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"IN MY judgment," maintained William McChesney Martin, Jr., Chairman of the Board of Governors, Federal Reserve System, "we can never under the present margin regulations have the same result that occurred in terms of a financial crash in 1929 through undermargined accounts, low margins resulting in a financial debacle."[1] A widely used elementary economics textbook claimed, "Margin requirements have exercised an important restrictive influence on security speculation, as contrasted with the uncontrolled period of the late 1920's. . . . Nearly everyone agrees that Federal Reserve margin requirements exercise a healthy restraint on speculative stock purchases in a boom" (Bach, 1963, p. 116). But what evidence is there that margin requirements have the effects claimed? At the December meetings of the American Economic Association, George J. Stigler, in the Presidential address, called on economists to test their assumptions that state regulation of private activity has indeed been successful (Stigler, 1965). This article brings together some data on the efficacy of margin requirements. While the figures can only be considered preliminary, and more data should be collected to test margin requirements, the data that are available and presented here indicate that not one of the aims of the legislation establishing margin requirements has been accomplished.[2]

An examination of the congressional hearing on the bill to allow the Federal Reserve to control margins indicates three major objectives: to reduce "excessive" credit in the stock market and leave more for productive uses; to protect buyers of stock from going too far into debt and suffering therefrom; and to reduce fluctuations in the stock market due to forced selling of securities when prices drop and to overly easy purchases when prices rise. While different writers on the subject of margin requirements have placed various emphases on these objectives, no one, to this writer's knowledge, has suggested a new one. In this paper we will first examine each of these reasons and then test whether the objective has been satisfied. Preliminary to examining the reasons for the requirements, let us clarify what the law actually permits.

THE LAW AND THE FEDERAL RESERVE REGULATIONS

The law[3] permits the Board of Governors of the Federal Reserve to establish the maximum amount of credit that any exchange member, and any broker or dealer who transacts a business through the medium of an exchange member, can provide to a customer for the purpose of purchasing or carrying any security (except exempt securities) registered on a

[1] In *Stock Market Study* (U.S. Senate, 1955), pp. 580–81.

[2] For a contrary view see Jules I. Bogen and Herman E. Kroos (1960).

[3] Sections 7 and 8 of the Securities Exchange Act of 1934.