

DATA/KNOWLEDGE/WISDOM

What can an experienced practitioner say that would be useful to graduate students entering the field of real estate?

The platitudes of the textbooks are valid—that's why they are platitudes—but financial turmoil has changed the business landscape enough to require new perspectives. The day of one, two or even three employers over a career is ancient history.

Until World War II, the joke ran that when the president of the Pennsylvania Railroad retired, they hired a new office boy; and everyone else moved up one step on the corporate ladder.

Today, some of you will move from real estate to corporate life to finance to entrepreneurship to consulting to government to heaven knows what.

You are likely to have many employers and your knowledge and skills must be as portable as your pension benefits or health care provisions.

The half-life of the techniques and practices you learn in your formal education grows ever shorter; and your practical education (flowing from experience) must prepare you for challenges not yet on the horizon. It should be taken for granted that all students can read with understanding, write clearly, think critically and analytically, and speak effectively on their feet or in conference. But they should also question, question, question.

When the Greek philosopher Heraclitus observed that you cannot step into the same river twice, he meant that you keep changing and

the river keeps changing. Add what economists call “exogenous factors” (say, an earthquake changing the course of a river) and you get an idea of what you may face over your professional career.

Let’s start with “you,” proceed to the “river” and finish with the “earthquake.”

Before grappling with answers, start with the right questions: what kind of person do you want to be, what kind of life do you want to lead, how do you want your spouse and your children and your neighbors to think of you, and what kind of obituary would you like to have? Are you the kind of person you admire and respect?

Recent polls show that 75% of U.S college seniors have as their life goals a) making a lot of money, and b) becoming widely known.

Angelo Mozillo, the disgraced former CEO of Countrywide Financial (the nation’s largest originator of sub-prime mortgages) is more widely known today than he or his family would like; but as Countrywide went down in flames, Mozillo walked away with nearly \$200 million. Some of you might be content with that Faustian pact while others would not.

Ken Lewis left a troubled Bank of America with nearly \$100 million, as did Kerry Killinger leaving desperate Washington Mutual; Stanley O’Neal left Merrill Lynch with a “golden parachute” worth a reported \$250 million. Even the heads of Fannie Mae and Freddie Mac walked away from their respective wreckages as multi-millionaires. If any of the aforementioned has offered to give anything back, I have yet to hear of it.

These men made a lot of money; they are widely-known; but what do they see when they look in the mirror?

Michael Lewis’ excellent book *The Big Short* (which should be required reading at all business schools) describes in detail how John Paulson made \$6 billion, at a time when three million U.S. households are expected to be foreclosed in 2010, up from 2.8 million in 2009.

Current hearings indicate that the packagers, sellers and “shorters” of the credit default swaps and collateralized debt obligations knew

exactly what they were selling and what they were “shorting.” Daniel Patrick Moynihan’s 1993 essay *Defining Deviancy Down* describes the moral climate in which this took place, where the Goldman Sachs defense was essentially that “everybody does it.” The phrase “the banality of evil” comes to mind. These are not new problems—Trollope described them in England, Balzac in France.

In a system that rewards transactions, but rejects responsibility for its consequences, a system that rewards the “ups” but does not penalize the “downs,” is it surprising that gross distortions occur?

Top lawyers today are often regarded as clever “hired guns” for amoral clients, and top accounting firms are often seen as “shills” for obvious malefactors. Professor William Simon of Columbia Law School has drawn a scathing picture of the shenanigans of his legal colleagues in *The Market for Bad Legal Advice*. The rating agencies—Moody’s, Fitch, Standard and Poor’s—that gave AAA ratings to toxic securities issued by their clients, have all but escaped notice. The ancient Romans said “caveat emptor”—let the buyer beware—but we should have progressed beyond that.

All persons entering the business world should ask how they would have reacted in these situations. On a more modest level, each must ask whether lying on a resume to get a job or to help your company once you have one is acceptable. Some people believe that MBA has come to stand for “Me Before Anyone”; others hold themselves to a higher standard. They want to learn—not the tricks of the trade—but the trade itself.

In one’s professional life as in one’s personal life, I suggest that to be trusted, you must be trustworthy, to be relied upon, you must be reliable. The values you learned as a child are clear. You must determine when, where and how they are to be applied. Each of us is responsible for his own actions. Learning how to say “no” with tact; knowing in advance what can and what cannot be compromised; understanding that when in doubt, we should ask, discuss, ponder—are the positions of wise and honorable people.

Abraham Lincoln once reluctantly agreed to give a private inter-

view to a sleazy fellow who was an important contributor to his political party. Lincoln talked of the war, but the man asked for confidential information on Army contracts, for which he was prepared to pay a large sum. Lincoln kept talking, and the man kept increasing his offer, until Lincoln said, "Sir, I must ask you to leave because you are getting too near my price." A wise man, and a good man.

Lincoln and Mozilla each, in Thoreau's phrase, marched to the beat "of a different drummer." To what beat will you choose to march?

Now let's turn to the "river" into which you will be stepping, because the business world will keep changing throughout your professional life.

"High tech," a phrase to older people, must become an obsession with younger people. The rate of change in communication and computation is such that "looking around you" is not enough; you must learn to "look ahead."

Multi-disciplinary activities will be an increasing fact of life; it will not be enough to master one field. Anyone hoping to rise professionally must become a generalist as well as a specialist. No "royal road," no single approach, no list of books to read will suffice. Each must meet the challenge personally, but it must be met. One book everyone should read, however, is the classic on negotiation, *Getting to Yes*, especially the important chapter entitled What if They Use Dirty Tricks.

Yes, the river will keep changing; but with a well-deserved reputation for character and competence—doing the right thing and doing it well—your head will stay above water.

The third factor—the "earthquake"—is one of which each of us must be aware. The likelihood of future major economic turmoil—more serious than that of 2008-2010—is greater than conventional wisdom acknowledges.

For the past forty years, the U.S. debt-to-GDP ratio has averaged around 40 per cent. This year it will exceed 60 per cent, and by the end of the decade it is projected to be 90 per cent, approaching our record of 110 per cent after World War II. The ramifications are (or should be) frightening, considering a day when potential lenders ei-

ther balk at buying our bonds or charge excessive rates of interest to do so. Some observers, like the International Monetary Fund, point this out, but few people seem to be listening.

A crisis is lurking in the woods, and the various scenarios will be played out in your lifetimes, if not in mine. Never forget that in the story of the boy who cried wolf, the wolf eventually came!

We have seen how the Japanese economy paid a severe price for failure to face their banking problems; and we have seen how Greece suffers from its failure to acknowledge unsustainable deficits.

Given a U.S. Congress in which one political party resists any increase in taxes and the other resists any decrease in expenditures; and given the power of banking lobbyists to stifle meaningful financial reform, economic pain appears to lie ahead.

Our situation recalls the 19th century British schoolmaster who wrote to a duchess, requesting permission to cane her incorrigible son. The duchess replied, "Reginald is a very sensitive child. If you beat the boy in the next seat, Reginald will get the message." Unlike Reginald, our Congress does not seem to be "getting the message" of Japan or Greece.

Can we change quickly enough to avert impending difficulties? Unlikely, in the short run.

The recent U.S. Supreme Court decision on campaign financing and free speech has opened a Pandora's Box. The embarrassing correlation between trial lawyers' political contributions and Congress' failure to include in the Health Care Bill provisions on medical malpractice suits hints at what's in store. The "nine old men and women" seem to have forgotten that the Lord's Prayer does not say, "Let me be good." It says "Lead me not into temptation," and our cash-strapped campaigning legislators may not have the character to resist the blandishments of lobbyists.

We may soon need a new Paul Revere to shout "Our creditors are coming, our creditors are coming!"

Given the changing "river" and the possibility of "earthquake," how should one react? At the end of his life, Charles Darwin took

issue with the phrase “survival of the fittest,” and preferred the phrase “survival of the most adaptable.” Adaptability may be your most useful attribute.

Smothered by data, our challenge is to organize that data into usable knowledge, and hope that our knowledge is transmogrified into wisdom. Wisdom is the ability to make proper choices and to anticipate their consequences.

If I could wish anything for you, it would be that you achieve the wisdom you need to help you make wise choices throughout your careers.

*NYU Schack Institute of Real Estate
April 22, 2010*