adverse to the customer during this period, he will sustain a loss on the liquidation of his contract. That loss will be paid by his clearing member. To secure his clearing member for his obligation to pay the amount of the loss, he puts up cash in advance and this cash is called "margin" on a commodity exchange. The amount of the margin required is measured by the probable amount of the obligation to pay for the price differential. It has nothing to do with the purchase price and it is not a down payment on the purchase price.

The raising of margins on a stock exchange will discourage purchases because less credit against the purchase price is permitted; but there is no credit against the purchase price in a purchase on a commodity exchange. To raise margins on commodity trading is to force the customer to give excessive security to his broker. This excess is not needed and would merely act as a penalty without relation to its purpose.

If more were needed to demonstrate the erroneous thinking behind this bill, we might consider the case of a seller. Unlike the situation on a stock exchange, every contract to purchase on a commodity futures exchange involves a short sale and sellers are required to put up the same margin as buyers. This is so because the margin is to secure the broker against variations in price and a seller who liquidates his position stands to lose as much as a purchaser by reason of changes in price. Since margins should be the same for sellers and buyers, the raising of margins beyond the point necessary to secure the broker, would discourage sellers from entering the market with the result that (if the market were still alive) prices would presumably rise.

Assuming that experience has proved that increases in margins for stock purchases has been effective to halt increases in prices, the experience on the commodity exchanges has been to the contrary. Without burdening the Committee with details, we refer to the testimony submitted last year at the hearings on H.R. 11788 which showed that when margins were increased for copper, grain and cotton, prices did not decline. Prices may have risen because of the discouragement of short sellers by making it more expensive for them to trade or for other reasons. In theory, however, there is no reason why increased margins should prevent increased prices because they are not a part payment on the price and are unrelated to the extension of credit.

Inherent in the thinking behind this bill is the assumption that speculation is the root of all evil and that excessive speculation causes higher commodity prices. Thus, the bill states that control is to be given to the Federal Reserve Board to prevent "excessive speculation . . . . in commodity futures contracts having the effect of inflating consumer prices."

This is a myth which again results from confusing stocks with commodity futures. Speculation may be detrimental when it has the effect of increasing the price of stocks. But speculation is an absolute necessity for the functioning of a futures market.

Commodity futures exchanges are recognized by economists as important mechanisms in the production, processing and marketing of agricultural products. The government also recognizes this value and an entire bureau of the Deaprtment of Agriculture is devoted to the regulation of futures exchanges. The economic good performed by futures markets is the reduction of risks resulting from changes in price. If these risks were not reduced, it would cost more money to bring the product from farmer to consumer and such increased costs would be passed on to the consumer.

Growers, merchants and manufacturers hedge their commitments by taking a long or short position on an exchange. Someone must take the opposite position. This is done by the speculator who for an expected profit provides price insurance for the hedger. A market without speculators cannot function. A market with a large speculative interest provides more reliable price protection to the hedger because it is more liquid. Where there are more bids and offers the range of price fluctuations is narrower.

If higher margins are to be imposed on speculators as a penalty, it will drive them out of the market and the hedging process will be weakened or destroyed to the detriment of the nation's economy and at the ultimate expense of the consumer.

The price of the actual commodity is not determined by the price on the futures market. Even if we assume that the activities of speculators can drive a price up over a short period (and we must remember that the price can also be driven down, for there are speculative shorts as well as speculative longs) this cannot