A Look Ahead: Parts I and II

Originally Published in 4Q 1999 and 1Q 2000 TIFF Commentary

Guarded Optimism

Role Model. This is the 22nd time that TIFF has burdened its Members with a set of its highly idiosyncratic quarterly reports, and if all goes according to plan, TIFF will publish its 422nd set of such reports precisely 100 years from now. Of course, there is no assurance that current management will remain in place through the end of the new century, despite your editor's efforts to mimic as best he can the admirable traits of his personal nominee for the prior century's most heroic figure. In late November 1949, Winston Churchill celebrated his 75th birthday. A photographer at Churchill's party said, "I hope to have the opportunity to take your photograph at your 100th birthday." The great statesman looked the photographer up and down. "I don't see why not young man," he replied. "You look healthy enough." Like many able executives, Churchill was an optimist at heart, often if not always able to persuade wartime Britons that half-empty glasses were at least half-full. But like all truly great statesmen, Churchill was also soberly realistic about the boundary conditions under which he and his allies were forced to operate. Since this is **apparently** TIFF's last report of the 20th century, it seems an appropriate medium for reflecting on what the 21st century might hold for investors — on the boundary conditions, if you will, for institutional investing for the foreseeable future (and beyond).[1]

Telling Indicator. Because our audience comprises primarily trustees with a US-centric investment focus (a mindset we assess herein), our reflections focus primarily on the very long-term outlook for US capital markets. And because our focus is very long term, our thoughts necessarily and inevitably turn to the boundary conditions under which US asset prices will evolve as the new century unfolds, including arguably the single most telling indicator of America's future economic progress — how it educates its youth. As will be seen, your editor is cautiously optimistic about America's future, albeit for reasons that may surprise some readers. But before pondering the all-important question of whether America is adequately educating its citizenry, it is useful and also fun to speculate on how some of today's most powerful trends in society and markets may pan out. Accordingly, the commentary that follows comprises a series of observations about the state of American society and markets *circa* December 1999, starting with the most ephemeral phenomena (relatively speaking) and ending with what strikes this writer as the most perdurable. If some observations seem overly laconic ("marked by the use of few words," says *Webster's*), this is by careful design: our laconism with respect to individual points is intended to counterbalance this Commentary's overall length, which our aforementioned hero might himself have deplored. Commenting on one bureaucrat's prolix prose, Churchill wrote, "This report, by its very length, defends itself against the risk of being read." We hope the same cannot be said of this "look ahead." To ensure that it cannot, we have divided it into two parts: Part I appears here, and Part II will appear in this publication next quarter.[2]

Close to Home

Manic Depression. Our first set of observations are so topical (i.e., short-term oriented) that they could well be rendered obsolete by market movements between our year-end deadline and this report's delivery via snail mail. The topic at hand, of course, is the tech stock mania that grips American finance as the 20th century comes to a close. Far from being depressed by this phenomenon, we at TIFF will hopefully be forgiven if we seem maniacal in praying for its continuance. As noted in this quarter's Progress Report on TIFF's alternative investment vehicles (available upon request), the TIFF Private Investment Program has benefited hugely from the technology stock boom in general and the IPO boom in particular: in the space of

[1] "Apparently" reflects an inside joke. All of TIFF's quarterly reports have a single author (as if readers couldn't tell). But they are also reviewed prior to publication (for typos, "thinkos," and other misdemeanors) by virtually every member of TIFF's staff as well as selected members of its board. Many staff members were hand-picked for their pickiness: in an operation as complex as TIFF's, precision is essential in many areas and perfection is demanded in some, including proofreading. One staff member who shall remain nameless insisted that this report not state unqualifiedly that 1999 is the last year of the 20th century. She is right, of course. And it would be wrong for this report's stylist to record his frustration with such literalness by disclosing the complainant's name here. That said, on the assumption that few people read footnotes, and even fewer read them in their entirety, the author wishes to note that his perfectionist colleague's last name is synonymous with money (and appears on this report's front cover).

[2] Readers seeking to obtain a copy of this potentially market-moving monograph in advance of its publication in April (or to call the writer's bluff that he has actually written it already) may obtain a copy upon request. There is one catch: they must first make at least a $500 donation to Bizworld, the California-based non-profit that does a splendid job inculcating capitalist principles in American youth. Just tell the folks at Bizworld (www.bizworld.org) that you're seeking to read about 21st century capitalism and help others succeed at it at the same time. Upon their confirmation that you've made the requisite gift, Part II will be yours. Bizworld is not a TIFF Member, and neither TIFF nor any of its officers or directors have a formal affiliation with this charity.

less than three months, the estimated internal rates of return (IRRs) produced by TIFF Partners I and TIFF Partners II have at least **tripled**, from levels that were already pleasing (to 75+% from 19% and 26%, respectively). Our PI Program is adhering to its policy of selling in-kind distributions the instant they are received, but most of the unrealized gains that have caused its estimated IRRs to soar are associated with newly public holdings that are "locked up" for several months. While praying mightily for a continuation of the current tech stock boom until we can do some meaningful harvesting, we are mindful of the wise words spoken by a statesman whose disposition was less sunny than Churchill's. Quoting one of his favorite Bible passages, Abraham Lincoln said (about his country's fragile antebellum stalemate over slavery), "This too shall pass away." Happily, our PI vehicles can do some material backsliding and still remain on track to achieve their stated objective of outperforming the broad US stock market.

Theory vs. Practice. Academic types might attribute these potentially outsized excess returns to our PI vehicles' inherent illiquidity — folks willing to lock up their money for 10 years **deserve** a rich reward, theory suggests. But let's not kid ourselves: the holding periods that institutions must endure to enjoy the fruits of their venture capital efforts have become shockingly brief of late. TIFF's own experience is a useful case in point. The TIFF PI Program, which was founded eons ago in Internet time but just three years ago according to conventional calendars, has participated in 18 IPOs to date. The average time gap between the Program's initial investment in each private company and each company's subsequent IPO is just 15 months, a statistic that would shock earlier generations of venture capitalists, especially if advised that our PI Program is tilted decidedly toward early stage deals. The average pre-IPO holding period for the six now-public investments made since June 1, 1998 is an even more shocking seven months — just one of dozens of useful facts and figures that TIFF's very robust PI database helps us track. (PI Program Members are welcome to visit TIFF headquarters and peruse our internal reports upon request. Those who do so might then turn to www.ipolockup.com, a useful Website that TIFF uses to determine when it is likely to receive distributions from the many venture funds in which our PI Program participates.) These reports reveal that the Program's IPOs appreciated at more than twice the rate of the average IPO in 1999 — a stunning 350% versus a miserly 165%. These percentages reflect the gain from each IPO's initial offering price to its closing price on December 31. The good news is that such insanely robust conditions for technology-oriented IPOs are enabling skilled venture capitalists (and their clients) to earn legendary IRRs on individual holdings, if not entire partnerships. The bad news is that very high IRRs earned over short time periods don't do endowed institutions as much good as less lofty IRRs earned over longer time periods. Indeed, as with a very high coupon bond, an important risk that venture-oriented investors face today is so-called reinvestment risk — the risk of recycling investment income back into the types of securities that produced it but at much higher entry prices (i.e., lower prospective yields).

Tidal Wave. Entry prices on technology-oriented ventures are climbing because a tidal wave of money is flowing into this niche, from inconspicuous or non-traditional as well as traditional sources. The inconspicuous or non-traditional sources include corporate behemoths that have initiated or expanded hugely their own in-house venture arms (e.g., Lucent, AT&T, HP, and Intel), those that serve as intermediaries between the investing public and would-be entrepreneurs (e.g., CMGI, ICG, Softbank, Safeguard Scientific, and the like), and the many buyout firms that are clinging to established rules respecting target firms' cash flow characteristics but applying them in reverse. KKR, Thomas H. Lee Partners, Forstman Little, and other buyout shops used to invest solely in companies that generated lots of positive cash flow, pre-buyout; lately, they seem to be favoring companies that are absorbing lots of cash, e.g., MJC Communications (a Lee/Kelso deal), McLeod USA (Forstman Little), and Birch Telecom (KKR). The more traditional sources of risk capital that continue pouring money into the tech sector include the many rapidly growing venture partnerships whose aggressive ways we critiqued so stridently in this space last quarter. (Along with an infinite variety of equally scandalous material, this critique is available via the Internet at www.tiff.org.) Whether corporate funding of new technology ventures will continue at its current torrent pace even if the IPO boom abates is anyone's guess. We have our doubts, because the rate at which in-house venture arms are expanding suggests that senior managements are overreacting to external pressures to jump aboard the Internet bandwagon. Managements are also seeking to grab the same carrot that markets are dangling before venture capitalists and buyout artists, mindful that there is no stick that can harm them if they prove unskilled. There is no stick (i.e., potentially serious penalty for botched efforts) because the funds being committed to new technology ventures are primarily Other People's Money entrusted to such intermediaries via corporate or partnership vehicles entailing dangerously asymmetrical compensation arrangements: if a new venture strikes gold, the venture capitalists in question can make a small fortune (i.e., 20%-30% of a large fortune), but if it goes bust the same VCs will lose only a tiny sliver of their own wealth, if that. This too shall pass away, but not until the Other People whose money is ultimately at risk realize such disappointingly low returns that they finally rebel against the asymmetrical arrangements in question. Judging from the ardor with which these Other People are pouring money into venture capitalists' hands, such a rebellion is not even remotely close at hand.

Shocking but True. Far from pressuring VCs to adopt fairer fee structures, institutions seeking to boost their private equity exposure seem increasingly willing to tolerate even more asymmetry, including the excising of netting and clawback provisions that prevent venture capitalists' unjust enrichment. Of course, some newcomers to the VC party have never been burned by rigged compensation arrangements. And even organizations that are **not** new to the party can be forgiven for forgetting the lessons of the past, most of which are buried in accounting ledgers that are years if not decades old. Our favorite anecdote along these lines (which is verifiably true) involves an $80 million venture fund formed in 1989 which only recently had its final "winding up." (Its GPs sought an extension, but the LPs sensibly said, "No way.") Of the $80 million in question (a serious amount of money by 1989 standards), $67 million was invested in portfolio companies and $13 million was used to pay the GP's annual management fees. The fund had two big winners early on, and the GP's principals pocketed their agreed-upon 20% of such gains. The rest of the fund's investments produced mediocre returns on average: a total of $15 million in net gains **including** gains produced by the two big winners. Alas, the fund's clawback provision (requiring the GP to disgorge profit interests it has already received in order to keep the true profit split at 80/20) applied only if the outside investors or LPs did not get all of their original capital back. In fact, they did receive a full return of principal, plus a paltry $6 million in gains. The residual $9 million in gains went into the GP's coffers (via its 20% carry on the two early winners), boosting the GP's total income over the fund's full 10-year life to $22 million. The ultimate bottom line net IRR to LPs? A shockingly low 1.3% per annum. Had the fund's operating agreement included a clawback with real teeth, the GP's ultimate carry or profit interest would have been at least two-thirds lower.

On to Greener Pastures. Obviously, the firm in question (actually a not-inconspicuous investment bank) is going to have difficulty raising another private equity fund. But the firm's venture arm had just a few principals, most have moved on to other shops, and whether they've jumped ship or stayed they've all done well for themselves, thank you. Change the $80 million in our real-life example to the $400 million (or larger) pots of money that even second-tier VC shops are raising these days, and it is not hard to see how GPs could earn outsize incomes over the next decade even if tech stock prices implode. As we shall see, however, even citizens who have no direct exposure to technology issues (whether public or private) should pray that at least some venture capitalists will continue to earn gargantuan incomes. (This is a teaser aimed at encouraging readers to complete their reading of **both** parts of this tome!)

Whither Value?

Broader Inquiry. Actually, our headline question might more properly be framed, "Whither active management?" We say this because active management (of domestic stock portfolios) is unlikely to survive in its current form for more than a modest fraction of the new century, and it is unlikely to survive at all unless value investing stages a much-anticipated rebound, and soon. How can we make such outrageous statements? Consider the following facts:

- Most active US stock managers are measured against capitalization-weighted benchmarks.

- As the last few years of US stock market action indicate, such benchmarks are virtually impossible to outflank when "growth" stocks are hugely in favor. They are impossible to outflank because growth-oriented strategies inevitably morph into momentum-oriented strategies, for reasons no more complex than Newton's First Law: well-managed companies with pumped-up stock prices can do all sorts of things (most involving investment bankers) to perpetuate if not strengthen their images as rapid growers, thereby boosting investor demand for their shares, which boosts their benchmark weights, which further boosts share demand, etc., *ad nauseam.*

• In recent years, and more of necessity than choice, value managers have become growth managers, growth managers have become momentum managers, and momentum managers have become ... well, wealthy beyond their wildest dreams. (Espying the stocks that momentum-oriented investment "professionals" own, some wags have argued that such investors have started to display the eccentricities associated with extreme wealth, putting fresh money into stocks that cannot possibly generate an adequate return even if the companies in question capture unexpectedly large market shares.) Indeed, the momentum to which we refer is so powerful that it will surely honor Newton's First **and** Second Laws, powering ahead until some external force alters its forward inertia.

• Which force or forces could cause today's votaries of growth stock investing to wish they'd been more value-oriented? There are just two plausible candidates: first, government policies (or the threat thereof) that cause investors to rethink their "New Age" paradigms, the most obvious but by no means only threat being a tax on Internet-based sales; second (and more likely), dilution — the simple and age-old watering-down of realized returns through the issuance of unexpectedly large amounts of new shares. It is fine and well for year-old Internet ventures with minimal tangible assets to trade at the equivalent of $15+ million per employee. But there is simply no way for such firms to validate investors' heroic growth expectations without issuing large amounts of additional shares. This is especially true of Net-based ventures that are years if not decades away from turning a profit: if they can't generate internally the cash they need to grow at a rapid rate, they must fund their capital needs externally. This unarguable fact may be music to investment bankers' ears, but many of today's growth stock votaries will find it discordant if not jarring, just as investors who amassed temporary fortunes in emerging markets *circa* 1993-94 ultimately discovered: the nations in question **could** have continued growing their economies at the rate reflected in their pumped-up capitalizations but only by issuing ample supplies of new shares. This might not have been bad for citizens of the emerging economies in question, but it would not have been very good for outside investors. In fact, these outside investors ultimately saw the light, and when they decided to cut back on their exposure to emerging markets, stock prices declined sharply.

• Speaking of dilution, and returning to our provocative statement that active stock management as we know it is unlikely to survive for much longer, it takes no crystal ball to foretell individual investors' ultimate abandonment of actively managed stock mutual funds as a prudent repository for their long-term **taxable** wealth. To be sure, it will take many years — perhaps decades — for taxable investors to abandon active management of non-US stocks, foreign markets remaining inefficient in a conspicuous but manager-friendly way. (Witness the stunningly good performance in 1999 of the three TIFF Funds that invest partly or exclusively in foreign stocks.) [*Advertisement*] This contrasts sharply with the US stock market, which becomes less efficient in the valuation sense with each passing day but in a manner that heightens rather than reduces its perilousness to professional investors. As the new century dawns, the list of formerly respected value managers whose once-celebrated skills are now viewed with contempt is longer than the list of Red Sox squads that fell just short of the World Series crown during the 20th century. (Your editor is cautiously optimistic that the new century will produce a world title for the Bosox, but he is hedging his bets by making wagers to this effect only with persons born before the Sox sold Babe Ruth to the Yankees.) Even the great Warren Buffett's stock-picking skills have become suspect of late, a turn of events that is probably frustrating at best for the publicity-loving Sage of Omaha but amusing at worst for his California-based co-portfolio manager Charlie Munger. An accomplished student of Roman history (as those of us who've heard him expound on it can attest), Munger is no doubt familiar with what the first skilled exponent of value investing said in one of his early client letters. "No one regards what is before his feet," the Roman poet Quintus Ennius (239-169 BC) once complained. "Everyone gazes at the stars."

• Importantly, value investing has rebounded from deep troughs before, albeit none so deep as the one into which it has slid over the last year or so. As noted in the graphs at page 3, value strategies performed splendidly in the several years following the collapse of the Nifty Fifty in the early 1970s but have since given back virtually all of their relative gains. Value broadly defined still beats growth broadly defined over much longer time horizons (e.g., since the 1926 inception of the most robust database for US stock prices), but this is a tautology to all investors old enough to remember all of the Bosox' post-war Series appearances ('46, '67, '75, and '86). It is tautologous because buying low and selling high inevitably produces more wealth than the converse, a principle that investors in foreign markets came to doubt as Japanese shares soared in the latter half of the 1980s but whose inherent soundness they learned anew in the decade just ended.

- Speaking of lessons that must continually be learned anew, we can't leave the topics of stock investing in general and foreign investing in particular without mentioning the sorry fate of certain non-profits that jettisoned longstanding investment managers in favor of the TIFF Multi-Asset Fund (MAF) after the Fund produced very strong results right out of the starting gate (up more than 19% during its first year and almost 50% before its third anniversary). TIFF's staff spent a lot of time trying to ensure that trustees impressed by the Fund's strong early start understood how materially its policies differed from those they would be abandoning (typically) if they shifted their endowments into the Fund, the MAF being (a) more equity-oriented than their pre-existing asset mixes (and hence more vulnerable to the type of global stock sell-off that occurred in the fall of 1998) and (b) less US-centric than the policies being discarded. In the event, numerous non-profits whose longstanding managers had missed the most conspicuous opportunities of the early and mid-1990s (US value stocks at the outset, followed by emerging stocks for a few years) eagerly boarded the MAF bandwagon in 1996-97, only to abandon it in 1998 as the utility of global diversification morphed **temporarily** into an exercise in futility. Sadly, our own study of such organizations' pre- and post-MAF investment practices indicates that most would have been (a) materially better off if they had maintained the status quo *ex ante* (i.e., prior to investing in MAF) and (b) noticeably better off if they had stuck with MAF rather than bailing out in late 1998 or early 1999. Most such organizations reverted to a US-centric mix with a large bond component, which materially underperformed the MAF during 1999 — as did the once-sacrosanct S&P 500, for that matter.

- Moving forward, we at TIFF plan to be even more forceful in discouraging trustees from using TIFF-managed vehicles whose requisite time horizons (i.e., potential time periods of underperformance) are intolerably long in relation to such trustees' own tolerance for pain. As indicated by TIFF's recent decision to waive $400,000 in fees to which it was entitled (see page 12), the cooperative isn't consciously seeking to boost its own income, and its leaders have no interest (pecuniary or otherwise) in persuading eligible non-profits to employ strategies that are not well-suited to their needs, short or long term. We do have a sincere interest in helping eligible investors whose time horizons are truly long term and in dealing Hippocratically (*sic*) with all other non-profits: if differing time horizons render TIFF's vehicles inapposite to their needs, TIFF should at least do them no harm.

- In fact, we think TIFF can be of help even to trustee groups whose tolerance for short-term pain (i.e., reputational risk) is quite low, as your editor will discuss when he updates TIFF's Members on the cooperative's evolving strategic plan at the TIFF Forum 2000 in Denver on May 9. Far from abandoning the principles that most sharply distinguish TIFF's work from the policies traditionally pursued by many endowed charities, we plan to stick to such principles — indeed, to make them more readily available in their purest forms to eligible charities. These principles include global diversification, value-oriented stock selection, and performance-based compensation for investment professionals.

A New Age Dawns in the Old World

Comfort vs. Value. Of the three principles just cited, the first seems especially important as the new century unfolds, for reasons that should be obvious to readers who monitor closely global economic trends. To be sure, at a time when many seasoned investors are expressing fears that the US stock market is an over-inflated "bubble" that will do much harm when it bursts, the second principle (value-oriented stock selection) is hardly unimportant. However, to the extent that such concerns induce investors to look outside the US for investment opportunities, the second principle is partly if not largely subsumed by the first. And the first principle was revalidated in spades by market action in 1999, with most developed foreign markets outperforming broad US stock indices by wide margins and emerging markets more than tripling the S&P 500's very respectable 21% total return. Of course, this outcome is hardly surprising to those who believe that returns and comfort are inversely correlated: foreign markets in general and emerging markets in particular were perceived as hugely risky as 1998 drew to a close, thanks to the massive correction they underwent during the autumn of that year. Foundations with the courage to increase their exposure to such underperforming assets when rebalancing their asset mixes at year-end 1998 have been amply rewarded for doing so, just as foundations who maintained or boosted their exposure to the asset-of-choice at the time (longdated Treasuries) have suffered over the last year for favoring comfort over value.

Favorable Trend. We have no idea whether foreign markets will outperform the US market in 2000 or thereafter, but there are reasons to suppose they will not underperform and reasons to suppose that broad non-US stock indices will outpace their capitalization-weighted US counterparts over the medium and perhaps longer term. The first reason is obvious, namely that many foreign markets — and virtually all emerging ones — have underperformed broad cap-weighted US indices in recent years. In the five years ending December 31, 1999, for example, the S&P 500 outperformed the EAFE Index of developed foreign markets by 168.2% (251.1% for the S&P 500 vs. 82.9% for EAFE) and the EMF Index of developing markets by a staggering 251.7% (the latter declined 0.6% during this period). Second, whether the nascent recovery in many foreign bourses outside Europe continues (foreign markets excluding Europe rose an estimated 29.8% in 1999), Europe itself will likely continue delivering good news to shareholders of firms domiciled there.

Seeing the Light. The most telling indicator of future promise is the burgeoning use of performance-based pay schemes among European companies. A recent study by Towers Perrin notes that almost two-thirds of European companies now link executive pay to performance, with just 25% clinging to the customary practice of across-the-board increases. Importantly, a respectable fraction of non-management European employees have performance-based pay plans (10% and rising), and **all** of the employees at some avant-garde companies labor under such plans (e.g., Daimler-Chrysler). Although some historians would give the lion's share of credit for America's economic revival over the last two decades to Paul Volcker, the inflation-slaying head of the Federal Reserve (1979–87), most would agree that the adoption by American firms of stock option plans and other performance-based pay schemes was crucial to the great bull market in stocks that commenced during Volcker's third year at the Fed and that continues (for tech stocks, at least) to this day. There is every reason to suppose that a similar renaissance will materialize in Europe now that the three dominant players on the scene — corporate boards, labor unions, and voters — have seen the light. That the latter in particular have seen the light is manifest most visibly in the German electorate's recent quiet acceptance of an important policy shift that permits German banks to unload their huge blocks of "cross-holdings" (i.e., shares of important corporate borrowers) without paying capital gains taxes.

Free at Last. This emancipation proclamation will undoubtedly spur other European governments to liberate their citizens' capital to at least a comparable extent (if they haven't already done so). Who knows? It might even induce certain veteran solons in Washington to rethink their inherently static view of what would happen if US capital gains tax rates were cut from the 30%–50% that most taxable investors pay to some lower level. To be sure, the statutory federal claim on long-term gains is just 20%, but when one adds state (and sometimes local) taxes as well as tax counsel and filing costs the true toll is closer to 30% on long-term gains and 50% or higher on short-term ones. One reason that the US stock market has displayed such narrow breadth of late is that investors are disinclined to sell low-basis holdings and redeploy the proceeds into more reasonably priced issues when the latter need to move sharply higher merely to make such taxpayers whole: if I paid $10 for a stock now trading at $100 and face a 26% combined tax toll on my $90 gain when I sell, then the security that replaces it must appreciate more than 30% before I am better off having made the trade. Of course, I can always donate appreciated securities to qualifying charities, thereby converting $76 of personal after-tax wealth ($100 less $24 in taxes) into $100 of resources for the eleemosynary sector. Sadly, the nation's legislators (which is to say its voters) do not think it wise to convert charitable deductions into charitable **credits** (i.e., I save a dollar of taxes for every dollar I give away), a policy shift that would produce billions of dollars in incremental giving for the so-called "third sector." Whether the private non-profit sector would make more effective use of such wealth than the governments that now direct its use (or that stymie its liberation from suboptimal investments entailing large unrealized gains) is an open question, one to which we will return in Part II of this "look ahead." As noted at the outset of this essay, Part II (to be published next quarter) will also address the related question of whether America's schools — public or private — are adequately serving America's long-term needs. As will be seen, markets offer sharply differing answers to this all-important question: the US stock market (*circa* late December 1999) seems to be saying that America's future is incredibly bright, but other markets (e.g., the market for talented technologists, proven or aspiring) are sending a very different signal to investors trying to gain an edge by looking further ahead than their peers. Stay tuned. ❐

A Look Ahead — Part II

Where Were We?

Oh Yes ... This essay constitutes Part II of an essay speculating on what the 21st century might hold for investors. (True to the wishes of the foundations that brought it into being, TIFF takes the **really** long view.) Part I appeared in the TIFF Commentary for 4Q 1999, which can be accessed by hitting the Publications button on the handsome home page of TIFF's newly enhanced Website (www.tiff.org). As noted in Part I, because our audience comprises primarily trustees with a US-centric investment focus (a mindset critiqued herein), our reflections focus primarily on the very long-term outlook for US capital markets. And because our focus is long term, our thoughts necessarily and inevitably turn to the boundary conditions under which US asset prices will evolve as the new century progresses and to arguably the single most telling indicator of America's economic future: how it educates its youth. As will be seen, your editor is guardedly optimistic about America's future, albeit for reasons that may surprise many readers — and that will surely anger some.

Market-Oriented. Although we are willing to apologize in advance for any typos or "thinkos" contained herein, we make no apologies for the market-oriented outlook that follows. By market-oriented, we mean two things: first, that this "look ahead" focuses primarily on the likely behavior of private citizens (Americans as well as others) who are free to act in their own interests, however selfishly or selflessly they define such interests; second, that this outlook assumes that free and independent allocation of resources produces more social utility (i.e., the greatest good for the greatest number of people) than coerced allocation of resources. We know with certainty (because they've told us) that some faithful readers do not have as much confidence in market-based solutions to social ills as this essay's author does, but that is all to the good: reasonable people can reasonably differ about such things, and it does thoughtful people good rather than harm to have their first principles tested by others. We will also add that there are certain advantages in having those charged with the stewardship of a large amount of eleemosynary capital (including your editor) be fervent believers in free markets, however extreme such beliefs might seem to those who favor more interventionist public policies. That said, the author recognizes that he has no monopoly on wisdom (in any sphere save what the Red Sox must do to seize a World Series crown in the new millennium), and he welcomes comments from readers who think the views outlined below are misguided.

Of a Piece. This is the second half of an essay that was written over several days surrounding the recent millennium change. It was written with serialization in mind: few of our busy readers have the time to read more than a finite number of pages of material from TIFF in any given quarter. But its division into two parts should not cloud the fact that it was written as a cohesive whole (cohesive in its author's mind, that is). Readers who have not read Part I are encouraged to do so before proceeding. Those who have read Part I will recall that it concluded by posing two related questions: whether the private non-profit sector could make more effective use of monies now collected coercively by government and whether America's schools are adequately serving the nation's long-term needs. It closed with this sentence:

As will be seen [in Part II], markets offer sharply differing answers to this all-important question [about schools]: the US stock market *circa* late December 1999 seems to be saying that America's future is incredibly bright, but other markets — e.g., the market for talented technologists, proven or aspiring — are sending a different signal to investors trying to gain an edge by looking further ahead than their peers.

Looking further ahead than other investors is a proven path to profits, provided two conditions are met: first, investors seeking to exploit such an edge must have an investment time horizon commensurate with their radar's forward scope; second, the radar must identify accurately what lies ahead. Readers can judge for themselves how well the radar used here meets this test. In reaching such judgments, readers should note well that the views expressed herein are the author's own and not the official or operative views of TIFF or its governing board.

Be Forewarned. Perhaps because this essay was written shortly after its author saw Agatha Christie's classic murder mystery *The Mouse Trap* for the first time (after having bypassed repeatedly the London theater in which it has been playing since 1947), it is structured in a manner different from TIFF's prior commentaries. Like the archetypical mystery tale, its audience is exposed to certain seemingly disconnected ideas and hypotheses as it unfolds. Hopefully, everything comes together by the end, just as it does in Ms. Christie's marvelously entertaining play. By the way, the murderer is ... oops, we promised not to tell: the play's ending is so surprising that the program essentially begs playgoers to keep it secret so that future patrons can enjoy it fully. In England at least, the customers obey. In short, unlike many Internet ventures being funded at present, *The Mouse Trap* has a true and enduring proprietary edge.

JFK Had It Right

Felicitous Quote. Your editor is not alone in his view that America's most talented 20th century president was a Harvard man with an east coast pedigree and a penchant for stirring rhetoric. Without stating explicitly which president gets the nod, we'll note that a different 20th century president gets our award for best oratory, most of which was written not by himself but by a gifted aide who shared a first name with our pick as most talented president and whose last name was Sorensen. "Our progress as a nation," John F. Kennedy warned the nation early in his ill-fated term, "can be no swifter than our progress in education. The human mind is our fundamental resource." JFK's words come to mind as one ponders whether Mr. Market, in his infinite wisdom, is paying sufficient heed to certain visible threats to his generally rosy outlook for the US economy in the new millennium. Mr. Market, please note, is investor-speak for consensus opinion, as reflected in the current valuations (absolute and relative) of all securities. JFK made many mistakes as president, but his warning quoted above was both timely and prophetic — now no less than when he uttered it.

The Enemy Within. When JFK became president, America faced big problems at home — especially respecting race relations — but its most dangerous enemy was external: the Soviet Union. The threat that the Soviet Union posed seemed especially ominous because the regime's titular leader (Nikita Khrushchev) seemed as unstable as the military-industrial complex that he headed seemed omnipotent. Happily, American tenacity and ingenuity ultimately proved not just the equal of what the Soviet Union could muster but vastly superior to it, thanks in large part to an educational system (particularly at the college and post-baccalaureate levels) that attracted gifted individuals from around the world. Indeed, at the college and post-baccalaureate levels, American education remains the envy of the world and continues to attract the "best and brightest." Alas, these "best and brightest" are decreasingly US citizens. Worse, they are increasingly electing to take their talents elsewhere once their degrees are in hand. This bodes poorly for America, as do other societal trends that merit at least brief discussion before we examine in detail the problems of inadequate education and excessive emigration. (We do mean *emigration*, not *immigration*.)

Bucking the Crowd. TIFF insiders who reviewed this essay in draft form forewarned its author that he risked losing his audience if he didn't insert here a reminder of why the societal trends discussed herein are relevant to TIFF's mission of enhancing endowed institutions' long-term investment returns. Easily done. Based on years of working with hundreds of trustee groups, TIFF's leaders know that many governing boards (indeed most investors) understandably favor investments that are familiar and comfortable over those that are the opposite. At present, many if not most trustee groups that turn to TIFF for guidance on long-term asset allocation continue to favor highly US-centric asset mixes. This would be fine if their avowed aims were **twofold** — to earn decent returns while simultaneously keeping most of their capital at home — but most governing boards that we advise state that they are pursuing just one goal: to maximize returns within acceptable volatility constraints. Given current valuations [late December 1999] and the vast universe of investment opportunities outside the US, it is hard to square the pursuit of adequate risk-adjusted returns with a highly US-centric long-term policy mix. At the very least, trustees intent on overweighting US stocks (relative to world market weightings) owe it to themselves and the charities they serve to review carefully the premises underlying their bullish stances on America. This essay is not ultra-bearish on America's economic prospects in coming decades, but it is decidedly more bearish than the conversations among foundation trustees in which its author has been privileged to participate in the last year or two or three. It is more bearish because its author believes that Mr. Market has misgauged the velocity if not also direction of at least four major social trends in the US: the two trends that we examine in detail later in this essay (education and emigration) and two trends examined immediately below (declining public ethics and declining public health).

Declining Public Ethics. By public ethics, we mean two specific and related things: a work ethic and a savings ethic. The two are related because both entail the opposite of what an overly vigorous consumer society promotes, namely immediate and often excessive gratification of wants and desires. What evidence can be adduced to justify this sweeping generalization about American society at the dawn of the 21st century? Space limitations preclude a full cataloging of such evidence, but even a partial list should suffice:

- The burgeoning popularity of day trading, a "profession" that has attracted more new entrants over the last three years than law and medicine combined;

- The burgeoning popularity of state-sponsored gambling: 37 states have lotteries, 10 have legalized gambling, and 22 have Native American casinos — thus providing ample elbow room for the 15% of Americans who, according to a 1997 Harvard study, are addicted to gambling. Of course, in the gaming sector no less than in other parts of the "New Economy," the Internet is steadily removing physical as well as psychological impediments to speculation: at last count, Americans could avail themselves of no fewer than 650 gambling-oriented Websites (excluding stock brokerages!). Observers who assert that Internet-based gambling will merely cannibalize speculative activity that has traditionally flowed through more personal channels — e.g., neighborhood bookies — are myopic at best: human nature is such that many people will engage in acts capable of being performed anonymously (e.g., via www.iwin.com) that they would not consummate if observed by others;

- The American public's very low saving rate; and

- Americans' generally poor understanding of the power of compound interest.

In 1999, Americans consumed about $25 billion per month more than they produced, resulting in historic trade deficits (exceeding 4% of total output) that could prove very dangerous if foreigners' appetite for American securities begins to wane. (Americans can consume more than they produce only if foreigners are willing to swap their goods for our paper.) Importantly, a recent poll by Consumer Federation of America found that the median savings of American families is just $1,000. (That's $1,000 in cumulative savings, not annual set-asides.) The same poll also found that the typical American underestimates wildly how materially wealth grows when invested for long time periods at even relatively modest compound rates (the poll used 7%). Indeed, 27% of Americans polled believe that winning a lottery represents their single best chance of accumulating $500,000 or more during their lifetimes. Of course, one could argue that some Americans' economic prospects are so dim as to make such beliefs well-founded in their particular cases, notwithstanding the shockingly low odds of their actually winning a lottery. And it is hardly "unethical" for families who are barely making ends meet at or below the poverty line to maintain *de minimis* cumulative savings. But such exceptions to the general rule don't invalidate the main point, which is that many Americans are increasingly unable or unwilling to adhere to behavioral norms that have enabled the republic to prosper even as its population has ballooned far above levels that its founders deemed appropriate for the liberal democratic regime they devised.

Risky Bet. A democratic electorate that values material wealth acquired by pure chance even remotely as highly as wealth acquired by work is hardly one on which a savvy investor would place most of his bets (pun intended). 'Tis sad indeed that so many Americans no longer practice what the nation's principal architect so fervently preached: "I'm a great believer in luck," said Thomas Jefferson, "and I find the harder I work the more I have of it."[1] To be sure, many Americans continue to work long hours, and recent productivity trends are impressive to say the least. But public policies (like securities prices) are set by marginal (i.e., swayable) votes, and if a plurality of American voters truly believe that luck underlies success to a much greater extent than work, then those whose luck proves disappointing will find it expedient as well as psychologically gratifying to support policies that essentially penalize success. As social commentator Earl Wilson once observed, "Success is simply a matter of luck. Just ask any failure." Self-government presupposes self-discipline, which in turn presupposes a willingness by each voter to let those who have achieved greater material success than themselves enjoy the fruits of their own labors — especially if the "winners" stand willing to share such fruits through non-coerced philanthropy.

Dynamism or Dynamite? For better or worse (opinions differ greatly on this sensitive topic), public policy trends in the US entail increasing penalties on success. According to the Tax Foundation, the top 5% of all individual US taxpayers paid about 52% of federal individual income taxes in 1997, despite having earned just 32% of total individual income. The corresponding numbers for 1987 were 43% and 26%. Some people would argue that the 6% rise in the proportion of income earned by the top 5% (from 26% to 32%) is more disturbing than the 3% rise in the "penalty" paid by such high-income earners (3% being the difference between the 20% gap between taxes paid and dollars earned in 1997 vs. 1987, i.e., 52%-32% vs. 43%-26%). And no fair-minded observer could deny that the distribution of wealth is becoming more unequal in America. Importantly, however, the **composition** of the top 5% is displaying increasing dynamism also, as one would expect in a rapidly changing economy in which people with large stakes in traditional industries and business models (e.g., oil and gas, steel, bricks-and-mortar retailing, etc.) find themselves being lapped by people with large stakes in newer industries and models (e.g., software, telecommunications hardware, Internet-based retailing, etc.). As we shall see, America's capacity to maintain a rising economic tide that lifts most boats (albeit some vastly more than others) depends hugely on whether those making large fortunes in the "New Economy" prove as public-spirited (i.e., philanthropic) as those who made large fortunes in the "Old Economy" (e.g., Carnegie, Ford, Rockefeller, Pew, MacArthur, etc.). While some of America's largest private foundations were founded before income tax rates became steeply progressive, it would be naïve to think that the foundation formation is unaffected by changes in marginal tax rates. In this sense, perhaps rising marginal tax rates represent a safe and effective cure for the problem of growing inequality of wealth. But why not take this policy to a more logical extreme? If the rewards for philanthropy were as progressive as the penalties for material success (as measured by marginal tax rates), who knows how much incremental wealth would flow into the non-profit sector? Imagine if charitable deductions

[1] We haven't even mentioned the Pokemon phenomenon, which itself will likely prove short-lived but which is rooted in young Americans' ready acceptance of the larger culture's yearning for "the main chance." (Memo to readers without school-age children: Pokemon is essentially a lottery for children — they pay good money for packs and packs of Pokemon trading cards, hoping to obtain those containing "rare" cards.) Nor have we mentioned America's still sky-high divorce rate, which is also symptomatic of its adult citizens' unwillingness to work hard at a task that requires years of concerted effort to accomplish: at last count, 35% of ever-married adult children of intact couples get divorced (twice the rate that prevailed in the 1970s), and 45% of ever-married adult children of divorced parents themselves get divorced (up 10 percentage points since 1970).

resembled Scandinavian tax rates *circa* the 1970s, i.e., if a wealthy American were to receive a 46 cents deduction (combined federal and state) for the first dollar she donates each year but increasingly larger deductions (in percentage terms) as her giving accelerates. Some politicians bray that tax reforms of this sort could cause the federal deficit to return to the frightening levels it reached during Ronald Reagan's presidency, but even if they are right about Uncle Sam's bottom line (which is doubtful), they are arguably wrong on the larger question of whether society would be improved or harmed: as journalist Rich Karlgaard has observed, during the eight years ending in 1988 the federal debt grew by $1.4 trillion, while the market value of all US assets grew $17 trillion. As they would say at the corner of Wall and Broad Streets, "Not a bad trade."

Declining Public Health. Declining public ethics (as defined herein) may not be an exclusively American phenomenon, although the evidence adduced above makes one wonder whether this country's ethical headwind isn't so strong as to make it qualitatively different from the forces impeding progress in other developed economies. But one thing is certain: Americans are in relatively bad shape, physically speaking, and the gap between US measures of physical well-being and those of other developed nations is large and growing. It is this way because the average American's waistline can also be described as such: the Centers for Disease Control says that 18% of adult Americans are obese and 50% are overweight. One could argue that it is nobody's business whether certain Americans overeat (or exercise too little), but in light of growing public pressures to extend subsidized if not free healthcare to all Americans who cannot afford the care they need, an investor must assess soberly the probabilities that waistline inflation will inevitably cause price inflation (as excessive government spending on healthcare distorts the efficient allocation of capital and perhaps also debases the currency).

Seed Corn. If JFK was right that America's progress as a nation "can be no swifter than its progress in education," then the country's economic fortunes may not be as bright as US stock prices at the end of 1999 imply. The prolific and gifted economist Horace Brock attributes America's striking economic gains during the final quarter of the 20th century to its "accelerating IQ," or "Innovation Quotient." During this 25-year stretch, Brock notes, America displayed a 30% productivity advantage over its two chief economic rivals (Germany and Japan) despite a declining savings rate and falling net investment. From his perch in Silicon Valley, Brock thinks the probabilities favor a continuance of this trend, i.e., further relative gains in America's "IQ." We have our doubts, based primarily on work done by another gifted economist in Silicon Valley (discussed anon), supplemented by our own grassroots research there and elsewhere. The basic problem is that a non-trivial fraction of the past IQ gains that Brock trumpets are attributable to the efforts of non-Americans, many of whom came here as graduate students and stayed. If past is prologue, there is reason to suppose that America's world-class universities will continue to attract many of the world's most promising students and that many will elect to stay in the US once they've had the pleasure of spending several hours each day communing with their fellow travelers on America's increasingly clogged highways. (That's a tease: road congestion is even worse in many foreign capitals.) But what if these talented individuals take their sheepskins and run? What if they don't come here in the first place?

Come Back! Answering the last question first, if indeed "the best and brightest" from overseas find it decreasingly important to spend money and time pursuing degrees in the US, some would argue that they are merely following the lead of America's own best students. As has been widely reported, top business schools are having an increasingly difficult time retaining their students, such are the allures of the e-ventures that are dangling potentially lucrative options packages before such students' eyes. The same opportunistic mindset is spreading through the college ranks, causing some older Americans to wonder why extremely talented youngsters are "pulling a Bill Gates" (i.e., spurning college) rather than pursuing "knowledge for its own sake" for four years.

We Digress. The author has his own answer to this question, rooted in concededly anecdotal evidence obtained by close monitoring of what goes on at one of America's most prestigious universities (and on whose campus he is privileged to reside). His theory is that many of today's best college-age minds recognize that what many "top-ranked" colleges teach today has far less enduring value than what they taught when the generations of alums who've donated vast sums to their alma maters in recent years themselves attended college. Many of these alums would be shocked by what is actually going on in their alma maters' classrooms, or rather by what is not going on. We are not talking about such inherently debatable concepts as whether Toni Morrison's concededly seminal and provocative writings merit vastly more study and reflection (often on a compulsory basis) than Shakespeare's. Nor are we alluding to the specious notion, which is all too popular among professional educators, that technology is advancing so rapidly that most knowledge acquired today will necessarily depreciate in value as students live out their lives. (Some knowledge has enduring value, although one would hardly know it based on the generally content-neutral character of American school curricula.) We are talking about something much more fundamental, namely whether professors have an ethical if not contractual duty to help students in specific ways irrespective of how choiceworthy the material being taught happens to be. For example, at the university with which the author is currently most familiar, one professor charged with the sacred duty of teaching English 101 (i.e., English composition for freshmen) told his charges that he would return no written work to them until **after** the semester had ended. His stated reason: he would not want his comments to hamper their creative expression. (We haven't checked to see how many rounds of golf this long-tenured professor played this year, but if he hasn't been enjoying his ample leisure time on the links he has most assuredly been enjoying it in other ways.) Two more anecdotes about the current state of higher education reinforce the concern about higher education advanced here. A skilled foreign language instructor at the university in question (actually a teaching colleague of the author's spouse) has stated that she is finding it almost impossible to teach today's collegians how to speak her native tongue (Italian), because they lack even the most rudimentary understanding of **English** grammar. Trying to teach romance languages to English-speaking persons who don't know a pronoun from a participle is like trying to tell an Italian to keep his hands still while he is speaking. The second tale has been told repeatedly by famed historian David McCullough, who graciously served as scholar-in-residence at this same prestigious school a few years ago. Puzzled by the uncomprehending stares of the students comprising a seminar for fourth-year history majors that he was teaching, Mr. McCullough asked if perhaps some of them did not recognize the historical figure to whom he had just alluded. To his astonishment and dismay, not one student in the room could identify famed military leader and statesman George C. Marshall.

Voting with Their Feet. The anecdote just recounted would be less significant if it involved a classroom of freshmen, because even the best universities' admissions offices can and often do give unprepared students the potentially valuable opportunity to study in their hallowed halls. As we shall see, they often have little choice, because many applicants' prior schooling has inculcated little enduring knowledge and few lasting skills, excepting the gift of self-admiration. But one would think that senior history majors at such a prestigious university would have encountered General Marshall somewhere in their first 3 1/2 years of course study. That students at this institution had not helps one understand why some observers (the author included) think American higher education as a whole is as overcapitalized as some of the high-tech ventures that are causing many especially promising young people to "pull a Bill Gates."[2] Needless to say, this is not a message that sits well with university types, as the author himself learned when he first articulated it to a gathering hosted by the Association of Governing Boards in 1995. (A transcript of this tomato-eliciting talk, which the author subsequently delivered in abridged form to a workshop for college trustees hosted by The Common Fund, is available on TIFF's Website.) But it is a message whose validity becomes all too clear when one talks to bright college students today, many of whom are unlikely to be as generous in their gifts to their alma maters (if indeed they stick around for their degrees) than the unbeatably generous members of what best-selling author Tom Brokaw has rightly called "The Greatest Generation."[3]

[2] The author encountered an extreme example of the "I don't need a sheepskin" school of thinking in San Francisco recently, in the form of a very talented employee of a top hedge fund. The young fellow quit Stanford just one credit short of his undergraduate degree. Asked why (by someone who has perhaps more degrees than common sense), the dropout replied: "Because the best way to prove that I'm an independent thinker [editor: a virtue in investing] was to drop out of the race just before I crossed the finish line."

[3] None of the long-term plans of highly prestigious universities with which the author is familiar assume any material diminution in alumni giving per capita in coming decades. "Free market types" (including the author) find this hard to square with some of the conclusions reached in the penetrating study of college graduates' income patterns authored by Princeton economist Alan Krueger and Mellon Foundation researcher Stacy Berg Dale. The study finds that no statistically valid correlation exists between an institution's prestige and its graduates' future incomes, after other explanatory variables have been taken into account. The study was based on data gleaned from the records of college graduates who matriculated at 34 schools in 1976. Had the base year been 1946 or even 1956, however, it is far more likely that post-college incomes would be positively correlated with colleges' prestige: where someone went to college mattered a lot more to employment prospects in the

Brain Drain. As noted in the aforementioned AGB address, if colleges and universities were enterprises whose shares could be sold short, a farsighted investor would do well to consider taking such a position in some of them. He would also do well to extend his analysis to educational trends that will likely have more direct and material bearing on America's future "IQ" (as Brock defines it). Sticking for the moment with **higher** education, one might reasonably ask how many of America's most talented students will take the step of abandoning not only prestigious US universities but their native country in order to pursue promising career opportunities abroad. Alas, young **Americans** don't need to shun America's top universities, or its top companies, for America to suffer a potentially damaging brain drain. As Mr. Brock's Stanford neighbor Thomas Sowell has observed, less than half of the students enrolled in graduate programs in math and engineering in the US are American citizens. Sowell also notes that in **every** field surveyed by the Council of Graduate Schools, the proportion of graduate degrees awarded by US schools to Americans has declined over the last 20 years. Importantly, most foreign PhD candidates come from countries that spend far less per pupil than the US on K-12 education,[4] so America's problem is arguably not inadequate educational funding but something far more difficult to correct: flawed K-12 curricula, which is to say flawed leadership (if it can be called that) among those charged with the supremely important duty of deciding what young Americans should learn. Of course, that is precisely the problem: too many educators at the K-12 level don't think that **adults** should decide what young people learn. And too many public opinion leaders (elected officials, journalists, and — dare we say it? — grantmakers) fail to see that monopolistic practices do as much harm in the non-profit sector (public as well as private) as they do in the for-profit sector.

Nature Abhors a Vacuum. Never forgetting that this essay seeks to highlight trends that could cause advocates of highly US-centric asset mixes to regret such biases over the very long term, we will now explain the perceived nexus between curricular woes and non-profit monopolies, and how both could spell trouble for America in the new century. One entertaining way to do so is to consider just how few American students (at all levels of education) could readily identify the source of this paragraph's headline quote. It is Aristotle, of course, a thinker whom American school children could easily escape meeting as they make their way from kindergarten through 12th grade. We do not have space here to even begin to list the manifold ways in which America's elementary and secondary schools (private as well as public) are manifestly failing to prepare students to compete effectively in a truly globalized economy. (Readers who believe that such preparation is not the primary purpose of K-12 education are entitled to their opinions, just as we are entitled to discharge our duty to analyze dispassionately whether American corporate assets deserve the rich premia at which they are now trading on average. The state of American education is highly germane to this analysis, for truly long-term investors.) All that space limitations permit us to do here is to direct readers to the bibliography of readings on the current state of K-12 education in America stored on TIFF's Website (www.tiff.org/pub/pages/tiffart.html).[5] In a word, it is poor, and getting worse

decades immediately following World War II than it does today. And America's unrivaled position in the global economy during such decades made it much easier for the average (and we do mean **average**) graduate of a prestigious college to amass substantial net worth during his lifetime than it is for his counterpart today. We use the male pronoun because most members of the generations of students to which we're referring (i.e., those that graduated from prestigious colleges in the '40s and '50s) were males.

[4] According to a Brookings Institution report authored by education expert Diane Ravitch (*Student Performance Today*), among OECD nations only Finland spends more money per capita on education than the US. And America is the only OECD nation in which nonteachers (i.e., administrators and support personnel) represent a majority of education workers.

[5] Lest anyone think that this bibliography is consciously stacked against the status quo in America's schools, the author promises to add to it any germane books or articles (pro- or anti-status quo) suggested by readers. Just zap a note to dsalem@tiff.org. NB: the bibliography itself takes no position on which publications contained therein are most choiceworthy for readers interested in understanding why the nation's elementary and secondary schools are failing. The author of this essay has two favorites, however: a collection of essays edited by Stanford-based researcher Bill Evers (*What's Gone Wrong in America's Classrooms*) and a book by UVA-based scholar E.D. Hirsch (*The Schools We Need and Why We Don't Have Them*). FYI, the author has read the works of several prominent education specialists who essentially disagree with Evers and Hirsch on both their diagnosis of the problem and plausible cures (e.g., John Gardner and Howard Sizer) and finds their arguments eloquent but unpersuasive. Indeed, their arguments tend to contravene much of what the author himself has learned through 15 years of parenting and teaching. Like most day traders, Gardner and Sizer seem to be engaged in an endeavor that reflects a triumph of hope over experience. Moreover, like day trading, the "reforms" they espouse have the potential to do substantial harm to many innocent bystanders. For his part, Gardner thinks some of Hirsch's ideas are equally dangerous, but Hirsch's chief focus is content, not pedagogical method. One need not agree with anything Hirsch has to say about teaching methods (on which he is actually quite open-minded) to agree with his central point that adults should play an important if not dominant role in determining what children should be taught and in what order.

by the day — not universally, of course, but in enough parts of the land to justify a bearish stance on many young Americans' long-term capacity to pay for the goods and services that today's stock valuations assume they'll be able to afford.

Exceptions That Prove the Rule. Of course, it would be unfair to pin all of the blame for these educational failings on schools alone, and especially unfair to pin such blame solely on **public** schools, however insulated from market forces the latter might be due to their near-monopolistic control of young American minds. There are many weak private K-12 programs in America, just as there are some very strong public ones. Indeed, some public schools in very tough neighborhoods are so demonstrably successful at cranking out knowledgeable, highly skilled, and intellectually curious graduates that one wonders whether those who claim that public schools can do little to overcome the deleterious effects of popular culture have taken the time to study conspicuous examples of the converse. Many defenders of the public school monopoly appear to be too busy fighting measures that would inject more much-needed competition into K-12 education (e.g., charter schools, intra-district "school choice," vouchers, and tuition tax credits) to become even minimally familiar with curricula and pedagogical reforms that are actually producing concrete results. While they fiddle, millions of young Americans are getting burned, although they and their parents often do not know it.

Sad Truth. Perhaps the saddest truth about America at the dawn of the 21st century is that what is supposed to be a land of equal opportunity is not even remotely close to that lofty ideal. Many public opinion leaders (including some highly visible grantmakers) voice concerns about the growing disparity of wealth in America, but they oppose vigorously the one reform that arguably holds the best promise of restraining if not reversing this worrisome trend: injecting meaningful competition into K-12 education.[6] We have discussed this issue with seasoned and respected grantmakers who specialize in K-12 education and who strenuously oppose the most potent "market-oriented" reform now being debated: vouchers. The context was a debate about the educational choices being made on behalf of their children by persons who were born outside the US but who find themselves living here (by choice or necessity) as their children are undergoing K-12 education. Why is it, we asked, that so many of these foreign-born adults take such great pains to ensure that their children are educated in schools of their parents' choosing? In some cases, the schools in question are public (most often situated in tony neighborhoods or towns in which only the most prosperous parents can afford to live), but in most cases they are private. This doesn't mean that these schools are necessarily better at inculcating crucial knowledge and skills. But these parents' proven ability to create the preconditions for their own freedom to choose which schools their children attend (i.e., the wealth to pay private tuitions or the brains to maneuver public school "systems") justifies an outside analyst's ascription of special significance to their actions. To use an investment analogy, if an analyst seeks to know which stocks "smart money" is buying, he would do better to study what serious students of the market such as Warren Buffett are buying than the issues that day traders are flipping like pancakes. We never received a direct answer to the question posed earlier in this paragraph, but this was just as well, because the answer we **did** receive was even more illuminating — not about the choices that education-minded parents are making but rather about why many public opinion "leaders" don't favor choice-enhancing reforms.

[6] This essay focuses on **interscholastic** competition (academic, not athletic!) but its author concedes that the mere injection of more **intrascholastic** competition would do wonders for public school education in America. By intrascholastic competition, we mean the elimination of tenure for public school teachers. Tenure may have a rightful place in academic settings in which the ultimate mission would be compromised if certain researchers and teachers were not free to express certain ideas without fear of being fired (the original rationale for tenure at the university level), but it does much more harm than good in settings where top-down control of the content being taught (as distinct from the way in which it is taught) is mission-critical, e.g., elementary schools. Amazingly, many public school systems grant tenure to elementary school teachers, e.g., Boston's. Then again, perhaps it's not surprising that tenure is readily awarded in the school system of a city suffused with institutions of higher learning. Your editor had the misfortune to attend public schools near Boston (from 1962 to 1974) that were overrun by zealous reformers from the Harvard School of Education seeking to put their innovative pedagogical theories into practice. He is still trying to overcome the handicap of these largely wasted years of barren education. This is not an attack on Harvard *qua* Harvard, a university from which your editor is proud to hold two degrees. (Joke: What do people from Harvard and Texas have in common? Answer: in their very first conversation with you, they always make sure you know they're from Harvard or Texas or both!) Alas, not much has changed in education schools in the quarter-century since your editor was freed from one such school's overambitious grasp. A recent study by the think tank Public Agenda (www.publicagenda.org) found that seven percent of education professors (i.e., teachers-of-teachers) agreed with the statement that "teachers should be conveyers of knowledge," whereas 92% agreed with the statement that teachers should "enable students to learn on their own."

"Private schools can't possibly solve the K-12 problems we've been discussing," we were told (paraphrasing). "Why not?" "Because there aren't enough of them to go around" [i.e., to accommodate more than a small fraction of the total K-12 population].

The Mind Races. Coming from respected grantmakers in the field of K-12 education, this stunningly obtuse statement caused your editor's mind to race. How on earth could persons who are so blind to the forces of supply and demand hold such important positions in the foundation field? How could they have lived so many years in the most successful market-oriented regime in human history and not learned the simple lesson that demand tends to elicit its own supply? How could they be blind to the truth that if vouchers were made available on a truly universal basis, the number of private schools in America would skyrocket? Doubtless, some would be disasters, albeit perhaps no more so than the numerous public schools that arguably do their charges as much harm as good. Doubtless also, there would not need to be a massive and permanent shift from public to private K-12 education for all young Americans to receive vastly improved schooling between the ages of six and 18 (i.e., mastery of a coherent, specific, and shared sequence of knowledge, as well as the skills needed to achieve such mastery). No such shift would need to occur, just as no massive and permanent shift from US-based auto building to Japan-based auto building needed to occur for all American consumers to benefit from the innovative and appealing designs that Japan began exporting to the US in the mid-1970s. It took a while for The Big Three automakers in Detroit to "get it" (due partly to union resistance to proposed reforms), but as a group they ultimately responded effectively to competition from abroad, and the domestic auto industry is bigger and healthier today than it was prior to the "Japanese invasion" despite continued backsliding by its once-biggest participant (GM). The question before the house is whether America's **most** vital industry — K-12 education — will undergo an even more drastically needed makeover before it is too late — before too much of the "seed corn" is gone.

False Hope? Americans can only hope so. But such hopes may be in vain. As previously noted, many talented and notably successful immigrants choose not to enroll their children in America's public schools, mindful as they are that the curricula tend to be weak if not non-existent (i.e., many teachers are free to teach whatever they choose, even if their pupils have covered such material in prior years). In the rare instances where school boards and principals actually compel teachers to cover specific material in their classrooms, the mandated material often aims merely to promote a sense of "community" or "self-esteem," values that the adults involved sincerely believe can be best advanced by forcing young people to think and talk about that which makes them **different** from their peers (by virtue of their skin color, religion, or other inherited traits). Ironically, the "community"-building initiatives in question tend to unleash not centripetal forces but centrifugal ones, causing numerous families that add immeasurably to the nation's economic vitality as well as diversity to seek greener pastures.[7]

Reverse Engineering. For much of the 20th century, such pastures were hard to find outside major American cities: America's hinterlands offered clean air but scant economic opportunity; western Europe offered bomb-filled skies (through 1945) and confiscatory taxes; eastern Europe offered oppression in most aspects of human existence, as did much of Asia and Africa; and Australia offered a life of quiet desperation enlivened only by its billions of frenzied flies. In the last decade or two, developments have occurred that have transformed such half-truths (we know when we're overreaching!) into near-fictions, especially with respect to opportunities outside the US. Clearly, it is now not merely possible but expedient for many Americans engaged in high value-added work (i.e., work that generates large incomes relative to the tangible inputs required) to live and work in places other than major US cities. More to the point, even prior to the advent of the Internet, other nations were

[7] As the parent of children who have attended public schools, your editor has direct and extensive experience with educators (and school boards) who assert that the chief aim of public education is to inculcate a sense of "community" in young Americans. "Socialization" is the Latinate word often invoked to describe this aim, which is frequently defended with assertions that America's founding fathers deemed universal public education essential to American democracy's smooth functioning. They did indeed deem universal education essential to the republic's perpetuation, but in the 18th and 19th centuries most young Americans attended private rather than public schools — if they attended school at all. And certain notably enlightened and empathetic Americans were privately if not home-schooled, e.g., Abraham Lincoln, FDR, and JFK. So too was the most civic-minded educational statesman that your editor has had the privilege of knowing personally, the late Edgar F. Shannon, Jr. Dr. Shannon (a white man reared in the segregated south and schooled at all-white, all-male schools from 10th grade through his senior year at college) fought hard and ultimately successfully, at great personal risk, to have blacks and women admitted to the University of Virginia, which he headed for 15 tumultuous years (1959-74).

moving toward the adoption of the American model of deregulated labor, capital and product markets. Although the Internet was born in America, and in important respects is still "made" here (do you know anyone who does **not** own Cisco shares?), it arguably poses more of a **net** long-term threat (no pun intended) to the American economy than a benefit to it.[8] Precisely because the US has been the world's dominant source of transforming technologies in recent decades, other countries' leaders can now see quite clearly what they must do (if they have not already done so) in order to improve their own citizens' lots. In a nutshell, they must adopt market-oriented reform agendas, the hallmarks of which roll readily off the tongue of any investment professional worthy of the name: sanctity of contract; reliable private property title; an absence of confiscatory taxation or heavily protected or nationalized industries; free movement of people, goods, and capital; a stable and freely convertible currency; and — most importantly — a stable and open political system, including free speech.[9] Happily for the billions of people living outside the US, America has lost the quasi-monopoly it once enjoyed on these immensely valuable goods, and having lost it America is unlikely to regain it, ever.

Voting with Their Feet. Running an investment cooperative whose aggregate portfolio is truly global has its costs, semi-permanent jet lag being foremost among them, but it has its benefits also, including the opportunity to examine what's going on in foreign lands. The "news" from abroad (which may be well known to some readers) is striking. Did you know that 50% of notebook computers, 65% of "motherboards" (small computers' heart and soul), and the majority of monitors, scanners, keyboards, and mice sold in world markets are produced in just one country — Taiwan? Did you know that 110 of the 288 firms headquartered in Taiwan's fabulously successful Hsinchu Science Park were founded by entrepreneurs returning from jobs or schools in the US? Talented Taiwanese-Americans are returning to Taiwan for several reasons, some of which they talk about freely and others that one must pry out of them. The avowed reasons are twofold: some of these entrepreneurs perceive that they had hit a glass ceiling in America; others believe that Taiwanese schools produce technically well-trained students whom they can hire at lower cost than comparably prepared students (if such exist) in the US. The more guarded reason is that they don't want their children exposed to American schooling or to Columbine-like violence.[10] Not far from Taiwan lies Singapore, a nation that has for several decades attracted more than its fair share of such "non-creative" technical work as routine programming and process engineering. Ditto for India, ditto for Israel — countries that share with Taiwan (especially the Indian states of Karnataka and Andhra Pradesh) and Singapore at least one laudable trait: thanks in part to the Internet, and in part to their good schools, these nations are proving increasingly competitive in the world market for **truly creative and judgmental** design work. Of course, it helps that many of their citizens learn to speak and write English at a high level — higher indeed than

[8] Because its chief aim is to highlight potential developments to which investors today arguably are paying insufficient heed, this essay does not attempt to catalog the manifold ways in which the Internet can and likely will be used to improve education for some students, e.g., "distance learning" programs that enable the most gifted teachers to instruct larger numbers of students. Indeed, such Web-based educational resources constitute the most visible present threat to direct government control of K-12 education. Importantly, the same surfeit of venture capital that has triggered a boom in Web-based educational resources has also triggered a boomlet in Web-based services aimed at reviewing and rating both on-line and off-line educational programs (e.g., www.online-learning.com). For-profit education, especially at the K-12 levels, is bound to produce failures and scandals, but the ratings services in question (e.g., www.projectachieve.com) have the potential to uncover if not prevent the worst abuses, just as they have the potential to uncover abuses in more traditional modes of schooling.

[9] According to Freedom House, 100 years ago no countries had governments elected on the basis of universal suffrage in multi-party, competitive elections. (The 19th Amendment to the US Constitution, giving American women the right to vote, did not become operative until 1920.) Today, 119 countries fit this definition of democracy, representing 58% of the world's population. Given current trends in Asia, Africa, and Latin America, this percentage will likely rise substantially and rapidly as the new century unfolds.

[10] Columbine's principal is an outspoken opponent of content-specific curricula, but it would be overreaching in the extreme to attribute his school's tragedy even partly to its curriculum. Or would it? If Aristotle was right that nature abhors a vacuum, then perhaps it is not surprising that inherently insecure adolescents enrolled in schools whose curricula are vacuous will display a heightened tendency to select heroes and role models not of the schools' choosing but of their own. At Columbine, as at many American schools, athletics clearly rushed in to fill part of the void — the school's celebrated "jocks" constituted a highly conspicuous "in crowd," pushing two non-"jocks" who were already clearly unstable over the edge. A distant observer would be wrong to conclude that Columbine's freewheeling curriculum caused the tragedy there, but perhaps equally wrong to conclude that it played no part in establishing the preconditions for such a demented backlash against the school's athlete-worshipping culture. The fact that one of the students responsible for the tragedy quoted Shakespeare in his recorded conversation with his co-conspirator tells us that he was perhaps more well-read than the average American high schooler, but it does not prove conclusively that the Columbine debacle was in no way attributable to what was taught (or **not** taught) in that ill-fated high school's classrooms.

what most American high schoolers and many American collegians ever achieve. Needless to say, in the modern economy, the more creative and judgmental work is, the more those performing it can potentially earn, and the less vulnerable they are to technological changes that could render their skills and experience obsolete. Indeed, as the 21st century dawns, technological changes are transforming some of the world's least naturally endowed polities (including all of the nations mentioned earlier in this paragraph) into shining stars, due in no small part to US-based ventures (e.g., HelloBrain.com, a TIFF PI Program holding) that promote world-wide, cost-efficient access to talented labor.

Where's the Pony? A 20th century US president who gets perhaps less credit than he deserves for America's current economic boom used to tell the tale of the congenitally optimistic lad who, when thrust into a barn full of manure, exclaimed, "There must be a pony in here somewhere." In the face of considerable evidence indicating that America's economic future is not uniformly bright, why is your editor guardedly optimistic about this nation's economic fortunes? After all, if too much of America's "seed corn" has already been depleted, it will be very difficult to set things right, no matter how quickly or effectively the large sums of money controlled by education-oriented private foundations are disbursed. By education-oriented we mean foundations whose formal mission statements include (*inter alia*) a commitment to improving educational quality or opportunity (as the grantmakers involved define it). We mention private foundations because their truly independent status makes them perhaps the last best hope for reforming American education before too much of its "seed corn" has been exhausted. As some readers are aware, a polite but very vigorous debate is underway both within and outside the foundation community respecting the rate at which private foundations should be compelled to disburse their wealth. Some participants in this debate think that the legally mandated payout rate of 5% is too low in relation to available investment returns (or perhaps their own perceptions of society's pressing needs); others think that 5% is approximately correct in light of what capital markets have returned over the very long term; and still others think that private foundations should be truly private, i.e., free to disburse their wealth or invest it depending on their own perceptions of evolving opportunities on **both** sides of their houses, investment and grantmaking.

Where's the Beef? TIFF members planning to attend TIFF's mind-stretching forum in Denver on May 9 will have a rare opportunity to hear from one of this debate's most eminent and visible participants, Harvard Business School's prolific Michael Porter. Professor Porter and venture capitalist Mark Kramer are authors of a provocative essay on foundation management in the November-December 1999 edition of *Harvard Business Review* (available at www.hbsp.harvard.edu/products/hbr). While not saying outright that private foundations should be forced to disburse more than 5% of their assets per annum, Porter and Kramer imply that the nation would be well-served by changed policies (self-imposed or imposed by Uncle Sam) that would make more tax-exempt wealth more immediately available to operating charities. However oblique their criticism of the rate at which foundations are disbursing their wealth, Porter and Kramer are very blunt in their criticism of the manner in which such wealth tends to be disbursed:

> The more foundations are able to improve the performance of social enterprises, create new knowledge, and influence larger public and private sector efforts, the greater will be their impact. But the ability to create value in any of these four ways require a real strategy. Unfortunately, the word 'strategy' has been so overused in the foundation world that it has become almost meaningless. 'Strategic giving' now refers to almost any grant made with some purpose in mind. Rarely does a foundation's strategy serve—as it does in business—as a definition of its distinctiveness and a discipline that dictates every aspect of the organization's operations...

Reading this insightful essay in its entirety, it is clear that Porter and Kramer attribute much of the suboptimal work being done in the foundation field to its inherent lack of market-based feedback. "[F]oundations rarely do the ... postevaluation needed to ascertain if their programs have been successful ...," they write.

> Without evaluation, a foundation will never know whether or not it has been successful. The most basic premise of strategy—striving for superior performance — is violated if performance is not measured ... Improving [their] performance would enable foundations to have a much greater impact on society. [They] could play a leading role in changing the culture of social sector management ... [But until] foundations accept their accountability to society and meet their obligations to create value, they exist in a world where they cannot fail. Unfortunately, they also cannot truly succeed.

Net Results. It's hard to argue with this conclusion, although it's not at all clear that Porter and Kramer's implied endorsement of accelerated foundation payouts would produce immediate net benefits to society. Indeed, to the extent that some foundations' investment strategies are more effective than their grantmaking strategies, society may actually derive net benefits from the "hoarding" that some foundation critics so volubly deplore: perhaps what society forfeits in the form of forgone grants is more than offset by the enhanced technologies, employment and the like financed by profit-seeking foundation investments. The operative premise of this provocative assertion is, of course, Porter and Kramer's own assumption that a sizeable fraction of current foundation giving does not achieve its desired aims. This writer's experience with educational grantmaking suggests that much of it actually harms school children — by exposing them to ignoble concepts and things, by depriving them of exposure to the converse, or merely by forestalling needed reforms. Of course, your editor had similar feelings about some foundations' highly self-righteous efforts to promote global peace by promoting policies entailing the unreciprocated partial disarmament (in the 1970s and 80s) of the most peace-loving superpower the world has ever known (i.e., the US). As its own former leaders have testified, the Soviet Union's perception that further technological breakthroughs would give the US a permanent and insurmountable military advantage were decisive in bringing about the regime's collapse in the late 1980s.[11]

Perfect vs. Good. The author's guarded optimism about America's future is rooted primarily in three principles that the educational program officers whom he has encountered too often ignore. For all their self-described innovativeness, they tend to view resource allocation issues in static terms. Witness the program officers mentioned above who thought (and still think) that America's supply of non-public schools is essentially static. This mindset recalls the fellow who said, about a hundred years ago, that there would never be more than a million autos sold in America because there weren't more than a million Americans trainable as chauffeurs. Paradoxically, the second unarguable principle that some "leading" foundations seem to **ignore** when ladling out education grants is that excessive innovation can be more damaging than excessive filiopietism ("ancestor worship"). Historian David McCullough always couples his hair-raising tale about Ivy League history majors who've never heard of George Marshall with the observation that such indifference to the past is not merely unwise, it is also rude. Similarly, it is unwise and in a sense rude for today's grantmakers to deny that certain policies and practices whose unmodern character renders them unappealing to innovation-bent reformers (e.g., content-specific curricula) have been tried **and work.** We mentioned Aristotle above because he still ranks first on the list of educational theorists whose ideas have actually been implemented successfully on a large scale and in diverse settings. In addition to being an old fogey, perhaps one reason that Aristotle seems to hold so little sway among many educators (and their foundation benefactors) today is because some of his ideas (e.g., his views on slavery) rightly violate modern sensibilities. The same could be said of Thomas Jefferson, a man whose faults and inconsistencies many American school children know better than they do his lasting and heroic contributions to human happiness. As all professional investors quickly learn, the perfect is the enemy of the good, and social policies that flout this principle — for example, that would effectively deny better schooling to many children unless all children can have access to it — bespeak a mindset that a well-functioning market-based polity will ultimately consign to the dustbin.

Firepower and Fortitude. Fortunately, democratic capitalism as practiced in the US is arguably healthy enough to cure the ills catalogued above — not immediately, and not wholly, but fully enough to vindicate hopes that the polity will survive. There is a catch, however: a new generation of philanthropists must enter the scene with enough firepower (i.e., capital) and enough fortitude to disburse it in a manner that will arrest and ultimately reverse current e-trends before it is too late. As noted above, the two e-trends that worry this writer the most are education and emigration. Readers who are really plugged into the hedge fund world know that one of its brightest stars uprooted his wife and school-age children a few years ago and moved overseas as a means of ensuring that his children received a solid education without also receiving a solid grounding in the more sordid aspects of American culture. This true story epitomizes the

[11] Readers who scoff at this are encouraged to lay hold of the superb PBS documentary on the Soviet Union's rise and fall produced by talented filmmaker Eugene Shirley, which first aired in 1996. The documentary (entitled *Messengers from Moscow*) enables viewers to see and hear for themselves what former Kremlin bigwigs thought about America's big military build-up in the 1980s (including the much-derided "Star Wars" missile shield).

two e-trends whose reversal is a precondition for America's continued global dominance, without which the current aggregate market capitalization [as of late December 1999] of US corporations makes little sense. Readers can dismiss this hedge fund manager's behavior as extremism in the pursuit of perfection, but those who know him know that he is extraordinarily thoughtful and farsighted. So too are the putative philanthropists whose hoped-for appearance on the scene represents the best and perhaps last hope for a permanent reversal of the two e-trends this essay has deplored. We're talking, of course, about the relatively small but highly visible band of young Americans (naturalized as well as native-born) who have made large fortunes as founders or financiers of Internet-related ventures on whom Mr. Market has cast an approving glance.

Fortunate Few. TIFF is fortunate to be working closely with many of these individuals, and they are firmly and uniformly wedded to the three principles extolled in the preceding paragraph. Alas, some are also wedded to the principles that two notably successful businessmen — Warren Buffett and Bill Gates — habitually invoked to justify their formerly miserly approach to philanthropy. Until quite recently, Buffett replied to suggestions that he should give away more of his wealth in his own lifetime with the immodest statement that, while he intended to leave the bulk of his assets to charity, he could compound wealth more rapidly within his taxable corporation (Berkshire Hathaway) than he could if he shifted it to tax-exempt charities. And until quite recently Gates replied to such suggestions by noting that he simply lacked the time to give away large sums in a truly thoughtful manner. Based on their founders' known proclivities and their foundations' avowed missions, this writer holds little hope that these two billionaires' relatively recent decisions to accelerate materially their *inter vivos* charitable giving will help inject meaningful competition into K-12 education in America. (It would be naïve indeed to think that the most successful would-be monopolist in history would devote a large part of his fortune to eradicating the odious effects of public school monopoly.[12]) But there is ample hope that some of the young centimillionaires and billionaires who also owe their fortunes to America's current high tech boom will recognize that its days are numbered unless American schools get much better, and quickly. Happily, these individuals are accustomed to doing precisely what Porter and Kramer say foundations must do in order to effect meaningful improvements in the human condition. The fact that some well-managed foundations already do these things does not undermine Porter and Kramer's thesis, which is that most foundations need to spend much more time on three vital tasks:

> Devote systematic thought and research into important challenges that are not being well addressed by others; ... learn from prior efforts within [their] chosen area of funding; [and] examine objectively where [others have] made the greatest impact in the past.

Manifest Destiny. These are also prerequisites of success for technology entrepreneurs and financiers — indeed, for entrepreneurs and financiers in any industry — and there is reason to hope that the fortunate band of Americans who have amassed large personal

[12] Some education experts think Mr. Gates's commitment to making computers more widely available in American public school classrooms will do little to better prepare young Americans for global economic competition and could indeed hamper this aim. Their concern is that adults who might be in a position to push for truly meaningful curricular reform (including parents) will view computer skills as a sufficient condition for economic preparedness and hence relax efforts for more substantive reform. Readers who have done teaching at the high school or college levels in recent years (as has this writer) can attest that many young Americans who are very adept at the mechanical aspects of desktop publishing as well as Web-based research can barely write a proper sentence and are shockingly ignorant of civilization's noteworthy people, events, and achievements. Surfing the Web may be fun and stimulating, but it is the height of folly to suggest that more than a handful of young Americans can translate this skill into meaningful lifetime employment. Why not furnish funds that would put NBA-caliber coaches in charge of every high school hoops team in the land? Then every young American could become a professional basketballer and make millions. To be sure, such Gates-financed initiatives as the Millennium Scholars program (which helps African-Americans and Hispanic-Americans become trained technologists) could reduce marginally the opportunity costs that American society pays by not providing more rigorous schooling to its least advantaged youth. But the Gates Foundation is already large enough to make a real difference were it to devote a large fraction of its resources to improving public education in America. That said, the author will defend to the death Gates's freedom to use his vast fortune however he sees fit, and his current preoccupation with making vaccinations more readily available in the developing world can hardly be labeled frivolous. Perhaps in the fullness of time, Mr. Gates and his wife will see fit to direct a portion of their unprecedentedly large charitable giving to the cause advanced so passionately and ably by ex-Microsoft employee Andrew J. Coulson, editor of the Website www.schoolchoices.org. Mr. Coulson has written eloquently about the inanity and internal inconsistency of private as well as governmental efforts to boost K-12 achievement by making computers more readily available to American school children. So too has William L. Rukeyser, coordinator of Learning in the Real World, a non-profit organization that questions the merits of technology in schools.

fortunes applying these principles in a highly self-interested manner in the Internet Age will recognize that their larger and longer-term self-interests would be well-served by philanthropic initiatives aimed at creating greater equality of opportunity for young Americans. These wealthy 'Net moguls undeniably have the resources and the wits to secure adequate if not excellent educations for their own children. They could do well and good at the same time by helping to foster the preconditions for comparable opportunities for less fortunate American school children. In doing so, they would help ensure that the world's "best and brightest" young people continue to find America not only an attractive place to be educated, but a compellingly attractive place to live and raise children of their own. Readers seeking a concrete example of how this aim can actually be advanced can find it in the pro-choice programs initiated by the successful and public-spirited private equity veteran Ted Forstmann, organized under the banner of the Children's Scholarship Fund (www.scholarshipfund.org). Importantly, neither TIFF nor the author has any ties of any kind to the aforementioned organization, or to Mr. Forstmann, whom the author has never met. But he does seem an estimable figure from afar, as does famed biologist and philanthropist Albert Schweizer, whose words constitute a fitting end to this call to action to America's wealthiest 'Netizens: "I don't know what your destiny will be, but one thing I know: the only ones among you who will be really happy are those who have sought and found how to serve."

❒