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Chicago's Financial Geographies: Derivatives, Regulation, and the Growth of Speculation (1972-1987)

Since their invention 40 years ago, financial derivatives have changed the global economic landscape. They have facilitated a massive expansion of credit, accelerated the transfer of risk between economic actors, and intensified economic globalization. Derivatives have also exacerbated financial and macro-economic volatility, heightening, if not directly causing numerous financial crises. Most notably derivatives figured prominently in the U.S.—and subsequently global—financial meltdown of 2008, the severe effects of which continue to materialize. Yet, government regulators continue to be challenged in their efforts to diminish the negative influence of these instruments. One reason for this is that outside the finance industry very little is known about what derivatives actually are, how they work, and *where* they came from. The objective of this research is to employ political economic perspectives in economic and urban geography to reveal the fundamentally spatial dimensions of the origin, early regulation and precipitous growth of financial derivatives. I focus on the city of Chicago where financial derivatives were born out of, and institutionalized within, the agricultural futures exchanges in the early 1970s. The Chicago exchanges held an almost complete monopoly—at the U.S. and global scale—on financial derivatives until the mid-1980s. As such, throughout this period the exchanges were at the center of negotiations with the U.S. Congress and government agencies to re-write the regulatory framework for derivatives. I hypothesize that far from an accident of history, the geographic origin of these instruments in Chicago *matters*. It was in direct relation to Chicago as a center of agricultural commodity exchange, and not New York's financial landscape, that the U.S. government constructed the foundations of its regulatory structure for contemporary derivatives; a structure that made industry self-regulation its principal axiom. As these markets rapidly expanded away from Chicago in the late 1980s and 1990s, they carried the self-regulatory model with them, but as they transformed the global financial landscape, they brought with them none of the other localized institutions that made Chicago's self regulation successful. My empirical investigation is focused on the intersection of Chicago-based financial practice and knowledge as represented in negotiations between the financial industry, the federal regulatory agencies, and the U.S. Congress. I employ in-depth interviews with key members of Chicago's 1970s and 1980s financial community, as well as textual discourse analysis in a critical reading of industry and government documents, congressional hearing records, trade journals, and business periodicals.