

# Why Worry, Wall Street?

**F**OR SEVERAL MONTHS, TREASURY SECRETARY Hank Paulson and a number of top guns on Wall Street have been screaming that U.S. capital markets are losing their competitiveness to London and Hong Kong. Two months ago their claims received support from a study by some of America's most highly respected financiers and academics. In mid-January,

McKinsey & Co., focusing on New York City in particular, delivered a report to Mayor Michael Bloomberg also bolstering Wall Street's fears. Now the U.S. Treasury plans to host a conference on the subject this spring. You have to give credit to the American financial community for orchestrating this crusade with such persistence. But the fact is, the bankers have a very flimsy case. They are too smart not to know that, so you have to wonder what's really going on.

Their central argument rests on the decline in the number of initial public offerings in the United States and the simultaneous growth of such listings abroad. This is undeniable, although 2006 ended with a significant upturn of IPOs, so the trend is not certain. Two major reasons cited for the decline is overregulation, including certain onerous provisions of Sarbanes-Oxley, and too much litigation. We should all support less red tape and the end to frivolous lawsuits, to be sure. But to equate fewer IPOs with the eclipse of U.S. capital markets is a dubious proposition for at least three reasons.

First, a huge increase in IPOs abroad derives from Russian and Chinese corporations' going public. But many such companies have unreliable financial accounts and ownership structures, including opaque links to their governments, that would never pass muster with the Securities and Exchange Commission. Just days ago NYSE chief John Thain said that London's laxer listing standards would damage its reputation. Surely, when it comes to investor protection, the United States doesn't want to engage in a race to the bottom.

Second, capital markets are composed

of much more than IPOs. The United States is ahead of anyone else in debt instruments, private equity, hedge funds and venture capital. Third, the growth of markets in London, Hong Kong and elsewhere is not a negative reflection on the U.S.; it is instead a result of growth abroad and the successful export of American market capitalism. That is something Washington has been striving to achieve for more than half a century.

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**It's an odd time for Wall Street to whine. Merrill Lynch's CEO received \$48 million for 2006, and wasn't even the top earner among his peers.**

million compensation package for last year, and he wasn't even the top earner among his peers. Goldman Sachs, Lehman Brothers and Bear Stearns have recently announced the highest profits in their histories. The New York Stock Exchange has just bought Euronext. Wages in the U.S. financial services have been rising faster than in most other sectors. This doesn't sound like an uncompetitive industry to me.

So how to explain why Wall Street and Washington are so worked up? It could be that Secretary Paulson, a former chairman and CEO of Goldman Sachs, wanted to show his old friends that he would defend their interests (with the

idea he may need to call in some chips later). Or, we might be seeing the beginnings of a new round of protectionism, this time not applied to labor-intensive manufacturing but to the new global battleground for high value-added services. Neither reason seems plausible, however. Paulson is too confident and independent to cater so blatantly to any interest group. And the financial community is too closely linked to globalization to flirt with the idea of imposing any new barriers to commerce.

More likely, both the Treasury and Wall Street believe that U.S. markets are seriously overregulated, and that with a Democratic Congress, they will need to use a bazooka instead of a rifle to make real headway toward meaningful rollback. In this judgment they are probably right, but they are a bit late. Parts of Sarbanes-Oxley have already been liberalized, as have rules for foreign companies listing in the United States. Lawsuits in the securities industry are already way down from past years. Regulators for the NYSE and NASDAQ have just been consolidated, an important streamlining of oversight. Any more major moves are unlikely.

Look then for the high-profile Treasury-Wall Street juggernaut to evaporate soon. The United States has just too many other real problems, including the burden of escalating health-care costs on industry and the need to bolster secondary education, and that's what will preoccupy politicians. In the end, no one will—or should—cry for Wall Street.

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