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6711 Rugby Ave.,
Huntington Park, Calif.
April 9, 1951.

Hon. Marriner Eccles,
Federal Reserve Bldg.,
Washington, D. C.

Dear Mr. Eccles:

I heard your address to the bankers at the Biltmore Hotel in Los Angeles last Saturday afternoon with a lot of interest.

I wonder if you have ever come across the explanation, in substance, of the chief source and cause of the debacle of 1929-33 given in the enclosed paper entitled "The Reading of the Riddle"?

It has been read and commended by prominent economists including Dr. T. N. Carver and the late Gen. Leonard P. Ayres. The latter had his assistant, L. M. Whittington, write me under date of February 21, 1938, in part as follows: *******, but before he left he asked if I would write and tell you that he read your paper with great interest and thanks you for allowing him to see it. He suggests that you offer it for publication to the Times Annalist and to the magazine Banking. ***********". But no one would publish it, so I copyrighted it so as to get it on record. Dr. Irving Fisher, who of course is deceased, was among those who read it.

It seems to me that this paper shows that it was not the gold standard and sound money that failed in the debacle of 1929-1933, but managed money.

I think that managed money is a powerful cause of the reckless spending and obligating the U. S. Government to spend and give away which has been going on for years and still goes on, and, also of the moral breakdown of the American people.

If you should quit the Federal Reserve, I hope the good people of Utah will send you to the United States Senate.

Very truly yours,

(Signed) H. A. Woodard

P.S. If after reading this paper you should be throwing it away, I should be glad to have you return it.

May 1, 1951.

Mr. Henry A. Woodard,
6711 Rugby Avenue,
Huntington Park, California.

Dear Mr. Woodard:

Let me thank you for your letter of April 9 and for the enclosed paper, "The Reading of the Riddle." I have read your analysis of the causes of the 1929-33 depression, which are traced back to monetary policies just prior to and during the 1920-21 deflation, with considerable interest. As you have requested, I should like to make two principle comments:

First, in this article you hold the view that the Federal Reserve System during the 1919 inflation following World War I "staged an experiment in planned control to increase the value of the dollar." Their principal tools in this endeavor to force deflation upon the country were the discount rate and other monetary control measures of a restrictive nature.

I cannot agree with you that the monetary authorities through their policies have ever provoked "deliberately" the 1920-21 recession, which was largely the result of an earlier speculative expansion in inventories, or any other recession. Inflationary pressures which require the introduction of restrictive credit policies on the part of the Federal Reserve occur when the available supply of goods and services is not sufficiently great to meet all the military and civilian demands, including those both of the Government and of private consumers and business concerns. When the Federal Reserve Board attempts to combat these inflationary pressures through the use of all the monetary means at its disposal, as it did in the period just following World War I and as it is doing at the present time, it never seeks "deliberately" to deflate the price level by a certain percentage amount and to provoke a recession and unemployment. It seeks merely to reduce the banking and monetary contribution to the existing excess demand for goods and services and, therefore, to the existing inflationary pressures.

Second, it is true, as you state, that the 1920-21 deflation increased the value of the dollar by a large amount which, indirectly, resulted in a contraction of bank loans outstanding and in an easing in the banks' reserve position. It is also quite true that an overextension of credit both at home and abroad in the later 'twenties, the resulting expansion in spendable purchasing power, the excessive stock market speculation, and the unrestrained purchases of goods on credit were important and powerful factors contributing to the boom of the late twenties and to the subsequent 1929-33 collapse and depression. We must avoid a similar repetition of the experience in those boom years and we must avoid policies which will contribute to excessive credit expansion at the present time.

In my opinion, you greatly oversimplyfy the whole economic process, however, to charge to the Reserve System's anti-inflationary policies in 1919 and 1920 the entire complex sequence of economic developments during the following decade, including the 1920-21 recession, the 1928-29 boom, and the 1929-33 depression!

I can agree with you that the full harmful effects of inappropriate credit and tax policies in a period of inflation may be long delayed. As you know, the defense of the dollar must be our primary concern at the present time. Further inflation would erode the savings of the people, impoverish all recipients of fixed income, and destroy incentives to production. All of these effects are of a long-range nature and permitting them to take root would corrupt the very moral fibre of the nation.

The dollar already has been permitted to depreciate too far. The only way the purchasing power of the dollar can be preserved is through a tax program that will keep the Federal cash budget in balance for as long as inflationary pressures exist, and through monetary and debt management policies that will effectively regulate the expansion of bank credit in relation to the total output of goods and services.

I hope that these remarks will help to answer, in part, your questions about the evils of managed money, and if you have any further questions please do not hesitate to write to me. Although I think that your paper contains a great deal of very interesting historical analysis, we probably shall have little further opportunity to make use of most of it. We therefore are returning it to you with this letter, as you have requested.

Very truly yours,

M. S. Eccles.

CHS:mf

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