ments are necessarily restricted to agricultural commodities as our experience is limited to this field.

Commodity futures plan an essential role in the distribution of agricultural products to consumers. First, they provide a continuous pricing mechanism which guides future production and regulates the rate of consumption. Secondly, commodity futures protect both farmers and processors against the risk of price change. Thus, the farmer, whose crop is still in the ground, can assure that he will receive a known price for it by selling a contract for future delivery and shifting the risk of a future price decline to the buyer. Similarly, elevator operators and processors can plan for the future with certainty by hedging their stocks or requirements.

This redounds to the benefit of consumers. It provides a form of price insurance which allows everyone from the farm to the store to operate at narrower profit margins than would be possible if they were subject to the hazards of future price fluctuations.

The commodity futures market, however, is dependent on traders representing the speculative interest for its strength and its stability. A thin market is a volatile market, and price instability is more likely to result from under-speculation than from over-speculation. Our experience leads us to concur with the views presented to your Subcommittee by distinguished economists and representatives of the futures markets, and apparently held by a majority of the House during previous consideration of margin control legislation. Essentially, these views are summed up by a statement made on the House floor by a former Agriculture Committee Chairman: "where there has been a relatively small volume of trading the increase in prices tends to be even larger than where there are many traders and much activity in the market." 96 Cong. Rec. 11754. Or, as Representative Boggs stated in the same debates: "the idea that by controlling margins and commodity exchanges, price advances can be controlled has no foundation in fact." 96 Cong. Rec. 11759.

Interestingly enough, this point of view was underscored several years ago when the possibility of the Federal Reserve Board setting margins for commodity futures contracts was first raised. At that time Chairman William McChesney Martin, Jr. stated;

> The Federal Reserve Board does not view its function as one of controlling security prices and has not used its margin requirement authority for this purpose. I think it would be similarly undesirable or even dangerous for any Government agency to vary margin requirements in the commodity markets for this purpose. (Letter to Senator Williams, January 13, 1964.)

It is possible that some confusion arises from use of the term "margin" itself. In the securities market, under certain circumstances, a down payment is made for securities purchased on credit. In the commodity futures markets a payment is made when a futures contract is bought or sold. Each of these payments is called a "margin", but any similarity between them is more apparent than real.

The securities down payment is a partial payment, and the part not paid is financed with credit. In a commodities futures contract no credit is involved: the margin payment is 100% of the value of the margin at the time, and later, if delivery is taken, the purchaser pays 100% of the value of the commodity purchased. This is no mere legal or economic distinction. It is a basic fundamental difference of function. One "margin" is no more like the other "margin" then "security" meaning a share of stock is like "security" meaning a protected condition. Testimony from governmental as well as private witnesses before your Subcommittee has served to emphasize this point.

Further it is our view that it would be inappropriate as a matter of functions as well as jurisdiction for the Federal Reserve Board to regulate commodity futures margins. The Board itself has been the first to point this out. Its position has been consistent from the statement of Chairman Martin referred to herein to the more recent testimony of Governor Robertson before your Subcommittee: "We have no knowledge that equips us from any point of view to administer such legislation."

Perhaps more conclusive is the point, also referred to by Governor Robertson, that because commodity futures margins do not involve credit they are outside the jurisdiction of the Federal Reserve Board, the authority of which is limited to transactions involving credit.