

February 7, 1938.

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

Dear General Wood:

This is to acknowledge receipt of your letter of February 2d enclosing the supplemental material prepared by your merchandising department, which reflects prices of various leading articles of consumption. I have taken note of the letter to you from Mr. Robert M. Harriss, a copy of which you also enclosed.

It is rather futile to attempt to discuss all the implications raised by your letter and by his. Obviously, one basis for misconception is that you are talking about the wholesale price level as reflected, for example, in the Department of Labor index. I have been talking not about the general price level, but about the unbalanced relationships within the price structure. I have never said that the general price level was too high, but you could raise it or lower it and still have the unbalanced interrelationship which is largely the reason for the collapse in building and construction generally and in the railroad equipment field, all of which directly affects heavy industries.

Of course you can present an almost endless list of consumer goods which either have not gone up or are actually lower priced. You can pick out some items that go into building likewise, but all this is beside the point. The evidence, I think, is overwhelming and conclusive that building and construction costs have been and still are badly out of line with consumer purchasing power. Such prices either must be brought into line with consumer purchasing power or consumer purchasing power must be increased. I would probably

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go along with you on the latter point and I agree that the longer we wait, the worse the situation becomes.

You say that you do not agree with all that Harriss says, but that you do agree with some of it. From your testimony before the Byrnes Committee, I assume that you favor complete sterilization and spending all impounded gold, and that you also favor drastic reduction of reserve requirements. Let us assume that these steps were taken. We would then have in the neighborhood of five billions of dollars of excess reserves. That would not add one dollar to bank deposits or to purchasing power. The effect either would be nil or it would create such an inflationary scare that there would be a veritable stampede to exchange dollars for things. We had too much of that psychology a year ago. The testimony of responsible economists everywhere and the experience of history leave no doubt that such an effect would lead to the worst kind of disaster.

The letter which you enclose reflects a hopeless confusion. Point 7, for instance, alludes to the fact that "we have outstanding only approximately \$6,500,000,000 of currency". That happens to be about two billions more of currency than we had outstanding at the peak of the boom period throughout 1928 and 1929. The largest volume of currency we ever had outstanding was during the bank holiday in 1933, when business was in the most prostrate condition on record. As soon as the banks were reopened the currency flowed back, fortunately.

Frankly, I must confess that I feel somewhat dismayed when men who occupy outstanding positions in the business world give aid and comfort to perfectly reckless inflationary forces which are obsessed with superficial considerations, particularly in regard to the price level, and ignore practical factors which we need to understand and correct if we are to resume a healthy, orderly and lasting recovery movement.

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The temptation is great to prolong this letter. Let me make just one more assumption: Suppose we double the prices of everything right now. Suppose at the same time we could double everybody's wages and salaries, and all fixed charges and incomes—for, obviously, if you double prices without doubling incomes, almost everybody would be that much worse off. So, I am assuming that we double everything. I will assume also that this will make it much easier to pay existing debts, the value of which will then of course be halved. However, the same disproportions that now exist would only be perpetuated. The farmers, unorganized labor, the great mass of middle class workers would be no better off relatively than they are now, in their ability to buy houses and such other things as are out of line in price relative to consumer purchasing power.

So far as I am concerned, this whole line of reasoning is utterly fallacious, and I would be genuinely distressed if I thought you intended to lend support to it publicly.

As I have said repeatedly, I know you have the public welfare deeply at heart. I appreciate your great interest and open-minded approach to public issues and problems. I am always glad to have the benefit of your views. These letters are an unsatisfactory medium for a discussion of them. I do not want to see you get into a false and untenable position. You occupy so influential a place in the public eye that it would be tragic to have you give color to forces and influences which are always clamorous in periods of depression for the easy but fatal expedient of inflation.

Sincerely yours,

M. S. Eccles,
Chairman.

ET:b