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This Stock Exchange Is a Bad Investment

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By Mitchell Moss

One of the risks of an election year is that bad ideas - ones that are costly and unnecessary - are treated seriously by politicians. Incumbents and challengers, in seeking votes and campaign support, are asked to endorse policies and projects that sound good in theory but are not grounded in reality. One of these ideas - a proposal to erect a new home for the New York and American Stock Exchanges in the heart of the financial district is being touted as a way to create jobs, rescue the real estate market in and around Wall Street, and generate a new hub of activity for the securities industry. While these are laudable goals, a new megastructure will do as much to help the securities industry as the Chelsea Piers did in the 1960s to revive the shipping industry on the Hudson River waterfront.

Wall Street - once the center of gravity for the financial services industry - is now more important as a symbol of New York's financial power than as a place where the nation's financial powerhouses are actually located. Numerous securities firms and banks are still situated in the Wall Street area, but many of the largest financial institutions have moved to midtown Manhattan or to the edge of lower Manhattan at the World Financial Center. As a result the financial district has a vacancy rate that exceeds 20 percent, and many older buildings are almost half-empty.

Wall Street's problems are due not to a lack of office space, but to the deregulation of financial markets and the widespread use of new information technologies. The New York Stock Exchange is an open auction system that relies on a centralized trading floor that allows brokers and specialists to buy and sell stock on behalf of their customers. New computer systems have weakened the rationale for such a stock exchange; the New York Stock Exchange now faces competition from the electronic computer network known as NASDAQ; from overseas bourses that trade U.S. stocks; from members of the NYSE who buy and sell blocks of stock off the floor; and from new electronic trading systems with lower transaction costs and 24-hour access. The NYSE now accounts for less than 50 percent of the shares traded on the country's major exchanges. This dramatic decline has occurred despite the fact that volume on the NYSE has risen from 15 million shares a day in the '60s to 200 million shares a day in the '90s.

Today, the stock market is not a physical place but a telecommunications network that links buyers and sellers around the world. Rather than rely on a stock exchange floor, major banks and brokerage firms have created trading rooms jammed full of talented people and telephone lines that provide instant, computer-based access to markets in stocks, bonds, currencies and other financial instruments. Technology is making the traditional stock market trading floor obsolete. Many of the new sophisticated trading strategies involve simultaneous transactions that can only be done electronically. The London Stock Exchange, the world's fourth largest, went electronic in 1986 and subsequently closed its floor.

The future competitiveness of the New York and American Stock Exchanges does not depend on new space but on expanding their role in global markets. Individuals and pension funds are increasingly investing in foreign securities, yet only 120 foreign companies are listed on the NYSE. Securities and Exchange Commission regulations "reduce the attractiveness of U.S. and New York City financial markets to foreign securities issuers," according to a report prepared for the Mayor's Committee on Financial Services Competitiveness. If politicians want to strengthen New York's securities industries, they should invest their political capital in changing federal policies rather than squandering money on a building that will be obsolete before it's completed. Wall Street deserves new public investment to improve its economy, but throwing concrete at a problem - the easy and old-fashioned approach - won't solve it.