Trinity College
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Feb 26, 1940.

Dear Professor Bernácer,

I have at last got to your paper! I found it a help towards following it to transcribe into my own English the first 8 sections, and enclose the result in the hope that it may be useful to you, even if you do not think there is anything in my comments. I have tried to stick closely to your line of thought, though in one or two places I have added (in pencil brackets) words or symbols which seemed to be required. I have stopped at Section 8, partly owing to pressure on my time, and partly because, as you say in your reply to Mr. Domar, the essential part of your method is contained in the first 8 sections, the rest being refinements.

I have found by experience, e.g. in correspondence and conversation with Hawtrey, that it is exceedingly hard to establish complete understanding with other workers in this field, even when there is no barrier of language or distance. I offer the following comments for what they are worth, and you must forgive me if you think I have misunderstood you.

(1) It seems to me that your ~~method~~ equations require a particular definition of 'Income', according to which it includes normal profits, but not 'windfall' profits (as a positive item) or 'windfall' losses (as a negative item). Otherwise there is nothing to prevent I growing or shrinking pari passu with the growth or shrinkage of D. I do not think you make it sufficiently plain that this definition is being adopted. Thus in the passage I have marked A at the top of my page 4 it seems to be suggested that all profit enters into income but that that part of it which is undistributed counts as a loan from the recipient qua income-earner to himself qua trader. But a little lower down, at B, it is said that if ΔM is handed to and spent by consumers, that will increase D but leave I unchanged. This is only true if I is so defined as to exclude the additional profit which arises as a result of the spending of ΔM.

(2) Your criterion of equilibrium is that an index-number of the price level of final goods should remain unchanged. This seems to me all right as a first approximation, but apt to be misleading so soon as we take the movement of stocks (ΔE) into account. Thus take your proposition (vii), – that equilibrium requires the equality of ΔA and ΔE. Now ΔA may be equal to ΔE (at some positive level) for either of two reasons. (i) The hoarding by consumers happens to be balanced by a desire on the part of traders, for some technical or commercial reason, to keep a larger proportion of their 'circulating capital' in the form of stocks and a smaller proportion in the form of cash. (ii) Much more

probably, the increase in stocks is the <u>undesigned result</u> of the hoarding by consumers. In both cases, the price-level will, I grant you, be unchanged. But only the first is a case of true equilibrium. In the second case the appearance of a ΔE equal to ΔA is an indication that a fall in prices (and probably in employment etc) is to be expected.

(3) I think your conclusion in the last sentence of § 8 (marked C) is too simple as it stands. It might indeed be interpreted as conveying the important truth (or so I hold it to be) that, <u>other things being equal</u>, to preserve stability the money supply should increase pari passu with the growth in the volume of the factors of production (labour etc) at work. But as it stands your sentence says more than that, and says, I think, too much. This is because your account (in Section III, marked D) of how saving is effected through a bank is, I think, too simple to correspond with reality in a modern deposit-banking system. If I want to 'hoard' with my bank, I do not put notes or coin into it, I simply refrain from drawing cheques on my banking account, which is being swollen meanwhile by cheques paid into it by my employer in discharge of my salary. To counteract my action, the bank may very well have to create new money for the purchase of fixed capital, - otherwise my attempted saving will go to waste. Conversely, if consumers are attempting to 'dishoard', and if at the same time traders are desiring to expand circulating capital, then it will be necessary, in order to preserve stability, to find some way of diverting the savings of savers from purchase of capital goods to the building up of the new circulating capital, instead of financing the latter out of new money; otherwise there will be an inflationary development.

I don't know if I have succeeded in making these comments clear; but anyway they will serve I hope to show that I have read your paper with interest and attention.

With good wishes,

Yours sincerely,

D. H. Robertson.