

Trinity College
Cambridge
Nov 3, 1954.

Dear Señor Bernauer,

It was very kind of you to set out your views again for my benefit, and I have read your letter carefully. I always seem to agree with you up to a point, but not beyond!

It seems to me that a securities market which is functioning properly is like a tank. In any period water is entering at one end in the form of new savings, and flowing out at the other in the form of ~~new~~ purchase of new issues of securities by companies etc who are using the proceeds to buy machines, buildings etc. It is true that an interval of time elapses between the moment when a drop of water enters the tank and the moment when it leaves it, but that does not necessarily prevent the whole process from being perfectly regular, or mean that there is any chronic and persistent tendency for the water to leak away to earth.

It may happen that water piles up in the tank because some of the dealers in securities are selling old securities to the saving public without buying other securities, or because entrepreneurs are pessimistic about the outlook and unwilling to make new issues. Or again the water may pile up, after leaving the tank, in the hands of entrepreneurs who have made new issues of securities but are abnormally slow in spending the proceeds. On the other hand, exactly the opposite may happen, and the ~~level~~ level of the water in the tank, or in the hands of the entrepreneurs into whose possession it has flowed out of the tank, may sink.

Notably Davis that fluctuations may occur and do occur, and that "speculation" in the securities market may ~~be~~ affect their behavior, so that there is a case for better control of this market. When I think you are mistaken in in suggesting that the very existence of this market entails a depressive effect on industry, and that its abolition would benefit industrial productivity. For when Mr. makes you are joint to abstract money altogether, there would still always be the alternative of hoarding money instead of buying securities, and that would be more depressive still.

It was pleasant to make acquaintance at Los Angeles, through the presence of the conference, and I therefore of arrangements, presented to you from exhibit itself ideas as fully as might have been wished. I very much enjoyed my brief visit to Berkeley Spain.

Yours sincerely
Dennis Robertson.