

“Enough”

Commencement Address

MBA Graduates of the McDonough School of Business

by

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Here’s how I recall the wonderful story that sets the theme for my remarks today: At a party given by a billionaire on Shelter Island, the late Kurt Vonnegut informs his pal, the author Joseph Heller, that their host, a hedge fund manager, had made more money in a single day than Heller had earned from his wildly popular novel *Catch 22* over its whole history. Heller responds, “Yes, but I have something he will never have . . . *Enough.*”

Enough. I was stunned by its simple eloquence, to say nothing of its relevance to some of the vital issues arising in American society today. Many of them revolve around money—yes, *money*—increasingly, in our “bottom line” society, the Great God of prestige, the Great Measure of the Man (and Woman). So this morning I have the temerity to ask you soon-to-be-minted MBA graduates, most of whom will enter the world of commerce, to consider with me the role of “enough” in business and entrepreneurship in our society, “enough” in the dominant role of the financial system in our economy, and “enough” in the values you will bring to the fields you choose for your careers.

Kurt Vonnegut loved to speak to college students. He believed, if I may paraphrase here, that “we should catch young people before they become CEOs, investment bankers, consultants, and money managers (and especially hedge fund managers), and do our best to poison their minds with humanity.” And in my remarks this morning, I’ll try to poison your minds with a little bit of that humanity.

Note: The opinions expressed in these remarks do not necessarily represent the views of Vanguard’s present management.

Over the past two centuries, our nation has moved from being an agricultural economy, to a manufacturing economy, to a service economy, and now to a predominantly financial economy. But our financial economy, by definition, subtracts from the value created by our productive businesses. Think about it: while the owners of business enjoy the dividend yields and earnings growth that our capitalistic system creates, those who play in the financial markets capture those investment gains only *after* the costs of financial intermediation are deducted. Thus, while investing in American business is a *winner's game*, beating the stock market before those costs is a *zero-sum* game. But after intermediation costs are deducted, beating the market—for all of us as a group—becomes a *loser's game*.

Yes, the more that our financial system *takes*, the less our investors *make*. Yet the financial field is where the money is made in modern-day America, the breeding ground for the wealthiest of our citizens. (If you made less than \$140 million dollars last year, you didn't make *enough* to rank among the 25 highest-paid hedge fund managers.) When we add up all those hedge fund fees, all those mutual fund management fees and operating expenses; all those commissions to brokerage firms and fees to financial advisors; investment banking and legal fees for all those mergers and IPOs; and the enormous marketing and advertising expenses entailed in the distribution of financial products, we're talking about some \$500 billion dollars *per year*. That sum, extracted from whatever returns the stock and bond markets are generous enough to deliver to investors, is surely *enough*, if you will, to seriously undermine the odds in favor of success for our citizens who are accumulating savings for retirement.

Yet the fact is that the finance sector has become by far our nation's largest generator of corporate profits, larger even than the *combined* profits of our huge energy and health care sectors, and almost three *times* as much as either manufacturing or information technology.¹ Twenty-five years ago, financials accounted for only about 6 percent of the earnings of the 500 giant corporations that compose the Standard & Poor's 500 Stock Index. Ten years ago, the financial sector share had risen to 20 percent. And last year, the financial sector profits had soared to an all-time high of 27 percent. If we add the earnings of the financial affiliates of our giant manufacturers (think General Electric Capital, for example, or the auto financing arms of

¹ For the record, the 2006 operating earnings of the S&P 500 totaled \$787 billion. The earnings of the major sectors (in billions) were: Financials \$215; Energy \$121; Health Care \$79; Manufacturing and Technology each \$81.

General Motors and Ford) to this total, financial earnings now likely exceed 33 percent of the earnings of the S&P 500. While that share may or may not be *enough*, it seems likely to continue to grow, at least for a while.

We're moving, or so it seems, to a world where we're no longer *making* anything in this country; we're merely *trading* pieces of paper, swapping stocks and bonds back and forth with one another, and paying our financial croupiers a veritable fortune. We're also adding even more costs by creating ever more complex financial derivatives in which huge and unfathomable risks are being built into our financial system. "When enterprise becomes a mere bubble on a whirlpool of speculation," as the great British economist John Maynard Keynes warned us 70 years ago, the consequences may be dire. "When the capital development of a country becomes a by-product of the activities of a casino, the job of capitalism is likely to be ill-done."

Once a profession in which business was subservient, the field of money management and Wall Street has become a business in which the profession is subservient. Harvard Business School Professor Rakesh Khurana was right when he defined the conduct of a true professional with these words: "*I will create value for society, rather than extract it.*" And yet money management, by definition, extracts value from the returns earned by our business enterprises. Warren Buffett's wise partner Charlie Munger lays it on the line:

"Most money-making activity contains profoundly antisocial effects . . . As high-cost modalities become ever more popular . . . the activity exacerbates the current harmful trend in which ever more of the nation's ethical young brain-power is attracted into lucrative money-management and its attendant modern frictions, as distinguished from work providing much more value to others."

But I'm not telling you *not* to go into the highly-profitable field of managing money. Rather, I present three caveats:

* One, if you do enter this field, do so with your eyes wide open, recognizing that any endeavor that extracts value from its clients may, in times more troubled than these, find that it has been hoist by its own petard. It is said on Wall Street, correctly, that "money has no conscience," but don't allow that truism to let you ignore your own conscience, nor to alter your own conduct and character.

* Two, when you begin to invest so that you will have enough for your own retirement many decades hence, do so in a way that minimizes the extraction by the financial community of the returns generated by business. This is, yes, a sort of self-serving² recommendation to invest in low-cost all-U.S.—and global—stock market index funds, the only way to guarantee your fair share of whatever returns our financial markets are generous enough to provide.

* Three, no matter what career you choose, do your best to hold high its traditional professional values, now swiftly eroding, in which serving the client is *always* the highest priority. And don't ignore the greater good of your community, your nation, and your world. After William Penn, "we pass through this world but once, so do now any good you can do, and show now any kindness you can show, for we shall not pass this way again."

Most commencement speakers like to sum up by citing some eminent philosopher to endorse his message. I'm no exception. So I now offer to you new Masters of Business Administration these words from Socrates, spoken 2500 years ago, as he challenged the citizens of Athens.

"I honor and love you: but why do you who are citizens of this great and mighty nation care so much about laying up the greatest amount of money and honor and reputation, and so little about wisdom and truth and the greatest improvement of the soul. Are you not ashamed of this? . . . I do nothing but go about persuading you all, not to take thought for your persons and your properties, but first and chiefly to care about the greatest improvement of the soul. I tell you that virtue is not given by money, but that from virtue comes money and every other good of man."

I close by returning to Kurt Vonnegut's story, which, when I finally tracked it down, turned out to be a poem. It's delightful; even better, it's only 92 words long:

True story, Word of Honor:
Joseph Heller, an important and funny writer
now dead,
and I were at a party given by a billionaire
on Shelter Island.
I said, "Joe, how does it make you feel

² Self-serving because I created, in 1975, the world's first index mutual fund.

to know that our host only yesterday
may have made more money
than your novel 'Catch-22'
has earned in its entire history?"
And Joe said, "I've got something he can never have."
And I said, "What on earth could that be, Joe?"
And Joe said, "The knowledge that I've got enough."
Not bad! Rest in Peace!

But it's not time for any of *you* to rest in peace, or to rest in any other way. Bright futures lie before you. There's the world's work to be done, and there are never enough citizens with determined hearts, courageous character, intelligent minds, and idealistic souls to do it. Yes, our world already has quite enough guns, political platitudes, arrogance, disingenuousness, self-interest, snobbishness, superficiality, war, and the certainty that God is on one side or the other. But it *never* has enough conscience, nor enough tolerance, idealism, justice, compassion, wisdom, humility, self-sacrifice for the greater good, integrity, courtesy, poetry, laughter, and generosity of substance and spirit. It is these elements that I urge you to carry into your careers, and remember that the great game of life is not about money; it is about doing your best to build the world anew.

And that's *enough* . . . at least for today.