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Die  
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## Die Beleggings-Navorsers Tydskrif

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## Inhoud

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### This issue in brief

#### **Keynes' theory of investment in retrospect**

This is the first of two articles intended to form part of a dedication in the centenary year of the birth of John Maynard Keynes. The article deals with the main features of Keynes' theory of investment but also examines it in the light of more recent developments in the field of portfolio theory and capital asset pricing. In its penultimate section, it considers Keynes' theory from an Austrian point of view. One of the principal criticisms of the Austrian school of neoclassical economics has to do with the unreality of general equilibrium analysis. Although this criticism can be levelled at Keynes too, the article finds that there are redeeming features in his treatment of investment which will ensure its continued relevance to future economists.

#### **Keynes and the stabilisation of economic activity**

The second of our two articles on Keynes deals with stabilisation policy. This is a subject of continuing controversy between Keynesians and monetarists and, thus, has an intense contemporary relevance. The attitude of Keynesians has been that governmental intervention is justified when the free market is unable to produce the level of employment desired by the community. The attitude of monetarists has been that attempts at stabilisation are not necessary, and if initiated, are more likely to increase instability than to reduce it. Indeed, some monetarists would say that governments should not interfere with market freedom on principle, whatever the likelihood that their attempts at stabilisation will be successful. Dr Cloete discusses Keynes' approach to the matter fully, dealing, in particular, with problems concerning the relationship between saving, investment, interest rates and job creation.

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#### **A microcomputer database for a notional index fund**

The development of portfolio theory in the 1960s and 1970s represented an important conceptual advance, but in the area of portfolio management only organisations that could afford mainframe computers could contemplate its applied uses. Research undertaken in the Department of Business Science at the University of Cape Town, has attempted to fill the gap between data base availability and the use of microcomputers. This paper describes the building of a notional index fund that can be easily used by microcomputer users. Problems are identified and discussed, and the benefits to be derived from the construction of such a fund are made clear.

#### **The 'hidden' costs and benefits associated with different loan repayment frequencies**

This contribution from Australia sets out to analyse, mathematically, the costs and benefits associated with different loan repayment frequencies, depending on whether one is a borrower or a lender. Clearly, the nominal rate of interest charged need not provide the true indication of cheapness when other loan conditions are different.

#### **An introduction to gold mining tax – Part 3**

Ian Davies' concluding article on the subject of gold mining tax is contained in our Investment Basics section.

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# The Investment Analysts Journal

# Die Beleggings-Navorsers Tydskrif

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There can be little doubt that John Maynard Keynes, who was born on 5 June 1883 and whose centenary, thus, is celebrated this year, was both a great economist and a great man. Even his most vehement academic critics would not deny that he helped change the world and that the change with which he was concerned was not without its positive aspects when it comes to considering matters of social improvement. If he is criticised today, it is more for what has been done in his name by others or because what he advocated was applicable to social circumstances that were different from those currently obtaining. As a result of Keynes' writings, thinking about economic theory was altered, and in a permanent way, and so was thinking about economic policy. Indeed, Keynes' real greatness resides in the fact that his influence was equally felt by men of contemplation and action.

Keynes had been born into an academic setting. His father, John Neville Keynes, was a Cambridge man, an economist of eminence in his own time, whose work on the methodology of economics survives to this day as an authoritative reference. The child, Maynard, not infrequently, was present when famous visitors to 6 Harvey Road, called to discuss matters of theory and policy with his father. Maynard, who died in 1946 at the age of 63, was survived by both his parents, and throughout his often tempestuous life, Harrod tells us, he was able to return to the house of his origins, to nourish its memories and serenity.

Schooling at Eton provided Keynes' first break with Cambridge, but it was a break of formality not substance. Spiritually, he remained true to Cambridge and its tradition of academic excellence and liberalism. Despite his advocacy of an extended government role in the economy, as a response to the withdrawal of private sector investment, it was on the Liberal benches of the House of Lords that he took his seat when, near the end of his life, he was made a peer. He had been critical of Lloyd George over the Versailles peace treaty (the polemic *The Economic Consequences of the Peace*, was a major attack on the British Government of the day), but returned to support him later, answering criticism of inconsistency that the reason was simple. He opposed Lloyd George when he was wrong, but that did not preclude his supporting him when he (Lloyd George) was right. What better could summarise the liberal ethic. Keynes was a liberal, but he was a liberal who believed that men held their destiny in their own hands. It was wrong to believe that *laissez-faire* required that they should abandon themselves helplessly to dark forces over which they could exercise no control. And who can doubt that in this he was right?

The interesting thing about Keynes was the diversity of his experience and concerns. At Cambridge he quickly,

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Dit ly min twyfel dat John Maynard Keynes, wat op 5 Junie 1983 gebore is en wie se honderdste geboortedagherdenking dus vanjaar gevier word, 'n groot ekonoom en persoonlikheid was. Selfs sy heftigste kritici sal nie ontken dat hy gehelp het om die wêreld te verander nie en dat die verandering waarmee hy gemoeid was nie sonder positiewe aspekte was wat aangeleenthede soos maatskaplike verbetering betref nie. As hy vandag gekritiseer word, is dit eerder omrede dit wat in sy naam deur andere gedoen is of omdat dit wat hy bepleit het van toepassing was op sosiale omstandighede wat verskil het van dié wat vandag heers. As gevolg van Keynes se geskifte is denke oor ekonomiese teorie verander, en wel permanent, en so ook is denke oor ekonomiese beleid verander. Trouens, Keynes se grootheid is daaraan toe te skryf dat sy invloed eweneens deur denkers en daders bemerk is.

Keynes is in 'n akademiese omgewing gebore. Sy vader, John Neville Keynes, was 'n Cambridge-man, 'n ekonoom wat in sy eie tyd uitgestyg het en wie se werk oor die metodologie van die leer van die ekonomie tot vandag toe as gesaghebbende naslaanwerk bly voortbestaan. Die kind, Maynard, was dikwels teenwoordig wanneer beroemde besoekers by Harveyweg 6 aangedoen het om teorie- en beleidsake met sy vader te bespreek. Maynard, wat in 1946 op die ouderdom van 63 heengegaan het, is deur albei sy ouers oorleef, en volgens Harrod kon hy dwarsdeur sy dikwels stormagtige lewe na sy ouerhuis met sy herinneringe en kalmte terugkeer.

Sy skoolopleiding aan Eton het meegebring dat Keynes se bande met Cambridge die eerste keer verbreek is, maar dit was 'n formele, nie wesentlike, breuk nie. In die gees het hy getrou gebly aan Cambridge met sy tradisie van akademiese voortrefflikheid en liberalisme. Ondanks die feit dat hy die uitgebreide rol van die regering in die ekonomie voorgestaan het, as reaksie op die onttrekking van privaatsektorbelegging, het hy sy plek ingeneem tussen die Liberale in die Britse Hoërhuis toe hy kort voor sy dood tot lord verhef is. Hy het verskil van Lloyd George oor die vredesverdrag van Versailles (die polemiek *The Economic Consequences of the Peace* was 'n sterk aanval op die Britse regering van destyds), maar het hom later ondersteun en op aantygings van teenstrydigheid geantwoord dat die rede eenvoudig was. Hy het Lloyd George teengestaan toe hy verkeerd was, maar dit het hom nie daarvan weerhou om hom te ondersteun toe hy (Lloyd George) gelyk gehad het nie. Dis 'n onverbeterlike opsomming van die etiek van liberalisme. Keynes was 'n liberaal, maar hy was 'n liberaal wat geglo het dat die mens self oor sy lotgevallen beskik. Dit was verkeerd om te meen dat dit 'n vereiste van die *laissez faire*-houding was dat hulle hul hulpeloos

and naturally, found himself involved with a generation of young, brilliant thinkers amongst whom Lytton Strachey was perhaps the most outstanding. Perhaps unnaturally, there was homosexual involvement, although this needs to be understood against the intellectual background of the group. Robert Skidelsky, who has just published the first volume of a new Keynes' biography, asserts that it was not that they believed women to be inferior in mind and body, rather it was young ladies who they despised. "Ladies spelt the destruction of truthful conversation . . . (they) . . . involved the rituals of wooing and of female coquetry and male display of plumage: the female pretending to be alarmed and repelled when in fact allured and predatory and the man becoming entangled in the falsities of gallantry, the affair ending in what they regarded as the squalor of settlements and dowries."\*

Out of Cambridge came Bloomsbury and eventual marriage to the famous Russian ballerina Lydia Lopokova. The small group of personalities that made up the Bloomsbury set, including Virginia Woolf and her sister Vanessa Bell, Duncan Grant, Clive Bell and Roger Fry, as well as Lytton Strachey, were among the most important of the artistic personalities of England in the post-World War I period. One has the feeling that Maynard's concern with economics and money may have been regarded with a measure of disdain in this esoteric company but he, certainly, did not allow materialistic interests to displace his involvement in literature and the arts. His writing has a powerful quality, and in quotability he rivals Winston Churchill. He was a patron of the ballet and a collector of both books and contemporary art.

From the point of view of the economist, what makes Keynes stand out is his preoccupation with flesh and blood investors and economic agents. The world of mathematical economics, where everything is reduced to a series of simultaneous equations, and time and uncertainty are excluded, is rejected. What has gone wrong with theory if it cannot explain why millions of men are out of work when, quite evidently, they are able and willing, at almost any price, to do so? This is the question for which Keynes sought to find an answer. It is to his credit that he assumed that it was the economic theory of the time that was incorrect and that the fault was not to be found in the real world. All along, with Keynes, when theory did not work in practice, it was theory which had to give ground. How different from the contemporary assertions of economic elitism: "No matter whether it works in practice, the question is 'Does it work in theory?'" It is when this confusion of the cart and the horse takes place that the way is opened for ideological dogmatism.

To be a successful investor, dogmatism of any kind must be shunned, and Keynes was a successful investor. He shored the German mark when he was convinced that errors of economic policy would lead to its collapse, and had the courage to stick with his judgement though things at first went against him. In the end he made a lot of money. He made a lot of money too for King's College, Cambridge, whose finances he assisted in managing as First Bursar. One has the picture of Keynes lying in bed of a morning going through the daily papers and other

moes oorgee aan die duister magte waaroor hulle geen beheer kon uitoefen nie. En kan daar enige twyfel daaroor bestaan dat hy, wat dit betref, gelyk gehad het?

Wat so interessant was omtrent Keynes was die veelsydigheid van sy ervaring en belangstellings. Dit was bloot natuurlik dat hy op Cambridge heel gou betrokke was by 'n geslag jong, briljante denkers van wie Lytton Strachey miskien die mees uitstaande persoonlikheid was. Daar was, miskien onnatuurlik, homoseksuele betrokkenheid, maar dit moet teen die intellektuele agtergrond van die groep gesien word. Robert Skidelsky, wat so pas die eerste deel van 'n nuwe Keynes-biografie die lig laat sien het, beweer dat dit nie was omdat hulle gemeen het dat vroue geestelik en liggaamlik minderwaardig was nie, maar eerder dat hulle jong dames verag het. "Ladies spelt the destruction of truthful conversation . . . (they) . . . involved the rituals of wooing and of female coquetry and male display of plumage: the female pretending to be alarmed and repelled when in fact allured and predatory and the man becoming entangled in the falsities of gallantry, the affair ending in what they regarded as the squalor of settlements and dowries".\*

Cambridge het tot Bloomsbury en sy uiteindelijke huwelik met Lydia Lopokova, die beroemde Russiese ballerina, gelei. Die groepie persoonlikhede wat die Bloomsbury-kring uitgemaak het, waaronder Virginia Woolf en haar suster Vanessa Bell, Duncan Grant, Clive Bell en Roger Fry, asook Lytton Strachey, was van die belangrikste kunstenaarspersoonlikhede in Engeland in die tydperk na die Eerste Wêreldoorlog. Mens kry die gevoel dat Maynard se betrokkenheid by die leer van die ekonomie en geld in dié esoteriese geselskap met veragting bejeën sou word, maar hy het beslis nie toegelaat dat materiële belangstellings sy betrokkenheid by die letterkunde en kunste verdring nie. Sy geskrifte word deur kragtigheid gekenmerk en wat pittigheid betref, steek hy Winston Churchill na die kroon. Hy was 'n beskermheer van die ballet en versamelaar van boeke en kontemporêre kunswerke.

Wat Keynes as ekonoom laat uittroon, is sy gemoeidheid met beleggers en ekonomie-agente van vlees en bloed. Die wêreld van wiskundige ekonomie waar alles tot 'n reeks gelyktydige vergelykings gereduseer word en tyd en onsekerheid uitgeskakel word, word verwerp. Wat het verkeerd geloop met teorie wat nie kan verduidelik waarom miljoene mense sonder werk sit en dit terwyl hulle klaarblyklik bekwaam en bereid is – feitlik tot elke prys – om te werk nie. Op dié vraag het Keynes 'n antwoord probeer vind. Dit strek hom tot eer dat hy veronderstel het dat dit die ekonomiese teorie van destyds was wat verkeerd was en dat die fout nie by die werklike wêreld gelê het nie. By Keynes moes die teorie altyd wyk as dit nie in die praktyk kon werk nie. Dit verskil hemels-breed van die hedendaagse stellings van ekonomiese elitisme: "Dit maak nie saak of dit in die praktyk werk nie, die vraag is 'Werk dit in die teorie?'" Sodra hierdie soort verwarring tussen die kar en die perd ontstaan, is die weg oop vir ideologiese dogmatisme.

Om 'n suksesvolle belegger te kan wees, moet dogmatisme van enige aard vermy word, en Keynes was 'n suksesvolle belegger. Hy het weggebly van die Duitse mark toe hy oortuig was dat foutiewe ekonomiese beleid tot

(\* Noel Annan. Young Maynard. A review of Skidelsky's book *John Maynard Keynes: Hope Betrayed 1883-1920*. Financial Times, London, 5 November 1983.)

(\* Noel Annan. Young Maynard. 'n Resensie van Skidelsky se boek *John Maynard Keynes: Hope Betrayed 1883-1920*. Financial Times, London, 5 November 1983.)

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documents before making his routine investment decisions. This was his habit. Only then did he get up to go to work in the City or to attend the affairs of State.

But it was in the realm of international finance that Keynes played his most important role. As the leader of the British delegation to the Bretton Woods conference in 1944, he was instrumental in designing the International Monetary Fund, though the plan he proposed was rejected in favour of that of Harry White, his United States counterpart. It is an irony that the inadequacies of the White plan, to which Keynes drew eloquent attention, are the inadequacies which today are at the heart of our current problems regarding the international financial system. Perhaps, had Keynes lived, these problems would not have been so threatening to our future economic stability as they now appear.

We dedicate this issue of the Investment Analysts Journal to John Maynard Keynes, a trustee not of civilisation, but of the possibilities of civilisation, words he so appropriately used in toasting his colleagues of the Royal Economic Society. They are words which most truly fit the man himself.

**The editor**

die ineenstorting van dié geldeenheid sou lei en hy het die moed gehad om hom by sy besluit te hou toe hy aanvanklik teenkanting ondervind het. Op die ou end het hy baie geld gemaak. Hy het ook baie geld gemaak vir King's College, Cambridge, waar hy as hoofleser met die finansies behulpsaam was. Dit was Keynes se gewoonte om die koerante en ander dokumente soggens in die bed te lees en sy roetine-beleggingsbesluite ook daar te neem. Dan eers het hy opgestaan om in die Stad te gaan werk of na staatsake om te sien.

Dit was egter op die gebied van internasionale finansies dat Keynes sy belangrikste rol vervul het. As leier van die Britse afvaardiging na die Bretton Woods-konferensie van 1944, was hy behulpsaam met die beplanning van die Internasionale Monetêre Fonds. Die plan wat hy voorgestaan het, is egter ten gunste van dié van Harry White, sy eweknie in die Verenigde State, verwerp. Dit is ironies dat die ontoereikendheid van die White-plan, waarop Keynes met welsprekendheid die aandag gevestig het, juis die ontoereikendheid is wat vandag onderliggend is aan ons huidige probleme met betrekking tot die internasionale finansiële stelsel. As Keynes nog geleef het, sou dié probleme miskien nie so 'n groot bedreiging, soos wat vandag die geval blyk te wees, vir ons toekomstige ekonomiese stabiliteit ingehou het nie.

Ons dra hierdie uitgawe van Die Beleggingsnavorsers Tydskrif op aan John Maynard Keynes, 'n trustee, nie van die beskawing nie, maar van die moontlikhede van die beskawing – gepaste woorde wat hy eenkeer gebesig het toe hy 'n heildronk op sy kollegas van die Royal Economic Society ingestel het. Dié woorde beskryf die man self ten beste.

**Die redakteur**