to remain, although it remains only in the context of appropriate regulation of futures markets, not in the context of credit controls. If and when excessive speculation should occur in commodity futures, the price level could be temporarily distorted, either upward or downward, depending on whether buying or selling was excessive. The questions then become (1) How prevalent are temporary price distortions that result from excessive speculation? and (2) How effective would margin controls be in correcting any such distortions? Our studies of price behavior on numerous futures markets have shown that price movement tends to excessiveness on those markets which have inadequate speculation. The thin futures markets, relatively little used, tend to produce two kinds of price distortion. One kind is the relatively large dips and bulges caused by transactions, since the market is not broad and liquid, buyers have to bid the price up to find sellers, sellers have to offer the price down to find buyers. The other kind of price distortion is the persistence of prices which are too low or too high, as thin markets tend to be lopsided, owing to more persistent trading efforts by one side or the other. The reasons for this imbalance vary from one market to another, but the fact is well established that some thin futures markets evoke persistent underestimates and others persistent overestimate of price. In contrast, prices on the larger futures markets, with more speculation, display smaller dips and bulges and no general tendency to overestimate or underestimate subsequent price levels. The conclusion must be that, in general, larger amounts of speculation are desirable, for reducing prices, price distortions of the kinds described.

In specific instances, of course, the mistaken ideas of speculators may carry prices to an incorrect level, even on the largest market. These infrequent distortions can be identified in a careful retrospective analysis after all the facts have emerged, but it would be virtually impossible to identify them while they are occurring. In April of this year, for example, a front-page article in the Wall Street Journal analyzed wheat prices in relation to the weather and pointed to the likelihood that prices would rise to $2 per bushel from the $1.75 level then prevailing. Instead, as the weather improved, prices subsequently declined to $1.50 per bushel. If speculation had carried prices to $2, we can now see that it would have been a mistake. Yet in April it would have required clairvoyance to make that judgment.

The implications for margin controls may now be summed up. There is no general case for higher margin levels. Existing levels have provided the protection sought whereas higher levels, to the extent that these would discourage futures trading, would be a disservice to the economy. Raising margins on occasion, to discourage temporary excesses of speculation, is not feasible because it is not possible to identify excessive speculation at the time of its appearance. Nor should the fact be ignored that futures markets are essentially hedging markets used by commodity firms because of the great economy of trading futures. Anything which reduces that economy necessarily raises the cost of doing business, which must be reflected in higher consumer prices and lower prices to growers.

I conclude that excessive speculation in futures contracts is rare, that it has no significant effect upon consumer prices, that consumer