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ECONOMIC NEWS UPDATE

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Sinatra was right

The competition between New York City and London threatens to get out of hand. New York mayor Mike Bloomberg, a billionaire capitalist, trekked to London to see how Red Ken Livingstone, the communist mayor of London, runs things. Well, not precisely. But he did come to see how Callum McCarthy, chairman of the Financial Services Administration, is regulating the financial sector that seems to be wooing business from New York at an alarming rate. "London is gaining on us in area after area," moans Bloomberg.

Perhaps even more important, the ordinarily dull New York Times, under the headline, "The Best Town to Make an Upper Lip Stiff", quotes New York saloonkeeper Audrey Saunders as concluding, "London is the best cocktail city in the world right now. I hate to admit it, but it's true. ..." It's one thing for a New York investment banker to lose a big deal to a London rival, quite another to know that the victor is celebrating in a

bar superior to one in which the loser is drowning his sorrow.

Bloomberg's voyage of discovery was prompted by data showing that Wall Street is losing its preeminence as a capital market to The City. This view is shared by Treasury Secretary and former Goldman Sachs chief Hank Paulson, and New York's two Democratic senators, presidential wannabe Hillary Clinton and Chuck Schumer. Even Eliot Spitzer, once the scourge of Wall Street and now governor of a state heavily dependent on the financial services sector for tax revenues, lined up with regulation's critics for a photo op when McKinsey unveiled its analysis of the reasons for New York's declining competitiveness.

What most troubles New Yorkers is that not only has London become a capital market of choice for more and more companies, but that the American press is reporting that London has succeeded New York as the world's most exciting city. New Yorkers like to

boast about the high price of property in the city -- although the boast is often thinly disguised as a complaint. But now they read that prices in their toney upper east side are lagging those in London's Belgravia. The Wall Street Journal reports that property in the most desirable areas of London fetched £1,450 per square foot (\$2,863), 63% more than luxury condos in Manhattan. I doubt that the difference is that great, when real like-for-like comparisons are made, but for people who equate desirability with price, the undoubtedly large difference in price means that London is more desirable as a place to live and work than is the Big Apple. That is an idea New Yorkers have difficulty getting their heads around, to use the city's jargon.

In the hunt for villains, it is unsurprising that investment bankers will find government regulation. Their complaint is that regulation is more onerous in the US than in the UK, thanks largely to the Sarbanes-Oxley Act. The cost of compliance, this argument goes, is so much higher in America than in Britain, that it is only natural for growing firms to seek capital in the less-stringently regulated London market. Peter Wallison, a resident fellow at the American Enterprise Institute, quotes academic scholars as concluding that "no explanation other than over-regulation in the United States fully accounts for the loss of business to overseas markets." And he finds a gold lining in this cloud, "The erosion of US predominance in global financial services ... may finally have captured the attention of people in government who can actually do something about it."

Actually, they really can't. We are witnessing the globalization of that part of the US financial services sector that

has until now experienced less competition than America's t-shirt and sneaker manufacturers. It is not only London that is draining business from New York, but Dubai, Hong Kong and other exchanges. As Chuck Prince, chief executive of Citigroup told the Financial Times, "We are going to see a diffusion away from New York as a financial centre....New York will not be unimportant, but ... people will be going to other places to raise capital."

Which is not a bad thing. If Wallison is right that over-regulation is driving business from New York, the legislators and regulators can easily make the necessary changes. SEC chairman Chris Cox is well aware of the problem, and devoted the early part of last week to digesting a staff paper comparing Britain's principle-based with America's allegedly very different rules-based regulatory system. And if New York's not-exactly poor investment bankers want to meet the new competition, they might cut their fees, which are about twice those charged in London, rather than petitioning the government for relief.

Most important, New Yorkers must learn that attrition in its market share is inevitable in a globalized world, and to take with several pinches of salt the bleating of the financial community and politicians seeking headlines. London may be attracting more initial public offerings (IPOs) than New York, but some of the companies being floated are not exactly the crown jewels of the business world. Almost two-thirds of the companies floated on AIM (Britain's market for small companies) are selling at below their initial offer price, perhaps because the new issues being floated in London are "the worst dreck [er, junk] I've ever seen,"

according to James Chanos, who sniffed out the problems at Enron long before the authorities did.

New Yorkers worry too much. Their city retains its unique vitality and entrepreneurial culture. The biggest complaint foreigners have about America is that we are making it tough to come here. Sinatra was right, as usual. If you wanna wake up in a city that doesn't sleep, come to New York. Why? Because if you can make it there you're gonna make it anywhere.

But neither New York nor London can any longer count on dominating the global financial sector. Which is a good thing: a bit of competition should make for more efficient capital markets.



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