

# The Western Elite from a Chinese Perspective

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The Evangelical Christians I have met in the United States often talk about how reading the Bible changed their lives. They talk about being born again.

I am not an Evangelical Christian. I am a Chinese atheist who came to the West to study at the world's best universities and, later, to work at one of capitalism's greatest companies, Goldman Sachs.

But, like the Evangelical Christians, my life was changed by a book. Specifically, Robert Rubin's autobiography *In an Uncertain World* (Random House, 2003). Robert Rubin was Goldman Sachs's senior partner and subsequently secretary of the Treasury. Only later did I learn that certain people in the United States revere him as something of a god.

I first bought the book because I was puzzled by the title, especially coming from a man who had achieved so much. I had always thought that things happen for reasons. My parents taught me that good people get rewarded while evil gets punished. My teachers at school taught me that if you work hard, you will succeed, and if you never try, you will surely fail. When I picked up the book, I was studying math at Cambridge University and, as I looked back at the standardized tests and intense study that had defined my life until then, I could see no uncertainty.

But since reading Rubin's book, I have come to see the world differently. Robert Rubin never intended to become the senior partner of Goldman Sachs: a few years into his career, he even handed in his resignation. Just as in Rubin's career, I find that maybe randomness is not merely the noise but the dominant factor. And those reasons we assign to historical events are often just ex post rationalizations. As rising generations are taught the rationalizations, they conclude that things always happen for a reason. Meanwhile, I keep wondering: is there someone, sitting in a comfortable chair somewhere, flipping a coin from time to time, deciding what happens in the world?

Most Americans that I have met seem confused about this question. Perhaps it is understandable since most of them are not in finance and have not read Rubin's book. Their goal is always to *change* something—Stanford business school's motto is “change lives, change organizations, change the world”—though they rarely seem to know what or how. Or what the role of chance and circumstance is. But if the goal is to change something, they must have the ability to determine the future, mustn't they? The great American dream itself is a determination to take control of one's own destiny and live an

extraordinary life from an ordinary background. Yet how is this possible in Rubin's uncertain world?

I don't claim to be a modern-day Alexis de Tocqueville, nor do I have much in common with this famous observer of American life. He grew up in Paris, a city renowned for its culture and architecture. I grew up in Shijiazhuang, a city renowned for being the headquarters of the company that produced toxic infant formula. He was a child of aristocrats; I am the child of modest workers.

Nevertheless, I hope my candid observations can provide some insights into the elite institutions of the West. Certain beliefs are as ubiquitous among the people I went to school with as smog was in Shijiazhuang. The doctrines that shape the worldviews and cultural assumptions at elite Western institutions like Cambridge, Stanford, and Goldman Sachs have become almost religious. Nevertheless, I hope that the perspective of a candid Chinese atheist can be of some instruction to them.

## **From Shijiazhuang to Cambridge**

It was the summer of 2000. I was 15, and I had just finished my high school entrance exam in China. I had made considerable improvements from where I started in first grade, when I had the second-worst grades in the class and had to sit at a desk perpendicular to the blackboard so that the teacher could keep a close eye on me. I had managed to become an average student in an average school. My parents by then had reached the conclusion that I was not going anywhere promising in China and were ready to send me abroad for high school. Contrary to all expectations, however, I got the best mark in

my class and my school. The exam scores were so good that I ranked within the top ten among more than 100,000 students in the whole city. My teacher and I both assumed the score was wrong when we first heard it.

As a consequence, I got into the best class in the best school in my city, and thus began the most painful year of my life. My newfound confidence was quickly crushed when I saw how talented my new classmates were. In the first class, our math teacher announced that she would start from chapter four of the textbook, as she assumed, correctly, that most of us were familiar with the first three chapters and would find it boring to go through them again. Most of the class had been participating in various competitions in middle school and had become familiar with a large part of the high school syllabus already. Furthermore, they had also grown to know each other from those years of competitions together. And here I was, someone who didn't know anything or anyone, surrounded by people who knew more to begin with, who were much smarter, and who worked just as hard as I did. What chance did I have?

During that year, I tried very hard to catch up: I gave up everything else and even moved somewhere close to the school to save time on the commute, but to no avail. Over time, going to school and competing while knowing I was sure to lose became torture. Yet I had to do it every day. At the end-of-year exam, I scored second from the bottom of the class—the same place where I began in first grade. But this time it was much harder to accept, after the glory I had enjoyed just one year earlier and the huge amount of effort I had put into studying this year. Finally, I threw in the towel, and asked my parents to send me abroad. Anywhere else on this earth would surely be better.

So I came to the UK in 2001, when I was 16 years old. Much to my surprise, I found the UK's exam-focused educational system very similar to the one in China. What is more, in both countries, going to the "right schools" and getting the "right job" are seen as very important by a large group of eager parents. As a result, scoring well on exams and doing well in school interviews—or even the play session for the nursery or pre-prep school—become the most important things in the world. Even at the university level, the undergraduate degree from the University of Cambridge depends on nothing else but an exam at the end of the last year.

On the other hand, although the UK's university system is considered superior to China's, with a population that is only one-twentieth the size of my native country, competition, while tough, is less intimidating. For example, about one in ten applicants gets into Oxbridge in the UK, and Stanford and Harvard accept about one in twenty-five applicants. But in Hebei province in China, where I am from, only one in fifteen hundred applicants gets into Peking or Qinghua University.

Still, I found it hard to believe how much easier everything became. I scored first nationwide in the GCSE (high school) math exam, and my photo was printed in a national newspaper. I was admitted into Trinity College, University of Cambridge, once the home of Sir Isaac Newton, Francis Bacon, and Prince Charles.

I studied economics at Cambridge, a field which has become more and more mathematical since the 1970s. The goal is always to use a mathematical model to find a closed-form solution to a real-world problem. Looking back, I'm not sure why my professors were so focused on these models. I have

since found that the mistake of blindly relying on models is quite widespread in both trading and investing—often with disastrous results, such as the infamous collapse of the hedge fund Long-Term Capital Management. Years later, I discovered the teaching of Warren Buffett: it is better to be approximately right than precisely wrong. But our professors taught us to think of the real world as a math problem.

The culture of Cambridge followed the dogmas of the classroom: a fervent adherence to rules and models established by tradition. For example, at Cambridge, students are forbidden to walk on grass. This right is reserved for professors only. The only exception is for those who achieve first class honors in exams; they are allowed to walk on one area of grass on one day of the year.

The behavior of my British classmates demonstrated an even greater herd mentality than what is often mocked in American MBAs. For example, out of the thirteen economists in my year at Trinity, twelve would go on to join investment banks, and five of us went to work for Goldman Sachs.

## **Goldman Sachs and My Brilliant Inflation Trade**

Three years later, I graduated with first class honors and got a job offer from Goldman's Fixed Income, Currency and Commodity division, the division founded by my hero Rubin. It seemed like whatever I wished would simply come true. But inside, I feared that one day these glories would pass. After all, not long ago, I was at the bottom of my class in China. And if I could not even catch up with my classmates in a city few people have even heard of, how am I now qualified to go to Cambridge University or Goldman?



Have I gotten smarter? Or is it just that British people are stupider than the Chinese?

With these mixed thoughts, I began working as a trader at Goldman in 2007. Goldman's unofficial motto is "be long-term greedy." I found that my Goldman colleagues were very smart and competitive. However, I actually didn't see much of the "long-term" part of the "long-term greedy" culture. Goldman Sachs, even with its reputation as the top investment bank, has been involved in scandals in mortgage products, trades with the Greek government, its links with Malaysia's corrupt 1MDB, and so on. Maybe this is due to the fact that Goldman is now a public company with a quarterly earnings call. Maybe it is because the position of the trading desk where I worked was marked to market in real time. When you see the number change in front of you from second to second—and especially when that number is not going in the right direction—even one day can feel like eternity. That tells you how long-term oriented traders are in general.

My job at Goldman was a mixture of making markets to facilitate client trades and finding trades for the bank's own book. In early 2009, I believed it was an excellent trade to go long UK inflation. In fact, I thought it was such a good trade that my biggest worry was that there wouldn't be anyone who would want to be on the other side of it. Yet we managed to put this trade on versus a British bank. In the following year, the trade worked wonders, with UK inflation steadily rising, making the bank tens of millions in profits.

I thought I was an amazing trader. But there was a slight problem: I wanted to do the trade because I thought the market was pricing UK interest rates

to go up. And when interest rates go up, UK inflation would rise mechanically due to the way it is defined and calculated. But in that year, the Bank of England didn't raise interest rates at all. Rather, the increase in inflation was due to things like tax increases, exchange rate fluctuations, oil price moves, etc.—things I didn't anticipate at all. It was pure luck that I made money, and I made it for the wrong reason.

When I was an intern, in one of the training presentations, a senior banker told us to distinguish between the process and the results. He said that we should focus on the process, which we can control, rather than the result, which is subject to luck. And here at Goldman, he said, we don't punish people for losing money for the right reason. I have always loved asking questions, so I asked him, was anyone ever punished for making money for the wrong reason? After giving it some thought, he said that he had not heard of any such thing. And he was right. In fact, no one seemed to remember the reason I did the inflation trade at all. They only remembered that I did this trade and that it worked well.

When I met with my manager for a performance review after this, I was expecting to be berated for my poor judgment. Instead, I got promoted! I told my manager that it was a mistake, but he merely said, "Puzhong, tell no one." He too was promoted on the basis of managing my "brilliant" trade. In fact, my manager was so proud of my work he recommended me to Stanford's prestigious Graduate School of Business (GSB), and I soon set off for America.

One thing that I learned at Goldman was that, to rise through the ranks, it was not enough to just be a good trader. It was also essential to be able to



manage one's boss, other colleagues, and those who report to them. I never paid any attention to those things. I hoped to learn about them in business school.

## **Coming to America**

To me, Costco represents the best of American capitalism. It is a corporation known for having its customers and employees in mind, while at the same time it has compensated its shareholders handsomely over the years. To the customers, it offers the best combination of quality and low cost. Whenever it manages to reduce costs, it passes the savings on to customers immediately. Achieving a 10 percent gross margin with prices below Amazon's is truly incredible. After I had been there once, I found it hard to shop elsewhere.

Meanwhile, its salaries are much higher than similar retail jobs. When the recession hit in 2008, the company increased salaries to help employees cope with the difficult environment. From the name tags the staff wear, I have seen that frontline employees work there for decades, something hard to imagine elsewhere.

Stanford was for me a distant second to Costco in terms of the American capitalist experience. Overall, I enjoyed the curriculum at the GSB.

Inevitably I found some classes less interesting, but the professors all seemed to be quite understanding, even when they saw me reading my kindle during class.

One class was about strategy. It focused on how corporate mottos and logos could inspire employees. Many of the students had worked for nonprofits or

health care or tech companies, all of which had mottos about changing the world, saving lives, saving the planet, etc. The professor seemed to like these mottos. I told him that at Goldman our motto was “be long-term greedy.” The professor couldn’t understand this motto or why it was inspiring. I explained to him that everyone else in the market was short-term greedy and, as a result, we took all their money. Since traders like money, this was inspiring. He asked if perhaps there was another motto or logo that my other classmates might connect with. I told him about the black swan I kept on my desk as a reminder that low probability events happen with high frequency. He didn’t like that motto either and decided to call on another student, who had worked at Pfizer. Their motto was “all people deserve to live healthy lives.” The professor thought this was much better. I didn’t understand how it would motivate employees, but this was exactly why I had come to Stanford: to learn the key lessons of interpersonal communication and leadership.

On the communication and leadership front, I came to the GSB knowing I was not good and hoped to get better. My favorite class was called “Interpersonal Dynamics” or, as students referred to it, “Touchy Feely.” In “Touchy Feely,” students get very candid feedback on how their words and actions affect others in a small group that meets several hours per week for a whole quarter.

We talked about microaggressions and feelings and empathy and listening. Sometimes in class the professor would say things to me like “Puzhong, when Mary said that, I could see you were really feeling something,” or “Puzhong, I could see in your eyes that Peter’s story affected you.” And I would tell them I didn’t feel anything. I was quite confused.

One of the papers we studied mentioned that subjects are often not conscious of their own feelings when fully immersed in a situation. But body indicators such as heart rate would show whether the person is experiencing strong emotions. I thought that I generally didn't have a lot of emotions and decided that this might be a good way for me to discover my hidden emotions that the professor kept asking about.

So I bought a heart rate monitor and checked my resting heart rate. Right around 78. And when the professor said to me in class "Puzhong, I can see that story brought up some emotions in you," I rolled up my sleeve and checked my heart rate. It was about 77. And so I said, "nope, no emotion." The experiment seemed to confirm my prior belief: my heart rate hardly moved, even when I was criticized, though it did jump when I became excited or laughed.

This didn't land well on some of my classmates. They felt I was not treating these matters with the seriousness that they deserved. The professor was very angry. My takeaway was that my interpersonal skills were so bad that I could easily offend people unintentionally, so I concluded that after graduation I should do something that involved as little human interaction as possible.

Therefore, I decided I needed to return to work in financial markets rather than attempting something else. I went to the career service office and told them that my primary goal after the MBA was to make money. I told them that \$500,000 sounded like a good number. They were very confused, though, as they said their goal was to help me find my passion and my calling. I told them that my calling was to make money for my family. They

were trying to be helpful, but in my case, their advice didn't turn out to be very helpful.

Eventually I was able to meet the chief financial officer of my favorite company, Costco. He told me that they don't hire any MBAs. Everyone starts by pushing trolleys. (I have seriously thought about doing just that. But my wife is strongly against it.) Maybe, I thought, that is why the company is so successful—no MBAs!

## **An Uncertain World**

In Communism, the future is certain; it is only the past that might not be. A few years ago, I was reading an autobiography of a Chinese girl named Nian, who went to study in the UK when she was young. (Someone once said that it is necessary to know English in order to learn about China. Important perspectives on China are only available in English and are generally not accessible on the mainland.) She studied at the London School of Economics and met her husband. After graduation, Nian, her husband, and all their friends went back to China.

Her life, up to that point, was very similar to the life that I have been living. And I am sure that, at the time, she was as optimistic about her life as we are today about ours. But she went to the UK in 1935, and she went back to China around the founding of the People's Republic of China. Her education abroad, in a capitalist country, and her belief in individual rights and freedom often placed her on the wrong side of various political campaigns and the Cultural Revolution. She lost numerous friends and family members, including her husband and daughter during these years.

She barely survived a long period of imprisonment herself. It was not until the 1980s when she managed to get a passport and could move to live with her relatives abroad. On the ship to Hong Kong, she kept thinking about her decision to return to China all those years ago.

As I finished her story, I kept thinking about the similarities and differences between Nian's life and my own. What would have happened to her if she was living in the present time, or what would happen to me if I had been born seventy years earlier? What I realized is that if we look at one individual's life in isolation, it is very tempting to come to the conclusion that one's particular actions lead to whatever happens next. But if we look at the society as a whole or look across generations, we can see that people with very similar backgrounds can take similar actions and end up with vastly different results.

Warren Buffett has said that the moment one was born in the United States or another Western country, that person has essentially won a lottery. If someone is born a U.S. citizen, he or she enjoys a huge advantage in almost every aspect of life, including expected wealth, education, health care, environment, safety, etc., when compared to someone born in developing countries. For someone foreign to "purchase" these privileges, the price tag at the moment is \$1 million dollars (the rough value of the EB-5 investment visa). Even at this price level, the demand from certain countries routinely exceeds the annual allocated quota, resulting in long waiting times. In that sense, American citizens were born millionaires!

Yet one wonders how long such luck will last. This brings me back to the title of Rubin's book, his "uncertain world." In such a world, the vast

majority things are outside our control, determined by God or luck. After we have given our best and once the final card is drawn, we should neither become too excited by what we have achieved nor too depressed by what we failed to achieve. We should simply acknowledge the result and move on. Maybe this is the key to a happy life.

On the other hand, it seems odd that this should be the principal lesson of a Western education. In Communist China, I was taught that hard work would bring success. In the land of the American dream, I learned that success comes through good luck, the right slogans, and monitoring your own—and others'—emotions.

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