May 18, 1937.

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

My dear General Wood:

The comments in your letter of May 14th with reference to the inflow of gold are particularly interesting and I hope that I may have an opportunity to talk over this large and complex subject with you sometime when you are in Washington.

I shall not venture to go into the matter in the limited space of a letter, but I want you to know that I appreciate having your views, and even though we may not always see eye to eye, I am glad to get your slant on these mutual problems and policies.

With kindest personal regards,

Sincerely yours,

M. S. Eccles,
Chairman.

ET:b

Sears, Roebuck and Co.

Executive Offices
Chicago

R. E. Wood
President

May 14, 1937.

Hon. Mariner S. Eccles,
Chairman, Board of Governors,
Federal Reserve System,
Washington, D. C.

My dear Mr. Eccles:

I received a confidential report from the Federal Reserve Bank here, giving the comments of the Division of Research and Statistics of the Board of Governors on a memorandum prepared on April 30th by the Federal Reserve Bank's Division of Research and Statistics on the possible reactions to a downward revision in the buying price of gold.

I agree with the comments of the Division of Research and Statistics. The trouble with their comments is that they do not state in their memoranda the far-reaching effects on domestic and world economics of a change in the price of gold. In my opinion, it would cause a very sharp drop in the price of cotton and tobacco, which are, of course, export commodities. We would have a little slower drop in domestic commodities but nevertheless a sharp drop, and a consequently declining market. Just as in 1933, when the foreigners were quick to grasp the import of a rise in the price of gold and bought American securities heavily; so in 1937, would they rush to sell, with a near panic resulting. It would have a very broad effect on individual and corporate income, with a consequent disastrous effect on the tax revenue of the government. Not only would the effect be disastrous in this country, but it would reach all corners of the globe - Canada, Australia, and South Africa would suffer heavily. Great Britain, as a result of the falling off of orders from the dominions would be seriously affected, and in general world trade would actually decline. Political repercussions would follow economic repercussions and the most serious consequences would result.

While I fully realize some of the present complications due to the present heavy inflow of gold, it seems to me that these are more or less of a temporary nature and will rectify themselves sooner or later. If our securities get too high, foreigners will sell them, with a consequent heavy outflow of gold. If prices of commodities rise a great deal above their present level, the production ofgold will be curtailed.

The Department of Labor index on all commodities stands at 87.5 or 12½% below the 1926 level. Prices in general are not too high and can stand a further rise. If, however, the index rises within the next two or three years to a figure of 120, it may then be advisable to consider the changing of the price of gold, but it is certainly not advisable at the present time.

Sincerely yours,

Ewing