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Survival and Change: Post-World War II at the Chicago Board of Trade

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University of Illinois at Urbana-Champaign
The 25 years following World War II formed a period in which the institution of futures trading in general and the Chicago Board of Trade in particular were threatened with extinction. They were casting about for new directions and modifications of old procedures that would enable them to survive and possibly expand. It was a period in which the foundation was laid for the dramatic growth that took place during the decade of the 1970s. This paper is not a chronicle of the events of the period, but rather an attempt to describe the mood and temper of the times and some of the steps that eventually led to rapid expansion. From this, it is hoped that we can identify some of the underlying forces that determine the nature of markets and that affect their size and influence on the course of economic events.

The ending of wartime controls that had essentially put a stop to futures trading both in the United States and abroad serves as a point of departure. At that time, futures trading, its form, and the exchanges reflected their long past. Table 1 shows the volume of futures trading in grains, which made up a high proportion of all futures trading prior to World War II. The table is a reasonable description of volume change prior to the war. It is not a good measure for the postwar period because of the introduction of new commodities (soybeans, soybean oil, soybean meal, live cattle, live hogs, and frozen pork bellies, in particular). The first point of particular interest is that the all-time trading peak in grain probably occurred in the 1880s. The general level of activity was fairly constant through the 1920s. The Great Depression of the 1930s, the introduction of various farm price-support and inventory schemes, and the fixed prices of World War II pulled the volume down to about one third of the earlier level. The depression, wartime, and immediate postwar volume looks even smaller in comparison to earlier periods when we note that the production and trade in grain was increasing rapidly throughout most of the 65-year period. At the end of the war, futures trading and the Chicago Board of Trade were shrinking vestiges of their former selves and a disinterested observer would have to put the matter of survival high on his list of questions about the future.

Table 1. Volume of trading in cereal grains, wheat, corn, oats, barley, and rye on U.S. markets, five-year averages, millions of bushels.

<table>
<thead>
<tr>
<th>Period</th>
<th>Volume (Millions of Bushels)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1884-1888</td>
<td>23,600</td>
</tr>
<tr>
<td>1889-1893</td>
<td>18,000</td>
</tr>
<tr>
<td>1894-1898</td>
<td>21,600</td>
</tr>
<tr>
<td>1899-1903</td>
<td>19,400</td>
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<tr>
<td>1904-1908</td>
<td>18,900</td>
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<tr>
<td>1909-1913</td>
<td>16,000</td>
</tr>
<tr>
<td>1914-1918</td>
<td>19,400</td>
</tr>
<tr>
<td>1921-1925</td>
<td>21,753</td>
</tr>
<tr>
<td>1926-1930</td>
<td>20,336</td>
</tr>
<tr>
<td>1931-1935</td>
<td>13,489</td>
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<tr>
<td>1936-1940</td>
<td>10,491</td>
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<tr>
<td>1941-1945</td>
<td>6,481</td>
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<tr>
<td>1946-1950</td>
<td>9,640</td>
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<tr>
<td>1951-1955</td>
<td>8,898</td>
</tr>
<tr>
<td>1956-1960</td>
<td>7,764</td>
</tr>
<tr>
<td>1961-1965</td>
<td>10,430</td>
</tr>
<tr>
<td>1966-1970</td>
<td>16,202</td>
</tr>
</tbody>
</table>

Source: Federal Trade Commission and Commodity Exchange Authority, USDA
Table 2 shows the volume of trading on the Chicago Board of Trade for the years 1946 through 1968. Wheat trading was suspended during the war and was resumed in 1946. Wheat volume in 1947 was the largest reached until 1962. The carry-over of wheat on July 1, 1946, was 100 million bushels, approximately a minimum pipeline requirement. The 1946 crop was in excess of 1.1 billion bushels, a record. The federal government exported large quantities for food relief in Europe. The shipments were large enough to create an acute shortage in domestic markets resulting in a major price increase. The price of the May 1947 futures contract rose from an average of $1.91 3/4 in August 1946 to an average of $2.67 1/2 in May 1947. With a large crop in 1948, prices decreased as did the volume of trade. The volume of trading in wheat was of the same general magnitude throughout the period 1948 through 1965. But that volume was of the same general magnitude does not mean there was stability in year-to-year volume. Note that the volume in 1962 was 2.2 times as great as in 1960, and that the volume in 1965 was only 78 percent of 1962.

<table>
<thead>
<tr>
<th>Year</th>
<th>Wheat (mm)</th>
<th>Corn (mm)</th>
<th>Oats (mm)</th>
<th>Rye (mm)</th>
<th>Soybeans (mm)</th>
<th>Cotton (000 contracts)</th>
<th>Soybean Oil (000 contracts)</th>
<th>Soybean Meal (000 contracts)</th>
<th>Soybean Land (000 contracts)</th>
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<tr>
<td>1946</td>
<td>278</td>
<td>661</td>
<td>2,878</td>
<td>584</td>
<td>125.0</td>
<td>0.2</td>
<td>30.2</td>
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<tr>
<td>1947</td>
<td>4,294</td>
<td>3,839</td>
<td>2,781</td>
<td>19</td>
<td>63.3</td>
<td>30.2</td>
<td></td>
<td></td>
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<tr>
<td>1948</td>
<td>3,208</td>
<td>3,740</td>
<td>1,648</td>
<td>35</td>
<td>523</td>
<td>49.6</td>
<td>99.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1949</td>
<td>3,518</td>
<td>2,356</td>
<td>776</td>
<td>279</td>
<td>2,545</td>
<td>21.4</td>
<td>3.3</td>
<td></td>
<td></td>
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<tr>
<td>1950</td>
<td>2,887</td>
<td>1,901</td>
<td>1,220</td>
<td>527</td>
<td>3,907</td>
<td>15.6</td>
<td>18.8</td>
<td>57.3</td>
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<td>3,519</td>
<td>2,496</td>
<td>1,715</td>
<td>495</td>
<td>2,397</td>
<td>9.6</td>
<td>28.7</td>
<td>2.8</td>
<td>33.0</td>
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<tr>
<td>1952</td>
<td>2,588</td>
<td>2,710</td>
<td>2,350</td>
<td>492</td>
<td>3,089</td>
<td>16.0</td>
<td>44.9</td>
<td>3.9</td>
<td>38.7</td>
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<tr>
<td>1953</td>
<td>3,648</td>
<td>2,808</td>
<td>1,874</td>
<td>880</td>
<td>3,533</td>
<td>9.6</td>
<td>46.7</td>
<td>12.1</td>
<td>42.9</td>
</tr>
<tr>
<td>1954</td>
<td>3,172</td>
<td>2,028</td>
<td>810</td>
<td>683</td>
<td>6,084</td>
<td>3.0</td>
<td>82.4</td>
<td>37.9</td>
<td>77.9</td>
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<tr>
<td>1955</td>
<td>3,401</td>
<td>2,455</td>
<td>659</td>
<td>655</td>
<td>4,247</td>
<td>2.4</td>
<td>66.1</td>
<td>36.1</td>
<td>33.9</td>
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<tr>
<td>1956</td>
<td>3,641</td>
<td>2,485</td>
<td>647</td>
<td>709</td>
<td>5,722</td>
<td>1.0</td>
<td>204.8</td>
<td>54.9</td>
<td>62.8</td>
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<tr>
<td>1957</td>
<td>4,117</td>
<td>2,003</td>
<td>474</td>
<td>935</td>
<td>4,331</td>
<td>0.4</td>
<td>173.5</td>
<td>50.5</td>
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<tr>
<td>1958</td>
<td>3,971</td>
<td>2,108</td>
<td>476</td>
<td>864</td>
<td>3,041</td>
<td>1.1</td>
<td>156.1</td>
<td>114.1</td>
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<tr>
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<td>1,846</td>
<td>501</td>
<td>816</td>
<td>4,338</td>
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<td>141.1</td>
<td>21.5</td>
<td>11.0</td>
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<tr>
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<td>1,971</td>
<td>1,284</td>
<td>727</td>
<td>481</td>
<td>5,827</td>
<td>0</td>
<td>212.1</td>
<td>149.2</td>
<td>14.1</td>
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<tr>
<td>1961</td>
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<td>3,136</td>
<td>1,121</td>
<td>962</td>
<td>12,048</td>
<td>0</td>
<td>348.6</td>
<td>322.8</td>
<td>16.0</td>
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<tr>
<td>1962</td>
<td>4,384</td>
<td>4,828</td>
<td>1,362</td>
<td>1,112</td>
<td>4,731</td>
<td>0</td>
<td>319.8</td>
<td>335.3</td>
<td>2.9</td>
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<tr>
<td>1963</td>
<td>4,121</td>
<td>4,123</td>
<td>700</td>
<td>640</td>
<td>14,231</td>
<td>0</td>
<td>507.7</td>
<td>262.7</td>
<td>0</td>
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<tr>
<td>1964</td>
<td>3,719</td>
<td>3,422</td>
<td>505</td>
<td>456</td>
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<td>0</td>
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<tr>
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<td>3,971</td>
<td>450</td>
<td>227</td>
<td>17,827</td>
<td>0</td>
<td>594.0</td>
<td>324.6</td>
<td>0</td>
</tr>
<tr>
<td>1966</td>
<td>5,913</td>
<td>10,231</td>
<td>585</td>
<td>415</td>
<td>15,763</td>
<td>0</td>
<td>574.6</td>
<td>465.8</td>
<td>0</td>
</tr>
<tr>
<td>1967</td>
<td>9,671</td>
<td>9,728</td>
<td>300</td>
<td>229</td>
<td>5,525</td>
<td>0</td>
<td>284.5</td>
<td>353.6</td>
<td>0</td>
</tr>
<tr>
<td>1968</td>
<td>6,532</td>
<td>7,837</td>
<td>616</td>
<td>141</td>
<td>4,718</td>
<td>0</td>
<td>300.9</td>
<td>367.3</td>
<td>0</td>
</tr>
</tbody>
</table>

The 1947 corn crop was small (2.4 billion bushels versus 3.2 billion in 1946), which got futures trading off to a banner start in 1947. The 1948 crop was 3.7 billion bushels and the volume of trade decreased. Volume of trading in corn followed much the same pattern as that of wheat from 1948 through 1961. Throughout the period 1948-1965, there were chronic and growing surpluses of corn, and the price of corn was dominated by government price-support and inventory-management programs. There was a dramatic increase in both wheat and corn volume in 1966. This was associated with weather-reduced crops in the United States and throughout much of the world. There was widespread discussion in the media about world food shortages and the need to increase U.S. agricultural production to "feed a hungry world." Prices rose sharply in the summer of 1966 and so did volume of grain futures trading on the Chicago Board of Trade. The euphoria of agricultural prosperity was quickly dispelled by
The volume of trading in corn, as in wheat, remained large in 1967 and 1968. There were changes in government farm programs that reduced government dominance of prices.

In spite of being a much smaller and economically less important crop, the volume of trading in oats during the 1946-1953 period was large in comparison to wheat and corn. Prices were relatively free of governmental influence. The volume of trading in oats decreased significantly and regularly from the mid-1950s with the exception of a brief flurry in 1961 and 1962. Production of oats in the United States decreased throughout the period and the areas of concentrated production moved to the north and west so that fewer oats were tributary to Chicago. Receipts at and shipments from Chicago decreased so that prices at Chicago became increasingly less representative of the value of oats on a national scale. The market became increasingly vulnerable to tight delivery situations. Even so, Chicago remained the delivery point for oats and futures trading volume decreased.

Trading in soybeans and soybean products was the focal point of futures trading during the first 25 years following World War II and may well have been the basis of survival of the exchange. It most certainly was a source of vitality that contributed to the eventual growth of the exchange. Futures trading in soybeans began October 5, 1936, but volume was at quite low levels through mid-1940. Volume in fiscal 1940-1941 was 860 million bushels but decreased to 399 million during fiscal 1941-1942. Trading was suspended on February 19, 1943, and resumed July 7, 1947. The 1947 crop of soybeans was damaged by drought so that only 166 million bushels were produced (compared to 203 million in 1946). Prices rose rapidly and became volatile. Soybeans became the leading performer in futures markets with the trading increase in 1948. The volume of trading in soybeans is even more notable when relative crop sizes are taken into account. For example, trading in soybeans in 1954 was nearly as large as that in the four grains combined, but the 1954 soybean crop was only 341 million bushels compared to a combined total production of the four grains of 5,473 million.

Three characteristics of soybeans accounted for the rapid growth and large size of the market. First, almost the entire crop is sold by farmers whereas a substantial proportion of grains are consumed on farms. Farmers carry most of their own price risks, but merchants, warehousemen, processors, and exporters must hedge in futures. Second, soybeans are processed into oil and meal. These distinctly different products move into different markets and the prices of both are highly inelastic—hence, volatile. Price volatility makes two contributions to volume of trading. It increases risk and uncertainty, hence, hedging; and it presents profit opportunities, hence, attracts speculators. Third, throughout the history of the industry, soybean prices have been free to move to competitively determined market levels. There have been government price-support programs that have occasionally resulted in government-controlled stocks, but these have been quickly corrected to market levels.

Trading in soybean oil started in 1930 and in soybean meal in 1951. Both markets grew rapidly and paralleled the increase in soybean trading. Trading in soybeans greatly exceeded trading in oil and meal. For example, the volume of soybean trading in 1960 was equal to 1.070 million contracts of oil but only 212,000 contracts were traded. Soybean trading was equal to 1.384 million contracts of soybean meal but only 149,000 contracts were traded. Trading in soybean oil and
meal is complementary to soybean trading. Prices of soybeans are functionally related to oil and meal prices, but the difference between oil and meal values and soybean prices is variable. It, therefore, attracts speculative trading.

Trading in rye futures was substantial prior to World War II. Trading was suspended on June 13, 1946, and resumed on July 12, 1948. The two-year suspension was due to a corner of the market by the noted speculator Daniel F. Rice. In 1945, the price of rye was forced to the ceiling established by the federal Office of Price Administration and held there by concerted actions of large traders—Rice, in particular. The exchange fixed prices on the outstanding contracts and suspended trading in new contracts. There was litigation related to the corner, and questions of suitability of rye for trading were raised. The resumption of trading was delayed long past the end of federal price ceilings. As shown in Table 2, volume recovered quickly and increased through 1962. A downtrend in volume then followed until the demise of the market in 1970.

Rye futures trading held a unique position in markets. The rye crop is small in relation to other crops. In 1959, the total rye crop was 21 millions bushels compared to a wheat crop of 1,184 million; corn, 4,361 million; oats, 1,074 million, and soybeans, 538 million. Comparison of crop size and volume of trading show that volume was large. The open interest in rye futures during the 1950s was about one half as great in relation to volume of trading as was open interest in relation to volume for the other grains. There was a rapid turnover of rye contracts. Short hedges in relation to open interest are a measure of commercial versus speculative use of markets. The percentage of the open interest in rye futures held by short hedges was about one third as great as in other grains. The share of the open interest held by reporting speculators and members of the trading public was large. The demand for rye is highly inelastic and prices are volatile. Rye futures were an attractive speculative vehicle and were highly speculated.

The rye market was notorious during the 1950s and early 1960s. The number of traders in the pit was small and generally thought to be clubby with traders showing favoritism. It was said that one had to be of the right religion to trade rye. There were constant rumors of dominant positions held by one name trader or another, most often Dan Rice. The movement of rye into delivery position was small, and deliverable supply was small in relation to open interest in expiring contracts. The market was typically vulnerable to squeezes. Rye trading was often on the agenda of the Business Conduct Committee. Whether rye trading died a natural death because of the decreasing importance of the crop and, hence, decreasing economic need for futures trading, or because of the retirement and demise of the leading local traders, or because speculative enthusiasm in rye was superseded by speculative enthusiasm in soybeans is unknown. The fact is that it was a highly speculative market that is no more.

The Chicago Board of Trade had an active futures market in cotton in 1946. It was small in relation to the other markets, New York and New Orleans. Trading gradually dwindled and finally stopped in 1959. Of particular note is that it was a long and tedious death that took 14 years.

The lard futures market was of importance from the time trading was resumed after the war until about 1957. There then followed five years of desultory activity until all trading ended in 1962. There were probably four major factors in the
decline and demise of the market. First, lard production in the U.S. decreased as hogs were bred to produce more lean and less fat. As edible fats and oils production and use in the U.S. expanded, the lard market share went from major to minor. Lard was of less economic importance and, therefore, there was less economic need for a futures market. Second, soybean oil increased in importance in domestic fats and oils markets to the extent of assuming a dominant market and price position. Lard and soybean oil are interchangeable in major uses, particularly shortening, and their prices are functionally related. Lard could be effectively hedged in soybean oil futures. There is probably a relationship between the growth of soybean oil and the end of lard trading. Third, the terms of the lard contract were not kept abreast of changing trade practices. The contract specified delivery in drums. Prior to World War II, a substantial proportion of lard moved in drums in commercial channels but this was changed to movement of loose lard in tank cars. It was sometimes necessary to specially drum lard to meet delivery needs on the futures market. Trading in a loose lard contract was initiated in 1958, but trading in the drummed contract was retained and the new contract failed after a three-year experiment. The new contract was much too late in development and was hindered by retention of the old contract. Fourth, as trading decreased there were fewer locals in the lard pit. They tended to be older traders who had been there for a long time and they gradually disappeared. Lard futures trading probably continued as long as it did because of the influence of local members who specialized in lard. In the end, they were trading among themselves.

Table 3 is a measure of the rate of turnover of the membership of the Chicago Board of Trade. It shows the number of sales, the price range, and the number of membership transfers by years. Sales were made in an open bid and asked market. Prospective members were cleared by a membership committee before they were allowed to bid and then given a limited period to purchase a membership. While all memberships were individually owned, some were effectively controlled by firms doing business on the exchange, such as grain firms and commission houses. The transfers were from one employee of a firm to another with the firm retaining control; thus, transfers indicate a change of individuals but not control.
Table 3. Board of Trade membership sales and transfers, 1946-1969

<table>
<thead>
<tr>
<th>Year</th>
<th># of sales</th>
<th>Price range</th>
<th>High</th>
<th># of transfers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Low</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1946</td>
<td>54</td>
<td>$3,100</td>
<td>$6,000</td>
<td>25</td>
</tr>
<tr>
<td>1947</td>
<td>89</td>
<td>2,750</td>
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<td>15</td>
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<tr>
<td>1948</td>
<td>63</td>
<td>3,000</td>
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<td>74</td>
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<td>27</td>
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</tr>
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<td>54</td>
</tr>
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The first point of interest in the table is the very slow rate of membership turnover. During 24 years, there were 1,809 membership sales which is an average of 75 per year. The average membership during the period was 1,414; thus, the average rate of turnover was 5.3 percent which is an average tenure of nearly 20 years. There was a remarkable stability of memberships. The members knew each other well, and most were intimately familiar with the affairs of the exchange. Not only was tenure long, but activities were often highly specialized. People spent careers trading in one pit or at one cash grain table. The long tenure of a high proportion of the membership developed strong loyalties to the exchange. They were part of an institution in which they believed and about the welfare of which they were greatly concerned. They were enthusiastic about what they did. Being an active member of the Chicago Board of Trade was more than an occupation; it was a way of life. They also developed strong relationships with each other. They were intense competitors in their trading, but they also had strong loyalties and intense animosities. A second result of long tenure was resistance to change. We have noted that the lard and cotton markets probably existed past their times. Part of the reason was that members were reluctant to take away something that other members wanted to keep. There was a long major struggle before trading on Saturday was stopped in 1953. Trading hours did not change during the entire period. There was resistance to change in contract terms.

A second point of interest in the table is the low price of memberships. The range was substantial but the cost of owning a membership was, by modern standards, low. Many of the memberships, perhaps as many as one third, were held by inactive members for purposes of obtaining reduced commissions. Under the rules of the exchange, commission houses were required to charge commissions fixed by the exchange. Members who traded through houses were entitled to
rates one half of nonmember rates. It did not take a large volume of trade to save enough on commissions to offset the interest cost on a low-priced membership and the modest annual assessments that were made by the exchange. There were, in a sense, three kinds of members: (1) locals who were brokers, or pit and floor traders, (2) nonresident members, and (3) commission houses and commercials, such as grain merchants and processors. Distribution was probably not far from one third, one third, and one third. The different groups had different interests that affected the politics of the exchange governance.

In 1960, the exchange undertook a price-support program for memberships. Whether this was out of vanity or an attempt to weed out nonparticipating members is not clear. Total membership had gotten fixed at 1,422 during the 1930s. The Chicago Board of Trade offered to buy 20 memberships at $5,000 each when recent sales had been at about $3,500. The 20 memberships were quickly tendered and no more offers were made in spite of more tenders at $5,000.

A third point that should be noted from Table 3 is that the price of memberships rose rapidly as trading volume increased during the 1960s (see Table 2). Membership values were closely related to trading volume. The rise in membership cost resulted in the transfer of memberships from inactive to active participants.

The long period of limited trading and growth in futures markets was not unique to the Chicago Board of Trade. In the first edition (1971, p. 21) of his book *Economics of Futures Trading*, Hieronymus included a table showing the detail of trading volume by exchanges and commodities from 1955 through 1969 and said:

There are several points of interest.

1. Total volume of trade in all commodities was about constant during the late 1950's and increased rapidly during the 1960's, more than doubling.

2. Some exchanges declined in importance and disappeared from the list and others were fading throughout most of the period. Memphis, Milwaukee, New Orleans, and Seattle declined and disappeared. St. Louis came in and left promptly. This is an old market that had a large volume of trading at an early time and remained an important cash grain market at the end of the period. The New York Produce Exchange, after a rally in the early 1960's declined to almost nothing. The number of commodities traded and the volume of trading decreased at Minneapolis.

3. The number of commodities traded increased. There were 37 different commodities traded in 1955 and 44 in 1969. There was a tendency to add rapidly near the end of the period. Note particularly silver, palladium, apples, lumber, plywood, cattle, hogs, and propane. Some exchanges, note particularly the Chicago Mercantile Exchange, were venturesome in trying new commodities.

4. Trading in some commodities declined and stopped or nearly stopped (rubber, onions, butter, cottonseed oil, cottonseed meal, millfeeds, shrimp, feeder cattle, rice, burlap, pepper, and fishmeal). Volume in others declined
gradually and then recovered sharply, such as eggs on the Chicago Mercantile Exchange. Some commodities were introduced and flopped.

The Chicago Board of Trade fared well in comparison to most other exchanges. In 1955, it had 59 percent of the total of 4.1 million contracts traded; in 1962, 76 percent of 5.2 million contracts; and in 1969, 44 percent of 11.2 million. The lower percentage in 1969 represented a 24-percent increase in the actual number of contracts, the result of a major increase in trading at the Chicago Mercantile Exchange, which went from 8 percent in 1962 to 34 percent in 1969. The increase was mainly the result of the initiation and growth of trading in pork bellies, live cattle, and live hogs.

New Commodities at the Chicago Board of Trade

The Chicago Board of Trade was not without innovation in the development of new commodities during the postwar period. A grain sorghum contract was introduced and failed during the 1955 to 1965 period. The shift to a loose lard contract that failed was mentioned earlier. A steer-beef carcass contract was traded in very small volume in 1965 and 1966. This was followed by a live cattle contract that was traded from 1966 through 1971. Trading in ice broilers was started in 1968, and trading in plywood and silver in 1969. The growth of trading in grains, soybeans, and soybean products that took place during the second half of the 1960s appears to have stimulated development of new commodities and changed the mood and tenor of the exchange from one of survival to one of expansion and growth.

Political Climate

The political climate within which futures markets operated during the period prior to World War II was largely negative. There was a long history of attempts to prohibit and control futures trading. In the 60th Congress, following the panic of 1907, no less than 25 such bills were introduced, and more than 40 in the 62nd Congress. The first federal regulation was the Futures Trading Act of 1921, which was found unconstitutional. It was followed by the Grain Futures Act of 1922, which was extensively revised and renamed the Commodity Exchange Act in 1936. The various bills introduced and the hearings before enactment of the laws and amendments had a common theme. It was grudgingly recognized that futures trading served useful economic purposes of risk transfer through hedging but that there were growing abuses of price manipulation, market corners, sudden and unreasonable price fluctuations, market control by large-scale inside traders, and speculative excesses caused by uninformed and exuberant trading by the public. The attitude was expressed in a typical fashion by Representative Robert Rich in hearings of the Joint Committee on the Economic Report in December 1947. "I am not interested in trying in any way to stop legitimate business; I want that to proceed. But I thought if there was anything you could suggest to our committee whereby we might, from your experience, stop speculation, pure and simple, and let legitimate trade go on, I wish you would make that recommendation." Speculative excesses, manipulation, and large-scale trading were blamed when producers' prices fell and when consumers' prices rose. When the federal government oversold the existing wheat supply immediately following World War II, President Truman blamed "gambler's in human misery" for the subsequent price increase. Futures markets were frequently the whipping boys of political demagoguery.

New laws were written and regulation increased. However, most of the more onerous proposals were defeated so that the exchanges and the institution of futures trading survived. To some extent, knowledge and wisdom imparted to the
Congress by representatives of the grain trade and the exchanges prevailed. However, much of the control of legislation was accomplished by the simplest of political processes: lobbyists went into home districts and to Washington.

Legislative proposals and amendments to existing laws along the same old lines of speculative control continued throughout the postwar period, but understanding of the economic validity of futures trading, including speculation, gradually increased. Hearings in 1973 and 1974 preceding the Commodity Futures Trading Commission Act of 1974 generally were held in a climate of limited demagoguery and an appreciation of the importance of developing legislation favorable to the growth and expansion of futures markets. Whether or not the Act has been favorable is not the issue. It was passed in a relatively favorable climate of understanding.

There is a footnote that goes to the subject of regulation and the strength of competitive forces. Trading in privileges was made illegal by the Commodity Exchange Act of 1936, but the practice persisted in reduced volume in the late 1930s. It went out of existence during the suspension of trading during World War II. When trading was resumed, the need for overnight protection spawned an underground, illegal trade in privileges. Privileges were overnight puts and calls on grain futures, good through the opening of the following day. Prices were generally $5.00 per 5,000-bushel contract. All transactions were in cash, and collections and payments were made through "bagmen." No paper confirmations were made and the trade was on an honor system. Participants in the illegal trade included some of the more prominent speculators, and the sums of money changing hands was substantial. The trade diminished and finally expired as the markets flattened out in the 1950s and 1960s and as the active participants aged without new arrivals to replace them.

Scalpers and pit traders do not ordinarily carry overnight positions. They end each session in an even position so that they are not subject to the risks of major price changes at the opening of trading the following day. Typically, they do not have sufficient financial resources nor inclination to carry major risks. There were independent traders who did have the resources and inclination to assume overnight risks. There was a demand for overnight protection that provided a supply at a price. Competitive forces resulted in the establishment of a market in spite of legal prohibition.

The centennial of the formation of the Chicago Board of Trade was celebrated in 1948—a significant benchmark year. There was a special edition of the Chicago Journal of Commerce reporting the occasion, reviewing some of the history of the Exchange and of commerce in Chicago, and describing the status and functions of the Exchange. Richard F. Uhlmann was elected president. J.O. McClintock, who had been president in 1947, was appointed Executive Vice-President and thereby became the first paid executive officer of the Exchange.

At that time, the Exchange was a great democratic organization, run by a board of directors and committee members. In addition to the president, there were first and second vice-presidents and 15 directors elected from the membership. The three lead committees were: Nominating, Appeals, and Arbitration. Much of the day-to-day business was run by committees of 3 to 11 members. There were 25 committees with a total membership of 139. Some of the diversity of functions of the Board of Trade is revealed by committee names: Business

The annual reports of the committees show a wide diversity of functions not directly related to futures trading. The Chicago Board of Trade was directly involved in freight-rate establishment and change. There was active trading in the Securities Department. There was a major cash grain market where trade by sample took place on the floor of the Exchange. Receipts of grain at Chicago were sampled by the Grain Sampling and Seed Inspection Department. Grain was weighed into and out of Chicago elevators and warehouse operations were supervised. Meat and various other packinghouse products were sampled, weighed, and inspected.

These activities facilitated trade and commerce in commodities at Chicago. The Chicago Board of Trade was a board of trade as well as a futures market.

The financial operation of the Chicago Board of Trade was small. Operating income in 1948 was $348,000, of which $155,000 was building rental; $110,000 from quotations, private line, and floor rental; and $64,000 was from the switchboard. Operating expenses were $642,000 scattered over a long list of expenses, a few of which included: Market Department, $94,000; Transportation, $20,000; Public Relations, $77,000; Telephone Switchboard, $78,000; Legal Expenses, $54,000; Weighing and Custodian, $36,000; Executive Office, $89,000; and Cloakroom, Washroom, and Towel Service, $10,000. The deficit of $294,000 was nearly covered by a membership assessment of $248,850 ($175 per member). The organization operated at a loss and had to rely on membership assessments. In general, members were less than enthusiastic about assessments, and the size of assessments was regularly an issue in elections. There was great pressure to hold operating expenses at a minimum. This limited financing, and pressure to restrict expenses was characteristic of the Chicago Board of Trade throughout the 25-year period under review.

In his presidential address in 1948, Richard Uhlmann said:

During the past year we celebrated our 100th anniversary, which was an outstanding event in the history of our country and our city, and it was a great testimonial to free markets everywhere. People came from all parts of this country and from Canada to pay tribute to a marketing system which had served many millions of people so faithfully since its inception. A symposium was also inaugurated so that professors from thirty-three colleges and universities could come here to learn at first-hand the functions and accomplishments of the Chicago Board of Trade. It has been felt for some time that education was the only method to better acquaint the public that an exchange was not an individual to be loved, hated, feared, laughed at, or wept about. It is an inanimate thing, an institution, an apparatus, an auction establishment, a device or arena, or a scoreboard.

The statement reflected a sensitivity to the constant attacks on the Exchange by politicians, farm organizations, and in the media. The members of the Exchange truly believed in the economic usefulness and fairness of futures
trading and the desirability of its expansion. They thought that they were wrongfully maligned and were hindered by regulation. In effect, Uhllmann said: “We are tired of sending lobbyists to Washington. We are a great and good institution and we should proceed to make this known.” As a part of the centennial celebration and his presidency, Uhllmann contributed $3,000 for an awards contest that was designed to generate papers from academia and the trade evaluating the institution of futures trading. The awards contest was continued for eight years until it was changed to a scholarship award.

The report of the Public Relations Committee in 1948 listed the following activities:

1. Under the direction of the J.W. Hicks organization, our public relations counsel, several public opinion surveys were initiated and completed.

2. More than 150 news, feature, pictures and radio releases were made, relating to general or specific news and functions of the exchange.

3. An educational radio program was developed consisting of twelve five-minute transcribed programs.

4. A mimeographed bulletin in clip sheet form is being sent periodically to newspapers.

5. The Board of Trade published a 26 page booklet entitled “Hedging—An Insurance Medium in Marketing Agricultural Commodities,” which it is hoped will be the first of a series dealing with organized commodity markets.

6. A symposium attended by 37 educators, representing 33 colleges and universities, was held in Chicago on September 9 and 10. Out of this meeting an Advisory Educational Committee to the Chicago Board of Trade was appointed to counsel with members of the Exchange for future plans with reference to teaching aids, such as textbooks, pamphlets, etc.

7. A recommendation that the Board of Trade make a colored motion picture to tell “The Board of Trade Story” was approved by the directors.

The first symposium featured papers by J.O. McClintock on “History, Development, and Functions of the Chicago Board of Trade” and Professor O.G. Saxon and Julius Beer on “Commodity Exchanges and Futures Trading.” There was extensive freewheeling discussions by the professors on the feasibility and methods of developing literature about futures trading and the introduction of the subject matter of futures trading into college curricula. One result of the symposium was the appointment of an Educational Advisory Committee which has continued in existence.

A second symposium was held on September 8 and 9, 1949, and featured papers by Holbrook Working of Stanford on “The Purposes and Functions of Futures Markets,” Roy Godfrey of Faroll and Company on “Cash and Futures Market Relationships,” J.O. McClintock of the Chicago Board of Trade on “Relation of Margins to Speculation,” and Homer Hargrave of Merrill Lynch on “Brokerage House Procedures.” There was extensive give-and-take discussion among trade
and academic participants. In addition to the seminar sessions, there were tours of the trading floor and grain-processing facilities in Chicago.

The symposia were continued on an annual basis through the 1950s and on a less regular basis during the 1960s. They generated an extensive amount of literature written primarily by active members of the trade who described their own activities. Some of this literature was combined into *Readings in Futures Markets, Book III, Views from the Trade*, ed., A.E. Peck, Chicago Board of Trade, 1978.

The eleventh symposium, held in 1958, was expanded to include agricultural writers and members of the banking industry. Subsequent symposia continued to mix members of the trade, academic, and commodity-related people such as members of the media, banks, trade associations, and agricultural organizations.

The symposia and other educational efforts produced a quantity of literature, at least some of which was introduced into college curricula and adult-education programs. In addition, they increased the awareness, knowledge, and appreciation of the subject matter of futures trading by college-level instructors. The papers and formal discussions were recorded in proceedings. Perhaps a greater usefulness of the symposia is not on record. These were the informal discussions held, often late at night, in the lounge at the Union League Club. In the course of the symposia, members of the trade and academia got to know and appreciate each other. The process probably not only influenced teaching research in academia, but also influenced the operation of firms and of the Exchange. Learning was a two-way street.

Some Views of Problems

As is shown in Table 2, volume of trading in the 1950s on the Chicago Board of Trade was stable at low levels in some commodities and was declining for others. In late January 1959, a grain marketing session at the First Annual Agricultural Industries Forum at the University of Illinois focused on problems of the decreasing volume of trade in futures markets. Warren Lebeck, Secretary of the Chicago Board of Trade, addressed the topic “Declining Volume in Futures Trading.” He assigned most of the responsibility for the decreasing volume to the operation of government price-support programs: “The problem of declining volume dates back to the period of governmental experiment. Experiments both here and abroad show that governmental regulation of production of farm crops leads to destruction of farm markets and in no way solves the problem of stabilized prices, disposition of surpluses, or assured farm income.” He effectively made the case that, commodity by commodity, volume was affected by the existence and nature of governmental price programs and that modifications of programs to permit a greater fluctuation between floor and ceiling prices and to enable greater commercial initiation and participation in exports increased the volume of futures trading. While the thrust of his comments was directed at the effect of government programs, he identified several additional steps in progress by the exchange:

In the past few years the Chicago Board of Trade has completely revamped its cottonseed oil contract and adopted a brand new loose meal futures. . . . A thorough study was made of the possibilities of starting a contract in mill feeds but the idea was shelved for the time being . . . . The Provisions Committee has just completed a study of trading in hog products and recommended to the board that it does not seem feasible at the present time.
A special committee is looking into a futures contract for live hogs. . . . A
special committee on deliverable grades has been active for over two years. It
has been recommended and the membership, by ballot vote, has adopted two
changes in the corn grades. . . . This committee . . . anticipating the opening of
the St. Lawrence Seaway . . . recommended that grain elevators not having
direct access to water be required to put delivery of grain into a water house.

W.E. Huge, Central Soya Company, spoke on "Changes in the Use and
Usefulness of Futures for Hedging." He primarily identified the problems of
degenerating volume—hence, usefulness for hedging—as being associated with
the dominance of governmental price policies. His solution was to increase market
growth in a way that would rid agriculture of surpluses. In addition, he pointed
out that the expansion in trade in soybean oil and soybean meal futures improved
hedging opportunities for soybean processors and product users, in part because
of the attractiveness to speculators.

Robert Raclin, Bache and Company, in addressing "The Problem of
Maintaining Speculative Volume" identified governmental price policies as
the primary reason for decreasing commission-house business. He identified a
second problem as ". . . perversion of the intent of the Chicago Board of Trade
Clearing Corporation. Last year, a number of soybean crushers joined the
Clearing Corporation so that they could clear their own trades as well as handle
customer accounts. . . . They not only lost the customers as customers, but also lost
other customers to the crushers." He then identified steps in progress by Bache to
increase commission revenue by (1) building a research department and
developing specialization in analysis by commodities, and (2) encouraging
security customers to execute grain tax straddles.

T.A. Hieronymus, University of Illinois, spoke to "Changes Needed in Futures
Contracts." The thrust of his comments was that futures contracts tended to be
unbalanced in favor of the shorts to the advantage of commercial users of
markets and to the disadvantage of speculators. He ascribed the imbalance to a
long-standing antispeculator bias that stemmed from the political climate and
federal regulation of futures markets. By way of correction, he listed three steps:
"The first step is a general one. The position of the speculator needs to be
strengthened. His role in the marketing system needs to be reappraised and the
onus of the popular concept of evil removed from him. The second step is to
remove the position and trading limits that apply to speculators. Thirdly, the
position of speculators can be strengthened by changes in the terms of delivery.
The futures contract, and hence the futures price should represent top-quality
commercial commodities. They should represent the best of the commercially
traded commodity, in the most advantageous location, and with the best possible
freight billing associated with them." There was an implication in the paper that
if tightening of delivery terms occasionally resulted in delivery congestion, such
congestion—squeezes—would work to the advantage of futures trading in
general.

If this brief highlighting of the first 25 years following World War II has useful
purposes, it is to serve as a basis for evaluating the performance of the Chicago
Board of Trade and identifying lessons that help put subsequent developments in
futures trading in perspective and can act as guidelines for the future. It is easier
to be critical than to be approving, to look at the near demise and slow
development and identify weaknesses and better courses of action than those

Conclusions
taken. We should learn from mistakes. Accordingly, we look for mistakes and ways that could have been better. However, this process obscures the central facts of the period. The fact is that the Chicago Board of Trade and the institution of futures trading did survive the 1940s and 1950s, did grow and expand rapidly during the 1960s, and the groundwork was laid for subsequent rapid growth. These accomplishments were made in the face of an adverse political climate that continually called for regulation and blamed futures trading and the Chicago Board of Trade for problems that were in no way attributable to them. They were made in a period when governmental activities so dominated agricultural markets that there was little room for competitive forces to assert themselves in prices. The survival and change that took place are themselves a tribute to the institution of futures trading and the Chicago Board of Trade. The Chicago Board of Trade maintained competitive markets and laid the groundwork for expansion and growth of competition in the economy. Futures markets are the closest approximation to a model of pure competition existent in our economic system. This system has since expanded beyond the grains to other agricultural commodities and beyond agricultural commodities to minerals, precious metals, currencies, and financial instruments. The result of all of this is the infusion of competition into areas of economic activity that had been dominated by governments and large institutions.

Survival and change are a tribute to a group of honorable men committed to competitive markets. In addition to the long tenures that we have noted, there were father-to-son-to-grandson continuities. There was great pride in longevity of association with the Exchange and a strong sense of history. A central theme of conversations with members was the integrity of the market—integrity of competitively established prices, integrity of contractual commitment, and financial integrity. There is an element of Adam Smith's invisible hand in this. To suggest to many, if not most, members that they were dedicated to competitive markets for the public good would have startled them and they would have said that they were acting in their own self-interest.

What are the lessons? First, markets, futures markets in particular, go the way of competitive pricing. At the end of World War II, most futures trading was in agricultural products—grain, in particular. The decline in the importance of futures trading was primarily the result of governmental price programs that reduced the need for hedging and reduced the price variability that attracted speculation. The extent to which commodities were affected varied by program from near extinction of cotton trading to the rapid growth of soybean trading. The growth in the late 1960s was associated with relaxing of price-inhibiting governmental programs and the initiation of trading in commodities where programs were nonexistent. The continued success of futures trading is dependent upon the existence of free, open, competitive markets.

There is also a circularity in this because competitive markets are, in part, dependent on the existence of futures markets. Futures trading enables competitive forces to assert themselves without restraint and, thus, aids the establishment and expansion of competition. Administrative control of markets, particularly by government, is the antithesis of competitive pricing. The Chicago Board of Trade recognized this and devoted substantial effort to program alternatives that would be less restrictive of competitive pricing.
Second, speculation is an essential part of competitive pricing and futures trading. As we have noted, standard doctrine was that speculation was necessary but, to a large degree, evil. A weakness of the exchanges during the period under review was that they acceded to the proposition and did not aggressively promote speculation as the positive contribution to competitive pricing that it is. This criticism was voiced by G. Wright Hoffman at the first education symposium in 1948 "that the board of trade go further than it has gone in its development in the years ahead... This may take a period of time... It takes courage: it makes enlightened leadership. You talk to Board of Trade people about their work, and they will talk to you about the great value of hedging. They will spend a rule nine-tenths of their time talking about hedging and one-tenth about speculation. The truth of the matter is that it ought to be the other way around. Historically the men in the Board of Trade have been on the defense mainly on this business of speculation. We have gotten to a place now in education, and they will get a lot of help from college people, where they need to take the offense on that score. We need speculators. It is the speculative group that is the life of every market."

In this connection, we should particularly note the rye and soybean experience. The rye market continued to exist for as long and in as large a volume as it did out of an enthusiasm for speculation. Without the soybean market, the Chicago Board of Trade might have survived. There was an underpinning of risk shifting but it was built on speculative enthusiasm. Speculation is essential to a successful market, and the higher the proportion of trading that is speculative, the more successful the market. Speculation makes a major contribution to the accuracy of price establishment and to the maintenance of competition. It should be promoted for the positive influence that it is.

The rye and soybean experiences make another point: speculation is an activity toward which many people have a strong affinity. There are investors who seek substantial risks that offer in exchange the rewards of large returns. These are the people on whom successful markets are built.

Third, educational efforts have paid dividends in (1) developing a market structure conducive to expansion, (2) generating commercial and speculative business, and (3) including an appreciation of competitive markets in the education of college students and furnishing better employees to the commodity industries.

The Chicago Board of Trade went public in 1948. The long-standing defensive posture was modified to one of opening up to examination. It chose college-level educators as the vehicle to tell the competitive market story. There is no way to measure the imports of the educational programs that the exchange has operated since World War II, but it is undoubtedly substantial. One of the more difficult aspects to appraise is the influence of educators on the operation of exchanges and on the firms that trade in futures markets. In addition to the educational programs in which educators have contributed papers and taught, the exchanges sponsored and generated research in market operation and firm operations within markets. The new knowledge thus generated has been used by exchanges and by operational firms in the modification and improvement of their own activities. The educational process has been a two-way street.

We noted that the major changes in federal regulatory law in 1974 were made in a nonhostile atmosphere. During the preceding 30 years, a long succession of
academicians testified before Congressional committees on matters of regulation of futures trading. An overwhelming preponderance of the testimony was constructive to the development of competitive markets. How deeply the roots of this testimony go to Chicago Board of Trade educational programs is unknown.

Fourth, great democratic institutions change slowly and tend to be slow in grasping and exploiting their opportunities. A part of the slow growth of the Chicago Board of Trade was the result of the reluctance to change contract terms and trading rules, limited financing, and slowness in initiating trading in new commodities. It is easy to look back and critically ask why this was not done or why that was not done sooner and generalize to the conclusion that governance was excessively democratic. However, there is another side. Slow change is more apt to be solid, enduring, and successful than is rapid change. In addition, the democratic process was fully respectful of the individual freedom of all the members. Respect for individual freedom aggregated into a fully competitive market and thus served the public interest.
Commentary

Warren W. Lebeck
Chicago Board of Trade and First National Bank of Chicago

One thing that has bothered me about the seminar today is the way this group of historians and economists play with words like *games* and *players*. I have spent 28 years in this business and I detest those words. It is not a game and there are not players in it. There are traders, participants, and it is an institution. It is bad enough when I have to correct a writer for *The Wall Street Journal* or the *Chicago Tribune*, but it is really disappointing when academicians use words that way.

I did not receive a copy of the paper until last Friday, but, fortunately, the topic is not one that I thought was going to cause much controversy, so I did some research on it. It was really a lot of fun looking back over old annual reports, monthly letters, and statistical annuals. It refreshed my memory of what had happened, and I can confess to you that my memory was not quite as good as I thought it might be.

For his paper's content and preparation, I have to give Tom fairly high marks. He changed the original title a little by picking up those four years after the end of the war, and I have not made any attempt to go into those years at all. But as I looked back, I was impressed by how apt the term *survival* fit the decade of the fifties. Yet, when I agreed to join the exchange in 1954, I hardly felt that it was a matter of survival.

As I read in the annual reports the various reports of each year's chairman to the membership, it was all too clear to me that in its own way at that time the government was as much if not more a threat to survival than it is now, even with the CFTC, embargoes, user taxes, income tax changes, and so forth. Year after year, the chairman described the burdening effect of huge government surpluses and their depressing weight on price and volume. But then, of course, I don't think any of us here will be surprised if that is exactly what the chairman of the board says at the next annual meeting.

As a matter of fact, my first exposure to Tom Hieronymus personally was somewhat under these circumstances. Tom talked about the first Ag Industries Forum at the University of Illinois in January 1959. Both he and I were on the program, and my subject was "Declining Volume in Futures Trading." Tom said in his remarks: "There was an implication in the paper that if tightening of delivery terms occasionally resulted in delivery congestion, such congestion squeezes would work to the advantage of futures trading in general."

Well, as sometimes happens in seminars like that—although, fortunately, it has not happened here today—after a comment or two, the room fell silent. Since Tom was the moderator, it was his job to get things going. He turned to me and said: "Warren, so far as the Board of Trade is concerned, all you need to stimulate a little volume is a squeeze." Well, before I could draw a breath to respond, Carl Bostrom and five or six other members of the Board of Trade came right out of their chairs and said the Board of Trade, of course, would never condone a squeeze.

Getting back to the 1950s, though, I do concur with Tom's opinion. I think that you can use three words to describe survival—the *soybean complex*. As Tom said, trading in beans began in 1936 but actually did not become much of a factor until the fifties. While there were years in the two decades of the fifties and sixties when supply exceeded demand, the general curve of supply and demand rose rather steadily. For 13 of those 20 years, soybeans was the most heavily traded contract at the Chicago Board of Trade, going from a low of 479,373 contracts in 1951 to a high of 3,565,492 contracts in 1965.
The fifties also saw the introduction of the oil and meal contracts which both grew steadily in volume and importance until 1969. That was not a particularly good year for soybean trading, but on a contract basis, if you added oil and meal together, they surpassed the soybean contract volume for that particular year.

But despite the unqualified success of oil and meal, there were other attempts that did not survive. Tom discussed lard and loose lard. He also talked about grain sorghums and milo. They were actually tried about three times during that period with different specifications, but never really got off the ground. They were so far away from Chicago and they could easily be hedged in corn. It just was not worth taking the risk of getting into an illiquid contract in milo or sorghums when one could be in the corn contract. Millfeeds in Chicago never got off the ground. I think that was one of the contracts traded in St. Louis but it never worked. Tom did not talk about North Pacific Coast wheat—the white wheat which is grown primarily in Washington, Oregon, and Idaho and which has a large export market to Pacific countries. Since their geography and marketing patterns were quite different from the Minneapolis, Kansas City, and Chicago markets, they felt they needed a market attuned to their own situation. However, as in the case of sorghum, it just did not succeed. Again, I think that it was the liquidity in the current wheat contracts that kept it from going anywhere at all.

As a footnote, I think that it is very interesting that during the 1970s and 1980s, Portland, Oregon, has talked about such a contract several times, and Minneapolis has designed a white wheat contract which the CFTC has approved. However, I don’t believe they have any plans to trade that contract until the wheat market gets out of the doldrums.

Tom talked a little bit about cottonseed oil. There was a cottonseed oil contract at the New York Produce Exchange. At the Board of Trade, we kept getting requests to put together a contract with different specifications. We did so and trading began in March 1955. But, again, not much of anything happened, and cottonseed oil was left to the Produce Exchange where it lasted until the collapse of Tino DeAngelis’s great salad oil scandal. I will talk a little more about the infamous Tino later. With the demise of the Produce Exchange, the hue and cry went up again to trade a cottonseed oil market. After a couple of years of talks, it became apparent that it was a lot easier to hedge cottonseed oil in the very liquid soybean oil contract than to try to set up a competing contract.

Possibly, it may seem that the Board of Trade wasted an awful lot of time, energy, and money on what turned out to be failures. But I prefer to look at it in a different fashion. These were learning experiences, and they stood the Exchange in good stead in the years that followed. One very successful trader told me several years ago that he had to pay tuition every time he moved from one pit to another. Just because he could successfully trade oats, he could not move to the corn pit and be an instant success. He had to learn what went on. Frankly, to me, the failures that I have just talked about in these contracts were tuition for later successes.

There were some other things that happened during the 1950s that go more toward change than survival. The Board of Trade’s ticker network was extended to the West Coast. Today that does not seem like much, but back in the 1950s that was quite significant.

Capital gains tax treatment was modified to include the holding of cash delivery in the tax holding period. Unfortunately, a more recent tax bill has eliminated the need for the holding period to the detriment of the market.

The Commodity Exchange Authority (CEA) attempted to impose a 25-contract speculative limit on fats and oils. The trade, unified for once in its life and aided by a very fine presentation by Tom Hieronymus, made such an impression on the CEA that the regulation was suspended and trading limits were left to the market.

Tom mentioned the difficulties over whether or not to trade on Saturdays. That was a very bitter battle. Finally, in 1953, the Exchange decided once and for all that it would not trade on Saturdays. A brief attempt was made to extend the grain hours from 1:15 p.m. to 1:45 p.m., but that did not last long. There is an interesting sidelight to the Saturday closings that persists even today. To make up for the lost business, the exchange eliminated three holidays—Washington’s Birthday, Columbus Day, and Veterans Day. Since
all three of these are bank holidays, there have been times when problems have arisen over the availability of money transfers for either delivery or margins or both.

There is one piece of trivia that I don’t think we can leave out—the Board of Trade was a registered securities exchange and actually had trades until 1954. As I recall, the last securities trade on the Board of Trade was made in either April or May of 1954, and I came in June 1954. I do not know if there is any connection or not, but I really don’t think so.

Tom did not mention a fellow from Memphis by the name of Landon V. “Jimmy” Butler. He caused quite a ruckus in the soybean market. In addition to holding large positions, he accused regular warehousemen of all sorts of nefarious activities while at the same time he was selling large merchandising firms in this country warehouse receipts for the same kind of soybeans that Tino was putting out for oil. In other words, the beans did not exist. Jimmy Butler eventually went to jail.

But not everything was on the bearish side. In light of more recent problems and scandals that have developed in the sampling and weighing of grain, I think the fact that we eliminated the Board of Trade Sampling Department and started on the path to dismantling the Weighing Department showed great foresight. The Board of Trade formed its Office of Investigations and Audits in 1955 when it became apparent that the work of the Business Conduct Committee needed the assistance of full-time, experienced, and professional staff in doing the job. If you want to make an analogy, you can compare the OIA in 1955 to the NFA today, the National Futures Association. I can tell you that the NFA is being built on what we put together in 1955 with the OIA.

Personally, I think one of the most significant and lasting innovations of the 1950s was the switch in the soybean meal contract from a demand certificate to a shipping certificate delivery. The shipping certificate permitted speculators and others to hold the receipt rather than, if they took delivery, having to load the meat out right away. Over the years, I have lost track of the snide remarks that have been made about shipping certificates, but I take some satisfaction in knowing that the soybean meal contract still has a shipping certificate and is alive and thriving. The shipping certificate concept is being used in a variety of ways in a number of different contracts under many different names not only at the Board of Trade but at other exchanges as well.

Thus, while the 1950s were a time for survival, they were also years of experimentation and preparation—preparation for better days which at that time were only a hope but which, in fact, turned out to be a reality. Before I leave the 1950s, I want to comment specifically on four things in Tom’s paper.

He made quite a point over the fact that J.O. McClintock was appointed as executive vice president in 1947 which made him “the first paid executive officer of the exchange.” With all due respect to Tom, but in memory of those who before 1947 and who after 1947 served as secretary of the association, I can speak from personal experience that we were paid. There might be a difference of opinion about whether or not we were executive officers, but I know that Bob Liebenow and I at least considered that we were.

Secondly, in discussing the committee structure, he said the annual reports of the committee show a wide diversity of functions not directly related to futures trading. And the next thing he talked about was the Board’s involvement in freight rate establishment and change. Evidently I have been laboring under some sort of delusion for the last 25 years because I am convinced that transportation factors are very directly related to many futures contracts. Many contracts have failed due to the inability of contract writers to establish a correct transportation basis.

The educational and academic efforts that began in 1948 have been extremely important. I do not think there is any question about that. The first symposia, the educational advisory committee, which, as Tom said, still exists today, and the seminars that have taken place have benefited futures trading enormously. It is gratifying to me that some of the academicians that I first met in the 1950s are still around and interested. Some of them are in the audience today. Tom Hieronymus’ personal contributions over the years certainly cannot be overlooked.
Just as I found that the word *survival* was apropos for the 1950s, so I like the word *change* for the 1960s. The 1960s began to produce the changes that have multiplied rapidly in the 1970s and beyond. I suppose that you have noticed—at least you should have—that I have delved a little more deeply into the nitty gritty than Tom did. I hope you will understand that it is only natural and appropriate since for 15 1/4 of the 20 years covered by this topic, I was on the inside looking out—on the inside attempting to survive and to change for the better. It is with no false sense of modesty and with a great deal of pride that I can tell you that for the next 10 years—the decade of the 1970s—each and every year showed a volume increase over the previous year.

As one contemplates the excitement the futures markets have generated in the 1970s and so far in the 1980s with moves into currencies, interest rates, and stock indices, not to mention the impending return of options on futures, the temptation is to write off the 1950s and 1960s as little more than marking time. Frankly, I guess that was somewhat my initial reaction when I first called to ask me to comment on Tom’s paper. But as I look back at the past—for the first time, maybe, being able to see the forest for the trees—I found that it really did have its moments.

Surely the forays of the Hunts into soybeans and silver, the potato default, the Goldstein-Samuelsons, and the Lloyd Carrs have made headlines. But so did Tino DeAngelis with his great salad oil scandal. While it is true the Hunts’ silver ran into billions of dollars and ‘Tino did not get anywhere near that figure, the fact remains that the Hunts’ silver was there but the salad oil was not. Maybe trading in silver is not as brisk as it was before, but the exchanges that were trading silver are still trading silver. That is a lot more than can be said for the New York Produce Exchange. Even though some futures commission merchants—maybe as a result of silver—have since been bought out by insurance companies and so forth, none went out of business in the silver situation. Some firms doing business with Tino were not so fortunate.

There was an excellent lesson to be learned from this situation. Two exchanges were involved with Tino. When his positions had to be liquidated because no more margin money was forthcoming, one market stopped trading and settled its outstanding contracts at a price. That market no longer exists. The other market let the positions be offset in the open market. I believe that one knowledgeable oil man recommended that his clients enter buy orders at $0.07 1/4 per pound. However, floor traders and others felt that oil was a buy even before it got that low. The positions were handled almost effortlessly. I don’t have to tell you that was at the Board of Trade which is still in business today.

A significant aftermath of the DeAngelis affair was the preparation of the *Commodity Trading Manual*. The New York Stock Exchange customer fund took a very significant loss because exchange member firms had used customer securities and funds to loan Tino against those phony warehouse receipts. As a result, the management of the New York Stock Exchange was told that it had better see that the Board of Trade did something to certify registered commodity representatives or the New York Stock Exchange would have to do it.

The then president of the Board of Trade was telephoned regularly by the New York Stock Exchange but he had me return all the calls. I finally got tired of making up excuses why we had not done anything, so I just sat down with him and told him we should make up our minds either to act or not. The budget was small and we didn’t have anyone to put on the job. Our public relations firm had just brought a writer to his attention who had written a speech that he liked, so I suggested that this writer do the job. The president agreed and the writer was given the job. He prepared the manual and the tests, and we put together a testing procedure with the National Association of Securities Dealers (NASD). The manual and the tests, much revised and improved, are still a very useful tool today, and I presume will form the base for significantly more certification by the NFA sometime in the future.

I liken the 1960s to preseason training for athletic teams. It was a period when new systems were installed, when new contracts were experimented with, and when the foundation was laid for the regular season which proved to be the next decade. Some of the things that went on in those days seem a little humorous now, although, believe me, they were not then. The then Board of Governors of the Clearing Corporation was overloaded with
members who had been on the Board for years. Two or three of them had been governors of the Clearing Corporation for 25 years. I am not sure that the words change or progress were any longer in their vocabularies. They resisted any suggestion that clearing be computerized. The Board of Trade finally authorized a study by Arthur Young and Company which pointed up that it could be. At that particular juncture, the Board of Trade had to threaten the governors of the Clearing Corporation—a separate and distinct entity—with Rule 311, which said that the Board may discontinue the clearance of commodities and securities contracts through the clearinghouse and provide for such other method of clearance as may be selected. I guess the only thing that I can tell you is that today the clearinghouse is on their fifth set of computers.

Communications changed tremendously in these two decades. In the early days, a telegraph provided the primary means of communication. The trading floor in the 1930 building at 141 West Jackson had one full wall devoted to Postal Telegraph and Western Union. Soon this became a half wall, then a small counter, and then it disappeared altogether with the growth of the telephone as the instrument of communication. Then, in 1966, after much study and controversy, the Board permitted the installation of teletype machines on its trading floor. As the business in futures continued to grow, the demand for telephone and teletype space became critical, and the north wall of the exchange—once really the home of the cash grain tables—saw these tables converted to futures telephone stations. Of course, this demand for futures space went along with a decrease in carlot receipts in Chicago, so it was rather natural. But I am sure we could dig up a couple of members who feel cash grain should still have a whole wall.

Another change in communications was the computerization and mechanization of the price reporting and dissemination system in 1967. The tickler system and board marking had been handled by Morse code operators. By the 1960s, Morse code operators were becoming extinct. In addition, this system had limited speed because it was strictly mechanical and obviously would not be able to handle anticipated increase in volume. Changing from chalkboards to mechanical boards was a very traumatic experience. I think we erected the automatic boards in 1965, and we did not completely knock out the chalkboards for posting the same markets until 1967. There were generations down there who had seen the market prices posted only by chalk. And you should have been with the board designers who could not understand why we wanted the last price to be on the bottom. They thought it should be on top so people would read down, but for over 100 years, people had been reading up and were not about to change.

Among my treasure trove of historical trivia is the discussion about soybean meal pricing when we were designing these automated quotation boards. Meal was then trading at about $70 per ton, and the question was whether we should provide three dollar digits or only two. Fortunately, we provided three, and I don’t think that I have to tell you that meal got to $400 per ton in 1973. I think it is also interesting to note that when the Board of Trade built its new building and was looking at how it was going to display quotations, nothing better had come along. Of course, certain design, display, and mechanical features are improved, but basically the boards are the same as the ones we started using in 1967.

We talked a little bit this morning about the fact that the Board finally found its records. This is not funny. When the Board of Trade moved into this building in 1930, the records were put in the subbasement. I didn’t know there were any records down there, but we found them and now they are housed at the Circle Campus. I think that it has been a very good thing.

The search for additional commodities to trade went on, as Tom pointed out. Most notable were broilers, plywood, and silver. I had not intended to mention choice steers, but since Tom did, I am going to mention them. I think there is a very good reason why the Board of Trade’s choice steer contract did not work. That contract had in it a provision that we call settlement by offset, which was really a cash settlement. Alex Caldwell, who was the administrator of the Commodity Exchange Authority, just would not allow that. It was an idea that was there, but long before its time had come.

Another exchange had tried to trade frozen chickens earlier but had not been successful. The
housewife did not like frozen chickens. Most chickens were marketed as iced broilers, and it was around these specifications that the Board of Trade contract was designed. Again, we used a shipping certificate to carry a perishable commodity. While the contract never did achieve a great deal of success, another exchange has taken a crack at it and has not done much better.

The winter of 1968-1969 saw unusually heavy snows in the Cascade Mountains—Douglas fir country. Plywood rose from approximately $70 per 1,000 square feet to $140 because it was feared the snow would cause floods and keep loggers from getting into the Douglas fir forests before the timber that was already cut ran out. However, mother nature fooled everyone. The thaw was very even, the loggers did get back in time, and the price tumbled back to $70. I remember talking to a Chicago warehouseman with a facility full of $140-plywood when it was back to selling at $70. I really did not have much trouble convincing him that a futures contract would have been very helpful to him. So, late in 1969, the Board of Trade's plywood contract began trading, and despite the fact that it started after the contract at another exchange, it quickly established itself as the marketplace. The contract has had its moments, but I do not think that it ever reached its potential. The potential still seems to exist because another exchange not too long ago has gone into the plywood futures business. But with building as depressed as it has been, neither contract is doing much. The hope persists.

It is amazing how things evolve. The Chicago Board Options Exchange really had its beginnings in a special Board of Trade committee appointed very late in the 1960s to discuss the feasibility of trading a stock index future or a future on specific stocks. Today, a little over a decade later, three stock index futures have begun trading.

As well as any thing that I could point out, this tells the stories of the 1950s and 1960s—survival and change to be sure. The Board of Trade has survived and has changed. But the foundation for its successes were laid in the trenches of the 1950s and 1960s. I do not recall that anyone had such acute vision that he or she was able to foresee what actually has taken place. But the people with vision and dedication were there. And the futures industry as a whole, not just the Board of Trade, has benefited from these struggles, trials, and tribulations.

I have enjoyed and appreciated this opportunity to look back and the privilege of being able to pass my thoughts along to such a distinguished audience.

Little did anyone foresee what lay in store when the Board started a silver contract in 1969. The silver contract had been successful even before the Hunts got their ideas.

Over the years, exchanges have been criticized and outright maligned for presumed failure to protect the public's interest. However, as one looks at many of the scandals that have surfaced, they were not exchange-related at all, and little attention has been paid to the innovation and regulation the exchanges have made in the public interest.

For example, in the 1960s, the Board of Trade, recognizing the growth of discretionary accounts and investment company accounts, adopted regulations designed to protect the public. I especially remember the discussions that took place about the discretionary account proposals. There was considerable concern that, in adopting them unilaterally, business would be diverted to other markets where there were no stringent requirements. In spite of this, the regulations were adopted as were the investment company account regulations a little later.
Discussion

Hugh Winn: What type of feasibility study went into a contract proposal in post-World War II as compared to the most recent past and what kind of input was there for new contract proposals?

Warren Lebeck: There was considerably less input, but there was input. For the Board of Trade contracts that I personally had experience with, we did talk to the commercial interests at length. We had them on our committees, invited them to come in and talk, and discussed what the cash trade practices were. Obviously, we did not have to get prior approval from a government regulatory agency, so it was up to us to make a decision whether or not a contract was worth trading or not. I did not have to go through the trauma you have to go through today to get a contract approved. I think that the pendulum has swung much too far. Phil Johnson probably has the right idea—unless there is an obvious error, let the marketplace and the public decide whether or not a contract will survive.

Joe Davis: Both Tom and Warren indicated that they characterized at least the first part of the post-World War II period as a period of survival. To me, survival means that the participant knows that there is impending doom. Survival implies a reaction—you are fighting off a particular situation. I look at this as a normal maturing process, judging from what you presented to us. Warren said that this was a learning experience for the Board of Trade, and Tom talked about changes in the early part of the post-World War II period. Why do both of you refer to this as a period of survival rather than a period of maturing?

Warren Lebeck: Speaking only for myself, the answer is because I was here. When I realize that in many of those early years that I was here, there were fewer contracts traded than were traded in one month in 1980, to me that is survival. If you go back to the chairman’s report to the membership at the annual meeting, you will get an even dimmer view than what I proposed. Trading was down. We have since had in one day greater ranges in grains than you had in a whole crop year in those days. It really was a matter of survival, and finding new contracts, and getting the government out of the business. I really meant it when I said that in my opinion the government was a great deal more of a threat to the Exchange in the 1950s than it is today.

Thomas Hieronymus: I think that I would answer in the same way. The real concerns were a matter of observation at that time. Volume was down year after year, particularly in the old leaders, wheat and corn. Rye was dying and oats was dying. You couldn’t come up with the money to promote and develop. People were looking for new ideas and particularly for ways to generate more trade in existing commodities. There was a financial apprehension at the time. The Board asked who could it rent the building to get enough money to keep the floor open. I participated in many symposia on the educational advisory committee and I know there was apprehension at the time.

Warren Lebeck: As I look back through the old monthly reports, every quarter there was a long list of people who were suspended for nonpayment of dues. I bet you have not seen many suspensions for nonpayment of dues in the last 10 years.

Al Gruetzmacher: Some 25 or 30 members a year who had been trading on the floor would have to give up. Those who did survive, survived on a minimal income. Most of my friends were making more than I was. More than anything else, it was the belief in the future that kept us going.

I would like to make one comment about the membership, particularly during those difficult times. The integrity of the general membership was a source of pride to all of us. People would actually go broke before they would break their word. To me, that typifies the Board of Trade member.

Michael Gorham: In response to the question on the activity in developing new contracts back in the 1950s and 1960s and today, I think that one somewhat objective measure is the number of
people that the exchange pays to do that. The research department at the Mercantile has 10 full-time economists either creating new futures contracts or revising existing ones. I think the Board of Trade has about twice that many. In the 1960s, our research department consisted of about one or two people. A part of that is a substitution. I think the members did quite a bit of the work at that time. Today, there is a lot more activity in trading so they do not have as much time.

**Rondo Cameron:** I would like to ask a question about a counterfactual situation. Suppose the Board of Trade had not survived in the 1950s. What would have been the consequences for the agricultural industry and for the economy as a whole?

**Warren Lebeck:** Well, all you economists, this is one for you.

**Thomas Hieronymus:** I think the question goes to a basic theme that I was trying to articulate. Had the doors been closed and had the exogenous circumstances that have been a very important factor in the growth of the last 17 years remained the same, we would have reopened the Exchange because the need was there and the circumstances conducive to it were there. The Exchange would have reevolved. There is another point along the same line. There is a tremendous capriciousness in all of this. Back in the 1950s when I was trying to help the Mercantile keep the onion contract alive, you could shoot a cannon across the floor and not hit anybody. The big comeback for the Mercantile was pork bellies. It was an unlikely thing that all of the research staff could not have foreseen nor generated. So, there is chance in these things as well. What that mix is that suddenly comes to life and is volatile, we have yet to discover.

**William Parker:** The only element threatening the Exchange in the 1950s was the unfavorable posture—the regulation—of the government. But I should think that there must be other factors in the economy itself that would undermine the position of the exchange—maybe a growth of direct contracts. If things do not go through this exchange, they must go somehow by direct sale.

And, I suppose as large-scale operations increase, you have fewer and fewer commodities for which, perhaps, there are a number of small traders, so that the survival question would be posed again. Is this right or is this horribly misinformed?

**Warren Lebeck:** The later, I am sure. When you say the business was not going through the exchanges but through somewhere else, I think you are missing the fact that we are talking about futures contracts. You can have a cash grain trade without futures contracts, there is no question about it. One of the reasons you did not have a big volume in futures was the mere fact of government floors and ceilings. There was not any need to hedge because there was not much risk. You are really talking about two completely different things. The crops were either put in government storage or were marketed. Because you had so much government involvement and because you had a floor and a ceiling in prices, you did not need much trading.

**Ben Ruskin:** Concerning government involvement, one of the historic things that happened was in 1956 when the Commodity Credit Corporation reverted the export sales of grain back to the private trade. That was a benchmark for the Chicago Board of Trade. Business prospects looked vastly different after that.

**Alan Olmstead:** Warren, if you go another few years in your discussion, the Board runs into another problem—very large purchases or attempts at corners by foreign governments such as Russia. When everyone else is playing by the rules, how do competitive markets work when there is one participant buying in great quantities?

**Warren Lebeck:** Are you talking about the Russians buying in the cash market or the futures?

**Alan Olmstead:** I'm talking about their buying in the cash markets, but that does affect your futures prices, doesn't it?

**Warren Lebeck:** That is true, but you have to remember that they bought through a variety of sources, and the variety of sources were then using the futures market. I think there has been undue concern expressed over the fact that now there are certain reporting requirements that exporters have to go through. To me, that is just a natural phenomenon—the crops were growing, the world...
demand was growing, and the Russians, instead of killing off their livestock and making their people tighten their belts, decided they would spend some gold to buy some grain. The beginning of the big embargoes was in 1973, and we know how that hurt the agricultural business as a whole. But, if you had let the market take care of it without being concerned that the consumer was paying too much, the market would have adjusted. And it did adjust very well.

Jonathan Lurie: I want to comment on a point made by Professor Hieronymus in his paper and echoed by yourself, Warren. He wrote that "organized regulation of markets inhibits growth and development." Then he referred to two types of regulation. He referred to federal government regulation and exchange government regulation. I gather that you are saying that exchange regulation itself inhibits an open market. But I presume that since we have had some sort of exchange regulation since the 1860s, we are going to have this for some time. Would you be willing to speculate on what you think the future effective regulation will be now that the CFTC may be winding down to the end of the road, that is, if the SEC has its way. I will tell you what I am getting at. If we are agreed that organized exchange government is inhibiting, and if we are agreed that federal regulation is inhibiting, and if we are agreed that for generations the market has not been "free and open" without such type of regulation either self-imposed or externally imposed, do you see any change in the future of more effective internal regulation if SEC regulation takes hold as opposed to the old CEA or CFTC type?

Warren Lebeck: In my opinion, since 1974 we have had too much SEC regulation. Most of the lawyers in the CFTC came from the SEC. For the second part of my answer—and remember it was Hieronymus that made these points and not Lebeck—I think you will see more private regulation through the National Futures Association rather than through the CFTC. This will mean that the people involved in futures trading will have to make a decision about what kind of regulation they want. Just as there are traffic lights and cops directing traffic, there will be regulation. Now, what kind of regulation do you want? Do you want it to come from the private sector, or do you want it to come from the government? I think that is the only decision you are left with.

Wayne Broehl: Going back to Mr. Lurie's point, I am still a little uneasy about the notion that the market itself can always take care of the situation. There is a certain volume necessary for a new contract so as not to have too thin a market, and the market alone may not be the best judge of that. There are situations in which a certain amount of regulation by the exchange itself or by an association can insure that the market is not too thin.

Warren Lebeck: I will not quarrel with that, but if we were talking about the Chicago Board of Trade in the 1950s and 1960s, I think its markets have demonstrated that they can take care of things, even when there were thin markets. As an example, I can go back to Gulf Coast red wheat. Three or four speculators went into that market heavily to begin with, and then there was no trade, and we worked our way out of it. Also, I can remember the rye market when we had a huge open interest after the close of trading. Mr. Carey and I, with three warehouse receipts for 5,000 bushels each, managed to get that taken care of. It is a matter of using the tools you have to recognize the problem, and then going after it.

Basically, as far as I am concerned, you place your confidence in a market system. In the DiAngelis scandal, the New York Produce Exchange ran scared. They allowed no more trading and settled all contracts at a certain price. That Exchange does not trade anymore. The Board of Trade said it had confidence in the market. There were about 17,000 open contracts, and that was only Tino's share of it. In one day they went, and they went at prices not as low as some people who thought they were pretty smart in the market thought they would get to. Quite frankly, that is one of the few times in my career that I sat watching a tape. But we knew if the market went below a certain price, all the longs would have to come up with more money. It never got below that price. John McCarthy, Bob Liebenow, Al Christian, and I sat in that office and watched the ticker. We were ready to make a series of phone calls the minute it dropped below. The marketplace took care of it and averted a disaster. At the Board of Trade, I do not think that you can show me when it hasn't, except when the
government stepped in and told us to do this or that, to trade for liquidation only, or something like that.

Richard Sylla: One of the main generalizations of Tom Hieronymus's paper was the notion that futures markets arise when the underlying commodity market is very free and not regulated. Of course, the point was that back in the 1940s and 1950s, agricultural programs had narrowed the limits of price fluctuations and made it less interesting to have futures markets. I am just wondering about that as a generalization. It seems to me that one of the most successful futures markets of recent years has been the financial futures or interest rate futures. Those contracts were formulated in the mid to late 1970s when the Federal Reserve was still paying a lot of attention to interest rates. An economist thinking up a profitable market might have said that the government was doing its best to regulate interest rates so there is no sense in coming up with futures. So, how did interest rate futures enjoy as much success as they did even before fluctuations in interest rates became less regulated by the Federal Reserve?

Warren Lebeck: If you read the history of currency trading, you will see that Mark Powers—perhaps it was Leo Melamed or Everett Harris—talked to Milton Friedman, who said currencies had great potential, but one should wait until the Bretton Woods Agreement collapsed before starting to trade. I think it was in anticipation. I remember very distinctly the first time that Richard Sandor mentioned interest rates to me. I was lecturing to his class at Berkeley, and I thought he was crazy. Two or three years later, I helped him draft the first contract. Neither one of us felt that in two or three years, Ginnie Maes and T-bonds would take off the way they did. I am sure that Mark Powers and Leo Melamed would say the same thing about T-bills. They knew it was going to be a good market, but they did not know when.

Paul Farris: About government intervention into futures trading, the most devastating intervention was the price support program and storage program which really removed price fluctuation during the 1950s. The Board of Trade took a very strong posture against all government programs. At one point, there was a switch in Board policy in which it said that, if we are going to have a program, let's let prices go free and let's support the incomes of farmers. This was a marked policy shift on the part of the Board at the time.

Another kind of intervention is the regulation of markets. If done properly, it should enhance the performance of markets and the health of the futures industry.

Owen Gregory: The original interest rate contract in Ginnie Mae occurred in an unregulated market. The Ginnie Mae contract was successful, but the Ginnie Mae instrument itself is still unregulated either by the SEC or by state authorities. That was the single government instrument market that was unregulated.

In the late 1940s and still now, one of the major differences between a futures exchange and the New York Stock Exchange is that a futures exchange still has control over margin requirements. Do you expect this to prevail in the future?

Warren Lebeck: Yes.

Henry Arthur: I had a question that gets over to the matter of deliveries. You mentioned, Warren, that shipping certificates substituted for bills of lading, and that this was a major change that opened the market for more effective trading. We have gone through a number of other changes such as demand certificates in plywood and broilers and some other commodities. What about this trend? Is there a rationale about it, or is it merely a way of loosening up the delivery requirement to a point where more people feel they have an access without being part of the commercial trade?

Warren Lebeck: In the case of soybean meal, when you took delivery of the demand certificate, you had to order the meal out within three days. As soon as you took delivery, you were a merchandiser of soybean meal. Since speculators were not merchandisers of soybean meal, that system was a disadvantage to the Board of Trade speculator who was used to carrying. He was used to having an instrument which, if he was going to take delivery, he could immediately sell in the deferred contract. He could take delivery of the product, pay the storage and insurance charges, and then deliver it on a later date. He knew that he had a way out other than by having to be a merchandiser.
To realize the hardship of the warehouse receipt system, just ask somebody who still takes grain receipts what the price differential is if he tries to sell them back to the warehouseman. It is pretty sad. So, in meal, which was not a storable commodity, the idea was to come up with an instrument that was more like a warehouse receipt which could be carried and which would permit the speculator to get more involved.

This is a fundamental difference in the agricultural commodities of the Mercantile, which has usually traded perishable commodities, and of the Board of Trade which is used to carrying storable commodities. A shipping certificate which you could order out was used in broilers in the same way. The shipping certificate also carried a premium, which was the equivalent of a storage charge, so there was an incentive for the deliverer to put something out. He was paid immediately and had the money, and he received a premium or storage charge for the time it was out. This system is used in other types of contracts now, for example, in the energy contracts at the Board of Trade. There is a fancy new name for it, but it is basically a shipping certificate idea. It permitted you to take commodities which normally you might be concerned about and extend their ability to trade.

Henry Arthur: It extended the time, and it also extended the capability of people to take a delivery without having the facilities for handling the physical product. This involves a considerable machinery for accomplishing this delivery in the case of certain products, cattle, for instance. It takes quite a bit of arranging to find out what lot is going to be delivered where, and who is going to accommodate the delivery and take it for slaughter, and so on. This is an activity that extends the responsibility of the exchange, I presume. I don’t think the individual traders are necessarily expert in this area until the occasion hits them.

Warren Lebeck: In cattle, the Mercantile doesn’t have anything like a shipping certificate, does it?

Michael Gorham: At the moment, the Mercantile doesn’t have a direct shipping certificate. It uses actual physical delivery. But the Mercantile has spent two years coming up with a very limited version of a shipping certificate having a very short life to deal with some problems that have emerged over time.

Henry Arthur: I presume you have to have an arrangement with certain buyers or packers at the multiple delivery points so there will be machinery for handling a delivery.

Michael Gorham: In our case, the Exchange actually creates it. When the short comes in and tenders a certificate of delivery, if the first assignee doesn’t want that, he pays a fee and throws it back into the market. In other words, he goes short and redelivers that certificate. Whoever ultimately gets the certificate simply takes delivery on the day designated at the location designated. Packers really do not get involved.

Henry Arthur: This requires more commercial arrangements than the normal warehouse certificate or paper delivery that we have in storable commodities. I think there is a trend in this direction. This is the same phenomenon we see in the cash settlement arrangements used with more and more futures.

Warren Lebeck: In the case of shipping certificates, I really don’t agree with you. Soybean meal or broiler shipping certificates don’t require that much additional work. There is an inspection of the processing plant to make sure it has the capacity to put out as much oil or meal as they say they do, and to make sure they have the shipping capabilities, and that is all you worry about.

William Tomes: To summarize the remarks, there are perhaps two general conditions for a successful futures contract. One is the economic feasibility or the economic role that the futures markets play. The other is some sort of technical feasibility or the art of writing a contract to meet this economic need. Yet, you see situations where you think that the conditions are ripe for a futures contract, and for some reason they are not successful. Am I missing some third necessary condition for a successful contract? For example, it seems the lumber and plywood contracts could be a lot more successful. What is missing in a contract like that?

Thomas Hieronymus: The most likely thing I would look for would be speculative interest and enthusiasm. I think we grossly underestimate the importance of speculation as a necessary part for
the existence of markets. This is a very neglected aspect. To really make a market work, you have to get speculative enthusiasm for it. Why some work and why some do not, we really do not know.