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Mauro F. Guillen
IBTimes Columnist

Wall Street is Dead. Long Live Wall Street!

By Mauro F. Guillen
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In the midst of the crisis of confidence that is bringing to their knees even the most reputed financial powerhouses, a small chorus of observers is predicting the end of American financial preeminence and the decline of Wall Street as the world's leading financial center. Commentators, columnists and finance ministers have argued that the global financial system will become more "multipolar." Is New York City condemned to losing its cherished, and profitable, status as the financial capital of the world? History, and the facts of the situation, suggest otherwise.

During the next few months and years, the financial services industry will surely undergo its most dramatic transformation since the Great Depression, both in the United States and around the world. Many jobs will be destroyed, and others will be created. Assets will change hands and ownership of major institutions will shift. The pain will be felt throughout the industry. But jumping from that likely scenario – indeed, a scenario already underway – to forecasting the end of New York City's preeminence represents an unwarranted leap of reasoning. This crisis is more about the corporate reconfiguration of Wall Street than about its decline as the place in which to talk and walk finance.

While the pace and shape of financial globalization will change as a result of the crisis, financial activity displays a marked tendency to cluster in a few great cities. Computerized trading and fancy telecommunication technologies cannot entirely substitute for the freshness of face-to-face interaction and the power of a handshake. Most importantly, Wall Street is not merely a repository of financial instruments, techniques, and assets; it is the place where tens of thousands of talented people live and work. That pool of specialized labor will prove an irresistible magnet to the government agencies and foreign financial institutions that will surely be called upon to assume greater roles of responsibility. The singular influence of the United States over global financial affairs may be giving way to a more multi-polar financial world, but it is a world that still expects to do business in New York's Wall Street. The U.S. may decline relative to other countries, but New York City will continue to be the global finance capital.

Global cities and global financial centers have acquired an importance and an identity that transcend the country in which they are located. Cities are the places where the work of globalization gets done. The outsourcing of all sorts of manufacturing and service tasks could not possibly succeed without the coordination and support activities undertaken at neurological centers such as New York, including not only finance but also advertising, legal services, art, news, entertainment and so on. The agglomeration of these different activities in one place further enhances the attractiveness of cities.

From the point of view of financial institutions or market players wishing to participate in global finance, New York offers an unbeatable combination of attractions. Chief among them is that it benefits from a tradition of English common law which guarantees, by global standards, the timely and efficient resolution of legal disputes. It is no coincidence that its leading competitor, London, shares this characteristic. New York also is a vibrant, multicultural city, one well endowed with members of what could be called the creative class. Moreover, New York has achieved iconic status in the hearts and minds of people around the world, an intangible asset that this crisis is unlikely to tarnish.

While accusing Wall Street of our current malaise has become a national pastime, one must not forget that the market economy works because people and firms wish to make a profit, and put their minds to it. Greed is bad if by it we mean unfettered financial excesses like the ones surfacing now after years of soft monetary policymaking and lax enforcement of regulations. Healthy profit-seeking, regulated and supervised by strong market institutions, is quintessential to capitalism. Markets are meaningless without the profit motive. In particular, we need financial markets to function well so that capital can be allocated to job-creating activities in the real economy, that is, on Main Street.

We need Wall Street in more ways than one. Managing the 700-billion financial bailout passed by Congress last year will require a great deal of talent and expertise to transfer toxic securities to banks or other actors with an ability to handle them, restructure mortgage loans so that homeowners can avoid foreclosure, and reallocate ownership and control of assets and of entire financial institutions. While the size and scope of the bailout is challenging, one must keep in mind that it amounts to about 5 percent of U.S. Gross Domestic Product. Even an expanded financial rescue is unlikely to cost more than 10 percent. The gross fiscal cost of recent banking crises in other countries ranged from 18 percent in China or 19 percent in Mexico to a whopping 24 percent in Japan or 31 percent in South Korea. If Washington had to support financial institutions to the same extent that Seoul was forced to in the late 1990s in order to rescue its ailing banks, Congress would be considering a four-trillion-dollar bill. The point is that Seoul, Shanghai and Tokyo have continued to play important roles as national or even regional financial centers. So will New York as the money capital of the world. Long live Wall Street!

Mauro F. Guillén is the Director of the Joseph H. Lauder Institute at Penn, a research-and-teaching program on management and international relations. He holds the Dr. Felix Zandman Endowed Professorship in International Management at the Wharton School and a secondary appointment as Professor of Sociology in the Department of Sociology of the University of Pennsylvania. He previously taught at the MIT Sloan School of Management. He received a PhD in sociology from Yale University and a Doctorate in political economy from the University of Oviedo in his native Spain.

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