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Learning from a Keynote speaker: Lessons from Merton Miller's PACAP addresses

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Abstract

For 10 of its first 11 years, Professor Merton Miller served as the Keynote speaker for the PACAP conference. This article reviews and synthesizes Professor Miller's remarks. His Keynote Addresses were wide-ranging and covered such topics as index arbitrage, stock market bubbles, portfolio insurance, regulation of financial markets, derivatives, capital controls and others. The connecting theme of Professor Miller's Addresses was his unyielding belief that capital markets, especially when unfettered by regulation, can and do play a critical role in facilitating economic growth and opportunity. He coupled that theme with a call for PACAP and its members to contribute to that growth and, thereby, to the well-being of the people of the Pacific Basin countries.
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Merton Miller was instrumental in the establishment and evolution of the PACAP (now PACAP/FMA) conference and the *Pacific-Basin Finance Journal* (*PBFJ*).[1] For each of its first 11 years (excepting 1998) Professor Miller delivered the Keynote Address to those assembled for the conference.[2] Those addresses were then published by PACAP. The first three appeared as lead papers in bound volumes of selected conference papers titled *Pacific-Basin Capital Markets Research*. His subsequent seven Addresses appeared

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[1] For further, but still understated, commentary on Professor Miller's influential role in the evolution of the PACAP/FMA Finance Conference and the Pacific-Basin Finance Journal, see Chang and Rhee (2000).

[2] As a protest to the Malaysian government's imprisonment of Finance Minister Anwar Ibrahim and to its imposition of currency controls, Professor Miller boycotted the 1998 PACAP Conference in Kuala Lampur and, thus, gave no Keynote Address.

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annually as featured articles in the *PBFJ*. Those contributions, along with Professor Miller's service as one of three Editorial Advisors, helped to establish the *PBFJ* as an important outlet for serious scholarship dealing with a broad range of financial market topics of importance to Pacific-Basin countries and their economists. I have been invited to review and synthesize Professor Miller's PACAP Addresses.

In his 1993 Address, Professor Miller, or Mert, as he was affectionately called by PACAP participants from around the globe, remarked that the primary difference between a Keynote Speaker and any other speaker at the PACAP conference is that the Keynote Speaker need not get a paper in *before* the conference. And that was a fortuitous distinction not only for Mert, but for his listeners as well, for in addition to being a Nobel Laureate Economist, Mert Miller had a keen eye and ear for current events, especially current financial events. Each year, Mert used his PACAP Address to discuss a then current financial development. The fact that his paper need not be completed in advance of the conference allowed him the freedom to do so.

Despite the fact that Mert's topics centered on current events, three themes connected them. The first was that each Address dealt in some way with an event that was at the time viewed as a financial calamity, if not an outright financial catastrophe. In rereading Mert's Addresses, I was reminded as to how frequently alleged financial catastrophes have occurred over the past 10 years, each of which was viewed—usually by politicians and bureaucrats, but also some economists—as a signal that something was "wrong," either with investors or markets, and, with just a bit more regulation or "oversight," the problem could be fixed.

It was the persistent call for regulation that provided the second connecting theme among Mert's Addresses: his view that freer markets, especially freer financial markets, are more likely to abet economic growth and development than are restricted financial markets.

The third linkage among Mert's talks was his insistence that serious scholarly research, both theoretical and empirical, can serve as useful background for policy debates. Mert used his Keynote Addresses as a forum to "enter the fray," so to speak, of policy debates about the role of financial markets and the regulation of them. In making his debating points, Mert frequently cited the most recent scholarly contributions on the particular subject at hand to support his case.

Overriding these linkages was Mert's ability to see an interconnection among twentieth century financial markets. In crafting his Addresses, Mert was able to expand the implications of whatever the specific current event was on which he spoke in a particular year to encompass the entire Pacific-Basin. The lessons that Mert drew were universal.

Mert's first PACAP Address, given in 1989 and published in 1990, is as good as any to illustrate the themes that connected his talks. In that First Address, Mert talked about the "Stock Market Crash of 1987" (Miller, 1990). At the time, the Crash of 1987 was clearly viewed as a financial catastrophe with global implications, as nearly every major stock index around the world had declined in value by roughly 25% in a matter of a few days during October 1987.

Mert cast up his comments regarding the Crash in terms of the academic debate that was then taking place (and still is) as to whether stock market rises and sudden falls could (and can) be better explained by economic fundamentals or whether they are better explained as "bubbles" and the bursting thereof. In his talk, Mert patiently walked his

audience through such technical terms as stationary and nonstationary price series, rational bubbles, statistical measures of volatility, variance bounds tests, liquidity illusion and other terms that would ordinarily make even the most dedicated academic listener's eyes glaze over. But Mert did so in his customary comfortable style that made the entire learning process painless. And, for me at least, rereading that Address was a useful primer about the current debate regarding price bubbles. Indeed, my guess is that if Mert had addressed the conference this year, he could have dusted off the notes from his first Address, relabeled them to reflect the current debate about the so-called tech stock bubble, and most of his comments would have been equally applicable today.

After defining and explaining the terms of the debate as of 1989, Mert surveyed the evidence both for and against bubbles, including a discussion of Shiller's (1981) variance bounds tests and contradictory evidence by Kleidon (1986), among others. His review of the evidence led Mert to the Scotch verdict: case unproven. He then launched into a topic that would provide the subtext for many of his later PACAP talks. That subtext was a defense of derivatives as tools for usefully managing risk.

At the time, portfolio insurance, coupled with index arbitrage, had been tentatively identified in some quarters as a causal culprit of the Crash of 1987. For those who may not remember, portfolio insurance makes use of stock index futures to hedge equity portfolios. The strategy involves selling additional futures as stock prices decline. Index arbitrage involves the use of stock index futures to arbitrage discrepancies between cash and index prices. With urgings from the press, regulators (who, in Mert's view, actually needed no urging) seized upon the supposed connection between the Crash and stock index futures to advance various measures for "reform" of the rules governing the use of financial futures contracts. One alleged harmful side effect of index futures, though not the only one, was that they create a "liquidity illusion" that gives investors a false sense of security regarding their ability to quickly move out of a position if prices start to decline. One proposed solution to this "problem" was a transaction tax that was supposed to discourage "excessive" trading. Mert viewed this proposal and others like it as attempts to "throw sand in the gears" of modern financial markets – efforts that in Mert's view could only distort the flow of capital and weaken economies. Mert concluded his talk with a warning against such further controls.

That concluding passage of Mert's 1989 Address provided the topic for his Second Address which, in turn, set the stage for his Third Address. Mert devoted both of these talks to a defense of stock index futures and the use of derivatives generally – a topic to which he returned in several later Addresses as well.

The central role of derivatives, especially equity index futures, in several of Mert's Addresses can readily be explained as an outgrowth of Mert's close and well-recognized relationship with the Chicago futures and options exchanges. Mert also saw a natural connection between arbitrage-based derivative pricing models and his path-breaking work with Franco Modigliani whose famous M&M propositions laid the groundwork for the employment of arbitrage arguments throughout financial markets research.[3] And, of

[3] For a discussion of the instrumental role of M&M's arbitrage arguments in the development of finance theory, see Stulz (2001).

course, Mert had already characterized financial futures as "the most significant financial innovation" over the two decades that preceded his First PACAP Address (Miller, 1986).

In 1990, in his Second Address, Mert examined the role of "circuit breakers" as potentially useful tools in containing sudden and sharp market breaks of the sort witnessed in during the Crash of 1987 and during the so-called mini-crash of 1989 (Miller, 1991). He conducted his examination in the light (or perhaps the shadow) of various US congressional and presidential commissions that had been designated to study the "problem." The ostensible problem was "too much" volatility in equity prices. Because equity index futures are connected to equity prices, they, too, were apparently part of the problem. The various investigating panels proposed various remedies, most of which would apply to stock markets and to traded derivatives, especially futures that were based on equity prices. Circuit breakers were one of them.

Mert first reviewed the empirical history of equity price volatility and noted that by most measures, volatility was no higher during the 1980s than during most of the previous 50 years. Nevertheless, with so many proposals for reducing volatility, Mert felt obliged to comment on at least one of them – circuit breakers.

Mert described circuit breakers as "timeouts" that could be called to allow the market a chance to "catch its breath" and "to allow market participants to collect their thoughts" in the midst of apparent market turmoil. However, he was unconvinced that such timeouts would have much impact in determining the final resting place of equity prices once a market break began. He pointed out that the Crash of 1987 that occurred on Monday, October 19, and Tuesday, October 20, actually began on the previous Friday. Mert observed that the 48-hour weekend-timeout between the start of the market slide on Friday and its precipitous continuation on Monday appeared to have had little effect in dampening the final fall. Nevertheless, of the various regulations and impediments that were then being proposed, Mert viewed circuit breakers as the least costly and least intrusive among them.

In making his argument for circuit breakers, Mert reviewed in detail various proposals for the implementation of circuit breakers. He also reviewed the way in which futures exchanges effectively already had experience with circuit breakers in the form of "price limits" and the way in which stock exchanges (at least those in the US) episodically use the equivalent of circuit breakers by employing "trading halts" when sell orders are in danger of swamping the specialist in a particular stock. Among other things, Mert's review of circuit breakers and proposals for new kinds of circuit breakers can serve as a useful catalogue for anyone interested in their usage or potential usage. Of course, he also marshaled theoretical and empirical arguments for and against these proposals before recommending circuit breakers as a mild, but perhaps useful, mechanism for calming nerves in the midst of apparent market chaos. As to whether such calming would ultimately have any impact the path of security prices, Mert remained skeptical.

As the title of his 1991 Address indicates, Mert revisited the topic of circuit breakers in his Third Address (Miller, 1992). In particular, Mert evaluated the experience of the NYSE with its self-imposed Rule 80A, which had been recommended by a Blue Ribbon Panel on Market Volatility and Investor Confidence, over Mert's "no" vote, and put into place between the 1990 and the 1991 PACAP conferences.

Rule 80A extended the NYSE's "uptick test" to include "minus ticks" for any arbitrage-related sales if the market was down by 50 points or more from the previous close.

Specifically, equity sales that were part of any index-related futures or options program could not be made on a ‘‘minus-tick’’, that is, at a price lower than the previous price. The rule also applied to buy-side trades with a plus-tick. In theory, this rule was supposed to induce market stability.

Mert had objected to the ‘‘tick test’’ rule on the grounds that it would not induce market stability, but might well lead to significant divergence between prevailing prices in the equity markets and the prices of futures and options markets based on these equities. To Mert's surprise, no such divergence had occurred. There had been a substantial decline in arbitrage-related trading volume, to be sure, but that decline did not lead to any significant change in the basis between cash and derivative market prices. Why not? Mert reviewed several econometric studies of this question and came to the conclusion that the decline in volume was attributable to the exodus of less well-capitalized and less sophisticated arbitrage traders from the market. Their exodus from the landscape meant that more savvy and more well capitalized arbitrage participants had less competition, and reaped greater rewards in the aftermath of Rule 80A. Whether Rule 80 had its intended effect of reducing market volatility was far from clear. But what was clear, at least to Mert, was that it had the unintended effect of enriching the most sophisticated arbitrage traders. Mert closed with an admonition to other Pacific Basin countries – in constructing their market structures and regulatory practices, he urged them develop practices that addressed their unique circumstances (not to blindly follow the US example).

Mert's 1992 Address returned to the topic of his 1990 address, except that in 1992, Mert expanded his focus to include Japan (Miller, 1993). In the US, equity futures were under attack for allegedly increasing volatility in stock prices. Mert saw this as a ‘‘smokescreen’’ behind which the stock brokerage industry sought to curtail competition for equity trading by futures markets. In Japan, as Mert saw it, the brokerage industry hoped to curtail equity index trading for the same reasons. The difference was, according to Mert, that in Japan, the Ministry of Finance (MOF) did much of the work for the brokerage industry. As Mert saw it, the MOF governed security markets with a heavy hand, but did so as the handmaiden of the Japanese brokerage industry. The MOF directed its energies and resources to keeping brokerage commissions high and to keeping competition low. One threat to this arrangement was the introduction of Japanese equity index futures that could be traded with low commissions. When the MOF responded to that threat by increasing fixed commissions on futures trading, investors then shifted their trading in Japanese equity futures to the Simex in Singapore.

Mert saw in the MOF's machinations attempts that would ultimately prove futile in protecting the Japanese domestic brokerage industry. In the short term such efforts were unlikely to have much impact and in the long term they were likely to harm Japanese economic recovery.

Mert took up the topic of financial market regulation more generally in his 1993 Address (Miller, 1994). As his platform for this topic Mert used, a proposal for ‘‘functional regulation’’ of financial markets that had been advanced by John Sandner of the Chicago Mercantile Exchange. The idea of functional regulation was not new and had been written about in academic circles by Robert Merton.

Mert contrasted functional regulation with departmental regulation. Under functional regulation, a regulatory agency is responsible for oversight of specific types of financial

transactions wherever they take place. Under departmental regulation, a regulatory agency is assigned to a type of institution. So, for example, a bank regulatory agency regulates all bank activities – both on the asset and liability side of the balance sheet; whereas a thrift agency regulates all activities of a thrift. Under functional regulation, an agency might be assigned to regulate the deposit-taking function of both banks and thrifts; whereas a separate agency might be assigned responsibility for assets.

As a first step in the process of reviewing Sandner's and other proposals for regulatory reform, Mert introduced his audience to the two potentially competing theories of regulation. One of those is Stigler's "capture theory," in which the regulated entity might initially resist regulation, but once the regulatory structure is put into place, the regulated entity immediately sets about "capturing" control of its regulator (Stigler, 1971). Mert then introduced his audience to the "public good" theory of regulation, in which our "public servants" regulate so as to provide the greatest good to the greatest number of the county's citizens.

According to the capture theory, the regulated entity has a far greater incentive to monitor the activities of the regulatory agency than do other players. As time moves along, the regulated entity gains control over the regulator in such a way that the regulator soon becomes the protector of the regulated entity. The protection manifests itself in terms of fixed prices (fixed from going down that is), restriction of entry into the domain of the regulated entity, and in the form of various subsidies. The public good theory proposes that a regulatory structure can be established such that the public at large will benefit from regulation of the particular entity of concern. The only hard part is to determine what "the best" regulatory policies are to maximize the public good.

Against this background, Mert reviewed the prospects for "real" regulatory reform of financial markets in the US and Southeast Asia. But he extended the Stigler model to include regulatory agency "overseers." In the US, those overseers comprise Congress. In Southeast Asia they include similar types of governmental officials. Mert pointed out that it is not only the bureaucrats who comprise the regulatory agencies who are subject to "capture," but also their congressional or elected overseers. These overseers also have a vested interest in protecting the regulated entity. In the US, elected overseers share in the largesse of the rents created for their regulated entity by way of contributions to re-election campaigns. In other countries, especially Japan, the payoffs, according to Mert, are likely to manifest themselves more directly.

With this theoretical framework in place, Mert examined the likelihood of regulatory reform of financial markets of any sort, including the type of functional regulation proposed by Sandner. He concluded that real reform of financial market regulation was unlikely short of a major financial catastrophe. Even then, he noted that the serious financial difficulties being experienced by Southeast Asia and, especially Japan, had not yet proved powerful enough to overthrow the prevailing and, in Mert's view, stifling regulation of financial markets.

In 1994, Mert continued his commentary on the stifling effects of regulation on financial markets framed by the then-current calls for more regulation of financial derivatives (Miller, 1995). The calls for regulation of financial derivatives were heightened by Orange County's then financial bath in structured notes and Proctor and Gamble's financial bath as a result of an interest rate swap with Bankers Trust.

Mert began with the observation that derivatives come in three flavors: exchange traded financial futures, swaps of various types, and structured notes. He argued that the phenomenal growth in the use of financial derivatives of all types was evidence that financial derivatives apparently fulfilled a social need. But, what was the need? According to Mert, the need was for entities of many types to manage financial risk. Furthermore, while it was true that P&G and Orange County lost in a big way on their specific transactions, Mert argued that these losses had less to do with the specific types of financial instruments employed than with the lack of managerial oversight of the involved managing treasurers. After all, history is replete with inept financial managers and lax overseers incurring large losses in even the most regulated of industries, namely, the US savings and loan industry.

In 1995, Mert presented what I found to be the most entertaining of his 10 PACAP Addresses (Miller, 1996). In this address, Mert calculated the *social* cost of four major supposed financial catastrophes that had occurred during the prior 18 months: P&G's reported loss of US$150 million on its interest rate swap, Metallgesellschaft's (MG) supposed loss of nearly 10 times that amount on oil futures contracts, Orange County's Investment Pool loss of up to US$1.7 billion with structured notes, and Baring's reported loss of more than US$2 billion in Nikkei-indexed futures and options.

Mert linked his remarks to his prior year's Address by observing that one of the fallouts of these financial debacles was a call for more regulation of financial derivatives. He noted that, in a free society, care must be taken before the inherently coercive power of the state is used to curtail individual freedom to engage in trade. And, make no mistake about it, Mert warned, regulation of financial derivatives involves the use of the state's coercive power to curtail individual freedom to engage in trade. Mert asked that any further regulation of financial derivatives be subject to a cost/benefit test. He proposed that one way, though not the only way, to begin such an analysis is to calculate the *social* cost of the four recent financial disasters that were then in the news. In doing so, Mert fully acknowledged that there *may* have been private losses associated with the four financial debacles, but he emphasized that social costs differ from private losses. As a specific case in point, he observed that P&G's loss on its interest rate swap was Bankers Trust's gain. And, as a shareholder in both, he had not lost at all. Nor did any other investors who happened to be shareholders in both of these widely held companies. More generally, of course, with every derivatives transaction ex post there is always a winner and a loser. But, by definition, the losses on one side of the transaction must equal the gains on the other. The net of the two sides must equal zero.

Mert emphasized that the ex post zero sum nature of derivatives transactions does not mean that the transactions do not create value. The value that comes about arises ex ante because each party is free to choose either side of the transaction before the fact. Given that the parties have chosen opposite sides, each party must have determined that it was better off before the fact by choosing that side of the deal.

Mert then analyzed each of the four financial fiascos in detail. He easily concluded that the social cost of the P&G, MG, and Baring's losses were negligible. Of the four, the one for which it was potentially most difficult to calculate a social cost was the Orange County Investment Pool losses. The reason was that it was the public at large (or at least that part of the public that lived in Orange County) who bore the cost of the Pool's losses. And,

certainly the County's threat to file bankruptcy must have consequential social implications. But, Mert pointed out, that unlike hurricane Andrew, which demolished actual physical capital in the form of lives, houses, offices, bridges, highways and so forth in the same year, financial bankruptcy actually does not directly impair any physical assets. Indirect harm may come about because of the bankruptcy proceedings, but that harm is likely to have to do with improper management of the physical assets involved, rather than because of the act of bankruptcy itself. This is, of course, an argument that Mert had previously made in the connection with corporate capital structure decisions (Miller, 1977).

Mert went on to note, however, that repudiation of its debt by Orange County might have a spillover effect: If investors concluded that counties and municipalities would henceforth feel free to renege on their debt obligations, no doubt capital markets would increase the rate at which such entities could borrow, and very likely reduce their ability to enter into capital markets at all. But, of course, Mert observed, some cynics and conservatives might view that as a social benefit rather than a social cost of derivatives.

More to the point, though, as Mert saw it, was the argument advanced by regulators that more regulation was required to restore investors' confidence in the integrity and honesty of the financial marketplace. He pointed out, however, that if such a loss of confidence were afoot, the volume of trading would soon dry up. On that score, only time would tell the answer.

In his 1996 Address, Mert directly took up the question of whether derivatives, especially financial futures, had a future or whether derivatives had been a fad whose time had come and now gone (Miller, 1997). He broached this topic in light of the apparent dip in derivatives trading volume following the prior year's various derivatives debacles. He quickly reviewed the data and concluded that financial derivatives were here to stay.

The more intriguing question to Mert was whether this trading would take place in the trading pits of the Chicago exchanges or whether volume would shift to an electronic over-the-counter market. Mert argued that the exchanges, with their open outcry trading pits, offered the advantage of "immediacy" because no computerized system could match the immediacy of hundreds of traders shouting their orders literally simultaneously. In those transactions in which immediacy of trade was of paramount importance, the pits are likely to continue to dominate. However, for many, and maybe most transactions, immediacy is a secondary concern. For those trades, he contended the efficiency of an electronic exchange that allows for search over many potential market participants is likely to dominate. The only remaining question is whether the exchanges can develop a system that allows for both the immediacy of the open outcry bidding process along with enhanced efficiency that might be achieved by linkages to electronic processing. On that point, Mert was uncertain.

I found Mert's 1997 PACAP Address to be his most educational (Miller, 1998). In this Address, he reviewed and commented on the financial crisis that was then (and, to an extent, still is) weighing heavily on the economic growth of Southeast Asia. Mert defined the three types of financial risk that he saw at work in the crisis: interest rate risk, currency risk, and credit risk. As he saw it, interest rate risk and currency risk had precipitated the crisis.

Interest rate risk came into play because most Southeast Asian financial markets are bank-centered as opposed to capital markets-centered. Banks, of course, have a propensity

to “borrow short term” and “lend long term.” As interest rates rose, banks were confronted with a maturity mismatch, which saw the value of their assets decline and the cost of their deposits (i.e., borrowings) increase. This classic mismatch was heightened by their currency risk exposure because banks had lent in US dollars (or Japanese yen) and borrowed in the local currencies. As their local currencies weakened against the dollar, the banks’ assets continued to decline in value relative to their liabilities. These two forces essentially wiped out the banks’ equity capital.

Finally, credit risk came into play. As the Southeast Asian economies weakened, the loans in the banks’ portfolios became nonpaying. To the extent that many of the largest bank borrowers were able to make their payments it was because of further lending by the banks. This meant that banks were constrained in their ability to make new loans to new growing enterprises. Given the bank-centered nature of Southeast Asian capital markets, new enterprises were essentially shut out of the capital market.

The solution to the financial crisis, as Mert saw it, was for regulators to force banks to recognize their bad loans, even if that meant bank failures. Doing so would also allow capital to flow to more promising enterprises. But where was the capital to come from? In a word, according to Mert – foreigners. That meant regulators would, in turn, be forced to allow foreigners to enter the Southeast Asian capital markets including the banking sector. In freeing up access to this market from the supply side, Southeast Asian regulators would lose some of their clout, an undertaking that regulators do not routinely embrace. Mert maintained, however, that only by giving businesses access to a diverse set of capital market alternatives, including but not limited to banks, would capital users (i.e., businesses) be able to diversify their sources of capital in Southeast. As Mert saw it, so long as Southeast Asian commerce was shackled to a highly regulated bank-centered capital market, its growth potential would be limited.

In 1999, Mert gave his valedictory Address titled “Reflections of a Retiring Keynote Speaker” (Miller, 2000). Whether Mert knew the full poignancy of that title at the time of his Address is unclear. In addition to being poignant, however, the title is misleading. The title suggests that Mert’s talk would comprise a review of his experiences and, perhaps, prior PACAP Addresses. He did touch on those topics, but only momentarily. As PACAP participants would expect of Mert, he quickly moved to a topic that was then in the news.

Mert had boycotted the prior year’s PACAP meeting in Kuala Lumpur, Malaysia, because the government had imprisoned its former Minister of Finance, Anwar Ibrahim (who had served with Mert as Keynote Co-speaker at a PACAP conference 5 years earlier) and because the Malaysian government had abandoned the convertibility of its currency. Mert viewed both of these actions as totally antithetical to all of PACAP’s goals and aspirations. In this, his final PACAP Address, Mert turned his attention to the topic of foreign exchange controls. That he viewed foreign exchange controls with repugnance is no surprise. To Mert, the case against currency controls was so weak that he devoted only a few paragraphs to restating it: Most importantly, they just do not work. Investors and markets will always find a way around them. It may take some time and devotion of otherwise valuable resources, but ways around controls will be discovered.

Those resources are not the total cost of controls, however. As Mert saw it, the real cost came in the form of the corruption of public institutions that invariably accompanies efforts to circumvent the controls. While the direct cost of circumventing controls may be

relatively modest, the corrosive influence of circumvention is likely to be long lasting and difficult to eradicate.

Still, Mert pondered, what should Malaysia have done in the face of its economic difficulties and the possibly imminent flight of capital? Was repudiation of the convertibility of its currency Malaysia's *only* hope for slowing capital flight?

Mert contended that a less painful and more constructive approach would be for Malaysia to establish a currency board of the type in place in Hong Kong and Argentina. In his view, establishment of a currency board would assure the country of a "fixed, devaluation-proof exchange rate." But there was a cost: the country would be required to give up its discretionary monetary policy. Whether South East Asian politicians would be willing to pay that price was and is an open question. Mert was hopeful that they would. It was on this note of hopefulness for Pacific Basin capital markets that Mert concluded his tenure as *THE* PACAP Keynote Speaker.

Through the years of his service as Keynote Speaker, Mert provided a touchstone and a sense of continuity for PACAP participants. This sense of continuity was especially important during the formative years of the Association. Beyond that, Mert demonstrated by example his belief that financial economists have much to offer business and government leaders by way of advice about the nature and importance of financial markets.

At times, Mert, perhaps focused his attention a bit too narrowly on derivatives and derivative markets. But, as Mert saw it, during the decade of his service as PACAP Keynote Speaker, that was where the action was. Beyond that, Mert would argue that the principles he applied to derivates markets could just as well be applied to other financial products and services. In particular, Mert believed that financial markets work best when they are unfettered by regulation. It was also Mert's view that financial markets do and can play a critical role in facilitating economic growth and opportunity. Mert believed that PACAP and its members could contribute to that growth and, thereby, contribute to the well-being of all the people of the Pacific Basin countries. That was enduring lesson of his PACAP Addresses.

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