"If you're an economist, why aren't you rich?"

That hoariest of put-downs has no effective comeback. While there have been some famous exceptions – 19th century economist David Ricardo was a financial mogul – the vast majority of economists (particularly the academic breed) don't have much wisdom to impart on the subject.

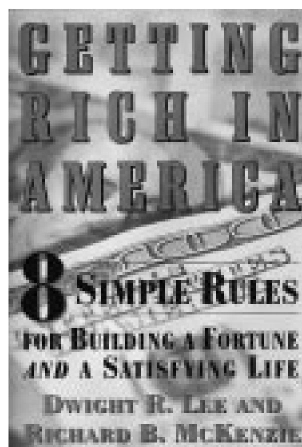
Or at least until now.

Getting Rich in America: Eight Simple Rules for Building a Fortune and a Satisfying Life

By Dwight R. Lee and Richard B. McKenzie

Harper Business Books, 221 pages, $25.00

Reviewed by David R. Henderson



Enter two academic economists, Dwight R. Lee of the University of Georgia and Richard B. McKenzie of the University of California at Irvine, who take the matter of hunting and gathering very seriously, indeed. And their book lives up to its title. If you follow their rules – all of which are familiar homilies – then, with a little luck, you really will build a nest egg of $1 million or more in today's dollars by age 65.

The recent best seller, *The Millionaire Next Door*, by Thomas Stanley and William Danko, punctured a lot of myths about the roughly four million millionaires in America, showing the typical American with a seven-figure net worth to be a high saver in an unglamorous job who has nothing close to an extravagant life style. Think of *Getting Rich in America* as the how-to handbook for becoming the millionaire next door.

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Perhaps the most important of the eight rules are the first two. One is to think of America as a land of choices. That may not sound profound, but it is. The next time you find yourself bemoaning your lot, instead of asking "why me?" ask yourself, "what can I do to change things?" As Ron Jones, the co-owner of Handy Andy Janitorial Services in Plano, Texas, puts it in the book: "If you want your prayers answered, get off your knees and hustle."

The other key rule: take the power of compound interest seriously. Lee and McKenzie provide many examples, showing that even

people with relatively low incomes who save modest amounts can become wealthy late in their lives. For example, someone who at age 22 starts a job at $30,000 a year, earns a real wage increase of only 1 percent a year thereafter and saves just 10 percent of his or her income at a real return of 8 percent, will end up with $1.2 million at age 65.

Eight percent may sound high for a real rate of return. The authors point out, though, that it is the average that stocks in the Standard & Poor's 500 index earned between 1926 and 1997. There are two problems with their use of the S&P average, however. The stock market didn't provide a constant real return of 8 percent; returns were highly variable. This means that if you were the hypothetical person above, you could accumulate substantially less – or more – than $1.2 million. Still, you would probably have to do very badly to end up with less than, say, $600,000.

The more serious, problem here is that the stock market's return in the past proves nothing about the future. What if the 1990's run-up in the stock market came about because investors finally realized how good an investment stocks are? If so, the market has already capitalized a good chunk of those otherwise-higher returns – which would mean that future returns may well average less than 8 percent.

So if you're very pessimistic about the stock market, assume a real return of 5 percent. Interestingly, the authors show that, at that rate, our hypothetical saver will have "only" $525,000 at age 65. But Lee and McKenzie note that the median wealth of families headed by individuals age 65 or older is only about $106,000. So even if you don't literally become a millionaire by following their rules, you can certainly build your wealth to a multiple of the median.

There's still a catch, of course: how do you save 10 percent of your income? With rule three: resist temptation.

Distinguish, say the authors, between your needs and your wants. The money spent on little luxuries, they point out, adds up – or, more precisely, compounds up – if it is saved. Assume that you save $1.35 a day by buying a regular coffee rather than a cappuccino; add another $7 a week by brown-bagging lunch one day in five. That amounts to $857.75 a year. If you manage that modest feat from age 25 and invest the saving at 8 percent, you will end up with an extra $282,700 by age 67.

Lee and McKenzie also show that if you buy a two-year-old car rather than a new one, you pay only about two-thirds as much. And some 37 percent of millionaires do buy used cars – which is one reason they're millionaires.

Can even the poor save? The average poor person, the authors note, spends 2 percent of household income on lottery tickets. Switch to index funds and that person is already one-fifth of the way to a 10 percent saving rate.

For roughly the past 16 years, I have followed all eight of Lee's and McKenzie's rules, in moderation. My experience is that it gets easier and easier. As one talk-show caller said to Lee, "I don't think of my savings as a sacrifice, I think of it as purchasing financial freedom."

Anyway, consider the alternatives. If you follow none of the rules and never get a cushy inheritance, you will retire only on Social Security. Now that's tough.

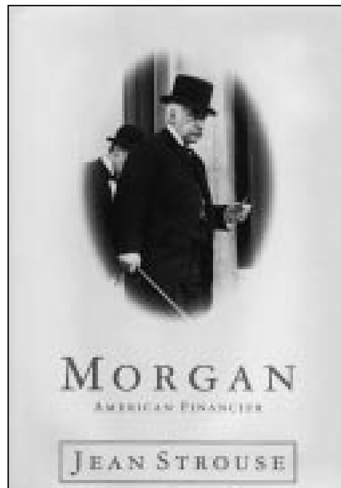
Most of their other 8 rules also have a strong compound-interest component. Take number four – get a good education. Guess how much extra wealth you would have by age 67 if you finished a college degree in three years instead of the now-common five, and invested (at 8 percent) your whole after-tax income for those additional two years? With

a before-tax income of $39,000, Lee and McKenzie show, the increase in wealth from graduating early is a whopping $1 million. (If you consumed half of your-after tax income for those first two years, your net gain from finishing early is still $500,000).

But there is more to their analysis than compound interest. Rule five for a wealthy and satisfying life is to get married and stay married. Lee and McKenzie point out that married people live longer and are healthier. Divorce, they also note, is expensive for both sides. As economist Barry Asmus once put it, "48 percent of men, when they leave their house, kiss their wife goodbye; 92 percent of men, when they leave their wife, kiss their house goodbye."

Lee and McKenzie do justice to the other part of the subtitle: building a satisfying life. Under rule six, "Take care of yourself," for example, they focus on maintaining your health in little ways – moderate exercise and diet, for example. Here, though, I found one major surprise. The thrust of the book is that small choices have a big impact. Yet in one area, they don't. Maintaining an appropriate weight, as compared to being 25 percent overweight, adds a mere 10 months to your life expectancy.

Their other rule for a satisfying life is number eight: strive for balance. Here they advocate "giving back." But all their examples are of people who had little given to them and who gave to those who gave nothing to them. So where's the "back?" I like the principle of giving. But it's not giving back, nor does it need to be. Giving is its own reward.



Morgan: American Financier

By Jean Strouse.

Random House. 799 pp. Cloth $34.95.

Reviewed by Martin Mayer

ONE EMERGES FROM Jean Strouse's long and admirable biography of J.P. Morgan almost as puzzled about the main character as when one began. In part, this is because Morgan was unique in the history of his country and the history of finance. In part, because he was a private man who told little of himself – and that little was poorly told – as he had no disposition to explain and was inarticulate even on those rare occasions when he did wish to speak. Strouse manages nonetheless to weave a tale of the financier's life neatly punctuated with anecdotes, many of which had never before seen the light of the printed page.

A sickly child, subject to fits of depression as an adult, Morgan was both driven by his business and eager to be away from it. He was also broadly curious, with artistic, archaeological, musical and literary interests far beyond those of the usual intellectual, let alone the usual businessman. He was unimaginably rich, and spent money as fast as it came in. When asked what it cost to run a yacht like his (the *Corsair*), Strouse reports (amending the best-

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known Morgan story) that Morgan replied, "If it makes the slightest difference to you what it costs, don't try it."

The book is full of incidents in which Morgan was asked for much more than he had expected to pay for a painting, a statue, an antique chair, a Persian miniature, a manuscript – and simply paid. One suspects that the profits of his bank were recorded after a lot of his extravagances that today's accounting practice would not permit as a business expense. But in those days nobody cared. The money was always there, then gone, then replenished for almost 40 years.

J.P. Morgan was America's first second-generation international banker. His father Junius became partner and heir to the bachelor George Peabody in London, when Pierpont was 17. On graduation that year from Boston English (his ninth school), he was sent to Switzerland to learn French (the next summer he translated for the family when they were all in Paris). Then it was on to Gottingen – his one contact with a university – for a year of math and chemistry, Gottingen's specialties, in German.

Strouse quotes Morgan's daughter Louisa as saying that his favorite reading matter was lightweight Victorian romances. But he did have a library full of classics, which he may well have read. And Strouse implies that he knew a lot more about literature than Victorian romances could have provided, reporting a dinner where he was not his usual diffident self, roaring arcane French poetry at his companions.

While putting together the great trusts that owned railroad lines and steel companies, steamship lines and telegraph companies, while rescuing the government in a gold crisis and the financial system in a banking crisis, he made time to tour (and raid) the world's great museums and libraries, to attend the opera, to visit archaeological digs, to eat like a horse, to watch sailing races from the deck of his enormous yacht and to enjoy the attention of beautiful women who found him irresistible despite a monstrous purple nose. Strouse has mined a number of previously virgin archives for the details, and it's greatly to her credit.

Strouse also remembers every hundred pages or so that her politics are very different from Morgan's, and she delivers sermons about how dreadfully the working class lived while Morgan spent fortunes on his pleasures. Case in point: "Had he been more concerned about the social costs of industrialization, he might seem more sympathetic now," she says. But when she comes to specific events (barring an early episode when Morgan was a partner in a venture that defrauded Abraham Lincoln's wartime army by selling back rifles acquired from Government stocks), she finds the interpretations of Morgan's friends more plausible than those of his enemies.

Morgan saw his life's work as the avoidance of what Schumpeter later called "creative destruction." A true conservative, he regretted (and, when possible, rebuffed) the competition of newcomers whose new railroad, steel mill or sugar refinery would endanger the returns on their predecessors. As he acknowledged, Morgan was always better at consolidation than at innovation.

Strouse explains: "railroads were 'natural monopolies' in their own territories – one railroad could do the job more cheaply than two. Yet that road needed large volumes of traffic to stay in business because of its high fixed costs. By running big trains loaded full, line A could keep its operating costs low, and earn enough money to service its debt and turn a profit. If a parallel line B slashed prices to siphon off A's traffic, A would have to

match the price cuts in order to maintain some volume and income. … The logical outcome of this struggle seemed to be bankruptcy for all – which was why competition among capital-intensive railroads seemed 'ruinous' to their owners and managers. And the failure of enormously expensive roads, financed largely by foreign capital, affected the entire U.S. economy."

There is something to this sort of argument. I remember once giving a talk to a group of shopping-center developers, one of whom asked whether a man who had done it right – got the right anchor tenants, the right place by the interstate highway, the best boutiques, etc. – would ever be safe from some stupid bank that financed the construction of another shopping center at the adjacent exit. And I had to say no.

But I would argue the assumption that aspiring competitors are idiots does not usually hold up: It's the fact that line B can undercut line A's tariffs and still make money that stimulates the new investment. New technology may make it cheaper to provide the service, or the established line may have developed a sclerotic bribe-taking bureaucracy, or may be collecting monopoly rents big time. The banker who protects the enterprise may do a service for its stockholders and creditors, but not for its customers or for the country.

Morgan, Strouse writes, "believed. . . in the need for administered markets" (it is a measure of her economic and political sophistication that she describes this belief as "liberal"). And administered markets, as the Soviet economic bloc so vividly demonstrated, frustrate the introduction of new processes, products, ideas and producers.

This is why Morgan was reviled beyond the other "malefactors of great wealth," to use Teddy Roosevelt's great phrase for the likes of Hill and Huntington, who built railroads; Carnegie, who built ever-better steel mills; McCormick, who built agricultural machinery, and Pullman, who built railway cars. Morgan was occasionally involved with new ventures (over the objections of his father, who kept a hand in the business from London long after his son had taken over in New York). He backed Thomas Edison's electric light from early on, and, perhaps more interestingly, took a flier with Nikolai Tesla, who pioneered the alternating-current electric motor. As a normal matter, however, he was engaged not in creating the new but in reinforcing and reorganizing the established, raising money for governments and for large enterprises that had come on hard times or thought they could make more money by growing even larger.

Morgan, the consolidator of industrial America, was oddly a stranger in his own land. He seems to have made only two substantial voyages west of the Hudson, both in palatial railway cars that stopped as infrequently as possible. He had homes in Manhattan, up the Hudson (where there was a dock for the yacht), and in millionaires' clubs in Newport, the Adirondacks and Jekyll Island off Georgia. But nine-tenths of his days away from the office were spent in England, France, Germany, Italy and Egypt. In the centennial summer of 1876, for example, he took his family to England where they celebrated July 4th in a London hotel.

And for all his influence on the American economy, Morgan was oddly detached from the bricks-and-mortar aspects of enterprise. He supervised a paper business rather than a real business. He could make decisions from far away because there was nothing to actually see nobody to actually meet. The decisions he made were further removed from the people who worked in the businesses that his

bank controlled, or who consumed their products or services. Presumably this reinforced the collective myth of a modern industrial economy controlled by unseen, sinister hands.

Indeed, the view of the banker as parasite has long antecedents. To the extent that Morgan served the interests of the already rich, with a first goal of squelching nascent competition that might benefit workers and consumers, he deserved the opprobrium. And as the railroads he reorganized went bust and sought his help again – with a fee for J.P. Morgan & Co. and a profit on the resale of the paper – public suspicion grew.

To Morgan's credit, however, Strouse observes that he "had meritocratic instincts." Perhaps the most striking illustration was the partnership he gave Egisto P. Fabbri, an Italian-born American who joined Morgan's firm from the shipping industry with no less than a 15 percent share. When Junius Morgan in London expressed astonishment, his son replied, in effect, that good men are hard to find.

Such snippets demonstrate Strouse's superb academic detective work. Far more impressive, Strouse answers a question that bedeviled New York society for two generations: the identity of Belle da Costa Greene, the lissome, fierce, olive-skinned librarian who became Morgan's agent, confidant and probably his best friend when she was 22 (she said) and Morgan was 67. (Strouse doubts they were lovers) Morgan's will pretty much required his son to retain Belle Greene as librarian of the Morgan Library. And she cut a swathe in New York society and in the art world – she was, among other things, the great financier Bernard Berenson's lover – for more than forty years.

It seems that Greene had concocted a Portuguese background for herself. And prior to the publication of Strouse's book nobody knew she was really the daughter of Richard T. Greener, the first Afro-American graduate of Harvard College. He was the U.S. consul in Vladivostock when his daughter became Morgan's librarian. This fascinating material, published separately in *The New Yorker*, raises the saddest of questions: What kind of society was it that required the daughter of so distinguished a man to disown her heritage to get ahead in the world?

Morgan: American Financier is also, unfortunately, a book of lists: the 10 distinguished young men who avoided conscription by hiring a substitute at $300 each and the 9 distinguished young men who didn't; the 11 founders of the Metropolitan Club; the 8 guests who came with Morgan on the train to Hartford and the 7 honorary pallbearers at his father's funeral; the 70 guests at Louisa Morgan's wedding; the 12 early visitors to the private showings of his London art collection in 1901; the 10 "admirers" of Lady Victoria Sackville, and the 14 contributors to an issue of Edward Steiglitz's magazine devoted to Morgan's New York residence.

There is also too much about too many of Morgan's artistic acquisitions. And the mix of chronology and analysis, admittedly hard to pull off, does not always work: The reader must sometimes skip back through pages to find out which year he or she is in.

And there is a major omission: Except for the famous story of Morgan banishing Richard Strauss's Salome from the Metropolitan Opera (which Strouse gets subtly wrong) there is nothing about Morgan and music.

Morgan, after all, owned the box at the center of the great horseshoe for every performance the Met gave in his lifetime. And sometimes he even attended: The Met

archives give some remarkable menus of what the caterers served in his anteroom. Holograph scores of the great composers – Bach neat, Mozart slapdash, Schubert in a frenzy of self-correction – are among the glories of the Morgan Library.

The real Salome story is, in fact, more interesting than the Strouse version, and illustrates something important about Morgan that Strouse does not articulate. She reports that Morgan's daughter Louisa had been disgusted by the premiere and that "four days later the Opera's board, on which Morgan sat, notified its director that the production was 'objectionable and detrimental to the best interests of the Metropolitan.'"

Here's what really happened. The board on which Morgan sat had nothing to do with opera production; rather, the boxholders were on the board of the Real Estate Company, which had built and owned the opera house and got eight free tickets to every performance by the production company to which it rented the building. The production company was chaired by Otto Kahn, a German-Jewish partner in the great investment banking house of Kuhn, Loeb and a protégé of E.H. Harriman, all of whom Morgan disliked, and run by an actor turned impresario named Heinrich Conried.

In the traditions of the era, one performance a year – at double prices – was devoted to a benefit for the general manager, and the opening night of Salome was Conried's benefit. It was a scandal from day one: the libretto, after all, is a play by Oscar Wilde that didn't suit the Victorian sensibilities of New York society. Salome is a short opera, usually in those days preceded by a curtain raiser. And for this occasion, Conried's curtain raiser was a gala with individual scenes and arias by the company's biggest stars.

To help build interest and make sure all tickets were sold, Conried staged a public dress rehearsal for a thousand invited guests on the previous Sunday, right after church. The house was packed with people Morgan knew and everybody was stunned by the lascivious performance. Critic Henry Krehbiel of the New York Tribune had expressed a "conscience stung into righteous fury by the moral stench with which Salome fills the nostrils of humanity."

But Morgan could not order the cancellation of subsequent performances; the contract with the producing company gave the Real Estate Company no power over repertory. Conried and Kahn had guaranteed Strauss and the soloists fees for a number of performances. Morgan offered to pay any losses the company incurred canceling Salome. Kahn, who had his own reasons to get rid of Conried and did so the next year, thanked Morgan for his offer and swallowed the costs. When he formed a new company to take over Conried's lease, he agreed to a clause permitting the real-estate board to cancel performances if its members had "just and valid cause" to find a production "seriously detrimental to the artistic interests of the Metropolitan Opera."

This is the Morgan whom Strouse presents: He gets his way, and he'll get his way next time, too. But here is the point Strouse does not fully exploit – he was fair; he leaves something on the table for the other guy.

Morgan dominated his world because he had the weight of money, and because he was enormously intelligent and saw the numbers before other people knew where to look for them. But also because he structured his deals to give a little something for everybody. No small part of Morgan's long-running success was due to the fact that he rarely gave the people he did business reason to regret the transactions. M