

EXECUTIVE SUMMARY



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Effective Problem Solving amid Election Politics: Substantive Solutions vs. Simplistic Slapdowns

Washington, DC | March 15, 2016

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YALE SCHOOL OF MANAGEMENT
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PRESENTER

Lloyd C. Blankfein, Chairman & CEO, The Goldman Sachs Group



Mike Petters, President & CEO, Huntington Ingalls Industries, Gregory Hayes, President & CEO, United Technologies Corporation, Lloyd Blankfein, Chairman & CEO, The Goldman Sachs Group, Denise Morrison, President & CEO, Campbell Soup Company, and John Lundgren, Chairman & CEO, Stanley Black & Decker



Effective Problem Solving amid Election Politics: Substantive Solutions vs. Simplistic Slapdowns

Overview

These are not normal times. This is not a normal election, and this election seems more damaging to America's image and relationships than previous elections. The era of political support for free trade may be coming to an end, and geopolitical uncertainty is high, with pain points and uncertainties across the globe, including China, Russia, Europe, Iran, and ISIS.

Despite the electoral craziness and geopolitical uncertainty, for many businesses things remain relatively good. Businesses will continue to forge ahead largely undeterred regardless of which party or candidate wins the U.S. elections, without major changes in strategies or plans. However, CELI participants agreed that the business community must do a better job of educating and advocating on issues such as free trade and corporate tax reform.



Jeffrey Sonnenfeld, Senior Associate Dean, Yale School of Management

Context

March 15, 2016 was the 83rd convening of the Yale School of Management's Chief Executive Leadership Institute. This Caucus brought together business leaders (such as Lloyd Blankfein, CEO of Goldman Sachs, Doug McMillon, CEO of Wal-Mart, Alan Gershenhorn, Chief Commercial Officer of UPS, and Denise Morrison, CEO of Campbell Soup Company); current and former political leaders (such as Senators Richard Blumenthal and Angus King, Congresswoman Elizabeth Esty, and Jason Furman, the Chairman of the Council of Economic Advisors), and other thought leaders including Bob Woodward, Grover Norquist, and Jeffrey Garten.

Participants discussed the implications of U.S. electoral uncertainty on global commerce, with a particular focus on how the upcoming election may influence trade policy. Also, Campbell Soup CEO Denise Morrison was presented the Legend in Leadership Award. Some of the key themes from this Caucus are summarized below.

Key Themes

These are not normal times.

This was the major recurring theme of this Caucus. Particular areas that are not normal are the U.S. election, trade, and global uncertainties.

This is not a normal election.

While the majority of CELI participants (51%) want the Republican Party to win the presidential election, only 6% support the Republican candidate leading in delegates and the polls, Donald Trump. Hillary Clinton was supported by 41% of attendees and John Kasich by 37%. (Michael Bloomberg was preferred versus all declared candidates by a strong margin.)

Among the remaining candidates, Trump is seen as the scariest candidate to America's global trading partners (by 89% of participants) and to diplomatic partners (96%). Trump is ranked second (to Bernie Sanders) as the candidate who is worst for the U.S. economy, the biggest threat to the U.S. business community, and worst for the stock market.

CELI participants believe this is not a normal election in that:

- 79% believe the current elections will be more damaging to the U.S. image than past elections.
- 50% believe the Republican Party will survive this election but will be fundamentally different.

The current elections are no more damaging to the U.S. image abroad than past elections:

Strongly agree	9%
Agree	8%
Disagree	34%
Strongly disagree	45%
Unsure	4%

The main reason this election is different: voter anger over economic issues. One participant shared data that Trump is faring well among blue collar white voters without a college education, where wages have stagnated. Approximately 62% of American families have savings of less than \$1,000 and about 50% say they couldn't afford to make a \$500 car repair if they had to tomorrow. Trump has created a seemingly unstoppable political wave among this segment of the electorate.

We are not hearing normal views on trade.

Voter anger is translating into opposition to trade, as candidates in both parties (particularly Trump and Sanders) have blamed trade for lost jobs and stagnating wages. A former member of Congress said it is hard for those in Congress to be pro-trade and it will be extremely difficult after this election.



Jane Harman, Director, President & CEO, Wilson Center



An academic and author who is pro-trade and has worked on trade issues in both Republican and Democratic administrations explained that since World War II, free trade and open markets have been accepted as articles of faith. However, this era may be coming to an end. Many people and communities have been hurt by trade and are the “collateral damage” of the globalization process, with new research indicating that trade with China has cost American jobs.

These are not normal times internationally.

There are areas of concern across the globe.

China is experiencing a slow, bumpy, and at times painful transition from an investment-driven economy that depends on exports to a market-oriented economy that is more reliant on domestic consumer demand and services. This transition is occurring, and China is making progress in “muddling through it” (as one financial executive observed), but the process is not smooth. China is trying to figure out how to continue growing its economy at 6% to 7% to create jobs. In doing so, there have been doubts about China’s competence in using various levers of power, which has been reflected in market volatility. Still, China is following the path of other civilizations which tend to advance most of the time.



R. James Woolsey, Director (1993-1995), Central Intelligence Agency

Major geopolitical issues indicating these are not normal times are security concerns related to Russia, Iran, and ISIS, all of which depend on oil.

Other international pain points include America’s continuing presence in Afghanistan, ongoing tensions in the Middle East, the EU referendum, and the immigrant crisis.

Business leaders must do a better job educating the public on the benefits of trade and other issues that matter to business.

With political candidates and angry workers making emotional, protectionist comments, the business community must act as “the adults in the room” in making the case for trade. This case must be based on the benefits of exports in creating good jobs and increasing the standard of living. (Last year U.S. GDP grew 1.9%; the previous year it grew 2.5%.) The difference is solely attributable to reduced exports due to weaker foreign economies. This shows the importance of exports as part of the globally interconnected U.S. economy.



Nels Olson, Vice Chairman, Korn Ferry, and Alan Gershenhorn, Chief Commercial Officer, UPS

At the same time, the public needs to be educated about the realities of globalization and technology, and the economic catastrophe that would ensue from protectionist policies, including lost jobs and more expensive products. Globalization, technological advancements, and international trade will continue with or without the United States. It is in America’s best interests to participate in trade.



Congresswoman Elizabeth H. Esty, State of Connecticut

A member of the Obama administration’s economic team said that instead of talking about the benefits of trade in macro, general terms, data needs to be cut to show and explain the impact of trade to specific constituencies, such as small businesses and local communities. Also, there needs to be more attention on providing assistance to those experiencing dislocation. Business also needs to urgently make the case for TPP, which has the support of the President, the Speaker of the House, and the Senate Majority Leader, but which may not have this level of support after the election. TPP would boost U.S. exports by cutting thousands of taxes and tariffs imposed by other countries on U.S. goods. (Trump has stated opposition to TPP saying it will benefit China; however, China isn’t a party to TPP and China opposes the TPP.)



Jason Furman, 28th Chairman, Council of Economic Advisors

One knowledgeable Washington insider explained that when companies and trade groups speak to elected officials they always have a long agenda, and trade is one of many items on the list. But there is no strong advocacy group which puts trade at the top of the list. To get the attention of politicians, trade needs to be a higher priority.

Despite the electoral craziness and geopolitical tensions, many business leaders are generally positive.

U.S. business leaders are seeing consumers spending more, though not in all categories. CEOs from major hospitality and retail companies are experiencing decent domestic business results, helped in part by the low price of oil, which benefits consumers. CEOs offered positive but somewhat tepid comments of “We are doing OK” or “We are hanging in there.” However, the strong dollar is hurting spending by foreign tourists in the U.S. and is taking a big bite out of U.S. exports.



Denise Morrison, President & CEO, Campbell Soup Company, and Doug McMillon, President & CEO, Wal-Mart Stores

This broad-ranging discussion touched on many other issues of concern to business and political leaders.

Other topics discussed included:

- **Trust in markets.** A poll among CELI participants found that almost half (45%) believe the equity markets are rigged. One policymaker sees these poll results as extremely distressing. He said that if almost half of this group of leading capitalists believe the markets are rigged, this is a big problem that is dangerous for the country. Markets are fundamentally based on trust; if trust is diminished the markets won’t work. (Despite questions about trust in markets, per Edelman, trust in business is relatively high across the globe.)



Matt Wagner, Chair, US Public Affairs Practice, Edelman



I believe the equity markets are rigged:

Strongly agree	13%
Agree	32%
Disagree	36%
Strongly disagree	15%
Unsure	4%

Contributing to this perception of rigged markets are entrepreneurial efforts to create a new, more transparent market that have been subjected to unprecedented regulatory hurdles and delays, as the incumbent markets have used every possible strategy to block innovation.



Senator Angus S. King Jr., State of Maine

- **Linking education to jobs.** A leader in educational policy commented that some of the anger felt by Americans is based on the recognition that education has never been more important, yet is incredibly expensive and not accessible by all. Further, many who have gone to college have racked up enormous debt (totaling more than \$1.3 trillion) but haven't gotten skills that are valued in the labor market. (This is often due to bad decisions about what education and skills to get.) People have spent tens of thousands of dollars, only to be unemployed or underemployed.

Another educator believes there are more educational opportunities available than ever but there is an inadequate distribution of knowledge about how to access these opportunities. The country needs to educate people about how to get education, and also needs to look beyond a simple ROI calculation to consider the value and importance of "educating citizens."

- **Corporate taxes.** On the subject of corporate tax reform there is significant agreement among Democrats and Republicans on the need to broaden the tax base, decrease the tax rate, and reform the international system to collect more revenue while helping the economy be more competitive. A stumbling block to Democrats has been Republican insistence on lower tax rates for high-income individuals.

There was some optimism about the possibility that corporate tax reform might be able to pass in the next session of Congress. Policymakers see this as an issue where the business community needs to advocate and explain how tax reform is linked with job creation and economic growth.



Senator Richard Blumenthal, State of Connecticut, and Bob Woodward, Associate Editor, *The Washington Post*

- **Age of politicians, justices, and board members.** A prominent journalist suggested that age may be a consideration when selecting a president, due to the intense demands of the job and word that President Obama—who is only 55—believes age should be taken into account.

Others disagreed, believing that energy and stamina are more important than age. One former cabinet official argued that experience in government and the ability to listen to those with expertise is what matters most.

In discussing age, one political leader wondered about reconsidering the rules around lifetime appointments for Supreme Court justices, who serve as long as they want. Others discussed reconsidering limitations and guidelines on the age of corporate directors, which are often set at 70. The view of several CELI participants is that many individuals can add considerable value as directors after age 70.

- **The Supreme Court.** Of CELI participants, 79% believe the U.S. Senate should hold hearings on President Obama's Supreme Court nominee.



Elaine Chao, 24th U.S. Secretary of Labor



Legend in Leadership Award

Denise M. Morrison, President & Chief Executive Officer,
Campbell Soup Company

Denise Morrison has held senior leadership roles at the world's leading consumer products companies, where she has built strong businesses and iconic brands. She has been at Campbell Soup for eight years and has served as CEO since 2011. Since becoming CEO, the stock has increased in value almost 100%.

Morrison has transformed the culture at Campbell Soup to have "the spirit of a startup" and has focused the company on listening to consumers and responding. The company is the first major food company to create transparency and disclose genetically modified ingredients, and has eliminated artificial colors and flavors. Under Morrison's leadership Campbell Soup has acquired important brands that fit with the concept of healthy food for health-conscious consumers. This includes brands with themes of organic, fresh, and healthy.

Morrison has focused all employees on the purpose of real food that matters for life's moments, and has asked the same three questions originally posed by the company's founder:

1. Does the food delight our sense of smell and taste?
2. Are the ingredients of quality that we would serve at our own table?
3. Is the food within the reach of all pocketbooks?

In addition to her responsibilities at Campbell Soup, Morrison sits on multiple boards and is part of the President's Export Council.



Lloyd Blankfein presenting Denise Morrison with the Legend in Leadership Award.



Lincoln Motor Company Pre-Caucus Reception