

America must act to renew the primacy of its markets

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US financial markets are losing their competitive edge and this poses a risk to economic growth. Since late last year, private and public sector leaders have urged that we address this challenge with concrete, concerted action.

The time to do so is at hand, with Hank Paulson, Treasury secretary, and the US Chamber of Commerce holding meetings in Washington this week. The problem is well documented and the Securities and Exchange Commission and the Public Company Accounting Oversight Board have already taken important steps; what we now need is to complete the process, with the vision to strike the right balance on policy decisions and the bipartisan political will to put that vision into practice.

The erosion of US primacy in capital markets reflects in part the reality of the marketplace. There are more choices for issuers who seek to raise capital. Foreign public markets are better regulated and more trustworthy than a generation ago. Technology has made raising capital - from markets as remote as Shanghai, Dubai and London - as easy as the few clicks of a mouse.

Increased competition is irreversible. But some of the decline in the allure of US markets results from self-inflicted wounds. While regulation and enforcement play essential roles in protecting investors and the efficient functioning of capital markets, particularly in the light of recent abuses, excessively costly regulation and litigation that benefits only lawyers and not shareholders - particularly when occurring simultaneously - make US markets less attractive. In 2006, foreign companies making initial public offerings in the US raised \$137.7bn (€105bn) in private markets compared with \$11.4bn in the public markets, or 92 per cent of total funds raised, in spite of the higher cost of capital in private markets. The most likely explanation is the higher regulatory and litigation costs of public markets.

What we require now is a balanced regulatory framework - one that does not retreat from reform, but sensibly recalibrates how to achieve it. This path has been made clear in several studies, including that of the bipartisan interim report of the Committee on Capital Markets Regulation.

There is not much time left to act. Last year Wall Street was able to capture only 7.2 per cent of global IPOs compared with 50 per cent in 1999. It is not surprising that American investment bankers fleeing for London would seek to allay US fears by claiming the US is just fine. Investment bankers do not care if they earn money in London rather than New York, they just want to earn money.

Our capital markets have another problem. We are falling behind competitors when it comes to best practices in shareholder rights. We need to put more power into shareholders' hands. Owners ought to have the right to approve poison pills adopted by companies with staggered boards (where one-third of directors are up for election in any year). Majority voting needs to become universal. Shareholders themselves also should be able to choose how to settle disputes with their own companies, eg by arbitration (with or without class actions) rather than through the courts.

Many Americans see the interests of Main Street and Wall Street as divergent, even irreconcilable. So the summons here is not only for remedies - we know what must be done - but for leadership, to persuade people to look beyond the simple partisan choices and have the courage to implement the changes that will benefit us all.

At first glance, it is hard for average Americans to take seriously issues of globalisation of the financial industry when so many working people struggle with everyday life. But keeping Wall Street's primacy in the global financial markets has a real, direct pay-off to American companies and their workers as globalisation drives the increasing competition for low-cost capital. Job creation in the US depends on the investment of venture capitalists and the amount of this investment ultimately depends on the strength of the public markets that offer these venturers a profitable exit.

There is a real advantage - for the US economy, workers and businesses - for US financial markets to be competitive and strong and to remain in first place. There is no reason for the US to play second fiddle to London or Hong Kong. The truth is we can have both strong regulation and sensible reform that will strengthen rather than burden our capital markets. The time to achieve this is now.

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