

November 17, 1937.

General R. E. Wood,
President, Sears, Roebuck and Company,
Executive Offices,
Chicago, Illinois.

Dear General Wood:

Thank you very much for the Moody summary of the monetary situation. I read it carefully and thought it unusually good. You may be interested in the enclosed comments by Dr. Currie which, among other things, attempt to answer some of the queries you indicated in the margin of the summary.

I should like to make a few comments of my own on some points you raised in your letter. I cannot agree that fear is the basic cause of the downturn in business. It seems to me that our present difficulties are directly traceable to the excessive wage and price advances last winter and spring. These advances have two undesirable results. They lead to an extension of forward buying and an increase in inventories. They also killed off the promising building revival. If building had continued its upward course, consumer buying would have been sufficient to provide for moving inventories, and new orders to manufacturers would have come in in time to take up the slack as old orders ran out.

The decline in railroad equipment buying in the summer, the stock market break, and the decline in Government expenditures and increase in tax collections were contributing factors. Now that business activity has turned down, business men are intensifying their difficulties by a concerted rush to reduce inventories and diminish plant and equipment expenditures.

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If this is the correct analysis of the present situation, -- and there is a lot of evidence in support of it -- it follows that since raising reserve requirements and sterilizing gold had nothing to do with the previous upsurge in prices and subsequent downturn in building, they are in no way responsible for our present difficulties.

While measures to increase bank reserves at the present time might have, as you suggest, favorable psychological reactions, they could hardly be expected to lead to increased building and capital expenditures generally. I feel very strongly that every effort should be made to bring about an expansion of consumer incomes and buying power through the stimulation of construction.

A final conclusion I draw from my analysis of the current situation is that we simply cannot afford in the future to let labor costs and selling prices get out of hand again.

Yours sincerely,

M. S. Eccles
Chairman.

Enclosure

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