

REMARKS BY MR. ROBERT P. MAYO  
PRESIDENT, FEDERAL RESERVE BANK OF CHICAGO  
CHICAGO ASSOCIATION OF COMMERCE AND INDUSTRY  
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CHICAGO AS THE ECONOMIC CENTER OF MID-AMERICA

CHICAGO IS ONE OF THE GREAT AND EXCITING CITIES OF THE WORLD. IT IS A CITY WHOSE CITIZENS CANNOT HELP BUT FEEL ITS THROBBING PULSE AND WHOSE VISITORS TYPICALLY SPEAK ENTHUSIASTICALLY ABOUT ITS IMPRESSIVE ECONOMIC VITALITY. THE REBIRTH OF OUR CITY'S HEART AND THE TREMENDOUS EXPANSION OF ITS OUTLYING MANUFACTURING, SERVICE INDUSTRIES, SHOPPING CENTERS, AND RESIDENTIAL ACTIVITY PROVIDE MUCH OF THE STIMULUS. AND WE HAVE OUTSTANDING ART, OPERA, AND ONE OF THE WORLD'S GREAT SYMPHONIES. OUR UNIVERSITIES ARE UNEXCELLED. SO ARE OUR PARKS. ALL OF THIS IS A BASE OF JUSTIFIABLE CIVIC AND REGIONAL PRIDE—AN ENVIRONMENT IN WHICH A VIGOROUS ECONOMIC AND STRONG FINANCIAL LIFE CAN AND DOES FLOURISH.

ANYONE WHO HAS ENDEAVORED TO ANALYZE SOMETHING AS COMPLEX AS A FINANCIAL ENVIRONMENT KNOWS IT IS HARD TO GET A HOLD OF. WE ALL HAVE SOME NOTION OF WHAT WE MEAN BY THE TERM FINANCIAL ENVIRONMENT. YET PRECISE DEFINITION IS SOMETHING THAT IS DIFFICULT TO ACHIEVE. AND, DEPENDING ON YOUR VANTAGE POINT, THE CHARACTERISTICS CONSIDERED TO MAKE ONE FINANCIAL ENVIRONMENT "BETTER" THAN ANOTHER MAY VARY WIDELY.

THE CONCEPT "FINANCIAL ENVIRONMENT" OF ANY PARTICULAR COMMUNITY HAS AT LEAST TWO DIMENSIONS: THE FIRST IS THE CAPABILITY OF THE FINANCIAL INSTITUTIONS RESIDING IN THE COMMUNITY TO SATISFY THE NEEDS OF INDIVIDUAL AND BUSINESS FOR A VARIETY OF FINANCIAL SERVICES. AND THE SECOND IS THE ABILITY OF THE FINANCIAL COMMUNITY TO "EXPORT" ITS SERVICES TO OTHER AREAS. THESE TWO ELEMENTS, THE PRODUCTION OF FINANCIAL SERVICE FOR LOCAL CONSUMPTION; AND THE PRODUCTION OF FINANCIAL SERVICE FOR EXPORT, IS WHAT MAKES A COMMUNITY A FINANCIAL CENTER.

CHICAGO'S PROMINENCE AS A MANUFACTURING AND TRANSPORTATION CENTER ASSURED THE DEVELOPMENT OF FINANCIAL ACTIVITIES ON A LARGE ABSOLUTE SCALE, BUT BEYOND THIS, CHICAGO'S FINANCIAL COMMUNITY HAS DEVELOPED THE CAPACITY TO PRODUCE FINANCIAL SERVICES IN A VOLUME GREATER THAN PROPORTIONAL TO LOCAL NEEDS, AND HAS BEEN EXPORTING THEM OVER AN AREA MUCH BROADER THAN ITS OWN GEOGRAPHIC LIMITS.

SUCH SCOPE IN THE PROVISION OF FINANCIAL SERVICES RESULTS FROM THE INTERPLAY OF MANY FACTORS. AGGRESSIVE, IMAGINATIVE MANAGEMENT HAS CERTAINLY PLAYED A ROLE. ALSO IMPORTANT HAS BEEN WHAT ECONOMISTS CALL THE "ECONOMIES OF SCALE" AND "EXTERNAL ECONOMIES"--THE ABILITY OF LARGER SIZE FIRMS TO PRODUCE AT LOWER AVERAGE COSTS, AND THE BENEFITS ACCRUING TO FIRMS BECAUSE THEY ARE LOCATED IN A GEOGRAPHICALLY COMPACT AREA. COMBINED, THESE MAKE CHICAGO A GREAT FINANCIAL CENTER.

IT WOULD BE HELPFUL TO HAVE PRECISE DATA THAT WOULD PERMIT US TO ESTABLISH THE DEGREE TO WHICH CHICAGO IS A FINANCIAL CENTER, BUT, UNFORTUNATELY, SPECIFIC DATA ARE VERY INCOMPLETE. I WANT TO APPROACH THE SUBJECT, THEREFORE, BY TAKING A BROAD QUALITATIVE OVERVIEW OF THE INSTITUTIONS AND FINANCIAL ACTIVITY THAT HIGHLIGHT CHICAGO'S PRESENT STATUS AS THE FINANCIAL CENTER OF THE MIDWEST, ITS STATUS AS THE SECOND LARGEST FINANCIAL CENTER IN THE COUNTRY--INDEED, ITS STATUS AS ONE OF THE MOST IMPORTANT FINANCIAL CENTERS IN THE ENTIRE WORLD.

THERE ARE SEVERAL TYPES OF FINANCIAL ACTIVITY IN WHICH CHICAGO OCCUPIES A POSITION OF UNDISPUTED DOMINANCE. THEY CLEARLY HELP RANK CHICAGO AS A LEADING FINANCIAL CENTER. NO SOPHISTICATED ANALYSIS OF THE DATA IS REQUIRED TO DEMONSTRATE CHICAGO'S PREEMINENCE, FOR EXAMPLE, IN PROVIDING MARKETS FOR TRADING COMMODITY FUTURES. ACROSS THE COUNTRY THESE EXCHANGES HAVE EXPERIENCED STEADY TRADING GROWTH OVER THE PAST FIVE YEARS. THERE WERE

42.8 MILLION CONTRACTS TRADED ON ALL COMMODITY EXCHANGES DURING 1977, UP ALMOST 66 PERCENT FROM 1973'S 25.8 MILLION CONTRACTS. DURING 1977, THE CHICAGO COMMODITY EXCHANGES ACCOUNTED FOR 77 PERCENT OF THE CONTRACTS TRADED ON ALL COMMODITY EXCHANGES IN THE NATION.

AN INNOVATIVE SPIRIT AND WILLINGNESS TO BUCK SUBSTANTIAL ODDS SEEM TO HAVE PAID OFF IN LEADERSHIP BY THE CHICAGO FINANCIAL COMMUNITY IN THREE OTHER AREAS. ONE OF THESE IS THE CHICAGO BOARD OPTIONS EXCHANGE (CBOE) WHICH OPENED IN 1973. THE VOLUME OF CONTRACTS TRADED ON THE CBOE HAS INCREASED IN EVERY YEAR SINCE ITS INCEPTION--FROM 5.7 MILLION CONTRACTS IN 1974, THE FIRST FULL CALENDAR YEAR OF TRADING TO 23.6 MILLION CONTRACTS IN 1977. THIS PHENOMENAL INCREASE IN TRADING VOLUME REFLECTS BOTH THE INCREASE IN THE NUMBER OF STOCKS WITH RESPECT TO WHICH OPTIONS ARE AVAILABLE AND INCREASE IN THE VOLUME OF TRADING OF EXISTING OPTIONS.

AS YOU ARE UNDOUBTEDLY AWARE, THE PURCHASE OF AN OPTION ON THE CHICAGO BOARD OPTIONS EXCHANGE IS TANTAMOUNT TO PURCHASING THE RIGHT TO BUY ONE HUNDRED SHARES OF A COMMON STOCK AT A GIVEN PRICE DURING A PARTICULAR PERIOD OF TIME. THUS, ALTHOUGH THE ACTUAL EQUITIES DO NOT CHANGE HANDS, THE RIGHTS TO BUY DO AND THE VOLUME OF UNDERLYING COMMON STOCK INVOLVED IS ONE HUNDRED TIMES THE NUMBER OF CONTRACTS BOUGHT AND SOLD. EQUIVALENT SHARE VOLUME ON THE OPTIONS EXCHANGES HAS INCREASED FROM 1/50 OF THAT ON THE STOCK EXCHANGES IN 1973 TO ABOUT 1/2 CURRENTLY.

THE CHICAGO BOARD OPTIONS EXCHANGE IS AN IMPORTANT RECENT DEVELOPMENT FOR CHICAGO. FOUR YEARS OF EFFORT AND \$2.5 MILLION WERE SPENT ON DEVELOPMENT PRIOR TO THE OPENING DATE. NOW THAT IT IS OPERATING AND IS BEING MUCH HERALDED, FOUR OTHER EXCHANGES, INCLUDING THE CHICAGO-BASED MIDWEST STOCK EXCHANGE, HAVE STARTED SIMILAR TRADING IN OPTIONS. DESPITE THIS COMPETITION, OPTIONS TRADING IN CHICAGO ACCOUNTED FOR 64 PERCENT OF THE NATIONWIDE STOCK OPTIONS VOLUME.

ANOTHER EXAMPLE OF THE INITIATIVE WHICH THE CHICAGO FINANCIAL COMMUNITY HAS SHOWN IN RECOGNIZING THE POTENTIAL DEMAND FOR A FINANCIAL SERVICE AND IN DEVISING A MEANS TO SATISFY THAT DEMAND, HAS BEEN THE DEVELOPMENT OF THE INTERNATIONAL MONETARY MARKET OF THE CHICAGO MERCANTILE EXCHANGE. THIS EXCHANGE'S STATED PURPOSE IS TO PROVIDE "BREADTH, DEPTH, AND RESILIENCY" TO THE MARKET IN WHICH FORWARD CONTRACTS IN FOREIGN EXCHANGE ARE TRADED. IT SET OUT TO ACHIEVE THESE ENDS BY FOCUSING ALL MARKET DECISIONS AT ONE GEOGRAPHIC POINT AND BY SERVING ALL SEGMENTS OF THE MARKET, INCLUDING SPECULATORS WITH WHOM THE BANKS TRADING IN FOREIGN EXCHANGE HAD BEEN RELUCTANT TO DEAL. THE INTERNATIONAL MONETARY MARKET HAS EXPERIENCED TREMENDOUS GROWTH AND ACHIEVED A PERMANENT PLACE ON THE NATIONAL, INDEED, INTERNATIONAL FINANCIAL SCENE.

WHILE ON THE SUBJECT OF FOREIGN EXCHANGE AND INTERNATIONAL TRANSACTION, A BRIEF MENTION OF THE DEVELOPMENTS IN INTERNATIONAL ACTIVITIES OF THE CHICAGO BANKING COMMUNITY IS CERTAINLY IN PLACE. INDEED, IT HAS BEEN IN THIS AREA WHERE THE GROWTH OF CHICAGO AS A FINANCIAL CENTER HAS BEEN MOST SPECTACULAR IN RECENT YEARS.

TO BE SURE, INTERNATIONAL BANKING IN THE CHICAGO AREA DATES BACK TO THE MID-19TH CENTURY. BUT THE BROADLY BASED GROWTH OF INTERNATIONAL BANKING IN CHICAGO IS A MUCH MORE RECENT PHENOMENON. THE OPENING OF THE ST. LAWRENCE SEAWAY THAT OPENED THE LAND-LOCKED MIDWEST MORE FULLY TO INTERNATIONAL COMMERCE WAS PERHAPS ONE EVENT THAT MARKED THE BEGINNING OF THE RECENT EXPANSION. IT PROVIDED THE BANKS WITH AN OPPORTUNITY TO GET MORE DEEPLY INVOLVED IN TRADE FINANCING. THE OTHER WAS THE GREAT THRUST OF AMERICAN CORPORATIONS INTO INTERNATIONAL AND MULTINATIONAL OPERATIONS THAT BEGAN IN THE LATE FIFTIES, AND PICKED UP MOMENTUM IN THE EARLY SIXTIES. TO SUPPORT THIS THRUST WITH THE PROVISION OF INTERNATIONAL FINANCIAL SERVICES,

THE LOCAL BANKS EXPANDED THEIR INTERNATIONAL BANKING ACTIVITIES BOTH AT THEIR HOME OFFICES, AND, THROUGH BRANCHES, ABROAD. THE AVAILABLE DATA TELL A FASCINATING STORY: AT THE END OF THE FIFTIES, CHICAGO BANKS, TOGETHER WITH OTHER BANKS IN THE SEVENTH FEDERAL RESERVE DISTRICT, HAD TOTAL FOREIGNERS <sup>claims</sup> REPRESENTING LOANS AND OTHER ASSETS OF ONLY \$100 MILLION; THERE WERE NO FOREIGN BRANCHES OF DISTRICT BANKS OPERATING ABROAD. IN FIVE YEARS BY THE END OF 1964 THE AMOUNT OF CLAIMS HAD INCREASED 10-FOLD AND WELL EXCEEDED \$1 BILLION.

IN 1965, HOWEVER, THE EXPANSION IN INTERNATIONAL BANKING ACTIVITIES IN THE MIDWEST SUFFERED A SEVERE SETBACK WITH THE IMPOSITION OF THE VOLUNTARY FOREIGN CREDIT RESTRAINT PROGRAM. HOWEVER, FRUSTRATING AS THE VFCR PROGRAM WAS FOR THE MIDWEST BANKS IN RESTRICTING THEIR HEAD-OFFICE INTERNATIONAL ACTIVITIES, IT PROVIDED AN IMPETUS FOR AN EXPANSION ABROAD. MANY OF THE DISTRICT'S BANKS SET UP OR EXPANDED THEIR FOREIGN BRANCHES AND SUBSIDIARIES SO AS TO BE ABLE TO MEET THE NEEDS OF THEIR CUSTOMERS FOR INTERNATIONAL BANKING SERVICES WITHOUT THE ENCUMBRANCE OF THE PROGRAM THAT MADE IT DIFFICULT FOR THEM TO MEET THESE NEEDS FROM THEIR HEAD OFFICES.

THE EXPANSION CONTINUED IN THE SEVENTIES, PARTICULARLY AFTER THE TERMINATION OF THE VFCR IN 1974. CURRENTLY, THE DISTRICT BANKS ARE OPERATING SOME 70 BANKING FACILITIES ABROAD, AND THEIR TOTAL CLAIMS ON FOREIGNERS, INCLUDING THOSE BOOKED FROM ABROAD, EXCEED \$30 BILLION.

IN 1973, A NEW DIMENSION OF INTERNATIONAL BANKING ACTIVITIES EMERGED. FOREIGN BANKS CAME TO CHICAGO. RECOGNIZING THE LONG STANDING IMPORTANCE OF THE MIDWEST AS A HEARTLAND OF AMERICA'S INDUSTRIAL, AGRICULTURAL--AND EXPORT--ACTIVITIES, AND RECOGNIZING THE EMERGING IMPORTANCE OF THE MIDWEST AS AN INTERNATIONAL FINANCIAL CENTER, THE FOREIGN BANKS TOOK ADVANTAGE OF THE NEW 1973 ILLINOIS STATE BANKING LAW, AND BEGAN OPENING BANKING FACILI-

TIES IN CHICAGO. NOW 31 ARE OPERATING HERE, INCLUDING BRANCHES, REPRESENTATIVE OFFICES, AND SUBSIDIARIES.

FINALLY, AS ALMOST THE ULTIMATE TRIBUTE TO CHICAGO AS AN IMPORTANT INTERNATIONAL FINANCIAL CENTER, BANKS FROM OTHER MAJOR U.S. MONEY CENTERS SUCH AS NEW YORK AND SAN FRANCISCO, RECENTLY BEGAN TO OPEN INTERNATIONAL BANKING OFFICES HERE IN CHICAGO UNDER A CORPORATE FORM KNOWN GENERALLY AS THE EDGE ACT AND AGREEMENT CORPORATIONS. OVER THE PAST SEVERAL YEARS, 13 EDGE ACT AND 2 AGREEMENT CORPORATIONS WERE ESTABLISHED HERE.

FOLLOWING CLOSELY ON THE HEELS OF THE SUCCESSFUL FOREIGN CURRENCIES FUTURES CONTRACTS WAS THE DEVELOPMENT OF THE INTEREST RATE FUTURES CONTRACTS—THE MOST SUCCESSFUL NEW FUTURES CONTRACTS IN RECENT YEARS. BEGINNING IN OCTOBER 1975 WITH THE GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA) FUTURES CONTRACT ON THE CHICAGO BOARD OF TRADE (CBOT) BORROWERS AND LENDERS WERE PROVIDED WITH A NEW AND MORE EFFICIENT MEANS OF HEDGING THEIR INTEREST RATE RISKS. SINCE THAT TIME, THE MENU OF INTEREST RATE FUTURES CONTRACTS HAS MUSHROOMED TO INCLUDE NINETY-DAY TREASURY BILLS (JANUARY 1976 ON THE IMM), LONG-TERM TREASURY BONDS (AUGUST 1977 ON THE CBOT), NINETY-DAY COMMERCIAL PAPER (SEPTEMBER 1977 ON THE CBOT) AND ONE-YEAR TREASURY BILLS (SEPTEMBER 1978 ON THE IMM). IN ADDITION TO THESE CONTRACTS IN WHICH THERE IS ONGOING TRADING, THE CBOT HAS RECEIVED APPROVAL FROM THE COMMODITIES FUTURES TRADING COMMISSION (THE REGULATORY AGENCY THAT OVERSEES FUTURES TRADING IN THE U.S.) TO TRADE THIRTY-DAY COMMERCIAL PAPER FUTURES AND HAS SUBMITTED FOR APPROVAL A FOUR TO SIX YEAR TREASURY NOTE FUTURES CONTRACT AND A THREE-MONTH EURODOLLAR CD FUTURES CONTRACT. THE IMM ALSO HAS SUBMITTED FOR APPROVAL A FOUR-YEAR TREASURY NOTE FUTURES CONTRACT.

IF, AS THEY SAY, IMITATION IS THE SINCEREST FORM OF FLATTERY, THEN WE ARE INDEED FLATTERED BECAUSE OUR NEW YORK CITY FRIENDS ARE SCRAMBLING TO GET ABOARD THE INTEREST RATE FUTURES BANDWAGON. THE FIRST NEW YORK ENTRY WAS A GNMA FUTURES CONTRACT WHICH BEGAN TRADING THIS SEPTEMBER ON THE NEW AMERICAN COMMODITIES EXCHANGE (ACE), A DIVISION OF THE AMERICAN STOCK EXCHANGE. ACE AND SOME OF THE OTHER ESTABLISHED NEW YORK COMMODITY EXCHANGES ARE BUSY DEVELOPING OTHER INTEREST RATE AND FOREIGN CURRENCY FUTURES CONTRACTS THAT WILL COMPLEMENT AND COMPETE WITH OURS. IN FACT, IT HAS BEEN REPORTED IN THE FINANCIAL PRESS THAT THE PRESTIGIOUS NEW YORK STOCK EXCHANGE HAS EMBARKED ON A CRASH PROGRAM TO DEVELOP INTEREST RATE FUTURES TRADING.

WHILE I DO NOT WANT TO BORE YOU WITH NUMBERS, CHICAGO CHAUVINISM IMPELS ME TO QUOTE A FEW STATISTICS WHICH ATTESTS TO THE SUCCESS OF THESE FLEDGING MARKETS IN INTEREST RATE FUTURES CONTRACTS. DURING 1976, A TOTAL OF 238,791 INTEREST RATE FUTURES CONTRACTS WERE TRADED. THIS JUMPED ALMOST 230 PERCENT TO 779,778 CONTRACTS IN 1977. THIS FIGURE HAS ALREADY BEEN SURPASSED IN THE FIRST EIGHT MONTHS OF 1978 WITH OVER ONE MILLION INTEREST RATE FUTURES CONTRACTS HAVING BEEN TRADED.

I DO NOT MEAN TO IGNORE BANKS IN CHICAGO AND THEIR SIGNIFICANT CONTRIBUTIONS TO CHICAGO'S FINANCIAL ENVIRONMENT. AS OF JUNE 30, 1978 THE CITY OF CHICAGO HAD EIGHT BANKS IN THE LARGEST 300 UNITED STATES BANKS ACCORDING TO DEPOSIT SIZE. FIVE OF THESE BANKS HAD TOTAL DEPOSIT LIABILITIES OF MORE THAN \$1 BILLION EACH AND AGGREGATE TOTAL DEPOSITS OF \$44 BILLION. IN TERMS OF TOTAL DEPOSITS OF ALL ITS COMMERCIAL BANKS, CHICAGO RANKED THIRD.

IN ADDITION TO THE SIZE OF THE TOTAL BANKING FACILITY, A MEASURE, HOWEVER IMPERFECT, OF THE CAPABILITY OF A FINANCIAL CENTER TO MEET ANY TYPE OF FINANCIAL DEMAND THAT MIGHT BE PLACED ON IT IS THE SIZE OF ITS LARGEST INSTITUTIONS. UNFORTUNATELY, THE STRUCTURE OF U.S. BANKING DICTATED BY

STATE LAWS VARIES WIDELY FROM STATE TO STATE AND THEREFORE MAKES SUSPECT DIRECT COMPARISONS OF THE RELATIVE IMPORTANCE OF DIFFERENT FINANCIAL CENTERS USING SUMMARY MEASURES SUCH AS THE TOTAL DEPOSITS OF THEIR LARGEST BANKS. EVEN WITH THIS RESERVATION, HOWEVER, A LISTING OF U.S. BANKS IN DESCENDING ORDER OF DEPOSIT SIZE SHOWS THE BANK OF AMERICA OF SAN FRANCISCO FIRST--WITH SIX OUT OF THE NEXT EIGHT POSITIONS OCCUPIED BY NEW YORK BANKS. THE SEVENTH AND NINTH SPOTS ARE OCCUPIED BY CONTINENTAL ILLINOIS AND FIRST NATIONAL BANK, RESPECTIVELY, BOTH OF CHICAGO. BOTH CALIFORNIA AND NEW YORK HAVE STATEWIDE BRANCHING. ILLINOIS, ON THE OTHER HAND, DOES NOT PERMIT BRANCHES, ALTHOUGH ILLINOIS BANKS CAN NOW ESTABLISH TWO FACILITIES WITHIN A SHORT DISTANCE OF THE MAIN OFFICE.

SO THESE RANKINGS OVERSTATE THE PROMINENCE OF NEW YORK AND WEST COAST BANKING INSTITUTIONS, ESPECIALLY IF THE ABILITY TO SERVICE LARGE SOPHISTICATED CUSTOMERS IS CONSIDERED TO BE AN IMPORTANT ASPECT OF BEING A FINANCIAL CENTER. IT IS CLEAR THAT ALL THE DEPOSITS OF THE MORE THAN 1,000 BRANCHES OF THE BANK OF AMERICA OR ALL OF THE DEPOSITS OF THE MORE THAN 200 BRANCHES OF THE FIRST NATIONAL CITY BANK IN NEW YORK ARE NOT AVAILABLE TO SERVICE CREDIT DEMANDS OF LARGE CUSTOMERS IN SAN FRANCISCO OR NEW YORK. THEY ARE RETAIL-ORIENTED BANKS AND A LARGE PROPORTION OF THEIR RESOURCES IS COMMITTED TO LENDING IN THE LOCAL SMALL BUSINESS AND CONSUMER LOAN MARKETS. IF BANKS IN THE VARIOUS CITIES WERE RANKED BY THE DEPOSITS THEY HAVE AVAILABLE FOR MEETING LOAN DEMANDS IN THE CITY ITSELF, CHICAGO BANKS WOULD STAND EVEN HIGHER.

AS A PARTIAL OFFSET TO THE LIMITATIONS OF RESTRICTIVE BRANCHING AND HOLDING COMPANY LAWS IN ILLINOIS, AN EXTENSIVE CORRESPONDENT BANKING NETWORK THROUGHOUT THE MIDWEST HAS DEVELOPED OVER THE YEARS, WITH CHICAGO BANKS TAKING THE DOMINANT ROLE. THROUGH THIS CORRESPONDENT NETWORK SMALLER BANKS RECEIVE BOTH CREDIT AND NON-CREDIT SERVICES FROM THEIR LARGER CITY CORRESPONDENTS. SOME OF THESE SERVICES ARE SIMPLY NOT AVAILABLE AT THE LOCAL



LEVEL. SOME OTHERS MAY BE AVAILABLE BUT IN INFERIOR QUALITY OR AT UNATTRACTIVE PRICES. CHICAGO AREA BANKS COMPETE VIGOROUSLY TO SUPPLY THESE OUTLYING BANKS WITH DEMAND DEPOSIT ACCOUNTING, INVESTMENT AND PORTFOLIO ADVICE, COMPUTER TIME, AND OTHER SERVICES.

IN ADDITION TO THE FLOW OF SERVICES FROM THE CITY CORRESPONDENT BANKS, THE CORRESPONDENT NETWORK PERMITS CHICAGO BANKS TO DRAW ON THE RESOURCES OF SMALLER BANKS THROUGH SUCH DEVICES AS THE FEDERAL FUNDS MARKET. SMALLER BANKS ARE TYPICALLY NET SELLERS IN THIS MARKET AND USE THEIR CITY CORRESPONDENTS TO EFFECTUATE THEIR SALES. DURING PERIODS OF RISING INTEREST RATES, SMALLER BANKS MANY TIMES FIND THE FEDERAL FUNDS MARKET RELATIVELY MORE ATTRACTIVE AND INCREASE THEIR NET SALES. IN THE FIRST HALF OF 1978, FOR EXAMPLE, NET PURCHASES OF FIVE LARGE CHICAGO BANKS AVERAGED OVER \$5 BILLION PER DAY. NET SALES OF FEDERAL FUNDS BY SMALLER BANKS IN THE SEVENTH FEDERAL RESERVE DISTRICT ALONE AVERAGED ABOUT \$1 1/2 BILLION A DAY.

OTHER CHICAGO FINANCIAL INSTITUTIONS—SOME OF WHICH ARE AMONG THE LARGEST INSTITUTIONS OF THEIR KIND—EXPAND THE RANGE OF FINANCIAL SERVICES AVAILABLE IN CHICAGO. A LIST OF THE LARGEST FINANCE COMPANIES IN THE U.S., FOR EXAMPLE, SHOWS CHICAGO WITH A CONSUMER FINANCIAL COMPANY, A COMMERCIAL FINANCE COMPANY, AND A SALES FINANCE COMPANY AMONG THE LEADERS. THERE ARE ALMOST A DOZEN BROKERS AND/OR DEALERS HEADQUARTERED IN CHICAGO WHO MANAGED OR COMANAGED OVER 150 BOND AND EQUITY ISSUES IN THE CALENDAR YEAR 1977. CHICAGO'S GOVERNMENT SECURITY AND EQUITIES MARKETS ARE SECOND ONLY TO NEW YORK. IN ADDITION, THE INSURANCE INDUSTRY PLAYS A LARGE ROLE IN CHICAGO'S FINANCIAL SCENE WITH SEVERAL OF THE NATION'S LEADERS HEADQUARTERED HERE. AND I HAVEN'T EVEN MENTIONED THE STRENGTH OF CHICAGO'S FINANCIAL GIANTS IN THE SAVINGS AND LOAN FIELD.

IN THIS BRIEF SKETCH OF THE PAST DEVELOPMENT AND PRESENT STATUS OF THE CHICAGO FINANCIAL ENVIRONMENT, I HAVE HAD TO TOUCH LIGHTLY ON A LARGE NUMBER OF IMPORTANT EVENTS AND TO IGNORE IN THEIR ENTIRETY CERTAIN OTHERS. I HAVE ONLY TRIED TO PUT IN PERSPECTIVE WHERE OUR CITY NOW STANDS AS A FINANCIAL CENTER AND HOW IT GOT THERE.

CHICAGO HAS A GREAT FUTURE AS A FINANCIAL CENTER, BUT THAT FUTURE WILL REST LARGELY ON OUR <sup>innovativeness</sup> INNOVATIONESS IN COMPETING VIGOROUSLY WITH NOT ONLY NEW YORK AND LONDON AND FRANKFURT AND TOKYO, BUT ALSO WITH OUR SISTER CITIES IN THE MIDWEST--DETROIT, MILWAUKEE, INDIANAPOLIS, ST. LOUIS, MINNEAPOLIS, KANSAS CITY, JUST TO NAME A FEW. CHICAGO'S FUTURE AS A FINANCIAL CENTER WILL SEE DEVELOPMENT UNANTICIPATED BY ANYONE IN THIS ASSEMBLY. WE ALL KNOW THAT THE CONTINUED GROWTH AND PROSPERITY OF CHICAGO'S FINANCIAL COMMUNITY WILL DEPEND MORE ON ITS ABILITY AND WILLINGNESS TO CONTINUE TO INNOVATE AND TAKE NEW RISKS THAN ON ANY ARGUMENT THAT, BECAUSE OF ITS LARGE POPULATION AND INDUSTRIAL BASE, CHICAGO "OUGHT TO" RIVAL NEW YORK AS A FINANCIAL CENTER. WE ARE NUMBER TWO IN OUR NATION, BUT LIKE A FIRM IN THE AUTO RENTAL BUSINESS, "WE TRY HARDER." IT IS THE KEY TO GREATER ACHIEVEMENT.