

# Marvin Zonis

*452nd Convocation Address: "Taking Risks: Students and States,"*

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## **"Taking Risks: Students and States" by Marvin Zonis**

Members of the GSB graduating class of 1998, I salute you. You had the good sense to know that Chicago was where it's at and you had the discipline and the strength and the courage to take on this school with its illustrious but demanding faculty of scholars and its threatening classes. You, dear graduates of 1998, have conquered the most demanding business curriculum in the world.

Mothers and fathers, spouses and significant others, I salute you. You have put up with these young men and women, about to receive their M.B.A. degrees, for two difficult years as they bent but never buckled, as they bore the burdens of this rigorous curriculum, this intellectually challenging route to business excellence. And all the while those bills, those near fatal tuition bills.

I admire you future business leaders for what each of you has accomplished. What I especially admire is that in coming here, each of you has taken on great risks: the money, the opportunity costs, the time, the pain, the putting yourselves on the line, the threat of embarrassment, even humiliation, all in search of a more productive, more fulfilling, and, yes, more rewarding career. These are all examples of the immense risks you took. And, I fervently hope, you have already found that the risks you took were worthwhile.

So I also salute you for the soundness of your cost-benefit analyses.

Risk taking, after all, is the hallmark of our society. It is risk taking that makes possible every worthwhile human and social achievement. Having met and matched the risks here at GSB, you will now leave to launch a career of taking ever more significant risks. When you take those risks, you will be making bets, not only of your time and of your money but of the time and the resources of others, bets that will not only affect the well-being of the people who work for your firms, but also the people of the societies in which your companies work.

But it is not just money and time - the economic variable in the shortest supply of all - that is at risk. As you move into your careers and as you progress to higher levels of responsibility and influence, you will take

ever-greater risks with your reputations and your own sense of your self-worth. In the end, it is your own sense of competence and your own reputations that are the most valuable assets you have. Guard them well. Once damaged, they are not easily restored.

In a market society, big bets can bring big rewards. Your challenge is to increase the probabilities of receiving the rewards that follow from well-made bets - from properly assessing and managing risks.

But taking big risks can and must also mean the possibility of big failure. For risk taking without the prospect of failure, like capitalism without risk of bankruptcy, produces reckless abandon, not reflective, rational, ends-means calculations of expected value.

Think about your education here at Chicago as teaching you better strategies for more effectively assessing and managing risk.

What we know from the ongoing Asian financial and economic and political crises, is how inept Asian rulers and Asian business people turn out to have been in assessing and managing the risks they faced.

At the initial stages of their robust economic growth, which came to earn those countries their reputations as tigers, the governments of each state stood as the lenders of last resort, preventing loss to individual business people as a way to insure benefit for all. There is no doubt that it worked, at the beginning.

But absent the risk of loss, Asians turned out to act just like the rest of us do absent the risk of failure. Politicians sold favors and directed lending by state banks to companies from which they benefited and grew rich. Fathers took care of their children.

Remember the late Mayor Daley of this beloved city explaining why he had awarded all the insurance business of the City of Chicago without competitive bidding to an insurance brokerage owned by his son. "What are fathers for?" he explained. What indeed? President Suharto, the former presidents of Korea, the prime ministers of Thailand, the cabinet ministers of Japan all seem to have understood what fathers are for.

Meanwhile the businessmen, well, they were not always businessmen. Remember President Suharto's daughters who grew stunningly wealthy through monopolies awarded them and their companies by the state? Business men and business women in Asia seized on the perceived absence of risk to rush projects to

completion and grow phenomenally wealthy from providing the goods and services that their own newly prospering countrymen so desperately needed and wanted.

At the beginning, for years, it worked. But in the end, greed won. Corruption flourished. Rational ends-means calculations did not. Absent risk, the entire structure of Asian growth has collapsed.

Japan's GDP will fall in a deflationary recession in 1998, perhaps by as much as 6 percent. Indonesia's economy will match the performance of the U.S. in its Great Depression of 1932. Other states in Asia will run merely ordinary recessions.

Worse, many of the banks in Asian states are effectively bankrupt. Pick a number for the percentage of Japan's GDP represented by the bad loan portfolio of Japanese banks. The most conservative estimate I have ever seen is that the bad loans of Japanese banks equal a full 15 percent of Japanese GDP. In the U.S. S&L crisis, the total of bad loans was less than 3 percent of U.S. GDP. But the 15 percent of Japanese GDP represented by the banking system's bad loans is a gross underestimation. The actual number is probably closer to 30 percent of the Japanese GDP. After all, the price of real estate in Japan has fallen by more than 70 percent since the bursting of the asset bubble in 1990. And Yamaichi Securities and all the banks that have recently failed all turned out to underreport the extent of the non-performing loans on their books. But no matter how severe the problem, neither the banks in Japan nor Japanese government officials are yet willing to confront the problem. The Japanese banking crisis deepens day by day.

And so government officials and business people in Asia created a pyramid of corruption without risk. It worked brilliantly until the inefficiencies in the system became too overbearing. Then the collapse.

From this story I take away many lessons.

First. There is no such thing as Asian economics or, for that matter, Chinese or Israeli or French or American economics. There is only economics. And the laws of economics, which your mentors here at Chicago have done so much to define, will triumph in the end. They are inescapable.

Second. Corruption always leads to disaster. Corruption may be a speedy road to individual gain but it will never produce social justice or political stability and therefore will always lead to social disaster. Your personal challenge, remember, is to pursue self-interest, but self-interest rightly understood.

Third. Slow and steady trumps the big hit. The great secret of U.S. prosperity is long-term moderate economic growth. Through their rapid growth, the Asian states created startling imbalances. The continued legacy of those imbalances will make it more difficult to restore their economic health.

Fourth. Panic and hysteria are variables that we very poorly understand, even here at the GSB. And in the end, it was panic and hysteria that brought down the Asian states; panic and hysteria brought on by the realization of the magnitude of the overextension of credit, especially credit extended in dollars to people whose dollar earnings through exports were plummeting.

Fifth. The Asian crises are not over but are still unfolding. They will affect the global economy and the economy of the United States. They will bring deep pain to hundreds of millions of people and, before they are resolved, are likely to produce more political turmoil in more countries than Indonesia.

Sixth. No country has a monopoly on bad judgement and faulty economic thinking. As the U.S. trade deficit skyrockets throughout 1998, watch the politicians come out of the woodwork in Washington to decry free trade and the global economy, the very factors that have served as the basis for the extraordinary prosperity of the U.S.

Members of the University of Chicago Graduate School of Business class of 1998, in the name of this institution and this faculty, I charge you with heavy responsibilities.

You have, by dint of your education at this wonderful institution, learned a very great deal. But the most important thing you have learned is how to learn. The substantive knowledge you have learned over these last two years, we all hope, will become outmoded rapidly. Your responsibility is to use your knowledge of how to learn to continue your education for the rest of your lives.

You have learned to assess risks and to take sensible risks. Be thoughtful and astute risk assessors. Take smart risks.

Remember your social responsibilities. The wealth you will earn is a mark of your own skills at taking smart risks. But wealth is a means to some end, not the thing itself.

Remember also you great GSB individualists that you are rooted in and are inescapably part of society. What you have achieved is due certainly to your own initiative but also to the initiatives of others, both those who came before you and those who now work to make this society function.

So taking smart risks means understanding more deeply and having the courage to take the risks of not merely applying old knowledge but learning afresh. And doing the right things.

The countries of Asia are passing through disaster. They might have avoided that disaster had they learned these lessons.

*Marvin Zonis is Professor in the Graduate School of Business, the Division of the Social Sciences, and the College.*