

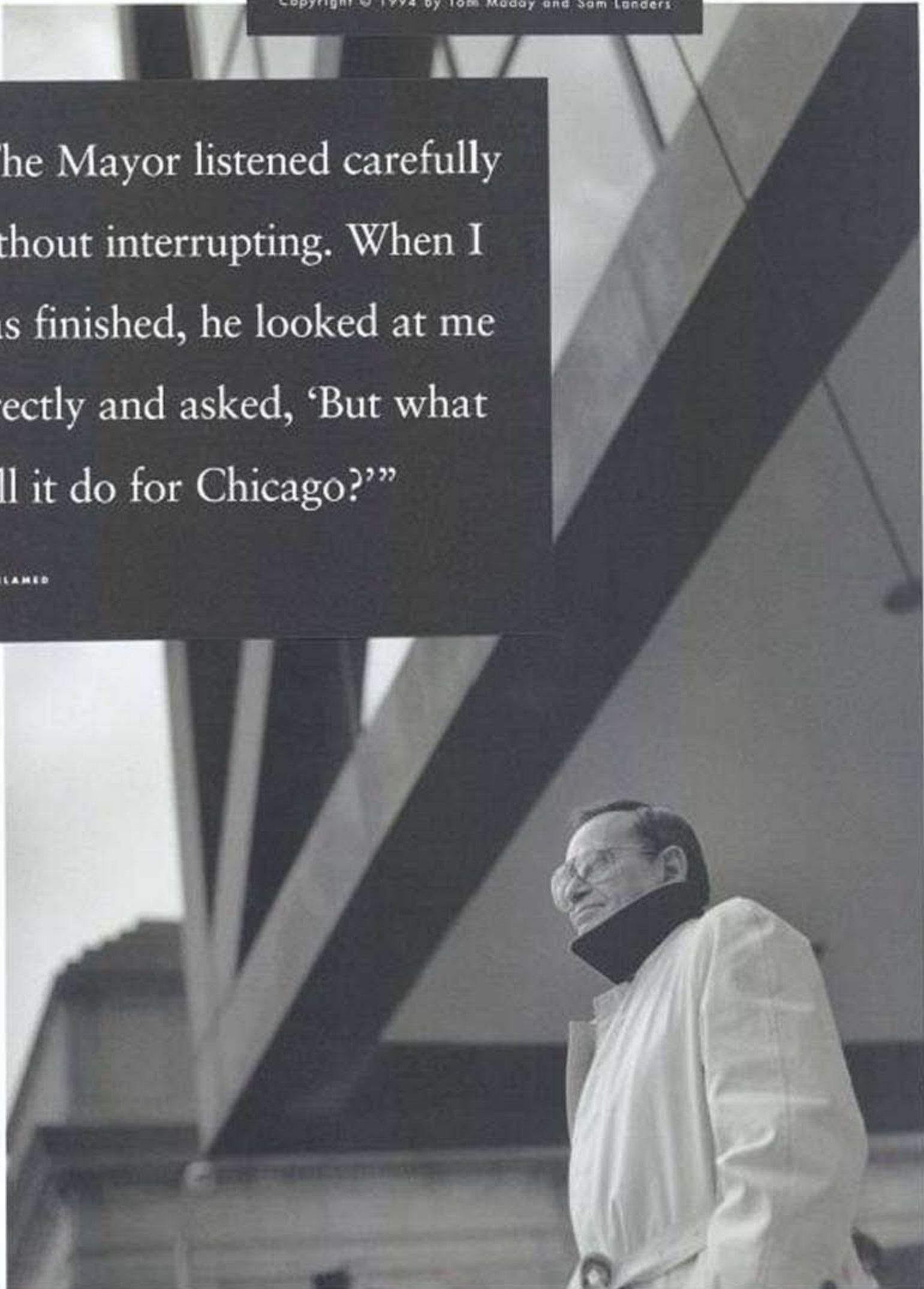
# Great Chicago Stories

Portraits and Stories

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LEO MILAMED



Continued...

## What Will it Do for Chicago?

The 1990 Nobel Laureate in Economics, Merton Miller, nominated financial futures as “the most important financial innovation in the last two decades.” At a minimum, this qualifies the International Monetary Market (IMM), the birthplace of financial futures, as a great Chicago story.

But back in 1975, long before Chicago’s financial markets gained prominence, Mayor Richard J. Daley, the esteemed father of our city’s present Mayor, knew this truth even without pedagogical credentials. Mayor Daley’s support for our markets came at a critical early juncture in our history, at a time when it was much more difficult to divine the true promise of financial futures.

Indeed, when the IMM opened its doors in 1972 as a division of the Chicago Mercantile Exchange (CME), few outside of Chicago heralded the event as significant. To most observers of the financial scene, the opening of the IMM was not worthy of more than a passing comment. Precious few gave it any chance of success. Of course, the world misunderstood the potential and scope of the idea we spawned, and miscalculated the power of determined Chicagoans, particularly the members of the CME. Here is what I had to say in the IMM’s first annual report, some six months after we began trading:

*The opening of the International Monetary Market on May 16, 1972, was as revolutionary a step as the establishment of the first organized commodity exchange when that event occurred...we believe the IMM is larger in scope than currency futures alone, and accordingly, we hope to bring to our threshold many other contracts and commodities that relate directly to monetary matters and that would complement the economics of money futures.*

Of course it was easier said than done. There was a sea of hatred and skepticism around us. Our idea was perceived as too revolutionary and Chicago was deemed the wrong locale. “It’s ludicrous to think that foreign exchange can be entrusted to a bunch of pork belly crapshooters,” proclaimed a prominent New York banker. “The New Currency Market: Strictly for Crapshooters,” echoed *Business Week*.

Fortunately, there were some notable exceptions to the contemporary conventional

wisdom, the most important of which came from another Nobel Laureate in Economics, Professor Milton Friedman. From the outset Professor Friedman, who held court at the University of Chicago, believed in our idea and became our most prominent champion. He gave us the credibility and courage to proceed. Indeed, without his unwavering support, the concept of financial futures might never have flourished and I would not be able to relate the following anecdote about the then-Mayor of our great city.

At the time of the IMM's birth, the CME was still housed in its 1927 location at Franklin and Washington. However, by 1969 it was obvious to me as Chairman that we had outgrown the premises. The trading floor had become far too small for the burgeoning business of futures and the bustling activities of its traders. Besides, I had some grandiose plans. So I called for a referendum, asking for authority from the members to build a new facility. It was a highly controversial proposal. Plans to move had been initiated on more than one occasion in the past but had always been defeated because any move was considered too risky.

Nevertheless, the referendum was held and approved by an overwhelming vote of 320 to 21. We were authorized to spend six million dollars, all we had in our treasury, to build a new building and construct a new trading floor. It was precious little money even by the standards of that day. Indeed, it was barely enough to build the glass structure and trading facility at 444 W. Jackson, just west of the Chicago River. But build it we did, and soon it provided us with a column-less 18,000 sq. ft. trading floor and an adjacent area for the necessary support facilities. It was the most modern market structure in the world. As a consequence, even though currency futures began life in the old quarters, we were confident that the new building would soon provide the IMM with room to expand.

Yet success had its price. The rapid growth of the IMM soon became a problem. In just three years from the date we moved, the allocated space for IMM contracts was insufficient. Worse yet, our ambitious plans for new financial markets in interest rates and stock indexes could not possibly be instituted within the four walls of the premises. We faced a terrible dilemma: To consider moving to new quarters in so short a time span was out of the question, but to stay as we were meant the end of IMM expansion. Our architects, Skidmore, Owings & Merrill, offered a bold solution. We could expand the building to the west by 90 feet, thereby increasing our trading area by 40 percent. It would solve all our immediate

problems and allow us to proceed with all the new markets. But there was a terrible hitch. To carry out this plan we would need to purchase the air-rights from the City and cantilever the building over the Canal street sidewalk. Such an endeavor had been allowed only once in the history of Chicago and that was for a hospital. Our proposal was flatly rejected by Chicago's building department. If there was a chance that the plan could be realized, it would now take personal intervention by Mayor Richard J. Daley.

I was in my early thirties at the time and relatively unknown. To me, the Mayor was a godly figure whom I respected and revered. He was a man of international prominence, someone I read about in the press. Although I had been with him before, it had always been on festive occasions and was usually in the presence of others. But this time it would be different. This time it would be in his office on the fifth floor of City Hall, and this time I would be alone. I would be there not to offer the city assistance or to make an introduction, but to request a unique favor. I was terribly nervous and a little scared.

But I had come very prepared. I brought the architectural renderings and plans. I showed him the cost estimates. I explained the reason necessitating the action. The Mayor listened carefully without interrupting. When I was finished, he looked at me directly and asked, "But what will it do for Chicago?"

I wasn't really prepared for this question but I thought I knew the answer. "Mr. Mayor," I responded, "if I am right about financial futures, the IMM will move the center of gravity of U.S. finance a couple of feet westward from New York." The Mayor broke out into a wide smile. "I like that," he said with a chuckle, "go on and expand the building."

The rest is history. I guess Mayor Daley knew what Professor Miller later learned.