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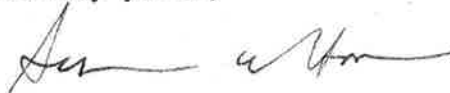
Professor Hyman P. Minsky
Department of Economics
Brown University
Providence 12, Rhode Island

Dear Professor Minsky:

At long last we have had a couple of appraisals of your article. It is a very good piece of work, according to our readers. I am, however, sending it back, because we have some interesting comments that you might like to take into account. Please do not increase the length; if anything, I wish you would try to cut it by 1,000 words.

I should also add that we have a large backlog of articles on hand, and it will take some time to get this in.

Sincerely yours,



Seymour E. Harris
Editor

ENCLOSURES

H:T

A Linear Model of Cyclical Growth

10 The author obtains his results by assuming that the structural constants d , and β of the model remain unchanged over time, but that the encounters with floor or ceiling determine new initial conditions which then affect the subsequent path of income. ✓

appropriate to footnote

The point I wish to suggest is that an encounter with the ceiling, say, may well affect at least one of these structural constants. In the author's notation, if $y_t^{(d)} > y_t^{(c)}$ than $y_t^{(c)} = y_t^{(c)}$, but nothing is said about how this adjustment (downward adjustment from $y_t^{(d)}$ to $y_t^{(c)}$) takes place. Whose plans are upset? Does the cut fall wholly on planned investment or consumption or both? If for example, investment plans are realised to a greater extent than consumption plans, then entrepreneurs may well finish the period with a stock of capital goods, which they feel is uncomfortably large in view of the realised increase in real income being less than anticipated. If so we would expect a depressing effect on the accelerator coefficient β during the next one or two periods at least. I

The author has made a welcome departure from the excessive rigidity of conventional multiple-accelerator models both in his treatment of initial conditions and the variability of the α_0 term in the consumption function, so that he might perhaps be interested in applying the same treatment to β .

refer to ER piece

One further point about the encounter with the ceiling is that there does not appear to be any discussion of the inflationary aspects of such situations. The implicit assumption II

seems to be one of constant prices throughout, so that variations in Y denote variations in real income.

2) The model is based solely on the case where the two roots of the characteristic equation are both real and greater than unity ($\mu_1, \mu_2 > 1$). Perhaps the author should indicate the

Footnote #6

OK → joint variation of α and β compatible with this condition. inevitable

An explosive solution would still emerge if $\mu_1 > 1$ while $\mu_2 < 1$

It would be interesting to see the author apply his technique to this case. Would the conclusion "if the rate of growth of ceiling income is equal to or greater than the minor root of the solution equation, then aggregate demand will continuously press against the ceiling so that steady growth will take place" still hold? Would such a case render steady growth inevitable, in such a model. Finally, It would be desirable to say something about the case where the roots of the characteristic equation are conjugate complex numbers, so that the solution path is inherently oscillatory. Would an explosive oscillatory path necessarily behave in the same way on contact with the ceiling as the monotonic explosive path considered by the author!

based upon erroneous mathematics

Footnote #6

Appendix

III

Small Points

- 1. Diagram on p.7 requires the labelling of the K_0, K_1 points on the horizontal axis. I am not clear on the connection, if any, between the investment behavior implied by this diagram and that involved in the accelerator principle.

cut out

2. p.20 final paragraph 1st line Should this not be $y^{(d)} > \lambda^n y_0^{(c)}$

2nd line $y_n^{(c)} = \lambda^n y_0^{(c)}$ likewise

4th line Should $y_{n+1}^{(c)}$ not be $y_{n+1}^{(d)}$?

3. p.21 4th line last γ symbol on this line requires a subscript and a superscript.

4. p.22 last line Should it not be $\gamma_{\cdot}^{(c)}$ in this formula similarly in the first two formulae on the next page?

BROWN UNIVERSITY
PROVIDENCE 12, RHODE ISLAND

March 31, 1958

Professor Seymour E. Harris, Editor
The Review Of Economics and Statistics
322 Littauer Center
Cambridge 38, Massachusetts

Dear Professor Harris:

I have revised the article "A Linear Model of Cyclical Growth" taking into account the comments of the referees. I have had the remarks typed and I indicate on the enclosed copy where in the manuscript his remarks are taken into account. The appendix dealing with the cyclically explosive case and a number of the additional footnotes are due to his comments. I believe I cut more than 1000 words from the body of the manuscript. In order to provide space for the symbols I had the secretary triple space the manuscript, hence the apparent length of this version.

Sincerely yours,

Hyman P. Minsky