

Sears, Roebuck and Co.

Executive Offices

Chicago

R. E. Wood
President

December 18, 1936.

PERSONAL

Honorable M. S. Eccles, Chairman,
Board of Governors of the Federal Reserve
System,
Washington, D. C.

My dear Mr. Eccles:

You must think I am a confirmed letter-writer, but I want to get this off my chest.

I attended a meeting of the Directors of the Federal Reserve Bank of Chicago yesterday. At the meeting, I brought up the question as to whether the Boards were expected to express their opinions on matters of policy to the Board of Governors in Washington. Mr. Schaller said he had informally expressed the opinion of the Board here whenever he went on to Washington.

The specific question of policy involved was the raising of the reserve requirements. There has been a good deal of comment in the public press. Mr. Schaller stated that as far as he knew there would be no action taken until toward the end of January or early in February. I told the Board that I wanted them to be thinking about the matter and that at our next meeting on January 8th I would prepare a memorandum giving our opinion. Of course, it will be merely an opinion which the Board of Governors in Washington can accept or reject as they see fit. However, as the subject is an important matter of policy, I think the Board should express their opinion.

Personally, I have very grave doubts as to the wisdom of this step. I cannot see a "boom" yet. You cannot call a country in the midst of a "boom" when there are still 4,000,000 to 8,000,000 unemployed. I do not want to see any banking step taken which will interfere with the progress of industry and of agriculture. I am very strongly of the opinion that we should continue our easy money policy. I am not enough of a technical banker to know what effect the raising of the

Honorable M. S. Eccles:-

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reserve requirements will have but I am informed that, unlike the previous raising of requirements, it will mean a great many of the smaller banks of the country will be affected. Certainly, it seems that the Board in Washington should stop, look and listen before taking this action.

As far as the stock market is concerned, it seems to me there are two steps that could be taken which would effectually prevent any runaway market. The first step would be one advocated in a recent address you made in Boston before the New England Bank Management Conference — the placing of a tax on profits of foreign investors, provided the securities were bought and sold within a three to five year period. I think that would effectually stop the flow of speculative funds from abroad.

As a second step, I think an amendment, not the repeal, of the capital gains tax would help. In other words, if the profits on stock or other capital assets held over five years were cut to a straight 10% or 12½%, I think there would be enough stock coming out domestically to counteract any runaway movement.

In connection with this question, I thought you would be interested in the attached extract of an article which I took from the London Economist when I was in England, giving the views of three of their well known economists. You will note that they substantially agree that the easy money policy should not be modified until practically all their unemployment has been abolished.

Very truly yours,



December 23, 1936.

PERSONAL AND CONFIDENTIAL

General R. E. Wood, President,
Sears, Roebuck and Co.,
Chicago, Illinois.

My dear General Wood:

Your letter of December 18th is extremely interesting and you may be assured that far from regarding you as a confirmed letter writer, I am always glad to get your views because they are always both informed and to the point. And I feel free to write you very frankly and confidentially on such matters as your letter raises.

It seems to me offhand that while it is helpful to the Board here to have the views of the directorates of the banks in connection with the questions of national credit policy, such as the problem of reserve requirements, it might not work out so well in practice if the directorates of the twelve Federal reserve banks were to make a public record of their expressions of opinion from time to time on these problems. Needless to say, I am by no means concerned with any considerations of prerogative, but I am wondering whether it would not tend to give a misleading public impression of divided counsels, or even confusion, within the System if the twelve bank directorates were to make a practice of filing their opinions in any formal way with the Board here. It seems to me that it is not in the interest of the System to exhibit the divergencies of viewpoint which have so often been publicized in the past, so that regardless of the merits of contending viewpoints the impression was given that the System was a house divided against itself. While some of the controversy thus generated was doubtless helpful, a great deal of it was distinctly harmful in laying the System open to attack from those on the outside who seize upon such circumstances in order to argue for a fundamental change in the setup or for abolition of the present System as we know it.

The case in point serves to illustrate very clearly one of the difficulties that I have in mind. The question of increasing reserve requirements is admittedly controversial, but it covers a very large range of considerations, all of which must be

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very carefully weighed before any decision is taken.

On the basis of your own words, let me say that I agree that there is no "boom" as yet in the sense of an unhealthy inflationary situation requiring restrictive action. As you say, there is still a large volume of unemployed. In addition, I might say that national income is still possibly 20 billions of dollars a year short of pre-depression levels and plant capacity is not yet fully absorbed. So far as I am concerned, I do not want to see any banking step taken which will interfere with the progress of industry and of agriculture. I do not want to see any reversal of easy money policy, and if I supposed for a moment that an increase in reserve requirements would tighten money and retard recovery, I would be wholly opposed, certainly at this time. While I, of course, cannot speak for my colleagues, I venture to say that their views are much the same.

You will recall, however, that there was a great deal of talk before the previous raising of reserve requirements and a variety of predictions to the effect that the action would be restrictive and tightening on money rates. I have no doubt that some of those forces which were advocating the action hoped that this would result in higher interest rates, but the Board was convinced that no such results would follow and events have justified that conclusion. While I do not know what action, if any, may be taken in the near future, it is apparent that with a volume of excess reserves approximating $2\frac{1}{2}$ billions of dollars, which is what we have reason to expect early in the new year, something will have to be done sometime to keep any such potential dynamite from exploding. Manifestly, there is no conceivable use short of a wild inflation for any such gigantic volume of reserves. As the Board emphasized in announcing the last increase, the time to act is before these reserves become a basis for bank loans and investments. To act after the reserves are put into use is to precipitate liquidation and deflation—the very things which we all want to avoid.

I cannot, of course, explore all the ramifications of this broad subject in the space of a letter, but I wanted to say enough to make clear that I am opposed to any action that would interfere with the progress of recovery or that would make for tight money; and that the very thing I wish to avoid is the development of a situation in the future in which the only recourse

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and remedy would be the traditional application of tight money brakes that would be disastrous to all business and industry, as has been the case in the past.

What I would particularly like would be to have an opportunity to sit down and discuss these matters more fully with you. I gathered from your previous letter that you expected to be in Washington possibly early in the new year, and I hope that we may get together at that time when we can debate this subject more readily than by correspondence, and in addition, you can give me the benefit of the views you brought back from your trip abroad this fall. I have noted with interest and general agreement the extract from the London Economist.

Again let me say that I appreciate having the frank expression of your opinions which are decidedly helpful, and I trust that you will in fact become a confirmed letter writer, at least so far as I am concerned. I would consider that a virtue and not a vice.

With kind regards,

Sincerely yours,

M. S. Eccles,
Chairman.

 ET:b