

MEMBERS
NEW YORK STOCK EXCHANGE

Wood, Low & Co.

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December 15th, 1937.

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

Dear Governor:

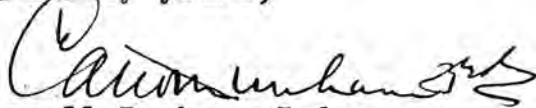
I read your speech to the American Farm Bureau Federation in the paper this morning with a great deal of interest, particularly because to me it is a thoroughly clear and intelligent exposition of the fundamental causes of the trouble.

I think there is only one thing you have left out, other than the recurrent question of the incidence of taxation, and that is the vital importance to our economy of the creation of debt. As I see our record in this country, we are dependent upon the creation of debt at a fairly consistent figure for a reasonable degree of well being and it makes little difference whether the debt is created by Government or private sources. Without its creation there seems to arise pretty quickly a deterioration in the economy.

Congratulations on such a clear and able speech. I wish there were more who thought as clearly and spoke as frankly as you do.

My best to Larry Clayton.

Sincerely yours,


Carroll Dunham, 3rd.

CD/DW

December 18, 1937.

Mr. Carroll Dunham, 3rd.
Wood, Low & Co.
63 Wall Street
New York, New York

Dear Carroll:

Mr. Eccles has asked me to reply to your letter of December 15 which arrived here during his absence at Chicago. He appreciates very much your complimentary references to his Chicago address. He was furthermore much impressed by the second paragraph of your letter in which you show an understanding of the function of debt in a capitalistic economy. Too many financial people seem to forget the point you make and are always urging that prosperity comes through the payment of debt and acquisition of property free from debt. They ignore the fact that the capitalistic system is founded upon a debtor creditor relationship and you can't have a creditor without having a debtor. It would be fine if we could all be creditors.

The point you made was deliberately left out of the Chicago speech since the Chairman felt that at other times and before other groups, particularly financial groups, this phase of the problem can be discussed to better advantage. An example of this was at Boston a year ago this fall before the New England Council and I am enclosing a copy of Mr. Eccles' speech on that occasion. In it you will see developed the general proposition that when private debt is contracting, government must expand its debt in order to prevent deflation. Contrariwise, when private debt is expanding to a sufficient degree, government debt should be contracted in order to prevent inflation. This balancing mechanism is not within the control of monetary management as it involves spending and taxation policies as well as the necessary balance in the cost price relationship in industry, trade and agriculture generally. Last fall, with favorable monetary conditions and a fair balance between cost and prices we were forging rapidly ahead and the government's debt could have been contracted rapidly at the time and a better balance might have been preserved. Unfortunately both private and government debt were increasing rapidly at that time, which created overconfidence and excessive demand. On the contrary, this year with private debt rapidly contracting, the government itself is reducing its net excess of disbursements over receipts by some two and a half billion as against last year. Thus we are witnessing a period of monetary management but economic mismanagement.

Well, this is too large a subject to cover more fully by letter, and I hope that you and the Chairman will have an opportunity to discuss these matters in person some time.

With very best wishes to you in which the Chairman joins, and hoping you will have a right merry Christmas, I am

Yours sincerely,

Lawrence Clayton