

**LADIES AND GENTLEMEN:**

**THANK YOU FOR INVITING ME HERE TODAY AND, DAVID, THANK YOU FOR YOUR VERY KIND WORDS.**

**MY BROTHER KENNETH AND I HAVE WRITTEN A BOOK CALLED <<THE PURITAN GIFT: RECLAIMING THE AMERICAN DREAM AMIDST GLOBAL FINANCIAL CHAOS>>. THIS CHAOS SURROUNDS US ON ALL SIDES – NOT JUST IN FINANCIAL MARKETS BUT ALSO THROUGHOUT THE SO-CALLED REAL ECONOMY, IN WHICH WE ALL HAVE OUR BEING. IT ARISES OUT OF THE PRICKING OF THE GREATEST FINANCIAL BUBBLE OF ALL TIME.**

**MR CHAIRMAN, YOU HAVE GIVEN ME TWENTY MINUTES OF SPEAKING TIME. I AM GOING TO USE IT TO SAY JUST A FEW WORDS ABOUT THE NATURE, CAUSES AND CONSEQUENCES OF THAT BUBBLE.**

**WESTERN CAPITALISM HAS BEEN CHARACTERISED BY A SEQUENCE OF FINANCIAL BUBBLES SINCE THE EARLY SEVENTEENTH CENTURY. EVERYONE KNOWS ABOUT THE FIRST ONE, WHICH IS USUALLY REFERRED TO AS THE GREAT DUTCH TULIP MANIA. AT THE PEAK OF THIS MANIA IN FEBRUARY 1637, A SINGLE TULIP BULB SOLD FOR MORE THAN 10 TIMES THE ANNUAL INCOME OF A SKILLED CRAFTSMAN.**

**A SCOTTISH JOURNALIST CALLED CHARLES MACKAY WROTE UP THE BEST KNOWN ACCOUNT OF THE MANIA IN A BOOK PUBLISHED IN 1842 AND**

**CALLED *EXTRAORDINARY POPULAR DELUSIONS AND THE MADNESS OF CROWDS*. THIS BOOK TOLD US THAT THE BURSTING OF THE TULIP BUBBLE LED TO WIDESPREAD BANKRUPTCIES AND DISRUPTED TRADE.**

**MACKAY'S ACCOUNT WOULD BE CALLED IN QUESTION IN THE 1980S BY A NEW BREED OF ECONOMISTS KNOWN AS 'EFFICIENT MARKET THEORISTS'. SUCH PEOPLE DID NOT LIKE TO ACKNOWLEDGE THE EXISTENCE OF BUBBLES, SINCE, IF THE MARKETPLACE REALLY WAS EFFICIENT, BUBBLES COULD NOT EXIST. HOWEVER, THE 'EFFICIENT MARKET HYPOTHESIS' HAS ITSELF BEEN MORE THAN CALLED INTO QUESTION BY RECENT EVENTS. A NEW BREED OF SO-CALLED 'BEHAVIOURAL' ECONOMISTS IS NOW ON THE CASE; THEY ACKNOWLEDGE THE EXISTENCE OF BUBBLES, WHICH IS A BIG STEP FORWARD. I PREDICT THAT MACKAY'S ACCOUNT WILL COME BACK INTO FAVOUR.**

**ALL FINANCIAL BUBBLES SHARE CERTAIN FEATURES IN COMMON, WHILE EACH HAS ITS OWN SPECIAL CHARACTERISTICS. COMMON FEATURES INCLUDE RAMPANT SPECULATION AND THE ABUSE OF DEBT. DEBT IS TO THE CORPORATE SECTOR WHAT STEROIDS ARE TO AN ATHLETE; IT ENHANCES PERFORMANCE BUT, UNLESS USED IN MODERATION, AT SERIOUS COST TO ECONOMIC HEALTH. SPECULATION PLUS INCREASINGLY RECKLESS LENDING AND BORROWING – TWO SIDES OF THE SAME COIN – HAVE CHARACTERIZED THE AMERICAN AND BRITISH ECONOMIES IN RECENT YEARS. THAT IS WHAT HEDGE FUNDS DO.**

THE *SPECIAL* FEATURE OF THE GREAT BUBBLE WHICH BURST IN SEPTEMBER 2008 WAS THE COLLAPSE IN AMERICA'S INHERITED MANAGERIAL CULTURE, A CULTURE – WE ARGUE -- DERIVED FROM THE COUNTRY'S PURITAN ORIGINS.

DURING WHAT WE CALL "THE GOLDEN AGE OF AMERICAN MANAGEMENT" (THAT IS TO SAY FROM 1920 TO 1970), MANAGEMENT HAD BEEN CONCEIVED OF AS BEING IN THE NATURE OF A CRAFT – SOMETHING YOU LEARNED "ON THE JOB" WHILE UNDER THE SUPERVISION OF A MORE EXPERIENCED PERSON. AT THE MID-TWENTIETH CENTURY YOUNG MEN (THERE WERE FEW WOMEN) WOULD JOIN A COMPANY IN A JUNIOR POSITION STRAIGHT FROM COLLEGE. AS THEY MOVED UP THE LADDER OF PROMOTION, THEY WOULD LEARN HOW TO MANAGE SIMPLY BY DOING IT WHILE BEING OBSERVED. AT THE SAME TIME, THEY WOULD ACQUIRE 'DOMAIN KNOWLEDGE' – TO USE A PHRASE RECENTLY POPULARISED BY JEFF IMMELT, THE PRESENT CHAIRMAN AND CEO OF GENERAL ELECTRIC.

IMMELT HAS TOLD US THAT ALL MANAGERS MUST POSSESS 'DOMAIN KNOWLEDGE'. IN OTHER WORDS, SENIOR BANKERS SHOULD KNOW AN AWFUL LOT ABOUT BANKING AND SENIOR EXECUTIVES OF ENGINEERING COMPANY SHOULD KNOW AN AWFUL LOT ABOUT ENGINEERING. AS HE SAYS, THE BEST JET ENGINES ARE BUILT BY JET ENGINE PEOPLE. IT MAY STRIKE YOU AS ODD THAT THE MOST SENIOR EXECUTIVE OF AMERICA'S LARGEST MANUFACTURING COMPANY SHOULD HAVE FELT OBLIGED TO PUT FORWARD SUCH AN OBVIOUS TRUTH, BUT THAT IS THE ABSURD

STATE OF AFFAIRS THAT HAS COME TO PASS IN THE WORLD'S LEADING ECONOMY.

THINGS *STARTED* TO GO WRONG IN THE 1950S, WHEN A NEW CONCEPT OF MANAGEMENT CAME INTO BEING. I MYSELF OBSERVED ITS CONCEPTION WHEN I WORKED ON WALL STREET FROM 1956 TO 1959. MANAGEMENT WAS BEING RE-CONCEIVED AS A 'PROFESSION' LIKE MEDICINE OR THE LAW OR DENTISTRY. INSTEAD OF LEARNING IT 'ON THE JOB' IN THE TRADITIONAL FASHION, YOUNG MEN WOULD ATTEND A POSTGRADUATE INSTITUTION AND ACQUIRE A FORMAL QUALIFICATION. THE IMPLICATION WAS THAT YOU NO LONGER NEEDED TO LEARN THE CRAFT OF MANAGEMENT 'ON THE JOB' BECAUSE YOU HAD BEEN LICENSED TO PRACTISE IT. YOU COULD ALSO FLIT FROM COMPANY TO COMPANY OR INDUSTRY TO INDUSTRY, SINCE 'DOMAIN KNOWLEDGE' WAS NO LONGER CONSIDERED TO BE CRITICAL. PREVIOUSLY, EXECUTIVES HAD MOVED ONLY RARELY BETWEEN INDUSTRIES; MOST SPENT THEIR ENTIRE CAREER IN ONE COMPANY.

ONE OF AMERICA'S GREATEST WRITERS ON MANAGEMENT, DR PETER DRUCKER, FORESAW THE DANGER AS EARLY AS 1954. IN HIS GREAT BOOK *THE PRACTICE OF MANAGEMENT* HE WROTE:

*NO GREATER DAMAGE COULD BE DONE TO OUR ECONOMY OR TO OUR SOCIETY THAN TO ATTEMPT TO 'PROFESSIONALIZE' MANAGEMENT BY*

***'LICENSING' MANAGERS, FOR EXAMPLE, OR BY LIMITING ACCESS TO MANAGEMENT TO PEOPLE WITH A SPECIAL ACADEMIC DEGREE.***

PETER WAS A COLLEAGUE AND FRIEND OF MINE WHEN WE WORKED TOGETHER AT WR GRACE AND COMPANY IN HANOVER SQUARE, NEW YORK AT THAT TIME. ALAS, PETER'S WARNING WAS DISREGARDED. BY THE YEAR 2000 OVER ONE HALF OF AMERICAN CORPORATE CHIEF EXECUTIVES WERE 'PROFESSIONAL' MANAGERS IN THIS SENSE – AND I PUT THE WORD 'PROFESSIONAL' IN INVERTED COMMAS, SINCE THEY WERE HIGHLY UNPROFESSIONAL IN OTHER SENSES OF THAT MUCH ABUSED WORD. WORSE STILL, IN THE YEAR 2001 A 'PROFESSIONAL' MANAGER WITH A HARVARD MBA WOULD ENTER THE OVAL OFFICE OF THE WHITE HOUSE TO TAKE CHARGE OF US ALL.

HOW DO YOU MANAGE A COMPANY, IF YOU DENY YOURSELF THE OPPORTUNITY: (A) OF LEARNING THE CRAFT OF MANAGEMENT ON THE JOB; AND (B) OF ACQUIRING "DOMAIN KNOWLEDGE" APPROPRIATE TO YOUR RESPONSIBILITIES? ANY SUGGESTIONS? THE NEW STYLE OF SENIOR MANAGERS EXERCISED CONTROL THROUGH THE MEDIUM OF SPREADSHEETS AND PROFIT AND LOSS ACCOUNT. BECAUSE THEY FOCUSED ON FIGURES, RATHER THAN ON THE REALITY THAT UNDERLAY THOSE FIGURES, THEY ATTRACTED TO THEMSELVES AN IRONIC MONICKER: 'FINANCIAL ENGINEERS'. THE OUTCOME WAS INTELLECTUAL ARROGANCE AND MANAGERIAL INCOMPETENCE ON A SCALE INCONCEIVABLE IN EARLIER GENERATIONS. JEFF IMMELT, WHO IS ONE OF

THE 'GOOD GUYS' OF OUR BOOK, TOLD US, IN A SPEECH DELIVERED AT MASSACHUSETTS INSTITUTE OF TECHNOLOGY IN 2004, THAT HE LOATHED THE VERY NOTION OF 'PROFESSIONAL' MANAGEMENT.

IT IS ALWAYS A GOOD IDEA TO ILLUSTRATE A GENERAL PRINCIPLE WITH A CONCRETE EXAMPLE. CITIGROUP INC., WHICH WAS UNTIL RECENTLY THE LARGEST BANK IN THE WORLD, WAS A VICTIM OF THIS DECLENSION. (DECLENSION IS, BY THE WAY, A FAVOURITE WORDS AMONG PURITANS – I THINK IT MEANS DETERIORATION.) BETWEEN 1959 AND 1984, THE BANK HAD BEEN RUN BY TWO COMPETENT COMMERCIAL BANKERS: GEORGE S. MOORE, WHO BECAME PRESIDENT AT THE BEGINNING OF THIS PERIOD, AND WALTER B. WRISTON, WHO FOLLOWED SUIT EIGHT YEARS LATER. MOORE HAS BEEN DESCRIBED AS A 'FEISTY MISSOURIAN WHO BUILT THE BIGGEST BANK IN THE WORLD'; HE WAS WELL KNOWN FOR INTUITIVELY IDENTIFYING PATTERNS IN HUMAN BEHAVIOR, ONCE OBSERVING THAT THE MOST IMPORTANT MANAGERIAL SKILL WAS AN ABILITY TO 'RECOGNIZE THE SAME GIRL WITH DIFFERENT CLOTHES'. ONE OF WRISTON'S FAVORITE SAYINGS WAS THAT 'YOU ARE NOT A REAL BANKER UNTIL YOU HAVE MADE A BAD LOAN'.

THINGS WOULD GO TRAGICALLY WRONG IN 1984, HOWEVER, WHEN A NEW-STYLE 'PROFESSIONAL' MANAGER WAS APPOINTED AS CHAIRMAN AND CHIEF EXECUTIVE IN THE PERSON OF JOHN S. REED. THE POSSESSOR OF NO FEWER THAN TWO BUSINESS SCHOOL DEGREES, HE WOULD PROUDLY DECLARE HIMSELF TO BE 'NOT A BANKER'. ON HIS WATCH, THE

**BANK WOULD SUFFER A NEAR-DEATH EXPERIENCE IN 1991, WHEN IT LOST ALMOST \$1 BILLION AND FAILED TO PAY AN ANNUAL DIVIDEND FOR THE FIRST TIME SINCE (WAIT FOR IT) 1818. CRUDE COST-CUTTING FOLLOWED AND MORALE DROPPED, AS THOUSANDS WERE SACKED IN AN APPARENTLY RANDOM FASHION.**

**REED HAS BEEN DESCRIBED AS THE KIND OF BOSS WITH WHOM NO-ONE WISHED TO SHARE BAD NEWS; THIS MEANT THAT THE FLOW OF ACCURATE INFORMATION UP A LINE-OF-COMMAND, WHICH LIES AT THE HEART OF ALL GOOD MANAGEMENT, COULD NOT OCCUR. WHEN HE WAS OUSTED IN 2000, AN OPPORTUNITY EXISTED FOR A NEW BEGINNING; REGRETTABLY, HE WOULD BE REPLACED BY TWO MEN CAST IN A SIMILAR 'PROFESSIONAL' MOULD, BOTH OF WHOM HAVE SINCE BEEN FIRED – ONE OF THEM, ROBERT RUBIN, HAVING EXTRACTED \$115 MILLION IN FEES. A SIMILAR SERIES OF EVENTS OCCURRED AT THE ROYAL BANK OF SCOTLAND; I DO NOT NEED TO RECOUNT HERE THE SAD AND AMAZING HISTORY OF FRED THE SHRED. THE TWO LARGEST BANKS IN THE WORLD. CITIGROUP AND RBS, BECAME EFFECTIVELY BANKRUPT AND HAD TO BE RESCUED AT ENORMOUS COST BY AMERICAN AND BRITISH TAXPAYERS -- THAT IS TO SAY, BY YOU AND ME.**

**I HAVE BEEN FOCUSING ON THE FINANCIAL SECTOR BUT IT IS IMPORTANT TO STRESS THAT THE COLLAPSE IN THE CORPORATE CULTURE AFFECTED THE WHOLE OF BUSINESS AND MUCH ELSE BESIDES. AGAIN IT IS A GOOD PRACTICE TO QUOTE AN EXAMPLE. EVENTS AT**

CITIGROUP WERE PARALLELED BY SIMILAR DEVELOPMENTS AT GENERAL MOTORS, UNTIL RECENTLY THE LARGEST MANUFACTURER OF AUTOMOBILES IN THE WORLD. IF YOU DO NOT BELIEVE ME, I SUGGEST YOU READ AN EXCELLENT CORPORATE BIOGRAPHY OF THE CAR COMPANY CALLED *RUDE AWAKENING; THE RISE, FALL AND STRUGGLE FOR RECOVERY OF GM* BY A WRITER CALLED MARYANN KELLER. AN INTERESTING ASPECT OF THAT BOOK IS THAT IT WAS ACTUALLY PUBLISHED TWENTY YEARS AGO. IN OTHER WORDS THE ROT SET IN AT GENERAL MOTORS AT MUCH THE SAME TIME AS AT CITIGROUP. WE ARE DEALING WITH A NATIONWIDE AMERICAN CORPORATE PHENOMENON EXTENDING BACK AT LEAST THIRTY YEARS, WHICH ALSO AFFECTED THE UNITED KINGDOM IN SOME MEASURE.

MY BROTHER AND I PREDICTED THE CURRENT GREAT RECESSION; WE DID SO BY SIMPLY PROJECTING FORWARD THE TRENDS WHICH WERE PERFECTLY OBVIOUS TO US WHEN WE COMPLETED OUR BOOK IN 2006. NO GREAT TALENT WAS INVOLVED.

FOR EXAMPLE, WE ASSERTED THAT *IF PRESENT TRENDS CONTINUE, WE CAN SEE THE US ECONOMY FOLLOWING THE PATH TO EXTENDED DECLINE OF THE BRITISH ECONOMY IN THE 1960S AND 1970S AND OF JAPAN IN THE 1990S.*

WE ALSO SAID THAT THE SLICING AND DICING OF DEBT IN THE DERIVATIVES MARKET MEANT THAT NO ONE WAS IN CONTROL OF THE

LENDING PROCESS *ADDING THAT A MIGHTY EDIFICE IS REARED ON FEEBLE FOUNDATIONS... 'SYSTEMIC RISK' IS THE INEVITABLE RESULT – RISK TO THE ENTIRE MONETARY SYSTEM OF THE WORLD.*

ELSEWHERE WE ATTACKED THE BONUS CULTURE, SAYING *ESSENTIALLY PERFORMANCE-RELATED PAY IS IRRATIONAL... WHY PAY [SENIOR EXECUTIVES, INCLUDING BANKERS] LARGE BONUSES FOR DOING WHAT THEY WERE APPOINTED AND PAID TO DO IN THE FIRST PLACE? IF WE DID NOT EXPECT THEM TO PERFORM WELL, WHY DID WE APPOINT THEM?*

FINALLY WE SAID: *ONE DAY THE NATION'S CREDIT WILL RUN OUT, IN BOTH THE LITERAL AND THE METAPHORICAL SENSE OF THIS EXPRESSION; WHEN THAT HAPPENS, THERE MAY BE A SECOND, EVEN MORE PROFOUND, SHOCK TO AMERICAN PUBLIC OPINION, WHICH SHOULD WITH LUCK LEAD TO A PROFOUND RE-ASSESSMENT OF PRIORITIES. THE KEY PROBLEM TO BE ADDRESSED WILL BE ... A FAILURE OF MANAGEMENT AT MANY SIGNIFICANT LEVELS OF SOCIETY.*

SIMON CAULKIN THE MANAGMENT EDITOR OF THE SUNDAY OBSERVER, WAS KIND ENOUGH TO SAY TWO WEEKS AGO THAT *THE PURITAN GIFT* WAS *<<BOLD, ORIGINAL AND AGREEABLY OPINIONATED'*. YOU WILL EXPECT ME TO CONCLUDE IN AN OPINIONATED FASHION. THERE IS ONLY ONE SATISFACTORY SOLUTION TO OUR MEGA-PROBLEM: IT IS TO RE-INSTAL IN THE UNITED STATES THE GREAT CORPORATE CULTURE WHICH

**THAT COUNTRY PARTLY ABANDONED A GENERATION AGO. FORTUNATELY  
IT SLEEPS JUST BELOW THE SURFACE OF LIFE. A SLEEPING BEAUTY, IT  
HAS TO BE RE-AWAKENED. OUR OBJECT IN WRITING "THE PURITAN GIFT"  
WAS PRECISELY TO DO THAT.**

**MR CHAIRMAN, THANK YOU FOR BEING SO PATIENT.**

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Delivered at the Athenaeum, Monday June 22 at 7.00 pm.