA.

economy, and how the Keynesian consensus would ultimately fracture because of the rigidity of fixed exchange rates. It is also illuminating because Falk was a character from the business world who knew Keynes well, and was, in fact, his first point of contact into the swirling world of the money and stock markets. Robinson, too, had dealings with Keynes and admired him. The two retired businessmen were united in advocacy of flexible exchange rates and economic progress, and saw that dear money and the obsession with economic security in the form of full employment could enfeeble the spirit of capitalism.

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