Form F. R. 131

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date October 22, 1937.

To Dr. Goldenweiser and Dr. Currie

From Mr. Thurston

Subject: Letter of 10/13/37 from R. E. Wood to the Chairman enclosing copy of Moody report.

The Chairman asked me to pass this on to you because he regards the photostat memorandum as unusually good.

He thought possibly Dr. Currie could prepare a reply to the letter from General Wood.

Attachment.

Sears, Roebuck and Co.

Executive Offices

Chicago

R. E. Wood
President

Oct. 13, 1937.

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

Dear Governor Eccles:

I was sorry that I missed seeing you in Chicago. You were meeting with our Board in Chicago at the time I was having lunch with the Board in Washington.

Enclosed herewith is a copy of an analysis made by the Moody people, which you may not have seen. Much of it is technical, but whether the facts and figures are correct could be determined by Dr. Goldenweiser.

I spent five weeks away from the world, up in the wilds of British Columbia, returning to Chicago on September 7th. For the first three weeks after my return, I was inclined to largely discount the situation. In other words, I felt that the situation was basically sound and that barring a period of two to three months of decreased consumption no great harm would be done, particularly if the public continued its buying.

I find, however, that the steady, prolonged and heavy decline in the stock market, which has now extended over a period of two months, is not only causing great alarm and fear among financial and industrial circles but there are signs of its spreading to the people. If it does spread to the people, results will be disastrous, and instead of a 60 to 90 day period, we may have six to nine months of bad times. The stock market of itself is unimportant, but when the stock market has an influence on business and on the psychology of the people, it is important.

Personally, I can see no basic cause for the decline. If there were ever a case of the psychology of fear, this is one; it shows how powerful that psychology is. As I told you last winter, I was doubtful of the expediency of the second raise in reserve requirements and of the sterilization of the gold. I still feel that one or both of these moves were mistakes, not the first increase in reserve requirements but the second one.

When in Washington, I discussed with the Board the question of unsterilizing the gold. The most potent argument against this view was raised by Chester Davis when he said that the Federal Reserve had already taken one step which apparently had very little effect, and that if another similar step were taken, it would give the people the impression that the Board itself was jittery and, as such, would do more harm than good. At the time, the argument appealed to me strongly but in thinking it over, I am not so sure that the argument is sound.

I think that if the Board unsterilized the balance of the gold and stopped further sterilization of gold coming in from Europe, it would be interpreted very widely as meaning that while the Federal Reserve Board had shown by its previous actions that it would oppose disastrous inflation, at the same time it was equally determined to stop any deflation. I think it might put a stop to the stock market deflation now going on, and that in turn would tend to restore confidence which at the present time is shaken.

Sincerely yours,