Financial Foursome

Former faculty member James "Grim" Wilson moderates the panel discussion among Robert Kaiser '60, Henry Kravis '63, Diana Farrell '83, and Harry Broadman '73. *Photo: Lisa Berg*

Expert Panel of Alumni Considers Wall Street's Future

By Alison E. Hard '08

WHAT is the relevance of Wall Street today? That was the topic of an economics forum hosted by Henry Kravis '63 and moderated by former faculty member James "Grim" Wilson in New York City on February 15. About 100 Loomis Chaffee alumni who work in the field of economics came together in the elegant but intimate Peterson Hall in The Harold Pratt House on the Upper East Side of Manhattan. On stage was an expert panel of LC graduates: Henry, co-founder, co-chairman, and co-CEO of Kohlberg Kravis Roberts & Company; Robert Kaiser '60, senior editor of *The Washington Post*; Diana Farrell '83, former deputy director of the National Economic Council; and Harry Broadman '73, senior vice president of Albright Stonebridge Group and chief economist of Albright Capital Management.

After welcoming remarks from Head of School Sheila Culbert and panelist introductions, Grim kicked off the discussion by evoking the Federalist Papers and the civility of political debate in that time period. "What a rare treat it is to talk about weighty issues in an objective way and focus on the issues and not the personalities," he said. With that, he presented the question of the evening: Has Wall Street lost its relevance? He explained that he chose this topic in consideration of four factors: the increasing globalization of all markets; the recent financial meltdown; the apparent or perceived change in behavior in financial firms, including more lending and more trading; and the growing disconnect between Main Street and Wall Street.

Although the speakers offered different perspectives on the cause of the financial crisis and where the United States can go from here, panelists agreed on this point: Wall Street is absolutely still relevant. "Wall Street's relevance has never been greater or more important, but its credibility has never been lower," Diana said. In her view, the crisis is the responsibility not only of Wall Street, but also of the government. "The Federal Reserve was asleep at the switch," she said, and she described what credit card companies were allowed to do as appalling.

"There is no question we have to keep the financial system going," said Henry, who invited audience members to consider what the United States would be like without a stock market, bonds, or 401(k) plans.

Henry pointed out that the responsibility for the financial crisis extends beyond Wall Street; Congress, the Federal Reserve, rating industries, and others made bad decisions and undertook unnecessary risks. His sentiment was echoed by Bob, who blamed the financial meltdown on the human belief that somehow, just once, rules could be suspended. "All we can do is to mitigate the impact of these human mistakes," he said.

Exactly how to mitigate these mistakes — with regulation or otherwise — was a hot topic for the evening. From the panelists' perspective, a more crucial question than Wall Street's relevance was what should be done to move the United States forward economically. They acknowledged that some financial regulation was necessary, but all four said that reform in sectors like education, immigration, taxation, and infrastructure will be indispensable to progress. They also agreed that it is unreasonable to try to create a so-called risk-free system. "Business cycles are endemic both to the United States and the world economy," Harry commented, even though the most recent crisis was avoidable.

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Both Henry and Harry warned that too much regulation could stifle innovation, and they stressed how important it is for the United States to be an attractive home for new business. Diana noted a mismatch between our political system, which she called "local" and "not civic-minded," and our globally-conscious society. "Any one senator can hold a reform bill hostage," she said.

The United States also faces the problem of growing income inequality, the panelists noted. Economists have typically dismissed this question as a moral one, Harry said, "but if you look at the data, there are significant costs to society of the dramatic increase in income inequality." He pointed out that in 2008, the top 1 percent of Americans accounted for 80 percent of the national income growth. Henry later asserted that economic growth would help to solve much of this inequality. He cited development in China as an example, and he added that the individuals who make up the top 1 percent of Americans are changing. "Who had heard of Mark Zuckerberg 10 years ago?" he asked.

The panelists emphasized the importance of education to rebuilding the U.S. economy and moving it forward. "Education is number one, two, and three in my mind," said Henry, who also advocated encouraging high-achieving foreign students to stay and work in the United States after graduation. Bob also pointed to problems in the American education system. When asked what he saw as the United States' greatest obstacle to economic progress, he cited the country's educational culture, which he said does not value education as highly as other countries, including China. Improving education in the United States is not a question of money, but rather of fixing a cultural failure, he said.

Looking to the future, Harry said that emerging markets are the greatest competitive threat to firms in developed countries. Sixty percent of Gross Domestic Product growth across the globe comes from emerging markets with rising middle classes and governments that are in a better place to regulate than the United States, he said. To keep up with these markets, the United States must invest in infrastructure, which means spending $2.2 trillion to comply with recommendations from the American Society of Civil Engineers (ASCE). President Obama's recently proposed budget of $93 billion per year for infrastructure makes up about one-fifth of the ASCE recommendation, but still will be hotly debated, Harry said.

At the conclusion of the panel discussion, Henry took a moment to acknowledge his former economics teacher, a triple threat at Loomis from 1959 to 2009, in whose honor the event was held and who ably moderated the conversation. "I'm sure many of you came here because of Jim Wilson and the impact he had on you at Loomis Chaffee," Henry said. Grim handed out Vermont maple syrup, made by a friend, to the panelists as a token of his thanks. Said Grim, "I love my new life in Vermont, but the one thing I do miss is the daily interaction in class, talking about ideas. This has been a wonderful evening for me."

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