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Futures need rule hit by Merc unit's chief

Leon Melamed

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MONTREAL — Futures markets in the United States may stagnate if they are forced by the government to show economic justification of all new commodity contracts.

That's the message Leo Melamed, chairman of the International Monetary Market of the Chicago Mercantile Exchange, had for lawyers meeting here at the American Bar Assn.'s annual convention.

"If justification is indeed lacking, the market will no doubt fail," he said. "The market itself is the only true test."

THE "ECONOMIC justification" and "public interest" controversy emerged from the Commodity Futures Trading Commission (CFTC) Act of 1974.

Section 5 of the act stipulates that futures markets must demonstrate economic justification of any proposed contract if it is to win approval of the commission which succeeded the Commodity Exchange authority last April as the government's regulatory agency of futures markets.

Melamede, a lawyer, feels that the futures industry can live and prosper with most of the provisions of the act. Section 5, however, may be an exception, especially if it is stringently enforced so as to kill the pioneering spirit of futures markets in their creation and development of new contracts, he said.

"We do not know the exact and detailed prescriptions for economic justification of a futures market," he said. "They are not the same for every commodity, nor are they always tangible, nor do they remain constant. "Often, the actual economic uses of a futures market are created or become visible only after the market is in existence."

The IMM chief executive said that in itself, economic justification "has never been a proof positive ingredient to guarantee a successful marketplace."

He noted the Chicago Mercantile Exchanges misfortune with its now-defunct shrimp contract. At the time it was instituted, he recalled, "we were assured of the economic need for such a market. The market lasted less than two years."