The American Century Returns?
A New Dialogue
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The American Century Returns? A New Dialogue

Overview

There is more optimism among business and political leaders than a year ago regarding the U.S. economy, with accelerating economic growth, an improving labor market, falling energy prices, and a decreasing federal deficit. But there remains skepticism about the polarized, dysfunctional political environment, and about foreign policy and national security concerns.

Only a minority of participants agree with the question in the Caucus title regarding a return of the American Century, with more participants believing this could be remembered as the Chinese Century, as China’s economy and political power continue to grow. However, several participants don’t see this as an era dominated by any one country or continent; it is likely to be remembered as a time of growing interconnectedness and global expansion, which boosts the standard of living for the entire world.

Context

March 3, 2015, was the 80th convening of the Yale School of Management’s Chief Executive Leadership Institute. This Caucus brought together current and former political leaders, including U.S. Secretary of Defense Ashton Carter, Senators John McCain, Charles Schumer, and Christopher Murphy, former Secretary of Labor Elaine Chao, former Ambassador John Negroponte, and Representative Elizabeth Esty. Other participants included Lloyd Blankfein, CEO of Goldman Sachs, Indra Nooyi, CEO of PepsiCo, Michael Dell, CEO of Dell, Denise Morrison, CEO of Campbell Soup, Steve Kandarian, CEO of MetLife, Richard Adkerson, CEO of Freeport-McMoRan, and leading thinkers, like Grover Norquist, president of Americans for Tax Reform, Mark Penn of Microsoft, and Nell Minow.

Participants discussed the current outlook for the U.S. economy and whether the current period will mark the return of “the American Century,” and shared perspectives on Israeli Prime Minister Netanyahu’s address to Congress. Also, Goldman Sachs Chairman and CEO Lloyd Blankfein was honored with the Legend in Leadership Award. Some of the key themes from this Caucus are summarized below.

Key Themes

There was general optimism about the fundamentals of the U.S. economy.

Compared to a year ago, CELI participants were much more optimistic about the state and outlook of America’s economy. The economic recovery is accelerating, with faster GDP growth over the past two years (2.8%) than during the first three and half years of the economic recovery (2.1%), and the federal deficit is decreasing. Job growth is picking up and unemployment is declining. As the labor market improves, some wage growth is occurring, though many in the middle class are still struggling.

In particular, low energy costs are benefitting consumers and many sectors of the economy. The chairman of a major railway, who termed his company “a barometer of the U.S. economy,” said that low natural gas prices are changing everything. They are lowering the costs of doing business in the United States, resulting in significant nearshoring and reshoring. Of the 22 business sectors that this railway serves, 17 are growing and only 5 are declining.

There also was general optimism about the long-term outlook for the U.S. economy. This optimism was based on the underlying strength of the capitalist system, the country’s flexible labor force, positive trends toward energy independence, and the innovation and strength of the financial and technology sectors. And, compared to Europe and even China, the U.S. enjoys more favorable demographic trends. Senator Murphy sees a rising tide, which he believes will lift all ships.

Despite this economic optimism, there are concerns about underlying pessimism among Americans.

One leading observer of public perceptions sees America as a deeply divided country with high levels of pessimism. He cited data indicating that since 2001, a significant portion of the population has felt the country is on the wrong track, which marks the longest continuing period of pessimism the country has ever had. The public today is far less optimistic than in the past, with college-age kids never having known an optimistic America. Senator Schumer said that during the
past 15 years more Americans have lost faith in the American dream than even during the Great Depression. Factors contributing to this pessimism include:

- **Lack of jobs.** There have been months where more than 200,000 jobs have been created, but the rate of job creation is barely adequate to keep pace with population growth. And, while the unemployment rate has fallen, this is due in part to many people leaving the labor market.

- **Income stagnation and inequality.** Real wages have stagnated for the middle class, or even declined, while the rich have gotten richer, exacerbating the divide that exists. Senator Schumer said Americans are not jealous people, and middle class people wouldn’t mind if the top earners grew their income 10% while those in the middle class only increased their income by 2%. But if top earners experience soaring incomes while the income of those in the middle class actually declines, they will be angry, which is occurring.

- **Political dysfunction.** Instead of bringing the country together, elected leaders are seen as exacerbating divisions. The political environment is more polarized than ever, making it almost impossible for policymakers to get anything done. There are systemic issues in how officials are elected, with the money in politics and the primary system resulting in the election of extremists who are uninterested in compromising. Representative Esty said that more than 50% of those in the House of Representatives were newly elected in 2010, 2012, or 2014. Most of these officials, from districts that lean strongly to one party, have only experienced divisiveness and have never seen a functional Congress.

Business leaders continue to come to Washington, meet with elected officials, participate in groups such as the Business Roundtable, and try to have their voices heard. Yet some are so frustrated and see such little return for their efforts that they are evaluating their future investments of time and money in government relations activities.

- **Global turbulence.** The economy in Europe is stagnating, as China’s economy slows. The growth of ISIS and instability in the Middle East, terrorism in France and elsewhere, the conflict between Ukraine and Russia, tensions with Iran, and numerous other global hotspots add to feelings of anxiety, uncertainty, and pessimism.

The majority of CELI participants do not see this era as the return of the American Century.

Jeff Sonnenfeld explained that Henry Luce coined the idea of “the American Century” in 1941. This term was used frequently during the second half of the 20th century as America’s economy and power grew, democracy spread, and America’s culture spread across the globe. While America is still seen as having a strong economy and possessing many advantages—like diversity and demographics, a culture of innovation and entrepreneurialism, strong capital markets, abundant low-cost energy, and its world-leading institutions of higher education—the global leadership that America previously displayed is likely to be diminished. In a real-time poll of participants, only 43% thought that the current period would be viewed as The American Century.

Despite America’s advantages, the country’s divisive political climate is holding it back; the results being achieved are not because of a healthy and supportive government, but in spite of it. Per Senator Murphy, the U.S. lacks flexible and effective tools to project power, and is struggling to fund basic economic development programs as other countries are doing.

More participants (50%) believe that the current period is likely to be remembered as the Chinese Century. However, China’s economy is slowing at the moment, the numbers that are reported are unreliable, the country lacks America’s ability to allocate capital, and core infrastructure-related industries such as steel, cement, and real estate are struggling. Still, even in a worst-case scenario China’s GDP is likely to grow at least 5%. China is dynamic, is producing strong global companies, and is increasingly flexing its muscle on the global stage. (As a former government official said, the message of China’s new wave of leaders is, “We are here, get used to it.”) Those who voted for China see the currently slowing economy as a small short-term blip along the long-term road of sustained growth and increasing power. As one CEO said, even with slower growth than in the past, over the next century China will add more GDP to the world than any other country.

Yet another view was that this century will not be remembered as the century identified with one particular country or continent. In a more interconnected global economy, hope was expressed that this will be a century of global expansion.
“This will not be an era of any country by itself. All countries have to be interconnected.”

― CEO

Solving America’s most significant problems takes creativity and bipartisan support.

Senator Schumer termed Americans as a practical, problem-solving people. He said America is a non-ideological country where people are able to come together to solve problems, even those that appear unsurmountable. Two significant problems which he believes need addressing, and potential solutions for them, are:

- **Problem #1: Decreasing middle-class incomes.** Real incomes have been declining since 2001. If they continue to decline for another decade, he sees significant societal problems for America. The typical response of the far political left is for the government to redistribute income from the rich to the poor; the typical response of the far right is to free up corporate America. He sees both of those perspectives as infeasible and ineffective, but does believe that the government has to be involved in helping the American people. He recommends:

  1. **Education reform.** Many Republicans believe in standards while Democrats argue for more money. He recommends marrying these ideas: if schools districts adopt standards they should receive more money. The New York City schools have done this—raising salaries, eliminating tenure, and producing better results.

  2. **Immigration reform.** Not only is immigration reform a moral imperative, but it will significantly boost GDP; the Schumer-McCain Immigration Bill was estimated by the CBO to boost GDP 3.5%. Specific ideas within the immigration bill, which could be approved separately, include providing a green card to foreign college students who graduate with a STEM degree, and granting an “entrepreneurial visa” to foreign citizens who invest at least $1 million in the United States and create at least 25 jobs. Schumer also favors a humane path to citizenship, which won’t be easy and will take time. (Senator McCain has a similar perspective on immigration reform, and along with Senator Schumer is skeptical about passage of the entire bill or individual sections, as several Republicans on the far right are strongly opposed.)

  3. **Invest in transportation infrastructure.** America’s transportation infrastructure is deteriorating and needs investment. This can be supported through an infrastructure bank funded through an 8.5% tax on repatriated corporate funds currently sitting overseas. Such a solution might be supported by both Democrats (as it will create jobs) and Republicans (as it allows repatriation in the absence of comprehensive tax reform).

- **Fund the NIH and NSF.** The U.S. dominates the finance, pharmaceutical, and technology industries. The pharma and tech industries were jumpstarted by government funding. With cuts to NIH and NSF funding, the U.S risks weakening its positions in the industries. Therefore, funding to support future scientific developments is greatly needed.

- **Carbon tax.** The country will need more revenues. Republicans will be strongly opposed to raising tax rates and will see the way to raise revenue as a VAT, which Democrats won’t want as a value-added tax is regressive. The result is the possibility of a carbon tax, possibly emerging in 2017.

- **Problem #2: The polarized political system.** Mentioned throughout this Caucus was the polarization of the current political system, making it difficult for collaboration and agreement. The issues are systemic—requiring that the system be changed.

  Senator Schumer said contributors to the problem are the influx of money into elections, the fragmented and polarized media, and most importantly, the primary system which results in electing extremist candidates. As a result of political gerrymandering, most Congressional districts are now essentially decided in the primary, as most districts are strongly Democratic or Republican. Those who vote in primaries tend to be the most liberal or most conservative people in the district, with 44 states not even allowing independents to vote in primaries; middle-of-the-road people don’t vote in primaries. The result is that extreme candidates tend to win primaries and then go on to win general elections in gerrymandered districts, populating Congress with extremists.

  A possible solution would be the elimination of primaries as they exist today. Under a system referred to as a “top-two primary,” all candidates would be listed on the primary ballot and everyone (including independents) could vote in this nonpartisan primary. The top two getters would then face off in a final election. Instead of extremist candidates winning partisan primaries, those in the middle, garnering the most votes from the general population, would win. Such systemic changes require getting on state ballots, as happened in California, where Jerry Brown—a centrist candidate—was elected governor and has proceeded to get things done.

  A leading conservative thinker had a different take. In his view, for decades the Republicans (beginning with Nixon) were a party of big government and Democrats were a party of much bigger government. The parties got things done because the differences in philosophy were not that large. He believes that there are now Republicans who favor smaller government, which is a fundamentally different idea, making compromise much more difficult.

  Grover Norquist, President, Americans for Tax Reform
Business leaders have to decide who to listen to and what is noise.

The leader of a major trade organization, who has deep knowledge of the private sector and of how government works, sees a mismatch in the time frames of business leaders and politicians. Business leaders make real-time decisions, shift strategies, and adapt. They have an imperative for speed or their company will lose in today’s competitive global markets. In the political realm, outside of responding to a crisis, there is no imperative for speed and no penalty for proceeding slowly, which is extremely frustrating for business leaders.

Dealing with outsiders—like media, regulators, and activist investors—is a delicate balancing act for CEOs. One prominent CEO who took his company private in the past year explained that prior to going private, different groups of shareholders had different interests, with some having a long-term perspective and others more of a short-term view. These differences had the potential to affect strategic and operating decisions, and could cause decisions to be made differently than if the company’s leaders “owned 100% of the company.” Going private has eliminated the fear of hitting quarterly targets and giving public guidance. It has given the company’s leaders more freedom and flexibility, provided the ability to take a longer-term perspective when making investments, and has given leaders the ability to consider taking more risk, which might not have been possible in the public spotlight.

The CEO of a large public company acknowledged the pressure that comes with quarterly earning calls, but said the key is to have a long-term strategy, to be able to clearly articulate this strategy to investors, and to show that the company’s plans are aligned with the strategy. Leading in such a fashion can diminish the short-term pressures that CEOs can feel.

The majority of attendees (79%) voted that activist investors have exacerbated the problems of short-termism. A notable proponent of investor transparency disagreed with this view.

She said that major investors like CalPERS and TIAA-CREF are long-term investors who want good governance, accountability, and transparency. She encouraged CEOs to view such investors as customers and partners, unlike a once-prominent CEO who refused to take questions from shareholders at the annual shareholder meeting, stating it was not the time or place for such questions.

U.S. leadership is needed to deal with the turmoil in the world.

In closing remarks, Senator John McCain and Secretary of Defense Ashton Carter agreed on the high levels of turmoil in the world, mentioning ISIS, Ukraine, Syria, Boko Haram, and Iran. Senator McCain said he has never seen the world in greater turmoil. While praising Secretary Carter, he said that the U.S. has contributed to this turmoil through a lack of leadership.

McCain and Carter agreed on several themes:

- The opportunity for partnership between the Pentagon and Congress, led by McCain and Carter.
- The harm to the military caused by sequestration and the need to reverse this.
- The need to “change how things are done” at the Department of Defense, including acquisition reform, with Carter proclaiming his desire to make openness to change a hallmark of his leadership.
- The need for the U.S. military to learn from the U.S. private sector, particularly Silicon Valley, in innovating to operate more leanly and efficiently, with a smaller workforce.
- The importance to the military of attracting and retaining a new generation of tech-savvy young people.

While not all agreed with Netanyahu’s speech, the majority thought it was important he was heard.

This Caucus took place just hours after Israeli Prime Minister Benjamin Netanyahu addressed a joint session of Congress. The majority of CELI participants thought it was appropriate to invite Netanyahu to address Congress and that is was appropriate that he accepted, though only 41% thought he offered a plausible alternative to negotiations with Iran.

Senator McCain viewed it as unfortunate how the series of events unfolded surrounding this speech, but thought it was important that the American people heard from the only freely elected leader in the Middle East. He termed it as good of a speech as he has ever heard.
Senator Schumer, who attended and spent some time with the Prime Minister, felt the speech was powerful in reminding everyone and reiterating how despicably Iran has behaved and how dangerous the country is. Also, the response among those who attended showed strong support for Israel, with no partisanship. It is important to understand Israel’s situation: If the U.S. believes that a negotiated agreement meant there was a 90% chance that Iran would not go nuclear, the U.S. would view that as a pretty good outcome. But Israel would say 90% is not good enough.

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<tr>
<th>Question</th>
<th>Yes</th>
<th>No</th>
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<tbody>
<tr>
<td>Was it appropriate to invite Prime Minister Netanyahu to address Congress?</td>
<td>61%</td>
<td>39%</td>
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<tr>
<td>Was it appropriate for Prime Minister Netanyahu to accept the invitation and address Congress?</td>
<td>70%</td>
<td>30%</td>
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<tr>
<td>Has Prime Minister Netanyahu offered a plausible alternative (to the agreement being negotiated with Iran)?</td>
<td>41%</td>
<td>59%</td>
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Legend in Leadership Award
Lloyd C. Blankfein, Chairman & Chief Executive Officer, Goldman Sachs Group

PepsiCo Chairman and CEO Indra Nooyi described Legend in Leadership recipient Lloyd Blankfein as an embodiment of the American dream. He now leads Goldman Sachs, one of the most respected, prominent firms in the world. Demonstrating values, leadership, and courage, Blankfein steered Goldman Sachs through the financial crisis, emerging stronger than ever.

Beyond his leadership at Goldman, Blankfein has been a voice for responsible capitalism and for the role of business in society. Blankfein has also advocated for LGBT equality and for women entrepreneurs in the developing world.

REMEMBERING JOHN WHITEHEAD
John Whitehead will be fondly remembered by all who knew him as a great patriot, statesman, business leader, public servant, and philanthropist. In World War II he served at both Normandy and Iwo Jima. He led Goldman Sachs to new heights, served in the U.S. State Department, was active in and chaired many nonprofit organizations, and following 9/11, led the Lower Manhattan Redevelopment Corporation. He was a friend of the Chief Executive Leadership Institute and to all who knew him.