Response to Bogle Remarks at Aspen Institute Breakfast

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It is the fancy to think of Jack Bogle as (and to call Jack Bogle) a "maverick." Sure, he seems a maverick! Here, in this age of terror and physical insecurity, he dares write that one of the "major threats" to our culture is "the remarkable erosion that has taken place over the past two decades in the conduct and values of our business leaders, our investment bankers, and our money managers."

But if I might be forgiven the mixing of a zoological metaphor, there's something fishy about John's designation as a maverick. Vanguard, the company he founded, is enormous: More than $950 billion under management. It's also very popular. The pioneer of low-cost index funds, Vanguard is one of the three largest mutual funds companies in America. Big and popular? That's how we describe football captains. Mavericks are scrawny and live in the basement.

Rather, Jack Bogle—and I hope he'll forgive me for speaking of him so impersonally and historically, in his presence no less!—is a different kind of American creature. He is an institutionalist—if you will, a "small-c" conservative. Like Teddy Roosevelt, Bogle is driven by the desire to conserve the elements of the American dream that might, to a cynic, seem fanciful. But these are the values which still draw to our shores some three-quarters-of-a-million legal immigrants each year. As he enumerates them in *The Battle for the Soul of Capitalism*, these values are: "prodigious energy, marvelous entrepreneurship, brilliant technology, creativity beyond imagination, and . . . the idealism to make our nation and our world a better place."

And like Teddy Roosevelt, in pursuit of these ideals, Jack Bogle's conservatism is at least a little bit radical. For to conserve, he would regulate. Last month, for example, he was among a group of financial notables who wrote to SEC Chairman Christopher Cox urging him not to exempt even small companies from Sarbanes-Oxley's annual internal controls review.

To conserve, Jack Bogle would democratize. Not for him Plato's top-down philosopher-kingmanship. He's more of the Huey Long "every man a king" school. Hence, his reverence for shareholder democracy, "open-book management," and other devices that would empower the little guy and little gal.

To conserve, John Bogle would disempower the manager in favor of the owner, overturning large portions of the managerial revolution that powered America's mid-century growth. "Owners of the word, unite!" Jack declares. Why, in his attacks on the paper entrepreneurs of our modern era, this lifelong Republican sounds astonishingly like another Wall Street Savonarola and Aspen Institute favorite, Robert Reich.

Yes, there is something radical about Bogle's conservatism But I'd like to suggest that his radicalism is sufficiently conservative, too. He is part of a stolid group of financial leaders who are clamoring for like reforms. His argument has an honorable history in the U.S., stretching to Theodore Roosevelt and Woodrow Wilson, through Berle and Means and the second Roosevelt, to the present day, with Republicans like Pete Peterson and Democrats like Eliot Spitzer and Arthur Levitt on board.

But I would like to throw a puckish challenge into the mix: To me, it seems that *Bogle's* capitalism denies a subterranean component of *American* capitalism that has been as essential to our growth as the zeal of an Edison, the relentlessness of a Ford, and the salesmanship of a Watson.

What is that hidden component? It is the con. The grift. The deal. The get-rich-quick scheme—and the appeal it holds.

Mind you, I am not speaking of law-breaking. Rather, I'm referring to that gray, cloudy boundary that lies between the legitimate tip and the illicit tout, between entrepreneurship and illegality, between the start-up and the exit strategy. Between the board room—and the boiler room.

For the fact is, while there are parts of capitalism that have always adhered to Graham and Dodd, there is something ineluctable about the allure of money made from money. And while it drives over the edge many men—and to pay Martha Stewart her due, many women, too—a plausible argument can be made that "the deal" is as essential to American progress as value-investing and the long-term hold.

Recall the day when American car companies owned the world's garages, curbs, and roads. How did the eventual victors rise to the top? By climbing over the 485 automotive companies that historian James J. Flink tells us were started between 1900 and 1908 in the U.S.

They enticed tens of thousands of investors to part with millions of dollars for cockamamie steam engines, reworked bicycle factories, and other lunatic enterprises. Yet let us not forget that Alfred Sloan's managerial revolution at General Motors wouldn't have been necessary had not a borderline crook named Billy Durant not brought the company—and the Dupont family's investment—to the brink of insolvency. Yet wasn't Durant's bent capitalism as necessary for the automotive revolution as Sloan's managerial capitalism?

Consider the current era. Our modern equivalent of the roadway is the fiber-optic cable that stretches across ocean floors, into office buildings, to curbs and into homes. It will reshape our lives as assuredly as highways reshaped our parents' lives. But could it ever have been laid down as rapidly as it was under a strategy of long-term buy-and-hold investing? I doubt it: The outsized greed of investors and the desire among a class of so-called entrepreneurs to find a greater fool and cash out quickly was as integral to the Internet revolution as Vint Cerf's development of TCP/IP.

Yes, in a Houston courtroom Jeff Skilling and Ken Lay are on trail for fraud for, among other things, lying about a broadband marketplace that did not really exist. But neither did the rosy future that AOL founder Steve Case predicted for Time Warner's Gerry Levin, or that Broadcast.com founder Mark Cuban sold to Yahoo!

This is not at all to deny the essential point of Jack Bogle's fabulous book: that "capitalism requires a structure and a value system that people believe in and can rely on." I merely mean to suggest that greed, and the speculation that feeds it, are part of that value system.

Jack Bogle doesn't give greed enough credit, I think. But implicitly, I believe, he sees a distinction between productive greed and unproductive greed. For in his rendering, the true enemies in *The Battle for the Soul of Capitalism* are the unproductive intermediaries that suck money from both the good schemes and the bad schemes into the great paper swamp of inefficiency. As Jack notes, during 1997-2002, the total revenues paid by investors to investment banking and brokerage firms exceeded $1 trillion, and payments to mutual funds exceeded $275 billion. Think how much fibre that we could lay!

Jack also runs a hot iron over the newest wrinkle in the fabric of our economy: hedge funds. He is disdainful of the "public adulation" being showered over these managers of $1 trillion in assets. "PR" not withstanding, he notes that the aggregate return on hedge funds between 1996 and 2003 was a mere 9.3 percent. He does not foresee a Long-Term-Capital-Management-style flameout, but rather a gradual diminution in hedge fund influence, as their high costs, tax inefficiencies and modest returns show they are but the latest tulip in the garden of finance.

Jack is quite right when he attributes capitalism's travails not to malfeasance but to ignorance. He doesn't believe necessarily that the Enrons and Worldcoms mask deeper illegalities. "Actual looting," he writes, "has been limited. Negligence . . . has been rife." He spares few from this cutting ax: "Corporate directors . . . failed to fulfill their responsibilities," he says. Accounting gatekeepers were silent partners."

The response? Throughout his book, Bogle returns to the same theme: activism. He approvingly quotes the title of a Bob Monks' paper, *Capitalism Without Owners Will Fail*. "Retirement funds and mutual funds," he says, "must behave like owners . . . We ought to explode a whole barrage of firecrackers under each corporation that places managers' interest ahead of the owners' interest."

That's the core message in *The Battle for the Soul of Capitalism*: Not that there are too many bad guys doing bad things, but there aren't enough of the rest of us doing the right thing. It's that radically conservative message I mentioned up top—and we ignore it at our peril. As Bogle notes, so many companies own pieces of so many others through defined benefit pension plans and defined contribution thrift plants, that we live in a virtual "American keiretsu," where few are willing to rock the boat. So we must rock it ourselves.

"The mission," writes Bogle, is "to return capitalism to its proud roots," which "begins with having the owners of our corporations stand up and be counted."

Jack, stand up again so we can applaud you for taking on your colleagues on our behalf.