

# Sears, Roebuck and Co.

Executive Offices

Chicago

R E Wood  
President

Nov. 19, 1937.

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

Dear Governor Eccles:

I have your letter of the 17th as well as Dr. Currie's comments on the Moody investment service bulletin.

I agree with you that the excessive wage and price advance last winter and spring is partially responsible for our present difficulties. I think, however, that you are wrong in thinking it is entirely responsible.

I have just returned from the regular monthly meeting of the Federal Reserve Board in Chicago. A number of resolutions were passed which will be forwarded to you in due course. I am writing this letter purely as an expression of my own personal views, though in all the resolutions being forwarded, my ideas coincided with those of the Board.

Repeal or modification of the undistributed profits tax will help; repeal or modification of the capital gains tax will help; if your housing program is carried through, it will help tremendously; if the President and the Utilities can get together, it will help; if something can be done to aid the railroads, it will be a help. All of these things, I am in favor of, but I have a feeling that they are not enough. Moreover, many of these things may come too late, for daily we are getting into a more dangerous position.

I believe that you and the other members of the Board in Washington, your economists and advisors, have committed one cardinal error. You do not take psychology into account, and it is a tremendous force at the present time. You have adopted an easy money policy, which is sound, and you have made credit easy, which is also sound. The fact of easy credit, however, is not going to do any good without confidence, and in spite of any moves we may make, I question whether the people who control capital will acquire confidence as long as the present ad-

ministration is in power. Mind you, I do not sympathize with that view, but I think that is the situation. I am hearing the same old stories that I heard back in 1932 and 1933. A very prominent man in Chicago told me last night that he had put enough cash in the bank to carry him and his family for five years. I told him I thought he was a fool but that is not going to change his mind.

I believe that the only thing that is going to force capital to come out and get to work, that is in a big way, is the fear of inflation. The moment you remove that fear, capital goes into hiding and refuses to work. It is for that reason that I am so strongly advocating a lowering of reserves and the desterilizing of the gold. If that is done in conjunction with the other steps, I think it will do positive good, though if taken alone, it may not avail so much.

One may smile at Angas and his bulletins. I might state that I am not a subscriber to his bulletins and I never met the man but once. However, some of the things he says are absolutely true, such as "The main causes of the slump both in stocks and trade were, and are, deflation psychology and fear of the Government's anti-profit motive." Dr. Edie, who is a conservative and diametrically opposed to Angas, comes to identically the same conclusion in his bulletin of November 17th, saying "Monetary policy has played a more important role in the present business recession than is commonly realized." The point I want to make is that whether you intended to or not, the Administration and the Federal Reserve Board have created a deflationary psychology which, coupled with the natural timidity and fear of capital, has put it, so to speak "on strike" similar to that prevailing in 1931 and 1932.

As stated above, I feel we are getting into a more dangerous position every day. The movement is gaining momentum, and if it gains too much momentum, even the most carefully conceived plans that have been worked out, will not stop it.

I think you know the admiration I have for your intelligence, honesty and courage. The fact that I do not agree with you on this particular point does not mean that in any way I have changed my regard for you. I, of course, may be entirely wrong in my ideas, but we are all entitled to the benefit of our opinions.

Sincerely yours,

