Leo Melamed:

Mercantile's feisty maven expands guardian role

By JoELLEN GOODMAN

When the smoldering antagonism between the Commodities Futures Trading Commission and Chicago's futures exchanges erupted in open hostilities last July, one of the most outspoken voices on the industry's side belonged to Leo Melamed, a 45-year-old veteran trader on the Chicago Mercantile Exchange, and for more than 10 years its most powerful leader.

"My blood runs through the veins of this place, and its blood through my veins," he said recently, sweeping his arm across the tumultuous floor of the Mercantile Exchange.

For 20 years Mr. Melamed has made his living on the boisterous, unruly and contentious floor of the Merc, riding a roller coaster of fortune along with futures contracts. He went broke three times; at one trough he cashed in $36 in pennies collected in a jar.

When Mr. Melamed began trading full-time in 1964, the Merc was little more than an unobtrusive butter and egg exchange, still tainted with the smell of onions from a scandal involving onion futures in the late 1950s. The venerable Board of Trade considered the Merc an upstart adolescent.

Today the Merc is the world's premier exchange in meat futures trading, including cattle, hogs and porkbellies (uncured bacon); its International Monetary Mart trades contracts on 14 commodities ranging from currencies to Treasury notes and bills, and the Associated Mercantile Exchange lists 12 commodities such as lumber, broilers and eggs.

From virtually zero 15 years ago, the Merc today accounts for nearly one-fourth of all futures trading in the nation, the price of a membership tops $300,000—highest in Chicago—and its management has earned a reputation as the most innovative and aggressive among U.S. futures markets, pioneering several new contracts and beating the competition with old ones.

Much of that growth is due to Mr. Melamed and his wheedling, cajoling and convincing members that loyalty to the Merc demanded their support of new contracts and expensive marketing plans.

But now the Mercantile, like the rest of the commodities industry, is under increasing pressure from the government to change much of what traders regard as their fundamental way of doing business.

Mr. Melamed has chosen to operate in this arena now. As special counsel to the Mercantile Exchange, his job is to act as liaison between the exchange and Washington.

The imbroglio with the Commodities Futures Trading Commission (CFTC) was the latest and most public test of his ability in this area, a job that includes lobbying as well as controlling the purse strings of a political action committee that doles out $250,000 annually to senators and congressmen sympathetic to the commodities industry and the free market. Ironically, as his profile becomes more visible and his stature in Washington rises, he becomes more and more pessimistic about government's ability to serve the people.

Mr. Melamed took the lead as the Merc's liaison in Washington three years ago after completing an unprecedented third term as Merc chairman on the heels of the Board of Trade's entry into Washington politics.


Staff photos by Mary Carros

Leo Melamed gets an injection of his life blood on the Mercantile Exchange floor.

"Leo can't stand that someone else, like the Board of Trade, has more power in Washington than his exchange," says a long-time associate. "So he set out to make sure the Merc does it better in Washington."

Commodity futures insiders were surprised at Mr. Melamed's feisty handling of the controversy that erupted following the Mercantile's listing of four new Treasury bill delivery months to those already offered.

The CFTC was miffed that the exchange had abused a so-called "flexibility" in slat

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ing the new months without notifying the agency and was prodded by the Treasury Department's concern over proliferation of contracts. It sought an injunction against the Merc, demanding the exchange delist the new contracts. Shortly after, the CFTC approved a request of the fledgling New York Futures Exchange to list the months in question.

"I lost my temper then," says the former Merc chairman. The lawsuit forced the disagreement into the public eye, and the Merc's posture toward the CFTC turned from one of cooperation to confrontation.

"What put him out the most," says Les Rosenthal, another powerful commodity trader at the Chicago Board of Trade, "was that the CFTC took away his ability to compete with the NYFE" (New York Futures Exchange).

U.S. District Court Judge J. Sam Perry denied the CFTC the right to exclude the Chicago exchanges from trading the contracts in question, but the CFTC set into writing a previously unwritten agreement obligating an exchange to seek approval for any new contract month listing.

"We won the battle but lost the war," sums up Robert Wilmouth, president of the Chicago Board of Trade.

Characteristically, Mr. Melamed regarded the confrontation as deeply personal, in large part because he helped bring the concept of financial futures trading to reality eight years ago. He reacted with a corresponding personal obligation to go to bat for the exchange, feeling that the CFTC had overstepped its regulatory authority.

"I would have preferred to do that more quietly," Mr. Melamed recalls, "but I had to draw the line. I can draw the line here or slightly ahead or behind, but there is a line."

When he speaks, Mr. Melamed's expressive face moves across a spectrum of emotions from minute to minute. Though slightly built and shorter than the men around him, his physical stature seems dominating. He spent several years as a part-time actor in Yiddish theater and has retained an actor's command of speech and body movements.

"I am still an actor," he says, "and my stage is the exchange."

In 1939, at age 5, Mr. Melamed's family fled from Poland to Lithuania to escape first the Nazis, then the invading Russians. When Lithuania's fate was sealed, his father purchased a visa to Japan from the janitor of what had been the Japanese consulate, and the family made its way across Siberia on the Trans Siberian Railway to Japan, eventually settling in Chicago.

"I remember very little, except the great adventure of it, and running for two years with my mother's hand in mine," Mr. Melamed recalls.

After law school and a stint as a lawyer while trading commodities part-time, Mr. Melamed became a full-time trader on the Chicago Mercantile Exchange in 1964.

"I hated always saying thank you," he says about his years as a lawyer. "Thank you to clients for referring me to others, thank you to judges. That's why I went into commodities, because if I failed here, I had no one to blame but myself. If I succeeded I did it alone."

Along the way, he garnered enough support among the members of the Mercantile to wrest control of the chairmanship in 1969 and remain at the helm until 1977.

Mr. Melamed was chairman of the CME when Mark Powers, now executive vice-president of Thomson McKinnon in New York, brought up the idea of trading currency futures. Mr. Powers was vice-president of the CME in charge of research and planning at the time. He had encouragement from noted economist Milton Friedman and former Merc president E.B. Harris.

"Leo sold the idea," recalls Mr. Powers. "He is able to grasp the heart of things quickly and act as a very articulate spokesperson."

Selling the concept of financial futures to the Merc membership meant not only putting its name and prestige on the line but demanded that the membership give time and money to help supply the market with its initial liquidity.

"Melamed was the guy who convinced them they owed it to the exchange to make a contribution," recalls one member.

His appeal to loyalty included "literally hundreds of meetings," Mr. Melamed recalls—meetings that often needed a referee more than a speaker as members argued back and forth about the controversial proposal.

"He didn't give up," recalls a member who was present. "He knows when to cry and when to take someone on. He'll scare you into it, cajole you into it, or wear you down. He was up against egos as strong as his, and it's a wonder he ever convinced them."

Initially, seats on the newly created International Monetary Mart, where currency futures trade, cost $10,000. They are currently selling for about $200,000.

Mr. Melamed was fortunate, however, in having money in the Merc coffers to go after this new business. In the years previous, E.B. Harris and several others had put the exchange back on its feet after the almost devastating blow of the 1958 onion scandal and a congressional ban on egg, potato, onion and butter trading that wiped out 30% of the Merc's trading. At one time, the exchange itself was buying back memberships to maintain a viable market.

Today, the Mercantile floor is the scene of hundreds of clerks, brokers and traders. And in the middle of the floor is likely to stand Leo Melamed, the lines etched deeply into his face as he studies the movement of half a dozen commodities at once.

Commodity trading remains his first love, and he spends most mornings on the floor of the Merc. On a recent morning, even with the excitement on the floor rising to a frenzied pitch as soybeans began a rally, Mr. Melamed was preoccupied with what he saw as a suffocation of America's innovative spirit from restrictive edicts of the federal agencies.

"The country is like a river flowing to a waterfall," he said. "Every now and then an object bucks the current and swims temporarily the other way, and the commodities industry is now doing that, but eventually we all head over the falls." #