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Research Article

The U. S. Commercial and Investment Banks, the Eurocurrency Markets, and the International Economy: from the Late 1970s Through the Start of the 1980s

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Abstract

This article, through the case study of Merrill Lynch and Lehman Brothers, investigates the role of U. S. commercial and investment banks in the development of the Eurocurrency markets from the 1970s to the start of the new decade, as well as the investment activities of U. S. financial institutions in the new financial environment of the 1980s based on the appearance of new financial actors and instruments. The first purpose is to frame the investment activities of American banking in the Eurodollar and other non resident markets against the backdrop of changing market pressures on the dollar from the first oil shock through to the monetary and financial consequences of combined second oil crisis and the historic decision by the newly appointed Chairman of the Board of Governors of the Federal Reserve System Paul A. Volcker to raise interest rates at unprecedented highs since 1980. Therefore, this article links the investment behaviour of American banks to the trajectory of U. S. dollar in the foreign exchange markets between the two oil crises of the 1970s. Secondly, this contribution pinpoints the variety of financial activities of American bankers during this period, which went way beyond the Eurodollar markets and involved, at least by the mid-1970s, a wide array of financial instruments both overseas and on domestic markets, from government securities to commercial paper assets. In the third instance, the aim is, as much as possible, to shed some preliminary lights on how the process of securitising, typical of the 1980s, was on the investment portfolios of American investors by the start of this decade. At the outset of this three-fold research target, the final objective is to make sense of the limited role of Eurodollar dealings and offerings in the context of trading and investment activities of U. S. financial institutions during the time frame considered, and particularly since the start of the new decade. In turn, this article suggests the multi-fold scope of financial activities of American banks in the context of macroeconomic and monetary transformations following the end of fixed exchange rates, the tottering of the dollar in the foreign exchange markets, and the meteoric rise of unregulated money markets since the 1970s, as well as the rise of securitisation since circa the year 1980.

Keywords

U. S. Banks, Eurocurrency Markets, Merrill Lynch, Lehman Brothers, U. S. Dollar, Securitisation, Money Market Mutual Funds

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1. Introduction

This article brings into focus the role of the American banking system in the development of the eurodollar and eurocurrency markets, as well as the investment activities of U. S. financial institutions in the new financial environment of the 1980s to try to fill up a set of uncovered issues in the extant economic and financial history literature on the Eurodollar and Eurocurrency markets, which experienced a recent expansion but left a few research perspectives unexplored. The topic is too vast to get covered in a single article: therefore this contribution offers a pilot overview useful for further research investigations and output to be conducted by financial historians and scholars with an interest in the topic.

The first purpose of this article is to frame the investment activities of American banking in the eurodollar and other non resident markets against the backdrop of changing market pressures on the dollar from the first oil shock through to the monetary and financial consequences of combined second oil crisis and the historic decision by the newly appointed chairman of the Federal Reserve System Paul A. Volcker to raise interest rates at unprecedented highs since 1980. In so doing, this article links the investment behaviour of American banks to the trajectory and destiny of U. S. dollar in the foreign exchange markets between the two economic meltdown that followed the two oil crises of the 1970s. At the same time it also considers the financial and monetary impact of monetary tightening dominating financial markets in the very early 1980s on the investment and borrowing patterns of U. S. financial institutions specialising in dealing activities on foreign financial centres. Secondly, this article strides to focus attention on the variety of financial activities of American bankers during this period, which went way beyond the Eurodollar markets and involved, at least by the mid-1970s, a wide array of financial instruments both overseas and on domestic markets, from government securities to commercial paper assets. In the third instance, the aim is, as much as possible, to chart how the process of securitising that came to center stage during the 1980s, particularly investments in money market mutual funds, were on the investment portfolios of American investors by the start of this decade. This last point is a new research field opening up new ways of investigation which a short article cannot but shed some preliminary lights on. At the outset of this three-fold research target, the final objective is to make sense of the limited role of Eurodollar dealings and offerings in the context of trading and investment activities of U. S. financial institutions during the time frame considered, and particularly since the start of the new decade. In turn, this article suggests the multi-fold scope of financial activities of American banks in the context of macroeconomic and monetary transformations following the end of fixed exchange rates, the devaluation and tottering of the dollar in the foreign exchange markets, and the meteoric rise of dollar-denominated and non dollar denominated unregulated money markets since the 1970s, as well as the rise of securitisation since circa the year 1980.

Against the backdrop of a larger research project on the role of American banking in the international unregulated and money market instruments from the late 1950s through to the late 1980s, this article focuses on the case studies of two American investment banks, Lehman Brothers Inc. (then Lehman Brothers Kuhn Loeb) and Merrill Lynch, as the hallmark of American banks to make sense of this set of research objectives. The case of these two U. S. investment banks is worthwhile for at least a couple of reasons. In the first instance, from the 1970s to the early 1980s these investment banks showcased investment portfolios that included both eurodollar dealings and more traditional domestic investment activities, as well as newly appeared financial instruments falling in the realm of securitising. As a matter of fact, since the second half of the 1970s Lehman Brothers served as dealer in the Eurodollar markets on behalf of traditional Eurodollar borrowers such as western nation states as the Kingdom of Sweden [27] 1; on the other hand, both Lehman Brothers and Merrill Lynch ventured on securitising mortgages and a number of debt certificates held by American commercial banks: an involvement which, as snapshotted by Adam Tooze in his book, began as early as by the second half of the 1970s [38]. By the start of the new decade this attitude to securitising uttered in a broader involvement pattern by the two New York investment banks in money market mutual funds and other financial instruments devised to expand the process of securitising.

Following a second section focused on the state of the art in the literature, the third section outlines the linkage between the changing value of the dollar in exchange markets from the first oil shock to the financial market consequences of the second oil crisis and the monetary revolution inaugurated by newly appointed President of the Federal Reserve System Paul A. Volcker by the very start of the 1980s. This monetary trajectory of the U. S. dollar helps understand the evolution of investments by American commercial and investment banks in the Eurodollar markets.

The fourth section explores how the investment patterns of the two investment banks considered changed over time to track how their investments on the Eurodollar and other Eurocurrency markets came as nothing but a single book on their investment portfolios and their book balance sheets. It also pinpoints how the share of their Eurodollar lending and trading in total activities as dealers or lenders changed during the time frame considered. Therefore, the article put into perspective the relevance of the Eurodollar markets in propping up the ascendancy of the American banking system on world financial scale. On the other hand it suggests that the investment attitude of commercial and investment banks cannot be cut off from the larger monetary developments in the foreign exchange markets, as well as from the increasing tottering value of the U. S. dollar. Elsewhere the author of this article has expanded further on the ways in which the macroeconomic framework of the early 1980s did influence the shaping of U. S. banks investment patterns through the case of the high interest rates environment germane to the early 1980s. This contribution follows suit this cutting-edge approach.

2. Literature Review

The historiography on the unregulated money markets since the onset of Bretton Woods is nowadays a well-established fieldwork. After an incubation begun with Catherine Schenk's sedimental work on the origins of the eurodollar market in London [31], a variety of studies and explorations mostly focused on the Eurodollar investments came to the forefront in the history of twentieth century international finance [13]2. At the same time the history of non-resident dollar-denominated investments and other eurocurrency investments has made the headlines in many history and macroeconomics general works and handbooks [14, 20]. More recently, after the outbreak of the 2008 global financial crisis, this topic was the research subject of a new wave of studies and PhD dissertations [5, 24]. All of these works shared a couple of research approaches to the topic, and a few of them shared a variety of approaches and perspectives. All of these recent studies focused on the unregulated markets worked mostly on the eurodollar markets; moreover, by and large they overlooked the history of a wide variety of foreign investments in other non-resident currencies [1, 6, 8, 21]: this is notably the case of the Euro-Deutschmark markets, which increasingly developed since the 1970s, with specific reference to the financing of the European Community's external debt and investment programs. Another remarkable and worth researching case would certainly be that of the Swiss franc market, which attracted investments and deposits from the oil producing countries. In the second instance, and more importantly from the standpoint of this contribution's prospective and research approach to the subject, the historical literature so far produced has approached the history of the unregulated markets as an investment field quite cut off from the other international and domestic investment activities of private commercial banks. This is certainly the case of the new investment instruments that developed since the start of the 1980s based on the process of securitisation, but also of more traditional financial outlets as paper currencies and certificates of deposits: the narrative on the Eurodollar markets has insulated the financial institutions specialising in Euro-loans from both well-established and brand-new financial instruments and trading activities. As a matter of fact, this literature has conducted a market-specific investigation such as the history of Eurodollar is, without establishing any linkage between its story and the development of new financial markets and products, private investment institutions and investment engines, and the involvement of commercial banks previously focused on the Eurodollar and other Eurocurrency markets in the new financial realm of the 1980s [4]. The development of new investment outlets based on securitising attracted not only new financial dealers and investors, but also commercial and investment banks previously involved as dealer or investors in the Eurodollar and other Eurocurrency markets. In particular not solely did institutional investors like life and property insurance companies, pension funds and other "new" institutions get involved in new financial instruments as the money market mutual funds, crucial - as lucidly outlined by Adam Tooze in his monograph on the Great contraction of 2008 [38] and by other studies [12] in fuelling new debt instruments devised to finance securitisation as the Asset-Backed commercial Papers or the repurchasing operations (repo operations). Indeed, along with new institutional investors, some commercial banks and investment banks previously working as dealers or investors in Eurodollar operations and other Eurocurrency markets such as Merrill Lynch and Lehman Brothers, ventured on doing business out of the process of securitising. This changing borrowing and investment patterns by international banks as it occurred from the mid 1970s to the 1980s has not -but by a few exceptions- attracted the attention of banking and financial historians.

Moreover, more recent studies shared a few more research approaches tackled and challenged in this article. The totality of the finest studies recently appeared on the one side were consistent with this narrowed approach to the Eurodollar and other Eurocurrency markets; on the other, this top-notch scholarship analysed and reconstructed the development of unregulated markets either through the perspective of very specific dealers and investors such as the leading European banks [1], or by means of exploring the pattern of borrowers, as it was the case of the LDCs borrowing trajectories with respect to their debt and the foreign financing of their investments since the 1970s [3, 2], as well as through an institutional approach to the topic focused for instance on the role and intervention of world-class economic institutions such as the U. S. financial and monetary authorities or the OECD [32, 33, 41].

With rare few exceptions [14, 37], the existing historical literature missed to chart the crucial and evolving role of both the leading American commercial banks involved in recycling the eurodollar investments of the OPEC oil producers or in serving as dealers and investors on the Eurocurrency markets on behalf of either state borrowers such as Central banks and LDCs nations states, or of multinational corporations as well as for international trade financing purposes. Likewise, and more importantly from the viewpoint of this contribution, this high-ranking literature missed to consider the role of American investment banks both in dealing Eurocurrency assets, and in getting the leading American and western commercial banks involved in the process of securitising begun during the 1970s, a process which came to centerstage in international finance since the early 1980s.

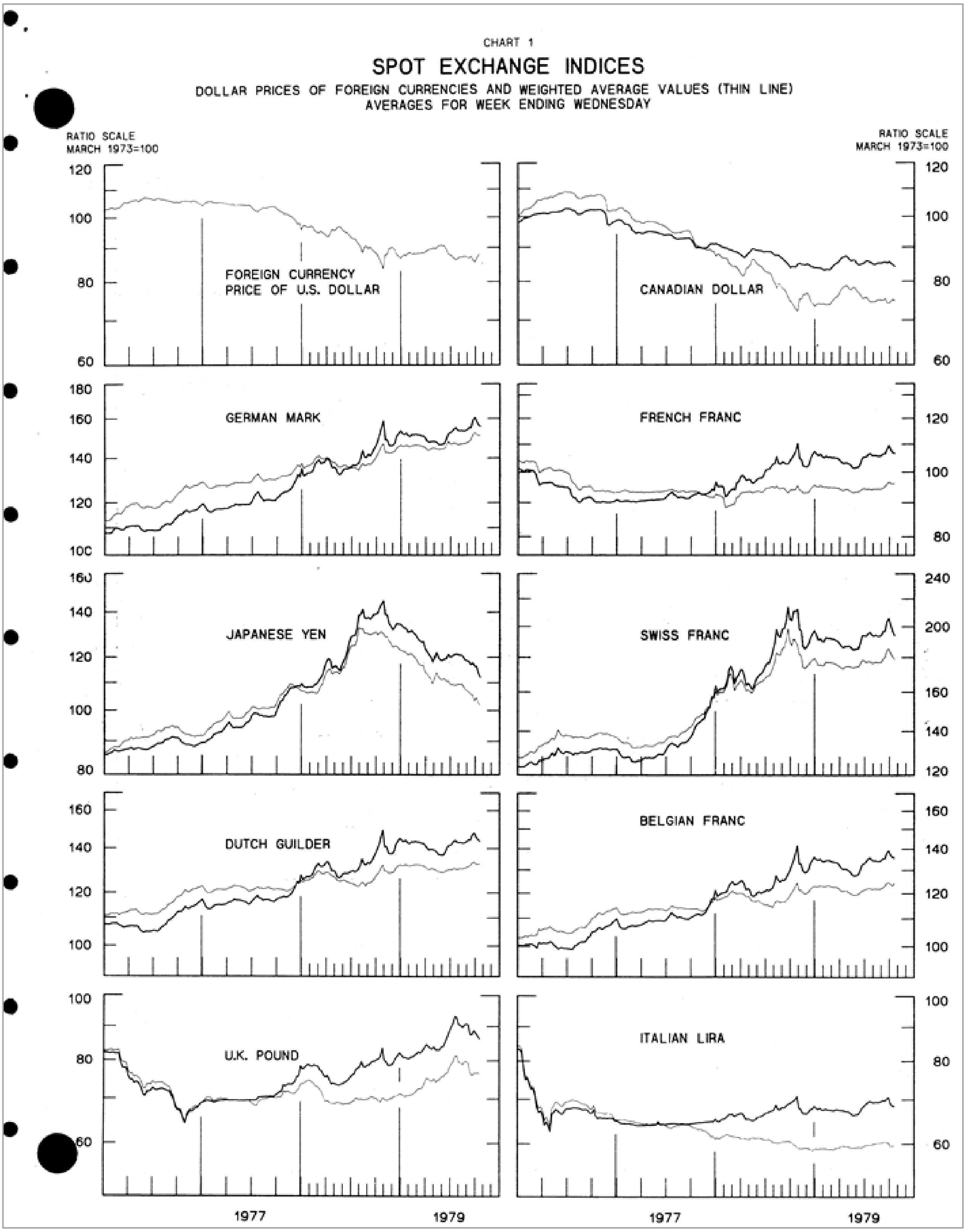

Figure 1. U. S. dollar prices of foreign currencies and weighted average values for the years 1976-1979.

source: Board of Governors of the Federal Reserve System, Division of International Finance, Financial Market Section, Selected Interest and Exchange Rates. Weekly Series of Charts, 29 October 1979

3. The Fate of the Dollar Amid the Two Oil Shocks and American Banking

It is widely-known that highs in inflation rates rigged the western economies and the United States throughout the 1970s, and combined with mounting unemployment rates. Between the two oil crises of 1974 and 1979 across the OECD countries inflation averaged at almost 10 percent, compared to 4 percent during the previous ten years. Unemployment run at about 5 percent, compared to 3.2 percent during the period from 1963 to 1971 [35]. During the same crucial years, the U. S. dollar experienced an extreme volatility in exchange markets by and large caused by the impact of the OPEC surplus countries' international investments: the dollar denominated assets of the oil-producing countries over-flooded global capital markets. The literature on the recycling of petrodollars by the oil producers has tracked and explained this dynamics: as an effect of the uptick in crude petroleum prices the oil producers increased their dollar-denominated assets and their international investments in dollar financial instruments [19, 32, 36]. A substantial amounts of these oil revenues went to finance U. S. Treasury securities and other public debt instruments across the globe; however, the OPEC countries also invested on the real economy and in private financial assets. This transnational flow of dollar-denominated instruments engulfed the international capital markets and added to the dollar component in world money supply, thus contributing to put pressure on the dollar in exchange markets within the context of post-Bretton Woods floating exchange rates. This dynamics developed between 1973 and 1974, with a core in 1974. Thereafter, this weakening of the dollar decelerated as a result of the 1975 recession that rocked the western world: the oil price hikes of 1973-74 reduced international demand for oil and other hydrocarbon compounds and triggered an international economic recession during 1975. In turn this economic recession, which contracted the U. S GNP by 4.9 percent [16], squeezed dollar-denominated international trade payments, thus easing pressure on the dollar in exchange markets and leading to a temporarily upward trend in the value of the U. S. currency against most major other currencies [10]. However, as soon as the western world bottomed out of that mid-decade recession international demand for oil soared once more, while the OPEC countries' profits and their international investments surged again accordingly. This trajectory had deteriorating effects on the confidence in the dollar by international investors, both private financial investors and states. Therefore, the weakening of the dollar in exchange markets against all major currencies began once again since 1976 and was well onset by the time the second oil shock of 1979 gave a further blow to the instability of the U. S. currency (Figure 1). During these few year the dollar experienced the most important decline with staggering implications on world capital markets.

This swinging trajectory of the U. S. currency, made up by a downward trend, a temporary recovery in exchange markets from the outbreak of the first oil crisis through the 1975 recession, and soon thereafter a new and sticky wobbling of the dollar since about 1976, is charted not only by the trajectory that punctuated the economic relations and financial diplomacy between the United States and the OPEC countries, increasingly disappointed by the weakening of their dollar-denominated overseas investments, during this period [7]. Tellingly, by 1977 some Arab members of the OPEC countries threatened Washington to withdraw their assets from dollar-denominated financial outlets to diversify their investment portfolios into a set of multi-currency financial instruments or through a basket of currencies to protect their foreign investments from the devaluation of the U. S currency [23]. This Arab policy of disinvesting from dollar denominated financial outlets was pushed forward in 1979 as a reaction to the freezing of Iranian assets held at the Federal Reserve Bank of New York, which represented the specific U. S. reaction to the Iranian revolution and more particularly to the Iranian seizure of the U. S. Embassy in Teheran[3]. The perilous wobbling of the dollar is also charted by international capital market developments. For instance, by 1977 the foreign bond markets in the United States declined staggeringly. At the same time, not coincidentally the foreign bond markets in Switzerland and Japan, as well as the international bond markets, surged substantially [22]. This inverse trajectory reflects a fundamental declining confidence in the green currency. During the same period, the Eurodollar rates followed an inverse trajectory: peaking Eurodollar rates from 1976 to 1979 reflected borrowing and investment attitudes in Eurodollar assets by both American banks and U. S. corporations operating on global scale, as well as more generally by investors used to trade in the dollar area and dissatisfied by the recent uncertain standing of Washington's currency [11].

The decline of the dollar continued through the start of Volcker' monetary revolution: by the early 1980s combined oil price hikes and monetary tightening in the United States and then across the leading West European economies prompted investors to search for new investment outlets in addition to the Eurocurrency markets. This move was aimed to shield their liquidity from volatile interest rates triggered by the Volcker revolution, as well as from the impact that monetary tightening had on U. S. domestic investments. The race by financial institutions to get involved in the process of securitising and in money market mutual funds came as an answer formulated by the American financial and monetary institutions to the crisis of the Eurodollar markets, which since the start of the new decade suffered from peaking rates, and as a reliable and profitable new investment opportunity at the time of hiking consumer prices and extremely volatile interest rates. [34].

4. Lehman Brothers and Merrill Lynch from the First Oil Shock to the Age of High Interest Rates

The involvement of U. S. banks in the Eurodollar markets began way before the outbreak of the 1970s world economic crisis. Though largely underestimated in the literature, since the early 1960s some of the five leading U. S. commercial banks doomed to master intermediation in the Eurocurrency markets during the following two decades, Chase Manhattan Bank, Citi Bank, Chemical Bank, Bank of America and Hannover Trust Company, began serving as dealers and borrowers in the Eurodollar markets on behalf of important U. S. corporations, domestic and international municipalities and, to a lesser extent, international trading companies[4].

The growing involvement of American bankers in the unregulated markets from the 1960s on depended, as already demonstrated in the literature [37, 32], on a variety of international political and financial reasons: among others, before the outbreak of the first oil crisis it was a general widening of interest margins over the LIBOR index caused by a general increase in borrowing from the Eurodollar markets by international borrowers such as western governments and the LDCs. At the end of 1975, for instance, the total disbursed external debt of non oil developing countries was estimated to have reached $ 150 billion. Out of this total, gross liabilities to commercial banks in the industrial countries were estimated at $ 66 billion, two-third of which were liabilities to U. S. commercial banks [39]. This trend enhanced the attitude of U. S. bankers to get involved in the unregulated markets pivoting on the Eurodollar outlets.

When in 1975 he made a public appearance at Harvard University, the Director General of the Kuwait Fund for Arab Economic Development, Abdullatif Al-Hamad, declared that <<in the period of 1971-1975 the commercial banks aggressively pushed their lending to LDCs, thinking that short-term lending was more flexible and secure than long-term lending.>> [40] Indeed, from the view point of all the leading American commercial banks this was an investment attitude not to be taken for granted at the beginning of the decade. As late as amid the outbreak of the first oil crisis and the following world-wide economic meltdown, the U. S. banks perceived as extremely risky the reflowing of the OPEC countries capital surpluses. As widely reported in the press, as late as September 1974 Morgan Guarantee spoke out on behalf of American commercial and investment banks to voice their concern for taking on the risk of lending to countries or companies where ultimate repayment was in doubt [15, 30]. The aforementioned data on U. S. banks contribution to total international lending to the LDCs demonstrates how this reluctance was rapidly overcome in a matter of few years, sometimes in a few months. The literature has pinpointed the financial market reasons, domestic political pressures on the U. S. banks, as well as the new world macroeconomic scenario that in a few months since the outbreak of the first oil crisis led the largest U. S. commercial banks to begin serving as intermediaries between dollar-rich OPEC countries and international borrowers through the overseas branches of Wall Street banks, mostly based in London, that operated on the Eurodollar and other Eurocurrency markets in Europe [8, 32].

Though all of these factors pushed the U. S. banks to master the overseas investments of the OPEC countries and to get involved in the Eurocurrency markets, the U. S. domestic economic outlook and financial developments contributed to push U. S. banking to further intensify financial intermediation and activities in overseas unregulated markets.

The 1975 recession that hit hard the U. S. economy and the world economy came to storm the Wall Street banks. In a matter of few months it was registered a number of merging activities and acquisitions, banks' capital loss, shrinking competition for underwriting, not to mention the threat posed on Wall Street by the prospect of a New York State financial insolvency. All of these destabilising factors shook the American banking system as never before in decades. The growing attitude of the leading New York commercial banks to get involved in the process of recycling in the international markets the oil revenues of the OPEC countries and the overcoming of their concern for the low-creditworthiness of non-oil LDCs and other risky international borrowers can partially be explained by considering this domestic financial downward trajectory. However, a variety of international financial developments occurring from 1974 to 1975 certainly contributed as well to this historic turn in American banking investment and lending policies. In the first instance, pressure on the dollar in exchange market triggered by soaring dollar-denominated financial assets held by the OPEC countries as a result of the first oil crisis in 1974, and again as an immediate consequence of the second oil shock; secondly, the macroeconomic effects of the 1975 recession on domestic demand for borrowing; in the third instance, the looming financial market conditions that hit hard Wall Street over these two years. However, if one considers the U. S. investment banks, much less used to investing in the Eurodollar markets or to serve as dealers on behalf of their clients during the 1960s, the Euro-market as a way out of the decade's financial distress came about only later on, since about 1979. If one brings into focus investment banks like Lehman Brothers and, with reference to the period since 1979, Merrill Lynch, it is straightforward that before the second oil crisis and Volcker's monetary revolution the American investment banks refrained from expanding their portfolio in Eurocurrency assets and multiplied their domestic and foreign financial activities on financial markets other than the unregulated short-term Eurocurrency assets and Euro-loans. This was remarkably the case of Lehman Brothers: tough the investment bank had been involved as dealer on the Eurodollar markets since at least as early as 1964, when it traded in London on behalf of Tokyo municipality, by the time the 1975 recession broke out, its strategy to navigate the financial storm did not revolve around a commitment to dealing activities in the Euro-currency markets. The bank was certainly hit hard by the 1975 recession: the involvement in its capital of Banca della Svizzera Italiana and Banque Francaise et Italienne pour l'Amerique du Sud, two European banks under the strict control of Banca Commerciale italiana, both operating as lenders and intermediaries in Latin America, far from merely expanding the international activities of Lehman Brothers as declared by the bank's highest-ranking personnel, was thought to stabilise the balance sheets in light of the ongoing recession [25]. On the investment side of its activities, Lehman Brothers did not make a bet on the Eurodollar assets either: by 1976, then Lehman Brothers Kuhn Loeb, it had expanded a number of its traditional activities as borrower, investor, or dealer. Among others, it had expanded its activities to place domestic and international bond issues in its capacity of manager or co-manager, working for municipalities, foreign central banks, and above all domestic and foreign corporations; likewise, the investment bank had by that time developed asset management activities, intermediation in primary and secondary markets in money market instruments as commercial papers, bankers' acceptances, certificates of deposits, government agencies securities. Moreover, it did not reduce its activity as international financial advisor to General Motors and as dealer on behalf of the Algerian and Indonesian state-controlled oil companies. In the field of energy and hydrocarbon compounds the Lehman Brothers group raised capital to finance the purchasing of energy sources by American utility companies: since 1974 it managed the public offering of debt and equity securities for the public utility industry. The only substantial Eurodollar market activity of Lehman was in connection with the raising of debt and equity capital to finance vessel constructions and shipping through private placements, as well as in assisting some central banks in purchasing or selling Eurodollar securities. Merrill Lynch showed a similar conservative investment approach to any substantial diversification into the Eurodollar and other Eurocurrency markets amidst the 1975 recession. Merrill Lynch did not structurally alter the core business of its activities, traditionally largely based on the management of government securities and other federal money instruments, as well as on insurance activities, private under-writings, and common stock offerings [18]. At the same time it began venturing on a brand-new and prospectively flourishing new market as securitisation: by 1976 its real estate-oriented branch completed a record of $ 4 billion in mortgage-backed securities underwriting [28].

It was only when the dollar began tottering once again in the foreign exchange markets since 1977 that Lehman Brothers and Merrill Lynch changed altogether the trajectory of their financial activities. This mirrored a much pressing need to diversify their activities out of the dollar to skip the impact that mounting pressure on the U. S. currency had on the value of their financial assets and the trustworthiness of their borrowing activities on behalf of their clients. It was first a third investment banks, Salomon Brothers, to take the lead in investment diversification in the new financial realm of securitisation: as early as 1977 Salomon Brothers began marketing in securitisation mortgages held by Bank of America [38].

Before the start of the Volcker revolution, by 1979 Lehman Brothers recorded a staggering surge in its activities either as dealer or as investor in the Eurodollar markets: the Wall Street investment bank placed offerings for both states (Kingdoms of Sweden and Norway), and for manufacturing companies such as the French automobile industry or Volkswagen, as well as for the American pharmaceutical industry or oil companies such as Standard Oil company of Indiana. Moreover, it led syndicated loans to finance international economic institutions like the Asian Development Bank and the Inter-American Development Bank. At the same time, through its merging with Kuhn Loeb, it started financing vessel construction or acquisition by raising debt and equity capital through public offering in the United States and private placements in the Eurodollar market [26].

Likewise, since the 1980s, in light of a new downward sloping domestic demand in the United States and rising interest rates and volatile rates triggered by the second oil crisis and the Volcker's revolution that overheated not only the national capital markets but also the Eurodollar rates (see Figure 2), it was the American investment banks that first came to get involved in the process of securitising: for instance, following suit Salomon Brothers, by 1981 Merrill Lynch had on its balance sheet a large portfolio of mutual market funds mostly based on the acquisition of securities from other institutions [18]. At a time when many institutional investors (pension funds, life insurance companies and property insurance companies) reduced their investments in securities and expanded their portfolio in shorter-term maturities as a reaction to volatile interest rates, while at the same time the bond and equity markets began suffering from rising cost of money and volatile interest rates across the United States, the Volcker revolution had made the Wall Street financial community aware that the new age of high cost of money suggested to devise new financial instruments to finance corporations and international borrowers. The purpose of this diversification strategy was to cope with the future crisis of the equity and international bond markets. It was in this framework and since this time that investing in the Eurocurrency market was no longer a reliable and cheap market outlet for borrowers and lenders. By the same time investment banks came always more to centerstage in international financial transactions: their low-cost borrowing and lending financial operations hit the soaring of interest rates where commercial banks, universal banks and the equity market suffered the most.

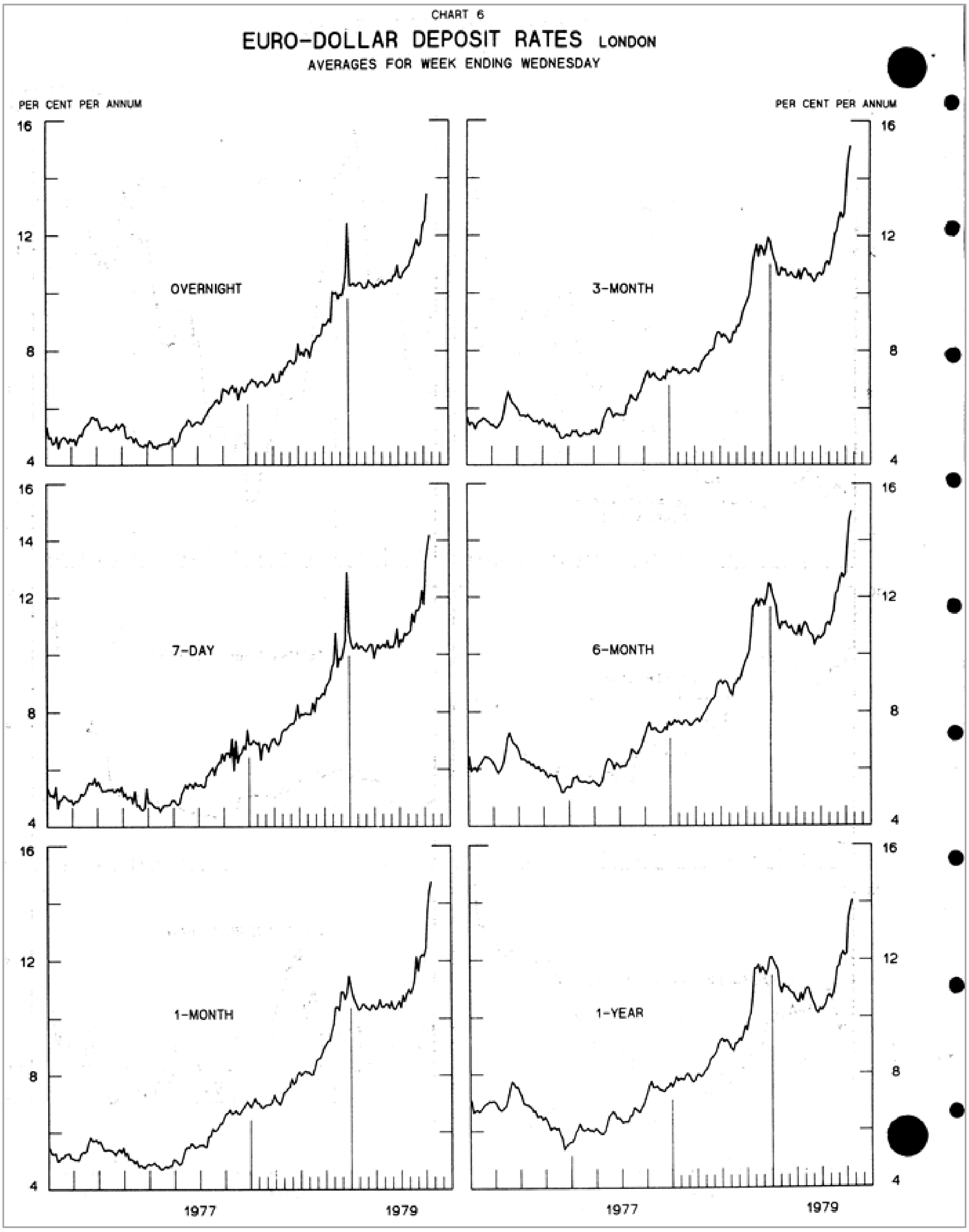

Figure 2. *Eurodollar deposit rates for the years 1976-1979.*

source: Board of Governors of the Federal Reserve System, Division of International Finance, Financial Market Section, Selected Interest and Exchange Rates. Weekly Series of Charts, 29 October 1979.

5. Conclusion

Against this backdrop the American investment banks, of which Lehman Brothers and Merrill Lynch are a case in point among other ones, went for a turn to betting on the new financial universe of the decade of the 1980s revolving around the pilar of securitisation and a few more new financial instruments and players. Along this way the two investment banks anticipated the involvement of and commitment by commercial and universal banks in the development of new financial instruments as repurchasing operations and derivative markets since the very beginning of the 1980s such as the money market mutual funds.

Therefore, between the 1970s and the start of the new decade the two U. S. investment banks experienced a limited involvement in Eurodollar intermediation on the one side because before the tottering of the dollar in exchange markets they kept focusing on more traditional investment instruments and financial outlets, as well as on borrowing opportunities as outlined in the previous section; thereafter because the Eurodollar lending rate soared since the end of 1979 and as a result of the appearance of a new era of profitable financial instruments, these multiple commitments limited substantially their contribution to the flourishing of the Eurodollar markets beyond what both investments banks had already carried out in this unregulated markets since as early as the 1960s.

Conflicts of Interest

The authors declare no conflicts of interest.

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[1] reference will be made throughout this contribution to the important records of Lehman Brothers Kuhn Loeb held at Harvard University, Harvard Business School, Baker Library Special Collections, Lehman Brothers records.

[2] the literature is too vast to summarise here. Burn's book summons up this trajectory of research.

[3] Multiple archival sources can be consulted in support for this argument: see for instance Federal Reserve Bank of New York Historical Archive [17], and the Records Relating to the Iranian Hostage Negotiations held at the National Archives and Records Administration, College Park, Maryland [29]

[4] the author is currently working on the 1960s as the Eurodollar American decade and his research in ongoing. One of the most important archival sources in this respect is the Rockefeller Archive Center, Tarrytown, NY.