

A Nation Challenged . . . And Not Only From Abroad

**Remarks by John C. Bogle
Founder and Former CEO, The Vanguard Group
Before the Executive Forum
Philadelphia Academies, Inc.
At
Studio WHYY, Philadelphia, PA
April 18, 2002**

Just ten days ago, *The New York Times* received a Pulitzer Prize for its breath-taking series “A Nation Challenged,” a special section that it ran each day over a three-month period during the aftermath of the September 11 terrorist attack on America. The section covered not only the war in Afghanistan and our nation’s campaign against terrorism, but “Portraits of Grief,” those biographical sketches of the lives of the several thousand human beings killed in the attack. Perhaps you found, as I did, those pictures of people cut down, randomly, in the midst of their active, productive, cheerful everyday lives to be compelling reading, almost habit-forming, day after day. “A Nation Challenged” was truly a high moment in the history of journalism.

And surely our nation *is* being challenged, as never before. While the war in Afghanistan is virtually over, the peace in that battered nation is fragile. We cannot avoid involvement in the India-Pakistan dispute. Our European allies are challenging the unilateral nature of much of our foreign policy. Iran and Iraq and North Korea—the administration’s designated “axis of terror”—are all threats to world peace (such as it may be). The tit-for-tat killings in Israel and Palestine starting to abate, though its hard to imagine how peace—real *peace*—can be achieved in this region of epic racial and religious animosity, paradoxically the birthplace of three of the world’s great religions. The threat of nuclear bombs, now easily miniaturized for delivery, and biological weapons has never been greater. And the likelihood that we have faced our last terrorist attack is remote in the extreme. And, sadly, this list of global hot spots and national risks is by no means exhaustive.

Challenges at Home

In all of our concern for being a nation challenged around the globe, however, we are also a nation challenged at home. And despite the huge commitment of our resources—\$369 billion in the administration’s new budget, up \$39 billion over last year—to defending America, we’d best not ignore the vast array of serious problems we face within America. Of course our self-defense is essential, but we’d best not stint on the resources we must dedicate to mitigating the obvious imperfections in our society. Let’s consider just a few of them:

Consider first the huge gap between the rich—and compared to the median per capita income of \$1,400 per year in the rest of the world, that’s us and just about every one we know—and the poor, 34 million U.S. citizens living below the poverty line. Consider crime. Yes, we read it’s way down, but we have nearly two million citizens in jail and our imprisonment ratio—one in every 100 adults—is tied with Russia as the world’s highest. Hardly unrelated to poverty and crime is the rampant use of drugs in our society, a business approaching \$100 billion in annual volume. Its most baneful effects are not limited to the underprivileged. Drug abuse has probably already touched—or one day will touch—every family in this room.

While these problems transcend race, we live in a society in which our nation's minorities are disproportionately affected by poverty, prison, and drugs. Racial inequality is America's most serious problem, and we have miles to go before we will have created equal opportunity for all. Far too little effort is given to how we will deal with these inter-related challenges. To begin the journey, we must reaffirm in practice the powerful words of Abraham Lincoln: *With malice toward none, with charity for all, with firmness in the right as God gives us to see the right, let us strive to finish the work we are in (and) bind up the nation's wounds.* . . .

Our endangered environment—the food we eat, the water we drink, the very air we breathe—is yet another challenge. We in America are surely doing our share to cause the problem. With 4% of the earth's population, we consume 26% of the world's oil, and send its residues spewing out into our air and adding to global warming. We are great consumers and poor conservators, as we fail to heed Theodore Roosevelt's timeless words: *We must treat our natural resources as assets which we must turn over to the next generation, increased and not impaired in value.*

The National Character and Corporate America

In many respects, our unwillingness to face up to these challenges and deal with them suggests a weakening in our national character. There are lots of things going on in America today that are hard to like: The debasement of our use of the English language; the obvious “pay to play” nature—I know that it is politely referred to as “access” in governmental circles—of our staggeringly-costly system of campaign financing, where a senate seat has not yet cost \$100 million, but just wait; the tawdry daily menu of television shows; the moral laxity of our movies; the shocking violence shown on the very computer games our children are playing. And, in the field near and dear to my own heart, where I've spent my entire career, Corporate America.

I hardly need tell you how devastated I am by the march of events at Enron, at Arthur Andersen, at Xerox, at Global Crossing, at WorldCom, and, alas, at a whole host of other corporations hell-bent on rising their stock prices upward beyond the bounds of reason. In their failure, we have relearned something that we never should have forgotten: *Stock prices cannot depart far from corporate values before there is a powerful reckoning.* We have experienced one of history's great bubbles—right up there with Tulipmania in 1630, the South Sea Bubble nearly a century later, and 1929. Such manias, as Edward Chancellor reminded us in a *New York Times* op-ed piece, bring out the worst aspects of our system: “Speculative bubbles frequently occur during periods of financial innovation and deregulation . . . lax regulation is another common feature . . . *there is a tendency for businesses to be managed for the immediate gratification of speculators rather than the long-term interests of investors.*”

But the problem is not just that a return to reality in the financial markets is by definition painful. The problem is that investors finally lose confidence in the integrity of the information they receive. In this recent era, Wall Street's conflicted sell-side analysts have lost their objectivity in favor of attracting investment banking clients; the buy-side analysts of our large financial institutions have put aside their skepticism; too many of our corporations have forced the fulfillment of their aggressive earnings guidance by fair means or foul; enormous compensation from stock options has driven corporate executives to be more concerned about stock *price* than about corporate *value*; auditors have been lured into being partners of management rather than independent professional evaluators of management's financial reporting; and millions of employees have lost faith in their retirement plan investments. As all of these forces have come together, investors are coming to realize that they have assumed risks that proved to be far larger than those for which they bargained. They are demanding a higher risk premium—and a higher risk premium raises the cost of capital and ultimately becomes a drag on the economy.

But there's even more at stake than that. This nation's founding fathers believed in high principles, in a moral society, and in the virtuous conduct of our affairs. Those beliefs shaped the very character of our nation. If *character counts*—and I have absolutely no doubt that character *does* count—the failings of today's business and financial model, the willingness of those of us in the field of money management to accept practices that we know are wrong, the conformity that keeps us silent, the selfishness that lets greed overwhelm reason, all erode the character we'll require in the years ahead, especially in the post-September 11 era. The motivations of those who seek the rewards earned by engaging in commerce and finance struck the imagination of no less a man than Adam Smith as “something grand and beautiful and noble, well worth the toil and anxiety.” I can't imagine that anyone in this room today would use those words to describe the state of American capitalism today.

A Race Between Education and Catastrophe

Surely we're a long way from statesmen who not only read Plato and Aristotle, but read them in Greek. While we can't go home again to our colonial days, we can get at the task of reforming our financial system, to say nothing of dealing more effectively with drugs, racial inequality, the environment, violence, and the debasement of much of our national culture. But if there is a single issue that may play the most important role in shaping what kind of America we'll have a century hence, it is *education*. While today the issue of education seems all too easy for our society to ignore, its importance is no less than just what H.G. Wells suggested: “*Civilization is a race between education and catastrophe.*”

If that's the case, I'm afraid catastrophe is in the process of giving a pretty good account of itself. Just two weeks ago, when, as I do at the start of each day, I opened the *New York Times*, I came upon an absolutely stunning chart that illustrated the extent to which we are failing to provide a decent education for young American students. While the study was based on the standardized test scores of New York residents, I have no doubt that it is broadly representative of students in most, if not all, major metropolitan areas, certainly including Philadelphia.

The data showed that only 30% of New York eighth-graders were able to pass the standardized math test. Even worse, while 45% of students *outside* of New York City passed the test, only 21% of city students did so. And, even worse, within the city itself, 50% of white students passed, but only 18% of Hispanics and 12% of blacks. (The student accomplishments in English were better, but only marginally so). In fairness, I'm not sure which is worse: The ghastly level of underachievement by the youth of our heavily populated cities, or the horrendous gap between white students and minority students. Clearly, we are about as far as one can possibly imagine from the equal opportunity that should rank among America's highest goals.

A Nation At Risk

That anecdotal evidence makes a general point that seems unarguable. It was well put by the National Commission in Excellence in Education in its 1983 report, *A Nation at Risk*. After a comprehensive study of the quality of teaching and learning in America's schools, the Commission wrote:

“Our once unchallenged preeminence in commerce, industry, science, and technological innovation is being overtaken by competitors throughout the world . . . We must dedicate ourselves to the reform of our educational system for the benefit of all—old and young alike, affluent and poor, majority and minority. Learning is the indispensable investment required for success in the information age we are entering.

“Our concern goes well beyond matters such as industry and commerce. It also includes the intellectual, moral, and spiritual strengths of our people which knit together the very fabric of our society. The people of the United States need to know that individuals in our society who do not possess the levels of skill, literacy, and training essential to this new era will be effectively disenfranchised, not simply from the material rewards that accompany competent performance, but also from the chance to participate fully in our national life. A high level of shared education is essential to a free, democratic society and to the fostering of a common culture, especially in a country that prides itself on pluralism and individual freedom.”

Shockingly, with 23 million American adults functionally illiterate at that time, and 40% of our minority youth in the same category, the Commission’s quotation from analyst Paul Copperman seemed more than justified.

“Each generation of Americans has outstripped its parents in education, in literacy, and in economic attainment. *For the first time in the history of our country, the educational skills of one generation will not surpass, will not equal, will not even approach, those of their parents.*”

We Shrug and Say, “Whatever”

That comment reminded me of something I read many years ago in Simon Schama’s wonderful history, *Citizens*: The level of literacy in present-day America is no higher than that of the citizens of France at the time of the French Revolution in 1789. Two centuries later, that hardly suggests a lot of progress in education skills.

Recently, the Center For Education Reform revisited *A Nation at Risk*. It did not like what it saw: “The state of our children’s education is still far, very far, from what it ought to be . . . Yet despite the risk that this (mediocrity) poses to our future well being, much of the public shrugs and says, [in that horrific formulation that has invaded our language], “whatever.” For example our 12th graders are near the bottom of the international heap. Among 21 nations, U.S. students ranked 19th in math and 16th in science, and our advanced students were dead *last* among their foreign peers in physics. But it’s not just that we are lagging, and lagging badly. As the updated analysis noted:

“We face a widening and unacceptable chasm between good schools and bad, between those youngsters who get an adequate education and those who emerge from school barely able to read and write. Poor and minority children, by and large, go to worse schools, have less expected of them, are taught by less knowledgeable teachers, and have the least power to alter bad situations. Yet it’s poor children who most need great schools. In the midst of our flourishing economy, we are re-creating a dual school system, separate and unequal, almost half a century after it was declared unconstitutional.”

The Philadelphia School System

It is as obvious as it is tragic that the Philadelphia school system is a paradigm for the problems of education that I have discussed today. Here, one-third of our youth drop out before they earn their high school diplomas, and only 13% of our 11th graders are capable of reading a newspaper with comprehension. Drugs are rife, crime is rampant, and, while screening devices in the doorways of our schools surely help ensure security, the very notion that such devices are necessary to detect knives and guns is itself appalling. It seems obvious that our urban system is both underfinanced and

underachieving. Whatever one's opinion on the arrival of control of Philadelphia's schools by the Commonwealth and their management by Edison Schools and other private managers, the time surely has arrived to do our best to fix what is clearly broken.

Of all the elements of our society, it seems to me, business is among the most directly ill-served by America's educational shortcomings. There is work to be done, and we need a well-educated populace from which to draw our work force. More than ever in this Information Age, we need workers who are educated in the applied mechanisms of modern life—workers who can read, who can write clearly, and who can do at least basic arithmetic—but we also need workers who are craftsmen, and who are computer literate. But we also need as many young citizens as possible with at least a passing familiarity with history, philosophy, and literature, the entire panoply of the liberal arts, for such broad-range students have, I believe, the greatest opportunity to become the leaders of tomorrow.

It's beyond my own competence to prescribe the remedies for our schools that will yield the qualified work force that we need to build productivity, to seed innovation, to make America grow. But it's clear that standard testing is now part of the educational process, and it's up to us to make sure it works effectively. It's also clear that experimentation is part of the process. It's our job to encourage private providers, charter schools, and special curricula to compete with today's public and independent schools, the kind of pluralism that has made our nation flourish. And this morning, it's certainly proper for us to salute the approach taken by Philadelphia Academies and its partnership with local businesses in the quest to develop better citizen students through its academy model, and to salute President Natalie Allen for her inspired leadership.

All of that said, if education is to win its long and arduous race against catastrophe, we need to focus too on the raw material we send to our schools. We cannot lay all of the blame for these problems on our school systems. Let's face facts: The traditional American family unit is becoming less and less common, and we have yet to find something of value with which to replace it. That half of all marriages now end in divorce is bad enough. But when nearly three of every ten children in America are being raised solely by mothers, and when nearly two-thirds of the children of our lowest income families are born out of wedlock, our schools are given challenges to learning and discipline and ethics and citizenship—challenges that are hardly of their own making—that are almost insurmountable. In a sense, "we have met the enemy and he is us." We can't blame the educational system for the problem, but without education it will never be solved.

Investing in Education: High Cost, Low Risk, Amazing Returns

Of course, the business community has a major role to play in all of this. Back in 1925, Calvin Coolidge is said to have proclaimed that, "the business of America is business." Whether or not that was true then, what must be obvious today is that, "the business of business is America." There is no better place to begin than investing in our educational system. It is a wise investment, for given the linkage between lack of education, and unemployment, drugs, and crime; and the long-run cost of *not* investing—the cost in lower productivity and in dealing with social unrest—would be a cost infinitely larger.

For those of you here who have supported the Academies, God bless you for your time, for your support, and, yes, for your money, to help insure that young students stay their educational course and become not only better workers—trustworthy, smarter, more productive, more valuable—but better citizens. If there were ever a better case for investing—a more obvious case of enlightened self-interest—it is in investing in education. Yes, the costs may be high. But the risks are low and the rewards will be amazing.

So, ladies and gentlemen, our work is cut out for us, and each and every one of us, in one way or another, must be part of the solution. Of course the challenges are tough, but there is no recourse but for all of us—parents and students; teachers, businessmen and professionals; public servants and philanthropists—to get on with the task of healing the wounds that lie here at home, even as we face the extraordinarily compelling challenges that confront us around the globe. “How on earth will we solve them all?” you ask. In the only way American citizens have *ever* confronted, and then resolved, every one of the challenges that our nation has faced, ever since the winter of 1777-78 in Valley Forge:

Together.

Note: The opinions expressed in this speech do not necessarily represent the views of Vanguard’s present management.
© Copyright 2002 by John C. Bogle