Grasso's Global View

An Interview with Dick Grasso

EDITORS' NOTE *Dick Grasso is the Founder of Gladiator Holdings. He served as the Chairman and Chief Executive Officer of The New York Stock Exchange from 1995 until 2003, as Chairman of the Economic Club of New York, Chairman of YMCA of Greater New York and Junior Achievement of New York, Vice Chairman of the National Italian American Foundation, and as Member of the Board of The Centurion Foundation. He was appointed by Mayor Rudy Giuliani as Founding Director of Lower Manhattan Development Corp. A former member of the Advisory Board of the Yale School of Management, Trustee of the Stony Brook Foundation, and Member of the International Capital Markets Advisory Committee of the Federal Reserve Bank of New York, Grasso served as a Director of Home Depot Inc., Computer Associates, and New York City Police Foundation. He also serves as Vice Chairman of both the Congressional Medal of Honor Foundation and Nassau County Crime Stoppers. Grasso previously served as a trustee of New York University and Wagner College of New York.*

Dick Grasso

You've been a business leader for a long time. Is what we are seeing in today's economy the new norm?

I don't accept that it's the new norm, but rather the result of an extended and I believe an overextended period of low interest rates.

Since World War I, I don't think there has been a business cycle with a period of FED intervention for this long a period of time. While artificially low rates have boosted financial asset values, many believe – and I agree – rates have stifled GDP growth following the recession of 2007/2008.

If we look at the late '70s or early '80s, the FED did a terrific job of crushing inflation by allowing interest rates to rise to unprecedented levels and the marketplace provided the natural discipline of capital allocation.

Over the past few years, probably since the middle of 2007 to where we are today, the FED's unwillingness to bring rates back to normal levels has allowed for a bubble in financial instruments and has created an economy that cannot grow to levels 3 percent growth or greater, which is unprecedented for economic recoveries post-WWII.

Looking at the market, which is at an all-time high, it doesn't seem to match. Do the markets make sense to you?

The stock market has become a proxy for fixed-income instruments. Stocks are now looked upon as bonds. When the S&P has a yield greater than the U.S. Treasury's, whether you are a traditional fixed-income investor or a retiree simply trying to earn a return for living expenses, you have no choice – common stocks with high yields are the only alternative.

Many companies that used to want to be part of the public markets now want to stay private. Has that been primarily a result of regulation?

There are two ways of looking at it: regulation is a necessity for the free markets to function openly, honestly, and efficiently, and engender public confidence. Over-regulation or ambiguous regulation strangles the markets. That is what we see right now, post the stock market implosion of 2008.

As well-intended as many regulatory decisions responding to the financial collapse of 2007/2008 may have been, the unintended consequences have caused financial institutions to be strangled.

When we look at one simple barometer of what I'm reflecting on, the greatest growth of employees in financial institutions is in compliance and regulatory staff.

With regard to what is happening in emerging markets, are these structural challenges they're going through or is it growing pains?

First off, we can't homogenize and say "emerging markets" are structurally challenged or suffering from growing pains – we have to look at each market individually and ask a few fundamental questions. How good is the regulatory policy, the transparency, and accounting conventions? They differ from country to country, even in emerging market regions.

In terms of the PacRim markets, some are better than others. In Vietnam, for instance, we know the regulatory apparatus is well behind their economic development, and that gap must be closed. For global investors to participate in an emerging capital market, there has to be confidence in the laws of the country, disclosure obligations, consistency of accounting, and the quality of regulatory oversight.

What has always distinguished the U.S. markets is the quality of our regulatory apparatus, our self-regulatory disciplines, and the accounting conventions that create financial disclosure, which the market and investors can understand and rely upon. That is what has set America apart from any other market in the world.

How hard is it for business to work under Wall Street's quarter-to-quarter mentality?

If one is running a business, and certainly a global business, trying to manage it every 90 days to meet the expectations of investors is a losing proposition. Europe has always had a semiannual reporting basis and I've always felt that was a better alternative.

But the American investors – both institutional and individual – have developed an appetite for these quarter-to-quarter "gymnastics." It's the good managements that are able to say, in forward looking statements, that they're going to have a challenge over the next few quarters because they're investing not for the next 90 days but for the next five years. That is the way we can best run our business to benefit investors, customers, and employees.

U.S. regulators won't embrace semiannual reporting requirements but I think American leaders have to be confident enough in their leadership to tell markets it's not the next six months but the next five years that should be management's focus.

Was it such a bad thing when CEOs were strongly connected to the brands they ran?

I don't think so. Some of the iconic CEOs tied to their brands, like Steve Jobs, identified to the world, his customers, and his investors a philosophy of innovation.

In some ways, we have to turn the clock back a long way to people like Walt Disney and Henry Ford. In more modern times, Jack Welch, in addition to Steve, would fall into that category.

When there is an iconic leader, he or she becomes someone that everyone wants to be like and perform like, which is a good thing.

There are great leaders today. In every period, we go through cycles of iconic leaders.

Alan Mulally did a great job with Ford – he helped them not just survive but thrive. In the gaming industry, Steve Wynn; in retailing, Sam Walton and Bernie Marcus; in airlines, Herb Kelleher – these are all icons who demonstrate what can happen when vision, talent, and hard work meet the world's greatest equity market.

Since 2008, despite anemic GDP growth, the U.S. is still the greatest economy and capital market in the world. It's where everyone wants to come innovate and start the next great company. ●