Mr. BINGHAM. Regular order.

Mr. WILLIAMS. At the same time my time is being sacrificed.

Mrs. SULLIVAN. Please, Mr. Williams. You will receive your turn.

Mr. Halpern?

Mr. WILLIAMS. We started on the 5-minute rule some time ago and the past half hour we have heard from two people.

Mr. HALPERN. Madam Chairman.

First, I would like to commend the distinguished panel in enlightening us on many phases of this legislation which I am sure will be most helpful to us.

I might add, as a little sidenote, that while the subject of commodity futures is rather dull to most people, I was interested in seeing a recent story in Playboy magazine that puts sex appeal into a rather little known and complex subject.

Professor Gray, since the commodity markets are fairly complex institutions, perhaps you would be so kind to answer some basic questions as to the operation of these markets.

First, precisely, what function do these markets perform that could not be achieved by direct transactions between the producers of the products and the commercial purchasers?

Mr. GRAY. Several functions, Mr. Halpern.

First, and most importantly, they enable better adjustment, a better allocation of the commodity over time which would be impossible with only cash or spot transactions which is possible but made very awkward and expensive with forward contracts, forward contracting which is done, so futures affect this allocation of the commodity through time with much greater economy and efficiency than any other market.

Secondly, the job of price determinations and where you have a well-used futures market for any commodity, then the price of the commodity is actually determined on the futures market and all of the cash or spot transactions are geared to or related to it. The advantage here is the centralization, the bringing together of all of the supply and demand influences into one marketplace so that you get a more accurate, continuing reflection of supply and demand in price at any one time.

Finally, and particularly from the standpoint of the firms that I am representing here today, hedging, which would be impossible or prohibitively expensive if you didn't have commodity futures markets, enables these firms, for example, to obtain financing of their inventories at considerably more favorable rates from the banks than they otherwise could do. Hence, reducing the marketing margin—hence reducing the cost of doing business. And again, it is only because they can trade these contracts very cheaply with minimal deposits for protection of all parties to the trading, that it is possible for them to achieve this economy.

Mr. HALPERN. Could you tell us exactly what the relationship is between the price I pay for wheat futures contracts on the commodity exchange and the price paid for a bushel of wheat by a commercial baker?

Mr. GRAY. The relationship is very close, and it is guided essentially by the question of what we call carrying charges. If, for example, at the present time you looked at wheat prices in say the Kansas City