Chapter Thirteen

TRADING IN THE "DEVIL'S METAL": KEYNES'S SPECULATION AND INVESTMENT IN Tin (1921–46)

Maria Cristina Marcuzzo and Annalisa Rosselli

In the Bolivian Siglo XX mine, near the mining center of Potosí, a devil figure with an enormous erection is watching over the miners risking their lives, and apparently even worse, their potency, in the dangerous work of mining tin. The Devil spirit [...] receives offerings of alcohol, cigarettes, and coca leaves, to protect the miners and help them to extract riches from the bowels of the earth.

1. Introduction

In a recent paper, Alessandro Roncaglia, reconstructing the long-term developments and structure of the oil markets, noted that this "industry is complex, with production stages that are technically quite different from one another; [...] it is characterised by strong economic and political interests intertwined in an interplay of conflicts and alliances that evolve over time, while technology, the organization of the markets and their size also dramatically change" (2015, 151).

This also applies to tin, a commodity whose characteristics made it an object of several cartels dominated by intertwined national and private interests, marked by high price volatility, control of which was pursued by various forms of international agreements, with or without the support of buffer stocks, from the 1920s to the 1980s. Tin was also the commodity that John Maynard Keynes dedicated most attention to as speculator, investor and commentator. It was probably the commodity in which he invested most, together with cotton and wheat, and where he suffered the greatest losses, alongside rubber. His trading in tin spanned from 1921, when he first bought a future contract, until his death in 1946.

In this chapter, we present a reconstruction of Keynes's dealings in tin, as economist, speculator and investor, taken as a lens through which to examine the tin market in the interwar period.

2. The Tin Market in the Interwar Period: Competition and Control

The tin history of the interwar period shows five marked phases: the postwar slump and recovery (1920–24); the boom (1925–28); restriction (1929–36); high price volatility (1936–39); wartime control (1942–45).
Table 13.1 London standard tin (£ per ton), monthly average price.

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* Prices at which the Non-Ferrous Metals Control supplied tin.
Source: Our elaboration from Knorr (1945) and London Times, The West Australian.

Table 13.2 LME tin turnovers (000 tons)

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Source: Eastham (1956).

ITCS imposed restrictions on exports. Quotas were allotted to each participant according to the production levels of 1929 (Knorr, 1945, 108). The scheme was supported by the International Tin Pool (1931) made up of privately held stocks, the size of which was regularly published. ITCS was to last until 1933.

Before the end of that year negotiations started for a second agreement, which, like the previous one, was based on production restrictions, and began in January 1934 for a three-year period. This agreement, however, was officially supported by the Tin Buffer Stock Scheme (1934), operated by a committee appointed by the governments with representatives in the ITCS, with the purpose of preventing the price from rising above £255 or falling below £215 per ton (Khan, 1962, 163). The purpose of the buffer stock was to give the industry “a working capital in metal tin, enabling it to meet immediate requirements in full when current production cannot be expanded rapidly enough to meet current consumption, or—more important—when current demand is swollen temporarily by the anticipation of an increased future consumption.” The buffer stock was on average successful in keeping the price within the predetermined range until 1936. According to Jack Kenneth Eastham (1936, 25), the scheme reduced speculative activity in the London Metal Exchange (LME), as measured by the turnover in 1934–35, despite the upward trend in production and consumption as from 1933 (see table 13.2).

In 1938, just before the outbreak of the war, the third agreement was launched, with the formation of another buffer stock with the price target in the range of £200–250 per ton. The agreement was intended to last until 1941.

At the outbreak of the war, nonferrous metals were put under control of a division of the Ministry of Supply. Private tin dealings on the London Metal Exchange ceased in December 1941 and the Ministry of Supply determined the price at which tin was supplied, while dealings in the other metals were suspended in 1939 (Roddy, 1995, 21). By 1940, discussions were under way to give rise to the fourth agreement, which was ratified in 1942, with a termination date set in 1946 (Hillman, 2011, 314–16). However, the agreement did not put any restriction on the production of tin, which was encouraged to build American strategic stockpiles, and the agreement eventually proved ineffective because of the Japanese occupation of Southeast Asia. The United States continued to accumulate stocks of tin, absorbing the excess of production over consumption, until 1956.

The LME was reopened in 1949, but the outbreak of the Korean War disrupted the lifting of control in the tin market. A conference was held in Geneva in 1953 and
success) call options because of lack of resources and not simply because he was indulging his gambling spirit. The price of a call option for tin varied according to market conditions, but on analyzing Keynes's ledgers we concluded that its price ranged from less than 3 percent of the future price to more than 6 percent. This meant that it was never less than £6 per ton and was sometimes as high as £15 per ton. The difference between the price of a BOD and a normal future, on the contrary, was between £3 and £6 per ton, and therefore purchasing a BOD entailed the expectation of a slightly higher price in order to be profitable and a longer initial outlay for the initial quantity.

During the period May–October 1925, Keynes joined a tin pool; it was in this period that he added another instrument to his speculative activities, and he dared to sell put options for substantial amounts of the metal, relying on an increase in the price of tin, over which the pool had considerable influence. The risk was high, but nearly all the put options lapsed and Keynes pocketed the premium, which was in the range of 5 or 6 percent. His sale of put options was successful 14 out of 16 times.

There are not many cases when Keynes attempted to hedge his positions. He bought put options for this reason only twice (Keynes Papers, SE/11/2/48). In a few other cases, when he had bought futures for very large amounts, he tried to minimize the cost of hedging either by selling a SOD for half the amount involved or by buying a double. The latter was an option that gave the buyer the possibility of buying or selling—whichever he preferred—a given amount at a given price at some future date. In other words, the buyer of a double bet on high volatility of the price, at least high enough to cover the cost of the option, which was indeed high (on the contrary, the seller of a double bet on relative constancy of price). Keynes often bought and sold double options for their own sake (Keynes Papers, TC 3/3/131 and 237), but occasionally he used them for hedging purposes. In this case, he bought a future and a double for the same amount of the metal and for the same date (Keynes Papers, SE/11/2/21) so that if the price rose he could increase his profit by exercising the double as a call; otherwise, if the price fell, he could minimize the loss by exercising the call as a put.

We may wonder just how good Keynes was at predicting the price trend. A rough answer can be found first in calculating the percentage of options exercised, and then the percentage of the put he sold and that the buyer did not exercise. In the case of call, this percentage was 57 percent; in the case of BODs it was 53 percent; in the case of the put he sold, it was 87 percent. To this we should add the percentage of the times when the price of the metal sold at the expiration date was higher than the price of the future, and this, on the basis of our calculations, was 57 percent. Unfortunately, this undoubtedly skilful activity was not necessarily profitable, due to high commission and transaction costs, which, in the case of futures, were 0.1 percent on the buying and selling price and 0.5 percent on the metal broker. In the case of options, commissions applied only when they were exercised as percentage of the price of the metal bought or sold.

A measure of the profitability of Keynes's operations in tin is much harder to arrive at, since investment in tin was a variable portion of his portfolio. Fails and losses are shown in table 13.4 as absolute amounts in sterling. Futures made up the greatest share of Keynes's investment in tin (the average transaction was £6.634 compared with £258 of the average transaction in put and call options). While for futures we calculated the average return as 3.2 percent on a three-month basis, the average return for options is much less significant due to the high variance. As table 13.4 shows, Keynes made half of the total profit of the period in 1926, which he lost almost entirely in 1927. Another large loss was incurred in 1930, which might account for his reduced speculative activity in tin, which was resumed only in 1936 and 1938—years that in any case saw him extremely active in the markets.

4. From Speculation to Investment: Keynes, the Investor

Commodity speculation took the lion's share of Keynes's investments during the 1920s— a pattern that probably began to change when Keynes's second major setback came in 1927, and then in the wake of the 1929 crash. Even though Keynes went on trading commodities until the outbreak of World War II, when activity in these markets was partially suspended, early in the 1930s he shifted to equities, his main sources of income being capital gains and dividends.

In fact, Keynes's activity as an investor in shares dates back to the early 1920s, especially in his capacity as institutional investor, and shares loomed large in his own portfolio in the 1930s and 1940s. There is also some indication of a change in investment habits in the 1920s, when he started to diversify his investments into a wider range of assets.
strategy after the 1929 stock exchange collapse, although at the time Keynes had little exposure vis-à-vis Wall Street.

In this section, we examine his dealings in that small subset of shares that were connected to the tin industry. The reason for doing so is to compare this investment activity with his speculation activity in the metal. David Chambers, Elroy Dimson and Justin Foo (2015), investigating Keynes's investment for King's College, have shown that mine shares accounted for the major part. Keynes allocated on average four times the weighting to stocks of mining firms as compared to nonmining firms. When Keynes was convinced of the quality of an investment, besides taking it for himself, he was keen to suggest it to all the institutions he was involved in. As an example, we know that in 1936 King's College held several of the tin shares Keynes had in his own portfolio (letter from Richard Kahn to Keynes, December 24, 1936, Keynes Papers, KC/5/5/250).

The companies whose shares Keynes held in his portfolio—of which we will say more below—are listed in table 13.5. Keynes's purchases of tin-producing company shares were concentrated in two periods, which roughly coincided with the beginning of the upswings of the price of the metal: the 1924-25 and 1933-34 years. The first period of investments was over by 1929, while the price of tin was falling rapidly, as were the profits of most of the companies that produced it and the prices of their shares. Keynes avoided heavy losses by selling almost all his shares in 1928, matching the similar withdrawal from the derivative tin market. The second period of purchases of shares coincided with the years of the buffer stock, which stabilized the tin price. This period ended in 1937, as we will see below, while in 1936 and 1938 he went back to the futures market. His total investment in tin shares is shown in figure 13.1, which is based on Keynes's evaluations on January 1 of each year.

Between the two periods, there was a break of almost four years, which coincided with tempestuous turmoil on the financial markets due to the Great Depression and abandonment of the gold standard by the Bank of England.

In both periods, Keynes appears to have been guided by the pursuit of rewarding dividends more than capital gains. He was not engaged in intense speculative trading. Once he had acquired the shares of a company, he kept them for months and sometimes for years. In 1924-25, he made some use of call options, but none at all in the 1930s. In total he fell back on call options 11 times in the attempt to get a lower price; however, when he failed, he bought the shares he was interested in on the market, showing that his choices were based on consideration of the company's prospects, and that he was not after quick gain.

In the first period, he invested mainly in British-owned companies in Malaya, which was then the biggest and fastest growing tin-producing country, with over one-third of the world production. His preferences were for the companies established before World War I like the Pahang Consolidated Company, established in 1906 and the largest in terms of capital in 1920, and the Kramat Pulai, established in 1906. Pahang Co. was active in lode mining, but most British companies that dominated the Malayan market had prevailed over the Chinese producers there thanks to the introduction of the new capital-intensive technique of bucket dredging. Keynes had shares of the “doyen” of these companies, the Malay Tin Dredging Co, and of Southern Perak, another dredging company. In
1927, Keynes added the shares of a third dredging company to his investments, the newly floated Teja Malayan Tin Dredging. This purchase was his only participation in the 1925-27 “scramble for tin mining company shares,” when tin had reached £290 a ton and “a plethora of mines were floated on the London Stock Exchange and the total issued capital of British registered mining companies in Malaya shot up from £3.6 million in 1920 to £18.7 million in 1927” (Helten and Jones, 1989, 168).

However, he also tried some geographical diversification, but always within the British Empire. He invested in the Ropp Tin Company, the largest producer in Northern Nigeria, owned by South African Capital, which was particularly generous with his shareholders (“the largest dividend-payer of the field,” The Economist, August 4, 1928). Although Keynes usually preferred companies with British and City people on their boards, he made an investment in a newcomer on the Malayan scene, the Ampang Tin, a subsidiary of the American Guggenheims’ Yukon Gold, which after expensive prospecting in the 1920s, began its activity in Malaya in 1923 (Hillman, 2011, 71).

On the contrary, we found no evidence of Keynes being tempted by the 1920s activities of John Howeson, who was engaged in a rationalization of the tin industry (together with the other “tin baron” of that period, the Bolivian Antenor Patiño). He built a personal empire through acquisition and consolidation of many existing companies all over the world. As an outsider—he was born in India and his father was German—at first he was not welcomed by the London financial circle, but, step by step, thanks to an extensive network of relations and his impressive personality, he came into control of a vast financial system, responsible for investors’ funds amounting to over £10 million (ibid., 64). His flagship in Malaya was the Anglo-Oriental Mining Corporation, established in 1928. In spite of the support given to Howeson by Oliver Lyttelton, probably one of the most knowledgeable men in the metal trade and a close friend of Keynes, Keynes held back from the shares of the Anglo-Oriental until 1935, when Howeson was accused of fraud and a new board was appointed without him (Howeson was jailed in 1936). Anglo-Oriental played a crucial role in the reshaping of the tin industry. At the end of the decade, three British holdings—London Tin Corporation, British Tin Investment (BTI), and General Tin Investment Ltd.—controlled 43 percent of the Malayan tin output (and 17 percent of world production) (Yacob, 2007, 77). The companies numbered nearly 80, but ownership was highly concentrated.

Keynes resumed his investments in tin shares in the spring of 1933. This was a particularly promising period for the tin industry. The International Tin Agreement of 1931 had barely succeeded in preventing the ruin of the industry, while the price of tin remained well below the threshold of £200 per ton for more than three years (1930–32) because of the depressed demand. In the spring of 1933, American demand picked up, spurred by two events: the devaluation of the dollar, which stimulated the recovery, and the end of Prohibition. Beer could again be sold freely, and the demand for cans put pressure on the available tin stocks. There were even tensions on the market, since the increased demand could not immediately be met by increased production.

By April 1934, the tin stocks that the International Tin Pool had accumulated to sustain the price of tin were entirely liquidated, world tin stocks were at what was considered a normal level and it was reasonable to assume that the price could hold firm or increase, thanks also to the buffer-stock scheme. It was then that Keynes further increased his investments in the tin industry, to peak in 1937, as did the price of tin. After 1937, Keynes began to sell most of his tin shares. By October 1937, he was writing to E. C. Scott, the Provincial Insurance Company chairman: “I feel that the time has come for reducing our holding of base metal shares without being too ambitious about prices” (quoted in Westall, 1992, 372).

In 1938, Keynes foresaw poor dividends as consequence of the fall in the price of tin at the end of the previous year, although he was still optimistic about the long-term outlook of the tin shares. As he wrote to Scott in October, “In the long run Tin shares are as good as ever every way. The question is whether these long-term prospects will win over the factor of low current earnings” (Keynes Papers, PG/1/5/230).

Turning now to individual shares, we note that Keynes’s largest investments were in three companies: British Tin Investments, Southern Kinta and Anglo-Oriental Mining. All of them had their main interests in Malaya. In 1934, Anglo-Oriental managed 26 mining companies in Malaya, and Keynes invested in some of them: Ampang Tin Dredging, Associated Tin of Nigeria, Changkat and London Tin Corporation. The investment in Anglo-Oriental was short-lived and extremely profitable. Keynes purchased cumulative participating preferred shares, which guaranteed priority in dividend distribution. He bought them in five installments over the years 1935–36, when the company went into safer hands than those of Howeson, who had, however, given Anglo-Oriental a leading position in the Malayan industry through acquisitions and consolidations. Keynes sold his shares in 1937 at double the price he had bought them.
Anglo-Oriental also owned and managed Southern Kinta Consolidated, the largest operating company in the British Empire endowed with new dredges brought in from acquired companies so that “with direct costs of around £15 per ton of concentrate in 1939 [Southern Kinta] was capable of meeting any competition” (Hillman, 2011, 268). Southern Kinta shares were still in Keynes’s portfolio in 1943—confirming Keynes’s confidence in companies that were able to keep up with technological progress. Keynes held Southern Kinta throughout its most profitable period, when it paid shareholders an annual average of 23 percent. A remarkable performance, but other British tin companies in Keynes’s portfolio (Ayer Hitam, Kramat Pulai, Tronoh and Pahang) yielded annual averages of 15 percent and above (Ripelly, 1953, 119).

British Tin Investments was a finance house founded in 1932 by separating the production division from the equity investments of a British-American company. It specialized “in the management and technical advice of such [tin] companies and hold substantial investments in the individual companies in which they are interested” (Keynes, 1940, 14). In 1934, Lyttelton became its chairman and thenceforth was the leading figure in the tin finance. It was in 1934 that Keynes bought a first installment of B.T.I., to which he added a large amount one year later, when the price reached an unusually low level. His timing was not equally successful in 1937, when he bought another small lot at the highest price of the year. He kept these until the end of the war, when he sold them at a very low price. However, the shares had never stopped yielding significant dividends, even in time of war.

In figure 13.2, we plotted the price of tin with the price of several of the tin shares in the years in which Keynes held them in its portfolio. As a general observation, we can say that he was a momentum trader; that is, he bought on a rising market, with the exception of London Tin, in which he invested heavily when its price was falling. As expected, the share prices followed the trend in the price of tin fairly closely. With a good knowledge of the fundamentals of the metal, tin share prices could be predicted with a fair degree of certainty.

In order to understand why Keynes was so keen on investing in British-managed tin companies, an observation in his memorandum to the Treasury in October 1940 may be of some help. When advising the British government on how to increase Britain’s dollar resources, Keynes declared that tin (and rubber) shares would not hold much appeal for the US private investors, mainly “for the reason that they are out of touch with the managements which are situated in London and in the East, and have no means of gauging their efficiencies” (1940, 14). Keynes clearly believed that he was able to do so.

5. Understanding Market Behavior: Keynes, the Economist

The foregoing review of Keynes’s investment activity in tin, in both derivatives and shares, prompts two questions. The first is how his behavior compares with the statements he made in several speeches, memoranda and correspondence about his investment philosophy. The second is why Keynes was so fascinated by the “devil’s metal,” which took up such a large share in his portfolio. It is noteworthy that not a single year went by after 1921 without Keynes investing in some tin-related assets.

Figure 13.2 Tin prices (£ per ton) and tin shares prices (£ per unit). Source: Our elaborations from Keynes’s Papers.
As far as trading in tin as a commodity is concerned, it was part of his general interest in commodities possibly influenced by the knowledge he was acquiring as a professional economist. In the *Memoranda* he commented on some of the commodities he traded in (cotton, copper, tin, lead, sugar, jute, rubber, wheat) as well as a few others (nitrate, coffee, tea, petroleum, wool) that he did not trade in. He provided information on the level of stocks and consumption, the flow of production and the trend of prices, always presented with assessment of the quality and reliability of the data. In fact, Keynes's approach to trading was based on evaluation of the amount of information available for each individual commodity and the degree of uncertainty about the future course of the main factors underlying it. Collection of the "relevant information" available was the premise to evaluating the "weight" of any argument that could be inferred from it, according to the conceptual framework that Keynes used in his *Treatise of Probability* to illustrate any decision-making process. As for the availability of information and the degree of uncertainty which affects the confidence that could be accorded, information on tin, as indeed on copper and rubber, was plentiful but of variable quality; unlike cotton and wheat—the other two commodities in which Keynes invested heavily. For the latter, reliable information was plentiful but subject to considerable uncertainty due to the unpredictability of extra-economic factors (weather, parasites).

Keynes described the characteristics of tin as follows: "Tin is a particular commodity in that both production and consumption are exceptionally insensitive to moderate changes of price, with the result that violent price fluctuations ensue whenever the difference between the two has to be absorbed into stock" (1925, 377).

It follows that with price fluctuations speculative activity is indeed potentially profitable, provided that the price swings are anticipated correctly by monitoring the level of stocks. However, this was easier said than done, since figures on tin in UK or US warehouses and afloat from or still in the producing countries could not be reckoned with precision at any given time. Even monthly figures relative to the visible stocks of tin held in warehouses in Europe and the United States "are apt [...] to be extremely misleading" (Keynes, 1926a, 417). The reason is that these statistics "ignore the stocks of tin and tin ore in the Straits Settlements" and "tin which is sold direct to consumers without passing through the Metal Exchange warehouses or the export returns" (Keynes, 1928, 506).

Keynes's trading experience influenced, and in turn was influenced by, his views on speculation, which are not given systematic treatment in his work but can be sketched out in roughly chronological order, drawing on the statements he made on the subject scattered here and there in his writings.

First, there are the manuscript notes for the preparation of his *Lectures on the Stock Exchange* in preparation for the course he gave at Cambridge in 1910, where he distinguished between gambling and speculation, according as to whether risk is or is not calculable (an approach very similar to Alfred Marshall's; see Dardi and Gallegati, 1992). The distinguishing criterion lies in the amount of knowledge possessed by the actor in either case: "the possession of superior knowledge [is] the vital distinction between the speculator and the gambler". For Keynes what mattered was not measurement of comparative success in gambling and in speculation, which may be dependent on other factors, but evaluation of the nature of the action in the two cases. Unlike speculation,
gambling is not reasonable because it is a behavior that has no basis in knowledge, although of course a gambler may at times be a winner and a speculator a loser.

The next question is whether “superior knowledge” enables the speculator to predict the future course of prices. There are passages in the Lectures that seem to confirm this, but the view was short-lived. As Keynes became more closely acquainted with the working of the markets, he presented an analysis of speculation on different grounds (see “The Forward Market in Foreign Exchanges” [1922], incorporated into the Tract on Monetary Reform [1923], and his article “Some Aspects of Commodity Markets” [1923]). Here not only is the speculator not a “gambler,” but his ability through superior knowledge to forecast the future is downplayed. He is not a “prophecy” (ibid., 260) but rather a risk bearer. “The most important function of the speculator in the great organized ‘future market’ is that of a ‘risk bearer’” (ibid.). The point of speculation as risk bearer, and profits being the remuneration for risk bearing, not for forecasting skill, is reiterated in the Treatise on Money, where he presented a more refined version of his theory.

When we get to the General Theory, the analysis of speculation (chapter 12) marks a departure from Keynes’s previous views. The nature of speculative activity is defined as that of “forecasting the psychology of the market” and is distinguished from enterprise, which is defined as the activity of forecasting the prospective yield of assets over their whole life.” Thus “speculation” is no longer an attempt to gauge the “prospective yield,” on the basis of superior knowledge of fundamentals, but a bet on a “favourable change in the conventional basis of valuation” (Keynes, 1936, 159). So that “the energies and skill of the professional investor and speculator are mainly occupied […] not with making superior long-term forecasts of the probable yield of an investment over its whole life, but with foreseeing changes in the conventional basis of valuation a short time ahead of the general public” (ibid., 154).

Since, “as the organization of investment market improves, the risk of the predominance of speculation decreases” (ibid., 158), speculation is hardly likely to constitute the bedrock for price stability in those markets.

In the case of the commodities markets, a sudden and large increase in open interest positions, unrelated to new information about fundamentals coming to the market, pushes futures prices up if the increase is in demand (an increase in long positions) and down if the increase is in supply (an increase in short positions). So accumulated net long positions in futures, constituting as they do a bet that prices will rise, actually make spot prices rise. Conversely, accumulated net short positions would make spot prices fall. In both cases a high price volatility ensues in the commodity markets.

Speculators are viewed as unable to generate a stable price environment since there is no incentive to buy surplus stocks in a falling market. Moreover, because it takes time to increase supply, speculators may act as amplifying factors in pushing up prices and stimulating uneconomic and excessive output.

The last stage in the development of Keynes’s views can be located in the article on “The Policy of Government Storage of Foodstuffs and Raw Materials” (1938a), where he began to elaborate various buffer-stock schemes, as a means to stabilize prices, in a systematic way, although he had already advocated government storage of foodstuffs and raw materials in 1925 (1926a). In that article, starting from the observation that for four commodities (rubber, cotton, wheat and lead) “which are […] fairly representative of raw materials marketed in competitive conditions, the average annual price range over the last ten years has been 67 per cent”,” Keynes pointed out—“An orderly programme of output, either of raw materials themselves or of their manufactured products, is scarcely possible in such conditions” (1938a, 451). This explains the need for a buffer-stock scheme (see Fantacci et al., 2012).

As far as investing in shares is concerned, Keynes presented his golden rule in a letter to F. C. Scott on August 15, 1934: “As time goes on, I get more and more convinced that the right method in investment is to put fairly large sums into enterprises which one thinks one knows something about and in the management of which one thoroughly believes” (1934b, 57). In another letter to Scott, dated June 21, 1934, Keynes outlined the key reasons why he liked Union Corporation, the large South African mining company, one of his largest and most successful core holdings. Mainly it was the fact that “he trusted the management very highly” (1934a, 56).

And a few years later, he made clearer how many companies he knew “something about” and how many there were in whose management he “thoroughly believed”: “I myself follow very closely, or think I have some knowledge, of upwards of perhaps 200 investments […] Now out of the 200 which one tries to follow more or less, there are probably less than 50 in all classes about which, at any given time, one feels really enthusiastic” (“Memorandum for the Provincial Insurance Company,” 1939b, 98).

The tin companies fared well in this respect, as Keynes himself explained in October 1940:

Taking only those which are quoted on the London Stock Exchange there are about 50 tin companies […]. The nominal capital of the British-owned tin shares in Malaya was at the end of 1939 about £7 million with a present market value of between two and three times that sum. […] There are certain finance houses, such as London Tin or British Tin […] which specialise in the management and technical advice of such companies and hold substantial investments in the individual companies in which they are interested. (1940, 13-14)

Figure 13.3 shows how the tin companies were interconnected through an interlocking of directors and managers. There is evidence that Keynes was acquainted with several of the people involved in the management of mines-related firms. This is borne out in Chambers and Dimson (2013, 224–25), who wrote that:

when the 7,632 potential personal contacts from Keynes’s time at Eton College, Cambridge University, the Treasury during World War I and from public life are matched with the directors of the 247 firms in which he invested, Keynes was ultimately connected to 46 of those firms (Elkridge, 2012). His connections proved particularly influential in the mining sector. The existence of a connection to a director at the time of investment led Keynes to allocate on average four times the weighting to stocks of mining firms as compared to non-mining firms, and furthermore this benefited performance.

In particular, several of the tin companies whose shares Keynes held in his portfolio in the 1930s had Lytton as manager or director. From 1920, Lytton had been
Table 13.6 Dividends distributed by some tin companies in Malaya from their foundation to 1951.

<table>
<thead>
<tr>
<th>Company</th>
<th>No years</th>
<th>Initial year</th>
<th>Annual average %</th>
<th>Highest 5 years</th>
<th>Annual average %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ayer Hitam</td>
<td>21</td>
<td>1930</td>
<td>20.4</td>
<td>1937-41</td>
<td>41.0</td>
</tr>
<tr>
<td>Kinta</td>
<td>48</td>
<td>1903</td>
<td>18.5</td>
<td>1946-50</td>
<td>30.5</td>
</tr>
<tr>
<td>Kramat Pulai</td>
<td>39</td>
<td>1912</td>
<td>39.4</td>
<td>1934-38</td>
<td>92.7</td>
</tr>
<tr>
<td>Malayan</td>
<td>37</td>
<td>1914</td>
<td>28.9</td>
<td>1936-40</td>
<td>60.5</td>
</tr>
</tbody>
</table>

Source: Rippy (1953).

6. Conclusions

Keynes was exceptionally gifted as a trader, not in terms of the gains he made in the stock exchange—which, as has now been proved, were not as large as commonly believed—but by virtue of his deep grasp of the fundamentals underlying price trends. He showed great ability in gauging the direction of prices, although he did not always get the timing right. He never ceased to gather information on the underlying forces driving prices, and remained first and foremost an economist who based his trading decisions on his professional knowledge.

As far as tin was concerned, he put his investment philosophy into practice. Having acquired a deep knowledge of that market through speculation in derivatives, he applied it to understanding the working of the tin companies, a highly concentrated industry in the hands of a few people in total control—people Keynes was acquainted with and whose ability as managers he trusted.

In the later stage of Keynes's thinking, he became more and more concerned about the role of market sentiment, conventions and herd behavior. While he granted that success of the speculator might rest on the ability to interpret market sentiment, this was never the guiding principle for Keynes's behavior as investor. Rather he trusted informed opinion on relevant data and, above all, individual judgment as opposed to the average market view.

"My central principle of investment"—he explained in 1944 to a banker who was critical of his suggestions about how to manage Eton's finances—"is to go contrary to general opinion, on the ground that, if everyone is agreed about its merits, the investment is inevitably too dear and therefore unattractive" (Keynes, 1940, 111).

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Notes
1 Ingulstad, Perchard and Stori (2015, 1).
2 Building on previous work (Marcuzzo and Sanfilippo, 2016; Cavalli and Cristiano, 2012), we offer here a more comprehensive and detailed analysis of Keynes’s speculation in tins derivatives and tin-related shares, based on Keynes’s own records as shown in his ledgers and in statements of accounts from his brokers and correspondence. Reference to the unpublished material follows the classification number given in the Catalogue of Keynes Papers, King’s College, Modern Archives, Cambridge (catalogue available at https://janus.lib.cam.ac.uk/db/uuidx.asp?cid=EAD/GBR/0372/PP/JMK).
3 Chairman’s speech to the Annual General Meeting of the British Tin Investment Corporation, reported by The Times, January 24, 1934.
4 The relevant pages for tin are 267–306 and 312–247.
5 Bauer, Cosemans and Eichholtz (2009), using a database that comprises more than 68,000 accounts and more than eight million trades in stocks and options at a large online broker in the Netherlands, show that option trading has a detrimental impact on the performance of individual investors. Their results suggest that most option traders lose money due to excessive trading and lack of knowledge. High trading costs also contribute to the losses suffered by option investors.
6 Trading pools, i.e., temporary associations of individuals to act jointly in derivative or security operations of manipulative characters, were common in the 1920s (see Poltra, 2013, 42). Keynes’s share was one-eleventh of the pool.
7 Parallel to his personal investment activities, there was an intense career as an institutional investor. Keynes became director of the National Mutual Life Insurance Company in 1919, and then chairman in 1921, a post he retained until October 1938. He retired in 1938. He joined the board of the Provincial Insurance Company in 1923, limiting his involvement in the board only when he joined the Treasury in 1940. Keynes also entered the board of a group of investment trusts founded by O.T. Falk, a former colleague of Keynes at the Treasury. He was a director of the Independent Investment Company (1923–45), the A.D. Investment Trust (1921–27) and the P.R. Finance Company (1924–35, chairman 1932–36). In 1921, Keynes became Second Bursar of King’s College, Cambridge, and then First Bursar in 1924, a post he retained until the end of his life (Cristiano and Marcuzzo, 2013).
8 Data for the years 1924 and 1925 are missing. We calculated the evaluations by multiplying the number of shares by the first market price available for the year under examination.
9 The London Tin Corporation was another creature of Howson, who had promoted the merging of two companies, the London Tin Syndicate and the Tin Selection Trust, in 1900. Anglo-Oriental owned 30 percent of their shares.
10 The only tin company whose shares were still in Keynes’s portfolio at the time of his death was Amat.
11 See the letter from F. G. Scott to Keynes, January 11, 1938. “I expect you would be as pleased to see the dividend of the British Tin as I was, and I felt grateful to you for the advice to buy.” (Keynes Papers, PC/1/15/102).

References


