Conclusion

At the beginning of this review I praised Mr. Babcock's book. That now seems somewhat inconsistent with my subsequent criticism. The inconsistency is due in part to the fact that Mr. Babcock caused me to think. In criticizing his book I am in part thrashing those courts that presume too much in the way of municipal responsibility. Mr. Babcock's suggestions are not the full answer, I am sure, and some are wrong. Nevertheless, I know of no book that is as likely to cause lawyers and others to search their souls for some better answers in zoning.

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The Securities Markets, Operations and Issues. SIDNEY ROBBINS. The Free Press, New York: Collier-Macmillan Limited, London, 1966. Pp. xvi, 303. $7.95.

A book written for as heterogeneous an audience as lawyers, economists, and students, and written about as complex a subject as the securities markets, is not likely to satisfy many readers. Professor Robbins' book is no exception. A book directed to persons of such diverse interests should either break new ground or demonstrate the usefulness of an interdisciplinary approach. Professor Robbins appears to be trying to do the latter, but without much success.

The author does attend to the legal history of the Securities and Exchange Commission's regulation of the securities markets. He does discuss some economics of the securities markets. And he does provide some knowledge of the mechanics of trading. What is lacking is an integration of these three elements into an analysis of the securities markets. Failing to achieve this, the book promises to disappoint lawyers, who will desire a much more detailed and careful treatment of cases and legislation than is presented; economists, who will find the standards of economic analysis and evidence unsatisfying; and students, who will not feel that they have gained an intimate knowledge of the mechanics of trading.

The book will be useful to those who wish to acquaint themselves with the way in which the SEC approaches the problem of regulation. The author reveals that historically the SEC has looked to several criteria to guide its activities. Among these are the protection of investors, the protection of the general public, and, if the preceding two are not generous enough mandates, the maintenance of an "orderly" market avoiding "excessive" speculation. In the three final chapters of his book, Professor Robbins, who for two years (1962-1963) was chief economist for the *Special Study of Securities Markets*, argues that the policies for the attainment of these criteria often conflict, and that the world is a complicated place in which it is difficult to know which criteria should be attained in fuller measure than others. In some cases Professor Robbins is correct. But it is the SEC's job to generate the knowledge required to guide legislators. It has not done this job, and it does not now seem to be in the process of doing it.

Professor Robbins seems to have missed the main point of the dialogue between Professor George J. Stigler and the SEC which was touched off by the *Special Study*. (The first shot in this dispute was fired by Professor Stigler in the April 1964 issue of the *Journal of Business*; this was followed by several exchanges between the disputing parties in subsequent issues.) In that dialogue, Professor Stigler citicized the SEC for not examining the effects of its actions on the protection of investors. In his only reference to this dispute, Professor Robbins says that the SEC has criteria in addition to the protection of investors. But he fails to defend the SEC's powers in terms of the desirability of looking to these additional criteria, and he ignores evidence bearing on the effects of the use of these powers. The most important additional criterion discussed by Professor Robbins is the prevention of market breaks, either in general price levels or in the prices of specific securities.

The SEC and Professor Robbins assume that it is in the public interest to prevent rapid declines in the prices of stocks or in stock market averages. The economic reasons for preventing rapid declines in the prices of particular stocks are not really discussed. Somehow, the SEC knows that a stock is deviating from its "fair" price due to excessive speculation or price-rigging. The economic reasons for preventing declines in market averages trace to a belief that cyclical downturns in the economy are accentuated by large declines in these averages. To my knowledge this relationship has never been established by economists, and Professor Robbins' support consists merely of five quotations from persons or committees that have at one time or another accepted the relationship.

The powers possessed and, I presume, desired by the SEC to cope with price declines are to stop trading on the national exchanges in times of emergency, a power that it has not exercised, and to stop trading in particular securities, a power that it and the NYSE have exercised. Apparently, the SEC has failed either to ask itself about the economic implications of cessations of trading, or to examine the results it has produced in specific instances of ordering cessations. Do cessations of all trading lead to upward revaluations of stocks? I know of no theoretical reasons for believing that the answer is yes. If anything, the increased uncertainty about stock values should make stocks riskier and thus less valuable to their owners. Has the SEC compared the prices of securities in which it has stopped trading with those of other securities whose prices have been changing rapidly? Has it conducted a systematic examination of the before and after prices of those securities in which trading has been stopped? To my knowledge, including what I have learned from a reading of Professor Robbins' book, the answers to these questions are no. But it is in attempting to answer questions such as these that the interplay of law and economics is revealed, and that information relevant to regulation is discovered. And it is precisely in these respects that Professor Robbins' integrated analysis of the securities markets is most defective.

While it is true that the world is complicated and that this sometimes leaves great doubt as to the efficacy of particular policies, it is not true that this doubt is great in all cases. Professor Robbins defends the SEC's toleration of the setting of minimum commission rates by the New York Stock Exchange in accordance with the SEC's beliefs that (1) this allows the existence of competing exchanges that would fail if NYSE commissions were set competitively, and (2) fixing commissions forces brokers to compete for customers by giving them additional services rather than reduced commissions. What is so doubtful about the benefits of competitive commission rates? If investors prefer the option of lower commission charges on the NYSE to that of trading on local exchanges, or if they prefer to forego services, why should they be prohibited from enjoying the lower commission rates that would be produced by competition? Are we in the process of duplicating for the securities markets what we have achieved for the railroads?

The standards of evidence employed by Professor Robbins leave much to be desired. Much of the book's evidence consists of anecdotes or appeals to opinions held by others. Some of it is handled in a fashion that can be misleading. An example appears on page 106. In his discussion of market manipulation and surveillance, Professor Robbins writes:

> In the pre-SEC era the securities markets were a jungle of deception and manipulation. It was estimated, for example, that dur-

> ing the first decade after World War I, fully half of the some $50 billion worth of new securities floated in the United States became worthless. Such a mass collapse of values occurred because of the complete abandonment by many underwriters and dealers of standards of honesty and fairness.

As evidence for this statement Professor Robbins refers to a Securities and Exchange Commission report, "A 25 Year Summary of the Activities of the Securities and Exchange Commission, 1934-1959." Professor Robbins' statement surprised me by the magnitudes involved, and so I looked up his reference. His statement gives the reader four impressions. First, the reader believes that Professor Robbins is referring to a statistical study of some sort. Second, he believes that the SEC report to which he refers contains the study. Third, he believes that the securities issued in the first decade after World War I also quickly failed in that same decade. Fourth, it appears that fraud was the reason for the failures.

It turns out that the SEC report contains no statistical study, but instead gives a one-paragraph quotation from a Congressional report. Further, Professor Robbins has erred in his paraphrasing of this paragraph. The paragraph says "During the post-war decade some 50 billions of new securities were floated in the United States. Fully half . . . have *become* worthless." (Emphasis added.) Did they become worthless in the first decade—that is, before the great depression—as Professor Robbins indicates? One cannot tell from the reference. But I will wager that the great bulk of the failures took place because of the depression. If so, how can the cause of the failures be attributed to a lack of honesty and fairness among underwriters?

A book that examines adequately the economic and legal problems of the securities markets needs to reconsider basic beliefs and to relate those beliefs to careful studies of economic data and legal processes. These are difficult things to do. Perhaps they will never be done. But Professor Robbins' book should be somewhat closer to the mark, and perhaps it would be if he did not attempt to cover so many aspects of the securities markets.

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