OPINION

LETTERS TO THE EDITOR

The Moral Hazards of Managing Other People's Money

John C. Bogle in "A Crisis of Ethic Proportions" (op-ed, April 21) proposes that we try harder to be more moral, and in that misses the point of Adam Smith. Mr. Bogle cites Adam Smith's statement, "[M]anagers of other people's money [rarely] watch over it with the same anxious vigilance with which . . . [they] watch over their own" which is an indictment of human nature. Smith's position is that man's essential nature is a given, not something which can be altered. It is from this base that the invisible hand is derived. Setting up structures which rely on what man ought to be, compared to what he is, is like building a house on sand.

ADAM FREUND
Oak Park, Mich.

Mr. Bogle advocates holding our financial leaders to a fiduciary standard. This makes good sense and can be done free without another federal bailout.

CALVIN BELLAMY
Munster, Ind.

Mr. Bogle cites Adam Smith's prescient words about the frailty and the faults of managers who manage other people's money. But this tension between the owners and the overseers of commercial activities goes back much further. Consider these words from John 10:11-13 ". . . the good shepherd giveth his life for the sheep. But he that is an hireling, and not the shepherd, whose own the sheep are not, seeth the wolf coming, and leaveth the sheep, and fleeth: and the wolf catcheth them, and scattereth the sheep. The hireling fleeth, because he is an hireling, and careth not for the sheep."

PAUL O. GADDIS
Franklin, Tenn.

The "agency" problem in the public equity market which Mr. Bogle laments is a direct result of the growth of index funds, a product which his former firm (Vanguard) popularized. Index-fund managers not only *do not care* if there are governance issues within the firms in which they invest, they are *required* to hold every firm in the index. In this way, indexers aid and abet the very agency problem Mr. Bogle rails against.

CHARLIE SMITH
Pittsburgh

John Bogle's contribution to the crisis literature sits oddly with his reputation. A father of indexing, he is happy to let the market make our investment allocation decisions. Yet he doesn't like the decisions of the people who make up the market—the money managers who hold 75% of all public shares and "fostered the crisis with superficial security analysis." Ironically, people who index are in effect endorsing the valuations determined by the people who don't index—those dreadful money managers.

To address "unchecked market forces" Mr. Bogle wants federal statutes to force money managers to put owners' interests first. We already have many statutes such as the Employee Retirement Income Security Act and other laws that require that. Are we to assume that under some new law, managers would never have bought mortgage originators, banks, or insurance companies? Could we really have averted the crisis with nothing more than sound stock selection?

While money managers and analysts made mistakes, so did the people who could really make a difference: bankers, regulators, government-sponsored enterprises, and politicians. Thousands of bankers are now suffering personally for decisions they might or might not have had a hand in, as are many money managers. The real agency problem is with those who suffer no repercussions for their poor oversight—regulators and politicians.

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Winnetka, Ill.

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Index Holders Can Be Active Owners

Two of the April 28 letters regarding my April 21 op-ed ("A Crisis of Ethic Proportions") reflect a serious misunderstanding about the role of index funds in reforming corporate governance. By their very nature, index funds cannot operate under "The Wall Street Rule," essentially, "if you don't like the management, sell the stock." So when corporations are mismanaged, the only recourse for an index fund that seeks to improve corporate performance is either to force management to change, or to force a change in management.

Further, it is absurd to describe the "agency problem" (corporations favoring their managers over their shareholders) as "the direct result of the growth of index funds," when index funds own only about 15% of all shares of stock outstanding. Further, their enthusiasm for their voting activism appears far from uniform. Early in 2003, I attempted to develop a "Federation of Long-Term Investors" (including index funds) which would share the funding required for more activist and coordinated governance policies. Even earlier, in 1949, the legendary Benjamin Graham called for a similar activist approach in his book "The Intelligent Investor." Both of these attempts to influence better corporate behavior failed. It's time to try again.

JOHN C. BOGLE
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