

Chicago Tribune

FOUNDED June 10, 1847

STANTON R. COOK, *Publisher*

JOHN W. MADIGAN, *President*

JACK FULLER, *Editor*

LOIS WILLE, *Editorial Page Editor*

F. RICHARD CICCONE, *Managing Editor*

DOUGLAS E. KNEELAND, *Associate Editor*

COLLEEN DISHON, *Associate Editor*

DENIS GOSSELIN, *Associate Editor*

Section 1

Friday, March 23, 1990

Leo Melamed, father of financial futures

By Terry Brown

In the history of American business, only a few leaders have possessed the vision and energy to shape entire industries or institutions. Henry Ford brought the automobile to the masses. Edwin Land pioneered instant photography. Ray Kroc built the fast-food concept into a major new industry.

Some say Leo Melamed should be included in that elite group of entrepreneurs. Melamed gave the world financial futures—contracts to buy such things as foreign currencies, Treasury bills and Eurodollars at a set price at a future date. You can't drive them, snap them or eat them, but banks, companies, pension funds and other money managers rely on them to hedge investment bets and to smooth out the swings of the stock market.

A few weeks ago, the 57-year-old Melamed announced he will step down at year's end after 23 years at the helm of the Chicago Mercantile Exchange. Thanks largely to Melamed's genius, the Merc grew from a sleepy cash market for meat and other agricultural products into a booming international financial institution. And Chicago became known around the world as a center for trading currency futures and for risk management.

Unfortunately, it isn't certain that history will usher Melamed into any business hall of fame. The industry's reputation has been sullied by a federal investigation into trading practices that has resulted in 26 indictments at the Merc and another 22 at the Chicago Board of Trade. The Bush administration is leaning toward tighter industry regulation.

Melamed and the exchanges' leaders haven't been implicated in any of the allegations of fraudulent trading. But during Melamed's stewardship, the emphasis at the Merc clearly was on innovation and growth, not on playing by the rules.

In 1979, the exchange was handling nearly 20 million contracts a year. Last year, volume topped 100 million contracts for the first time and the Merc was doing a third of the future industry's business, second only to the Board of Trade. With the explosive growth, however, it became harder and harder to instill the values and traditions of the exchange into the younger traders. For many, riding the bull markets of the 1980s was more important than regulation or ethics.

"While it's true that the federal investigation of trading floor practices has cast a shadow on our

industry," says Melamed, "the integrity of the CME [Merc] is not in question." Others aren't so sure. In the past, the father of financial futures has vigorously defended the industry against all attacks. But the fight to preserve self-regulation and the integrity of the markets in the face of criticism has taken its toll.

Things were simpler in the late '60s when Melamed and some friends toyed with the idea of selling short the British pound, which they thought was overvalued at the time. But there was no futures market for currencies. After President Nixon abandoned the gold standard in the early '70s and allowed the dollar to float against foreign currencies, Melamed got his chance. With the help of economist Milton Friedman, who wrote a paper supporting the need for a futures market in currencies, Melamed launched the International Monetary Market at the Merc in 1972.

In those early years, Melamed traveled the world selling bankers and money men on the economic need of his financial futures market. It was heady stuff for the son of Polish immigrants who were both Yiddish teachers. But Melamed, who graduated from the University of Illinois' old Navy Pier campus and then John Marshall Law School, has described himself as a "laborious perfectionist by nature and almost obsessive." Others say the man of small stature, intense drive and gigantic ego generally gets his way, and this was no exception.

Currency futures began to catch on. Melamed turned his attention to interest-rate futures and later to stock-index futures. The Merc became known as the world's leading financial futures institution, and Chicago became the dominate center for futures and risk management. Employment grew and the exchanges became a vital part of the city's financial fabric.

Melamed says he means it this time. He really is retiring. The institution will survive and hopefully continue to flourish, but there are problems to be solved. The public's confidence in the markets must be restored. Regulatory turf battles must be resolved. Global competition must be met. But these are problems of opportunity, not despair.

Like Henry Ford, Melamed gave his industry something to build on. Like Ray Kroc, he recognized the need for a market and then used his considerable persuasive skills to convince people to use it. After that, it mushroomed because it provided economic value to its users. Some may say it's too early to anoint Melamed a financial wizard and visionary, but there's no doubt he has made his mark and Chicago is the better for it.

Terry Brown is a member of the Tribune's editorial board and a former financial editor.