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Chicago Voices | LEO MELAMED

Turning butter and eggs into an international omelette

The Chicago Mercantile Exchange had its birth as a butter-and-egg market. It was just that—butter and eggs—and it was dying on the vine. The butter market had already died by the mid-'50s, while I was still a runner on the floor for Merrill Lynch in the old 110 N. Franklin Building. The only other viable commodity was eggs, and that was dying, too. The cycle of production was such that the futures market really wasn't needed anymore. The cycle of production was year-round.

So I became sort of a leader of the Young Turks to bring about some change that would provide us with a future. We started giving the membership a greater voice in the process and adding new commodities. Little by little, we moved forward so that by 1969 we were known as the Meat Exchange—the house that pork bellies built. It was about that time that I became chairman of the exchange. I'd given up practicing law and was trading and was giving the rest of my time to the exchange.

We were pretty successful by this time. Membership prices were moving up, and volume was good. So I thought that with the plans that were afoot, we needed a new building. The floor was just too small. I was young, ambitious, aggressive, had all kinds of dreams and I decided that nothing was going to happen unless we had space.

All the Old Guard warned me against it. They said: "Melamed, there is danger. When you have a successful restaurant, it is small. Make a large restaurant, you go broke." It was scary. I was young. I was under 30, and here were these well-to-do, successful businessmen telling me the dangers.

But, I wouldn't give up on the idea. Then, one day, I was called to the office of none other than Col. Henry Crown, one of the pillars of finance in the United States. A legendary name. He owned the building we were leasing our space in. He called me up to have lunch with him in his penthouse. And I did. I was scared to death; didn't know what it was about.

It turned out that word had come to him that we were thinking of building a new building and moving from his premises. We were paying him a monthly rent. He said: "You're embarking on a very dangerous course, young man, because we are

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Leo Melamed, who will retire later this year as chairman of the Chicago Mercantile Exchange's executive committee and its special counsel, is widely recognized as the founder of financial futures.

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poised on a recession. And if you move into a new building at this time, you are endangering the very life of this institution." That was the most frightening moment of my young days. Here was this financial wizard telling me this. How dare I contradict him?

I left there scared. And I spent that night thinking. By morning I was convinced I was still right. He *may* be right, I thought, but I'm righter, and it's time for a new building. A referendum was overwhelmingly passed by the members, and I was authorized $6 million to build a building. That's all we had in the coffers. And we went ahead and built the building. And that was critical. It took three years. The International Money Market (IMM) opened its doors on May 16, 1972, and we moved into the new building in November 1972. We could not have timed it better because once we launched the IMM we needed a new building and the building was there.

Three years later we were out of space again. The architects said the only way to expand the building was to cantilever it out over the Clinton Avenue sidewalk. To do that, we needed the mayor's approval. So I went to see Mayor Richard J. Daley. He looked at me and said, "What's it gonna do for the city?"

I said, "Well, Mr. Mayor, if I'm right and the IMM grows the way I think it's going to grow, what it's going to do for the city is move the center of gravity of finance in the country a couple feet west from New York."

"I like that," he said. "You've got the right to build that building."

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So we did it. It was still too small and eventually we had to move to our present location, but that's the story of how we grew. And Henry Crown never told me I was right, but I'm sure he knew. And he was right, too, about the recession, but our market was growing so fast that it didn't matter.

Besides the Chicago Mercantile Exchange, the Chicago Board of Trade, Chicago Board Options Exchange and the Midwest Stock Exchange all share that same pioneering "can do" spirit that has transformed our city from a parochial commodity trading center to a world financial nexus.

And Chicago had the banks that understood futures. You can't do this sort of thing without the banks to give you the assistance, the money capability, the lending to move these markets.

In 1972, when we launched the IMM, there wasn't one foreign bank in Chicago. Today more than 50 have opened branches here, drawn by the exchange community and the economic vitality it generates.

Massive amounts of money have been funneled into the local economy. More than 33,000 jobs are provided by the exchanges, their various member firms and related service organizations. Property taxes paid by the exchanges total more than $11 million annually.

When other nations decide to open their own markets, they look to Chicago for guidance. There is no doubt that Chicago, today, is the international capital of risk management. ■

Leo Melamed was interviewed by Norma Libman, a Chicago free-lance writer.