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The Stock Exchange Deal

City is bailing out Wall Street

Rudy Giuliani is one of the toughest mayors in New York City's history. He has successfully intimidated union leaders, political bosses, the City Hall press corps, even the mob.

But when it comes to the stock market, he's an amateur, just like the rest of us, always willing to pay top dollar when the market is at its peak.

He has just agreed to spend $900 million for a brand-new high-technology headquarters for the New York Stock Exchange, whose president, Richard Grasso, a street-smart from Queens, outmaneuvered the mayor by threatening to move to Jersey City.

Even if the exchange had moved to New Jersey, none of the major securities firms, which account for the bulk of employment in the financial-services industry, would have followed it across the river.

Firms such as Goldman Sachs & Co., Smith Bamey Inc., Merrill Lynch and Morgan Stanley Dean Witter have built elaborate trading rooms in Manhattan - often with generous tax abatements. They recognize that there is simply no better place to make and spend money than New York.

The decision to build a new trading floor for the NYSE is a risky investment; it may help maintain the lower Manhattan office market, but it could also become a white elephant. In London and other financial centers, advanced computer systems have replaced traditional stock exchanges, but the NYSE remains an open auction system that relies on a centralized trading floor despite the fact that technology has moved most of the action off the floor of the exchange.

Admittedly, the floor does perform an important role in stabilizing volatile markets, but sometime in the next millennium, new electronic trading systems will make the floor of the NYSE obsolete. That, however, will be another mayor's problem.

Unlike the Koch administration, which used tax credits and abatements to keep financial service firms in the city, the Giuliani administration prefers to spend cash -real taxpayer revenues to keep the ex-changes in the Big Apple.

But there is a limit to the amount of public money that can be spent on capital projects. Paying for the exchanges and new stadiums for the Yankees and Mets means that spending for schools, parks, libraries and transit will be delayed.

The city's capital budget is being treated as an ATM for the financial exchanges, first with the New

York Mercantile Exchange and now with the NYSE.

This is a dangerous precedent that raises expectations about what the city can and should do to attract and retain business. Today the NYSE, tomorrow NASDAQ.

Even if one agrees with the mayor about the need to spend public funds to build a stock exchange facility, the city should certainly collect fair market rent for the new space. But it is doing just the opposite, charging far less than the prevailing market rent for brand-new office space.

Furthermore, there is absolutely no provision in the agreement for the NYSE to do more than buy the technological equipment needed to operate the exchange. Why can't the NYSE be asked to hire and train workers from New York City?

The Giuliani administration is justly proud of its efforts to put welfare recipients to work. Shouldn't it demand as much from a corporation that's getting welfare as well? But, like every innocent investor, the administration doesn't even realize when it's been suckered into spending too much for too little.
