The Joy of Writing—
Books, Ideas, Advocacy, and Idealism

Remarks on
"The Battle for the Soul of Capitalism"
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Only a few weeks ago, following my regular completion of the Sunday crossword puzzle in *The New York Times Magazine*, I worked my way through the acrostic puzzle immediately below it. (The acrostic is a tougher challenge, so I rarely take it on.) I got lucky, completed it, and found in the solution a quotation that provides a nice way to introduce my remarks this evening. [1]

The quotation is from Umberto Eco's *The Name of the Rose*. Here's how it read:

> "A book is a fragile creature. It suffers the wear of time. It fears rodents, the elements, and clumsy hands. So the librarian protects the books against nature and devotes his life to this war with the forces of oblivion."

This quotation seemed particularly appropriate for my own books. For they are not only my way of fighting a war against the forces of oblivion but even more, to change the way that investors think about our financial system. So, I'm deeply honored to be here at the Free Library of Philadelphia to talk about why I love to write, with the focus on my latest book, *The Battle for the Soul of Capitalism.*

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[1] I also learned one new word. The definition of "handy manual, from the Greek." As you all probably already know, it's "enchiridion." Don't forget that word; you'll hear it again later on.
Note: The opinions expressed in this speech do not necessarily represent the views of Vanguard's present management.

When I last spoke here in March 2000, I discussed my second book—*Common Sense on Mutual Funds: New Imperatives for the Intelligent Investor*—which had been published six months earlier. The high hopes that I had for *Common Sense* have been more than realized. To my astonishment, this 475-page-book became a best-seller (about 160,000 copies to date, second only to my *Bogle on Mutual Funds: New Perspectives for the Intelligent Investor,* with some 220,000 copies purchased). What is more, *Common Sense* has proved to have what the booksellers call "legs," steadfastly remaining near the top of the rankings on Amazon.com. When I checked last week, it ranked #3,213 among the four million volumes now listed there . . . not too shabby for a book now seven years old.

In those earlier remarks, I reported that I'd just been invited to write a book for McGraw-Hill Publishing, to be the first in their series "Great Ideas in Finance." It was published in 2001 under the title *John Bogle on Investing: The First 50 Years,* a collection of some of my favorite speeches, with sections on Investment Strategy (including "The Bagel and the Doughnut"), the Mutual Fund Industry ("The Silence of the Funds"), Economics and Idealism ("On the Right Side of History"), and Personal Perspectives ("The Hedgehog and the Fox," "The Things by Which One Measures One's Life")—I love to provide offbeat titles! The book also included my Princeton senior thesis on the mutual fund industry, completed way back in 1951. If one has the patience to wait 50 years, perhaps anything can find its way into the library.

The First 50 Years was followed in 2002 by *Character Counts*, my fourth book, a collection of the speeches I had given to our Vanguard crew over the first three decades of our firm's history, with some explanatory text added. My idea was to set down the truth about events as they actually happened, not only so that our history wouldn't be rewritten by others, but so it wouldn't be rewritten by me. I presented these speeches, warts and all, without editing, so they compose a sort of oral history, without the benefit of hindsight.

The Battle for the Soul of Capitalism

That brings me to my fifth book, *The Battle for the Soul of Capitalism*. As 2004 began, I had absolutely no plans—none, nada—for writing another book. But only until I received a letter from Michael O'Malley, senior editor of business and economics for the Yale University Press, who wrote: "I think that your next book will be your best. As your ideas begin to take shape, I was wondering if we might discuss Yale as the publisher of your work."

Well, I was hooked immediately. Not only because I was egotistical enough to be impressed with the idea of a university press imprint, and from a top university publisher at that. But even more, after four books focused largely on mutual fund investing and personal idealism (sort of strange bedfellows, when you think about it . . . which I didn't, and I don't), I wanted to "spread my wings" and plunge into some of the deep societal forces that, I feared, were undermining the foundations of our great nation.

An amusing sidelight. There are very few people in the world of commerce and finance who write books. (And many of those whose books are published didn't even write them. Business is a ghost writer's paradise!) Michael Lewis, of course, is a real standout. And right next to him I'd put Peter Bernstein (*Against the Gods*, *The Power of Gold*) and James Grant (*Money of the Mind*), both enormously gifted writers and friends of mine. Soon after I signed up with Yale, both had produced new books that were to make my "wing spreading" seem sort of, well, pathetic. Bernstein wrote *The Wedding of the Waters,* a history of the Erie Canal, and Grant wrote *Party of One*, a biography of John Adams. Talk about bringing my inflated ego down to earth!

When I received the Yale letter, I had already been speaking out on the shortcomings of our business leaders, our financial community, and our mutual fund industry. These three interlinked subjects would become the three main sections of my book: corporate America, investment America, and mutual fund America. Each subject was in turn organized into three sections—what went wrong, why it went wrong, and how to fix it.

Organizing the new book was the easy part. But I also wanted to provide three special perspectives. The first, of course, was borne of my own first-hand experience as a participant in and close observer of business and finance for more than a half century; second, to draw on the wisdom of the best and brightest investment thinkers of our age; and third, to emphasize the lessons we might learn from history, and the reinforcement we might find in the traditional values of American society.

Idealism Writ Large

The Battle is one idealistic book! Just consider its first words, with the dedication to my twelve grandchildren and the other fine young citizens of their generation:

> "My generation has left America with much to be set right; you have the opportunity of a lifetime to fix what has been broken. Hold high your idealism and your values. Remember always that even one person can make a difference. And do your part 'to begin the world anew.'"

One turn of the page takes you to five epigraphs (count 'em, five!), the first of which comes from St. Paul: "if the sound of the trumpet shall be uncertain, who shall prepare himself to the battle?" And in my acknowledgments, I get right to the point in the very first paragraph: "Capitalism has been moving in the wrong direction."

The introduction that follows doesn't let up. I start off with a remarkably light revision of the classic first paragraph of Gibbon's *The Decline and Fall of the Roman Empire,* adapted to the present era. Compare the two first sentences. Gibbon: "In the second century of the Christian Era, the Empire of Rome comprehended the fairest part of the earth and the most civilized portion of mankind." *Battle*: "As the twentieth century of the Christian era ended, the United States of America comprehended the most powerful position on earth and the wealthiest portion of mankind."

So when I add Gibbon's conclusion—"(Yet) the Roman Empire would decline and fall, a revolution which will be ever remembered and is still felt by the nations of the earth"—few thoughtful readers will miss the point. But of course I hammer it home anyway: "Gibbon's history reminds us that no nation can take its greatness for granted. There are no exceptions." As one of two reviews of *The Battle for the Soul of Capitalism*—both very generous—that appeared in *The New York Times* noted, "Subtle Mr. Bogle is not."

No, I'm not writing off America. But my certain trumpet is warning that we must put our house in order. "The example of the fall of the Roman Empire ought to be a strong wake-up call to all of those who share my respect and admiration for the vital role that capitalism has played in America's call to greatness. Thanks to our marvelous economic system, based on private ownership of productive facilities, on prices set in free markets, and on personal freedom, we are the most prosperous society in history, the most powerful nation on the face of the globe, and, most important of all, the highest exemplar of the values that, sooner or later, are shared by the human beings of all nations: the inalienable rights to life, liberty, and the pursuit of happiness."

Something Went Wrong

But something went wrong. "By the later years of the twentieth century, our business values had eroded to a remarkable extent"—the greed, egoism, materialism and waste that seems almost endemic in today's version of capitalism; the huge and growing disparity between the "haves" and the "have-nots" of our nation; poverty and lack of education; our misuse of the world's natural resources; the corruption of our political system by corporate money—all are manifestations of a system gone awry.

And here's where the soul of capitalism comes in. The book reads, "The human soul, as Thomas Aquinas defined it, is the 'form of the body, the vital power animating, pervading, and shaping an individual from the moment of conception, drawing all the energies of life into a unity.' In our temporal world, the soul of capitalism is the vital power that has animated, pervaded, and shaped our economic system, drawing all of its energies into a unity. In this sense, it is no overstatement to describe the effort we must make to return the system to its proud roots with these words: *the battle to restore the soul of capitalism.* (One reviewer thought that the title was, well, "inflated," but liked the book anyway.)

This idealism doesn't let up. The reader doesn't even finish the first page of Chapter I (What Went Wrong in Corporate America?) before reading: "At the root of the problem, in the broadest sense, was a societal change aptly described by these words from the teacher Joseph Campbell: 'In medieval times, as you approached the city, your eye was taken by the Cathedral. Today, it's the towers of commerce. It's business, business, business.' We had become what Campbell called a 'bottom-line society.' But our society came to measure the *wrong* bottom line: form over substance, prestige over virtue, money over achievement, charisma over character, the ephemeral over the enduring, even mammon over God."

What went wrong this time, as *International Herald Tribune* columnist William Pfaff described it, was "a pathological mutation in capitalism." The classic system—*owners'* capitalism—had been based on serving the interests of the corporation's owners, maximizing the return on the capital they had invested and the risk they had assumed. But a new system had developed—*managers'* capitalism—in which, Pfaff wrote, "the corporation came to be run to profit its managers, in complicity if not conspiracy with accountants and the managers of other corporations." Why did it happen? "Because the markets had so diffused corporate ownership *that no responsible owner exists*. This is morally unacceptable, but also a corruption of capitalism itself."

There were two major reasons for this baneful change: First, the "ownership society"—in which the shares of our corporations were held almost entirely by direct stockholders—gradually lost its heft and its effectiveness. It is now gone, and it is not going to return. Since 1950, direct ownership of U.S. stocks by individual investors has plummeted from 92 percent to 32 percent, while indirect ownership by institutional investors has soared from 8 percent to 68 percent. Instead of the old ownership society, a new "agency society" has developed, in which financial intermediaries now control American business.

Agents vs. Principals

But these new *agents* haven't behaved as owners should. Our corporations, pension managers, and mutual fund managers have too often put their own financial interests ahead of the interests of their *principals*, those 100 million families who are the owners of our mutual funds and the beneficiaries of our pension plans. As Adam Smith wisely put it 200-plus years ago, "managers of other people's money (rarely) watch over it with the same anxious vigilance with which . . . they watch over their own . . . they very easily give themselves a dispensation. Negligence and profusion must always prevail." And so they have, in present day America.

The second reason is that our new investor/agents not only seemed to ignore the interests of their *principals*, but also seemed to forget their own investment *principles.* In the latter part of the twentieth century, the predominant focus of institutional investment strategy turned from the wisdom of long-term investing to the folly of short-term speculation. During the recent era, we entered the age of expectations investing, where growth in corporate earnings—especially earnings guidance and its subsequent achievement—became the watchword of investors, never mind that the reported earnings were too often a product of financial engineering that seemed in the interest of both corporate managers and Wall Street security analysts.

When long-term owners of stocks become short-term renters of stocks, and when the momentary precision of the price of the stock takes precedence over the eternal vagueness of the intrinsic value of the corporation, concern about corporate governance is the first casualty. The single most important job of the corporate director is to assure that management is creating value for shareholders; yet investors seemed not to care. If the owners of corporate America don't give a damn about corporate governance, I ask you, who on earth should?

And so in corporate America we have the staggering increases in executive compensation, unjustified by corporate performance and grotesquely disproportionate to the pathetically small increase in real (inflation-adjusted) compensation of the average worker; financial engineering that dishonors the idea of financial statement integrity, and the failure of the traditional gatekeepers we rely on to oversee corporate management—our auditors, our regulators, our legislators, our directors.

In investment America, control has devolved to a new class of institutional owners. The 25 largest institutional investors alone hold nearly 40 percent of all stocks, yet all we hear from these agent-owners on corporate malfeasance is the sound of silence. Not only are they more likely to be short-term speculators than long-term investors, but because they are managing the pension and thrift plans of the corporations whose stocks they hold, they are faced with a serious conflict of interest where controversial proxy issues are concerned. As one manager has said: "There are only two types of clients we don't want to offend: actual and potential."

And in mutual fund America, an industry lost its way. Once a profession with elements of a business, mutual funds became a business with elements of a profession—and too few elements at that. Once dominated by small, privately-held organizations run by investment professionals, the mutual fund industry is now dominated by giant, publicly-held financial conglomerates run by businessmen hell-bent on earning a return on the *firm's* capital, not the return on the capital invested by the fund shareholders. Result: over the past twenty years, the typical fund investor has captured only about 20 percent of the compound return on stocks there for the taking by holding a simple S&P 500 index fund. (I'm speaking, of course, about the Vanguard 500 Index Fund.)

Facing Up to the Reality

It must seem obvious that there is an urgent need to face up to these and other failures in the changing world of capitalism. But despite the contentious nature of the issues I've just described—broadly reflecting the triumph of the powerful economic interests of the oligarchs of American business and finance over the interests of our nation's last line investors—it is remarkable that so little public discourse has been in evidence. In the investment community, I have seen no defense of the inadequate returns delivered by mutual funds to investors, nor of the industry's truly bizarre, counterproductive ownership structure; no attempt by institutions to explain why the rights of ownership that one would think are implicit in holding shares of stock remain largely unexercised; no serious criticism of the virtually unrecognized turn away from the once-conventional and pervasive investment strategies that relied on the wisdom of long-term investing, toward strategies that increasingly rely on the folly of short-term speculation; and, until recent months, almost no discussion of the huge deficits that we are facing in our public and private systems of retirement plan funding. If my book helps to open the door to the introspection by our corporate and financial leaders that is so long overdue, and then corrective action, perhaps the needed changes will be hastened.

This process, I conclude, must begin with a return to the original values of capitalism, to that virtuous circle of integrity—"trusting and being trusted". When ethical values go out the window and service to those whom we are duty-bound to serve is superseded by service to self, the whole idea of the capitalism that has been a moving force in the creation of our society's abundance is soured. In the era that lies ahead, the trusted businessman, the prudent fiduciary, and the honest steward must again be the paradigms of our great American enterprises. I *know* it won't be easy, but if we all work long enough and hard enough at the task, we can build, out of our long-gone ownership society and our failed agency society, a new "fiduciary society," one in which the citizen-investors of America will at last receive the fair shake they have always deserved from our corporations, our investment system, and our mutual fund industry.

Support from the Present and the Past

That's the substance of *The Battle,* so now for a little background. As I mentioned at the outset of my remarks this evening, many of the ideas in my book are consistent with the ideas of some of our best and brightest economic thinkers. My central criticism about investment management, for example, is that a huge portion of the $400 billion that our financial system consumes *each year* is a dead-weight drag on the returns earned by investors as a group. After all, when we deduct from the gross returns produced in the stock market, the costs that we pay to our investment intermediaries, we investors actually receive only what remains. We investors dine, in fact, at the bottom of the financial food chain. It's pretty simple, and it's incontrovertible.

To make this point, I rely on the words of Justice Louis D. Brandeis for the knockout punch, the wonderful phrase he gave us in his 1914 book *Other People's Money*—"the relentless rules of humble arithmetic." In *The Battle,* you'll also find economists John Maynard Keynes, Paul Samuelson, and Alan Greenspan, and illustrious money manager Warren Buffett, along with the lesser-known but equally successful David Swensen and Jack Meyer, who have carried the Yale and Harvard endowment funds to such incredible heights. They share my concerns, and in pretty pungent language at that. Swensen describes the mutual fund industry as "a massive market failure," and Meyer describes the investment business as "a giant scam."

But I don't stop with today's finest investors. One of my greatest joys in writing *The Battle* was incorporating some American history into my narrative. There you'll find our Declaration of Independence and our Constitution, along with Jefferson, Madison, Washington, Theodore Roosevelt, and Woodrow Wilson, all of whom represent the epitome of integrity-laden political leadership. By including them, I hope to inspire a return to the noble values of our past. The book closes with a wonderful quote from my favorite among our Founding Fathers, Alexander Hamilton: "Is it not time to awaken from the deceitful dream of a golden age, and to adopt as a practical maxim for the direction of our conduct that we are yet remote from the happy empire of perfect wisdom and perfect virtue?" Yes, it *is* time to awaken, and "to build the world anew."

The Joy of Writing

Let me conclude with some reflections on the joy of writing. There are many delights in writing . . . if not for the world, surely for oneself. Even if your mind is light years from the genius category and sort of chaotic and unfocused, as mine is, active but undisciplined, and with the slightest interruption giving one a severe case of ADD (Attention Deficit Disorder), writing can bring order out of the chaos. After all, expository writing is about telling a story; about sending a message and persuading others to accept it; and even about presenting facts and figures and logic to elevate the level of discourse.

For me, the hardest job in writing is to begin. So I get out the lined yellow legal pad, and put pen to paper. If I can do it, you can do it too. Organize your thoughts, chapter by chapter. In each chapter, try and have an interesting beginning, perhaps a familiar quotation, or a quotation not so familiar but perfect for the theme. Then make sure that sentence A leads to sentence B, that paragraph 1 leads to paragraph 2, and so on. Follow that process chapter after chapter, and when you've gotten your message across, well, write a conclusion. Follow the old saw and "tell them what you told them." I happen to favor idealistic, even spiritually uplifting conclusions, which is why I shamelessly call on the great figures of history—especially American history—to pull it all together, just as I did in *The Battle.*

Of course, when your book is published, there's no thrill quite like holding that first copy in your hand. *It's a book, and I wrote it!* Then, if you're lucky, come the reviews. I've been lucky. But one must have a thick skin, for there are both good and bad reviews. The bad stings for a moment; I'll confess that. But only for a moment. Mostly it's more like rain bouncing off a duck's back, but it can be tough. Here's a review from *The New York Times* of *Character Counts: The Creating and Building of the Vanguard Group.* "There is a compelling history to be written about the founding and evolution of the Vanguard Group: Unfortunately, Mr. Bogle's latest book isn't it…. (the book) feels like the leftovers from the files of one of investing's great innovators."

While the 28 reader reviews of *Bogle on Mutual Funds* were also almost uniformly five-star on Amazon.com, the sole poor rating (three-stars) described it as having "useful ideas but poor conclusions. Like most MBAs, (Bogle) does not know how to use mathematics or empirical conclusions." (For the record, I don't even have an MBA.) *Barron's* was also tough: "I liked this book the best, but reluctantly. Reluctantly because everyone from Warren Buffett to *Money* magazine loves it and it's more fun to deflate the self-righteous than to encourage them."

And while the lion's share of the 61 reader reviews on Amazon.com about *Common Sense on Mutual Funds* were also five-star, that didn't keep one reader from writing "excellent but boring;" another, "Bogle is dead wrong;" and yet another, "save some cash and skip this book."

The critics for *The New York Times* and *The Wall Street Journal* were quite generous to *The Battle for the Soul of Capitalism,* albeit often kinder to the author than to the message. On Amazon, the sole poor review described it as "pop capitalism for bone-headed businessmen (or women) worried about nonsense . . . i.e., it is not about capitalism at all." Take that, you dumb author! But overall, the book's critical reception was terrific—lots of reviews, all largely positive.

The Good Overwhelms the Bad

I acknowledge these pans to justify mentioning some of the pats. And the good—wow!—has vastly outweighed the bad. How about this note from Pulitzer-Prize-winning author John McPhee (who's penned a mere 30 books himself!)? "Your words in *Bogle on Mutual Funds* are spoken like every ink-stained wretch who is not self-deluded. It is easier to shinny up a mile-high pole than to complete a piece of writing, or so it seems. You got there, though."

And consider for a moment how you would feel if you got a note like this one just a week ago from a young college professor. (He happens to be a Princeton alumnus, class of 1991.) "In my Artistic Entrepreneurship and Technology Class at Pepperdine University your classic book *The Battle for the Soul of Capitalism* is required reading along with Homer's *The Odyssey* . . . Both are great books about long-term investing—about forgoing short-term temptations . . . When Odysseus gets on home, he has to reclaim it from all the imposters who have been living off his estate while he was off fighting for his country. So it's a story about property rights, about the risk takers getting their just reward, about valuing the higher ideals over the bottom line, about faith and family, and serving one's customers and employees." ("Clients" and "crew" in my Vanguard lexicon. Who says we can't always find better words to convey our true meaning?)

"(My) students" the professor adds, "are just beginning a great journey, and eternity's principles will serve them well in all their intellectual and entrepreneurial endeavors . . . we must call on the muse to help us find the right words to inspire (and) I'm grateful that Homer and Bogle did such a great job, as they'll be great companions on this voyage on out, during this Fellowship of Humble Heroes, where the students are invited to journey alongside those two everlasting leaders who exalted all in their humility before higher ideals." Maybe that's a bit over the top, but it's surely nice!

My all-time favorite review is this one, from a reader of *The First 50 Years*: "Given the din and cacophony of the financial press, it is not ludicrous to liken old Bogle to Moses bringing the law down off Sinai amidst thunder, lightning, and a thick cloud . . . I'm sure Bogle is a hard man to work for. People like that always are. I know, we have one in our family and the fact that he's been dead for 53 years hasn't lessened his influence much . . . But people like this strike a chord in the public because they are starved for something good and pure and true." And, yes, it remains my career-long goal to give it to them.

These positive comments give me something that every writer *must* need—the strength to carry on. My near-50-year career as an active businessman, CEO, entrepreneur, and innovator now seems a long time ago. In recent years, I've had the great joy of the quest to become, inch by inch, step by step, what passes for a writer. As my *real* writer friend Peter Bernstein jokes of his inability to stop writing, "it's a disease." And so it is for me.

Need proof? I've just completed the manuscript for my sixth book. *The Little Book of Common Sense Investing* will be published by John Wiley & Sons in February 2007. It will drive home the powerful message of its subtitle, *The Only Way to Guarantee Your Fair Share of Stock Market Returns.* Harking back to the quotation that I cited at the outset: the new book will be, well, an *enchiridion,* a handy manual for index investing. Like my other books, it's designed to be protected by our librarians and by our libraries—including this one—for generations, protected always against rodents, the elements, and clumsy hands, and against nature, and fighting a war against the forces of oblivion.