Commodity Exchanges and Futures Trading. Principles and Operating Methods. By JULIUS B. BAER and OLIN GLENN SAXON. Harper & Brothers, New York, 1949. 324 pages. (Bibliography, p. 315–317)

DISCUSSIONS of commodity exchanges and futures trading often reflect more heat than light. These authors write that "Since the organization of the first Commodity Exchange shortly after the Civil War, these Exchanges have been the scapegoats of producers, consumers, and politicians. They have been held responsible for inflation and for deflation. At the peak of every inflationary spiral, the Exchanges and speculative operations thereon are blamed for high prices. At the bottom of every deflationary period, they are charged with the responsibility of low prices." Such statements emphasize the need for a comprehensive and reliable presentation of the operating methods and practices, functions, and effects of futures trading on commodity exchanges.

The authors characterize the book well when they say that " . . . its primary purpose is to supply a simple, clear analysis of the economic functions, the methods of operation, the trading practices, and the regulation of these Exchanges by the Exchanges themselves and by the Federal Government."

A survey of the developments indicates that exchanges were established in response to a need for protection against risks which market operators could not obtain otherwise.

Economic functions of commodity exchanges are grouped under five heads. The protection features relate to liquidity and relative price stability, protection against adverse price changes through hedging, and guarantees of contract performance by the clearing house. Other functions include aids to financing, price registration or determination, assembly and distribution of market information, and regulatory measures. The presentation appears to be mainly from the viewpoint of freely competitive conditions. The discussion of price stabilizing and adjusting influences of futures trading might well include more consideration of the limitations of such influences.

Speculation on commodity exchanges, including short selling, is treated as a constructive economic activity without which exchange markets could not function properly. But the possibility of manipulation of prices through squeezes and corners is recognized. Speculation and gambling are differentiated. The conclusion is reached that legitimate speculation on commodity exchanges is not a material factor in changing price levels; it merely levels off the peaks of boom prices and the valleys of depressed prices.

The origin, development, and characteristics of futures contracts are outlined. Emphasis is given to reasons for using highly standardized contracts, to considerations involved in establishing basic grades and in determining deliverable grades, to contract units and delivery months, and to the use of negotiable warehouse receipts.

The phases of commodity exchange operations covered include the nature of commodities that are suitable and unsuitable for futures trading; the development, functions, organization and operation of commodity exchanges, and clearing-house operations and their relations to exchanges. The Commodity Exchange Act, the legality of clearing-house operations, and relations of exchange members to customers are treated.

Hedging is treated in a rather simplified way. Risks involved, kinds and purposes of hedging, relation of spot and futures prices and extent of protection afforded, selection of contracts and markets, and functioning of arbitrageurs are considered briefly. The kinds of operations involved are outlined and hedging practices are illustrated. The conclusion reached is that "Despite the fact that the so-called basis risks cannot be hedged—and, as a consequence, many hedges cannot give complete or perfect insurance—the operator who seeks to eliminate speculative risks, is well advised to adapt hedging as a matter of permanent rather than haphazard policy. In the long run, with the exercise of good judgment, wise foresight, and willingness to shift positions quickly, the hedge is certain to prove to be insurance against major hazards of price and credit."

Many parts of the book may not be complete enough for specialists and much could be added regarding limitations to and abuses of trading on commodity exchanges. Yet teachers, students of marketing, specialists, and traders will find this volume a valuable addition to their library.

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