COMMENTARY

A Report of TIFF EDUCATION FOUNDATION

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Highlights

First of Five. On July 22, 2008, the TIFF Education Foundation (TEF) hosted in Cambridge, MA the most recent edition of its highly idiosyncratic Endowment Management Seminar series. Modeled loosely after the broadcast series *Inside the Actors Studio*, this event mimicked its predecessors in that it comprised interviews by TEF president David Salem — a suspect substitute indeed for James Lipton of *ITAS* fame — of five highly respected institutional investors. This *Commentary* comprises the transcript of David's interview with Robert Bruner, Charles C. Abbott Professor of Business Administration at the University of Virginia's Darden School of Business and, since 2005, dean of that esteemed institution. Transcripts of the other interviews conducted by David on July 22 will be published with all deliberate speed.

Highly Topical. A recognized authority on financial panics, Dean Bruner is co-author of a highly praised book published in 2007 entitled *The Panic of 1907: Lessons Learned from the Market's Perfect Storm*. Although neither Dean Bruner nor anyone hearing him speak on July 22 could have known how extraordinarily stormy the market environment would become in subsequent months, his lucid recounting of a similar tempest a century ago and his incisive identification of parallels between it and today's "perfect storm" were highly topical in late July and remain so in this staff's opinion. Dean Bruner's capsule biography appears at www.tiff.org/TEF.

About TIFF

Mission. In 1991, a network of foundations founded a cooperative-style investment organization whose structure and eligibility criteria have evolved over time but whose core mission has not. Known colloquially as TIFF, this organization seeks to improve the investment returns of endowed charities by making available to them a series of multi-manager investment vehicles plus resources aimed at enhancing fiduciaries' knowledge of investing.

Means. The organization comprises three regulated entities at present: a tax-exempt private operating foundation whose d/b/a (TIFF Education Foundation) is more descriptive of its focus on education than its formal legal name (The Investment Fund for Foundations); TIFF Investment Program (TIP), an SEC-regulated mutual fund family; and TIFF Advisory Services (TAS), a taxable non-stock corporation and SEC-registered investment advisor that administers all investment vehicles bearing the TIFF name. As noted at left, there is substantial but not complete overlap among these three entities' boards.

Inquiries. For more information, please call TIFF at 610-684-8000 or visit www.tiff.org/TEF.

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Turbulence, Then and Now

David. I am really delighted to welcome an old friend, Bob Bruner, to the stage. Bob is the dean of the University of Virginia Darden School of Business, and we're delighted to welcome him back to Cambridge, where he spent quite a bit of time earlier in his career. Hopefully you all have seen or are holding in front of you Bob's most recent book entitled *The Panic of 1907, Lessons Learned from the Market's Perfect Storm*, which he co-authored with Sean Carr. If you've had a chance to read it — and I think it's a very worthwhile read — know that it analyzes a financial crisis long ago that bears a rather striking resemblance to the turbulence that the modern US economy has experienced over the last year or so and more specifically in the past month and a half. Since many of you gathered in the room here today likely haven't read the book yet, what I'd like Bob to do is give us a recap of the panic of 1907. I've asked him in this initial set of comments to focus on the degree to which the root causes of that crisis resemble the root causes underlying today's crisis. And of course later on we'll examine the consequences of that earlier crisis and examine where we might be headed in our own time. Thanks, Bob, for joining us.

Bob. My thanks to you, David, to the TIFF Education Foundation, and to all of you assembled here. It's an honor to be with you and to talk about the events of 100 years ago and of the current day. The very simple thumbnail sketch begins with the observation that the Panic of 1907 was really one of a series of financial crises. Some 13 financial panics in the United States occurred between 1814 and 1914. A "panic" is an event in which depositors run on numerous banks, hurriedly withdraw deposits, and cause institutions to fail. These panics threatened the stability of the financial system in the United States and in 1907 were a fact of economic life owing largely to the absence of a central bank. In contrast, systemically threatening panics were relatively rare in Britain during the 19th Century, which some observers credit to the existence of a strong and effective central bank.

The Panic itself lasted for about three weeks in the month of October 1907. It consisted of a series of runs on major financial institutions — depicted in our book by photographs of lines of depositors standing outside of major institutions. A "panic" is usually the most intense episode of a larger financial crisis.

The way we define and gauge "financial crisis" varies. To some, it consists of an episode of illiquidity in the financial system; to others it can be even longer yet, ranging from the initial shock and resulting recession through to the economic recovery from the crisis. The Panic of 1907 lasted for about three weeks; the period of illiquidity lasted for maybe 12 months; the entire trough of the crisis lasted for three and one-half years from initial shock to final recovery. Our question today of how much longer the current crisis has to go would vary similarly, depending on how you measure crises.

But our story begins not with the collapse of an institution but rather with the earthquake that struck San Francisco in April 1906. This quake devastated the city, which had been built largely of wood. Broken gas mains triggered a conflagration that destroyed most of the city. The insurance claims were massive and sudden strains on the global financial system; as you can well imagine, property and casualty insurance companies liquidated stock portfolios hastily in an effort to honor the claims, causing a sharp decline in stock prices. Gold flowed from around the world from the major money centers to San Francisco. This set in motion the domino effect of the crisis, a connected series of events that resulted in the Panic.

Gold was the currency of the day. The availability of gold determined the ability of institutions and countries to honor claims and/or to finance their expansion. In the summer and fall of 1906, the Bank of England began to raise rates and took other actions to constrain the flow of gold out of London. Other central banks in Europe followed suit; this set in motion a liquidity crisis in the United States. The stock market in the US peaked in September 1906, and fell almost unerringly over the next 14 months. But the crisis as we know it really only began to gain steam in March of 1907 when the stock market slumped 9.8% in mid-month and fear began to spread through the capital markets in the US.

The Secretary of the Treasury responded in the spring of 1907 by allocating Treasury deposits to major banks in the New York City region in an effort to provide liquidity, but it was too little too late. A recession began in full force in June of 1907, and set the stage for the Panic. In late summer, the deepening liquidity crunch—the absence of debt financing at reasonable interest rates—manifested itself in a crisis narrowly averted. New York City had funded itself with a series

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of short-term bond issues and found itself in August of 1907 unable to re-fund its debt. Anxieties mounted and the bankruptcy of the city seemed imminent. Then, into the fray jumped JP Morgan, who was 70 years old and slowly retiring from the business to devote more time to his collection of art and rare books. He had largely handed over operations of his firm to his son Jack and to some partners, but responded to the New York City refunding crisis, organized a syndicate, placed the bonds in Europe, and saved the city's credit. At the end of September, he left for Richmond, Virginia, where as a warden of his Episcopal church in lower Manhattan, he attended the Triennial Convention of the Episcopal Church.

Bear Squeeze

Matters in the New York financial community, however, did not recover — they worsened. Morgan began to receive telegrams from his partners reporting on the deepening gloom. He asked whether he should return to the city. His advisers counseled against it, arguing that his return would be a cause for alarm about market conditions. He would have stayed through to the completion of the convention but for the speculation of one Augustus Heinze, who was a former operator of copper mining interests in Montana and had acquired some banking interests in New York City. Heinze decided to engineer a "bear squeeze" — a speculation against short-sellers — on the stock of a publicly listed company in which Heinze retained an equity interest, United Copper. The bear squeeze failed spectacularly and brought down two brokerage firms. Rumors began to circulate that Heinze's banks had financed the fiasco and were now insolvent. Lines began to form outside of Heinze's banks, as well as other banks and trust companies.

At that point, JP Morgan's partners advised him to return to the city. Morgan took the "red-eye" from Richmond back to New York City, having his private pullman car hitched onto a steam engine to take him home on an overnight run. He arrived on Sunday morning the 20th of October, and promptly convened a meeting of the most prominent financiers in the city at his home on the corner of 36th Street and Madison Avenue. He had a large library and a spectacular collection of art and manuscripts. Imagine a large room with masterpieces hanging around. At the big library table were James Stillman, George F. Baker and other well-known financiers of the day. They puzzled through the state of the crisis and dispatched younger assistants and vice presidents of their firms to do the due diligence necessary to gauge the threat to the financial system and the creditworthiness of individual institutions.

The first report came back regarding Knickerbocker Trust, the third-largest trust company in New York City. The word was that this institution was insolvent; Morgan allowed it to fail. He believed that market discipline needed to work. But allowing Knickerbocker to fail merely amplified the Panic. People began to wonder what Morgan was up to. Why hadn't he intervened?

The next day, the same group assembled to judge the creditworthiness of Trust Company of America, a large peer of the Knickerbocker. On October 23rd, the assembled group listened to the report of the young auditors, who reported with hesitancy that they thought Trust Company's assets were greater than the deposits and other claims against Trust Company. In a dramatic turning point of the crisis, Morgan said, "This is the place to stop the trouble, then." He galvanized this group of financiers to organize a pool of money to supply to Trust Company. The money arrived within minutes of Trust Company running out of ready cash to give to the depositors who were standing in line to withdraw their funds. Morgan did this virtually day after day for the three weeks, rescuing other institutions, including the New York Stock Exchange, where, *in extremis* on October 25th, lenders were quoting broker loan rates in excess of 150%. At the late stage of the Panic, he engineered the takeover of Tennessee Coal and Iron, an under-performing steel company, by US Steel, and in the process gained the approval of President Theodore Roosevelt, the "trustbuster," who in otherwise happier times probably would have resisted the merger.

The Panic had begun to subside by November 5th, election day. Gold flowed into the United States via shipments arranged by JP Morgan and others. By the first week of January 1908, the discount for bills of exchange, the so-called "premium for cash," had returned to normal, and other measures of the Panic had subsided. But the aftershock was immense. The Panic was associated with a deep recession, which bottomed-out in June of 1908. Manufacturing measures of economic activity only recovered to their pre-crisis levels in late 1909. From the onset of the crisis (the San Francisco earthquake) to the final recovery is a duration of three and one-half years.

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Complex Web

Now the question is, what can we learn from this? In our book, the central lesson is that financial crises are complicated events. What we read in the media and in other sources, the so-called "single-bullet" theories, are incomplete or just wrong. What we've tried to do is describe a set of factors that are common to many crises. What matters is the way they interplay. Many of these factors are always with us, and a wise practitioner would remain very alert to the convergence of these factors. The metaphor of the perfect storm is intentional — as investors, we need to be storm spotters. We need to look for the atmospheric conditions that bring these factors together.

We highlight seven factors of financial crisis: growth, complexity, tight linkage, market psychology, adverse leadership, real shock, and collective action. The first is rapid growth. The major macroeconomists of the 20th century associate sharp busts and crises with periods of extraordinary buoyancy. They argued that we should be less concerned with the busts and crises than with the booms that precede them. To be vigilant for these conditions of "irrational exuberance," as Robert J. Shiller and Alan Greenspan call them, is the first step. Some period of growth is virtually always in the atmosphere. But this alone doesn't explain financial crises.

The next two factors are related and a bit technical. One is complexity. Complexity is in fact a hot idea in academia today, and it refers to the notion of linkage among elements in a system. A financial system is a perfect example of linkage: for example, banks lend to one another and keep deposits on the accounts of one another. Linkage and complexity matter because they will make it rather difficult for decision makers to really understand what's going on. Complexity fights clarity; complexity is a barrier to transparency.

Related to complexity is the notion of *tightness* of linkage. A precursor to all financial crises is the erosion of safety buffers in the system — these are shock absorbers such as unused debt capacity or ready cash, the funds with which to counteract an unexpected crisis. In the buoyancy and exuberance of a growth boom, people spend or deploy their "rainy day money" in the mistaken belief that the run will continue for some considerable period into the future. Tightness of linkage and absence of safety buffers matter crucially because they make it possible for trouble to travel. If a problem breaks out in one part of the financial system, it will spread. In contrast, in a financial system that is well buffered, shocks will spread more slowly, or perhaps not spread at all.

The fourth factor is the psychology of optimism in a boom, and fear or pessimism in a bust. We can't construct an explanation of financial crises based solely on economic concepts. We have to take into account the mood of the market. The Nobel Prize-winning research done by [Amos] Tversky and [Daniel] Kahneman in behavioral economics demonstrates that psychological elements are forceful drivers of investor behavior. We see them at work in financial crises.

Fifth is adverse leadership. Adverse leadership is the explanation *du jour* — if you read the press — about financial crises. Why did Enron implode? Why did the tech bubble burst? Why did Long Term Capital Management fail? It's easy to point to leaders who made bad mistakes, wittingly or not. In the Panic of 1907, we have bank officials who speculated aggressively with funds from their own institutions and other bank officials who refused to assist or delayed in rescuing stricken institutions. Teddy Roosevelt fueled an atmosphere of fear in the investment community. His campaign against the trusts dramatically changed the investing landscape in the United States. This change was sudden, sharp, and took significant effort to absorb on the part of the investors.

Dual Shocks

All of these elements are present to some extent in any economic environment. What matters is their convergence, significance, and forcefulness at any moment. But there has to be a real economic shock, so we add this as the sixth element. All of the research on financial crises sustains the notion that crises are associated with a significant shock. There's another line of research on crises that says "no, these are just random events that appear spontaneously out of market conditions," but I don't think that's an especially helpful theory. The real shock that triggered the events of Panic of 1907 was the San Francisco earthquake in April 1906. But there was a secondary shock: the failed speculation by Augustus Heinze that brought down the brokerage firms and threatened the stability of the banks with which Heinze was associated.

The last factor is the efficacy of collective action—in our view, this factor determines the depth and duration

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of a crisis. Recall that financial crises occur in an environment in which people find it very difficult to understand what's going on. The remedies to this condition are to create more transparency about current conditions and to organize collective action so that players in the crisis move together to forestall panic. This setting corresponds to the classic game-theoretic problem of the prisoner's dilemma. In that model, two alleged criminals are arrested by the police, thrown into separate cells, and interrogated separately. Each prisoner is offered a deal. The officer says, "if you confess your role in the crime and implicate your partner, you'll get a very light sentence, but your partner will get sentenced for a very long time. If your partner implicates you and you don't confess, you'll be thrown into jail for a very long time. If neither of you confess, you'll both be let free. If both of you confess, you'll both go to jail for a long time." If you work through the payoffs in that model, the two criminals will implicate each other. This is a classic problem in human behavior, and we see this in many settings. Consider the environment, with the problem of the commons. We see this in hostile takeovers, in which individual shareholders fail to communicate with one another. We see this in financial panics and bank runs, in particular. The prisoner's dilemma arises from the inability of the prisoners to collude, to talk to one another, to collaborate. So the role of a leader in a crisis is to promote transparency and communication, and to organize collective action. In the prisoner's dilemma, if the two prisoners are allowed to communicate, they will collaborate so they say the right things or don't say the wrong things, and walk free.

That's the story. At heart, this book is about leadership. It exemplifies the ability of an extraordinary individual, relatively old in age at the time, who through personal acquaintances with many of the senior figures in the US and New York financial communities, organized collective action and formed rescue pools on very short notice. This was done simply by moral suasion, by looking his peers in the eye and saying "you must do this, if you don't, the whole system will collapse." Morgan was very large, tall, dour, and had a piercing gaze. He was deeply respected and extraordinarily bright. He got to the heart of matters very quickly. Through force of personality and qualities of leadership, he successfully fought this crisis. Milton Friedman and Anna Schwartz, in their famous study of monetary economics in the United States, called this crisis and recession one of the four or five worst in US history. So it stands as an example to us of how we might view the current events and how we might emerge from the present crisis.

David. That was very, very helpful, Bob. Let's talk for just a few more minutes about Morgan in particular and his role. It doesn't seem to be the case today that society is organized in a manner that would permit a private individual to accrete the power needed to replicate his achievements in 1907 and 1908. I wonder if you agree with that. Then talk about what Morgan himself had at risk and what he was putting, if anything, incrementally at risk as he took each step in that three-week process of trying to resolve the crisis.

Bob. I agree that today it would be very difficult for a private individual to play the role that JP Morgan played a century ago. The current crisis differs vastly from 1907 on three dimensions: more complexity, greater speed, and larger scale—these make it impossible for a private individual to rescue the financial system.

Personal Stakes

So what did Morgan have at risk? He committed the resources of his firm, which was a partnership in which he was the dominant partner and the significant owner. Since his wealth was substantially concentrated in his firm, he was laying his net worth on the line. When he died in 1913, his estate was valued at about $70 million ($1.14 billion in 2007 dollars). But even so he wasn't the richest man in the United States, though he was widely believed to be (for instance, the estates of John D. Rockefeller and Andrew Carnegie dwarfed Morgan's). Surely he had at risk his reputation and credibility with investors in the US and Europe. While he knew that his own wealth depended on a successful resolution of the Panic, the archives suggest no private motivations.

The crisis occurred in the middle of the Progressive Era, which saw the rise of a very deep skepticism toward the financial community. There were hearings in Congress — the Pujo hearings — which sought to determine whether there was a money trust, just as there had been an oil trust, a cotton trust, and others. The trustbusters were going after the financial community. The hearings ultimately failed to establish the existence of a trust. But they did establish deep ties among the financiers and the heavy cross-ownership interests in the financial community, such as senior partners sitting on boards of directors of industrial companies.

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History is clear that this network of financial intermediaries fueled the extraordinary growth of the US economy after the Civil War. But the network was at risk in the Panic, and the world as Morgan knew it was teetering on the brink. So more than his wealth or his reputation, he saw very clearly that there was a grave danger to the entire system.

This story is remarkable because it's an example of a private market solution to a financial crisis. There was no central bank, no federal deposit insurance, and the Treasury was virtually tapped out because it had deposited its gold with major banks relatively early in the game and was of rather little influence toward the end. I think the example of Morgan in 1907 is instructive to us for what it is that we would expect of leadership today, either the leadership of government institutions or of private institutions.

David. But you would concede that he was never acting against his own economic self-interest throughout the crisis.

Bob. That is exactly true. Whenever he made rescue-pool loans to ailing institutions, he charged a positive rate of interest — this was not a charitable enterprise. But in doing so, he was following the accepted wisdom of Walter Bagehot, the central banker in London in the mid 19th century and author of the classic treatise on central banking, *Lombard Street*, who argued that: In the middle of a financial crisis, the central banker should lend money liberally but at high rates. High rates produce the disciplinary effect, but it's the liberality of lending that resolves the liquidity crisis.

David. Let's roll the clock forward. I was at a gathering across the river a few weeks ago, and Bob Steel came up from Treasury — he's now, of course, installed as CEO at Wachovia. He was talking about the extent to which Treasury, the SEC and the Fed cooperated the weekend that Bear Stearns had to be taken over by — coincidentally — JP Morgan, and noted something you alluded to five minutes ago about the shock absorber. The Friday going into that weekend, as I'm sure you know, Bear Stearns had $13 trillion of notional exposure in derivatives on its books against an equity base of $11 billion. Not much of a cushion — really a disaster waiting to happen. Bob went on to argue forcefully that we need a sweeping overhaul of the way Uncle Sam regulates both commercial and investment banks. I'm just wondering, from your perspective as a historian of what happened in 1907, if Congress gave you a free hand to effect that kind of an overhaul, what would be some of the principal changes you would make to either the mandate or the way the Fed, the SEC, or the Treasury actually function individually or in concert.

Bob. Well, we need to recognize that the distinctions among investment banks, commercial banks, and universal banks are largely artificial. Many of them compete in the same business. Since the late 1970s, Merrill Lynch has had deposit-taking accounts and cash management accounts (i.e., checking accounts, as you and I know them) that competed with commercial banks. It's a mystery to many of us why the government saw these institutions as very different animals. I think that the repeal of Glass-Steagall was appropriate in 1998, but what was lacking thereafter was the risk oversight of the non-bank banks in the United States. So I think we need to correct that, and I do truly believe we need regulation. I think it's a good thing to have a central bank, notwithstanding Ron Paul's criticisms of the Federal Reserve System.

Suspect Risk Management

Today, the financial system in the United States is heavily characterized by complexity and tight linkage. The precursors to crisis are so much more significant today than they were in 1907 that I think we benefit from having a central body of oversight. But I'd say that when we write the history of the crisis of 2007 and 2008, it'll be fundamentally around risk management, or the failure thereof. So were I czar for a period of time, I'd say the regulators should impose new standards as well as new processes for managing and overseeing the risk positions of major financial institutions. I'd say the doctrine of "too big to fail" is of genuine concern, for it implies that taxpayers, rather than stockholders, are the ultimate bearers of risk. We may need to let some institutions larger than IndyMac be seized or closed in order to limit the moral hazard that government intervention can create.

The problem of moral hazard is of course the sidekick to any regulatory scheme. We need to admit the possibility that the government will not intervene in some institutions, in large institutions. Based on what we've seen so far this year, it strikes me that the rescue of Bear Stearns, Freddie Mac, and Fannie Mae just recently was probably appropriate. We don't know all the facts today, but we are in a brave new world of regulation compared to where we were a year ago.

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David. Let's focus for a minute if we could specifically on the Fed. I want to take due note of the schizoid mandate that Congress has given the Fed, which of course is to both maintain the dollar's soundness as a medium of exchange and also to promote full employment, whatever that means — but it's in the mandate from Congress to the Fed. So in light of that schizophrenia, tell us what grade you'd assign to Ben Bernanke for his service thus far as Fed chair, and then by extension, of course, what grade you'd give his predecessor.

Grade Deflation

Bob. Giving grades is natural to academicians. I'd say that going into this crisis, the conventional wisdom held that Alan Greenspan was an A or A+ central banker. He presided over an extraordinary period of stability and growth in the American economy. This dual mission of the Fed that David refers to springs from the Humphrey-Hawkins Act and is a mandate that not many other central bankers have. Were I to revisit the regulatory structure in the United States, I think we would do well to repeal Humphrey-Hawkins and to give the central bank a sole mission of regulating the money supply for the purpose of minimizing inflation and allowing full employment to be achieved by other means. Fiscal policy would be the prime instrument for that. Unfortunately, the evidence is pretty clear that Alan Greenspan himself was much more buoyant about the prospects for the economy and/or much more fearful in the 2001-2002 period just after the bursting of the tech bubble, and he overreacted. We'd have to mark him down to a B+ at best, possibly even a B.

Bernanke is a quick learner. I'd have to give him a B+ simply on the basis of firefighting. To really give him a final grade in the job we'd have to wait until the end of his six-year term and see what kind of a central banker he proves to be on so many other fronts, including helping to manage the dollar, serving the other mandate of Humphrey-Hawkins, promoting growth of the economy, and the like. But he's managed to keep a lid on things and manage the domino-like series of failures similar to which JP Morgan fought.

David. Well, you're not just in academia, you're an academic leader and a dean of a major business school. So I want to ask three related questions real quick. Let's think about the Darden School right now. It's still the case, I believe, that a decent fraction of your graduates head to Wall Street or think of doing so certainly when they arrive to start their first of two years. So as you reflect on the challenges that even a powerhouse firm like Goldman is facing in all four of its operating divisions — brokerage, investment banking, prop trading, and of course asset management — how enthusiastically if at all would you urge your top students at Darden to pursue opportunities in investment banking these days?

Bob. David knows this is a setup because I've been a professor in the field of finance for 26 years. Therefore, my enthusiasm for the subject is unabated. I continue to encourage students to go into the financial community. Darden sends about 40% of its graduates into finance year in and year out. What the market is telling us is that your field will continue to pay a premium for students. I think the mix of banking versus asset management versus private wealth management, for instance, will change in the current environment. There are some very bearish sentiments about the future of investment banking, but I'm cautiously more optimistic than the bears.

David. How about the future of graduate business school education? The rhetorical device I'm using throughout the day is to imagine that you had unilateral control, in this case over the business school sector. How many B-schools would there be? What would the curricula look like? How would they differ from what's currently on offer at Darden?

Bob. There's a huge demand for masters in business and for graduate degrees in general. You may have seen an article recently questioning the value of undergraduate degrees — there's a continual push for higher and higher training. I'm an educator and I will assert that education is one of the highest-return investments one can make. That said, the field is very heavily populated. By one count there are 10,000 institutions worldwide that award the MBA degree. There are 450 accredited MBA institutions in the US plus many others unaccredited. Do we need them all? Well, the market certainly tells us it does. Until there's plainly an unabated surplus we'll see an expansion in that field.

David. Maybe there'll be a panic and you'll be called in to bail it out! So I have one more question about MBA programs. The average age of your entering student at Darden is what?

Bob. Average age is 28.

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David. Twenty-eight. So you look at Darden, Harvard, and all the major MBA programs that are highly respected, and they all have these new ethics modules — new in the last 10 or 20 years. The question I have is a rather pointed one, which is if a young adult hasn't developed an ethical compass by the age of 25 or 28, isn't it a waste of society's resources to award a coveted slot at one of these programs to somebody who doesn't have an ethical compass when they arrive?

Bob. We look for evidence of ethical judgment before our students come, and we have a very strong honor system at the University of Virginia. But I will tell you that the first principle of all teaching is repetition — we are usefully reminded of the importance of lessons again and again and again. Why? Because people forget; people get distracted; and/or people get corrupted. We are drawn aside from the things that matter to us. This kind of learning simply can't cease. I urge CEOs and directors of companies not merely to talk the talk but walk the talk. Simply talking about ethics and values and mission within organizations is where it all begins. I believe it starts at the top — but our graduates entering at the bottom of an organization can bring in strong questions and means of ethical reasoning that can fuel the CEO's conversations about ethics. All of the major institutional failures in recent years — rogue traders, Enron, and other well-known stories — are episodes of lapses that began when people reinforced the worst kinds of practices. We can't remind one another in professional settings too much about the importance of our ethical principles.

In the Arena

David. A more personal question. I know one of your hobbies is to read presidential biographies, and I know you've read many. So the question I thought of is, if you had to look back in American history and pick one of the 43 men who've served as president and say that's the best qualified person to be sworn in as the next president of the United States on January 20th, 2009, who would that be and why?

Bob. Well, so I'm going to waffle a moment and just say it depends on whether you think it's the economy, stupid! Or whether it's the war and global diplomacy, stupid! Fareed Zakaria's book *The Post-American World* is much in my thinking these days. Our school and many other schools are broadening our global reach. The markets don't end at the shores of the United States, a fact to which business schools need to pay careful attention. Plainly, the next president should be an alliance builder, somebody who engages the rest of the world very constructively, truly in the pursuit of America's interests, but also recognizes our dependence on other nations.

Probably the chief alliance builder among presidents would be FDR. If you think it's the post-American world problem, I'd say FDR would be a natural.

If you think it's the economy, surely we'd look for someone who's energetic, can mobilize people with the spoken word, and create an atmosphere of optimism and resumption. This'd be somebody who'd hit the hustings and relate to people at a very personal level. For all his failings in the experience of 1907, Teddy Roosevelt would stand out on that dimension as an extraordinary communicator. We could point to a number of others. Ronald Reagan became president in the depths of another serious recession and through sheer force of communication helped to galvanize consumers and investors in very positive ways.

David. Speaking of extraordinary communicators, you are one, Bob. Thank you very much. Like most of our conversations, it's too brief. Thank you very much for joining us.

Bob: You're very welcome.

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