

used accordingly to keep down the volume of stock market credit even though lenders are able and eager to lend. ((⁴) p. 59.)

Another effect of high margin requirements is to restrict the amount of pyramiding that can take place in a rising market. In other words they limit the extent to which traders may add to their holdings, when the market is rising, by borrowing against additional market value of securities already held in their accounts without putting up additional money on rising stock prices as well as on growth of credit employed in the stock market. ((⁴) p. 59.)

The Federal Reserve in describing its purpose and functions points out that by regulation of margin requirements the danger of excessive use of credit in the stock market, which caused serious disturbances to the economy in the past, has been minimized. Thus it is felt that a speculative stock market boom financed by credit, like the one that culminated in 1929, could hardly have occurred except on the basis of very low stock purchase margins. A boom and collapse in the stock market is always possible, but without the excessive use of credit it is not likely to assume proportions or to have the effects it has had on some occasions in the past.

Aside from having to do with a specific use of credit, the authority with respect to security loans differs from other Federal Reserve System powers in that it reaches outside the Federal Reserve System to banks that are not members of the system and to brokers and dealers in securities. It is closely related, however, to other regulatory powers of the Federal Reserve authorities, because the use of credit for purchasing or carrying securities has an important bearing upon its use for business purposes in general. ((⁴) p. 60.)

On the whole one may say that margin requirements should be regarded as one of the instruments of Federal Reserve action which serves the general purpose of regularizing the flow of money and credit, fostering a stable dollar, and providing an effective monetary mechanism that will be conducive to the country's growth. This is evidenced by a brief account of the margin requirement changes from their institution in 1934 to the middle 1950's.

For several years before the war, the Board's regulations required margins of 40 per cent. During the war the requirements were raised to 50 per cent, then to 75 per cent, and in 1946 to 100 per cent. The 100 per cent requirement was in effect from early 1946 to early 1947, when it was reduced to 75 per cent, making it possible for banks and brokers to lend 25 per cent of the value of the collateral. The margin requirement was reduced to 50 per cent in the spring of 1949 at a time of moderate business recession and was restored to 75 per cent early in 1951 when inflationary pressures following the outbreak of the Korean war were at their peak. In early 1953, when these inflationary dangers had begun to abate, the margin requirement was again reduced to 50 per cent. ((⁴) pp. 58-59.)

As an example of how the use of credit in the stock market influences the decisions of the Board in setting margin requirements, the commentary to the July 10 reduction in margin requirements from 70 to 50 per cent, in the *Federal Reserve Bulletin* of July, 1962, p. 840, was:

"In making this change the Board took into account a sharp reduction in stock market credit in recent weeks and the abatement in speculative psychology. Bank loans to customers for the purpose of purchasing or carrying registered stocks declined more than 5 per cent in June to a level of \$1.3 billion. Furthermore, preliminary data indicate a \$600 million drop in borrowing by stock exchange member firms from banks on customer collateral, the largest decline in the postwar period."

The Board's regulations require the lender to obtain the specified margin in connection with the purchase of the security. If the collateral security for the indebtedness subsequently declines in value, the regulations do not require the borrower to put up additional collateral or to reduce the indebtedness. However, the banker or broker making a loan may require additional collateral if he deems it necessary. ((⁴) p. 58.)

It thus seems clear that the margin requirements of the Federal Reserve System governing transactions in the stock market serve entirely different purposes from those of the margins used in the commodity futures markets. Where the latter are used to protect the clearing house, the former is a means for influencing the credit conditions in the economy in general and use of credit on the securities market in particular. Where margins are used in the securities

⁴ *The Federal Reserve System, Purpose and Functions*, Washington, D.C., 1954.