CHRIST CHURCH,
OXFORD.

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Dear Dennis

Your disagreement with Shove about S > I' — I think he said that this must be receding, you that it might be stationary at a low level. Have not both some truth? Shove seems right that output must be receding — as entrepreneurs who are making losses contract they will reduce in a frantic effort to avoid loss. You seem right that prices may be stationary at a low level. If $\frac{E}{O}$ is the same and the gap between I' and S the same there is nothing to change prices.

Yrs
R.F.H.

No, I think that during a period in which S > I, output and employment may easily be increasing. For, by an extension of your own argument, in such a period prices may well be rising, and the consequent increase of prime profits will induce many entrepreneurs to increase output, — the effect of this outweighing the contraction of output which comes about through some entrepreneurs (who are in a position to 're-contract') closing down or cutting down the scale of production because profits are still below normal. This is, I should say, the typical position in the early phases of recovery from the bottom of a slump.

I rather think JMK now recognises this, and no longer allows us to talk about S and I, but only about ΔS and ΔI. But I am not familiar with his recent teaching, and I suspect that the difficulty is inherent in the paradoxical definition of S, but does not arise if S is defined in a common sense way, which it

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easily can be by anyone who is prepared to accept the 'atomic' mechanism of my B.P. & the P.L., and is not determined, as J.M.K. is, to apply over a period of time which is not internally homogeneous equations of a form which is only suitable for ~~[illegible]~~ periods which are homogeneous.

I have written an article about all this, which may or may not see the light.

I must resist the temptation to write about the foreign balance till I have thought more, & read your book in print.

D.H.R.

I am staying with James Meade May 6-8, & hope to see you.