FOREWORD BY
WILLIAM JEFFERSON CLINTON

PROLOGUE BY
TOM PETERS, *In Search of Excellence*
"Not a great finance book. Not a great business book.
A great book. Period."

A *New York Times* Bestseller

Enough.

John C. Bogle

True Measures of Money, Business, and Life

Foreword

My professor of ancient civilizations at Georgetown taught us that the United States became the greatest nation in history because our people had always believed in the two main pillars of Western civilization: that tomorrow can be better than today, and that we all have a personal moral obligation to make it so. He called it "future preference."

In recent years, some American finance leaders have strayed from these beliefs, making vast wealth in the moment without regard to its consequences for the future. In the United States and around the globe, we are still living with the repercussions of this business conduct, some of it illegal, all of it fruitless. We cannot continue on the same road we followed before the recent financial crises—not if we want to build a better tomorrow.

In *Enough.*, John C. Bogle offers a compelling account of what went wrong and some clear advice on how we can restore our financial system and create a more prosperous and equitable world. His book is an important call to action, to bring moral principles and integrity back into our financial affairs in a way that will support, not undermine, long-term economic growth.

With his own impeccable credentials in finance, Bogle reminds us that the United States was built upon a tradition of hard work, temperance, and duty, and shows why sacrificing these values in the pursuit of success sooner or later breeds destruction that harms many innocent people. In this meditation on ambition and society, Bogle argues that we cannot measure the meaning of our lives by quick profits. Instead, real worth comes in making long-term contributions to the larger communities of which even the most powerful financiers are simply facilitators, with a duty to help others build their dreams.

In our fast-moving digital age, with more than $2 trillion crossing borders every day before the current crisis, Bogle's analysis and argument seem, at first glance, strikingly old-fashioned. But our pervasive interdependence makes *Enough.* more relevant than ever. Our actions have profound consequences both within and beyond our borders. It is wrong to ignore them in pursuit of purely personal advantage. Future preference still matters. We have to get it back.

John Bogle is a brilliant and good man, and every concerned citizen can learn and benefit from the important

lessons he shares in *Enough.* It is a reminder that what Alexis de Tocqueville said about our nation so long ago remains true: America is great because America is good, and if she ever ceases to be good, she will no longer be great. *Enough.* is about reclaiming both.

William Jefferson Clinton
March 2010

Prologue

In the late 1970s, I began a journey with Bob Waterman examining how good companies were managed that led to the publication of *In Search of Excellence*. Along the way we met an extraordinary cast of characters. There was Jim Burke, CEO of Johnson & Johnson, who when beset with the infamous Tylenol crisis in 1982 turned to J&J's quasi-religious "Credo." With the guidance of core values, the company handled the crisis with integrity and transparency that stands to this day as a memorial to the power of values-based organizations.

And then there was Delta Airlines, mired in crisis courtesy of the recession of the early 1980s—the company's balance sheet was helped enormously by the decision of Delta employees to buy their employer an airplane! There was McDonald's, living with rigor in the early 1980s on the bedrock established by founder Ray Kroc called QSC&V, or quality, service, cleanliness, and value. And then there was John Young of Hewlett-Packard, who managed by wandering around (MBWA), engaging with line employees on project specifics.

The key concept of our book was captured in six words: "Hard is soft. Soft is hard." As engineers, MBAs, and McKinsey consultants, we were firmly rooted in the virtues of measurement and metrics—but we also damn well knew how easy the numbers are to fudge! Purportedly hard numbers turn out again and again to be soft. Enron, circa 2000, masterminded by a Harvard Business School–McKinsey grad, and the derivatives, super-derivatives, and credit default swaps of the 2000s, masterminded by PhDs, came about by numbers that were so soft they deflated.

What matters? What is really "hard"? Integrity. Trust. Values that last (like J&J's Credo). Deep-rooted relationships. Good corporate citizenship. Listening—to the customer and to the front-line employee—and acting on what they tell us. Matchless quality, the bugbear of those early 1980s. And, yes, excellence. Those are the things they mostly didn't and don't teach in business schools, but which are the bedrock of effective enterprise.

It was memories of that startling journey that explained why, in the middle of the Great Recession of 2007++, I picked up, for no particular reason, Jack Bogle's book, *Enough.* I quickly found, while standing in the bookstore in fact, that I couldn't put it down. It explains why I have now read it through four times; why I have bent some 57 pages

to return to again and again; why I have given away over 50 copies to friends and associates; and why, I'm almost embarrassed to admit, I carry it with me as I travel from Angola to Abu Dhabi to China to Chicago—*Enough.* has taken on totemic significance. As I prepare a seminar in, say, Novosibirsk, Siberia, I thumb through the book and check myself as to whether I may have gone soaring off into some obscure theoretical corner and forgotten the lesson of the likes of Bill Hewlett's supposedly old-fashioned MBWA as practiced by John Young.

The Australian writer Peter Temple's thriller *The Broken Shore* won a bushel of prestigious global awards. Several prominent reviewers struck the same chord. In effect, "This is not a great thriller—this is a great *novel.*" That's precisely what I feel about *Enough.* It is not a great finance book. It is not a great business book. It is a great *book*. Period.

Jack Bogle writes in plain English, and his reasoning is straightforward and based on a staggering sum of observations. Though he is a finance guy, not a single equation is unfurled as he takes us through finance, business, and life itself. It is not hyperbole to say, with some certainty at age 67, that this *is* clearly the best business book I've ever read, and as good a primer on life as I've read as well, save perhaps the works of Bogle's fellow Philadelphian, wise old Ben Franklin!

Jack Bogle and the organization he founded in 1974, The Vanguard Group, have been recognized far and wide and again and again for the sort of excellence that lit so bright and true a lamp for Bob Waterman and me in the 1980s. Jack Bogle is one the great financiers of our times and perhaps all times. He and Vanguard have contributed to the financial well-being and security of millions upon millions of people. His secret is a carefully formed belief that you will not, over the long haul, beat the market, and a belief that the best performance will therefore come from index funds that return their enhanced value, virtually in full, to investor-owners. His life and his life's work are built on a bedrock of integrity, transparency, simplicity, and value.

Interestingly, I've never met Jack, and, alas, have not invested with Vanguard, which is to say that I have no vested interest whatsoever in making these remarks—and singling this book out as the matchless, perhaps life-changing gem that I think it unequivocally is. I have devoted my adult life to trying to help people manage organizations as effectively as possible, and have discovered, as Jack Bogle has, that being straightforward is best and that character and integrity and common sense and decency are the keys to running enterprises of all sorts—not to mention the life well lived in service to others.

I will not reprise the best of the book in this Prologue. I tried to do so in a first draft, but was flummoxed

by those 57 bent pages—each of abiding personal importance. Jack's straight talk is offered in spare and lucid prose that puts me to shame. However, I can give you a flavor of what is to follow by simply offering up the chapter titles (I was totally hooked on the book by the time I'd perused the Contents page):

"Too Much Cost, Not Enough Value"

"Too Much Speculation, Not Enough Investment"

"Too Much Complexity, Not Enough Simplicity"

"Too Much Counting, Not Enough Trust"

"Too Much Business Conduct, Not Enough Professional Conduct"

"Too Much Salesmanship, Not Enough Stewardship"

"Too Much Management, Not Enough Leadership"

"Too Much Focus on Things, Not Enough Focus on Commitment"

"Too Many Twenty-First Century Values, Not Enough Eighteenth-Century Values"

"Too Much 'Success,' Not Enough Character"

I'm inclined to hijack these chapter titles and make them my Ten Commandments. The concerns encapsulate, better than anything I've come across before, the life I hope I lead, the life I would surely like to lead—and the sorts of things I'd pray people might say about my endeavors when I check out.

★★★

I begin my lectures these days with two PowerPoint slides. The first recalls a celebration honoring the peerless hotelier Conrad Hilton. After a roast of sorts, Mr. Hilton was called to the podium and asked to share the secrets of his magnificent career. He faced the crowd, as the story is told, paused, and said, "Don't forget to tuck the shower curtain into the bathtub."

And with that he returned to his seat.

The second slide recalls a conference near Monterey, California, perhaps 20 years ago, during which I was chatting with the president of a very successful Midwestern community bank. As the financial crisis of 2007 engulfed us, I recalled his words clearly: "Tom, let me describe to you a successful lending officer. On Sunday after church, driving his family home, he takes a little detour to drive past a factory or distribution center he's lent money to. He doesn't go in or any such thing, just drives by, eyeballs the place, and continues home."

The shower curtain.

The simple drive by a business.

Enough.

Tom Peters
Golden Bay, New Zealand
April 2010

Author's Note

A Crisis of Ethic Proportions

In early September 2008, just as the manuscript for *Enough.* was completed, the federal government decided against bailing out the investment banking firm of Lehman Brothers Holdings. The firm, whether it knew it or not, was bankrupt. Then–Treasury Secretary Henry Paulson later described a group of Lehman's toxic investments as being carried at $52 billion, but with an estimated value of (as little as) $27 billion, part of a huge capital hole that led inevitably to the firm's demise.

Powerful echoes from the government's decision to let Lehman fail quickly resounded. The stock market decline that began in mid-2007, when the Dow Jones Industrial Average had reached a high of 14,160, accelerated, with the Dow dropping 510 points to 10,910 when the market reopened after the Lehman collapse. That was only the beginning. Over the next six weeks, the Dow fell to 7,550. After a few months of consolidation, it tumbled again to a low of 6,550 in March 2009—a shocking decline of 54 percent from the high, equivalent to a $9 *trillion* drop in stock values, the largest drop since the 1930s.

The stock market, of course, was simply anticipating and then reflecting the reality of the economic crisis that followed. Banks wrote off trillions of dollars in the values at which they carried the toxic assets on their balance sheets. Business activity declined sharply, and our nation's economic production slumped. Unemployment soared; credit became scarce and often unattainable; and we entered into the deepest economic abyss since the Great Depression.

Causes of the Collapse

The causes of this collapse are no secret. While it is often claimed that "victory has a thousand fathers, but defeat is an orphan," the defeat suffered by investors in our devastating financial crisis seems to have, figuratively speaking, a thousand fathers. The Federal Reserve kept interest rates too low for too long after the 2000–2002 stock market crash and failed to impose discipline on mortgage bankers. Not only did our deposit banks and investment banks design and sell trillions of dollars' worth of incredibly

complex and risky mortgage-backed bonds and tens of trillions of dollars' worth of derivatives (largely credit default swaps) based on those bonds, but they were also left holding the bag, with many of these toxic derivatives held on balance sheets that were highly leveraged—sometimes by as much as 33 to 1 (or more). Just do the math; a mere 3 percent decline in asset value wipes out 100 percent of shareholders' equity.

These institutions also brought us securitization, selling off loans as the backing for untested financial instruments, and severing the traditional link between borrower and lender. With that change, the incentive to demand creditworthiness on the part of those who borrow almost vanished as banks lent the money, only to sell the loans to the creators of these new financial instruments. In banking, we've come a long, long way from community lending built on financial probity and the character of the borrower, the kind of thing that we saw in *It's a Wonderful Life*. (Remember Jimmy Stewart as George Bailey and Lionel Barrymore's crusty Mr. Potter?)

Our market regulators, too, have a lot to answer for: The Securities and Exchange Commission was almost apathetic in its failure to recognize what was happening in the capital markets. The Commodity Futures Trading Commission (CFTC) allowed the trading and valuation of derivatives to proceed opaquely, without demanding the sunlight of full disclosure, and without concern for the ability of the counterparties to meet their financial obligations if their bets went sour.

And let's not forget Congress, which passed responsibility for regulation of the derivatives market to the CFTC almost as an afterthought. Congress also allowed—indeed encouraged—risk taking by our government-sponsored (now essentially government-owned) enterprises—Fannie Mae and Freddie Mac—enabling them to expand far beyond the capacity of their capital, and pushing them to lower their lending standards. Congress also gutted the Glass-Steagall Act of 1933, which had separated traditional deposit banking from the riskier business of investment banking, a separation that for more than 60 years well served our national interest.

Our professional security analysts also have much to answer for, especially in their almost universal failure to recognize the huge credit risks assumed by a new breed of bankers and investment bankers, far more interested in earnings growth for their institutions than in the sanctity of their balance sheets. So do our credit rating agencies, for bestowing AAA ratings on securitized loans in return for enormous fees—handsomely paid in return by the very issuers who demanded those ratings, allowing what proved to be largely junk bonds to be marketed as high-quality securities. (Yes, it's called conflict of interest.)

"A Failure of Capitalism"

But there was also something more fundamental taking place—a failure of capitalism. Capitalism simply hasn't worked the way it is supposed to. We've trusted in Adam Smith's "invisible hand," in which pursuing our own self-interest ultimately leads to the good of society. But this free-market-based philosophy has failed. In an age of giant global corporations and giant (and independent) financial institutions, principles that applied in a world of smaller enterprises and more intimate communities simply lost their effectiveness.

This is not just my view. It is also the view of some of the most intelligent and respected minds in the nation. For example, Judge Richard Posner of Chicago (and leader of the conservative "Chicago School" of economists) entitled his post-crisis book *A Failure of Capitalism*. Even more poignantly, the same view is held by former Federal Reserve Chairman Alan Greenspan, who was central to the development of the financial bubble and the burst that inevitably followed. He successfully urged his fellow Fed governors to continue to make easy credit available—even though the time to tighten credit had long since arrived—and to ignore the perils created by the growth of securitization, which severed the essential link between borrowers and lenders. Greenspan's intellectual analysis and his market-moving power, it turns out, had been based on a false premise.

To his credit, in his testimony before Congress in October 2008, Greenspan admitted his mistake. Hear the *New Yorker's* John Lanchester on the topic:

> *Greenspan acknowledged that the crisis was prompted by "a once-in-a-century credit tsunami," which had arisen from the collapse of a "whole intellectual edifice." "Those of us who have looked to the self-interest of lending institutions to protect shareholders' equity—myself especially—are in a state of shocked disbelief," he said. This failure of self-interest to provide self-regulation was, he said, "a flaw in the model that I perceived as the critical functioning structure that defines how the world works."*
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> *It's worth dwelling on that phrase:* "the critical functioning structure that defines how the world works." *That's a hell of a big thing to find a flaw in. Here's another way of describing that flaw: the people in power thought they knew more than they did. The bankers evidently knew too much math and not enough history—or maybe they didn't know enough of either.*

To which I would add, enough indeed!

The Story of *Enough.*

Many of these happenings were foreshadowed in the pages of *Enough.*, which in retrospect seems weirdly prescient, even predictive. I first expressed the basic idea behind *Enough.* in a May 2007 commencement speech before MBA graduates at Georgetown University. You'll read more about that talk later in the book, but it's important to consider some of the context of my remarks:

> *"Money" has become increasingly important 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.*
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> *Once a profession in which business was subservient, the field of money management—"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.

If you enter the field of money management, 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.

Now, three years after that commencement speech, the financial sector indeed has been "hoist by its own petard," a Shakespearean phrase meaning "blown up by its own dynamite." The economy has followed suit. Earnings of financial companies in 2006, cited in my Georgetown speech at $215 billion, plummeted to *losses* of $233 billion in 2008, a difference of almost a mere half-*trillion* dollars. (By 2009, profits had returned to the sector, but only to a measly $29 billion.)

So What's to Be Done?

We need to not only resolve the specific issues that have been brought into focus in the financial crisis, but take steps to preclude future crises, some of which could be the same, some inevitably different. Here is a summary of my ideas:

- Deal with "too big to fail" by returning *moral hazard* to its rightful place in the banking system. Yes, a federal agency that monitors financial risk should happen, but the first step may well be "Let the bank fail!"
- Lift the veil of secrecy surrounding derivatives by requiring open and transparent markets.
- Raise bank capital requirements substantially (i.e., reduce leverage) and raise the quality of the investments on the balance sheet (i.e., reduce risk).
- Establish an independent consumer protection agency.
- Bring back the Glass-Steagall Act of 1933, separating commercial banking (deposit taking) and investment banking (underwriting, bridge loans, etc.).
- Develop market-based incentives to reduce leverage among our financial institutions, corporations, and households, gradually phasing out interest as a tax-deductible expense.
- Establish a federal standard of fiduciary duty for institutional money managers, who today control 70 percent of all shares of U.S. public corporations. By requiring those agents to serve solely the interests of their principals, they would come to act with due diligence in the selection of securities, and would assume the rights and responsibilities of participating in the governance of the corporations whose shares they hold.

An Ethical Crisis

But there is yet another factor underlying this crisis that is the broadest of all, pervasive throughout our society today. It was well expressed in a letter I received from a Vanguard shareholder who described the global financial crisis as "a crisis of *ethic* proportions." Substituting *ethic* for *epic* is a fine turn of phrase, and it accurately places a heavy responsibility for the meltdown on a broad deterioration in our society's traditional ethical standards.

Commerce, business, and finance have hardly been exempt from this trend. Relying on Adam Smith's invisible hand, we have depended on the marketplace and competition to create prosperity and well-being. But self-interest got out of hand. It created a "bottom-line" society in which success is measured solely in monetary terms. Dollars became the coin of the new realm. Unchecked market forces overwhelmed traditional standards of professional conduct, developed over centuries.

The result has been a shift from moral absolutism to moral relativism. Repeating what you will read on page 139, we've moved from a society in which "there are some things that one simply doesn't do" to one in which "everyone else is doing it, so I can do it, too." Business ethics and professional standards have been lost in the shuffle. The driving force of any profession includes not

only the special knowledge, skills, and standards that it demands, but also the duty to serve responsibly, selflessly, and wisely, and to establish an inherently ethical relationship between professionals and society. The old notion of trusting and being trusted—which once was not only the accepted standard of business conduct, but the key to success—came to be seen as a quaint relic of an era long gone. Somehow, our society must be spurred into action to return to that standard.

Public Acceptance

Since the initial publication of *Enough.*, happily, I've seen a few early signs of an awakening understanding of the factors underlying the crisis. Many respected and totally independent voices have joined in echoing the multiple themes in the book. Listen to Thomas L. Friedman, best-selling author and *New York Times* columnist, writing in early 2010: "Our financial crisis was the result of a broad national breakdown in ethics." General Electric's chief executive, Jeffrey Immelt, expressed a similar view, as quoted in the *Financial Times*: "At the end of a difficult generation of business leadership . . . tough-mindedness—a good trait—was replaced by meanness and greed—both terrible traits . . . rewards became perverted," and "the richest people made the most mistakes with the least accountability." Immelt, the article concluded, "noted that it was wrong for the U.S. economy to have 'tilted toward the quicker profits of financial services' at the expense of the manufacturing industry and research and technology investments."

Writing in the *New York Times*, journalist and economist Edward Hadas expanded on that theme:

> *A distressingly large portion of activity in the financial world is little more than gambling. When shares and bonds, or derivatives based on them, are bought and sold, the gains and losses almost cancel each other out. Such trading may be fun—portfolio management is a common hobby—but it does almost nothing for the nonfinancial economy.*
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> *As in organized gambling, the losses in financial trading are actually a bit greater than the gains because the house takes its share. In recent years, the financial house—brokers, exchanges, fund managers—has augmented its gains by playing from the inside. Until the crisis came along, such trading often paid off handsomely.*
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> *There is a psychological, even a moral, problem with finance. A country gets rich by making stuff, not by seeming to make money from money. But when people see huge financial profits—on Wall Street or just from owning a house—they tend to want more of them. The economically illusory gains of finance distract people from more valuable tasks.*
>
> *So will the United States, and the world, decide that it has had too much of this not particularly good thing? Not necessarily, since a four-decade trend has the momentum of a speeding train. But the current hurricane of financial destruction might just be strong enough to derail it.*
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> *There's more than money involved. For at least a generation, finance has been taken up as a career by a disproportionately large proportion of the world's most talented people. If more of the best and the brightest were to take up careers in industry, education or the arts, everyone would be better off.*

And these words from "Buttonwood," writing in *The Economist*: "If anyone suffers from the short-termism of fund managers, it is the clients. Funds with the highest costs produce the lowest returns, as client money is absorbed in charges and bid-offer spreads. . . . If governments really want a scandal to attack, it is the way the finance sector enriches itself at the expense of retail investors."

Of course the fact that these prominent experts are echoing the many themes of *Enough.* delights me. But perhaps the most rewarding comment of all appeared in a *New York Times* review of a new book by gifted British journalist John Lanchester, whose *New Yorker* piece was cited earlier. "'So: a huge, unregulated boom in which almost all the upside went directly into private hands, followed by a gigantic bust in which the losses were socialized. That is literally nobody's idea of how the world is supposed to work.' . . . These reforms include personal ones, aimed at me and at you. Do we need so much stuff in our lives?, [Lanchester] asks. 'In a world running out of resources, the most important ethical, political and ecological idea can be summed up in one simple word: "*enough*."'"

And, that's, well, "enough," for now. So enjoy former President Clinton's Foreword to this new edition, enjoy management guru Tom Peters's Prologue, and then enjoy the book itself.

Enjoy. Learn. Teach. And join the parade.

John C. Bogle
April 2010

The Great Seduction

The people who created this country built a moral structure around money. The Puritan legacy inhibited luxury and self-indulgence. Benjamin Franklin spread a practical gospel that emphasized hard work, temperance, and frugality. Millions of parents, preachers, newspaper editors, and teachers expounded the message. The result was quite remarkable.

The United States has been an affluent nation since its founding. But the country was, by and large, not corrupted by wealth. For centuries, it remained industrious, ambitious, and frugal.

Over the past 30 years, much of that has been shredded. The social norms and institutions that encouraged frugality and spending what you earn have been undermined. The institutions that encourage debt and living for the moment have been strengthened. The country's moral guardians are forever looking for decadence out of Hollywood and reality TV. But the most rampant decadence today is financial decadence, the trampling of decent norms about how to use and harness money.

David Brooks
The New York Times
June 10, 2008